

13 December 2010

Urban Water Inquiry  
Productivity Commission  
LB2 Collins Street East  
Melbourne VIC 8003

Business  
Council of  
Australia

By email: [urbanwater@pc.gov.au](mailto:urbanwater@pc.gov.au)



Dear Sir/Madam

### **BCA SUBMISSION ON REFORM OF AUSTRALIA'S URBAN WATER SECTOR**

The Business Council of Australia (BCA) welcomes the opportunity to present its views to the Productivity Commission on the reform of Australia's urban water sector.

The BCA considers that urban water reform should be directed at achieving reliable and efficient urban water provision in conjunction with achieving water security, economic growth and sustainability of the environment.

The BCA has released two major publications setting out reform directions in recent years – *Water Under Pressure* in 2006 and *Groundwork for Growth*, October 2009. *Groundwork for Growth* contains a detailed analysis by Port Jackson Partners on current issues in the urban water sector. We attach both publications for your information.

Some progress has been made towards improving policy frameworks in the urban water sector in recent times. The Commission's study can make an important contribution by assessing progress to date and setting out the next steps in the reform process.

The BCA represents the CEOs of over 100 of the leading corporations in Australia with a combined workforce of more than one million people. The BCA's goal is for Australia to be the best place to live, learn, work and do business. Through research, communication and advocacy, BCA members pursue economic, social and environmental policy outcomes for the benefit of all Australians.

#### **Rising demand for urban water**

Australia has emerged from the global downturn with sound prospects for economic growth and with projections of a rise in the population to 30 million or more by 2030 and then 36 million by 2050. The rapid development of the Asia-pacific region is expected to provide strong demand for Australian goods and services, underpinning sustained business investment and employment generation.

Population projections suggest that our cities could almost double in size over the next forty years meaning there will be many more urban water users demanding more water in future.

Urban water is both a product consumed for end use and an input into the production of goods and services by businesses based in urban areas. The Commission's study provides an opportunity for a detailed assessment of all sources of current and expected future urban water demand and the importance of meeting that demand for economic prosperity and community wellbeing.

The Commission's issues paper includes a chart that shows households account for 11 per cent of Australia's water consumption and commercial and industrial business users account for 13 per cent. The Commission can add to the stock of research on current and expected future water use by Australian businesses, the potential uses of water by Australian businesses and the link between water provision and productivity and economic growth. We urge the Commission to consider the potential impacts of urban water reform on businesses closely in their study.

### **Supply-Side Efficiency and Augmentation**

Well functioning water markets will be an important element to ensuring that Australian households and businesses can access reliable and low cost water products and contribute to growing productivity and GDP per capita over time.

The water restrictions of the past decade in our view are not an acceptable long term response to the challenges of meeting our water needs. The longer term response should be to replace policies that restrict water use with properly functioning urban water markets where efficient investments in water supply and user demand can adjust over time in response to market-based price signals, with appropriate safety nets in place to ensure minimum levels of service.

In the BCA's report *Water Under Pressure*, a number of alternative options for competitive urban water markets were highlighted for consideration which would allow for new ideas for supply to come to the surface for community debate and innovative solutions to be facilitated.<sup>1</sup>

The BCA sees a key purpose of this review to determine reforms that will pave the way for more supply augmentation decisions in future to be made by firms within a competitive market framework rather than explicit decisions by governments. Undoubtedly implementing new competitive models will be challenging and will require substantial supporting institutional and regulatory reforms, for example in setting out access arrangements to water distribution pipes. Nevertheless the inquiry is an opportunity to explore practical ways to move towards a market-based model.

Where governments continue to be involved in selecting supply augmentation projects, the costs and benefits of all available options should be analysed in a transparent and independent manner to ensure that the best decisions are made.

---

<sup>1</sup> BCA, *Water Under Pressure: Australia's man-made water scarcity and how to fix it*, September 2006, p. 24

The full range of options should include, for example, desalination, re-use of stormwater, sewerage and stormwater recycling, new reservoirs, and urban-rural water trading.

Many governments have recently commissioned investments in supply augmentation projects such as desalination plants to meet growing demand. However, it has not always been clear that governments have been prepared to select from the full list of options or have chosen the lowest cost options for supply. For example, a recent report by the Victorian Auditor-General<sup>2</sup> outlining the costs of the Victorian desalination plant, reinvigorated debate in Victoria about the economic attractiveness of the project and the process by which the project was chosen for investment.

More efficient supply augmentation could occur by removing regulatory or policy barriers to supply options such as water trading and water recycling. Water trading between rural and urban areas would allow water to be transferred to areas where it can be used at its highest value. Recycled water could efficiently meet the needs of some users and reforms should be considered which would facilitate the access and use of reclaimed water for recycling projects.

In its recent June 2010 report on urban water security, PricewaterhouseCoopers makes a number of recommendations to improve planning frameworks that the BCA agrees would be worth further consideration:

- improved institutional structures for coordinating planning and procurement functions;
- comprehensive national guidelines for supply planning; and
- standardised approaches to defining, measuring and reporting water security objectives.<sup>3</sup>

### **Driving Performance Improvement in Government-Owned Water Businesses**

Greater competition and efficiency in the supply of bulk water could be increased by driving performance improvement in government business enterprises (GBEs). We have advocated for consideration to be given to:

- disaggregation of major water utilities' bulk supply from the pipes, and then from retail activity;
- horizontal disaggregation (eg establishing the sources of bulk water to our cities as distinct businesses); and
- greater private ownership in our current water utilities.

Compliance by government-owned water businesses with COAG-agreed competitive neutrality policies is important for supporting efficient resource allocation in the sector. Consolidated reporting on compliance across all GBEs has slipped. There was a gap of over two years between the release of the 2008 and 2009 Heads of Treasuries' Competitive Neutrality Matrix assessments to COAG. At time of writing the 2010 assessment is still yet to be released.

---

<sup>2</sup> Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009-10, 7 October 2010, p. x-xi

<sup>3</sup> PricewaterhouseCoopers, *Infrastructure Australia: Review of Urban Water Security Strategies*, June 2010, pp. 4,18

### **Strengthening Approaches to Water Pricing Will Develop the Market**

In November 2008 COAG agreed to implement national urban water pricing principles. The priority must be to implement the agreed national pricing principles across all jurisdictions so that properly functioning markets can be achieved. Implementation by jurisdictions is not yet complete. This may require examining any barriers to implementation and eliminating those barriers.

### **Reducing Red Tape and Achieving a Seamless National Economy**

In the interest of achieving a seamless national economy, the Commission's inquiry should explore opportunities to drive efficiency gains through greater national consistency in urban water regulation where appropriate.

The establishment of an Australian water regulator is worthy of consideration. It could be tasked with functions that might achieve more efficient water supply outcomes across Australia, including setting a range of technical standards such as the quality of drinking water and nationally consistent economic regulations around third party access and price-setting.

Nationally consistent regulation in these areas could reduce costs for businesses complying with differing state rules, remove perceived conflicts of interest associated with governments being asset owner, regulator and policy setter; and allow benchmarking of different entities when assessing performance.

The Productivity Commission should advise on any move towards nationally consistent regulation to ward against lowest common denominator outcomes. Care should be taken however to get the balance right so that the benefits of competitive federalism can also be harnessed.

The Commission's inquiry should also explore opportunities for consistency and streamlining of environmental approval processes for new water supply across levels of government in the interest of lowering the cost of new supply.

### **Examine the Efficiency and Effectiveness of the Institutional Structure of Urban Water Authorities**

The inquiry should consider whether the institutional structure of urban water authorities is supportive of efficient outcomes. For example, where small, council-run entities remain, consideration must be given to whether they have appropriate size and expertise to provide the most effective services.

Yours sincerely



**Simon Pryor**  
Director Policy