
# National Farmers' Federation

## Submission to the

## Productivity Commission Issues Paper on National Water Reform

27 April 2017

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## NFF Member Organisations































The National Farmers' Federation (NFF) is the voice of Australian farmers.

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the breadth and the length of the supply chain.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF.

The NFF represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

# Statistics on Australian Agriculture

Australian agriculture makes an important contribution to Australia's social, economic and environmental fabric.

## Social >

There are approximately 132,000 farm businesses in Australia, 99 per cent of which are Australian family owned and operated.

Each Australian farmer produces enough food to feed 600 people, 150 at home and 450 overseas. Australian farms produce around 93 per cent of the total volume of food consumed in Australia.

## Economic >

The agricultural sector, at farm-gate, contributes 2.4 per cent to Australia's total Gross Domestic Product (GDP). The gross value of Australian farm production in 2016-17 is forecast at 58.5 billion – a 12 per cent increase from the previous financial year.

Together with vital value-adding processes for food and fibre after it leaves the farm, along with the value of farm input activities, agriculture's contribution to GDP averages out at around 12 per cent (over $155 billion).

## Workplace >

The agriculture, forestry and fishing sector employs approximately 323,000 employees, including owner managers (174,800) and non-managerial employees (148,300).

Seasonal conditions affect the sector's capacity to employ. Permanent employment is the main form of employment in the sector, but more than 40 per cent of the employed workforce is casual.

Approximately 60 per cent of farm businesses are small businesses. More than 50 per cent of farm businesses have no employees at all.

## Environmental >

Australian farmers are environmental stewards, owning, managing and caring for 52 per cent of Australia's land mass. Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 94 per cent of Australian farmers actively undertaking natural resource management.

The NFF was a founding partner of the Landcare movement, which has celebrated its 25th anniversary.

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# Executive Summary

On matters related to water, NFF is the only national body that brings a 100% farmer-focused viewpoint. We represent the interests of farmers that are affected by water management decisions including irrigators, riparian and floodplain landholders and stock and domestic users.

***Water Resource Management***

For irrigated agriculture, the establishment of secure property rights, particularly in the Murray-Darling Basin, has been a cornerstone that has underpinned much of the progress achieved as a result of the National Water Initiative. However, secure water property rights back by a statutory water entitlement framework are not yet a universal for all water users, and continued effort is required.

**Recommendation: That Governments recommit to the ensuring that water access entitlements are described as a perpetual share of the available resource, and are unbundled from land to support trading.**

**Recommendation: That Governments ensure that all users of water be included in an efficient water access entitlement and planning framework.**

Since the 2014 Review of the NWI, the practice of jurisdictions in delivering transparent water planning and review process has been less than satisfactory for water users in some jurisdictions.

**Recommendation: That Governments recommit to delivering transparent statutory water planning processes that are based on the best available science, socio-economic analysis and community input.**

NFF shares the Productivity Commission's initial view that under the NWI, considerable progress has been made to develop water markets, especially in the Murray-Darling Basin. While demand for trading in some water resources may currently be low, and in many areas, the market will undoubtedly always be "thin" entitlement frameworks and water planning processes should be designed in such a way to support trade where it is physically possible to do so.

**Recommendation: That Governments commit to the ensuring that water access entitlement and planning frameworks support the establishment of efficient water markets.**

**Recommendation: That Governments ensure that trading information is freely available**

In NFF's view, there are still many gains to be made in relation to the efficient use of environmental water and the management of environmental flows. While recognising that active management of an environmental water portfolio is still a relatively new endeavour for Governments, there is an opportunity to review the roles and responsibilities of parties

associated with environmental water administration and management to ensure they are effective and efficient.

Further to this, there is an opportunity to explore alternatives to the permanent transfer of entitlement as the means to recover water for the environment.

**Recommendation: That Governments commit to developing the governance, planning and operation frameworks for environmental water management that support integrated natural resource management, particularly at the catchment scale.**

**Recommendation: That Governments be encouraged to explore alternative approaches to acquiring water for the environment beyond just the purchase of water entitlements.**

As a result past reforms, most rural water services that are delivered by government owned monopoly service providers are subject to the oversight of a pricing regulator. Stark exceptions to this are asset services provided by the Murray Darling Basin Authority and the Border Rivers Commission. In NFF's view, the need for transparency and independent oversight to ensure that MDBA and BRC costs are prudent and efficient is long overdue.

***Water Service Delivery***

**Recommendation: That Governments commit to transparency and independent oversight of government monopoly service providers, to ensure that service delivery is prudent and efficient is long overdue.**

**Recommendation: That a specific and transparent review of options for river operations and asset services of the MDBA and BRC be commissioned, and conducted in consultation with stakeholders.**

History has shown that irrigators will invest in prudent development that provides the water products and services they require at reasonable cost. To inform investment decisions, it is critical that:

- sound business cases be developed transparent, with assumptions and service levels explored with likely end users and customers
- the upfront investment in scientific analysis is made to ensure the long term sustainability of the project.
- the policy settings that govern access to water from new developments is put in place.

**Recommendation: That Governments commit to transparent investigation of infrastructure proposals, to ensure that developments are both sustainable and will deliver long term benefits.**

**Recommendation: That Governments ensure that robust water entitlement and water resource planning processes are in place for "greenfield" water infrastructure projects.**

***Achieving Reform***

Australia is recognised as a world leader in water policy and management, the product of our decades old commitment to reform and continuous improvement. In the absence of a

contemporary agreed water reform framework, stakeholders can find it difficult to influence the direction of change.

While many of the principles and intended outcomes of the NWI are enduring, in its current form the agreement is dated. NFF's view is that a refreshed NWI would be valuable to continue to drive improvements in the way we manage our precious water resources.

**Recommendation: That Governments commit to refreshing the National Water Initiative to provide a contemporary national framework to guide future water reform.**

# 1. Introduction

On matters related to water, NFF is the only national body that brings a 100% farmer-focused viewpoint. We represent the interests of farmers that are affected by water management decisions including irrigators, riparian and floodplain landholders and stock and domestic users.

NFF welcomes the opportunity to provide a submission in response to the Issues Paper released by the Productivity Commission to inform its first inquiry into national water reform.

NFF has not responded to each of the issues and questions presented in the paper, but rather focused our initial contribution to this review on those areas where there has not been enduring reform and those areas where further reform is desirable to support efficient and effective management of our precious water resources.

Rather than this Inquiry simply be a stocktake of progress to date, the NFF encourages the Productivity Commission to focus its efforts on identifying strategic areas where future reforms may be desirable, and present credible evidence to inform the national policy debate.

# 2. Water resource management

## 2.1. Property rights

For irrigated agriculture, the establishment of secure property rights, particularly in the Murray-Darling Basin, has been a cornerstone that has underpinned much of the progress achieved as a result of the National Water Initiative. Well designed, secure rights form the basis of:

- Water markets, and the trade of allocations and entitlements
- Prudent investment in infrastructure, that reflects the value of water
- Equitable recovery of water from the consumptive pool to environmental water holders.

A secure property rights regime is particularly important in circumstances, such as the MDB, where the "balance" between extraction and the environment is contested, or where the resource is approaching full allocation and the behaviours of some users impinge on the rights of others to also use the resource.

However, secure water property rights back by a statutory water entitlement framework are not yet a universal for all water users.

As noted in the issues paper, jurisdictions including the Northern Territory and Western Australia have not yet implemented comprehensive, perpetual entitlement frameworks. In many areas in these jurisdictions, water resources are still considered under-developed, and users' have a perception that the risk to their historical access is low. This then means that

there is low demand for Governments to invoke change to the status quo. Low demand for change should not however mean that Governments don't commit to implementing robust water entitlement frameworks that are unbundled from land. This will enable markets (even where these markets might be thin) to emerge as demand grows.

There are some water resources, where there is demand for action, and where the response of governments in some jurisdictions continues to lag behind water user expectations. The management of mining and gas to avoid or manage the impacts of developments in the Great Artesian Basin in Queensland is an example of this.

*Section 34 of the NWI states that 'The Parties agree that there may be special circumstances facing the minerals and petroleum sectors that will need to be addressed by policies and measures beyond the scope of this Agreement.'* The 2014 NWC review noted that 'underground water rights' provided for tenure holders under the Petroleum and Gas (Production and Safety) Act 2004 (Qld) are not volumetrically controlled and remain outside Queensland's water planning and entitlement processes.

Under recent state reforms, non-associated water takes for the petroleum and gas sector in Queensland are required to be measured and licensed, however further integration of associated water takes into the planning framework are needed. This is challenging as associated water use (including end of mine life evaporative losses) is subject to a statutory right to take those volumes necessary to safely access the resource. Further, 'low risk' activities that can be undertaken without authorisation have been extended under the reforms to include some resource sector activities and has some potential to set up local area conflicts with existing users where land and project tenures overlap.

For community 'social license' and other water user confidence in entitlements, clearer trigger points for a cessation of resource sector activity is required where unacceptable impacts on other water users are occurring. This is most transparently achieved when these uses are fully integrated into the water planning process. Evidence needs to be provided by the administering state that the alternative policies and measures under s34 of the NWI are delivering better water management outcomes than including such uses directly in the water planning framework.

NFF's view is that all jurisdictions should ensure that a robust framework that recognises basic needs such as stock and domestic and urban water supplies followed by a clear hierarchy of water access entitlements that includes use of water for irrigation, intensive agriculture (Feedlots), tourism and the extraction of the resources industry within the water resource planning framework, including extraction limits. Environmental and Indigenous cultural uses included?

Recent efforts have been made by the Queensland Government to streamline the regulatory framework and reduce compliance and management costs, including of simple license dealings that do not involve an increase in take or third party impacts. Resourcing of compliance efforts by the state government could be increased and prioritised towards identified areas of high development.

**Recommendations:**

**That Governments recommit to the ensuring that water access entitlements are described as a perpetual share of the available resource, and are unbundled from land to support trading.**

**That Governments ensure that all users of water be included in an efficient water access entitlement and planning framework.**

## 2.2. Water planning

Since the 2014 Review of the NWI, the practice of some jurisdictions in delivering transparent water planning and review process has been less than satisfactory for water users.

The review and roll-over of inland water sharing plans in NSW is an example of this. While scheduled for renewal in June 2014, the NSW Government pushed this out to June 2016, and in May that year, irrigator groups publicly expressed their disappointment with the lack of transparency and consultation with water users[1]. Confounding this frustration was the $54 million funding allocation to this water sharing renewal process, which was ultimately paid for by irrigators through cost recovery pricing.

In NFF's view, a water planning horizon of 10 years provides the right balance between certainty for investment, and ensuring that plans incorporate best available knowledge about resource availability. Most plans support resource allocation decisions by the resource manager to accommodate variability from year to year. A clear hierarchy of water property rights (the entitlement framework) that recognises basic needs and incorporates all users is also essential for supporting- decision making in the need of "crisis" management.

The Queensland Government has appropriately emphasised security of entitlement in water planning principles and the revised purposes of the state Water Act which emphasise sustainable management and stakeholder participation. Environmental sustainability is a key principle in ensuring that water supplies are reliably available for use by the current and future generations, including by agricultural users.

Recent efforts by the Queensland Government to streamline regulatory requirements have been welcomed by agricultural water users. These include introducing simplified water dealings processes and extending the expiry date for existing and new licences to 30 June 2111 (unless otherwise specified in a Plan). This effectively creates perpetual entitlements in line with NWI requirements. Water users recognise there are long term climate risks, which are reflected in both the NWI risk assignment provisions, and the risk allocation provisions in Division 4 of the Water Act 2007. What is important is that we have the knowledge and information to inform decision making within the context of these risk provisions.

Continued investment in science is essential to inform future water policy and planning decisions. Examples– both past and present – include the investments made in the CSIRO

[1] http://nswic.org.au/pdf/press_release/2016/Irrigators%20Call%20for%20Cast-Iron%20Assurance%20on%20Water%20Plans.pdf

Sustainable Yields analysis, and the investment made through the National Environmental Science Programme Earth Systems and Climate Change Hub[2] that is examining Australia's water futures. This work is aimed at improving our ability to simulate changes in hydroclimates and water resources to help inform water resources planning in the future.

In the groundwater context, the work of the Bioregional Assessment Programme and the Independent Expert Scientific Committee for Coal Mining and Coal Seam Gas has also provided a useful contribution by examining the adequacy of state jurisdiction assessment, approvals and conditioning processes and providing a trustworthy source of information for the community about resources sector developments.

**Recommendation:**

**That Governments recommit to delivering transparent statutory water planning processes that are based on the best available science, socio-economic analysis and community input.**

### 2.3 Water trading

NFF shares the view that under the NWI, considerable progress has been made to develop water markets, especially in the Murray-Darling Basin. While demand for trading in some water resources may currently be low, and in many areas, the market will undoubtedly always be "thin". Irrespective of this, entitlement frameworks and water planning processes should be designed in such a way that is able to support trade where it is physically possible to do so in a way that avoids third party (including environmental) impacts. This then enables a fit for purpose and efficient trading arrangements to emerge.

While a centralised National Water Market System may have been desirable in concept, challenges in the execution of this model highlight the limitations of a government-led approach to providing water market information in a way that meets user needs.

In NFF's view, the core role for Government is to ensure that base trade data is made freely available in a timely manner. This can either be accessed by individual water users, or by commercial service providers that transform base data into useful knowledge products. It is noted that four innovation projects funded by the Australian Government under the Business Research and Innovation Initiative are exploring opportunities to improve the transparency and reliability of water market information.

In areas outside the Basin, the initial allocation of water and the establishment of a water market should be the primary tools to promote the efficient use of water, rather than Governments relying on regulation more broadly or at each license dealing in order to promote efficient water resource use.

[2] http://nespclimate.com.au/australias-water-futures/

**Recommendations:**

**That Governments commit to the ensuring that water access entitlement and planning frameworks support the establishment of efficient water markets.**

**That Governments ensure that trading information is freely available.**

## 2.4 Environmental management

*Improving the efficiency and effectiveness of environmental water management*

It is the view of the NFF that there are still many gains to be made in relation to the efficient use of environmental water and the management of environmental flows. The goal must be to deliver improved environmental outcomes from the portfolio of water that has already been recovered for the environment – in essence more environmental outcome per unit of water held and delivered.

We recognise that the active management of an environmental water portfolio is still a relatively new endeavour for Governments, and continuous improvement has been a focus for agencies such as the Commonwealth Environmental Water Holder, and state based equivalent entities. We acknowledge the considerable good will that exists for collaboration between the parties with responsibilities for the different components of the management of environmental water.

However, continued concerted effort is required to ensure that we make the most of the water that has been recovered from production for the benefit of the environment, and efficient and effective governance arrangements are central to this.

The 2014 Statutory Review of the Water Act acknowledged stakeholder concerns about the duplication and fragmentation of environmental water planning, noted that restructuring at that point in time was premature and may affect the implementation of the plan. However, it also noted that *as experience is gained, there may be benefit in adapting governance arrangements for greater efficiency*[3].

In NFF's view, there is an opportunity to review the roles and responsibilities of parties associated with environmental water administration and management to ensure they are effective and efficient.

The Water Act currently establishes an active role for the MDBA in setting objectives, identifying priorities, developing water schedules and coordinating the delivery of environmental water. In practice this overlaps with the operations of the CEWH and state-based environmental water holders, managers and advisory groups.

There is also duplication in the reporting of environmental water management. For example, Section 32 requires the MDBA to account for all held environmental water, regardless of the

[3] 'Report of the Independent Review of the Water Act 2007, Commonwealth of Australia 2014, pg 81

holder – a role which is duplicated under s114 relating the reporting requirements of the CEWH and that which is required by state-based environmental water holders.

NFF has observed the CEWH taking a much more active role in environmental water management when compared to the original vision of a "portfolio manager" that could contribute water to achieve the environmental outcomes articulated by others. This is not a criticism of the CEWH. In part, the CEWH has sought to fill a void created by the gap between the creation of the Commonwealth environmental water holdings and the development of Basin Plan Environmental Watering Strategy, and long term and annual watering plans.

The States control significant parcels of environmental water (whether held or planned), and own or manage a large number of the environmental assets to be sustained and control water delivery. Under the Basin Plan, the States have a significant role in the development and implementation of water resource plans (WRPs). In developing a WRP, among other things, the states are required by the Basin Plan to identify priority environmental assets and ecosystem functions, plan for environmental watering, and identify and manage risks to water quality.

In NFF's view, the following principles should be the basis for environmental water planning and management arrangements. While these are presented in the context of the Murray-Darling Basin given the prominence of active environmental water management in his system, the principles are relevant to other circumstances.

- Administrative efficiency of the institutional structures that 'own' held environmental water portfolios. While consolidation of ownership lends itself to administrative efficiency, one water holder is not necessarily the solution.
- Clearly articulated 5-10 year Basin-wide environmental for connected water resources areas
- Clearly articulated 5-10 year catchment outcomes, and annual watering priorities that contribute to achieving Basin-wide outcomes. Catchment scale planning should be devolved as much as possible. The development and implementation of Water Resource Plans and integration with regional natural resource management approaches are logical mechanisms to achieve this.
- Water delivery arrangements that recognise that held environmental water is one of many "customers" of a water service provider. Service providers must operate within recognised constraints to delivery.
- Integrated management of *all* water dedicated to the environment, regardless of who owns it and regardless of its form (i.e. held or planned water). In NFF's view, management through the WRP process at a catchment scale most supports integrated management.
- Integrated management of important environmental assets which recognise that the volume and timing of watering events is only part of the solution and that non-flow efforts may also play an important role. In NFF's view, management at a catchment scale most supports integrated management and the incorporation of local knowledge and expertise.

- Holistic and coordinated monitoring and evaluation that is used to inform future management actions and is able to describe the extent to which environmental outcomes are being achieved.

A consequence of fragmented responsibility for defining and delivering outcomes from water management is that clarity of objective and the examination of options to achieve the objective are either dispersed, or at times, forgotten by governments. The implementation of the Basin Plan is a good example of this, where "non-flow" options to improve environmental outcomes have been a late after-thought despite vocal efforts by irrigation stakeholders to have them considered. Consideration of these is only now coming into the frame at very late stages of plan implementation.

Better outcomes can be achieved if 'non-flow' issues such as addressing cold water pollution and fish passage, controlling feral animals in key wetland and floodplain areas, tackling carp infestations, and improving land management in valued ecosystems is also important. While this is important to "make the most" of what has already been recovered, the planning process largely focused on targets for water recovery and the impacts associated with this, rather than examining the suite of feasible options to achieve desired outcomes. Furthermore the context of unregulated systems, there is still not wide recognition that there is less to no capacity for environmental water managers to provide sufficient volumes of water at the 'right times and places' using a "held portfolio".

In NFF's view integrated management of the landscape, a state government responsibility, is essential to maximise the effectiveness of the use of environmental water. In NFF's view, management at a catchment scale most supports integrated planning, the incorporation of local knowledge and expertise and building stakeholder understanding of the range of actions required to deliver desired outcomes. As highlighted in the Productivity Commission's Review of Regulation of Agriculture, in achieving landscape level integration, duplication of or inconsistent regulation should be avoided.

*Water quality*

The NWC recommended in 2014 that water quality should be incorporated into water planning to achieve more resilient environmental and economic outcomes and, as the NWC noted, the Queensland Government has put in place industry-led best-management-practice programs for cattle grazing and sugar cane growers to reduce sediment, nutrients and pesticides from Great Barrier Reef catchments. These voluntary approaches are strongly supported by NFF.

*Portfolio mix*

The preference of Governments to date has been to fully acquire water access entitlements to be "held" in the environmental water portfolios. This results in both the "capital" cost of acquisition (through buyback or investment in infrastructure) and the operating costs associated with managing the portfolio (fees and charges, trading fees etc).

Much of the debate to date has focused on the value for money for the Commonwealth of buyback versus infrastructure investment as the means to "recover" water for the

environment[4]. Much less thought, discussion and analysis has been dedicated to "non-permanent" approaches to obtain water for the environment, including temporary trade (seasonal allocation purchase), longer term options agreements and the like. Many of these products are emerging and being utilised by irrigators.

NFF recognises that stakeholder confidence in the management of the environment's "share" of the resource is paramount for policy stability which is essential for industry confidence. However, this doesn't mean that we should not seek opportunities to explore different approaches to the way we manage water resources to achieve social, economic and environmental objectives and seek to change where consensus is achieved and the benefits are clear and equitable.

**Recommendations:**

**That Governments commit to developing the governance, planning and operation frameworks for environmental water management that support integrated natural resource management, particularly at the catchment scale.**

**That Governments be encourage to explore alternative approaches to acquiring water for the environment beyond just the purchase of water entitlements.**

# 3. Water services

## 3.1 Rural water services

### *Efficient and transparent price setting of service providers*

As a result of the implementation of both competition policy and/or national water initiative reforms, rural water services that are delivered by government owned monopoly service providers are subject to the oversight of a pricing regulator that ensures that service delivery is efficient and prices are set transparently.

Stark exceptions to this are asset services provided by the Murray Darling Basin Authority and the Border Rivers Commission. These two bodies coordinate and manage water resources, including the construction, operation and maintenance of infrastructure in the Southern connected Murray-Darling Basin, and the Queensland/NSW Border Rivers. The NSW Government pays for the NSW share of these costs, and then passes these costs directly through to its (Water NSW) customers.

These costs are significant. According to the most recent draft determination of Water NSW Rural Bulk Water Charges MDBA and BRC charges imposed on users amount to an

[4] Many academic commentators have suggested that the "purchase" of environmental water by investing in water use efficiency amounts to a public subsidy. In NFF's view, this is narrow and fails to acknowledge that in addition to just water recovery, other benefits are "purchased" or other costs avoided by investing in infrastructure rather than straight buyback.

estimated $61.65 million over the four years, accounting for 35% of the customer share of notional revenue requirement for the Border Rivers valley, and 69% and 22% respectively for the Murray and Murrumbidgee Valley[5].

Water users in NSW continue to be frustrated by the lack of transparency in this process. As noted by IPART, stakeholders are not able to assess the efficiency or validity of the costs imposed on them by MDBA and BRC activities. IPART's draft report highlighted that they "have continuing concerns about the lack of independent scrutiny in the development of MDBA costs…[and they] appreciate the concerns raised by users that insufficient transparency means there is no assurance that only prudent and efficient costs are passed through"[6].

In NFF's view, the need for transparency and independent oversight to ensure that MDBA and BRC costs are prudent and efficient, is long overdue. Overtime the asset base of river operations will continue to change, and given that the "environment" is now the biggest customer of river operators, investments in capital assets to assist in the management of environmental water and associated environmental assets such as wetlands will be made. While it make sense to manage this asset base holistically, it is important that the cost of building, operating and maintaining these assets is transparent, and that irrigators are only asked to pay their fair share of costs through fees and charges.

Recovering costs associated with water user service provision the MDBA and BRC should be subject to a clear and transparent process for establishing the efficient costs of agreed services that includes:

- independent regulatory oversight for monopoly service provision;
- transparency in the process of establishing the "building blocks" of the cost base to be recovered and then how these costs are to be recovered;
- transparency in the allocation of the cost base to water access entitlement holders and other beneficiaries (eg the environment, recreational users, and other public benefits)
- a sound process for benchmarking the costs to be recovered to determine whether these are efficient, prudent and relevant;
- a sound process to establish the regulatory asset base, that clearly identifies any gifted capital contributions and assets that are constructed, operated, maintained and renewed for the benefit of the environment (eg capital environmental works and measures);
- processes to establish agreed service standards with water users and to plan asset maintenance, renewal and replacement over time; and

[5] IPART (2017) WaterNSW Review of prices for rural bulk water services from 1 July 2017 to 30 June 2021, Draft Report March 2017 Page 76

[6] IPART (2017) WaterNSW Review of prices for rural bulk water services from 1 July 2017 to 30 June 2021, Draft Report March 2017 Page 78

- independent periodic review of cost recovery and price determination and of the effectiveness of the business in achieving agreed service standards.

A transparent review of the structure of river operations and asset management services of the MDBA and BRC is required. This should be done in close consultation with the Governments and water users in the relevant jurisdictions. It should examine the feasibility, benefits and costs options to improve the transparency of and provide regulatory review of costs. This review should examine the spectrum of options for reform, including full institutional separation of the service delivery functions of the MDBA and its policy and regulatory functions.

**Recommendations:**

**That Governments commit to transparency and independent oversight of government monopoly service providers, to ensure that service delivery is prudent and efficient is long overdue.**

**That a specific and transparent review of options for river operations and asset services of the MDBA and BRC be commissioned, and conducted in consultation with stakeholders.**

***Investment in new infrastructure***

History has shown that irrigators will invest in prudent development that provides the water products and services they require at reasonable cost. The development of sound business cases is fundamental to exploring and attracting the right finance for new infrastructure projects, including green-field developments.

Importantly, business cases must articulate the long term cost structures and cost recovery arrangements for the infrastructure. Consideration must be given to how public investment will be treated in the regulatory asset base (RAB) of the infrastructure owner. Under full cost recovery pricing, irrigators pay a rate of return on capital. In the past, the treatment of historic capital contributions from Governments have frustrated irrigators during pricing determination processes. Irrigators have invested considerable time and energy to demonstrate to regulators, who have little appreciation of the history of developments, that such grants should not form part of the RAB. Articulating these considerations upfront can avoid these challenges in the long run.

Noting that in northern Australia, governments face a lack of detailed water resource knowledge, and so planning in these circumstances needs to be fit-for-purpose and adaptive. In the pursuit of investment in new infrastructure, NFF has encouraged governments to ensure that they make the upfront investment in scientific analysis to support the long term sustainability of the project, which is vital for long term entitlement security. This is crucial to ensure that we learn the lessons of the past and avoid a repeat of the Murray-Darling and other water resources where the cost of reform to Governments and the costs to water users from the erosion of entitlements has been considerable.

It is also important that Governments invest in the policy settings that govern access to water from new developments. In planning developments, it is essential that Governments ensure that the principles and intent of the National Water Initiative are reflected and that potential impacts on third parties are robustly considered. While this is relevant across the board to all

new investments, it is particularly relevant where private sector interests have progressed businesses cases and will be core investors. In NFF's view, attracting large private finance should not come at the expense of a transparent process - that is accessible to all - to prioritise and allocate the water access entitlements that result from new developments.

It is also important to take a broader view of regional economic resilience and in making water allocation decisions ensure that there is a range of new economic activities supported by a water development. This was highlighted by the recent downturn in the resources industry and flow on impacts to mine dependent communities, particularly in central Queensland, that had little other non-mining activity to rely on in the 'bust' phase of the resources cycle.

**Recommendations:**

**That Governments commit to transparent investigation of infrastructure proposals, to ensure that developments are both sustainable and will deliver long term benefits.**

**That Governments ensure that robust water entitlement and water resource planning processes are in place for "greenfield" water infrastructure projects.**

### 3.2 Urban water services

Urban water and treated sewerage management strategies should include an examination of the opportunities to meet increasing and sustained demand for water for agriculture, often occurring near urban areas. Reuse of this water also offers a range of cost-saving and environmental benefits, such as is offered by re-directing Brisbane's urban waste water from outfall into Moreton Bay, to the agricultural regions of the Lockyer Valley and Darling Downs (about 100,000 megalitres per year). Past feasibility studies have indicated that projects such as NuWater –South East Qld Recycle Water Project can be commercially feasible and the federal Government is currently funding an update of the NuWater Business case.

In the context of some of our largest cities on the coast, stormwater is discharged to sea and there is no impact on downstream users. Projects in inland cities however, where stormwater is discharged back into the river system, changes in runoff can potentially result in impact on downstream users. When examining the costs and benefits of projects to reduce or reuse stormwater runoff in towns and cities, the potential for third party impacts must be examined.

Consistent with other comments in this submission, such projects need to be subject to a cost: benefit analysis and a rational decision making process but represent a clear opportunity to support expanded agricultural operations around Australia using treated waste water resources.

## 4. Achieving reform

Australia is recognised as a world leader in water policy and management. The reason for this is our decades old commitment to developing and implementing water reforms that enable us to ensure that our water resources can deliver the social, economic and environmental outcomes that the community as a whole desires.

There is no doubt reform fatigue, particularly in the Murray-Darling Basin. However, what this submission has highlighted is that there is still unfinished business, there are areas where progress has slipped, and there are new challenges for us to address.

The need for the National Water Initiative arose from the growing frustration by stakeholders of the slow pace of the implementation of water reforms agreed under National Competition Policy, and a lack of confidence in the way NCP principles were being interpreted by jurisdictions. The NWI, and initially the funding that supported implementation, provided the impetus for the states to deliver reforms that were either politically difficult or where there was administrative inertia.

In the absence of a contemporary agreed water reform framework, stakeholders can find it difficult to influence the direction of change. An agreed framework enables stakeholders to "call out" governments that are acting in contrary to the agreed principles. Further to this, independent examination of the progress of reform of all jurisdictions provides stakeholders with the avenue to raise issues where progress is frustrating and identify new challenges that need to be addressed.

While many of the principles and intended outcomes of the NWI are enduring, in its current form the agreement is dated. In many areas it does not reflect the lessons that we have learned from the 13 years of implementing reforms, nor the changes in the policy frameworks and institutions that have emerged, particularly since the introduction of the *Water Act 2007*. The risk assignment provisions are an example of this, where the actions of Governments have implemented policies that fully compensate entitlement holders for changes in access that arise from policy interventions.

NFF's view is that a refreshed NWI would be valuable to continue to drive improvements in the way we manage our precious water resources.

**Recommendation:**

**That Governments commit to refreshing the National Water Initiative to provide a contemporary national framework to guide future water reform.**