

B10.4 WATER REFORM, QUEENSLAND

ASSESSMENT, June 1999	Page
Table of Contents	442
Table of abbreviations	444
B10.4.1 EXECUTIVE SUMMARY	447
B10.4.2 REFORM COMMITMENT: COST REFORM AND PRICING	452
<i>10.4.2.1 Cost Recovery</i>	452
<i>10.4.2.2 Consumption Based Pricing</i>	459
<i>10.4.2.3 Cross Subsidies</i>	464
<i>10.4.2.4 CSOs</i>	466
<i>10.4.2.5 Rates of Return</i>	466
<i>10.4.2.6 Rural Cost Recovery</i>	467
<i>10.4.2.7 New Rural Schemes</i>	469
<i>10.4.2.8 Devolution of Irrigation Management</i>	477
B10.4.3 REFORM COMMITMENT: INSTITUTIONAL REFORM	479
<i>10.4.3.1 Separation of Functions</i>	479
<i>10.4.3.2 Commercial Focus</i>	486
<i>10.4.3.3 Performance Monitoring and Best Practice</i>	486
B10.4.4 REFORM COMMITMENT: ALLOCATION AND TRADING	487
<i>10.4.4.1 Water Entitlements</i>	487
<i>10.4.4.2 Environmental Allocations</i>	492
<i>10.4.4.3 Water Trading</i>	498
B10.4.5 REFORM COMMITMENT: ENVIRONMENT AND WATER QUALITY	500
<i>10.4.5.1 Integrated Catchment Management</i>	500
<i>10.4.5.2 NWQMS</i>	503

**B10.4.6 REFORM COMMITMENT: PUBLIC CONSULTATION,
EDUCATION** 505

ATTACHMENTS 506

Attachment 1: Cost recovery of local government water and sewerage providers,
1996-1997

Attachment 2: CSOs provided by local government water and sewerage activities

Attachment 3: WAMP/WMP Timetable

Table of Abbreviations

ACF	Australian Conservation Foundation
ARMCANZ	Agriculture and Resource Management Council of Australia and New Zealand
ANZECC	Australian and New Zealand Environment and Conservation Council
BW	Brisbane Water
CC	City Council
CCC	Catchment Co-ordinating Committee
CN	Competitive Neutrality
COAG	Council of Australian Governments
CPA	Competition Policy Agreements
CSO	Community Service Obligation
DIS	Development Incentive Scheme
DOA	Diversion Operating Authority
DNR	Department of Natural Resources
EBIT	Earnings before Interest and Tax
EMP	Environmental Management Plan
EPP (water)	Environmental Protection (Water) Policy 1997
EWAQ	Ecological Water Alliance of Queensland
GAWB	Gladstone Area Water Board
GCW	Gold Coast Water
GTE	Government Trading Enterprise
IAG	Independent Audit Group
IAS	Impact of Assessment Study
IDAS	Integrated Development Assessment System
ILMC	Interim Local Management Committee

IP Act	Integrated Planning Act 1997
kL	Kilolitre (1000 L)
LG Act	Local Government Act 1993
LGAQ	Local Government Association of Queensland
LGFS	Local Government Finance Standard 1994
LRMC	Long Run Marginal Cost
MDBC	Murray Darling Basin Commission
ML	Megalitre (1000 kL)
MIWB	Mt Isa Water Board
MoU	Memorandum of Understanding
NCC	National Competition Council
NCP	National Competition Policy
NHMRC	National Health and Medical Research Council
NMU	Non-metropolitan Urban Water Authority/Supplier
NRM	Natural Resource Management
NWQMS	National Water Quality Management Strategy
OMA	Operating, Maintenance and Administration expenses
QCA	Queensland Competition Authority
QCA Act	Queensland Competition Authority Act 1997
QCC	Queensland Conservation Council
RID	Regional Infrastructure Development division, DNR
RoR	Rate of Return
ROA	Resource Operating Authority
ROL	River Operating Licence
ROMP	Resource Operations Management Plan
ROP	Resource Operating Plan

SCARM	Standing Committee on Agriculture and Resource Management
SEQWB	South East Queensland Water Board
SIIP	Sugar Industry Infrastructure Package
SWC	Sydney Water Corporation
SWP	State Water Projects
TER	Tax Equivalent Regime
TTWB	Townsville-Thuringowa Water Board
WACC	Weighted Average Cost of Capital
WAMP	Water Allocation and Management Plan
WMP	Water Management Plan
WR Act	Water Resources Act 1989
WSAA	Water Services Association of Australia

B10 Water Reform

B10.4 Queensland

B10.4.1 EXECUTIVE SUMMARY

This is an assessment of Queensland's performance against the strategic framework for water reform. The assessment provides an overview of the reforms implemented and measurement of the reforms against specific commitments in the strategic framework.

The assessment considers both legislation and policy initiatives and the application of the initiatives in specific circumstances.

PROGRESS ON REFORMS

Cost reform and pricing

- Queensland is not in a position to advise as to the level of urban full cost pricing across providers. The Council notes, however, that all large local government service providers have adopted resolutions that should lead to full cost recovery. The information provided indicates that some providers may be meeting many of the elements of cost recovery.
- The Council notes the constructive offer of Queensland to provide the Council with information collected and analysis performed by the QCA. This information will not be available until 30 November 1999. This approach is, in the Council's view, the most appropriate way to advance the Council's assessment of this aspect of reform commitments. The Council will require relevant information to be provided by Queensland by December 1999. This information should address the question of cost recovery not only for the *big 17* local governments but also for other significant water and sewerage businesses. While the big 17 businesses may include 85 per cent of water provided, the Council notes that the next 10 local governments bring this figure to 92 per cent. Information in respect of at least these local governments is requested. The Council will also look for a program and timetable to address any failures to meet reform commitments at this time.
- As regards two part tariffs, guidelines for local government evaluation and implementation have been finalised, and assessments by local government are largely completed. The Council notes that the majority of large local governments have adopted two part tariffs. However, some of the pricing regimes include two part tariffs with large base allowances. The Council is of the view that such a pricing structure is not consistent with the reform commitment. Significant further information concerning tariff structures and projected elimination of base allowances is required. The Council notes that this process will be facilitated by the process outlined above in respect of the provision of information by the QCA.
- In respect of the four local governments which have not implemented two part tariff regimes when this was recommended, it is the Council's view is that where

such a recommendation is made, local governments must show a convincing net public benefit if they determine not to implement the review recommendations. In respect of Thuringowa and Townsville City Councils, the final recommendation appears to be that a cost effectiveness study encompassing both Councils and Townsville Thuringowa Water Board be conducted. The Council would look to implementation of this recommendation by December 1999. In respect of Rockhampton and Pine Rivers Shire Councils, the Council will require, by December 1999: implementation of the recommendations; a further cost-benefit analysis to be completed and its recommendations adopted and implementation commenced; or demonstration of a convincing net public benefits such that the review recommendations are rejected. The Council will also undertake a further assessment of these matters in December 1999.

- As regards removal of cross-subsidies, guidelines to identify and measure cross-subsidies have been finalised, and are to be applied by December 1998, this process to be finalised for large local government water and sewerage providers by 1 July 2000. The Council is of the view that the present pricing structures, which include significant base allowances and some property based charges, have many of the indices of cross-subsidisation. The Council will further review this reform commitment in December 1999.
- The Council has not been provided with sufficient information to determine whether the application of the Community Service Obligation (CSO) scheme in Queensland meets the reform commitments. The Council notes the Local Government Act 1993 provides a framework for local government to identify and cost CSOs. For those local governments where information has been provided the CSOs seem on the whole well targeted and consistent with reform commitments. CSO information should be provided to the QCA for local government water and wastewater providers. The Council will undertake a further assessment of reforms in December 1999.
- Although it appears that some service providers (for example Brisbane Water, Gold Coast Water) earn a positive rate of return, the information provided in respect of other service providers does not lend itself to any conclusion. The Council also notes that the asset valuations used to arrive at these rates of return is unclear, although by 30 June 1999 all asset valuations will be on the basis of deprival value. Again, the information should be provided to the QCA in respect rates of return of local government water and wastewater providers. The Council will undertake a further assessment of reforms in December 1999.
- The Council has significant concerns regarding appraisals of economic viability and ecological sustainability of new rural schemes. These have been outlined in detail in the assessment. The Council is of the view that it may be appropriate to recommend a significant financial penalty in respect of some projects. The Council notes that it will adopt the following process to progress discussion with Queensland:
 - the Council will seek further information from Queensland concerning these projects and attempt to identify a path forward on resolving the concerns;

- the Council recommends a suspension of 25 percent of competition payments until December 1999; and
- at that time the Council will make a final recommendation on any penalty that should be imposed for schemes that the Council is not satisfied have proceeded in a manner consistent with this reform commitment.
- Operational responsibility for the management of irrigation areas has not been devolved, although Queensland has developed Interim Local Management Committees. The Council notes that it will undertake a further assessment of progress against this reform commitment in December 1999. By this time the Council would look to development and some implementation of further local management in irrigation areas, with a firm timetable identified to complete this process.

Institutional reform

- The Council has concerns regarding the institutional arrangements in place for urban water, and in particular the failure to separate important regulatory (for example, price setting, water quality, plumbing), standard setting (for example, water quality, customer service requirements) and resource management (for example, catchment management) functions. There has been significant progress in respect of some of these matters, including the commercialisation of some service providers and the development of discussion papers in respect of, for example, licensing water service providers. However, there is a considerable amount of reform to occur if the arrangements are to satisfy the strategic framework. The Council will undertake a further assessment of progress against this reform commitment on 31 December 1999. By this time the Council would look to development and some implementation of new institutional arrangements.
- Queensland has made considerable progress in developing appropriate institutional arrangements for bulk water service providers and the Council will look to completion of the proposed reforms prior to the third tranche assessment.
- The Local Government Act 1993 provides a framework for metropolitan service providers to achieve a commercial focus. The Council also notes that Brisbane City Council has implemented commercialisation. The Council is satisfied that this reform commitment has been met.
- Performance monitoring and benchmarking practices in Queensland at this time meet the reform commitments.

Allocations and trading

- Queensland does not at present have in place a comprehensive system of water entitlements backed by separation of water property rights from land title and a clear specification of entitlements in terms of volume, reliability or transferability. Proposed legislation will substantially address the reform commitment. The Council will undertake a supplementary assessment in June 2000 to review progress of the legislation.

- Allocations have not as yet been developed for the environment. The Council, while recognising the development of Water Allocation and Management Plans (WAMP) and Water Management Plans (WMP), notes that WAMPs have no legislative basis at present, and no WMPs or WAMPs have yet been finalised. The Council will undertake a supplementary assessment in June 2000 to review this reform commitment.
- The Council has agreed to the implementation program for allocations as outlined in Attachment 3 to the assessment. In doing so, the Council notes that the implementation programs may be amended over time provided there is agreement between Queensland and the Council.
- While some trading in water is occurring in Queensland, the existing statutory provisions are insufficient to permit widespread trade of permanent and temporary rights in water. The proposed reforms will provide a basis for trade substantially consistent with reform commitments. The Council will undertake a supplementary assessment in June 2000 to review this reform commitment.

Environment and water quality

- Queensland has established a Council to advise the Minister on integrated catchment management and natural resource management. In addition, Queensland has created Catchment Co-ordination Committees and developed action management plans to plan, implement and evaluate integrated catchment management and NRM initiatives. The current community based arrangements are under review and following this Queensland will consider changes to the existing arrangements. The Council is satisfied that Queensland has met its reform commitments for the second tranche. It will monitor the review of current arrangements and any subsequent initiatives by Queensland prior to the third tranche assessment.
- Queensland has met its reform commitments as regards National Water Quality Management Strategy guidelines for the purposes of the second tranche assessment.

Public education and consultation

- Extensive public consultation and education programs have been embarked on by Queensland as part of reform initiatives and ongoing work. The Council has concluded that Queensland has met its second tranche commitments in this area.

ASSESSMENT

The Council is of the view that Queensland has not made sufficient progress on major reform commitments for the purposes of the second tranche.

The Council has therefore recommended that a supplementary assessment be undertaken in December 1999. It has outlined both the further information required and expectations of further reforms and commitments that will be required by this time. This includes cost recovery and pricing commitments and institutional arrangements.

During this time the Council will also seek to work through outstanding assessment issues regarding the assessment of economic viability and ecological sustainability of new investment in rural schemes. In respect of this matter the Council has recommended a 25 per cent suspension of competition payments until December 1999. The Council may recommend a penalty if these issues are not resolved.

The Council will also undertake a supplementary assessment on 30 June 2000 to assess whether legislation to give effect to water allocation and trading reform commitments has been passed by the Queensland Parliament. Failing to pass the legislation may have implications as to the Council's recommendation concerning the second part of tranche payments.

The Council has now built up a considerable amount of information concerning Queensland Water Reform. Matters of concern have been noted and these and the remaining aspects of the strategic framework will closely scrutinised over the period prior to 30 June 2001.

B10.4.2 REFORM COMMITMENT: COST REFORM AND PRICING

Major Urbans and Non-Metropolitan Urbans

10.4.2.1 Drawing on the advice of the Expert Group and complying with the ARMCANZ full cost recovery guidelines, jurisdictions are to implement full cost recovery.

Water businesses must price between a floor price which allows for the continuing commercial viability of the system and a ceiling price which incorporates asset values and a rate of return but does not include monopoly profits:

- the floor price includes provision for future asset refurbishment or replacement using an annuity approach where service delivery is to be maintained; and
- the ceiling price includes provision for asset consumption and cost of capital calculated using a weighted average cost of capital (WACC).

Within the band, a water business should not recover more than operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes (TERs), the interest costs on debt, and dividends (if any) set at a level that reflects commercial realities and simulates a competitive market outcome.

The level of revenue should be based on efficient resource pricing and business costs. In determining prices, community service obligations (CSOs), contributed assets, the opening value of assets, externalities including resource management costs, and TERs should be transparent. The deprival value methodology should be used for asset valuation unless a specific circumstance justifies another method.

Queensland arrangements

The second tranche report notes that water supply in Queensland is provided by such diverse entities as the State Government, 124 local governments, four urban water boards, two joint local governments authorities and 55 rural water and drainage boards. In addition, private sector providers are operating in the industry.

Local governments provide domestic water supply services to in excess of three million persons as well as commercial and industrial users. The asset base for water and sewerage is in excess of \$15 billion. Local government service providers vary in size from Brisbane (the largest local government body in Australia) to councils with extremely small and dispersed populations.

The second tranche report notes that reforms to date have focussed on the *big 17*²¹⁷ local government water service providers: Brisbane, Caboolture, Cairns, Caloundra, Gold Coast, Hervey Bay, Ipswich, Logan, Maroochydore, Mackay, Noosa, Pine Rivers, Redlands, Rockhampton, Thuringowa, Toowoomba and Townsville City

²¹⁷ These appear to be councils whose water businesses are Type 1 or Type 2 activities. Type 1 activities are those businesses with a turnover in excess of \$10 million per annum, while Type 2 activities are those with a turnover in excess of \$7.5 million per annum.

Councils (CC). Collectively, revenue from the big 17 local governments' water supply and sewerage services equates to approximately 85 per cent of total revenue from local government. Other local councils are being encouraged to implement water reforms through a Code of Competitive Conduct and Local Government NCP Financial Incentive Policy. Seventy-six smaller local councils have nominated water and sewerage businesses for application of competitive neutrality reforms including the application of full cost pricing over the four years to the year 2003.

The second tranche report notes that the *Local Government Act 1993* (the LG Act) requires local governments with *Type 1* and *Type 2* water and sewerage services to consider the application of full cost pricing.²¹⁸ It is noted that on 1 July 1998 eleven of the *big 17* implemented commercialisation with the six remaining implementing full cost pricing. From 1998-1999 annual reports prepared by the *big 17* will detail performance of water and sewerage activities while 1997-1998 *'reflects a transitional period where financial information regarding pricing arrangements is not readily available. Accordingly, full financial information for all 17 local government water businesses will be reported in next year's Annual Report to the Council.'*(p39) From 1998-1999, the Queensland Competition Authority (QCA) will assess the effectiveness of full cost recovery.

WSAA Facts

WSAA Facts '97-98 includes Brisbane Water (BW) and Gold Coast Water (GCW) in its performance comparisons.²¹⁹ BW's water is obtained from impounding reservoirs and direct river extractions and GCW's from bulk supplies. Both provide bulk transfer, water treatment and reticulation and wastewater treatment and reticulation services, and GCW provides bulk storage facilities. BW provides water supply and sewerage services to 820 000 persons through 339 000 connections (including 31 000 non-domestic connections).²²⁰ GCW provides water and sewerage services to 384 000 persons through 175 000 connections.²²¹

BW supplied 159 810 ML of water (471.42 kL per property) and collected 114 234 ML of wastewater (347.22 kL per property). GCW supplied some 62 979 ML of water (359.18 kL per property) and collected 43 351 ML of wastewater (263.34 kL per property).

As regards financial performance measures, WSAA Facts notes that BW's written down replacement cost of assets is about \$4 518 million. The Economic Real Rate of Return in 1997-1998 was 2.59 per cent (down from 2.72 per cent the previous year). For GCW, the written down replacement cost of assets is about \$963 million. The Economic Real Rate of Return in 1997-1998 was 9.1 per cent (up from 8.96 per cent the previous year). The financial information is provided in the table below.

²¹⁸ In accordance with the ceiling price, see Local Government Finance Standards 1994.

²¹⁹ South West Queensland Water Board (SEQWB) is also included.

²²⁰ 329 000 (including 29 000 commercial) sewerage connections.

²²¹ 165 000 sewerage connections.

Table 10.4.1 Financial performance of Brisbane Water and Gold Coast Water, 1997-1998

	BW (‘000)	GCW (‘000)
Turnover	303 194	123 360
Total income	303 194	124 177
Operating, maintenance and administration(OA)	117 277	41 396
Other operating costs	25 421	nil
Depreciation	66 622	25 256
Total Operating Costs	209 320	66 672
Operating Profit	93 874	57 505
Net Interest	32 811	24 515
Profit before Tax	61 603	63 652²²²
Tax	nil	nil
Profits after tax	61 603	63 652
Dividends	24 306	nil

Local Government Act 1993 and Local Government Finance Standard 1994

The LG Act provides, at chapter 10, for the assessment by Councils of the cost-effectiveness of introducing two-part tariffs with charges for water services to be based on consumption. The LG Act also provides for full cost recovery for water and sewerage services with the identification and disclosure of cross-subsidies and CSOs.²²³

The Local Government Finance Standard 1994 (LGFS) provides for the requirements of full cost pricing and includes:

- that in deciding charges to implement full cost pricing, operations, administration, resource, depreciation, TER, debt guarantee fees and return on capital costs are to be included;
- depreciation must be based on the deprival value of the asset allocated over its useful life or another amount determined appropriate by the local government; and

²²² Adjustments of \$30 662 000.

²²³ Section 769.

- return on capital must be decided on a rate that, in the opinion of the local government, a comparable private sector entity carrying on the activity would be able to obtain in the market, having regard to the split which the local government considers appropriate, for the type of business, between equity and loan capital and the return appropriate for each.

For the first year the rate may be the amount the local government decides.

Other information

The discussion paper *A proposal for prices oversight in the water industry* (Queensland Treasury, January 1999) (the pricing paper) canvasses the option of the QCA administering a prices oversight regime in the context of third party access to services provided by private water industry infrastructure. The pricing paper notes that the Government can declare government monopoly business activities so that their pricing is subject to QCA investigation. QCA makes recommendations which are either accepted or rejected by the relevant Minister. The pricing paper continues:

'It should be noted that the monopoly prices oversight regime currently applies to State Government owned businesses. It is expected that, subject to the Government approval, the State based monopoly prices oversight regime would also apply to businesses owned by local government'.(p4)

Guidelines for Identification and Measurement of Two Part Tariffs, draft Marsden Jacobs report.

The Council was provided with a copy of the *Guidelines for the Introduction and Improvement of Two Part Tariffs*, draft Marsden Jacobs report (March 1998) (the draft guidelines report) which includes case studies of three water supply services.

In one case, the case study indicated that existing revenue levels were sufficient to provide an 8 per cent return on equity,²²⁴ that a two part tariff²²⁵ was in place and provided appropriate signals and that the revenue balance from the pricing structure ensured revenue was not volatile. Given the proposed commercialisation of the water business the only cross-subsidisation (water for Council properties, parks etcetera.) would be received as a CSO.

In the second case the study found that revenue levels were sufficient to provide about a 6 per cent return on equity. The Local Council operated a number of tariff categories structure, with a large base allowance in residential tariffs and industrial customers paying twice the volumetric component of residential customers. Significant cross-subsidies were noted, with commercial and industrial users paying the costs of residential and other (for example, sports grounds etcetera.) users.

²²⁴ Any higher level of revenue would suggest monopoly exploitation.

²²⁵ Access fee and volumetric component accounting for above 55 per cent of water supply revenue.

The third study, of a bulk water provider, found that revenue levels were sufficient to return a 1.3 per cent return on equity although substantial new augmentations meant that current revenue levels fell below the lower bound set by the minimum requirement for on-going commercial viability. Although all customers were charged volumetrically, each was paying less than long run marginal cost (LRMC) and there was price discrimination between customers classes.

The Road to Commercialisation – Identifying the Obstacles

The Road to Commercialisation – Identifying the Obstacles (Local Government Association of Queensland (LGAQ), Study Tour, 29 & 30 April 1998) notes, in respect of Redland CC's water business (Redland Water), that presently full cost pricing has been achieved with a real RoR of 7.22 per cent for the water supply business and 7.34 per cent for the sewerage business. In respect of Ipswich CC's RoR on assets, this is estimated as 3.3 per cent for water services, 1.2 per cent for sewerage services and 2.2 per cent combined.

Bulk water supplies

The second tranche report notes that South East Queensland Water Board (SEQWB), Townsville Thuringowa Water Supply Board (TTWSB), Gladstone Area Water Board (GAWB) and Mount Isa Water Board (MIWB) provide water to seventeen councils, industrial customers and power stations. Implementation of full cost pricing is to occur from 1 July 1999 onwards.²²⁶ It is noted that the asset base of these suppliers is some \$700 million, that each charge on a full cost recovery basis with volumetric charging and that the bulk water boards have traditionally operated with no ongoing financial assistance. Charging structures are being examined as part of the implementation of competitive neutrality. The financial information is outlined in the table below.

Table 10.4.2 Financial information for bulk water suppliers

Provider	Revenue (‘000)	Expenditure (‘000)	EBIT (‘000)	Assets (‘000)	ROA per cent
SEQWB	28 342	19 303	9 289	398 971	2.33
TTSWB	16 748	9 681	7 067	145 674	4.85
GAWB	12 853	9 849	3 649	165 421	2.21
MIWB	4 932	3 644	1 288	26 204	4.92

WSAA Facts '98 notes an economic real rate of return for SEQWB of 3.75 per cent in 1997-1998. Assets were valued at about \$387 million, the operating profit was said to be \$14 532 000, the profit after interest (\$5 493 000) and tax (nil). No dividends were paid from the \$9 039 000 after interest profit.

²²⁶ The second tranche report notes that, consistent with the application of competitive neutrality reforms, urban water boards will in future be required to price water to reflect the cost of TERs, a return on assets and debt guarantee fees. CSOs and cross-subsidies are to be transparent.

Other information

Queensland provided the Council with the results of public benefit assessments indicating that all of the *big 17* local governments are at least achieving the lower bound for cost recovery. It was noted that the quality of this information varied substantially and should not be used as a basis for comparison between water businesses. A summary of the information provided is at Attachment 1.

Queensland noted that its approach to implementing full cost recovery has focussed on the *big 17* and smaller councils have been encouraged to consider reforms through the development of a full cost pricing framework, considerable training and technical assistance and a financial incentive package.

Queensland also advised that urban water boards do not presently pay tax equivalents although these will be payable on commercialisation.

At a bilateral meeting between Queensland officials and the Council secretariat²²⁷ the Council was advised that Brisbane, Caboolture, Caloundra, Gold Coast, Hervey Bay, Ipswich, Logan, Maroochydore, Mackay, Redlands, Rockhampton and Townsville CCs will be subject to the Local Government Tax Equivalent Regime from 1 July 1999.

Following a bilateral meeting further information provided by Queensland noted that in order to qualify for payments under the *Local Government NCP Financial Incentive Package*, local governments are required to provide information to the QCA regarding, full cost recovery, implementation of two part tariffs, levels of cross-subsidies (from 1 July 2000), CSOs (identification, costing and funding) and rates of return. On 30 November each year the QCA makes a recommendation as to whether individual local governments have satisfied necessary reform requirements or made sufficient progress towards implementation.

The Queensland Government has advised that it will make available to the Council the findings of the QCA following the QCA's assessment of reform, and provide a program and timetable for implementation of the various reforms specified by local government in the event that reform commitments have not been achieved.

Council Comment

The Council notes that major local government water and wastewater suppliers are required to consider either commercialisation or full cost pricing in respect of water services, and that all of the *big 17* have adopted relevant resolutions from 1 July 1998. However, Queensland is not presently in a position to advise as to the progress of reform as Councils will be unable to provide relevant information until after 30 June 1999. The information provided to the Council suggests that there may be cost recovery to the lower bound, although the Council has no great confidence in this information given the concerns noted by Queensland in respect of it.

²²⁷ 11 June 1999.

The relevant guidelines provided for in the LG Act and LGFS are consistent with the requirements for full cost recovery, and if implemented would ensure that this aspect of the strategic framework is satisfied.

The Council is in a position to provide comments in respect of some providers:

- WSAA Facts indicates that BW: meets OMA costs; meets interest costs; pays a dividend; and earns a RoR of about 2.6 per cent. WSAA Facts also indicates that GCW: meets OMA costs; meets interest costs; and earns a RoR of about 9 per cent. Finally, WSAA Facts and the information provided by Queensland indicates SEQWB: meets OMA costs; meets interest costs; and earns a rate of return between 2 and 4 per cent.
- information provided by Queensland in respect of TTSWB, GAWB and MIWB indicates that at least OMA costs are met, and indeed that a RoR on assets is obtained; and
- information provided in the Road to Commercialisation – Identifying the Obstacles suggests that both Redland CC and Ipswich CC have a RoR on assets and by implication that OMA's and interest costs are met.

The Council is not, however, in a position to arrive at any conclusion as regards cost recovery across the urban Queensland water industry as Queensland is unable to provide information at present.

For example, the Council has no substantial information on the valuation of assets for those of water service providers where information has been obtained. Also, their method of determining prices is not transparent. In respect of most service providers there is no information on the level of cost recovery at all.

From the information provided, the Council is not satisfied that this reform commitment has been met.

The Council notes the constructive offer of Queensland to provide it with the information collected and analysis performed by the QCA. This information will not be available until 30 November 1999. This approach is, in the Council's view, the most appropriate way to advance the Council's assessment of this aspect of reform commitments.

The Council will require relevant information by December 1999. The Council notes that this information should address the question of cost recovery not only for the *big 17* local governments but also for other significant water and sewerage businesses. While the big 17 businesses may include 85 per cent of water provided, the Council notes that the next 10 local governments bring this figure to 92 per cent. Information in respect of at least these local governments will also be requested. The Council will also look to a program and timetable to address any failures to meet reform commitments at this time.

The Council will undertake a supplementary assessment in December 1999, at which time it will review Queensland's progress on this reform commitment.

10.4.2.2 Jurisdictions must implement consumption based pricing. Two part tariffs are to be put in place by 1998 where cost effective. Metropolitan bulk water and wastewater suppliers should charge on a volumetric basis.

Jurisdictions are to apply two part tariffs to surface and groundwater comprising a fixed cost of access component and a volumetric cost component.

Metropolitan bulk water and wastewater suppliers must establish internal and external charges to include a volumetric component or two part tariff with an emphasis on the volumetric component to recover costs and earn a positive real rate of return.

Queensland arrangements

The second tranche report notes that the LG Act required the *big 17* to undertake an economic/financial cost benefit assessment of the effectiveness of introducing two-part tariffs for water supply by 31 December 1998.²²⁸ The *Guidelines for Evaluation of Introduction and Improving Two Part Tariffs* (Department of Natural Resources (DNR), 1997) (the tariff guidelines) outlined the methodology for the assessment and approach to structuring the tariff. Information provided indicates:

- ten CC's have resolved to implement two part tariffs;
- GCW resolved a managed transition to two part tariffs over three years; and
- Rockhampton CC, where less than 1 per cent of the 20 000 domestic water connections are metered, estimated the cost of installing meters at \$3 million.

Net present value analysis over a twenty year period of the 'with' and 'without' cases under the range of feasible scenarios did not indicate significant benefits from the adoption of two-part tariffs. (p40)

The Council is committed to metering commercial and industrial consumers and increasing non-price demand management. Another assessment will take place in June 2000; and

- of the Councils that requested an extension beyond the 31 December 1998 date for review of tariffs: Brisbane CC has applied a two part tariff structure since 1996-1997 and required an extension of time simply to permit comprehensive review and refinement of its two part tariff structure. The Council notes that it appears Brisbane CC has since identified a program to eliminate property based charges that appears to be in accordance with recommendations of its independent review.²²⁹ Townsville and Thuringowa CCs have not resolved to adopt two part tariffs for domestic supply although tariffs for commercial and residential properties are more closely aligned with consumption. Pine Rivers Shire Councils

²²⁸ 12 of the councils completed this assessment, with a further 5 granted an extension to 31 March 1999.

²²⁹ *Courier Mail*, 4 June 1999.

have resolved not to apply two part tariffs for domestic consumption but commercial and industrial premises are charged by two part tariffs.

The second tranche report notes that of the one hundred and twenty-one councils that levy water rates:

there would be only a few where water charges do not relate to consumption in some respect. The majority apply a charge per unit, and most apply an excess water charge. For example, a domestic dwelling could be charged for four units of consumption (a unit representing some volume of water), with a charge per kilolitre for excess consumption. By comparison, a hotel may be charged for twenty units, with excess water charges. (p41)

Where dwellings are not metered,²³⁰ the charge is generally based on estimated consumption for the particular type of dwelling. Two part tariffs apply to at least 54 per cent of the population with the recent adoption by major local councils making this figure appreciably higher.

Attachment 8 to the second tranche report provides information concerning the application of two part tariffs to the *big 17*. Of note are the following matters:

- commercial and industrial customers of BW have an access charge that depends upon meter size and a usage charge;
- Caboolture CC provides for an annual charge that includes a base allowance of up to 350 kL; a refund is given if the full base allowance is not taken up;
- Cairns CC has a set fee for unmetered properties (units) and an access and usage charge for metered properties. Commercial properties are charged an access and unit fee and consumption is charged at a higher rate than domestic properties;
- Caloundra CC, Hervey Bay CC, Maroochydore CC, Noosa CC, Redland CC and Toowoomba CC have a two part tariff without base allowance. Maroochydore CC, Noosa CC, Redland CC and Toowoomba CC has an varying access charge for industrial and commercial users. Caloundra CC has no access charge for commercial/industrial users;
- Ipswich CC has an access and increasing block usage charge for metered properties, a fixed charge for domestic unmetered properties and a fixed charge in accordance with property area for unmetered commercial property;
- GCW, Mackay CC, Thuringowa CC and Townsville CC have an access charge that includes a base allowance. Mackay CC charges commercial/industrial users a factor based (1-120) access and usage charge. Thuringowa CC charges

²³⁰ The second tranche report notes that at most a dozen councils do not read meters and apply an excess water charge.

industrial/customer users on a unit basis. Townsville CC charges industrial customers on a consumption basis;

- Logan CC has an access fee dependent upon meter size and a consumption charge (no base allowance) for domestic users and a charge dependent upon meter size (greater than domestic access charge) for commercials/industrials;
- Pine Rivers CC has an access charge dependant on meter size for domestic users (without a consumption charge although a charge may be levied if the Local Council considers that water is being wasted) and a varying access and consumption charges for industrial/commercial customers; and
- Rockhampton CC has a fixed annual charge for domestic customers and a unit based charge for industrial customers.

WSAA Facts

WSAA Facts 1997-1998 notes the following relevant tariff structures:

Table 10.4.3 Tariff structures for Brisbane Water and Gold Coast Water

Water Business	Supply Access	Supply Usage	Sewerage Access	Average annual bill	Proportion of income from usage charges
BW	\$100.00	65c per kL	\$192.72	\$520.72	71.4 per cent
GCW	\$274.00	Nil to 340kL 99c per kL > 340kL	\$345.00	\$619.00	8.8 per cent

WSAA Facts notes that the volumetric component of BW water supply constituted \$228 (or 70 per cent) of the \$328 average water supply component of the bill; the average annual BW water bill has risen 4.78 per cent between 1996-1997 and 1997-1998. For GCW, WSAA Facts notes that the average annual water supply bill in 1997-1998 was \$274 (nil volumetric component); the average annual GCW water bill has risen 0.16 per cent between 1996-1997 and 1997-1998.

Local Government Act

As was noted previously, the LG Act provides, at chapter 10, for the objectives of assessment by Councils of the cost-effectiveness of introducing two part tariffs. The LG Act notes that a two part tariff report must be prepared and if the report recommends that a two part tariff be adopted by the Council and the Council does not apply the tariff to the extent recommended, a fresh assessment must be undertaken within three years. Councils are required to have implemented two part tariffs within two years of having resolved to do so.

Reports on the introduction of pricing reforms

Two part tariffs: Economic Evaluation of Effectiveness (Marsden Jacob for the Local Government Association of Queensland, October 1997) (the two part tariff report)

examined the objectives, principles and application of full cost pricing in water services. It was noted that the criteria for credible and efficient pricing mechanisms require prices that provides incentives and encourages behaviour modification, are cost based, give income stability to water service providers and are transparent.

The two part tariff report acknowledges the use of an access charge to cover fixed costs of supplying the customer including the costs of providing and maintaining the system and a volumetric charge that reflects the long run marginal cost (LRMC) of supplying an additional unit of water (for example, chemicals, water purchases, additional capacity, external and congestion costs). The two part tariff report notes that, for residential sewerage services, a uniform access charge and zero volumetric charge is economically efficient, while for industrial users a consumption charge (by proxy, meter size, measurement of discharge) is appropriate.

The *Guidelines of the Introduction and Improvement of Two Part Tariffs* provides a framework for Councils to evaluate the introduction of or improvement to two part tariff regimes. The framework gives guidance on the evaluation of the costs and benefits of two part tariffs by comparing costs with and without two part tariffs and includes consideration of demand trends, augmentation costs, operating and maintenance costs, implementation costs and relevant financial matters.

Wastewater and Bulk Water Charges

Brisbane, the major metropolitan area, it provided with bulk water by SEQEB; a single volumetric charge (\$110 per ML) applies.

In further information provided to the Council, it was noted that Brisbane Water tradewaste charges are made of quantity and additional quality charges. Traders with discharge in excess of 250 kL are charged between 37-72c per kL depending on total volume.

Queensland also advised that none of the big 17 local governments levy property based sewerage charges. Tariffs vary from flat rates for residential premises to varying pedestal/urinal charges, specific charges for group titles or specific businesses/services (childcare centres/sporting and community organisations). With the exception of some charges in Brisbane, the tariffs do not appear to be based on land values.

The Council was also provided with information concerning the next 27 local government water and sewerage businesses. In summary, this information indicates that seven local governments have implemented two part tariffs, 17 have a tariff structure that includes a base allowance (250-1040 kL), one local government has a fixed tariff and one local government has a property value based access fee. Sewerage tariffs vary from fixed charges to unit and pedestal charges.

The Council was also provided with independent reviews on the implementation of two part tariffs for four of the *big 17* local governments. A cost benefit analysis suggested that such a tariff should be implemented. The local governments determined not to implement the review recommendations. In respect of two of these local governments, the consultants recommended that a further joint study be undertaken.

Council Comment

The information provided to the Council raises some significant concerns regarding the implementation of consumption based pricing. The Council notes, by way of preliminary comment, that the Marsden Jacobs *Two part tariffs: Economic Evaluation of Effectiveness* study produced for the Local Government Association of Queensland provides a model for local governments to consider in adopting two part tariffs. The work done by Queensland in this respect shows a strong commitment to implementing tariff reform.

The Council notes the achievements of Queensland in the following respects:

- the removal of property based tariffs for sewerage services (with the exception of some pricing of Brisbane City Council sewerage services);
- the volumetric pricing of bulk water provided to Brisbane City Council; and
- the pay for use tariffs for wastewater services provided by Brisbane City Council.

These achievements also show significant progress on the implementation of tariff reform.

However, four of the *big 17* councils appear not to have completed reviews of its full implementation. Four local governments have not adopted a two part tariff regimes despite the recommendations of independent reviews. The Council notes that a further joint review in respect of two local governments was recommended.

Queensland has also indicated that at least 54 per cent (although this figure is likely to be significantly higher) of the population have two part tariffs, but by implication a significant number of the population do not.

Many Councils, including those outside the *big 17*, have retained significant base allowances that effectively mean that there is a single charge for the majority of water users that is not reflective of consumption and provides no price signal until water usage is well above normal use. The pricing structure could hardly be said to include a volumetric component consistent with strategic framework.

The Council has not been provided with the basis of calculations of sewerage tariffs, nor has a timetable been identified for the removal of remaining Brisbane City Council property based sewerage tariffs.

On the basis of the information provided, the Council is not satisfied that this reform commitment has been met. Significant further information concerning tariff structures and projected elimination of base allowances is required.

The Council notes that this process will be facilitated by the provision of information through the QCA. The Council will require relevant information by December 1999.

The Council notes that this information should address the question of tariff structures not only for the *big 17* local governments but also for other significant water and sewerage businesses. The Council will also look to a program and timetable to address any failures to meet reform commitments at this time.

In respect of the four local governments which have not implemented two-part tariff regimes when this was recommended, it is the Council's view is that where such a recommendation is made, local governments must show a convincing net public benefit if they determine not to implement the review recommendations.

In respect of Thuringowa and Townsville City Councils, the final recommendation appears to be that a cost effectiveness study encompassing both Councils and TTWB be conducted. The Council would look to implementation of this recommendation by December 1999.

In respect of Rockhampton and Pine Rivers Shire Councils, the Council will require, by December 1999, one of the following: implementation of the recommendations; a further cost-benefit analysis to be completed and its recommendations adopted and implementation commenced; or demonstration of convincing net public benefits such that the review recommendations are rejected.

The Council will undertake a further assessment of reforms in December 1999.

10.4.2.3 Jurisdictions are to remove cross subsidies, with any remaining cross subsidies made transparent (published).

For the purposes of the framework, a cross subsidy exists where a customer pays less than the long run marginal cost and this is being paid for by other customers. An economic measure which looks at cross subsidies outside of a Baumol band, which sets prices between incremental and stand alone cost, is consistent with the COAG objective of achieving economically efficient water usage, pricing and investment outcomes. To achieve the COAG objective, potential cross-subsidies must be made transparent by ensuring the cost of providing water services to customers at less than long run marginal costs is met:

- as a subsidy, a grant or CSO; or
- from a source other than other customer classes.

Queensland arrangements

The second tranche report notes the requirement under the LG Act for Councils with Type 1 and Type 2 businesses to disclose cross-subsidies and CSOs. Sections 783 and 785 of the LG Act provide that Councils with Type 1 and Type 2 activities to identify and disclose cross-subsidies and CSOs on or before 1 July 2000 (or within two years of being identified as such a activity) and have commenced this process by 31 December 1998.

The second tranche report notes that by December 1998 each of the seventeen local governments had approved and commenced to implement strategies for the disclosure of cross-subsidies and CSOs and that '*due to the transitional nature of financial information available at the time, initial disclosure will occur in Local Government's annual reports for 1999/2000*'.(p40)

The *Guidelines for identification and measurement of cross-subsidies* (DNR, September 1998) (the cross-subsidy guidelines) provide that a cross-subsidy potentially exists when a class of consumers pay less than the LRMC of providing the

water service, while another consumer class pays more in charges than the LRMC of providing the water service. The cross-subsidy guidelines: provide a mechanism for determining the amount of cross-subsidy by determining LRMC and revenue from customer classes. The second tranche report notes that the LGFS makes the cross-subsidy guidelines mandatory.

The *Project report and case studies for cross-subsidies and inefficient water pricing: identification and reporting to achieve better outcomes* (Marsden Jacobs Associates, October 1998) (the project report) provides further explanation of both efficient pricing and identification of cross-subsidies. The project report provides for the identification and quantification of cross-subsidies and guidelines for subsequent evaluation of the cross-subsidy, so that it is either reported or removed. The evaluation focuses on matters such the divergence in costs between customer classes and whether the pricing is uniform or if it is not the reasons for this (for example, different pricing based on consumers' demand elasticity).

Council Comment

The Council considers that the *Guidelines for identification and measurement of cross-subsidies* provides a consistent basis for local Government to assess and evaluate cross-subsidies.

It is clear however, that although the process has commenced, it is in its infancy and the results are unlikely to become clear for some considerable time. Local governments are not required to report on cross-subsidies and CSOs until 1 July 2000.

The Council notes the following concerns on the information that has been provided:

- the failure to implement two part tariffs suggest that some significant cross-subsidies may exist in particular local government areas;
- significant base allowances in water tariff structures would also suggest the existence of cross-subsidies between low water users and other customers; and
- the information provided gives little indication of the level (if any) of cross-subsidisation between water supply and sewerage services.

On the information provided, the Council is not satisfied that this reform commitment has been met.

The Council notes that although there is no requirement for local government to report on this matter to the QCA prior to 30 June 2000, significant information should be available to the QCA when information is provided and it reports to the Queensland Government.

The Council will undertake a further assessment of reforms in December 1999.

10.4.2.4 Where service deliverers are required to provide water services to classes of customers at less than full cost, this must be fully disclosed and, ideally, be paid to the service deliverer as a community service obligation.

All CSOs and subsidies must be clearly defined and transparent. The departure from the general principle of full cost recovery must be explained. The Council will not make its own assessment of the adequacy of the justification of any individual CSO or cross-subsidy but will examine CSOs and cross-subsidies in totality to ensure they do not undermine the overall policy objectives of the strategic framework for the efficient and sustainable reform of the Australian water industry.

Queensland arrangements

Queensland provided information concerning the payment of CSOs as set out in Attachment 2. It was noted that decisions concerning CSOs are a matter for local governments. Queensland also noted the following provisions of the LG Act:

- section 577 defines CSOs as obligations on a commercialised business unit to do anything the local government is satisfied is not in the unit's commercial interests to perform, and arise because of requirements to comply with the principles of accountability for performance or competitive neutrality; and
- section 576 provides for transparency of the funding and local government direction.

Council Comment

The Council notes the provision of the LG Act provide a framework for local government to identify and cost of CSOs. For those local governments where information the Council has been provided with the CSOs objectives, these seem on the whole consistent with reform commitments. However, the Council has been provided with very little information on the application of the CSO policy.

The Council notes that information should be provided to the QCA in respect CSOs paid to local government water and wastewater providers.

The Council will undertake a further assessment of reforms in December 1999.

10.4.2.5 Publicly owned supply organisations should aim to earn a real rate of return on the written down replacement cost of assets for urban water and wastewater.

Jurisdictions are to have achieved progress toward a positive real rate of return on assets used in the provision of all urban water supply and wastewater services.

Queensland arrangements

The second tranche report notes that a study conducted by DNR indicated that urban and industrial sectors of rural water schemes achieved 107 per cent and 108 per cent of the lower bound²³¹ cost recovery requirements.

In addition information provided to the Council Queensland noted that the LGFS requires all local governments to revalue non-current assets on a deprival basis. A transitional period (until 30 June 1999) was provided.

In addition the urban water boards' (including MIWB from 1998-1999) assets are valued in accordance with deprival value.

Council Comment

The Council notes the above information. Although it appears that some service providers (for example BW, GCW, SEQWB) earn a positive rate of return, the information provided on other service providers does not lend itself to any conclusion.

The basis of asset valuations to arrive at these rates of return is unclear, although by 30 June 1999 all asset valuations will be on the basis of deprival value.

The Council notes that information in respect of rates of return of local government water and wastewater providers should be provided to the QCA.

The Council will undertake a further assessment of reforms in December 1999.

Rural Water Supply and Irrigation Services

10.4.2.6 Where charges do not currently cover the costs of supplying water to users (excluding private withdrawals of groundwater),²³² jurisdictions are to progressively review charges and costs so that they comply with the principle of full cost recovery with any subsidies made transparent.

Jurisdictions should provide a brief status report, consistent with advice provided to ARMCANZ, on progress towards implementation of pricing and cost recovery principles for rural services.

The Council will assess jurisdictions as having complied with the pricing principles applicable to rural water supply where jurisdictions:

- have achieved full cost recovery; or

²³¹ OMA, externalities taxes or TERs, dividends and provision for future asset replacement/refurbishment.

²³² Private withdrawals of groundwater include private providers and small co-operatives who extract water from bores for private use, but does not include large co-operative arrangements (including trusts) that act as wholesalers supplying water as a commercial venture and that are subject to control or directions by government or receive substantial government funding.

- have established a price path to achieve full cost recovery beyond 2001 with transitional CSOs made transparent; or
- for the schemes where full cost recovery is unlikely to be achieved in the long term, that the CSO required to support the scheme is transparent; and
- cross-subsidies have been made transparent.

Queensland arrangements

The second tranche report notes that water infrastructure in Queensland was provided to fulfil a range of needs including regional development, agriculture support and soldier settlement. Schemes were established to cover operating and maintenance costs:

'however, over time, with both the effects of inflation and changing cost structures, prices have shifted away from bearing a resemblance to the cost of service provision. As a result, the level of cost recovery across State-owned irrigation schemes, and between sectors within schemes, varies significantly, with some schemes covering above cost recovery, but with others well below covering the costs necessary to ensure ongoing financial viability'.(p43)

A comprehensive DNR assessment, based on 1996-1997 cost and revenues, found that 78 per cent of schemes meet to the lower bound requirement.²³³ The second tranche report notes the three-tier approach to implementation of COAG water price targets:

- category 1 schemes (84 per cent of the total nominal area of Queensland and including the Burdekin Scheme where prices are already above the lower bound) will achieve or exceed the lower bound on or before the year 2001;
- category 2 schemes (11 per cent of the total nominal area of Queensland) will achieve the lower bound, with transitional subsidies made transparent, by the year 2004; and
- category 3 schemes (the remaining 5 per cent of schemes) will require transparent financial assistance over the longer term.

Strategies include a five year price path for all schemes from July 2000 including economic impact studies to determine social and economic impacts of proposed price adjustments, a benchmarking study for State Water Projects and the development of principles for determining and implementing resource management cost recovery during 1999.

²³³ Information provided to the Council at the March Bilateral meeting indicated that 4 schemes and some segments of other schemes make some return on capital.

Council Comment

As this commitment is not required to be met in the third tranche the Council notes the information provided. This matter will be further assessed in the third tranche.

10.4.2.7 Jurisdictions are to conduct robust independent appraisal processes to determine economic viability and ecological sustainability prior to investment in new rural schemes, existing schemes and dam construction. Jurisdictions are to assess the impact on the environment of river systems before harvesting water.

Policies and procedures must be in place to robustly demonstrate economic viability and ecological sustainability of new investments in rural schemes prior to development. The economic and environmental assessment of new investment must be opened to public scrutiny.

Jurisdictions must demonstrate a strong economic justification where new investment is subsidised.

Queensland arrangements

The second tranche report notes that all major infrastructure projects are subjected to comprehensive assessment studies and comply with legislation including: the *State Development and Public Works Organisation Act 1971*; the *Environment Protection Act 1994*; the *Integrated Planning Act 1997* (IP Act); and the *Financial Management Standard 1997*.

Through the IP Act, Queensland proposes to streamline its planning and development process by the introduction of new planning processes and an integrated development assessment system (IDAS). The intention of the IP Act is to allow better co-ordination of local, regional and State land-use policies, and to enhance the role of local government in co-ordinating planning and development. The IP Act has replaced the Local Government (Planning and Environment) Act 1990 and to date only the Environment Protection Act 1994 has been assimilated into the IDAS system. It is intended that the Water Resources Act 1989 will also come under the IDAS system.

Under the *State Development and Public Works Organisation Act 1971* proposed infrastructure developments of a major nature are subject to assessment of impact studies before coming under the IP Act 1997 and being subject to IDAS approvals. Minor developments come immediately under the IDAS system of the IP Act for approval by Government. Where a major infrastructure development such as a dam is proposed for a river the development proponent is required to do an Impact of Assessment Study (IAS), usually through contracting an independent consultant. The IAS is required to provide among other items: a description of the existing environment and development proposal; definition and analysis of the likely impact on the environment of the development (Environmental Impact Statement); description of measures proposed to mitigate against possible impacts through a draft Environmental Management Plan to monitor impacts of the development.

The second tranche report notes that economic assessments are carried out in accordance with Queensland Treasury's *Project Evaluation Guidelines* and projects only proceed where they are demonstrated to be economically viable.

The second tranche report also notes, as regards concerns that new infrastructure projects are proceeding prior to finalisation of a Water Allocation and Management Plan (WAMP) (discussed further below), that '*allowances for environmental flows are built into the project to ensure that environmental values can be satisfied in the longer term*'.(p45)

The Council was provided with information concerning the following infrastructure projects completed/commenced between 1994-98:

Temburra Creek Dam²³⁴ (completed, final approval November 1994). The report as regards this project, completed in 1993, included independent economic and environmental analysis. The report noted that the Government contribution to the \$59.3 million capital costs was between 65 and 75 per cent. As regards the economic rate of return, it was noted that:

'the economic rate of return on the project would justify investment in the dam, provided the implementing bodies are able to ensure the water would be used in the most economically efficient manner. The returns to this investment are highly sensitive to the manner in which the water is allocated among and used by the potential users...'(p40)

Walla Weir²³⁵ (completed, final approval November 1996). The Impact Assessment Study (April 1995) conducted by consultants on the basis of information provided by DNR, found potential impacts on flora and developed an environmental management plan. It was noted that:

'While the proposed weir will have some impacts on the environment, these are seen to be acceptable, and recommended measures will limit the overall impact. The Department of Primary Industries is committed to implementation of measures to minimise the environmental impact of the weir and of these are implemented, it is concluded that there are no environmental constraints preventing construction of the weir'.(p4)

The Benefit Cost Analysis (August 1993) indicated positive benefits for the scheme. Cost recovery for the scheme does not appear to have been figured into the cost-benefit analysis. The second tranche report indicates that Walla Weir was one of twelve projects funded under the Sugar Industry Infrastructure Package (SIIP). The project cost was \$14 million.

²³⁴ State and Federal funding was provided for this project through the Queensland Sugar Industry Infrastructure Program.

²³⁵ State and Federal funding was provided for this project through the Queensland Sugar Industry Infrastructure Program.

The second tranche report notes that an allowance for environmental flows has been made in anticipation of the Burnett WAMP.

Borumba Dam Stage II (completed). The Council has received the Initial Advice Statement (IAS) (DNR, 1997), which reviewed existing information and noted that the Environmental Management Plan (EMP) would: provide a framework to control impacts associated with construction and operational phases of the access track and dam modification; provide authorities with a tool to evaluate compliance with policies, guidelines and requirements; provide the community with an assurance that management of the project would be environmentally acceptable. The Council has reviewed the Review of Environmental Factors (Review) (DNR, June 1998), an addendum to the IAS. The economic analysis (DNR) found the project *soundly viable* and concludes that the development could be expected to recover capital costs from the sale of water allocations. The General Environmental Condition report found that the initial arbitrary allowance was inadequate and recommended the development of an environmental flow strategy.

The Council has received the EMP for construction of the dam (DNR, August 1997). Elements of the plan include aquatic flora and fauna management; erosion mitigation and sediment control; water quality management; and rehabilitation of disturbed areas. The EMP for the operational phase (DNR, July 1998) includes some similar elements and additional matters (for example, irrigation management). Each element includes a policy, performance requirements, monitoring, reporting and corrective action. The environmental release management element notes the policy '*To develop an environmental release strategy taking into consideration current operation policies and environmental studies prior to and then in association with the WAMP initiative*'.(p19)

St George Off Stream Storage (IAS completed. Planning and design well advanced. Negotiations for land resumption proceeding). The second tranche report notes that the Queensland Government has a commitment to '*redress the relatively low level of reliability of existing allocations since 1994 due to siltation of Beardmore Dam and revision of storage volume calculation*'.(attachment 9) This has led to the development of a 25 000 ML off-stream cell (the SGIP cell) to supplement existing allocations and a 30 000 ML cell (the compensation cell) '*to supplement natural flows (primarily for stock and domestic purposes)*'.(p20) The second tranche report notes that although the SGIP cell was economically viable, the compensation cell was '*not justified on purely economic grounds, but may be justified on the basis of other non-economic criteria*'.(attachment 9)

The draft IAS provided to the Council, conducted by consultants²³⁶, noted that Beardmore Dam was originally assumed to have a volume of 100 600 ML but current surveys indicated that the storage was 81 900 ML. Thus, the fact that more water was allocated than the total proposed by DNR and an increased *draft* on the system formed the basis for the need for the additional storage. As regards the compensation cell this was '*to improve the reliability of the compensation flows ... due to the gradual*

²³⁶ St George Offstream Storage Impact Assessment Study, SMEC Australia Pty Ltd, 1996

*formalisation of the management of these flows and the desire to improve the reliability and penetration of the releases of September compensation flows*²³⁷.(pS3)

The IAS considers matters such as hydrology and climate, water quality, aquatic ecology, terrestrial ecology (including water birds) geology and social impacts, including existing conditions and impacts of the various options of development. The summary of the IAS conclusions is as follows:

- the economic analysis indicates that generally small storage cells are preferred. For the SGIP cell 25 000 ML is the preferred size. Although the compensation cell cannot be justified on economic grounds, 10 000 ML represents the least economic disbenefit;
- the social analysis tends to indicate that a large offstream storage will widen the rift between affected groups;
- the environmental assessment suggests that detailed knowledge of the impact is not high and the precautionary principle might suggest that if anything is built it should be smaller rather than larger; and
- that although it could be concluded that the smaller storage cells would be preferred,

*'a more substantial SGIP cell*²³⁸ *... and a larger Compensation cell (i.e. 20 000 ML)*²³⁹ *could be considered subject to the agreement of downstream stakeholders. Any decision on the proposal should be made conditionally with regard to a verification of the impacts in relation to the outcomes of the WAMP'.*(pS20)

The Economic Study indicates that of all the cases modelled, the 25 000 ML SGIP and 30 000 ML Compensation cell combination showed the greatest disbenefit (-\$17.03 million).

In further information provided to the Council, Queensland has detailed considerations take into account concerning the project including: environmental factors such as improved water quality downstream not attributed in the economic analysis; additional community consultation undertaken following assessment of the project; and considerations taken into account in the Water Allocation and Management Planning process. Queensland has estimated that the project cost is \$15 million.

The Environmental Assessment of **Moura Off-stream storage** (project appears to be completed) was completed by State Water Projects, the rural water service provider.

²³⁷ The IAS and Economic study also consider a water harvesting cell but the information provided by Queensland indicates that this was not proceeded with.

²³⁸ 25 000 ML.

²³⁹ This was the largest cell size that was consistently modelled in the study.

No economic analysis was carried out although Queensland has advised that the project was implemented on a fully commercial basis. There is no cost identified in the material provided to the Council.

In respect of **Dumbleton Weir Stage III** (completed in 1997) the impact assessment statement was completed by DNR in July 1996. The economic analysis is included in the report, and found the project to be a viable proposition. It is unclear from the analysis whether recovery of the capital costs of the project was considered in the analysis. Queensland's contribution to the cost of \$2.9 million is \$1.59 million.

In respect of **Bedford Weir Stage II** (assessed in 1995, current status unknown) the impact assessment statement was carried out by the Department of Primary Industries in December 1995. The economic evaluation notes that the capital costs are estimated to be \$4.73 million. Water charges are assumed to cover local OMA costs. The analysis found the project clearly viable.

The Development Incentive Scheme

The second tranche report notes the Development Incentive Scheme (DIS) was introduced by Queensland to encourage agriculture producers to invest in new water storage for irrigation where commercially and ecologically sustainable. DIS provides for a subsidy of 22.5 per cent (up to \$150 000) of eligible costs of construction for new water storages for irrigation costing more than \$200 000. It is noted that a Land and Water Management Plan and cash flow budget demonstrating financial viability must be submitted. Eligibility requires demonstration of an improvement to the existing farm situation, a positive net present value and improved internal rate of return. Sixteen applications totalling \$800 000 have been approved. It was noted at the bilateral meeting in March 1999 that the DIS is presently the subject of a review.

The Independent Audit Group

Queensland has not committed to determination of its cap on diversion from the Murray-Darling Basin until completion of its relevant WAMPs. The Independent Audit Group (IAG), in its annual review *Striking the Balance* for 1997-1998 noted that the cap is expected to be in terms of end-of-valley flows. Diversions of a record 611 GL were recorded following a growth in on-farm storage and high flows. It was noted that the Condamine-Balonne WAMP was unlikely to be completed before June 1999 and the Border Rivers WAMP draft before December 1999. Water Management Plans (WMP) for Warrego, Paroo, Nebine and Moonie rivers were unlikely before June 1999. It was also noted that legislation to provide a statutory basis for WAMPs was expected to be introduced into the Queensland Parliament in March 1999. IAG recommended that the legislation include management of floodplain harvesting. IAG also recommended capping of diversions at 1997-1998 levels until WAMPs and WMPs were completed. It was noted that Queensland was committed to providing the Murray Darling Basin Commission and Ministerial Council an opportunity to review WAMP/WMP outcomes before committing to a balance between extractive and instream uses.

Other matters

The Council has received considerable information/comments/submissions concerning proposed dam projects in Queensland²⁴⁰. This information has been provided by concerned environment and community groups. In addition, the Implementation Plan for water infrastructure planning and development outlined priority schemes where the Government and Private Sector would contribute \$2 billion over a 15 year period.

Much of the information provided to the Council relates to the Dawson and Comet Dam proposals on the Fitzroy River and projects on the Mary River. The Council notes that these projects are either still being assessed or have been assessed and will not be proceeded with.

The Council notes that the implementation plan identifies the Dumbleton Weir Stage 3, Warrill Creek Diversion Weir and Mareeba-Dimbulah Irrigation Area Water Augmentation as additional projects; the Council has received no or insufficient information concerning these projects.

Council Comment

General Comments

Queensland has proposed a regime that provides for both an economic and environmental assessment of projects, and the progress of developments prior to the completion of relevant WAMPs. As regards this, the Council notes as a preliminary comment that the simultaneous conduct of an IAS and WAMP may lead to confusion as to the roles of each process in addressing impacts of changed flow regimes downstream of the proposed dam.

For example, the IAS for the St. George offstream storage was undertaken while the Condamine-Balonne WAMP, which is not yet at draft stage, is to be used address downstream impacts of the proposed storage.

This approach has possible implications for the environmental impact assessment of any proposed development involving water resources where a WAMP and presumably a WMP is in progress or proposed. Given the current rate of actual progress in finalising WAMPs and WMPs, infrastructure developments may be approved before there is a detailed appreciation of likely downstream impacts of reduced flows. If these projects are commenced without an adequate environmental assessment then the Council would need to address this as part of its assessment of the implementation of water reform.

The Council will further review any amendments to the DIS prior to the third tranche assessment.

²⁴⁰ Australian Conservation Foundation, Queensland Conservation Council, Ecological Water Alliance of Queensland and Mary River Community Alliance.

Specific projects

Before detailing concerns regarding specific projects, the Council notes that it will adopt the following process to progress discussion with Queensland:

- the Council will seek further information from Queensland concerning these projects and attempt to identify a path forward on resolving the concerns;
- the Council recommends a suspension of 25 percent of competition payments until December 1999 or until the matters are resolved; and
- at that time the Council will make a final recommendation on the penalty that should be imposed for any schemes that the Council is not satisfied have proceeded in a manner consistent with this reform commitment.

The Council's concerns focus on the following projects:

The **St George Off Stream Storage** raises the most significant concerns for the Council. The Council notes that the preferred option was that which provided the greatest economic disbenefit of all modelled. This option also appears to have had the least environmental support. Indeed, the independent analysis hardly considered the 30 000 ML compensation cell scenario.

The Council notes the consultation with stakeholders but is unaware of any agreement struck with downstream users concerning the storage. On almost any analysis of the information provided to the Council, and having regard to the IAG review, the decision to proceed with this project was neither economically viable nor ecologically sustainable.

The Council is of the view that where a decision is made that appears to diverge substantially from, or has not been considered by, the recommendations of an independent review there would be need to be a credible and convincing net benefit to the community for that decision. The Council is unaware of this benefit in respect of the St George Off Stream Storage. Even accepting that the SGIP cell was developed to account for reduced dam capacity at Beardmore, and this provided a justification, no such argument is relevant in respect of the compensation cell.

The additional information provided by Queensland does not, in the Council's views, provide an explanation for the failure to comply with the reform commitment.

The **Moura off-stream storage** raises concerns primarily because the environmental assessment was carried out by the provider of the service. This is not consistent with a requirement for independent appraisal. The Council is concerned that State Water Projects (SWP), a commercialised service provider, has a serious conflict of interests in carrying out such an assessment of a resource it will then reap financial benefits from.

The apparent failure to figure cost recovery in to the economic assessment of **Walla Weir** is, in the Council's view, a fundamental flaw in the analysis of the economic viability of this scheme. Such a project could not be said to be recovering costs consistent with reform commitments to achieve full cost recovery. The Council's

view is that this approach to economic assessment is not consistent with framework commitments.

Similar reasoning would lead the Council to consider recommending penalties for non-compliance with the reform commitment of carrying out robust analyses in respect of **Dumbleton Weir Stage III** and **Bedford Weir Stage II**. The Council further notes in respect of both these projects that they were conducted by the water service provider (that is, before the commercialisation of SWP) and that this reflects on the independence of the ecological analyses.

The Council has not received information concerning **Bingegang Weir Stage II**, **Warrill Creek Diversion Weir** and **Mareeba-Dimbulah Irrigation Area** and will review this information prior to finalising the supplementary assessment.

The **Temburra Creek Project** indicated that the project would proceed without a Government contribution of some 65 per cent to 75 per cent of the \$59.3 million capital costs. This level of Government contribution does not seem consistent with the reform commitment that the rural scheme be financially viable. The Council notes in this respect the economic analysis contained significant caveats as to investment in the dam. However, as the project obtained final approval prior to Queensland becoming a signatory to the National Competition Policy agreements in April 1995. Given this the Council does not consider recommend a penalty in this case.

As regards **Borumba Dam Stage II** the information provided to the Council indicates that the project was subjected to appraisals to determine economic viability that figured in recovery of capital costs. The ecological assessment also indicated that the project could proceed. Although the assessment was conducted by DNR, and the Council has noted concerns regarding this, the Council does not consider that this project should attract a penalty recommendation.

Assessment

The Council is of the view that, in finalising its recommendations in respect of the above projects, it may be appropriate to recommend a penalty for non-compliance with reform commitments. The penalty recommended would depend on many factors, and the Council is not presently in a position to finalise the assessment of these matters. The Council has regard to the significant capital cost of these projects. It also has regard to the importance of this reform commitment, encapsulating as it does the twin objectives of economic viability and ecological sustainability that form the basis of the strategic framework.

The Council will therefore recommend the suspension of 25 percent of Queensland's competition payment until these matters are finalised, or until December 1999, at which time the Council will make a final recommendation.

10.4.2.8 Jurisdictions are to devolve operational responsibility for the management of irrigation areas to local bodies subject to appropriate regulatory frameworks.

All impediments to devolution must be removed. Jurisdictions must demonstrate that they are encouraging and supporting devolution of responsibility, including through education and training.

Queensland arrangements

The second tranche report notes that twenty-eight scheme advisory committees²⁴¹ have operated in State Water Projects' irrigation areas and projects for a number of years. The Committees comprise a SWP representative and elected irrigator-customers. They provide users with a vehicle for input and also review wider policy issues. The committees also advise on improvements to scheme operations and water supply priorities.

Interim Local Management Committees (ILMCs) were established by DNR in most larger irrigation area and projects in 1998, comprising water users including local government, irrigators and industry. The ILMCs have a broader role including a role in water pricing, local management and transferable water entitlements. It is noted that ILMCs will be developed through 1999 as part of wider water industry reforms with formal consideration of local management arrangements to occur in early 2000.

It was noted at the March bilateral meeting²⁴² that the present approach was to create price paths based on efficient pricing (end of 1999) a then consider local management.

The Queensland Government has noted to the Council that it is not appropriate to consider devolving its assets to local management until a robust regulatory framework is in place to ensure resource management protection, asset maintenance, dam safety, customer protection and the like. Queensland has advised that it is taking a considered approach to determining the best long term combination of state control and local management to ensure rural water supply assets are operated in the best long term structure. Local management will only be adopted where there is a mutually beneficial arrangement for the state and local users.

During 1999 the Water Reform Unit will be undertaking comprehensive financial modelling in order to assess the best institutional arrangements for consideration by the Government and users by late 1999/early 2000. In the meantime ILMCs are being heavily consulted both with respect to pricing arrangements and possible future institutional arrangements.

In further information provided to the Council²⁴³ it was noted that the Government is investigating new institutional arrangements and the major alternative options to be analysed, are the corporatisation of SWP and the local management of irrigation schemes (whether through regional customer councils, local control or other

²⁴¹ Presumably set up under Part 3 Division 3 of the Water Resources Act 1989.

²⁴² Meeting between Queensland representatives and Council Secretariat, 17 March 1999.

²⁴³ 22 June 1999.

arrangements). The process of investigation will include a full public benefit assessment and public consultation process; ensuring adequate time is provided for consultation, the target date for new institutional arrangements is 1 July 2000.

Council Comment

The Council notes the evolution of present advisory committees and the trialling of ILMCs. The ILMCs have a broader role than the present committees.

However, the formal consideration of these schemes will not occur until late 1999 or early in the year 2000. It could not be said that the present advisory or interim arrangements provide for devolution of operational management other than to a small extent. While the gradual nature of change will ensure that any transition is smooth and has been the subject of consultation, the Council notes that this is a second tranche commitment and little real progress has been made to implement reforms. The Council is therefore of the view that the matter requires further assessment within a short time.

The Council will undertake a further assessment of progress against this reform commitment in December 1999. By this time the Council would look to development and some implementation of further local management in irrigation areas, with a firm timetable identified to complete this process.

The Council emphasises that the framework does not indicate that any particular form of devolution of irrigation management is required. It has no particular view as to the appropriate form of devolution and sees this as a matter for each Government. In particular, although some jurisdictions have privatised irrigation assets, this is not a requirement of the framework and is only one method of achieving reform.

B10.4.3 REFORM COMMITMENT: INSTITUTIONAL REFORM

Institutional Role Separation

10.4.3.1 As far as possible the roles of water resource management, standard setting and regulatory enforcement and service provision should be separated institutionally by 1998.

The Council will look for jurisdictions, at a minimum, to separate service provision from regulation, water resource management and standard setting. Jurisdictions will need to demonstrate adequate separation of roles to minimise conflicts of interest.

Queensland arrangements

The second tranche report notes that the Department of Natural Resource (DNR) has primary responsibility for regulation and licensing of water use, industry policy and strategic planning of water requirements. The Resource Management division is responsible for water, land and forest resource management including water allocation, defining environmental water requirements and water trading. The Regional Infrastructure Development division (RID) plans and manages infrastructure, identifying and developing plans to enhance the competitiveness of natural resource based industries and communities, undertaking regional planning studies and administering capital works for new infrastructure. Under proposed new regulatory arrangements RID will also become the technical/operational regulator of the industry, ensuring that public health and safety and customer protection is guaranteed.

QCA will, in future, undertake economic regulation of the water industry, including prices oversight, third party access and competitive neutrality complaints. The EPA (environmental standards and guidelines), Department of Local Government and Planning (integrated planning – managing effects of development on the environment) and Department of Health (drinking water quality) provide further regulation.

Local Governments, Urban Water Boards, SWP and other providers are identified as water service providers.

An overhaul of the *Water Resources Act 1989* (the WR Act), is proposed to be enacted by the end of 1999, Queensland has said that it will provide the new regulatory framework.

Commercialisation

The second tranche report notes the commercialisation on 1 July 1997 of SWP as a ring-fenced commercialised business unit within DNR in accordance with *Commercialisation of Government Functions in Queensland*. The Executive Director is directly accountable to the Director General of DNR.

The DNR Customer Information Kit regarding SWP notes that it operates within a commercial framework with clear objectives linked to performance, management authority and autonomy to pursue commercial goals, strict accountability for

performance and removal of any special competitive advantages or disadvantages compared to the private sector.

SWP customers include 6 300 irrigators, fifty urban centres (bulk water), power stations and mining and industrial companies. The information brochure notes there are four distinct groups:

- the Engineering Services group provides consulting services for planning, design and construction management of bulk water and rural reticulation infrastructure;
- the Operating and Maintenance Services group manages infrastructure;
- the Water Business Management group manages overall water supply service and new commercial opportunities including determining water products, water accounting, pricing and billing and implementation of environmental management plans and procedures; and
- the Asset Development group manages creation of new infrastructure including, for example, land acquisitions and infrastructure relocations.

The Council was provided with the Customer Standards of Service for Bundaberg Irrigation Area (the customer standards). The customer standards are to: identify existing roles and responsibilities; estimate current service arrangements; and provide a basis, in association with the Surface Water Advisory Executive Committee and Groundwater Advisory Committee, to move forward. The customer standards provide for matters such as: water delivery; supply rates; metering of supplies (all off takes are to be metered); water quality; billing arrangements; and administrative response times.

The second tranche report of the four urban water boards notes that a public benefit tests in 1997 supported commercialisation. Delays have occurred in the commercialisation of SEQWB²⁴⁴ because of tax concerns and blurred existing ownership arrangements. TTWB is proposed to become a joint local government body requiring amendments to the LG Act; the date for the new structure and commercialisation is 1 July 1999. GAWB's key stakeholders differ on the preferred model of commercialisation (councils wish to have a joint local government body while industry users would prefer a commercialised statutory authority); interim commercialisation should commence on 1 July 1999 and full commercialisation (following investigation of both models) by 31 December 1999. MIWB is currently the furthest behind in terms of having in place readily transferable commercial arrangements on which commercialisation arrangements can be built. Interim structures, including full cost price path, implementation of a commercial rate of return and the requirement to pay TERs will be implemented from 1 July 1999.

The commercialisation of the big 17 Local Councils was discussed above. In summary, all local governments conducted public benefit assessments as to the implementation of competitive neutrality reforms, ten of the councils implemented commercialisation of water and sewerage services on 1 July 1998 and the remainder

²⁴⁴ Where consideration has focussed on a state and local government owned corporation.

implemented full cost pricing on 1 July 1998 with some to commercialise from 1 July 1999 and beyond.

The LG Act²⁴⁵ provides for the commercialisation of significant business enterprises (sections 571-583) and that the key objectives²⁴⁶ of commercial business units under commercialisation are to be commercially successful in carrying out activities and efficient in the delivery of services (including CSOs). Commercialisation involves: a commercial business unit of local government that is not a separate legal entity; provision of services on a commercial and full cost pricing basis; and subsidies for CSOs. Commercialisation includes retention by local governments of TERs and debt guarantee fees and compliance with Commonwealth, State and local council requirements.

The principles of commercialisation include clarity of objectives, management autonomy and authority, accountability for performance and competitive neutrality. As regards clarity of objectives, it is noted that any activities of local government policy formulation or regulatory activities will, whenever possible, be kept separate from the commercialised entity.

Draft Policy Papers: April 1999

The Council has been provided with two April 1999 policy papers of the Queensland Water Reform Unit, *A Regulatory Framework for the Provision of Water Services in Queensland* (the regulation paper) and *Governance Requirements for Public Sector Water Service Providers* (the governance paper). Neither are government policy but instead intended as a basis for public consultation.

The regulation paper does not specifically canvass issues of allocation, economic and environmental regulation, drinking water quality or planning and development. The primary objective of the regulatory framework is '*to ensure that water infrastructure is properly managed to enable continuity of supply of an essential service and to protect the interests of customers through mechanisms such as customer service standards*'.(p3) In its consideration of current regulatory arrangements it is noted that, as regards regulation of drinking water at an operational level '*much of the responsibility for maintaining public health standards rests with the drinking water providers*'.(p16) The paper also notes the proposed regulation of building-related activities (for example, plumbing) under the Building Act instead of by water service providers.

The proposed regulatory arrangements would provide for the licensing of water service providers in relation to activities such as operation of headworks, works to implement groundwater supply, water treatment systems, bulk water distribution systems, sewerage infrastructure wastewater and storm water disposal and drainage services. It is noted that:

²⁴⁵ See also *Commercialisation Guidelines*, Qld Treasury, December 1998.

²⁴⁶ Measured against financial and non-financial performance targets.

Where local government water service providers already meet specific licensing responsibilities through existing mechanisms, those mechanisms will be recognised and local governments will be deemed to have complied with relevant licensing responsibilities.(p20)

Responsibilities will include: maintaining ongoing service quality standards; dam safety; flood mitigation; reporting for monitoring purposes; and complying with technical standards. DNR is proposed as the licensing agency. The Council notes that consultation concerning this paper is expected to be completed at the end of June 1999.

The governance paper canvasses governance operations and accountability mechanisms for public sector water service providers, including rural water boards (drainage, water supply (irrigation and stockwater) and urban bulk water suppliers (for example, MIWB)). It does not include Local Council water suppliers. The governance paper proposes clarification of the boards' roles, management and accountability.

The Road to Commercialisation – Identifying the Obstacles

The Road to Commercialisation – Identifying the Obstacles (LGAQ, Study Tour, 29 & 30 April 1998) provides case studies of the commercialisation of certain Local Government businesses. For the GCW, the path to commercialisation identified issues concerning the regulatory framework including price regulation, water quality, customer interests and environmental regulation. Questions about the costs of independent regulation of some of these functions are raised. Possible price regulation by QCA includes a recommendatory power with the ultimate responsibility lying with the Local Council. It is proposed that GCW primarily self-regulate on water quality issues and noted that no significant progress has been made as regards customer standards. Under GCW's present structure identifies catchment management and other treatment services as within GCW.

In respect of Redland CC, it is noted that Redland Water is commercialised and presently the following are being drafted: an Establishment Agreement; an Operating Licence which sets out the terms under which Redland Water may conduct a water and sewerage business in the area permitted; a Customer Service Charter that articulates the service standards to be provided to customers; a Business Charter; and an Annual Operating Agreement.

In respect of Ipswich CC, the preferred organisational structure (proposed for June 1999) is for a Water and Sewerage Provider Commercial Business Unit with Annual Operating Agreements with Service Delivery Purchaser/Provider Departments. Ipswich CC will develop a Customer Charter.

Other information

In additional information provided to the Council it was noted that under proposed new regulatory arrangements, water service providers, regardless of ownership, will be required to hold a water service provider licence. The framework will be outcomes focused and require service providers to meet service quality standards, scrutinised by

a regulator, although individual standards will be established by providers. This approach is said to recognise the difficulty of prescribing a minimum level of service applicable across Queensland and that it is intended that providers become proactive in delivering services that meet customer standards.

In respect of price regulation, further information provided to the Council notes that the Government has approved the drafting of amending legislation to the Queensland Competition Authority Act 1997²⁴⁷ (QCA Act) to permit the QCA to oversight prices charged by monopoly local government business activities. Queensland indicated that significant local government business activities (including water and wastewater services) may be subject to prices oversight where those businesses are declared as government monopoly business activities. These businesses are then subject to investigation by the QCA as to their pricing policy and practices.

The proposals for pricing oversight include that the QCA or local government may request that the QCA Minister²⁴⁸ declare a business, and that the QCA's report is to be provided to the Minister for Local Government and the relevant local government at the time it is provided to the QCA Minister. Also, the Local Government in question must, by resolution, accept or reject the recommendations within three months of receiving the report. Implementation of recommendations that have been accepted is the responsibility of the Local Government.

There is no timetable for declarations, but instead declarations are more likely be made in response to complaints about a specific business.

In addition, Queensland noted that all water service providers must meet drinking water standards; this is regulated by the Department of Health. Further information provided to the Council notes that the Health Act 1937 gives Queensland Health powers to deal with health-related problems arising from contaminated drinking water. Queensland Health has ultimate responsibility for issuing advice to the public regarding measures available to minimise risk from disease, including water borne disease. The Minister has extensive powers to take any necessary action in the event of an emergency. The Health Act also provides for standards to be prescribed by regulation for potable water, including measures for the protection and purification of water.

It is noted that much of the responsibility for maintaining public health standards rests with drinking water providers. The Department of Health encourages water service providers to incorporate a risk management based approach based on the 1996 NHMRC/ARMCANZ *Australian Drinking Water Guidelines*. It also provides free water sampling and testing of compliance for water providers who do not have their own water testing facilities.²⁴⁹ An Expert Group, with the function of advising the State Manager, Public Health Services in respect of decisions regarding public health aspects of water use in Queensland, has issued an interim protocol for dealing with positive findings of the presence of *Giardia* or *Cryptosporidium* in drinking water.

²⁴⁷ Unlikely to be passed before October 1999.

²⁴⁸ The Premier or Treasurer.

²⁴⁹ Brisbane water and some other service providers operate their own testing facilities.

Other information provided includes:

- the Building Act, 1975 will be amended to reflect that plumbing and sanitary drainage on premises is no longer a responsibility of water service providers; and
- urban water boards are regulated by DNR and, with the exception of some catchment management legislative powers, have no regulatory powers. Any residual regulatory powers are being removed as part of the review of the Water Resources Act 1989 and the implementation of commercial arrangements.

Council Comment

The Council has had the opportunity to observe many institutional structures in the water and other industries. Structures with rigorous institutional separation may include:

- an independent price regulator;
- a resource manager with catchment management functions;
- a licensed water service provider independently regulated by an auditing body;
- an independent mechanism to resolve complaints that cannot be dealt with locally;
- a customer charter and consultative committee;
- an independent water quality regulator; and
- transparency in the above arrangements.

It is these types of features that the Council would look to in the institutional arrangements to be put in place for urban water providers in Queensland.

In respect of urban water providers, the principles outlined in the LG Act are on the whole consistent with the requirements of the strategic framework as regards separation of service provision functions from standard setting, regulatory and resource management functions.

The following initiatives by Queensland show considerable commitment to this aspect of the strategic framework:

- the proposed amendments to the QCA Act, which will provide oversight of water prices for some local government service providers;
- the proposed licensing regime for local government service providers. Although the Council has some concerns at service providers setting their own standards, the Council will wait to see the final form of licensing and regulation before forming a view on the proposed reforms;
- the use of customer charters and customer committees by some water and sewerage providers;

- the reviews of governance of water boards; and
- the proposed reforms to remove plumbing and drainage regulation from service providers.

The Council notes the information provided as regards the role of Queensland Health in regulating water quality. A preferred arrangement for a large provider, such as Brisbane City Council, may be that there be independent water quality testing.

In respect of bulk water provision, there have been significant efforts in reforming providers but some very difficult issues remain to be resolved. The Council would look the resolution of all matters and the completion of reforms prior to the third tranche assessment.

In respect of rural water services, the Council remains concerned about some matters:

- the devolution of irrigation management, as discussed previously; and
- all matters concerning rural water ultimately fall not only to the same Minister, but also the same Department Head. SWP answers to the Director General, who also is in charge of resource management, standard setting and regulation matters.

However, Queensland is considering further the structure of SWP in conjunction with a review of irrigation management options.

The Council is concerned that viewed as a whole, the Queensland water industry presently falls well short of the strategic framework requirements to separate service providers from regulatory, standard setting and resource management functions.

In the metropolitan sector, for example, currently the service provider still appears to have standard setting (for example, service standards) and regulatory (for example, pricing) control. Information concerning this separation has not identified the type of rigorous structures evident in other major metropolitan areas in Australia.

The Council notes the policy development work and proposed reforms to meet commitments. These will provide a solid basis to progress institutional arrangements. In recognition of the considerable policy work undertaken by Queensland, but to ensure that reforms progress as identified, the Council will undertake a further assessment of reforms in December 1999. At that time, the Council will in particular look to progress on the following aspects of reform:

- amendments to the QCA Act to provide for the oversight of prices charged by local government water and wastewater providers;
- significant legislative or administrative progress on the implementation of licensing or other standard setting mechanisms; and
- significant progress on the review and implementation of new institutional arrangements for State Water Projects.

10.4.3.2 Metropolitan service providers must have a commercial focus, whether achieved by contracting out, corporatisation, privatisation etcetera, to maximise efficiency of service delivery.

Incorporate appropriate structural and administrative responses to the CPA obligations, covering legislation review, competitive neutrality, structural reform.

Queensland arrangements

Brisbane City Council (in addition to another ten of the *big 17*) commercialised on 1 July 1998 and corporatisation may be considered some time in the future.

Council Comment

The Council is of the view that the provisions of the LG Act as they relate to commercialisation provide a framework to achieve this aspect of the framework.

With the commercialisation of BW the Council is satisfied that this reform commitment has been met.

Performance Monitoring and Best Practice

10.4.3.3 ARMCANZ is to develop further comparisons of interagency performance with service providers seeking best practice.

Jurisdictions have established a national process to extend inter-agency comparisons and benchmarking. Benchmarking systems are to be put in place for the NMU and rural sectors, “WSAA Facts” is to be used for major urbans, and service providers are to participate.

The Council will accept compliance for the three sectors subject to the Productivity Commission confirming consistency with the Report of the Steering Committee on National Performance Monitoring of Government Trading Enterprises, “*Government Trading Enterprises Performance Indicators*” (Red Book). The Productivity Commission has already confirmed the consistency of “WSAA Facts” for the major urbans. The Council recognises the first reports for the NMU and rural sectors are likely to be a rough cut in the initial years.

Queensland arrangements

The second tranche report notes that Queensland has twenty-two participants in the WSAA performance monitoring and benchmarking for NMUs and two rural water boards and eight SWP irrigation schemes are participants in WSAA benchmarking for rural water service providers.

Council Comment

Queensland is participating in WSAA monitoring for BW, GCW and SEQWB has been noted above. The Council notes that WSAA is not presently benchmarking rural water services. As Queensland is participating in the ARMCANZ rural benchmarking program, and WSAA monitoring and benchmarking work, the Council is satisfied that there is performance monitoring and comparison of relevant water agencies.

B10.4.4 REFORM COMMITMENT: ALLOCATION AND TRADING

10.4.4.1 There must be comprehensive systems of water 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.

A 'comprehensive' system requires that a system of establishing water allocations which recognises both consumptive and environmental needs should be in place. The system must be applicable to both surface and groundwater.

The legislative and institutional framework to enable the determination of water entitlements and trading of those entitlements should be in place. The framework should also provide a better balance in water resource use including appropriate allocations to the environment as a legitimate user of water in order to enhance/restore the health of rivers. If legislation has not achieved final parliamentary passage, the Council will recognise the progress towards achieving legislative change during its assessment of compliance.

Queensland arrangements

The Water Resources Act, 1989

The WR Act provides for the right to the use and flow of water²⁵⁰ to vest in the Crown. The Act also vests beds and banks in the Crown. Riparian rights (water for domestic purposes and watering stock) are retained.

The WR Act prohibits²⁵¹ actions such as construction of referable dams,²⁵² construction of levee banks, construction of artesian bores or the taking of water²⁵³ without a licence. Section 44 of the WR Act provides for licences that entitle the licensee to a nominal allocation of water.²⁵⁴ Section 56 provides for limited application short term water permits to be issued. Part 5 of the Act provides for the sale of water licences '*to allow recovery of costs incurred by the State in providing works*'.²⁵⁵

²⁵⁰ Water in a watercourse that flows past, or a lake or spring within or abutting the land of, two or more owners, water conserved by a weir or dam on such a watercourse, lake or dam or groundwater. A watercourse is defined as including a river, creek or stream in which water flows permanently or intermittently: a natural channel; a natural channel artificially improved; and an artificial channel that has changed the course of the watercourse.

²⁵¹ Section 38.

²⁵² Generally, works or proposed works that impound, divert or control water and: is more than 10m high with a storage capacity of 20 000 m³ or 5 m high with a storage capacity of 50 000 m³.

²⁵³ For example, from a weir in a watercourse.

²⁵⁴ Part 9 of the Act also provides for the allocation of a nominal allocation in respect of land in an irrigation district.

²⁵⁵ There are some 83 000 licences or permits in force in Queensland (draft policy paper).

Part 4, Division 4 of the WR Act provides that licensees and permittees may be notified of the times during which water may be taken, the quantity of water that may be taken and the area of land/type of crop that may be irrigated.

Proposed reform

Shortcomings with the existing system identified in the *Improving the Water Allocation and Management System in Queensland* draft policy paper (Water Reform Unit, December 1998) (the draft policy paper)²⁵⁶ include:

- there is no power to provide for allocation of water on an environmentally sustainable basis;
- there is no strong basis to consider the cumulative effects of additional licences on the whole basin;
- licences tie water allocation to land and works; and
- there is no process for basin wide environmentally sound water planning.

Recent changes identified in the draft policy paper include the commencement of the WAMP process, best practice Land and Water Management Plans in the agriculture sector, the implementation of permanent transfers of existing water rights and commencement of a Water Entitlements Registration Database.

Proposed elements of the new system outlined in the draft policy paper include:

- the system would provide for ecologically sustainable development;
- resource security would be provided to entitlement holders and no new allocations would be granted in a manner inconsistent with the WAMP;
- water entitlements would be held separately from land and be transferable at the entitlement holder's discretion and in accordance with rules that avoid unacceptable impacts on the environment and other entitlement holders;
- unallocated water would be reserved by the state for future use;
- the system would be generic, and accommodate private, rural, urban and industrial supply systems; and
- all water entitlement issued under the new system would be registered.

The authorisations proposed include a water allocation (volumetric share of the water resource), operating authority (explained under WAMPs section), water entitlement (that is, the water allocation plus operating authority) and use approvals (site specific water management plans or bore construction approvals). Water entitlements would be specified in terms of location (for example, for groundwater, in terms of an areal

²⁵⁶ This policy is not Government policy but instead the basis for public consultation.

location and possibly an underlying aquifer) and tenure (may be redefined every ten years).

The proposed water allocation and management system would be implemented gradually and on completion of the WAMP processes. It is noted that *'it is likely that there would be areas of the State, such as the small unregulated coastal catchments, many of the western streams and certain groundwater systems, where the current licensing system would be adequate for many years.'*(p33)

The second tranche report notes that the new allocation and management framework is being applied, as a priority, on the basis of planned new developments and where water for consumptive use is approaching supply constraints. It is stated that this will capture most of the water demand in the state although, in a geographical sense, much of Queensland is unlikely to be covered in the future given resource distribution and low levels of demand.

It is noted that the *Rural Water Pricing and Management* document (DNR, 1996) canvassed changes to the existing water legal framework including WAMPs, water allocations in terms of quantity, reliability, and trading of those allocations. The aim at that time was to have legislation before the Parliament in 1997. The second tranche report notes that legislation to implement the proposed changes is scheduled for the second half of 1999, with new arrangements to be implemented as WAMPs are completed.

Water Management Plans

Part 3A of the WR Act provides for the creation of Water Management Plans (WMP) as subordinate legislation.²⁵⁷ In drafting a WMP the Minister is to have regard to matters including: existing entitlements; the provision of water for ecosystems; the extent of beneficial flooding currently enjoyed by landowners; water flows; and underground water levels. Part 3A provides for public consultation in creating or amending the plan. The WR Act also provides that the majority of new applications for licences etc are not to be dealt with while the WMP is being prepared²⁵⁸. Decisions made as regards new water licences or extractions etc must not be inconsistent with the WMP.

Preparation of a WMP involves the collection and modelling of hydrological data, identification of environmental and social issues and receiving input from a community based advisory body.²⁵⁹

The WR Act provides that WMPs can be amended to change the boundaries, principles or policies of the plan. New information which may trigger a review

²⁵⁷ The Statutory Instruments Act 1992 provides that subordinate legislation expires ten years after approval.

²⁵⁸ With exceptions such as construction of bores for domestic works or an application to construct a levee.

²⁵⁹ *Water Management Planning*, DNR, September 1997.

includes increased knowledge concerning the response of the ecosystem to streamflow alteration or a change in the values a community places on water.²⁶⁰

Water Allocation and Management Plans

The framework for the WAMP has been outlined in the draft policy paper. WAMPs are described as the:

'cornerstone of the new water allocations and management system. The WAMP process is an integrated and consultative whole-of-basin planning process. It addresses scientific, environmental, social and economic considerations in determining the appropriate balance between water that can be withdrawn ... and water that should be left to maintain the health of the water basin in accordance with the principles of ecologically sustainable development'.(p iii)

The WAMP provides a framework for establishing water allocations including allocations to the environment and the resource management conditions under which trading can occur²⁶¹. The second tranche report notes that WAMPs:

- describe the total water resources within each basin/catchment;
- define all existing entitlements;
- define environmental water provisions with the key objective to maintain and, where possible, improve instream ecosystems;
- reserve priority future water requirements;
- define water available for further allocation; and
- describe rules for further allocation, flow and aquifer management.

It is proposed that the implementation of the WAMP will occur by via operating authorities which allow the operation of works that impact upon natural flows or groundwater resources, conditional on meeting the requirements of the WAMP. There is no indication as yet if a WAMP will regulate floodplain harvesting.

The two types of authorities proposed are the Resource Operating Authority (ROA) and the Diversion Operating Authority (DOA). Water users are required to hold a DOA when pumping from a bore or unregulated watercourse, or harvesting from a regulated or unregulated watercourse. An ROA will be required where a water user alters the flow characteristics in a watercourse or enhances a groundwater system.

The DOA will be specified in terms of location and relates to the diverting of water from a watercourse or the extraction of water from a groundwater system. For

²⁶⁰ Draft Water Management Plan for Cooper Creek, DNR April 1998.

²⁶¹ Second tranche report.

example, in unregulated surface watercourses the DOA will set the rate at which water can be diverted from the water course and any precedent flow conditions which must be met before diversion occurs.

Holders of a ROA will be required to prepare a Resource Operations Management Plan (ROMP)²⁶². The ROMP will require approval from the water resource regulator. No ROMPs have yet been developed but it is anticipated that existing and new projects will be specified in terms of their required management regime and public comment will be sought on the draft ROMP.

The second tranche report notes that the WAMP process emphasises community involvement through the establishment of community reference panels. Diverse community representation on the panel will assist in striking a balance between water that can be withdrawn for consumptive uses and water left to maintain the health of the river basin in accordance with the principle of ecologically sustainable development. The ecological assessment process used in the WAMP has to date been based on the expert panel process, relying on the expertise of members of a technical reference panel.

It is proposed that an approved WAMP will be in force for ten years, after which a revised WAMP will be complete.

Other information

Queensland has informed the Council that some 300 responses have been received to the draft policy paper, and a refined version of this will form the basis of drafting instructions for the new Water (Management and Allocation) Bill (the Bill). The timetable for introduction of the Bill is the second half of 1999.

The Bill will provide for the Director General of DNR to recommend to the Minister that a WAMP/WMP for a particular basin be prepared. In making the recommendation the Director General would have regard to the objectives of the Bill and would take a common-sense approach to making the recommendation. The Director General would be guided by the principle that scarcity is a fundamental requirement for a well described system of property rights; where a natural resource is so plentiful that there is limited or no competition for a resource, there is little or no need for a legislative framework to describe property rights. The catchments where there is limited or no demand for water allocations will not be covered by WAMPs or WMPs. Instead, the Bill will provide a system similar to the existing licensing approach for water allocations.

The response notes that water users in regulated areas will hold a water allocation (specified as a volumetric share of the allocatable water resource) and a water supply contract with the ROA holder to provide storage and delivery services for their water allocation.

²⁶² Now called Resource Operating Licences and Plans, see 10.4.4.2.

Council Comment

The Council notes that the existing system of water allocations in Queensland falls short of the requirements of the strategic framework. In particular, it fails to clearly separate water titles from land title and recognise the environment's right to water. These matters are fundamental to the reform commitment as regards a comprehensive system of water entitlements.

However, there has been substantial policy work completed by Queensland, and indeed there is progress on preparing WAMPs despite the lack of a clear legislative base for this initiative. These matters indicate the strong commitment of Queensland to the reforms.

The Council notes that proposed reforms will provide, at least for some water systems:

- clear separation of water rights from other property rights including land title;
- specification of the location and amount of water that can be diverted/extracted;
- definition of the environment's water needs; and
- a framework, through particularly the WAMP process, of determining existing and future allocations.

Legislation to give effect to reforms proposed has not as yet been drafted. The Council notes the advice of Queensland that this legislation should be prepared for consideration by Parliament in the near future.

The Council will undertake a supplementary assessment on 30 June 2000 to assess whether there has been passage of the legislation. It will be necessary to review the finalised legislation before the Council arrives at a firm view as to whether it meets reform commitments.

10.4.4.2 Jurisdictions must develop allocations for the environment in determining allocations of water and should have regard to the relevant work of ARMCANZ and ANZECC.

Best available scientific information should be used and regard had to the inter-temporal and inter-spatial water needs of river systems and groundwater systems. Where river systems are overallocated or deemed stressed, there must be substantial progress by 1998 towards the development of arrangements to provide a better balance in usage and allocations for the environment.

Jurisdictions are to consider environmental contingency allocations, with a review of allocations five years after they have been initially determined.

Jurisdictions must demonstrate the establishment of a sustainable balance between the environment and other uses. There must be formal water provisions for surface and groundwater consistent with ARMCANZ/ANZECC "*National Principles for the Provision of Water for Ecosystems*".

Rights to water must be determined and clearly specified. Dormant rights must be reviewed as part of this process. When issuing new entitlements, jurisdictions must clarify environmental provisions and ensure there is provision for environmental allocations.

For the second tranche, jurisdictions should submit individual implementation programs, outlining a priority list of river systems and groundwater resources, including all river systems which have been over-allocated, or are deemed to be stressed and detailed implementation actions and dates for allocations and trading to the Council for agreement, and to Senior Officials for endorsement. This list is to be publicly available.

It is noted that for the third tranche, States and Territories will have to demonstrate substantial progress in implementing their agreed and endorsed implementation programs. Progress must include at least allocations to the environment in all river systems which have been over-allocated, or are deemed to be stressed. By the year 2005, allocations and trading must be substantially completed for all river systems and groundwater resources identified in the agreed and endorsed individual implementation programs.

Queensland arrangements

The WMPs/WAMPs and economically sustainable development process is discussed above. A timetable for the completion of WMPs/WAMPs is attachment three to the assessment.

WMPs

The development of nine WMPs is in progress or planned for: Cooper Creek; Warrego, Paroo, Nebine and Bulloo Rivers; Moonie River; Calliope and Boyne Rivers; Mitchell River; Herbert River; Flinders River; Georgina and Diamantina Rivers; and the Atherton Basalts groundwater system. Queensland has indicated that two of the WMPs are to be finalised in 1999-2000 and a further three finalised and two drafts released in 2000-2001.

To date only one WMP (draft Cooper Creek WMP) has been developed to the stage where it has been released for public comment (in April 1998). The Cooper Creek catchment covers an area of 306 000 square kilometres making it one of Australia's largest desert river systems. Cooper Creek is recognised as one of the few remaining large river systems in the world still relatively unregulated. In recent years major agricultural developments with a requirement of water allocations have been proposed for the central area of the catchment.

WAMPs

The proposed development of thirteen WAMPs is in progress or planned for: Fitzroy River; Condamine-Balonne Rivers; Border Rivers; Barron River; Logan River; Burnett River; Pioneer River; Burdekin River; Mary River; Brisbane River; Bundaberg groundwater; Pioneer groundwater; and Burdekin groundwater. Queensland has indicated that two of the WAMPs are to be finalised in 1999-2000. By 2000-2001, three more will be finalised, five drafts will be released and three WAMP processes

will commence. To date only one WAMP (draft Fitzroy River Basin WAMP) has been developed to the stage where it has been released for public comment (in September 1998).

The Fitzroy Basin is the largest coastal flowing river basin in Queensland with an area of 142 600 square kilometres. Three major dams and twelve weirs currently regulate the flows in the Basin and provide water resources for stock and domestic use, agricultural and irrigation developments and industrial and urban uses. A further two major projects (Dawson River and Comet River dams) and several smaller projects (for example Baroondah, Duaringa and Riverslea Weirs) had been proposed for the Fitzroy Basin,²⁶³ a decision has been made not to proceed with the Comet Dam.

Other information

Queensland has noted that where WAMPs are implemented or reviewed, water entitlements may need to be adjusted to take into account environmental objectives.

The Queensland Government has committed to completing WAMPs in a timely manner²⁶⁴. However, it was also noted that *'implementing a robust planning framework that has the confidence of the community (which is a fundamental prerequisite if it is to form the basis for describing individual property rights) takes time and an appropriate amount of community consultation. The Queensland Government does not intend to compromise in these areas'*.

It is noted that a ten year review process has been adopted to provide a balance between ensuring environmental flows are based on the best available information and providing planning certainty to water infrastructure owners and water entitlement holders. Comprehensive reviews will take three years and therefore must commence no later than seven years following WAMP implementation.

In addition to the implementation program (Attachment 3), the Council was provided with the following further information²⁶⁵:

'Under the proposed Water (Management and Allocation) Bill, the term River Operation Management Plan (ROMP) will be replaced with the terms River Operation Licence (ROL) for regulated reaches and River Operating Plan (ROP) for unregulated reaches of a catchment.

Where a WAMP is completed, the new bill will require that River Operating Licences be developed for all regulated areas within 12 months of completion of the WAMP. The implementation of a River Operating Licence will include the

²⁶³ Water Infrastructure Planning and Development 1997-8 to 2001-2, Implementation Plan (DNR, July 1997).

²⁶⁴ 8 June 1999.

²⁶⁵ 22 June 1999.

conversion of individual water entitlements under the old licensing system to new water allocations under the new Bill. The River Operating Licence will also include the trading rules for the area covered by the Licence.

However, it is noted that a River Operating Licence has not previously been developed, and indeed is a developing science. In this regard, while every endeavour will be made to complete the first River Operating Licence within the twelve month period, it is possible that unforeseen circumstances may slow the progress of implementation.

River Operation Plans (for unregulated reaches) will be developed as required'.

Council Comment

The Council is aware that the water management and allocation processes embarked upon by Queensland in developing their WMPs and WAMPs are complex and likely to be very comprehensive particularly with regard to hydrological modelling. The Council sees the development of WAMPs as evidence of very substantial commitment by Queensland to implementing fundamental reforms in water allocation management.

National Principles of the Provision of Water for Ecosystems

The *National Principles of the Provision of Water for Ecosystems* includes the following principles directly relevant to the Council's assessment:

Principle 1 ***River regulation and/or consumptive use should be recognised as potentially impacting on ecological values.***

The Council is of the view that the WAMP and WMP process explicitly recognised that river regulation and consumptive use impact on ecological values. The WAMP process seeks to strike a balance between consumptive and ecological uses.

Principle 2 ***Provision of water for ecosystems should be on the basis of the best scientific information available on the water regimes necessary to sustain the ecological values of water dependent ecosystems***

It is difficult to say what 'best scientific information' at any point in time is. However, in this respect the Council notes:

- the WMP process is based on the collection and modelling of hydrological data; and
- the WAMP process is based on a whole of basin approach and addresses scientific, environmental and other considerations.

Principle 3 Environmental water provisions should be legally recognised.

The WAMP process will define environmental water provisions and water available for future extraction. The ROL, ROP and DOAs will be consistent with the WAMP. Similarly, WMPs will define the water provision for ecosystems and require new water extractions to be consistent with the WMP.

Principle 4 In systems where there are existing users, provision of water for ecosystems should go as far as possible to meet the water regime necessary to sustain the ecological values of aquatic ecosystems whilst recognising the existing rights of other water users.

The WAMP process seeks to strike a balance between consumptive uses. Further allocations after determination of the environmental water provision will be defined and those allocation will be consistent with the WAMP. This is also the case for WMPs.

Principle 5 Where environmental water requirements cannot be met due to existing uses, action (including reallocation) should be taken to meet environmental needs.

Queensland has advised that where WAMPs are implemented or reviewed water entitlements may need to be adjusted to take into account environmental objectives. The Council is not aware of the precise mechanism to permit reallocation of water to the environment. This is a matter the Council will review when the legislation for WAMPs is provided.

Principle 6 Further allocation of water for any use should only be on the basis that natural ecological processes and biodiversity are sustained.

The Council is satisfied that the WMP provides that further allocations will have proper regard to the water needs of the environment. The WAMP process will also have regard to the environment's water needs.

Other matters

The legislation to implement the WAMP process has not been put before the Queensland Parliament. The Council will undertake a supplementary assessment of on 30 June 2000 to assess whether there has been passage of the legislation.

Many of the Council's concerns have been addressed in additional information provided by Queensland. However, there are two remaining concerns.

First, it is unclear whether the proposed legislation will cover the issue of water harvesting from floodplains or on farm storages other than *referable dams*. This matter was highlighted by the IAG. The Council is of the view that it is a matter that ought also be included both in the setting of environmental allocations and any planning processes. The Council considers that both matters would need to be included in any proposed legislation; and

Second, there are considerable delays in the preparation of WAMPs or completion of the WMPs and WAMPs currently at a draft stage. This concern is magnified

particularly where there is ongoing water resource development or the allocation of water resources to a development.

For example, the Impact Assessment Statement for Bedford Weir Stage II notes that the draft Fitzroy WAMP was to be completed in July 1996. The draft was not released until for public comment until September 1998.

Another example of this is the failure to complete the Condamine-Balonne WAMP. The IAS for the St George Off Stream Storage cautioned that any decision on the proposal should be made conditional awaiting the WAMP. The IAG notes that the setting of the cap for diversions from the Murray-Darling Basin awaits this WAMP. The IAG has recommended that diversions be frozen but the Council is not aware that this invitation has been taken up. On the contrary, it appears that diversion have increased. The reference panel for the WAMP was set up in March 1996, the draft plan scheduled for release in March 1999 and for finalisation in September 1999.²⁶⁶ The information provided in the second tranche report indicates that the WAMP is now scheduled for release somewhere between 1999 and 2000.

The Council agrees to the implementation programs provided by Queensland. In doing so, it notes the following relevant matters:

- the National Land and Water Resource Audit, funded under the Natural Heritage Trust, is presently being undertaken and will provide valuable information to jurisdictions and the Council as to any relevant systems not included in the programs or that require a higher priority;
- the Council understands that the High Level Taskforce on Water Reform may, prior to the third tranche assessment, undertake to identify some relevant criteria for classifying stressed systems. This process may result in a modification to implementation programs; and
- the implementation programs, by their nature, may change depending on many factors including proposed new developments and other significant events.

The Council is therefore of the view that the implementation programs may need to be altered over time provided there is agreement between Queensland and the Council.

The Council notes the following further matters:

- while it would look to completion of River Operating Licences within 12 months of WAMP finalisation; and
- while it commends the emphasis placed on Queensland as regards public consultation, and every matter would be considered individually, the Council is not of the presently of the view that this alone would provide a sufficient reason for slippage in the implementation program.

²⁶⁶ Overhead from bilateral meeting.

10.4.4.3 Arrangements for trading in water entitlements must be in place by 1998. Water should be used to maximise its contribution to national income and welfare.

Where cross border trade is possible, trading arrangements must be consistent between jurisdictions and facilitate trade. Where trading across State borders could occur, relevant jurisdictions must jointly review pricing and asset valuation policies to determine whether there is any substantial distortion to interstate trade.

Jurisdictions must establish a framework of trading rules, including developing necessary institutional arrangements from a natural resource management perspective to eliminate conflicts of interest, and remove impediments to trade. The Council will assess the adequacy of trading rules to ensure no impediments. If legislation has not achieved final parliamentary passage, the Council will recognise the progress towards achieving legislative change during its assessment of compliance.

As noted above, for the second tranche, jurisdictions should submit individual implementation programs, outlining a priority list of river systems and groundwater resources and detailed implementation actions and dates for allocations and trading to the Council for agreement, and to Senior Officials for endorsement. This list is to be publicly available.

Cross border trading should be as widespread as possible. Jurisdictions are to develop proposals to further extend interstate trading in water.

Queensland arrangements

The second tranche report notes that section 231 WR Act has permitted temporary transfers for approximately ten years, this proving a useful tool in balancing annual fluctuations in water availability and demand. Section 231 permits the owner of land to which a water allocation has been granted to enter into an agreement allowing another land owner to use the water. Relevant approval is required and regard may be had to the capability of the system to supply the additional water or other matters.

The draft policy paper notes the proposal to enable the holder of a water entitlement to transfer or lease it to any other person in accordance with transfer rules. The policy paper canvasses issues such as exchange rates, transfers between catchments and rules for social and economic purposes (that is, limiting the amount of water transferred from an area in any one year). The policy also considers the process of transferring water entitlements including registration, transfer fees and requirements such as best practice water management plan approvals.

The second tranche report notes that interim permanent trading arrangements are progressively being implemented across larger irrigation districts. For example, in the Mareeba-Dimbulah Irrigation Area interim arrangements will facilitate structural adjustment from tobacco growing to higher-valued horticultural and sugar production. By the end of 1999 interim permanent trading arrangements should be in place for six of the State's eight largest irrigation schemes.

The Bundaberg Irrigation Area Temporary Transfer service guideline sheet includes the following local rules:

- transfers apply within the water year;
- the seller can only sell their available announced allocation;
- transfers cannot be arranged in arrears to cover circumstances where customers are subject to excess water charges;
- transfers are not permitted between surface and groundwater supplies; and
- transfers between particular areas are not permitted.

Queensland has not provided information to the Council concerning interstate trade with New South Wales. New South Wales has advised the Council that interstate trade between New South Wales and Queensland cannot occur until Queensland has completed '*capping*' entitlements, and that there are at present no formal arrangements for trade.²⁶⁷

Council Comment

Queensland's commitment to water trading reform is illustrated by the implementation of interim permanent trading arrangements to facilitate structural reform in the tobacco industry. The present legislation, however, does not permit more than temporary transfers of water on a yearly basis.

The Council is not satisfied, however, that the existing trading arrangements constitute an adequate substitute for reform proposed in the draft policy and required by the strategic framework.

The draft policy proposal to permit temporary and permanent water trades is as yet not in legislative form. While the proposal appears to be consistent with the strategic framework, the Council cannot form a firm view on the trading arrangements until the detail of the legislation is known.

As previously noted, the Council will undertake a supplementary assessment of on 30 June 2000 to assess whether there has been passage of the legislation.

The Council is also concerned at the lack of progress in NSW/Queensland cross-border trading. The Council will pursue this matter with both jurisdictions prior to the third tranche assessment.

²⁶⁷ NSW Annual Report in the Application of National Competition Policy for the year ending December 1997.

B10.4.5 REFORM COMMITMENT: ENVIRONMENT AND WATER QUALITY

10.4.5.1 Jurisdictions must have in place integrated resource management practices, including:

- **demonstrated administrative arrangements and decision making processes to ensure an integrated approach to natural resource management and integrated catchment management;**
- **an integrated catchment management approach to water resource management including consultation with local government and the wider community in individual catchments; and**
- **consideration of landcare practices to protect rivers with high environmental values.**

The Council will examine the programs established by jurisdictions to address areas of inadequacy. Programs would desirably address such areas as government agency co-ordination, community involvement, co-ordinated natural resource planning, legislation framework, information and monitoring systems, linkages to urban and development planning, support to natural resource management programs and landcare practices contributing to protection of rivers of high environmental value.

Queensland arrangements

The second tranche report notes that DNR is the lead agency for Landcare and Integrated Catchment Management. The Minister receives strategic advice from the Landcare and Catchment Management Council on landcare, integrated catchment management and the implementation of Natural Heritage Trust projects. The Landcare and Catchment Management Council is a representational body including representatives from landcare and catchment management groups, industry, State and Local Government, Queensland Conservation Council, Greening Australia and the Great Barrier Reef Marine Park Authority.

It is noted that in 1997-1998 DNR supported twenty-three integrated catchment management committees and fifteen action plans were implemented. The Queensland Murray-Darling Basin Co-ordinating Committee prepared a Natural Resource Management Strategy and catchment strategies for the Maranoa-Balonne and Border Rivers catchments were also prepared.

Major Actions, a paper by Bill Eastgate, Executive Director (Regional Infrastructure Development) DNR identified under the heading *Integrated Resource Management* that:

the Natural Resource Management (NRM) Act will establish a legislative framework for the integrated management of Queensland's land, water, forest and vegetation resources. It will also provide the statutory basis for property rights in water and forestry. The Integrated Planning Act will provide a co-ordinated and integrated approach to local, regional and

State level planning and development assessment. The NRM Act is in preparation and a draft Bill is expected to be available before the end of 1998'.(p5)

It is also noted that WAMPs will contribute significantly to this process.

The *Queensland Murray-Darling Basin Catchment Co-ordinating Committees - Natural Resource Management Strategy* (DNR and Department of Environment, April 1998) (the NRM strategy) notes that Queensland has developed a State planning process with approaches to implement State and National plans and strategies. Integrated regional strategies are developed which oversee a hierarchy of: issue based regional plans and strategies; regional agency programs; local government plans and strategies; integrated catchment management strategies; issue based catchment plans; and integrated sub-catchment and local plans and issue based plans or projects.

The NRM strategy provides for the vision of an equitable, efficient and sustainable use of water, land and other environmental resources of the Queensland Murray-Darling Basin. The values that the strategy seeks to protect or improve include: integrity of ecological processes and ecosystems; integrity of human social conditions; integrity of economic conditions and economic benefits to the community; and integrity of places and the broader landscape.

The NRM strategy identifies regional issues including NRM planning and co-ordination, economic sustainability, education and awareness, empowerment, cultural heritage, floodplains, wetlands and rivers, water allocation and quality, land use and management, nature conservation, forest management, weeds and pest animals and waste management.

For each issue, principles for action, strategic objectives, essential/desirable strategies, outcomes, performance indicators and related strategies are identified. For the regional issue of *Land Use and Management*:

- a principle for action is land is a finite resource that must be conserved and managed for long term health and use;
- a strategic objective is healthy and productive land-use systems managed for sustainable natural resource;
- essential strategies include supporting the investigation and extension of practical tools, management practices, training and information which address land degradation, climate variability and sustainable production;
- an identified outcome is land productivity to be sustained or enhanced over the long term; and
- a relevant performance indicator is the percentage of land-holders adopting an integrated planning approach to the management of their land and vegetation resources.

Queensland noted²⁶⁸ that although at one stage it was considering the development of a NRM Bill, alternative legislative arrangements including the Water (Management and Allocation) Bill are being progressed.

Queensland noted that integrated catchment management in Queensland is presently being delivered by Catchment Co-ordinating Committees (CCC), which are based in whole river catchments, basins or groups of smaller catchments. CCCs are formed and formally endorsed or recognised in accordance with the operational policy and guidelines developed by the Landcare and Catchment Management Council. CCCs include local government, community groups, relevant industries and agency representatives. They are community based and co-ordinate the efforts of key stakeholders to implement negotiated and agreed actions and outcomes. They develop community based strategies for catchment management and guide implementation through business and action plans for key issues. CCCs are provided operating grants (up to \$10 000) and may apply for project grants from the State and Natural Heritage Trust.

About 80 per cent of Queensland is covered by CCCs. Thirty have been endorsed and another six are at the steering committee stage.

The main area not covered is the Cape York Peninsula; the Cape York Natural Heritage Plan and CYPLUS provide the overall strategic direction for natural resource management at a regional level. Some CCCs (for example the Weipa Catchment Co-ordinating Group) are in place.

A Guide to Integrated Catchment Management in Queensland (DNR, January 1999) provides a summary of catchment management issues and activities in Queensland. The guide notes that the Government's integrated catchment management program was introduced in 1990. It provides brief details on some activities. For example, in the Fitzroy catchment two catchment groups (the Fitzroy Basin Association and Dawson Catchment Co-ordination Association) note issues such as water quality, water allocation and remnant and riparian vegetation management. Achievements include developments of catchment strategies and establishing partnerships with stakeholders. Future directions include implementation of strategies and enhancing linkages between the community and government.

Queensland also advised that CCCs and landcare groups, although separate, work closely together. Programs have been combined at a state level to through the Landcare and Catchment Management Council.

Queensland noted that community based arrangements are presently being reviewed and a series of workshops in July/August 1999 is planned to consult key community stakeholders and develop options for wider consideration. Any changes to existing arrangement will be considered following this review.

²⁶⁸ 8 June 1999.

Council Comment

The Council notes the achievements of Queensland in setting up a Council to advise the Minister on integrated catchment management and NRM. In addition, the creation of CCCs and development of action management plans is a solid basis on which to plan, implement and evaluate integrated catchment management and NRM initiatives.

The membership of CCCs includes community, government and industry and Queensland has advised that the present arrangements cover 80 per cent of Queensland and other areas are covered by alternative arrangements.

The current community based arrangements are under review and following this Queensland will consider changes to the existing arrangements.

The Council is satisfied that Queensland has met its reform commitments for the second tranche. It will monitor the review of current arrangements and any subsequent initiatives by Queensland prior to the third tranche assessment.

10.4.5.2 Support ANZECC and ARMCANZ in developing the National Water Quality Management Strategy (NWQMS), through the adoption of market-based and regulatory measures, water quality monitoring, catchment management policies, town wastewater and sewerage disposal and community consultation and awareness.

Jurisdictions must have finalised development of the NWQMS and initiated activities and measures to give effect to the NWQMS.

Queensland arrangements

The second tranche report notes that the policies and principles of NWQMS have been incorporated into legislation via the *Environment Protection (Water) Policy 1997* (EPP (water)). The EPP (water) provides a pathway for setting and formalising environmental values and water quality objectives for a specific waterway in accordance with the NWQMS. The EPP (water) requires the development and implementation of environmental plans about protecting ground waters.

For example, sections 9.(2) and 9.(3) of the EPP (water) provide that documents including site specific documents, AWQ²⁶⁹ guidelines, and documents published by a recognised entity²⁷⁰ are used to decide the water quality guidelines for an environmental value for a water, and that to the extent of any inconsistency between the documents for a particular water quality guideline, the documents are to be used in the order in which they are listed. A similar approach to establishing priority of documents is used in Section 10. (2) and 10.(3) of the EPP (water) which provides for protocols (for example, making tests and measures).

Queensland has advised the Council that Australian drinking water guidelines have been incorporated into the Queensland guidelines for the design of water supply

²⁶⁹ Australian Water Quality Guidelines for Fresh and Marine Waters published by ANZECC in 1992.

²⁷⁰ This includes the NWQMS guidelines published by ANZECC and ARMCANZ.

schemes. In response to implementing guidelines for sewage systems Queensland has produced a set of standard sewage laws and a document on treatment and management of sewage.

WSAA Facts

WSAA Facts noted that BW had 100 per cent compliance with 1996 NHMRC bacteriology quality and physico-chemical guidelines. GCW's compliance was 99.6 per cent and 99.1 per cent respectively.

Council Comment

Queensland has contributed to NWQMS and developed integrated guidelines in the EPP (water). The Council considers this and the performance of the water suppliers as regards NHRMC guidelines shows substantial commitment in respect of this reform area.

The Council, while satisfied that Queensland has met this reform commitment for the second tranche, will continue to monitor the implementation of the NWQMS guidelines prior to the third tranche assessment. The Council will focus on issues concerning implementation, monitoring and compliance with guidelines.

B10.4.6 REFORM COMMITMENT: PUBLIC CONSULTATION, EDUCATION

10.4.6.1 Jurisdictions must have consulted on the significant COAG reforms (especially water pricing and cost recovery for urban and rural services, water allocations and trade in water entitlements). Education programs related to the benefits of reform should be developed.

The Council will examine the extent and the methods of public consultation, with particular regard to pricing, allocations and trade. The Council will look for public information and formal education programs, including work with schools, in relation to water use and the benefits of reform.

Queensland arrangements

The second tranche report notes that community consultation on water reform is actively encouraged. For example:

- changes to rural water pricing have been discussed widely since 1993; the consultation strategy for the 1999 price increments is currently being devised and will focus in heightening awareness of revenue shortfalls and pricing issues in relevant irrigation schemes;
- community reference panels are actively involved in the development of WAMPs; and
- the draft policy on water allocations has been circulated for consultation with key stakeholder groups and will form the basis for wider consultation.

As regards public education, the second tranche report highlighted the sponsorship of Waterwise, which includes a comprehensive schools program, resources to teachers and the creation of the first Waterwise school which resulted in water use and bills falling 50 per cent.

The Council has been provided with and reviewed a range of *Waterwise* material provided with the second tranche report including the *Waterwise in the Home* series, *Waterwise Gardens*, and the *Waterwise school*.

Council Comment

The Council has reviewed the information provided by Queensland and notes the consultations by DNR and others in respect of proposed reforms and the innovative work of the *Waterwise school* program.

The Council is satisfied that Queensland has met this reform commitment.

ATTACHMENT 1

Table 10.4.4 Cost recovery of local government water and sewerage providers, 1996-1997

Council Business	Public Benefit Assessment Findings
Brisbane City Council	Trading profit for 30/6/98 of \$60.92 million with overall result (including interest, depreciation and other charges) \$4.572 million.
Caboolture Shire Council	Operating surplus of \$4.5 million (water) and \$6.084 million (sewerage).
Cairns City Council	Not stated.
Caloundra City Council	Revenue Surplus of \$5 069 662 over operating costs for water supply and sewerage.
Gold Coast Water	Revenue surplus of \$36.4 million (water) and \$34 million (sewerage).
Hervey Bay City Council	Water and Sewerage Services have an operating surplus of \$5-6 million (for years 1995-1996, 1996-1997 and 1997-1998).
Ipswich City Council	Operating surplus for water and sewerage services of \$13.566 million.
Logan City Council	Net operating profit before interest, depreciation and taxation \$4.9 million.
Mackay City Council	Revenue surplus: EBIT \$6 242 159; net profit \$3.1 million.
Maroochy Shire Council	Revenue surplus of \$14.214 million.
Noosa Council	Current charging strategy provides return on assets of 1.1 per cent for water and 0.87 per cent for sewerage.
Pine Rivers Shire Council	Operating profit for water \$2.829 million, for sewerage \$4.666 million.
Redlands Shire Council	Water and sewerage business generates a surplus on its operations sufficient to cover full-cost pricing initiatives.
Rockhampton City Council	Revenue received covers capital works and operation expenditure including depreciation allowances.
Thuringowa City Council	Water supply service generated a net cash operating surplus of \$2.104 million.

Council Business	Public Benefit Assessment Findings
Toowoomba City Council	Water and wastewater businesses generate surpluses on their operations.
Townsville City Council	Net profit \$12.5 million (and return on assets of 3.5 per cent).

ATTACHMENT 2

Table 10.4.5 CSOs provided by local government water and sewerage activities

Local Government	CSO amount, 1998-1999	Stated objective
Brisbane City Council	\$8 928 000	Not stated
Caboolture Shire Council	\$7 322 038	Eliminate impacts of reform on prices to consumers of water and sewerage services and given that these services are essential services
Cairns City Council	\$602 632	Provision of unmetered supply of water to Council parklands and provision of unmetered wastewater services to Council facilities
Caloundra City Council	Not available	Not available
Gold Coast Water	\$1 099 000	Not stated
Hervey Bay City Council	\$45 000	Not stated
Ipswich City Council	\$64 333	Not stated
Logan City Council	\$88 7000	Combined subsidy on water and sewerage charges to sporting bodies
Mackay City Council	\$1 706 000	Not stated
Maroochy Shire Council	\$4 600 000	\$4.03 million pensioner discounts, balance for fire services, services to remote regions, and the like
Noosa Council	\$0	Not applicable
Pine Rivers Shire Council	\$0	Not applicable
Redlands Shire Council	\$716 470	Not stated
Rockhampton City Council	\$509 030	Not stated

Local Government	CSO amount, 1998-1999	Stated objective
Thuringowa City Council	\$113 000	Environmental services
Toowoomba City Council	\$0	Not applicable
Townsville City Council	\$969 662	Subsidies to sporting, charitable, welfare, non-profit, aged homes

ATTACHMENT 3

Table 10.4.6 WAMP/WMP Timetable

Action	1999-2000	2000-2001
Submit Final WAMP**	Fitzroy Condamine-Balonne	Border Rivers Barron Logan
Release Draft WAMP	Condamine-Balonne Border Rivers* Barron Logan	Burnett Pioneer Burdekin Pioneer Groundwater Burdekin Groundwater
Development of WAMP	Burnett Pioneer Burdekin Brisbane Bundaberg Groundwater Pioneer Groundwater Burdekin Groundwater	Brisbane Bundaberg Groundwater Mary
Submit Final WMP	Cooper Atherton Basalts Groundwater	Warrego/Paroo/Nebine/Bulloo Moonie Calliope/Boyne
Release Draft WMP	Warrego/Paroo/Nebine/Bulloo Moonie Calliope/Boyne	Herbert Mitchell
Development of WMP	Herbert Mitchell	Georgia/Diamintine Flinders

*Subject to resolution of interstate policy

**Subject to satisfactory completion of public consultation process

