



MARINE AND WATER DIVISION

Administration Building
King Edward Terrace, PARKES, ACT, 2600
GPO Box 787, CANBERRA, ACT, 2601

THE COUNCIL OF AUSTRALIAN GOVERNMENTS' WATER REFORM FRAMEWORK

The Council of Australian Governments issued a Communiqué following its meeting in Hobart on February 25, 1994, where water policy was discussed and certain decisions reached, including the establishment of the Water Reform Framework. The Communiqué reports the substance of these decisions. Announcements on other matters, such as micro-economic reform, free and fair trade in natural gas, and electricity reform were also included in the Communiqué. However, these matters have been excluded from this extract.

extracts from

Council of Australian Governments: Hobart, 25 February 1994 Communiqué

Introduction

The Council of Australian Governments today held its third meeting, in Hobart. The Council, comprising the Prime Minister, Premiers and Chief Ministers and the President of the Local Government Association, had wide ranging discussions aimed at increasing cooperation among all spheres of government in the national interest. The key objectives of the Council's deliberations were to assist in bringing about a more competitive and integrated national market, and more efficient and effective arrangements for the delivery of services in areas of shared responsibility.

This Communiqué sets out the agreed outcomes of those discussions.

Water Resource Policy

The Council considered a report from the Working Group on Water Resource Policy, chaired by Sir Eric Neal, outlining a strategic framework for the efficient and sustainable reform of the Australian water industry. The report had been commissioned by the Council at its June 1993 meeting.

The report noted that, while progress is being made on a number of fronts to reform the water industry and to minimise unsustainable natural resource use, there currently exist within the water industry:

- approaches to charging that often result in commercial and industrial users of water services, in particular, paying more than the costs of service provision;

- major asset refurbishment needs in rural areas for which, in general, adequate financial provision has not been made;
- impediments to irrigation water being transferred from low value broad-acre agriculture to higher value uses in horticulture, crop production and dairying;
- service delivery inefficiencies; and
- a lack of clear definition concerning the role and responsibilities of a number of institutions involved in the industry.

The report also noted that there is a number of issues and deficiencies involving water and the wider natural resource base that require the attention of governments. These include widespread natural resource degradation which has an impact on the quality and/or quantity of the nation's water resources.

The Council endorsed the strategic framework proposed by the Working Group and agreed to its implementation. Queensland, South Australia and Tasmania agreed to the broad principles but had concerns on the detail of the recommendations. The framework embraces pricing reform based on the principles of consumption-based pricing and full-cost recovery, the reduction or elimination of cross-subsidies and making subsidies transparent. The framework also involves the clarification of property rights, the allocation of water to the environment, the adoption of trading arrangements in water, institutional reform and public consultation and participation.

Implementation of the strategic framework is expected to result in a restructuring of water tariffs and reduced or eliminated cross-subsidies for metropolitan and town water services with the impact on domestic consumers of water services being offset by cost reductions achieved by more efficient, customer-driven, service provision.

In the case of rural water services, the framework is intended to generate the financial resources to maintain supply systems should users desire this and through a system of tradeable entitlements to allow water to flow to higher value uses subject to social, physical and environmental constraints. Where they have not already done so, States are to give priority to formally determining allocations or entitlements to water, including allocations for the environment.

Environmental requirements are to be determined on the best scientific information available and will have regard to the inter-temporal and inter-spatial water needs required to maintain the health and viability of river systems and groundwater basins. The Council also agreed where significant future irrigation activity or dam construction is contemplated, that in addition to economic evaluations, assessments will be undertaken to ensure that the environmental requirements of river systems can be adequately met.

Because the changes flowing from the framework are extensive and far reaching in their implications, the Council considered that a five to seven year implementation period will be required.

Part of this process will involve governments consulting the community on aspects of the framework. The speed and extent of water industry reform and the adjustment process will be dependent on the availability of financial resources to facilitate structural adjustment and asset refurbishment. The detailed decisions of the Council in relation to water resource policy are at Attachment A.

The Council has asked the Working Group on Water Resource Policy to prepare a report for its first meeting in 1995 on progress in implementing the framework with further reports to be prepared annually on progress over the succeeding four years.

ATTACHMENT A

Water Resource Policy

In relation to water resource policy, the Council agreed:

1. that action needs to be taken to arrest widespread natural resource degradation in all jurisdictions occasioned, in part, by water use and that a package of measures is required to address the economic, environmental and social implications of future water reform;
2. to implement a strategic framework to achieve an efficient and sustainable water industry comprising the elements set out in (3) through (8) below;
3. in relation to pricing:-
 - (a) in general-
 - (i) to the adoption of pricing regimes based on the principles of consumption-based pricing, full-cost recovery and desirably the removal of, cross-subsidies which are not consistent with efficient and effective service, use and provision. Where cross-subsidies continue to exist, they be made transparent,

- Queensland, South Australia and Tasmania endorsed these pricing principles but have concerns on the detail of the recommendations,
 - (ii) that where service deliverers are required to provide water services to classes of customer at less than full cost, the cost of this be fully disclosed and ideally be paid to the service deliverer as a community service obligation,
 - (b) urban water services-
 - (i) to the adoption by no later than 1998 of charging arrangements for water services comprising an access or connection component together with an additional component or components to reflect usage where this is cost-effective,
 - (ii) that in order to assist jurisdictions to adopt the aforementioned pricing arrangements, an expert group, on which all jurisdictions are to be represented, report to COAG at its first meeting in 1995 on asset valuation methods and cost-recovery definitions, and
 - (iii) that supplying organisations, where they are publicly owned, aim to earn a real rate of return on the written-down replacement cost of their assets, commensurate with the equity arrangements of their public ownership,
 - (c) metropolitan bulk-water suppliers -
 - (i) to charging on a volumetric basis to recover all costs and earn a positive real rate of return on the written-down replacement cost of their assets,
 - (d) rural water supply -

- (i) that where charges do not currently fully cover the costs of supplying water to users, agree that charges and costs be progressively reviewed so that no later than 2001 they comply with the principle of full-cost recovery with any subsidies made transparent consistent with 3(a) (ii) above,
 - (ii) to achieve positive real rates of return on the written-down replacement costs of assets in rural water supply by 2001, wherever practicable,
 - (iii) that future investment in new schemes or extensions to existing schemes be undertaken only after appraisal indicates it is economically viable and ecologically sustainable,
 - (iv) where trading in water could occur across State borders, that pricing and asset valuation arrangements be consistent,
 - (v) where it is not currently the case, to the setting aside of funds for future asset refurbishment and/or upgrading of government-supplied water infrastructure, and
 - (vi) in the case of the Murray–Darling Basin Commission, to the Murray–Darling Basin Ministerial Council putting in place arrangements so that, out of charges for water, funds for the future maintenance, refurbishment and/or upgrading of the headworks and other structures under the Commission's control be provided,
- (e) groundwater
- (i) that management arrangements relating to groundwater be considered by Agriculture and Resource Management Council of Australia and New Zealand (ARMCANZ) by early 1995 and advice from such considerations be provided to individual jurisdictions and the report be provided to COAG;
4. in relation to water allocation or entitlements:-
- (a) the State Government members of the Council would implement comprehensive systems of water allocations or entitlements backed by separation of water property rights from land title and clear specification of entitlements in terms of ownership, volume, reliability, transferability and, if appropriate, quality,
 - (b) where they have not already done so, States would give priority to formally determining allocations or entitlements to water, including allocations for the environment as a legitimate user of water,
 - (c) in allocating water to the environment, member governments would have regard to the work undertaken by ARMCANZ and Australian and New Zealand Environment and Conservation Council (ANZECC) in this area,
 - (d) that the environmental requirements, wherever possible, will be determined on the best scientific information available and have regard to the inter-temporal and inter-spatial water needs required to maintain the health and viability of river systems and groundwater basins. In cases where river systems have been over allocated, or are deemed to be stressed, arrangements will be instituted and substantial progress made by 1998 to provide a better balance in water resource use including appropriate allocations to the environment in order to enhance/restore the health of river systems,

- (e) in undertaking this work, jurisdictions would consider establishing environmental contingency allocations which provide for a review of the allocations five years after they have been determined, and
 - (f) where significant future irrigation activity or dam construction is contemplated, appropriate assessments would be undertaken to, inter alia, allow natural resource managers to satisfy themselves that the environmental requirements of the river systems would be adequately met before any harvesting of the water resource occurs;
5. in relation to trading in water allocation or entitlements:-
- (a) that water be used to maximise its contribution to national income and welfare, within the social, physical and ecological constraints of catchments,
 - (b) where it is not already the case, that trading arrangements in water allocations or entitlements be instituted once the entitlement arrangements have been settled. This should occur no later than 1998,
 - (c) where cross-border trading is possible, that the trading arrangements be consistent and facilitate cross-border sales where this is socially, physically and ecologically sustainable, and
 - (d) that individual jurisdictions would develop, where they do not already exist, the necessary institutional arrangements, from a natural resource management perspective, to facilitate trade in water, with the proviso that in the Murray–Darling Basin the Murray–Darling Basin Commission be satisfied as to the sustainability of proposed trading transactions;
6. in relation to institutional reform:-
- (a) that where they have not already done so, governments would develop administrative arrangements and decision-making processes to ensure an integrated approach to natural resource management,
 - (b) to the adoption, where this is not already practised, of an integrated catchment management approach to water resource management and set in place arrangements to consult with the representatives of local government and the wider community in individual catchments,
 - (c) to the principle that, as far as possible, the roles of water resource management, standard setting and regulatory enforcement and service provision be separated institutionally,
 - (d) that this occur, where appropriate, as soon as practicable, but certainly no later than 1998,
 - (e) the need for water services to be delivered as efficiently as possible and that ARMCANZ, in conjunction with the Steering Committee on National Performance Monitoring of Government Trading Enterprises, further develop its comparisons of inter-agency performance, with service providers seeking to achieve international best practice,
 - (f) that the arrangements in respect of service delivery organisations in metropolitan areas in particular should have a commercial focus, and whether achieved by contracting-out, corporatised entities or privatised bodies this be a matter for each jurisdiction to determine in the light of its own circumstances, and

- (g) to the principle that constituents be given a greater degree of responsibility in the management of irrigation areas, for example, through operational responsibility being devolved to local bodies, subject to appropriate regulatory frameworks being established;
7. in relation to consultation and public education:-
- (a) to the principle of public consultation by government agencies and service deliverers where change and/or new initiatives are contemplated involving water resources,
 - (b) that where public consultation processes are not already in train in relation to recommendations (3)(b), (3)(d), (4) and (5) in particular, such processes will be embarked upon,
 - (c) that jurisdictions individually and jointly develop public education programs in relation to water use and the need for, and benefits from, reform,
 - (d) that responsible water agencies work with education authorities to develop a more extensive range of resource materials on water resources for use in schools, and
 - (e) that water agencies should develop, individually and jointly, public education programs illustrating the cause and effect relationship between infrastructure performance, standards of service and related costs, with a view to promoting levels of service that represent the best value for money to the community;
8. in relation to the environment:-
- (a) that ARMCANZ, ANZECC and the Ministerial Council for Planning, Housing and Local Government examine the management and ramifications of making greater use of wastewater in urban areas and strategies for handling stormwater, including its use, and report to the first Council of Australian Governments meeting in 1995 on progress,
 - (b) to support ARMCANZ and ANZECC in their development of the National Water Quality Management Strategy, through the adoption of a package of market-based and regulatory measures, including the establishment of appropriate water quality monitoring and catchment management policies and community consultation and awareness,
 - (c) to support consideration being given to establishment of landcare practices that protect areas of river which have a high environmental value or are sensitive for other reasons, and
 - (d) to request ARMCANZ and ANZECC, in their development of the National Water Quality Management Strategy, to undertake an early review of current approaches to town wastewater and sewage disposal to sensitive environments, noting that action is under way to reduce accessions to water courses from key centres on the Darling River system (it was noted that the National Water Quality Management Strategy is yet to be finalised and endorsed by governments.);
9. in relation to water and related research, member governments would:
- (a) give higher priority to the research necessary to progress implementation of the strategic framework, including consistent methodologies for determining environmental flow requirements, and
 - (b) to greater coordination and liaison between research agencies to more effectively utilise the expertise of bodies such as the Land and Water Resources Research and Development

Corporation, the Murray–Darling Basin Commission and other State and Commonwealth organisations;

10. in relation to taxation:-
 - (a) that a sub-committee of Commonwealth and State officials, established by the Working Group on Micro-economic Reform, meet to discuss taxation issues of relevance to the water industry with a view to reporting, through the Working Group, to the Council within 12 months,
 - (b) to support water-related taxation issues being examined in the proposed Industry Commission Inquiry into Private Sector Infrastructure Funding, and
 - (c) to accept any future consideration of tax compensation payments involving the water industry being dealt with through the Commonwealth–State Working Group established at the July 1993 financial Premiers' Conference; and
11. in relation to recommendations (3) through (8):-
 - (a) that the Working Group on Water Resource Policy would coordinate a report to the Council for its first meeting in 1995 on progress achieved in implementing this framework including reductions in cross-subsidies, movement towards full-cost recovery pricing in urban and rural areas and the establishment of transferable water entitlements, and
 - (b) that as part of the monitoring and review process, ARMCANZ, ANZECC and, where appropriate, the Murray–Darling Basin Ministerial Council and the Ministerial Council for Planning, Housing and Local Government, would report annually over the succeeding four years, and again at its first meeting in 2001, to the Council of Australian Governments on progress in implementing the various initiatives and reforms covered in this strategic framework.

The Council of Australian Governments issued a Communiqué following its meeting in Canberra on April 11, 1994, where water policy was discussed and certain decisions reached, including on Competition Policy, and Water Resources Policy and Regulatory Reform. The Communiqué reports the substance of these decisions as they relate to water resources. Announcements on other matters, such as health and community services, public housing, the centenary of federation, Northern Territory Statehood, and treaties were also included in the Communiqué. However, these matters have been excluded from this extract.

extracts from

Council of Australian Governments

11 April 1995, Canberra

Communiqué

Introduction

The fifth meeting of the Council of Australian Governments completed today has been the most important since its establishment. In a spirit of cooperation Heads of Government have signed major agreements that will boost the competitiveness and growth prospects of the national economy and improve the effectiveness of public housing and health and community services so they better meet the needs of clients. As a result, the Australian federation will be economically stronger and more equitable as it approaches its centenary in 2001.

The Council supported the national competition policy reform package and signed agreements implementing these reforms. The reforms involve extending trade practices legislation to State and Local Government business enterprises and unincorporated businesses, providing access to essential facilities and encouraging competition in the business activities of governments and other sectors of the economy through a program of regulation review, enhanced prices oversight, application of competitive neutrality principles and procedures for structural reform of public monopolies.

In respect of public housing, the Council endorsed reforms that will establish a performance-based approach, focused on client outcomes and clearly delineated roles and responsibilities.

The Council also agreed to an action plan for fundamental reform in the delivery of health and community services, based on three streams of care — general, acute and coordinated — and a new outcome-based approach to planning and funding services.

The Communiqué sets out the agreed outcomes of the discussions on these and other issues.

Competition Policy

The Council agreed to a national competition policy legislative package providing for uniform protection of consumer and business rights and increased competition in all jurisdictions. The Prime Minister, Premiers and Chief Ministers signed two Inter-governmental Agreements to implement the package. The Council reaffirmed its commitment to continuing microeconomic reforms in key industries, and this was reflected in a third Agreement which also provides for financial arrangements, including a series of competition payments.

The Council emphasised that the competition policy reform package would enhance the national economic interest by improving Australia's international competitiveness as well as enhancing the interests of Australian consumers. Consumers will benefit from lower prices for government services as a result of the implementation of the package over time.

The national competition policy package incorporates changes resulting from widespread public comment following release of the draft package in September 1994. These changes more clearly reflect the fact that competition policy is an integral part of the broader policy concerns of Governments and the community.

The Competition Policy Reform Bill was introduced into the Commonwealth Parliament on 29 March 1994. The two Inter-governmental Agreements which complete the package were tabled at the same time. Further amendments to the Bill were agreed by the Council and will be incorporated in the Bill following the Council meeting.

The Council agreed on a mechanism for voting on amendments to the Competition Code. The Commonwealth will have two votes and a casting vote with each of the other parties having a single vote. This will provide meaningful State and Territory participation in changes to the competitive conduct rules while maintaining a consistent national scheme.

The Council supported the Commonwealth's Competition Policy Reform Bill, with further amendments as agreed. The Bill provides for:

- the revision of the competitive conduct rules of trade practices legislation and their extension to cover State and Local Government business enterprises and unincorporated businesses;
- a legislated right to negotiate access to services provided by means of facilities of national significance; and
- amendments to the Prices Surveillance Act to enable price surveillance of Government businesses and to formalise the prices monitoring functions.

The Prime Minister, Premiers and Chief Minister signed three Inter-governmental Agreements:

- the Conduct Code Agreement, which sets out the agreed basis for the extension of the Trade Practices Act and consultative processes on modifications to the competition law and appointments to the Australian Competition and Consumer Commission (ACCC);
- the Competition Principles Agreement, which establishes agreed principles on structural reform of public monopolies, competitive neutrality between the public and private sectors, prices oversight of utilities and other corporations with significant monopoly power, a regime to provide access to essential facilities and a program of review of legislation restricting competition. This Agreement also deals with consultative processes on appointments to the National Competition Council (NCC);
- appointments to the ACCC and NCC will be a matter of close consultation between the parties and will require the support of the Commonwealth and a majority of the parties; and
- the National Competition Policy and Related Reforms Agreement which provides that the Commonwealth will maintain the real per capita guarantee of financial assistance grants to the States and Local Government on a rolling three year basis, and for further financial assistance to the States in the form of competition payments. The per capita element will have an estimated annual cost to the Commonwealth of \$2.4 billion by 2005–2006. The

Competition Payment will be provided in three tranches which, together with the per capita component of the FAGs pool, are dependent on States meeting agreed reform objectives as assisted by the NCC. The first tranche of the Competition Payment will commence in 1997–98 and will be \$200 million in 1994–95 prices. The payment will be indexed annually to maintain its real value. The second and third tranches will commence in 1999–2000 and 2001–2002 respectively. The second tranche will be a payment of \$400 million in prices and the third tranche, \$600 million. The Competition Payments will be quarantined from assessment by the Commonwealth Grants Commission.

The Premiers and Chief Ministers agreed to pass the required application legislation to apply the Competition Code within State and Territory jurisdictions within 12 months of the Competition Policy Reform Bill receiving the Royal Assent.

The ACCC will be responsible for the enforcement of the competition and consumer protection provisions of the Trade Practices Act, making determinations under the access regime, and prices surveillance. The NCC will exercise recommendatory powers on access and price surveillance issues and will have advisory powers on matters determined by governments, including compliance with the National Competition Policy and Related Reforms Agreement.

The Council agreed to the following timetable for implementation:

- subject to passage in Commonwealth Parliament, the amendments to the competitive conduct rules will commence in July 1995. The new institutional arrangements and the access regime will commence in the second half of 1995 or shortly thereafter; and
- under the Competition Principles Agreement, Governments agreed to publish policy statements on competitive neutrality and the application of the Competition Principles Agreement to local government (in consultation with local government) by June 1996. Governments agreed to develop a timetable by June 1996 for the review and, where appropriate, reform of all existing legislation which restricts competition by year

Water Resource Policy and Regulatory Reform

In the lead up to the meeting, the Council agreed to initiatives in the areas of water resource policy and regulatory reform. The Council agreed to the public release of three documents:

- the Second Report of the Working Group on Water Resource Policy;
- the Report of the Expert Group on Asset Valuation Methods and Cost-Recovery Definitions for the Australian Water Industry; and
- Principles and Guidelines for National Standard Setting and Regulatory Action.

Australian Heads of Government and the Prime Minister of New Zealand have also agreed to the release of a discussion paper on a proposal for the trans-Tasman mutual recognition of standards for goods and occupations.

Attachment E (extract attached) contains descriptions of each of these documents, together with advice on how they can be obtained.

ATTACHMENT E

(Extract)

Water Resource Policy and Regulatory Reform

In the lead-up to the meeting of the Council of Australian Governments, Heads of Government agreed to initiatives in the areas of water resource policy and regulatory reform.

The Council has agreed to the public release of the following documents:

- **The Second Report of the Working Group on Water Resource Policy**

This report documents progress by jurisdictions in implementing the framework for reform of the Australian water industry outlined in the first report of the Working Group on Water Resource Policy endorsed by Heads of Government in February 1994.

- **The Report of the Expert Group on Asset Valuation Methods and Cost-Recovery Definitions for the Australian Water Industry**

The Expert Group Report on Asset Valuation Methods and Cost-Recovery Definitions expands on the strategic framework for the Australian water industry contained in the February 1994 Report of the Working Group on Water Resource Policy. The Expert Group report outlines preferred approaches to the valuation of assets, recognition of costs and pricing to ensure that water charges reflect the true economic (including environmental) costs of water service provision.