LOCAL GOVERNMENT ASSOCIATION OF QUEENSLAND

21 August 2020

Jane Doolan
Commissioner – Productivity Commission
National Water Reform Inquiry
Locked Bag 2, Collins St East
Melbourne VIC 8003

Dear Jane

Review of the National Water Reform - Issues Paper

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association set up solely to serve local governments and their individual needs.

We appreciate the opportunity to provide feedback on the Productivity Commission's National Water Reform – Issue Paper. The LGAQ acknowledges that the National Water Initiative (NWI) and related water reform processes have delivered major advances in sustainability, efficiency and equity in water resources, services, and markets.

Please find attached the LGAQ's submission on the above. We note that the greatest challenges to water security and environmental outcomes are urbanisation and population growth, and the uncertainties posed by climate change. Additional to that, the LGAQ believes that the NWI could be further strengthened in the following areas:

- Integrated water cycle management - The LGAQ supports a national framework to strongly encourage, if not mandate, integrated water cycle management in urban water supply including recycled effluent.
- Recycled water - The LGAQ believes that enhanced investment by the Federal and State Governments in modelling surface and groundwater systems could prove beneficial in determining the potential economic, social and environmental benefits of alternative water sources. The LGAQ would further suggest that there is a place for a national agenda and position in relation to indirect potable reuse.
- Resources - Many smaller local governments are experiencing serious problems in relation to attracting and retaining skilled water services personnel. LGAQ would like to see the NWI address the issue with an explicit acknowledgement of occupational development and skills training needs.
- Unallocated water - Greater transparency in the processes and triggers for the release of unallocated water would assist in more effective strategic planning for communities and businesses. Urban water should always be assigned the highest priority in allocation decisions.
- Catchment models - The LGAQ believes existing data sets and catchment modelling may be inadequate to the task of understanding the impacts of water allocation decisions in sustainability of systems and the regional economies/communities that rely on them. This is an area which could be prioritised for investment.

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Should you have any questions or concerns in relation to this submission, please feel free to contact Subathra Ramachandram, Lead – Water and Wastewater,

Yours sincerely

Greg Hallam AM
CHIEF EXCUTIVE OFFICER

LGAQ
LOCAL GOVERNMENT ASSOCIATION OF QUEENSLAND

National Water Reform Productivity Commission Issues Paper

Submission

August 2020

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The Local Government Association of Queensland

The Local Government Association of Queensland (LGAQ) is the peak body and collective voice of local government in Queensland. The LGAQ has been assisting local governments to enhance services and relationships with their communities since 1896.

The LGAQ's Policy Statement 2019 represents the collective position of local government in Queensland. Policy positions on water and wastewater are included in Section 8.5 of the Policy Statement.

Local government as a service provider

According to current data from the Australian Bureau of Statistics, the value of non-financial assets of Queensland State and local governments is $319.29 billion. Local governments' portion of the total value is $107.97 billion (33.8%). Local government assets include local road networks, most drinking water and sewage treatment and reticulation systems, some gas supply and reticulation, stormwater and recreation assets amongst others.

Local government water and wastewater assets service around five million persons, support employment of over 6000 workers and are valued in excess of $40 billion.

77 local governments in Queensland either source the water for their communities directly or secure it under contract from a bulk water provider including:

- Eight South-East Queensland (SEQ) councils rely upon two statutory authorities (Queensland Urban Utilities & Unity Water) for the management of their water and sewerage services but own these services:
- The remaining councils own and manage their water and sewerage assets and service delivery. Two of these councils (Mt Isa and Gladstone) rely for bulk water supply upon state owned commercialised statutory authorities.

Our response to the discussion paper

The LGAQ acknowledges the Productivity Commission (Commission) role in reviewing the National Water Initiative implementation as mandated under the Commonwealth Water Act.

We appreciate the opportunity to review the National Water Reform discussion paper. Our submission reflects the views of local governments although detailed consultation has been hampered by the COVID-19 environment and the current focus of local governments on managing economic outcomes.

In this submission we have focussed principally on urban service delivery issues. Responses have only been provided for issues within our remit and that are relevant to local government services.

Information Request 1

The Commission welcomes feedback on:

- Whether the signatories to the NWI are achieving the agreed objectives and outcomes of the agreement

The LGAQ's response:

The National Water Initiative (NWI) recognises the importance of effective water allocation and management practices. Regular review of the water reform agenda is essential due to constantly shifting circumstances.

The *Water Act 2000* (Qld) requires review of the water allocation plans every 10 years and prescribes public consultation requirements (s.46). The DNRME communicates well with stakeholders and conducts regional workshops to gather community input to the reviews. The LGAQ regards the water allocation and management framework as effective, fair and reasonable.

The NWI and related water reform processes have delivered major advances in sustainability, efficiency, transparency and equity in water resources, services and markets. Overall, this organisation regards the jurisdictions' responses as generally satisfactory given individual circumstances and supports further reform implemented in a consultative and considered manner. However, much remains to be done – this is discussed in sections below.

- Which elements of the NWI have seen slow progress?
- Whether there are cases where jurisdictions have moved away from the actions, outcomes, and objectives of the NWI?

The LGAQ's response:

See response to *Information Request 2*.

- Any other data and information sources that might be useful for assessing progress?

The LGAQ's response:

There are several sources of data of which the Commission may wish to inform itself:

- Mandatory performance reporting framework – The Queensland Department of Natural Resources, Mines and Energy (DNRME) requires water service providers (WSP) to report annually on key performance indicators (KPI) on common industry metrics i.e. water supply security, service delivery, financial sustainability, infrastructure investment and maintenance, demand management, customer service and affordability, and cyber security.
- WSPs may report KPIs via Queensland Water Directorate's (qldwater) Statewide Water Information Management (SWIM) database. DNRME also undertakes triannual surveys of WSPs to understand water security status throughout the year, maintain communication on water security issues, and provide long-term information that underpins planning and reporting.
- Queensland Water Regional Alliance Program (QWRAP) - This program encourages regional collaboration in local government water and sewerage service provision including assessment of regional governance arrangements. Research projects undertaken on demand management and the water/sewerage "infrastructure cliff" may be relevant to this review.
- The Queensland bulk water opportunities statement (QBWOS) outlines the Queensland Government's framework for sustainable regional economic development

through bulk water infrastructure and infrastructure investment. QBWOS facilitates discussion with the community and the water sector on water security planning including demand management, optimal use of supplies and bulk water infrastructure supply options.

Information Request 2

- Is the NWI adequate to help Governments address the identified challenges?
- Are there any other current or emerging water management challenges where the NWI could be strengthened?

The LGAQ's response:

As the discussion paper reflects, the greatest challenges to water security and environmental outcomes are urbanisation and population growth, and the uncertainties posed by climate change. The NWI acknowledges these risks and could be strengthened in emphasis. Other concerns and human resource challenges include:

- **Data/hydrologic and groundwater models** - To regulate water resources appropriately, sufficient data and suitable models are needed for surface and groundwater systems, and the impacts of water extraction. The LGAQ believes existing data sets and catchment modelling may be inadequate to the task of understanding the impacts of water allocation decisions in sustainability of systems and the regional economies/communities that rely on them. This is an area which could be prioritised for investment.
- **Extractive industries** - The LGAQ believes that water resources assigned to extractive industries should progressively be incorporated into the statutory water planning process. These arrangements have led to unfavourable pricing and supply outcomes for communities and an insecure and unhealthy reliance on mining companies. Having a patchwork of water property rights is inconsistent with the objective of sustainable management of the resource. Untangling historical entitlements and property rights will also pose a range of legal and administrative challenges, so appropriate transitional and assistance mechanisms may need to be applied.
- **Recycled water** - In considering water property rights, the LGAQ also believes that a holistic approach is required, one that not only takes account of water withdrawn/extracted from a catchment or aquifer, but also water 'deposits' – such as transfers between aquifers or injection of 'recycled water' into aquifers. The LGAQ believes that enhanced investment by the Federal and State Governments in modelling surface and groundwater systems could prove beneficial in determining the potential economic, social and environmental benefits of alternative water sources. The LGAQ further would suggest there is a place for a national agenda and position in relation to indirect potable reuse.
- **Integrated water cycle management** - The LGAQ supports a national framework to strongly encourage, if not mandate, integrated water cycle management in urban water supply including recycled effluent.
- **Resources** - The flip side of national population growth (and the growth of metro areas) is population decline in rural and regional centres. Many smaller local governments are experiencing not only serious problems in relation to attracting and retaining skilled water services personnel but also in maintaining relatively expensive technology in small package plants. Generational retirements will only amplify the problem. The COVID-19 pandemic has introduced further uncertainties in terms of job

stability and security for water service personnel in rural and remote communities. LGAQ would like to see the NWI address the issue with an explicit acknowledgement of occupational development and skills training needs.

- **Unallocated water** - Greater transparency in the processes and triggers for the release of unallocated water would assist in more effective strategic planning for communities and businesses. Urban water should always be assigned the highest priority in allocation decisions.

Information Request 4

How effective are water plans at managing extreme events such as severe drought?

Are NWI principles being applied at these times?

What steps have been undertaken – or should be undertaken – to plan for long term changes in climate?

What lessons have recent extreme events (bushfires and COVID-19) provided for planning?

The LGAQ's response:

Almost three million people are living in drought conditions in Queensland communities. The LGAQ believes that there are significant opportunities to improve resilience if strategic investments are made in water infrastructure, as well as providing appropriate incentives and policies to improve water use efficiency and water supply planning. The LGAQ's Queensland Government Local Government Drought Action Plan stresses the need for a collaborative partnership between the three levels of government with local government on behalf of communities at the centre of decision making.

The LGAQ cannot comment on the suitability of current climate prediction models but supports better integration of relevant models with water planning activities.

In planning climate change, a number of initiatives are being implemented as a result of LGAQ advocacy. The following partnership programs are funded by the Queensland Government and delivered by the LGAQ:

- The Queensland Climate Resilient Councils Program - working with local governments to increase awareness of climate change and its implications for local government operations. Local governments are encouraged to explore potential responses to increasing dry periods and drought through options such as property-level water capture and water recycling.
- The Queensland Local Government Coastal Hazard Adaptation Program (QCoast2100) - provides funding, tools and technical support to enable the preparation of plans and strategies to address climate change related coastal hazard risks over the long-term. It is also intended to facilitate development of high-quality information enabling timely and effective decision-making across local government planning and operations including water and sewerage assets/services.

COVID-19 has brought to light issues in planning for future pandemics. Contingency planning for supplies (such as chemicals for treatment plants), critical spares (pipes, valves etc) and resources (technical and financial support) is imperative to ensure communities are supported throughout a public health crisis with safe and reliable water supply. Queensland has developed a central database for availability of chemical supplies, supply chain issues and details of chemical suppliers to assist WSPs during this pandemic.

Information Request 7

What progress are States and Territories making on including indigenous cultural values in water plans, and how are they reporting progress?

How could a refreshed NWI help indigenous Australians realise their aspirations for access to water, including cultural and economic uses?

The LGAQ's response:

The Water Act 2000 (Qld) acknowledges the right of Aboriginal peoples and Torres Strait Islander peoples to take water for traditional activities or cultural purposes and the water planning process now includes recognition of the importance of water resources for indigenous peoples.

Queensland has 17 Indigenous local governments, each of which have both a community (i.e. urban water) and cultural interest in water planning. The LGAQ helps to facilitate their interests through the Indigenous Leaders Forum, which meets twice a year to identify and prioritise common concerns, identify remedial strategies and agree upon implementation initiatives.

The LGAQ in its activities directly supports the cultural and economic aspirations of indigenous communities and would encourage more explicit acknowledgment and incorporation of these aspirations in water planning and allocation regimes.

Information Request 8

Are the institutional arrangements for metropolitan water service providers fit-for-purpose? Is there evidence of inefficient pricing or investment decisions?

The LGAQ's response:

The discussion paper notes concerns on institutional separation in relation to some metropolitan water service providers, citing the cessation of Queensland Competition Authority (QCA) price monitoring of retailer-distributers in the state's south-east.

For most local governments there are great external pressures (i.e. political and social) to maintain water prices at affordable levels. In principle the LGAQ would support price monitoring independent of government and service providers. In practice, QCA price monitoring in the south east was an expensive exercise which added to retailer costs and the effectiveness and accuracy of which was not universally accepted.

Information Request 9

How can small regional providers best balance affordability with longer-term service quality? Are there barriers to effective local planning?

Is there scope for greater collaboration between small providers? When might government support be warranted, and how should it be provided?

The LGAQ's response:

A proportion of small water and wastewater schemes, particularly in regional and remote Queensland, are uneconomic and will never achieve cost recovery. These schemes will rely on external grants and subsidies to be viable. This fundamental truth cannot be resolved by

regional amalgamation or cooperation, although regional cooperation in Queensland over the last decade has delivered meaningful financial and operating efficiencies.

The QWRAP Program is generally regarded as a success in driving regional cooperation in water and sewerage service delivery. The program is a collaboration between the LGAQ, qldwater, DNRME and over 30 councils. It supports regional collaboration and activities through partial funding to create economies of scale and respond to common issues faced by local governments. Funding is through a competitive process prioritised by a region's progress in collaboration maturity. The QWRAP website provides more details on the program and projects.

Funding support is limited however and essentially only extends to collaboration on regional arrangements for management of water and sewerage services projects or small-scale pilot projects. The LGAQ's Rural Water and Wastewater Guarantee proposal (*discussed in Information Request 10*) seeks to redress this by achieving regional collaboration at scale to confront the imminent water/sewerage asset refurbishment "infrastructure cliff".

Where urban water quality is concerned, LGAQ would advise caution in relation to any proposal to require minimum service standards for all communities.

Information Request 10

Do water service providers supply high-quality water services in regional and remote areas? Are there examples of poor water quality, service interruptions, or other issues? Have regional water service providers adequately planned for extreme events?

Are there sources of data that could be used to benchmark smaller providers' water service levels (with fewer than 10,000 connections)?

The LGAQ's response:

Many regional and remote councils are responsible for a multitude of ageing small water schemes. It is estimated that 30 percent of water and sewerage pipes are asbestos cement installed between 1960 and 1990. Economic life of this stock is 70 years and thus much of it will require renewal in the near to mid-term.

Refurbishment priority is triggered relative to annual breaks per 100 km of pipe, with a generally acceptable upper limit of 39 for water mains. Schemes that exceed 50 breaks per 100 km typically are found in small regional and remote communities.

The capital requirement to maintain service capacity into the medium-term is beyond the fiscal capacity of local governments operating small regional and remote schemes. Service disruptions and water quality incidents will inevitably increase without substantial State and Federal capital assistance.

In terms of investment decisions, a key issue is the "infrastructure cliff" and the inability of many regional and remote local governments to fund capital costs of refurbishing aging water and sewerage infrastructure. A concomitant issue is emerging public health and environmental risks to communities.

Until 2009, the Queensland government provided local governments with a 40% capital subsidy for water and sewerage infrastructure. This meant that funding was predictable. Since 2009, funding has been opportunistic and competitive. Population decline in regional

Queensland has concurrently diminished local government revenue (through rates) for water provision.

Another current issue is multiple funding sources but no coordination or strategic alignment between them so local governments have to be reactive, rather than strategic, sourcing funding opportunistically where and when they can.

The LGAQ recognises that immediate support – both financial and technical - is needed to ensure regional local governments are able to provide their communities with vital water and wastewater services. A 2019 LGAQ Annual Conference motion seeking funding of $100M per annum over five years to support rural water and sewerage with investment priority determined by risk assessment of infrastructure, water quality and availability was overwhelmingly supported.

As a result, the LGAQ is proposing the Queensland Government invest $500M over 5 years as part of the transition to a grant funding model that recognises security of essential services as a core objective. The proposed 'Rural Water and Wastewater Guarantee', if successful, will provide for the water quality, water security and wastewater management needs of Queensland's regional, rural and remote towns and communities.

Please see response to *Information Request 1* on data available for benchmarking.

Information Request 11

What steps have been undertaken to address the priority areas for urban water reform identified in 2017?

Is further guidance on implementing an integrated cycle management approach for delivering water supply, wastewater and stormwater management services required?

How does jurisdictional urban water service planning interfere with urban land-use planning at different scales? Are the roles and responsibilities clearly set out?

Is the role of water delivering amenity and liveability outcomes clear? How are the trade-offs with other NWI outcomes considered? Is it clear how the level and type of amenity delivered by urban water services will be funded?

The LGAQ's response:

LGAQ believes integrated water cycle management practices such as rainwater and stormwater capture, recycling, potable reuse and aquifer recharge will be critical to urban water security in the future. A national policy focus on enhanced integrated water cycle management is supported, as well as increased focus on urban water generally.

The LGAQ commends the Queensland Government on its efforts to provide an effective planning framework for the sustainable allocation and management of water. The LGAQ regularly engages on water planning matters with DNRME and participates in its Water Engagement Forum - an excellent example of stakeholder engagement.

Information Request 12

Are there examples of projects that have not met the NWI criteria for new water infrastructure investment?

What principles should inform government funding or financing of new water infrastructure?

The LGAQ's response:

The principle of transparent benefit-cost analysis prior to government funding for urban water and wastewater infrastructure is laudable and LGAQ concurs. Clearly however unanticipated critical water supply situations will arise and require reactive responses. There will inevitably be limits to the supply contingency planning capabilities of small service providers.

The LGAQ believes the following principles should inform funding of new water infrastructure:

- Transparency in project assessment for funding decisions is paramount.
- Funding should be applied to both infrastructure and non-infrastructure options e.g. capability development, options analysis, demand investigation/management, business case/strategy development, system monitoring, operational improvements etc.
- Funding decisions should l be informed by adequate data collection and industry best-practice technology as well as demonstrating best value for money solutions.
- Funding should consider and coordinate with other grant funding opportunities to ensure cost and time efficiencies are leveraged
- Approved projects must demonstrate commitment to long-term water and wastewater service delivery planning, management, and maintenance for the region
- Beyond the life of the funding, knowledge and information sharing is to be encouraged across jurisdictions to promote innovations and inform future funding opportunities.

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