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Dear Commissioner Doolan

PRODUCTIVITY COMMISSION'S DRAFT REPORT ON MURRAY-DARLING BASIN PLAN: FIVE-YEAR ASSESSMENT

Thank you for the opportunity to comment on the Productivity Commission's *Murray-Darling Basin Plan: Five-year assessment, Draft Report* (assessment). While this assessment is a requirement of the *Water Act 2007* (Cth), it is also important advice to governments to ensure the next phase of Basin Plan implementation delivers on the agreed Basin Plan outcomes.

The Victorian Government notes the extensive consultation undertaken by the Commission and considers the draft findings and recommendations provide a timely opportunity for all Basin Governments and communities to recognise the significant progress made to date. It is important the Commission now test these draft recommendations with Basin communities.

The Victorian Government supports an adaptive management approach to the Basin Plan and is committed to working collaboratively with other Basin Governments throughout implementation. The draft report is comprehensive and gives governments much to consider in coming months, including how to apply adaptive management to implementation.

Water recovery to bridge the gap to sustainable diversion limits (SDLs) is a critical component of the Basin Plan and has to date resulted in promising outcomes for the environment. Victoria has recovered, or contracted to recover, more than 800 GL of our 1075 GL share of water recovery.

We advise the 0.4 GL reported as outstanding in the Wimmera-Mallee system is an error and is the subject of discussions between Victoria and the Murray-Darling Basin Authority (MDBA), as are other minor discrepancies in water recovery data. We also note that the remaining contracted recovery in Victoria no longer includes tranche 3 of the Victorian Farm Modernisation Program, as the Commonwealth has accepted Victoria's decision not to proceed with the final stage of the project. We request the Commission ensure that these points are reflected in its final assessment, as it is important communities are provided with the most up to date information.

The SDL offset (supply measure) projects are important to the successful delivery of Basin Plan outcomes, as they will provide environmental outcomes such as water supply to wetlands even in dry periods, as well as helping to close out the remaining water recovery task in the southern Basin.

Any assessment of the value-for-money of these offset projects should reflect the environmental outcomes they will achieve, the market value of the equivalent water purchase, and avoided socio-economic impact from water purchase. The draft assessment uses the funding envelope of \$1,660 per ML as a proxy for the value-for money, but Victoria's view is that the value is much higher, particularly considering that the current market value of equivalent water entitlement is more than twice the funding envelope. Victoria wants these projects to have the best chance of succeeding, notwithstanding delays to commencement, including the addition of a second notification process to

the Basin Plan in 2016, and the fact that Commonwealth pre-construction funding has not yet been provided. We know these measures are effective from experience with *The Living Murray Program*. We are now seeing improvements in vegetation health, successful waterbird breeding, and increases in fish populations from these infrastructure projects, which are comparable to Victoria's nine proposed environmental works projects. Victoria wants to get on with delivery.

Complementary measures, such as on-ground projects, restoring in-stream habitat for native fish, pest animal or weed control, or floodplain-riverine connections will be essential to fully realising the environmental outcomes of the Basin Plan. Ministerial Council agreed in 2017 that officials should investigate how to embed complementary measures in Basin Plan implementation. Achieving the full range of environmental outcomes of the Basin Plan will require more than water recovery, so this work should not lose momentum.

Recovery of water towards the additional 450 GL is not currently restricted to a specific location in the Basin. The draft assessment suggests that it should be recovered entirely within the southern Basin. Victoria disagrees with this, as water recovery opportunities are not likely to be confined to the southern Basin, and it would mean Victoria would bear a disproportionate share of the impacts of water recovery. Our 2017 study into the socio-economic impacts of the Basin Plan shows that the impacts of water recovery are real and being felt by our communities. Findings of this work include that:

- the dairy industry is heavily reliant on the allocation market (more than 50 per cent are now net buyers) exposing these businesses to water price and availability volatility;
- Basin irrigators are exposed to more risk and are likely to be less resilient during dry spells because of their increased reliance on purchasing allocation; and
- there has been a 41 per cent reduction in long term average deliveries in the Goulburn Murray Irrigation District (from 2000 GL in 2009 to average of 1200 GL in 2016).

The review of the Water for the Environment Special Account presents an opportunity to consider the adequacy of the available funding to deliver the Basin Plan, including efficiency measures and constraints projects. The lowest cost projects may not always be those with the best environmental or socio-economic outcomes, and Victoria believes this should be taken into consideration.

Victoria has consistently argued that the current participation test for efficiency measures is inadequate, does not reflect the real impact that water already taken from the system has had, does not meet community expectations nor sufficiently addresses cumulative or distribution impacts of further water recovery. In June 2018, Ministerial Council agreed that Basin Governments will work together to develop criteria to assess socio-economic impact, beyond the participation test. This will include close engagement with community and industry leaders in program design, and the effective integration of measures. Victoria has been working with New South Wales and South Australia, and more recently the Commonwealth to develop socio-economic criteria beyond the participation test for additional water recovery in the southern Basin. Our position is that any water above the 2750 GL target in the Plan must be achieved with neutral or positive socio-economic impacts.

Basin Governments also agreed at Ministerial Council that the first priority for efficiency measures is to recover the 62 GL required by June 2019 to ensure that the full 605 GL supply adjustment comes into effect. Victoria has identified off-farm projects that will contribute up to 9 GL, including channel upgrading, improved system viability, and pipelining for stock and domestic supplies. These projects will identify system losses that could be fixed through infrastructure investment achieving benefits for farmers, communities and the environment. These projects will achieve system savings that can be

put back into the health of the Basin without impacting on communities. Victoria maintains our commitment not to flood private land without prior consent, nor compulsory acquire land or easements.

The costs of projects should be transparent and justified, however any use of a pre-determined price per ML must be carefully managed to avoid opportunities for arbitrage or other market distortions. Alternative water products, such as leases, could be complex for environmental water holders to use, as these products have the potential to limit the scope of environmental water holders' planning and decisions.

Victoria agrees that transparency in reporting for efficiency measures is important, in particular to ensure the public and governments have the best available information on the environmental benefits of additional water recovery.

Victoria's two Water Resource Plans (WRPs), covering five water resource plan areas, are expected to be delivered before the 1 July 2019 deadline for accreditation. We recognise that the 2019 deadline represents a significant challenge for governments, as well as the MDBA and the Commonwealth Department of Agriculture and Water Resources who will have a considerable workload to assess and accredit all 36 plans. The Basin Plan supports engagement with Aboriginal communities in water resource planning and the consideration of Aboriginal values and uses of water. Our WRP engagement includes working with Traditional Owner Groups to identify Aboriginal Water objectives and desired outcomes, discuss values and uses and respectfully represent contributions from each of the Nations within WRP areas.

Victoria has been a strong advocate for improving outcomes for Traditional Owners and Aboriginal Victorians. Part of this approach is a commitment to participatory design, or co-design. This aligns with the principle of self-determination and involves jointly developing and testing solutions to understand what works. Traditional Owners should be meaningfully engaged in the governance, development and design of key programs and project delivery.

Victoria has consistently advised that Traditional Owners must be centrally involved in the MDBA's work to identify opportunities to further engage and involve Aboriginal people in the use of environmental water for shared benefits. *Water for Victoria* provides a state-wide approach toward the delivery of an Aboriginal water program. The aim of the program is to better include Aboriginal people in the way water is managed in Victoria and to reconnect communities to water for cultural, economic, customary and spiritual purposes, and is in alignment with WRP requirements. Victoria's preferred model of consultation centres on Traditional Owners designing and determining governance arrangements, which is critical to ensure 'self-determination' and is a Victorian Government priority.

It is important that the Commonwealths \$40 million program for Indigenous investment in economic and cultural water in the Basin Plan is developed and led by Traditional Owners and take into consideration issues to do with land ownership, or lack thereof, of Aboriginal people and communities. Institutional arrangements should be investigated for the delivery and application of water for Traditional Owners and Aboriginal groups who do not own land.

The Basin Plan's objectives and targets for water quality build on long standing inter-jurisdictional work that has led to decreasing salinity levels in the River Murray. While the salinity and salt export targets are aspirational by nature. Victoria supports an adaptive management approach to the Basin Plan and is open to the revision of targets where appropriate.

Critical human water needs are again of heightened interest to Basin communities with the impact of drought being felt this year. Victoria notes the assessment's finding that the Basin Plan provisions for supplying critical human water needs in the River Murray system in periods of low water availability are robust and that no changes to these provisions are warranted. Notwithstanding this finding, Victoria considers it important that planning for urban water security is undertaken against a detailed range of potential supply scenarios.

Water trading rules have allowed the development of efficient water markets. Victoria notes that transparency is an important principle underlying water markets and would support the development of an assessment framework for evaluating the consistency of remaining trade restrictions against the Basin Plan trading rules.

Victoria wants to ensure that environmental water recovered for the purposes of the Basin Plan is explicitly used to target the outcomes of the Basin Plan. A variety of tools can be used to achieve this, including the Basin-wide Environmental Watering Strategy, Long-Term Watering Plans, and annual watering priorities. At present annual priorities produced by MDBA are not released in time for the Victorian Environmental Water Holder to shape their strategy for the year but are still useful and if timing can be altered, Victoria considers these a valuable middle ground between long term basin-wide and State priorities. Victoria's water policy *Water for Victoria* supports the shared benefits of water for social needs if environmental values and existing rights to water are not compromised.

We would like to see a clear connection from the objectives in the Basin Plan, to long term Basin-wide watering priorities, and through to states' watering plans. Part of improving this connection could be more precise guidance from the MDBA on Long-Term Watering Plans, delivered in a time frame which makes it possible to take feedback into account and meet critical deadlines.

The *Water Act 1989* (Vic) requires the Victorian Environmental Water Holder be able to make independent decisions regarding watering and priority assets. This means guidance regarding priority assets is most useful for Victoria when considering Basin-wide objectives and ensuring that the outcomes of the Basin Plan are the focus of Commonwealth environmental watering actions. States should still be able to prioritise assets at a local scale, in recognition that local outcomes are essential to Basin watering as a whole.

Victoria has a strong and effective compliance regime, with no evidence of large scale misappropriation of water. We have supported the compliance reviews undertaken in response to the issues raised by the Four Corners program and will continue to work with the MDBA to ensure that strong reporting protocols are in place between the two parties and implement our actions under the Compliance Compact in a cost effective and risk based way. Metering standards are important, however a focus on whether meters comply with the Australian non-urban water metering standard should not overshadow consideration of other aspects of good compliance practice and culture including meter reading practises, communication systems, and enforcement action.

Victoria has committed to implement the Compact in accordance with principles of best practice regulation that have been agreed by the Council of Australian Governments. This means Victoria will identify actions in the Compact where there is potential for inconsistency with the principles or unintended consequences and for these actions to:

- identify a range of feasible options consistent with the Compact action and assess their costs and benefits in consultation with stakeholders; and

- adopt the option that is effective and proportional to the issue being addressed, and results in the greatest improvement in compliance at the least cost.

The Victorian Government is committed to ensuring that implementation of the Basin Plan is done efficiently, with the right governance and decision making settings, and with the confidence of the community. We look forward to considering the final report and recommendations with all Basin Governments in 2019. It is important that Basin States provide a full public response to the Commission's final assessment when tabled in early 2019.

Yours sincerely

Hon Lisa Neville MP
Minister for Water

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