

10.7 WATER REFORM, Tasmania

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Abbreviations

| | |
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| ABS | Australian Bureau of Statistics |
| ANZECC | Agriculture and Resource Management Council of Australia and New Zealand |
| ARMCANZ | Australian and New Zealand Environment and Conservation Council |
| AUSRIVAS | Australian River Assessment Scheme |
| COAG | Council of Australian Governments |
| CPA | Competition Principles Agreement |
| CSO | Community Service Obligation |
| DPIWE | Department of Primary Industries, Water and the Environment |
| EWA | Esk Water Authority |
| GBE | Government Business Enterprise |
| GPOC | Government Prices Oversight Commission |
| HEC | Hydro-Electric Corporation |
| HRWA | Hobart Regional Water Authority |
| ML | Megalitre |
| NCP | National Competition Policy |
| NMU | Non-Metropolitan Urban |
| NWQMS | National Water Quality Management Strategy |
| NWRWA | North West Regional Water Authority |
| OMA | Operational, Maintenance and Administration |
| PEV | Protected Environmental Value |
| RMPS | Resource Management Planning System |
| RWSC | Rivers and Water Supply Commission |
| SPWQM | State Policy on Water Quality Management |
| TER | Tax Equivalent Regime |
| WACC | Weighted Average Cost of Capital |
| WQO | Water Quality Objective |
| WSAA | Water Services Association of Australia |

B10 Water Reform

B.10.7 TASMANIAN PROGRESS AGAINST COAG WATER REFORM COMMITMENTS

B10.7.1 EXECUTIVE SUMMARY

This is an assessment of Tasmania'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

- As regards full cost recovery, available evidence suggests the majority of urban water and wastewater services and all bulk water providers recover costs. Tasmania has developed guidelines to assist urban water and wastewater providers better account for assets renewals and maintenance. Tasmania has also undertaken to develop guidelines to promote greater levels of cost recovery and to improve urban water and wastewater reporting requirements. Independent advice on bulk water prices is provided by the Government Prices Oversight Commission.
- Tasmania has not met its commitment to introduce two part tariffs where cost effective by 1998. Guidelines to assist local governments identify the cost effectiveness of tariff reform have been developed and a process to apply and audit compliance with these guidelines will be completed by the end of October with a recommendation being made to the Premier by the end of November 1999. The Council acknowledges that progress in this area has been delayed by a range of factors such as the unsuccessful council amalgamation program. Tasmania has committed to implement two part tariffs where cost effective and to provide in December 1999 a timetable for the implementation of two part tariffs.
- Two of the State's three bulk water suppliers charge on a volumetric basis with the third adopting a two part price comprising of a fixed charge and a volumetric charge. Available information suggests that volumetric charging for industrial waste is limited.
- Cross-subsidies have been largely addressed by the State's bulk water providers. While the Council is potentially concerned with the use of property values in water and wastewater charges it appears that the potential distortions arising from property values are limited by extensive use of minimum fixed charges.
- The Council is satisfied that the State Government's community service obligation (CSO) framework meets COAG commitments. However, most of the State's

water supply and wastewater activities are local government responsibilities and there is currently no CSO framework for local government businesses. Tasmania has undertaken to work with local governments to develop an appropriate CSO framework.

- Bulk water providers earn positive rates of return and the State has undertaken to develop guidelines to assist a greater proportion of water and wastewater businesses to earn positive rates of return.
- New investments are subject to appraisals of economic viability and ecological sustainability.
- Operational responsibility for the management of irrigation areas has not been significantly devolved in Tasmania although participants are consulted periodically on key issues.

Therefore, while some commitments have been met, the Council is not satisfied that Tasmania has met its commitments with respect to two part tariffs but notes the extenuating circumstances faced by Tasmania and the State's commitment to introduce appropriate reform. The Council will therefore revisit this issue as part of a December 1999 assessment with failure to meet agreed timelines potentially incurring a deduction of competition payments. The Council will also look for progress on the devolution of management responsibility to irrigation scheme participants in its December 1999 assessment. The Council will review progress with CSO arrangements in a June 2000 supplementary assessment and look for improvements in urban water and wastewater rates of return as part of its third tranche.

Institutional reform

- Current institutional arrangements are not consistent with COAG commitments. However, measures contained in the Water Management Bill will address the Council's concerns. The Council notes that the passage of the Bill has been delayed by largely external factors and will look for appropriate arrangements to be in place within twelve months.
- Bulk, water and wastewater activities have a commercial focus consistent with COAG commitments.
- Tasmanian water businesses are participating in benchmarking and performance monitoring programs.

Therefore, the Council is satisfied with progress as regards commercial focus, benchmarking and performance monitoring but it will review progress towards achieving institutional separation consistent with COAG commitments as part of a June 2000 supplementary assessment.

Allocations and trading

- Current arrangements do not provide a comprehensive system of water entitlements backed by the separation of water property rights from land title and a clear specification of entitlements in terms of volume, reliability or transferability. However, the passage of the Water Management Bill will establish an appropriate

framework for a comprehensive entitlements system. Similarly, the water management planning process established by the Bill appears to provide an appropriate mechanism for making provision for environmental needs consistent with COAG commitments.

- Tasmania's implementation program for allocations is provided in Attachment 3. In doing so, the Council notes that the implementation programs may change over time provided there is agreement between Tasmania and the Council.
- Current arrangements for trading in regulated water appear consistent with COAG commitments while the passage of the Water Management Bill (which has been introduced into Parliament) will remove all regulatory barriers to trading unregulated water.

Therefore, the Council will be satisfied that Tasmania has complied with these aspects of the framework following passage of the Water Management Bill. The Council will look for the Bill to be passed by June 2000 and will consider progress in passing the Bill at that time.

Environment and water quality

- Tasmania has established integrated resource management structures, policies and practices that satisfy tranche two commitments.
- Tasmania has made progress in implementing National Water Quality Management Strategy Guidelines.

The Council is satisfied that Tasmania has complied with this aspect of the framework.

Public consultation and education

The Council is satisfied that Tasmania has engaged in appropriate public consultation and education regarding water reform.

Assessment

Tasmania has achieved progress towards many of its second tranche water commitments. However, some commitments in relation to institutional reform, and allocation and trading and some aspects of pricing reforms have not been met. Progress with urban pricing reform and the passage of the Water Management Bill have been delayed by factors such as the unsuccessful compulsory council amalgamation program and the Basslink project. The Council also notes that where commitments have not been met a process for achieving appropriate reform has been agreed.

Therefore, after considering all the above matters the Council has decided to reassess outstanding issues in supplementary assessments in December 1999 and June 2000. The Council will look for Tasmania to honour its commitment on two part tariffs and provide, by mid December 1999, an implementation timetable for those local governments where it is found that introducing two part tariffs is expected to be cost

effective. The Council will revisit this issue at that time. The Council will look for this timetable to see the implementation of two part tariffs, where appropriate, as soon as possible. Failure by Tasmania to provide the agreed timetable will see the Council revisit the appropriateness of recommending a deduction of competition payments. Progress with devolution of operational responsibility for the management of irrigation areas will also be considered as part of the December 1999 supplementary assessment.

Similarly, the Council will look for necessary legislation to be passed to met the State's commitments with respect to institutional separation, allocation and trading by June 2000. The Council will also assess progress with implementing appropriately structured two part tariffs and development of a framework for urban water and wastewater CSOs as part of a supplementary assessment at this time. Insufficient progress in relation to these issues may have implications for the second half of the State's tranche two competition payments.

10.7.2 REFORM COMMITMENT: COST REFORM AND PRICING

10.7.2.1 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.

Tasmanian arrangements

Urban and NMU service providers

Urban water supply and wastewater are local government responsibilities in Tasmania. Bulk water for 18 of the State's 29 local councils is supplied by the State's three metropolitan bulk water providers, the Hobart Regional Water Authority (HRWA), the North West Regional Water Authority (NWRWA), and the Esk Water Authority (EWA). The remaining local governments take, treat and reticulate water themselves. The exceptions to this are the Tasman Council which does not provide urban water services and the Glamorgan/Spring Bay Council which operates the Prosser Water Supply Scheme under contract to the Rivers and Water Supply Commission (RWSC).

With the establishment of the HRWA and EWA as joint authorities under the *Local Government Act 1993* ownership of the relevant State Government assets and responsibility for bulk water provision have been passed to the authorities' customer councils. The NWRWA is currently a State owned, government business enterprise (GBE). However, legislation transferring ownership to its customer councils was passed in 1997 and will be proclaimed following the passage of the *Local Government Amendment Act 1999*. The Council has been advised that the NWRWA is expected to commence as a joint authority from 1 July 1999.

Urban water supply and wastewater (metropolitan and NMU)

Information on the costs, prices and revenues associated with urban water supply is included in annual operational plans submitted by local governments to the Local Government Office.³⁷⁸ However, these plans do not report real rates of return.

The Council notes that the competitive neutrality timetable provided in Tasmania's second tranche report to the Council requires significant local government businesses (including water and wastewater businesses) to introduce full cost attribution by January 1999. As at 31 December 1998, 26 local governments had applied or were applying full cost attribution. In a number of cases full cost attribution will be achieved by 30 June 1999 and its application backdated to 1 January 1999. Treasury has undertaken to work with the three local governments yet to initiate the introduction of full cost attribution to ensure compliance.

The State's June 1997 guidelines for significant local government business introducing full cost attribution recommend provision for:

- direct and indirect operating costs;
- direct and indirect capital costs including depreciation and the opportunity cost of capital; and
- competitive neutrality costs such as provision for taxes and guarantee fees.

The 1997 guidelines also note that the opportunity cost of capital should be calculated on the written down current cost of assets and that from 1 July 1997 the Local Government Office will, on a biannual basis, provide the rates to be applied to particular types of significant business activity.

ABS Government Finance Statistics suggest that in 1996-97 (the most recent year for which data is available) more than two thirds of water supply and three quarters of sewerage services recovered costs. However, an April 1999 survey of the State's local governments suggests that only five local governments earned a positive rate of return with most of the remaining local governments stating that either cost recovery (rather than a target rate of return) was their immediate priority or that they were currently unable to provide rate of return information. Information provided to the Council suggests extensive use of the deprival approach for valuing water infrastructure assets.

In December 1998, the State Government commissioned Government Prices Oversight Commission (GPOC) to establish a set of principles to assist local governments meet the asset renewal and asset maintenance requirements provided by the ARMCANZ pricing guidelines. These guidelines have been completed and their appropriate application will be assessed by an audit committee comprised of representatives from the Department of Primary Industries, Water and Environment (DPIWE), Treasury, the Local Government Office and a peer group of local government representatives.

378 The Local Government Office is located within the Department of Premier and Cabinet.

The Council also understands that Tasmania intends to engage GPOC to determine pricing guidelines consistent COAG commitments and that local governments will then be required to include sufficient information in their operating plans to enable GPOC to assess compliance. Tasmania has also advised the Council that steps will be taken to require local governments to make operational reports available for public comment 42 days before setting prices. In addition, the Council notes that the Treasurer with the agreement of the portfolio Minister (in this case the Minister for Local Government) can declare non-complying water services as monopoly services under the *Government Prices Oversight Act 1995*. Declaration would result in a formal GPOC review and price determination by the Minister.

Bulk water

On 31 January 1998 the State's three metropolitan bulk water suppliers were declared monopoly services for the purposes of the *Government Prices Oversight Act 1995*. This was followed by a public GPOC investigation into the pricing policies of each of the three bulk water authorities.

The terms of reference for this investigation included a requirement to consider:

- the desirability and feasibility of uniform and consistent pricing principles being developed for, and applied by, the HRWA, the EWA and the NWRWA; and
- the need for the above pricing principles to be consistent with the water pricing principles and other related matters required by the COAG Agreement on the Efficient and Sustainable Reform of the Australian Water Industry and further work on pricing undertaken by the National Taskforce on COAG Water Reform.

GPOC's final report was handed to the Premier and the Minister for Primary Industries, Water and the Environment on 23 December 1998. As part of its analysis GPOC presented past and expected future financial performance indicator results for each of the authorities (see Table 10.7.1).

Table 10.7.1: Past and projected financial performance indicators, 1992-93 to 2001-02, (per cent)

| | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-002 |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| <i>Debt to</i> | | | | | | | | | | |
| <i>Equity Ratio</i> | | | | | | | | | | |
| HRWA | 47.9 | 44.8 | 41.3 | 37.6 | 25.7 | 27.6 | 27.2 | 26.8 | 26.5 | 26.1 |
| NWRWA | 152.0 | 57.4 | 44.9 | 39.2 | 40.8 | 76.1 | 68.3 | 62.6 | 57.3 | 53.1 |
| EWA | | | | | | 15.1 | 15.1 | 14.0 | 12.8 | 10.5 |
| <i>Return on</i> | | | | | | | | | | |
| <i>Equity</i> | | | | | | | | | | |
| HRWA | -0.9 | 0.5 | 0.6 | 1.2 | 1.4 | 1.6 | 1.5 | 1.4 | 1.3 | 1.3 |
| NWRWA | -0.1 | 1.0 | 0.1 | 1.3 | -0.02 | 2.3 | 4.0 | 4.2 | 9.4 | 10.2 |
| EWA | | | | | | 1.7 | 1.4 | 1.6 | 1.7 | 1.7 |
| <i>Return on</i> | | | | | | | | | | |
| <i>Assets</i> | | | | | | | | | | |
| HRWA | 3.9 | 3.9 | 3.7 | 3.5 | 3.3 | 3.7 | 2.9 | 2.7 | 2.7 | 2.8 |
| NWRWA | 8.6 | 5.4 | 4.1 | 4.3 | 3.5 | 5.5 | 5.7 | 6.0 | 6.2 | 6.5 |
| EWA | | | | | | 2.7 | 2.3 | 2.4 | 2.4 | 2.4 |
| <i>Current Ratio</i> | | | | | | | | | | |
| HRWA | 195.1 | 67.2 | 68.1 | 79.6 | 14.2 | 40.9 | 48.2 | 63.7 | 81.1 | 91.6 |
| NWRWA | 164.8 | 102.7 | 49.5 | 60.3 | 37.7 | 39.4 | 52.0 | 79.9 | 107.9 | 121.8 |
| EWA | | | | | | 503.1 | 294.7 | 294.3 | 218.7 | 222.2 |
| <i>Interest Cover</i> | | | | | | | | | | |
| HRWA | 87.3 | 109.4 | 112.8 | 129.4 | 130.9 | 69.0 | 189.0 | 177.0 | 175.0 | 174.0 |
| NWRWA | 99.5 | 110.7 | 100.9 | 126.9 | 99.6 | 133.4 | 199.2 | 202.4 | 221.6 | 242.8 |
| EWA | | | | | | 234.4 | 220.1 | 249.9 | 268.5 | 294.6 |
| <i>Debt to Total</i> | | | | | | | | | | |
| <i>Assets</i> | | | | | | | | | | |
| HRWA | | | | | | 19.8 | 20.6 | 20.4 | 20.2 | 20.0 |
| NWRWA | | | | | | 40.9 | 38.3 | 36.2 | 34.1 | 32.3 |
| EWA | | | | | | 12.8 | 12.8 | 11.9 | 11.0 | 9.1 |

Source: GPOC Investigation in to the Pricing Policies of Hobart Water, North West Regional Water Authority and Esk Water, Final Report.

GPOC's final report also recommended target and maximum revenues (see Table 10.7.2). Maximum revenues are based on a commercial pre tax real rate of return (7 per cent). Target revenues are based on a real rate of return of 4.5 per cent on existing assets and 7 per cent rate on new capital. GPOC argued that a commercial rate of 7 per cent is consistent with those applied to other similar infrastructure domestically and overseas. GPOC also stated that a target rate of 4.5 per cent was appropriate given that it was equal to the national average for metropolitan water and wastewater services. The State Government endorsed the maximum prices and pricing principles recommended by GPOC and subsequently issued an Order (for NWRWA) and Determinations (for HRWA and EWA) requiring compliance with the endorsed principles.

Table 10.7.2: Maximum, target and project revenues for metropolitan bulk water authorities

| | 1999-00 (\$'000) | 2000-01 (\$'000) | 2001-02 (\$'000) |
|-----------------------------|---------------------|---------------------|---------------------|
| Hobart Water | | | |
| Recommended maximum revenue | 20785 | 20732 | 20847 |
| Target revenue | 17493 | 17438 | 17540 |
| Project sales revenue | 17051 | 16894 | 16894 |
| EWA | | | |
| Recommended maximum revenue | 12458 | 12344 | 12233 |
| Target revenue | 10125 | 10010 | 9946 |
| Project sales revenue | 7728 | 7748 | 7633 |
| NWRA | | | |
| Recommended maximum revenue | 8996 | 9024 | 9051 |
| Target revenue | 7552 | 7571 | 7590 |
| Project sales revenue | 8050 | 8190 | 8331 |

Source: GPOC Investigation in to the Pricing Policies of Hobart Water, North West Regional Water Authority and Esk Water, Final Report.

In estimating operational, maintenance and administrative (OMA) costs, GPOC noted that, consistent with point six of the ARMCANZ guidelines, revenue should be based on efficient resource pricing and business costs. GPOC found that while the historically low returns earned by the authorities suggest that they are not earning monopoly profits there is insufficient benchmarking information to establish whether there are any inefficiencies in their pricing structures. However, GPOC was concerned over the absence of any reducing trend in OMA costs when other infrastructure industries have shown a real reduction of around 4 per cent per annum. GPOC intends to revisit this issue in future assessments when more performance information is available.

The HRWA, EWA and NWRWA currently account for asset consumption through straight line depreciation. In making its final report GPOC acknowledged the benefits of a renewals annuity approach but considered that the authorities are providing for maintenance of future service potential sufficiently in view of:

- the surplus cash which is being generated by each authority;
- the capacity of each authority to finance new capital expenditure by debt financing;
- the current debt redemption programs in each authority; and
- the absence of any indication from the authorities of the need for significant capital expenditure for the purposes of maintaining the service capacity of the existing systems.

Still, recognising that a renewals annuity approach represents sound management practice GPOC also recommended that by January 2001 each authority should prepare forecasts of water demand for the next 15 to 30 years and risk assessments relating to both water quality and supply reliability. Authorities are also required to prepare a 30 year asset management plan incorporating:

- a condition assessment of assets; and
- an estimation of the capital needs of system augmentation.

Each of the above programs are to be reviewed annually with major reviews every three to five years.

The GPOC final report shows dividends of \$268 000 or 25 per cent of pre tax profit being paid by the EWA in 1997-98. No dividend was paid by NWRWA in 1997-98 but annual dividends of around 43 per cent of pre tax profit have been included in the authority's financial plan spanning the period ending 2001-02. HRWA paid dividends of \$349 000 to the joint authority in 1997-98 and its dividends are expected to remain at around \$300 000 /year . All three authorities pay TERs. A water royalty of \$26/ML is also paid by each authority.

GPOC's final report recommended that all activities which are performed as a CSO be separately costed and that these activities and costs be made transparent in the financial reporting of each authority. GPOC also recommended that all cross-subsidies be made transparent in financial reports.

COUNCIL COMMENT

Urban water and wastewater

The Council is satisfied that Tasmania has met its second tranche commitments given:

- most water businesses are recovering costs;
- the effects of the now discontinued compulsory local government amalgamation program; and
- measures taken by Tasmania to ensure that all water businesses achieve cost recovery in the near future.

In conducting its third tranche assessment. The Council will be looking for Tasmania to compete the proposed pricing guidelines and for all urban water and wastewater providers and to be recovering at least the lower band of the agreed ARMCANZ guidelines.

Bulk water

The low returns currently earned by the three metropolitan authorities relative to the maximum rates recommended by GPOC suggest that they are not earning monopoly profits. The available information also suggests that prices also recover all elements listed in the guideline's lower band.

The Council notes, however, GPOC's finding that there is insufficient benchmarking information to establish whether there are inefficiencies in the authorities' pricing structures. The Council also notes GPOC's concerns over the absence of any reducing trend in OMA costs. GPOC intends to revisit this issue in future assessments when more performance information is available on the two newly

established authorities. The Council will consider GPOC's findings in its third tranche assessment.

10.7.2.2 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 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.

Tasmanian arrangements

Urban water

Only one of Tasmania's 29 councils has fully introduced two part pricing. Two further councils apply two part tariffs to urban centres and five are considering implementation proposals. Ten local governments apply fixed charges together with a metered excess charge. Of the remainder the most common approach to price setting is a property value rating system with an excess and/or minimum charge. Supplementary information provided to the Council by Tasmania notes that in most cases free water allowances are within the 250 to 400 kL range which compares with typical indoor household use of around 200 kL. At least five local governments use property values to set excess water thresholds.

A factor affecting the introduction of two part tariffs is the degree to which water services are metered. Currently, 19 local governments have substantial water metering coverage. Of these ten are fully metered with unmetered installations in the remaining nine tending to be for either small users in CBD areas or small customers in isolated schemes. Of the local governments that do not have substantial metering seven are less than 30 per cent metered. Overall, almost 60 per cent of Tasmanian water installations are metered with relatively low coverage in Hobart's largest three local governments. At present, 17 per cent (or \$10.6 million) of total water revenues are raised through volumetric or excess water charges.

In December 1998, the State Government commissioned GPOC to develop guidelines providing a set of measurable criteria to assist local governments identify whether introducing two part pricing would be cost effective. Issues to be considered in developing these criteria include:

- the extent of excess capacity of urban water schemes;
- the extent to which metering is currently in place;
- the quality of water;
- charging arrangements applicable at the bulk water end (including the extent to which volumetric charging is imposed); and

- the projected future demand for urban water schemes.

Local governments are to apply these guidelines by mid September 1999. The appropriate application of these principles will then be assessed by the end of October 1999. This assessment will be undertaken by independent assessment panels comprised of representatives from DPIWE, Treasury, the Local Government Office and a peer group of council representatives. The independent assessment panels will then advise the Minister for Primary Industries, Water and the Environment who will provide a recommendation to the Premier as to the rigor and effectiveness with which the principles have been applied by the end of November. The Government has indicated that implementing two part tariffs will be mandatory where cost effective.

Wastewater

Some local governments apply volumetric charges for wastewater services to commercial and industrial customers. Fixed charges for wastewater are currently adopted by five local governments. With most of the remainder using property values together with a minimum fixed charge. The exception is Hobart City Council which uses property values and no fixed charge.

Bulk water

GPOC's December 1998 review recommended that all bulk water providers should apply two part tariffs comprising a fixed charge and a volumetric component reflecting long run marginal cost by 2001-01.

Where the volumetric component does not fully recover marginal cost the short fall should be recovered via the fixed charge. The fixed charge will be allocated according to the average volume of water supplied to each retailer over the last two or three years or an alternative measure.

Currently, only the HRWA imposes a two part pricing policy on its bulk water sales consistent with the GPOC approach. Though, the EWA and the NWRWA currently charge on a volumetric rate. The NWRWA is considering moving to a two part price.

COUNCIL COMMENT

Urban water

The Council is concerned at the lack of progress achieved by Tasmania in respect of reforming urban water prices since signing the 1994 COAG agreement. The Council sees the introduction of two part tariffs as a key element of urban pricing reform. Further, the Council considers current arrangements for water and wastewater charges in most local governments as certainly not ideal. The Council's view is that property values bear no real relation to the cost of providing services and are not consistent with the intent of the COAG framework. Similarly, the use of free water allowances has the potential to introduce significant cross-subsidies and distort consumption patterns.

The Council acknowledges that Tasmania has committed to introduce two part tariffs where cost effective and that reform has been delayed largely by external factors such as the discontinued compulsory amalgamation program. The Council also

acknowledges the need for a rigorous assessment of the cost effectiveness of introducing two part tariffs. However, while Tasmania has committed to introducing two part tariffs it has provided no indication of when this will occur.

The Council is therefore concerned that Tasmania is currently unable to advise on when it will meet a commitment that was due under the agreed framework by the end of 1998. In response to this Tasmania have agreed to provide, by mid December 1999, an implementation timetable for each instance where two part tariffs are shown to be cost effective. Failure by Tasmania to provide the agreed timetable will see the Council revisit the appropriateness of recommending a deduction of competition payments. The Council will look for this timetable to see the implementation of two part tariffs, where appropriate, as soon as possible.

Progress against this timetable will be considered in a June 2000 supplementary assessment and the Council's third tranche assessment. The June 2000 supplementary assessment will also consider the composition of two part tariffs.

Wastewater

The Council accepts that volumetric charging for wastewater services may not be cost effective in many cases except in the case of trade waste for large industrial users. However, the Council considers that the use of property values is not consistent with the intent of the agreed COAG framework and provide the potential for significant non transparent cross-subsidies. The Council therefore views the fixed charge adopted by a number of local governments as a more appropriate basis for prices.

However, Tasmania has stated that for many local governments using a combined minimum charge and assessed annual value the majority of customers pay only the minimum fixed charge. This includes some of the State's larger local governments. For example, 95 per cent, 93 per cent and 80 per cent of ratepayers pay only the minimum fixed charge in the Burnie City Council, Devonport City Council and Launceston City Council's respectively. The Council also notes Tasmania's comment that the presence of minimum fixed charges constrains the variability of charges. Still one of the State's largest urban areas, Hobart City Council, relies solely on property values. Therefore, while the Council is satisfied that Tasmania has met its minimum tranche two requirement in relation wastewater pricing the Council will revisit this issue in its third tranche assessment.

Bulk water

The Council is satisfied that the metropolitan bulk water supply pricing structures are consistent with tranche two commitments.

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

Tasmanian arrangements

Urban water and wastewater

The use of property values and free water allowances in price calculations provides the potential for significant non transparent cross-subsidies between customers.

Bulk water

As noted above the HRWA has introduced a two part tariff. The same marginal rate is charged to all consumers. HRWA is also reducing its subsidy to major industrial consumers to zero by 1999-00.

The EWA's charter states that it will introduce uniform pricing by 2002. The NWRWA currently charges a uniform rate but its customer service charter notes that it has reduced, as far as possible, any internal cross-subsidies and made transparent any that remain. NWRWA is considering moving towards:

- a differential pricing system, to reflect the different variable costs to each system; and
- headworks charges.

COUNCIL COMMENT

Urban and wastewater

The Council notes Tasmania's view that the presence of minimum fixed charges in most wastewater and some water charges, that also include property values, limits the variability of these charges. This suggests that these minimum charges may constrain the potential for cross-subsidies. This appears to be the case for prices charged by some local government wastewater services when most of the charge reflects the minimum fixed charge and only a small proportion reflects property values. However, the existence of property based charges raises the risk of cross-subsidies and it is difficult, if not impossible, to make these cross-subsidies transparent.

The Council also notes the use of free water allowances provides the potential for cross-subsidies between high and low use customers who's consumption does not exceed the threshold level. This is particularly the case where thresholds are set well in excess of average consumption.

Therefore, it is not clear to the Council that all cross-subsidies have been removed given the remaining property values and free water allowances. The Council is of the view that Tasmania has met its second tranche commitments with respect to this aspect of the framework but will revisit the issue of property value based charges and free water allowances in its third tranche assessment.

Bulk water

The Council supports the efforts of the bulk water authorities to reduce cross-subsidies and make any that remain transparent. However, the existence of uniform charges suggests some cross-subsidies could remain within Bulk water prices, although the absence of nodal pricing information means that the magnitude of these subsidies is unknown. GPOC has supported the introduction of nodal pricing as representing best practice but acknowledges that factors such as the degree of integration within the system and the availability of nodal cost information means that average rather than nodal pricing is currently more cost effective. The Council supports GPOC's recommendation that nodal cost information be available by 2001 and that all cross-subsidies be transparent by that time. Therefore, the Council has concluded that Tasmania has met its tranche two commitments but this issue will be revisited in its third tranche assessment.

10.7.2.4 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.

Tasmanian arrangements

State GBEs

The *Government Business Enterprises Act 1995* specifies the appropriate approach to identifying, costing, funding and determining delivery arrangements for all CSOs provided by GBEs such as NWRWA on behalf of the State government. In July 1996, the State released its CSO policy framework and guidelines to assist the frameworks implementation. The framework provides for:

- cessation of all non-commercial activities by GBEs;
- selection of a responsible Minister for the social outcomes associated with activities determined to be CSOs; and
- CSO funding and costing are to be determined as part of the Budget process.

However, there are currently no CSOs established under the GBE Act for water services.

Local government businesses

As noted above the HRWA is reducing its subsidy to major industrial consumers to zero by 1999-00. Background information provided to the Council notes that the HRWA also undertakes activities that could be defined as CSOs. These include financial contributions to the Tolosa and Water Works Recreation Reserves (totaling \$194 500) and outsourcing costs associated with operating the Risdon Brook Dam recreation area (\$51 900). In a submission to GPOC, HRWA argue against treating this expenditure as a CSO. HWRA note that in this case the customer and the owner are one in the same and that there is a separate item the HWRA budget for these expenditures. The EWA has no CSOs.

COUNCIL COMMENT

State GBEs

The Council considers that the State Government's CSO arrangements provide a robust framework for CSO provision and is consistent with the intent of the COAG framework.

Local government businesses

The Council does not have sufficient information on the details of CSOs provided by local governments to urban water or wastewater services, although available information does suggest that some subsidies are paid. The Council understands that the State Government's Local Government Office will work cooperatively with local governments with assistance from the Local Government Association of Tasmania to develop an appropriate CSO framework. Given the State Government's commitment to progress this issue, rather than recommend a negative assessment the Council will review progress on this matter as part of a supplementary assessment in June 2000.

The Council supports steps taken by the HRWA to remove its subsidy to major industrial customers. The Council will also consider further treatment of HWRA's expenditure on recreation reserves in its third tranche assessment.

10.7.2.5 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.

Tasmanian arrangements

Urban water and waste water

Tasmania's competitive neutrality timetable requires that full cost attribution be applied to significant local government business activities by January 1999. The State's full cost attribution guidelines note that this includes a rate of return consistent with the rates provided bi-annually by the Local Government Office in consultation with Treasury and the Local Government Association of Tasmania. The Council

notes that as discussed above most local government water and sewerage businesses are recovering costs but few earn a positive rate of return.

Bulk water

As shown by Table 10.7.1 above the three metropolitan bulk water authorities earn low, but in most cases positive, rates of return. Assets have been valued at their depreciated replacement cost. The authorities are moving towards obtaining optimised asset values where this has not already been done.

GPOC has developed maximum and recommended prices for the three metropolitan bulk water authorities. Maximum revenues were based on a rate of return of 7 per cent. Targets revenues were based on a rate of 4.5 per cent for existing assets and 7 per cent for all new assets.

COUNCIL COMMENT

Urban water and wastewater

Most local government water and sewerage businesses are recovering costs and Tasmania has committed to introduce full cost attribution and measures have been taken to assist implementation (such as guidelines and workshops). Tasmania has also undertaken to prepare pricing guidelines that should assist local government cost recovery. The Council is therefore satisfied with progress in this area for the purposes of its second tranche assessment but will look for continued progress in its third tranche assessments.

Bulk water

The Council is satisfied that bulk water authorities have meet the requirements of this element of the framework.

Rural Water Supply and Irrigation Services

10.7.2.6 Where charges do not currently cover the costs of supplying water to users (excluding private withdrawals of groundwater³⁷⁹), 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 NCC will assess jurisdictions as having complied with the pricing principles applicable to rural water supply where jurisdictions:

³⁷⁹ **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 achieved full cost recovery; or
- 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.

Tasmanian arrangements

Regulated water

The State's three irrigation schemes are managed by the Rivers and Water Supply Commission (RWSC). Water prices are set through each scheme's business plan which form part of the RWSC's corporate plan. Water prices are set on a cost reflective basis and take into account maintenance, operations, and management costs as well as depreciation and financial costs. As the RWSC is a GBE under the *Government Businesses Enterprises Act 1995* it is required to make provision for tax equivalents and debt guarantees. All schemes receive a transparent, separately reported subsidy which assists with interest and loan payments arising from the construction of the schemes.

The RWSC does not currently recover costs. However, cost recovery consistent with the agreed ARMCANZ pricing guidelines is intended to be in place by 2001-02. This is expected to require a 12 to 13 per cent increase in prices. To assist the move to full cost recovery the RWSC in January 1998 initiated a consultancy to among other things:

- provide a cost for asset consumption that can be used as a renewals annuity in setting prices;
- investigate how future water prices can appropriately take account of capacity of the user to pay; and
- recommend strategies for reducing operating costs including consideration of alternative management structures.

Tasmania noted that the complexity of the above issues has delayed the completion of the consultancy to July 1999. The Council also understands that the RWSC will consult with scheme participants on the consultancy report with a view to factoring the reports recommendations (including renewals annuity) into prices for 1999-2000.

Raw water pricing

Currently, raw water prices range from nil to \$26/ML. The RWSC collects fees for Commissioned Water Rights from around 2 400 users. However, the fees charged are not cost reflective. Similarly, other water rights do not reflect bailiffing and monitoring costs.

The Water Management Bill proposes a new user pays system for unregulated streams, lakes and groundwater which provides for:

- clear separation of public and private good costs incurred in water management;
- licence fees that reflect costs directly attributable to the licence (which include a standard administrative fee and a variable management fee to cover bailiffing, compliance auditing and water quality monitoring);
- seven different pricing regions to reflect the variations in cost of service;
- a broader collection base to ensure that all beneficiaries contribute to the cost of services provided;
- different pricing structures for different types of licences (for example water taken into storage as opposed to water taken from rivers in summer); and
- opportunities for licensees to reduce their costs by changing the level of service received from the government.

COUNCIL COMMENT

Regulated water

The Council is satisfied with progress to date but will revisit this issue as part of its third tranche assessment.

Raw water

Although a third tranche issue, the Council notes that current system for raw water pricing is not consistent with COAG commitments. However, the passage of the Water Management Bill will provide the legislative basis for a pricing regime that, at this stage, appears to meet the requirements of this aspect of the framework. The Council will review progress in this area as part of its tranche three assessment.

10.7.2.7 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.

Tasmanian arrangements

Environmental sustainability

The ability of new investments to acquire water resources is constrained by a moratorium on the issue of new water entitlements imposed by the RWSC in 1995. This moratorium principally applies to applications for taking water from rivers in Summer. The moratorium has been lifted only when appropriate environmental flow regimes have been established. To date, this has occurred for the Derwent, Huon and Leven River.

Temporary allocations have been made where the RWSC expects that environmental flow regimes are readily met by the current levels of entitlements. However, these allocations only last for one year and can be revoked if they pose a risk to the health of the river system.

Under the water management plan approach proposed by the Water Management Bill (see below) future allocations are subject to environmental requirements and a set of water values determined by government and private stakeholders. For water resources not covered by a water management plan the Minister can only approve applications for new allocations where doing so is consistent with the objectives of the Water Management Bill which, consistent with Tasmania's Resource Management Planning System, are directed towards the sustainable development of Tasmania's resources.

Dams

The Tasmanian Resource Management Planning System provides an integrated approach to managing the State's natural resources. This requires appropriate environmental impact assessments prior to the construction of any new dams. This process currently involves the RWSC having primary responsibility for assessing applications in consultation with specialist advice provided by an interagency Farm Dam Working Group. However, under the Water Management Bill, responsibility for oversight of approvals for dam construction will be transferred to a statutory committee.

Where a proposal is expected to have a significant regional impact it is also assessed by the Board of Environmental Management and Pollution Control. Local government may also have a role in assessing development proposals under the *Land Use Planning and Approval Act 1993*.

Economic viability and ecological sustainability

Information provided to the Council provides evidence that economic viability is required for any proposed development on Crown land. For example, the State's Irrigation Development Program offers dam sites to private developers provided that they can demonstrate the viability of their proposal.

Tasmania also notes that the State's Resource Management Planning System provides a framework for assessing the economic, environmental, and social implications of projects that are deemed to be of state significance. To be classified as such a proposal must have at least two of the following properties:

- significant investment;
- significant contribution to the State's economic development;
- significant consequential economic impacts;
- significant potential contribution to Australia's balance of payments;
- significant impact on the environment;
- complex technical processes and engineering designs; and
- significant infrastructure requirements.

The evaluation of projects meeting the above requirement is conducted by the Resource Planning and Development Commission (RPDC). The Commission is comprised of private sector representatives nominated by the Minister for Primary Industries, Water and Environment with expertise in areas such as industry and commerce, resource conservation and planning.

Key elements of the evaluation process include:

- finalisation of guidelines for an Integrated Impact Statement by RPDC following public comment;
- preparation by the project proponent of an Integrated Impact Statement; and
- submission of a final Integrated Assessment Report to the relevant Minister following consultation with relevant government agencies and public comment on Draft Integrated Assessment Report.

The environmental and economic effects of the Basslink electricity project are currently being considered through the above process.

COUNCIL COMMENT

Given the above information, the Council is satisfied that the arrangements currently used by Tasmania and refinements provided by the Water Management Bill make sufficient provision for ensuring the ecological sustainability and economic viability of new project proposals to meet tranche two commitments.

10.7.2.8 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.

Tasmanian arrangements

Currently, day to day management of the State's three government owned irrigation schemes is provided by the RWSC with advice on significant matters provided by advisory committees in which elected irrigator representatives have a majority membership. However, in January 1998 the RWSC initiated a consultancy which includes consideration of alternative management structures for the State's three government owned irrigation schemes.

COUNCIL COMMENT

It is the Council's view that current arrangements provide only limited scope for participant involvement in day to day management of the State's three government owned irrigation schemes. Therefore, the Council sees the Government's response to the consultancy report as important in demonstrating its commitment to this area of water reform. The Council understands that Tasmania will be able to advise on action to be taken in relation to this matter by mid December 1999. The Council will revisit this issue as part of a December 1999 supplementary assessment and as part of its third tranche assessment.

10.7.3 REFORM COMMITMENT: INSTITUTIONAL REFORM

Institutional Role Separation

10.7.3.1 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 NCC 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.

Tasmanian arrangements

Under current arrangements allocation and management of the State's freshwater resources is regulated primarily through the *Water Act 1957* and the *Groundwater Act 1985*. However, 11 other Acts contain provisions relating to water allocation and a further 14 Acts contain provisions for the water management.

The above arrangements have resulted in responsibilities for particular water related functions being shared across a range of public and private entities. For example, under existing legislation the RWSC, the Hydro-Electric Corporation, Mineral Resources Tasmania, local governments and private companies all have water management responsibilities.

Individual bodies are also often responsible for a range of different functions. For example, almost all of the bodies listed above also have service provision responsibilities. A major aim of the Water Management Bill is to simplify and clarify the State's institutional arrangements. Tasmania's current and proposed institutional arrangements are provided as Attachments 1 and 2 respectively.

Resource management

Under the Water Management Bill, the Minister for Primary Industry, Water and the Environment will be responsible for all of the State's ground and surface water resources with the Department of Primary Industries, Water and the Environment (DPIWE) being responsible for implementing the provisions of the Act. Service providers will be able to manage water resources as part of their licence conditions where an approved water management plan (see below) is in place. In these situations DPIWE will still be accountable for ensuring the requirements of the water management plan are met. Local government may also have a role by assessing development proposals such as farm dams under the *Land Use Planning and Approval Act 1993*.

Service provision

Under the Water Management Bill urban and bulk water service provision will continue to be largely a local government responsibility.

On 1 July 1997 legislation was passed which transferred the ownership and governance of the State owned Hobart Regional Water Board to local government by

re-establishing it as a local government joint authority (the HRWA) under the *Local Government Act 1993*. Similarly ownership of the North Esk and West Tamer Supply Schemes were transferred to local government with the establishment of the EWA also on 1 July 1997. Legislation transferring ownership of the NWRWA to participating local governments was passed in 1997 and is awaiting proclamation. With the transfer of the NWRWA the Prosser Water Supply Scheme will be the only remaining State owned water supply scheme.

The RWSC and the Hydro-Electric Corporation will continue to provide some rural water services however most rural diversions are done by private individuals. All water users including the Hydro-Electric Corporation, the RWSC and local councils will require a licence to take water under the new legislation.

The Council also notes that in addition to its service provision responsibilities RWSC currently has primary responsibility for assessing applications for the construction of dams. However, the Council also understands that under the Water Management Bill this function is transferred to a statutory committee comprised of both government and non government representatives.

Price regulation

Under the Water Management Bill, price regulation of metropolitan bulk water services will continue to be provided by GPOC. In background information provided to the Council Tasmania state that licence fees charged by DPIWE will be subject to an independent audit to ensure that they are cost reflective.

Prices for the RWSC are set in accordance with its corporate plan and must be approved by the Minister for Primary Industries, Water and Environment. The Council understands that since 1994 the RWSC meets with scheme participants each spring to discuss the financial performance of the scheme over the proceeding year and proposed pricing arrangements for the current year. In 1994 the RWSC also presented an outline of planned price movements over the following seven years to move the Commission closer to full cost recovery. The Council understands that consultation with Winnaleah Irrigation Scheme users saw a change in the proposed charging arrangements in 1998-99 to see revenue targets being met in a manner more acceptable to scheme participants. The Council also notes that as the RWSC is a GBE it may be declared for prices oversight by GPOC although there is no intention to do this at this stage. Tasmania state that the principle reasons for the RWSC not being declared are customer satisfaction with the current arrangements and the transparency of the RWSC's financial activities in relation to the three schemes.

As noted in section 10.7.2, oversight of local government water prices is provided through the submission of annual operational plans to the Local Government Office. These plans include price, cost and revenue information but do not include rates of return. However, the Council understands that Tasmania has undertaken to tighten local government reporting requirements by commissioning GPOC to prepare pricing guidelines consistent with COAG commitments. Local governments must then report against these guidelines in annual operating plans with GPOC then assessing compliance. The Council notes the potential for local government water businesses be declared as a monopoly service and thus be subject to a formal GPOC review and price determination by the Minister should it not comply with the GPOC guidelines.

In addition, the Council understands that the Local Government Office also intends to progress a Bill requiring draft operating plans be available for public comment 42 days before any fees, rates or charges are set under the plan. Once public submissions are taken into account the plan can be approved by the local government's general manager.

Environmental regulation

Under current legislation there is no mechanism through which water managers are directly accountable to an environmental regulator. However, under the new Water Management legislation DPIWE will be required to:

- maintain agreed environmental flows;
- not compromise protected environmental values;
- abide by environmental protection measures; and
- monitor the impacts of its activities.

To facilitate the implementation of the above an environmental regulation system has been established under the *Environmental Management and Pollution Control Act 1993*. This system involves the Board of Environmental Management and Pollution Control determining a set of broad protected environmental values (PEVs) in consultation with stakeholders and water quality objectives (WQOs) in accordance with the State Policy on Water Quality Management 1997. Individual water management plans will then be prepared by DPIWE consistent with the above and will include processes for monitoring, audit and review.

In areas where there is no water management plan the Director of Environmental Management may issue an Environmental Protection Notice under the *Environmental Management and Pollution Control Act 1993* to ensure that PEVs and environmental objectives are met by DPIWE.

COUNCIL COMMENT

The lack of separation between water management standard setting, regulatory enforcement and service provision means that Tasmania's current institutional arrangements are not consistent with the State's COAG commitments. However, when implemented, the changes proposed by the Water Management Bill will represent a significant improvement.

It is the Council's view that the provisions of the GPOC Act provide for an open transparent approach to the prices oversight of bulk water providers. The Council supports the proposed audit of DPIWE licence fees and suggests that GPOC may be an appropriate mechanism for undertaking the audit. The Council is also of the view that audits should be undertaken periodically.

The Council also supports steps taken by Tasmania to strengthen reporting requirements for urban water and wastewater providers. Measures such as introducing a requirement for full cost attribution, guidelines to assist implementation and a more open and transparent process for setting charges will facilitate better

pricing outcomes. The Council also notes the importance of effectively ring fencing local government water businesses where local governments perform both resource management (under the *Land Use Planning and Approval Act 1993*) and service provision functions.

While the Council is not satisfied that current arrangements are consistent with tranche two commitments it is of the view the measures proposed by the Water Management Bill are sufficient to meet institutional separation commitments. The Council acknowledges however, that factors such as the recent State election, the failed council amalgamation scheme and the Bass Link project have delayed the introduction of the Water Management Bill. Therefore, rather than provide a negative assessment the Council will revisit this issue with a supplementary assessment in June 2000 to ensure that the appropriate arrangements are in place.

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

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

Tasmanian arrangements

The Council understands that the transfer of the three metropolitan bulk water authorities to local government is contingent on assurances from local government the activities of the new authorities will be consistent with NCP commitments. This includes adherence to tax equivalent, dividend and debt guarantee fee regimes.

Tasmania's 1999 annual report to the Council notes that significant local government businesses activities (including urban water and sewage services) are required to introduce full cost attribution by January 1999 or where appropriate corporatisation from July 2000. In some cases where the January 1999 deadline for full cost attribution has not been met it will be introduced retrospectively. Treasury has undertaken to work with the three local governments that have not yet begun to introduce full cost attribution to ensure timely compliance.

The corporatisation model adopted in establishing the HRWA and EWA was based on that recommended by London Economics in 1995. As both the RWSC and the NWRWA are GBEs under the *Government Business Enterprises Act 1995* they are required to:

- operate in accordance with sound commercial practice;
- operate as efficiently as possible; and
- maximise their sustainable return consistent with their corporate plans and noting the economic and social objectives of the State.

As discussed in section 10.7.2, GPOC's investigation into the pricing policies of the three metropolitan bulk water authorities concluded that there was insufficient benchmarking data to comment on the efficiency of the three authorities. However,

GPOC also noted that it would revisit this matter as part of its next review in 2001 when the necessary information should be available.

Under the *Local Government Act 1993* local governments are required to prepare five year strategic plans and annual operating plans which must be reported upon in annual reports and at council annual meetings. Local governments are required to include performance comparison criteria in these plans.

COUNCIL COMMENT

Based on the information provided, the Council is satisfied that water providers have an appropriate commercial focus. The Council will look for all local government water businesses to have applied appropriate competitive neutrality measures by the tranche three assessment.

Performance Monitoring and Best Practice

10.7.3.3 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 NCC 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 NCC recognises the first reports for the NMU and rural sectors are likely to be a rough cut in the initial years.

Tasmanian arrangements

The HRWA is participating in the WSAA Facts benchmarking process. The EWA and NWRWA have less than the threshold 50 000 connections and are thus precluded. The EWA and NWRWA will however participate in a similar national performance monitoring program for non-major urban authorities.

The Tasmanian Government is using the strategic and operational plan requirements of the *Local Government Act 1993* to require local governments to report on performance comparison criteria which were originally developed for the three major authorities.

Performance indicators for government owned irrigation schemes are being developed through a consultancy initiated in 1998 by the RWSC. The RSWC is also participating in the performance monitoring program for irrigation schemes being developed by ARMCANZ.

COUNCIL COMMENT

Based on the information provided, the Council is satisfied that Tasmania has met its tranche two commitments in this area.

10.7.4 REFORM COMMITMENT: ALLOCATION AND TRADING

10.7.4.1 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 NCC will recognise the progress towards achieving legislative change during its assessment of compliance.

Tasmanian arrangements

Current situation

Under existing arrangements water can be obtained through a wide variety of channels. Features of the current system include:

- most commercial users are licensed under the *Water Act 1957*, some of which also have entitlements under separate provisions of the Act (eg the Hydro-Electric Corporation (HEC) and holders of prescriptive rights);
- owners of riparian tenements may take water for stock and domestic purposes under common law within a daily limit set by regulations under the *Water Act 1957*;
- water users in formal irrigation schemes have licences under the *Irrigation Clauses Act 1972*;
- other surface water users may have rights under several specific pieces of legislation; and
- there are no formal allocations for groundwater as current use represents only 4 per cent of sustainable yield. However, there is provision for the Director of Mines to license bores in ‘proclaimed areas’ under the *Groundwater Act 1957*.

Under the current system water property rights are not separated from land tenure and there is significant variation in the types of water rights issued to the State’s major users. Property rights may vary even within a particular use type.

The HEC is the State’s largest user of water controlling around a quarter of the State’s surface water. Under the *Water Act 1957* Hydro-Electric Water Districts are declared and the HEC may take all of the water in a declared district subject to that covered by

other legislation. In some instances the HEC makes water available to the RWSC and local governments which is then allocated on to other users.

Water Management Bill

The Water Management Bill creates a single system for allocating all water resources. Under the proposed arrangements DPIWE is responsible for management of all surface and groundwater and all major water users (including the HEC) must obtain a licence. Under the new system water licences are separate from land title and are transferable. Water licences under the new system will specify, the name of the resource, water surety, the quantity of water to be taken and the date on which the licence expires and any special conditions.

Specified people may take water without a licence (such as riparian or quasi-riparian land owners and casual land users) for human consumption, stock watering and fire fighting. However, these entitlements are subject to their use not leading to material environmental harm and must be consistent with the relevant water management plan. Maximum takes by these users are specified by regulation. The Minister may require users that would not normally require a licence to obtain one to ensure equitable sharing of water or to avoid environmental harm.

Under the Water Management Bill all licences must be consistent with the relevant water management plan. Water management plans are to be reviewed at least every five years. The Minister may vary licence conditions or reduce allocations where necessary to meet environmental requirements.

The Minister may also impose temporary restrictions to prevent reductions in water quality or damage to the ecosystem or where there is insufficient water available to meet demand. These restrictions may:

- require the removal or modification of the means by which water is taken;
- specify conditions subject to which water may be taken from the water resource;
or
- specify action to remove or reduce the damage or risk of damage to ecosystems that depend on the water.

The Water Management Bill contains provisions for special licences to be granted to a corporate body intending to use the water to generate at least 400 gigawatt hours of electricity annually or for the purposes reasonably incidental to that purpose. Alternatively, a special licence may also be granted to another body approved by an Advisory Committee made up of relevant Ministers. Under the Bill a special licence:

- is provided for a for a period up to 99 years;
- is renewable on application within 10 years of the expiry date; and
- has a surety for water only exceeded by rights to take water for stock and domestic purposes and the aquatic needs of the environment.

A special licence may be varied only with the consent of the licensee or the Advisory Committee. If the licensee incurs a liability as a result of the variation, compensation is payable in accordance with the *Commercial Arbitration Act 1986*.

The provisions contained in the *Water Act 1957* for establishing water districts for the provision of water services or undertaking water works are largely preserved under the Water Management Bill. This includes provision for establishing hydro-electric, water supply, irrigation, riverworks and drainage districts.

COUNCIL COMMENT

The current arrangements for water resource allocation in Tasmania do not provide a system of water allocations and entitlements that is consistent with tranche two commitments. For example, current arrangements do not clearly separate water property rights from land tenure.

By contrast, the arrangements proposed by the Water Management Bill appear to provide a system that recognises both consumptive and environmental needs. The Bill also applies to both ground and surface water resources.

The Council notes that the special licences to be provided for hydro-electric power generation will tie up a significant amount of the State's water resources for a substantial period of time. The Council acknowledges the need for surety and minimising sovereign risk but also notes the State's commitment to the ongoing sustainable use of its water resources.

The Council understands that like all water licence holders special licence holders will be required to comply with water management plans. Therefore, provisions provided by the Water Management Bill such as the periodical review of water management plans and the potential for special licences to be varied (albeit subject to compensation) will assist in ensuring that adequate allowance is made for the environment over time. The Council also understands that in establishing hydro-electric districts special licence holders are required to undertake streamflow monitoring and pollution protection measures. Consequently, the Bill provides a number of avenues for identifying and making ongoing provision for environmental needs in areas covered by special licences. The Council will look for evidence of the effective application of the above provisions in its third tranche assessment.

Again the Council recognises that the passage of the Bill has been delayed by Basslink associated issues and the failed local government amalgamation program. However, the Council now understands that the Bill has been introduced. Further, DPIWE argues that the vast majority of current entitlements are sustainable which should assist the timely introduction of the new allocation system. The Council will review progress in a supplementary assessment in June 2000 to ensure that the proposed legislation has been passed.

10.7.4.2 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 NCC 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 2005, allocations and trading must be substantially completed for all river systems and groundwater resources identified in the agreed and endorsed individual implementation programs.

Tasmanian arrangements

The State Policy on Water Quality Management 1997 establishes the framework for the development and implementation of Protected Environmental Values (PEVs) for water quality. Under this State Policy, PEVs for specific water resources are established. PEVs are values or uses of the environment for which it has been determined that a given area should be protected. The PEVs are supported by Water Quality Objectives (WQOs). Tasmania states that the WQOs for a specific water body are the most stringent set of indicators which should be met to achieve all of the PEVs for that water body. The environmental flow for that water body will be the minimum quantitative flow required by the ecosystems in that water body to achieve the PEV of "ecosystem protection" defined in the State Policy.

The development of statutory water management plans is a parallel process which integrates PEVs and WQOs with a number of other water values related to water quantity. This parallel process determines water quantity values at the same time as PEVs to ensure that quality and quantity issues are considered together. Environmental flow estimates are estimates of the streamflow necessary to ensure that natural water values and management objectives are not compromised.

Water management plans may be prepared for watercourses, lakes, groundwater resources and surface water that would normally flow into or recharge the water resources. Water management plans must include an assessment of:

- the needs of the ecosystems that depend on the resource; and
- any detrimental effects that the taking or use of the water from the resources may have on those needs or on the needs of ecosystems in any other relevant water resource.

The Council understands that water management plans may also:

- provide for the allocation and use of water, taking current and future ecosystem requirements into account;
- provide for the licensing of all specified classes of persons taking water from the relevant resource including those that would otherwise have a right to take water without needing a licence;
- provide for the transfer of water allocations;
- specify conditions to be considered in granting permits; and
- provide for the administration of the plan by a water entity.

The water management planning process identifies and prioritises the consumptive and non-consumptive needs of the water users in consultation with a State working group and the catchment community. The process aims to take account of the fact that sustainable water use sometimes means that trade-offs between alternative water users must be made. However, Tasmania states that critical environmental requirements are not negotiable.

No water management plans have been completed. The first of these is expected by the year 2001. To date, preliminary water values have been developed through nine catchment communities with workshops to establish values for a further seven priority catchments planned by mid-late 2000.

Priority river systems have been identified by:

- identifying stressed rivers through an assessment of the pressure on the available resource; and
- balancing the priorities of water flow management, water quality management, ecological significance, estuarine conservation status and existing or immediate potential for human impact. Stressed rivers have already been completed. For the remaining catchments, annual priority setting is undertaken in winter to ensure allocation of the most appropriate rivers for study in the following summer.

A list of priority systems has been identified (see Attachment 3). Environmental stress and development pressures have been the primary considerations in prioritising river systems. A variety of approaches are being used to identify environmental flow requirements ranging from detailed methodologies on stressed rivers to simpler, more timely methods for lower priority systems.

Determination of environmental flow requirements began in December 1997 and it is anticipated that assessment of ten priority systems will be completed annually over the next four years. The State has adopted a largely regional approach in assessing the needs of individual systems to facilitate timely and efficient collection of ecosystem data and enable public meetings to address a number of local river systems. Once complete, environmental flow requirements will be used in the water management planning process discussed above.

Assessments in the North Eastern region have been largely completed and it is expected that about 75 per cent of assessments and recommendations on environmental flow regimes for systems in the South Esk basin and the Southern region will be completed between mid-1999 and mid-2000. Work on the Jordan, Nichols and Lake systems will be completed between mid-2000 and mid-2001. The North Western region will be targeted for environmental flow work during 1999 and 2000 and should be completed by the end of 2001.

Tasmania points out that the above timetable is for the establishment of the environmental flow requirements only. Other water use issues such as future allocations will be addressed through water management plans developed following the establishment of these environmental flow requirements. For streams where the work shows that additional water is available for allocation during summer, the current moratorium on further permanent allocations will be continued until the relevant water management plan is in place.

Where the environmental flow requirements are considered to be at risk from the current level of consumptive use, water management plans will be developed as a matter of urgency to provide the mechanism to address this risk. For example, preliminary work to establish the water management plan for the Meander River has been in progress for two years and the draft plan is expected to be completed by early 2000. In the interim, the environmental flow is fully protected by implementing restrictions on consumptive use when threshold minimum flows are reached. Such restrictions are empowered by both the current and proposed legislation (the *Water Act 1957* and the *Water Management Bill* respectively).

Tasmania note that groundwater consumption in is around 20 000 ML per annum which is well within the State's sustainable yield of 500 000 ML per annum. The Water Management Bill contains most of the provisions provided by the *Groundwater Act 1985* and includes provision for a code of practice for such activities as drilling, plugging or sealing a well to be included in water management plans. Well orders can also be issued requiring a range of actions to be taken in relation to a well including meter installation, well maintenance or closure and restriction of the amount of water taken.

In supplementary information provided to the Council Tasmania state that due to the low groundwater extraction amounts in Tasmania and the recession behaviour of Tasmanian streams, the effects of these extractions on environmental flows does not require additional studies at present.

COUNCIL COMMENT

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.

As noted above, water management plans are required to include assessment of the ecosystem requirements and any detrimental effects that the taking or use of water may have on those needs or the needs of any other relevant water resource.

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.

The Council acknowledges that it is appropriate to adopt a range of approaches for identifying the environmental needs of water resources that vary significantly in terms of size and stress. The Council understands that the AUSRIVAS approach is the primary vehicle for assessing the benefit of environmental flow regimes and that the Victorian index of stream condition is being used in the North East of Tasmania.

Principle 3 Environmental water provisions should be legally recognised.

Water management plans established under the Water Management Bill provide guidance on the allocation of water among competing users. However, environmental water provisions are not negotiable.

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 water management planning process includes significant public consultation. The Council understands that the process seeks to balance the competing uses of water resources once provision has been made for environmental needs.

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

DPIWE argues that the vast majority of current entitlements are sustainable which should mean that there will be few instances where environmental requirements can not be met. Also, under the Water Management Bill there is scope for the Minister to reduce the allocation on a licence where necessary to implement the relevant water plan.

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

Under the Water Management Bill the Minister must allocate water in accordance with the any relevant water management plan and where there is no such plan in accordance with the objectives of the Act which include promoting the sustainable use and facilitate economic development of water resources and to maintain ecological processes for aquatic ecosystems.

Given the above the Council is satisfied that Tasmania has developed a process for identifying environmental requirements that appears to be consistent with tranche two commitments. However, the Council will conduct an supplementary assessment before July 2000 to ensure passage of the Water Management Bill. The Council will also look for progress with the implementation of the water management planning process as part of its third tranche assessment.

As part of their second tranche commitments State's have agreed to provide prioritised list of action to be taken on river systems and groundwater resources, including all river systems which have been over-allocated or stressed and detailed implementation actions and dates for allocations and trading. The list provided by Tasmania is included as Attachment 3.

While Tasmania has prioritised the completion of environmental flow assessment within the timeframe agreed at the Tripartite meeting. It will not complete any of its water management plans prior to the third tranche assessment. The Council will discuss the implications of this with Tasmania prior to its third tranche assessment. The Council also notes the following relevant matters:

- the National Land and Water Resources 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, in the lead up to the Council's 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 need to be amended depending on many factors including proposed new developments and other significant events.

The Council is therefore of the view that the implementation programs may change over time provided there is agreement between Tasmania and the Council.

10.7.4.3 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 NCC will assess the adequacy of trading rules to ensure no impediments. If legislation has not achieved final parliamentary passage, the NCC 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 NCC 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.

Tasmanian arrangements

Unregulated water

As noted above, water property rights are currently, not separate from land tenure. However, the Water Management Bill provides for:

- all or part of a water allocation may be transferred on a temporary or permanent basis;
- any transfer must be consistent with the relevant water management plan or in accordance with the objectives of the Act where there is no plan;
- the Minister may modify or refuse to approve a transfer where it would have a significant adverse impact on other users or the environment;
- the Minister may require a transfer applicant to pay for an assessment of the implications of the transfer; and
- a transfer can only be approved with the consent of any person noted on the register of water licences as having an interest in the licence (eg a mortgagee).

Regulated water

Participants in the State's three government owned irrigation schemes, not wishing to use their allocation in a given year, have been able to transfer it to other participants, subject to RWSC approval, since 1994-95. Since that time the *Irrigation Clauses Amendment Act 1997* has been used to establish a more robust trading framework whereby irrigation rights are separate from land title and can be leased or sold to other scheme participants subject to any conditions imposed by the Minister. There is no restriction on the length of a lease. Transfer rules have been developed by the RWSC in consultation with users and include the following requirements:

- the RWSC may refuse any proposed trade on the grounds that (i) the RWSC is not able to supply the water due to the capabilities of existing physical infrastructure or water availability or (ii) supplying the water would have a significant negative effect on other users;
- the RWSC may require preparation of a Water Development Plan to ensure the sustainability of the proposed trade with approval being contingent on the implementation of the plan;
- applications for trades will incur an administrative and registration fee based on marginal cost recovery. A fee to recover the cost of any technical assessment of applications will also be imposed; and
- applicants must provide evidence that any parties with a financial interest in an irrigation right or land to which it relates approve of the trade.

To assist trade the RWSC will maintain a voluntary register of people wishing to buy, sell or lease irrigation rights. However, participation in the register is not compulsory. The Council has been informed that 12 trades were approved in the two remaining months of the irrigation season following the introduction of the new arrangements in December 1998.

In addition to selling or leasing, irrigation rights may also be transferred on a temporary basis for a period not exceeding seven days with the possibility of a one off extension of up to seven days. These temporary trades do not incur an administrative cost, do not require full registration and have been instituted to provide a quicker means of covering emergency needs for water.

COUNCIL COMMENT

Tasmania's approach to regulated water trading appears to facilitate the flow of water to higher value uses subject to ecological, physical and social constraints and is thus consistent with COAG framework commitments. However, government regulated water only accounts for 10 per cent of the State's water use.

As noted above, there is currently no effective means of trading unregulated water rights although this will be rectified with the passage of the Water Management Bill. The proposed legislation removes regulatory restrictions on trade, promote effective water use and provides adequate safeguards for ensuring that trades are sustainable. The Council will conduct an interim review in June 2000 to ensure that the legislation necessary to establish the above regime has been passed.

10.7.5 REFORM COMMITMENT: ENVIRONMENT AND WATER QUALITY

10.7.5.1 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 NCC will examine the programs established by jurisdictions to address areas of inadequacy. Programs would desirably address such areas as government agency coordination, community involvement, coordinated 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.

Integrated resource management

Tasmania has established its Resource Management Planning System (RMPS) with a view to providing an integrated approach for the use, development, conservation and protection of land, water and air. The RMPS applies to both State and local governments and is supported by a suite of complimentary legislation (which will soon include the Water Management Act). The RMPS provides the policy, statutory and administrative framework for resource management in the State (see Attachment 4). The intent of the RMPS is to:

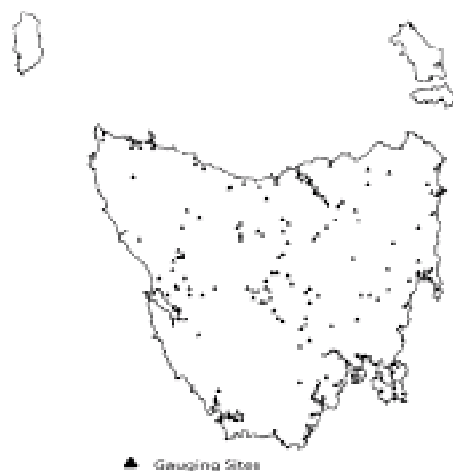
- simplify and streamline the approvals process;
- create surety for land managers, users and owners; and
- improve the quality of resource management and planning decisions.

Another aim of the RMPS is to encourage public involvement in resource management and planning and to share responsibility for resource management and planning between different spheres of government, the community and industry.

Water quality monitoring

Tasmania has some of Australia's longest continuous streamflow records due to the early recognition of hydro-electricity as a major potential power source. Today both the HEC and DPIWE undertake stream gauging activities at various locations throughout the State (see Figure 10.7.1).

Figure 10.7.1: Location of existing & continuous water quality monitoring sites in Tasmania



Source: Water into Tasmania's Future: Current arrangements and key issues for the management of Tasmania's fresh water resource.

DPIWE is developing a network of continuous water quality monitoring stations linked to stream gauging stations at ten sites around the State. The stations monitor conductivity, temperature and turbidity.

'State of Rivers' reports providing a snapshot water quality have been prepared for two river basins and reports for a further four are underway. These and other water quality reports are available through the DPIWE website and public seminars. DPIWE has also developed a State Algal Management Strategy providing procedures for monitoring and managing algal blooms in fresh water storages.

Catchment management

There are currently 12 catchment management groups in Tasmania and catchment management plans have been completed for the Huon, Meander, Coal and Mersey Rivers. Government efforts to assist catchment management have included the publication of a guide for community groups entitled 'Integrated catchment management - what is it and how to do it'. Tasmania is currently developing a State Policy on Integrated Catchment Management under the *State Policies and Projects Act 1993*.

Landcare

The State Policy on Water Quality Management contains provisions for dealing with, among other things:

- the control of erosion and stormwater runoff from land disturbance though addressing the use of the planning system and development of a code of practice to reduce the effect of development activities in waterways;

- agricultural run off through a requirement to develop a code of practice or guidelines to reduce the impact of stormwater from agricultural land on water quality; and
- forestry operations through a legally enforceable code of practice already in place.

COUNCIL COMMENT

The Council is satisfied that Tasmania's Resource Planning System provides an integrated approach to resource management and planning consistent with COAG framework commitments. The Council also believes that the programs currently underway and planned are consistent with the holistic, coordinated and consultative approach intended by the framework. The Council will review progress again in tranche three.

10.7.5.2 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.

Tasmanian arrangements

The State Policy on Water Quality Management 1997 (SPWQM) is a statutory policy specifically designed to implement the NWQMS. The Policy covers both ground and surface water and follows the model provided by the NWQMS 'Policies and Principles'.

Water quality and water quantity issues are linked through reference to the SPWQM in the Water Management Bill. Consequently, the development of water management plans which are used to allocate resources among uses (including the environment) must be consistent with the protected environmental values and water quality objectives developed under the SPWQM.

COUNCIL COMMENT

The Council is of the view that Tasmania's progress with respect to this element of the framework meets its tranche two commitments.

10.7.6 REFORM COMMITMENT: PUBLIC CONSULTATION, EDUCATION

10.7.6.1 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.

Tasmanian arrangements

Consultation measures associated with the Water Management Bill have included distribution of information brochures and packages, public meetings and meetings with specific stakeholder groups and receipt of written, oral and electronic submissions from interested parties. The Bill also provides for the public participation in developing water management plans.

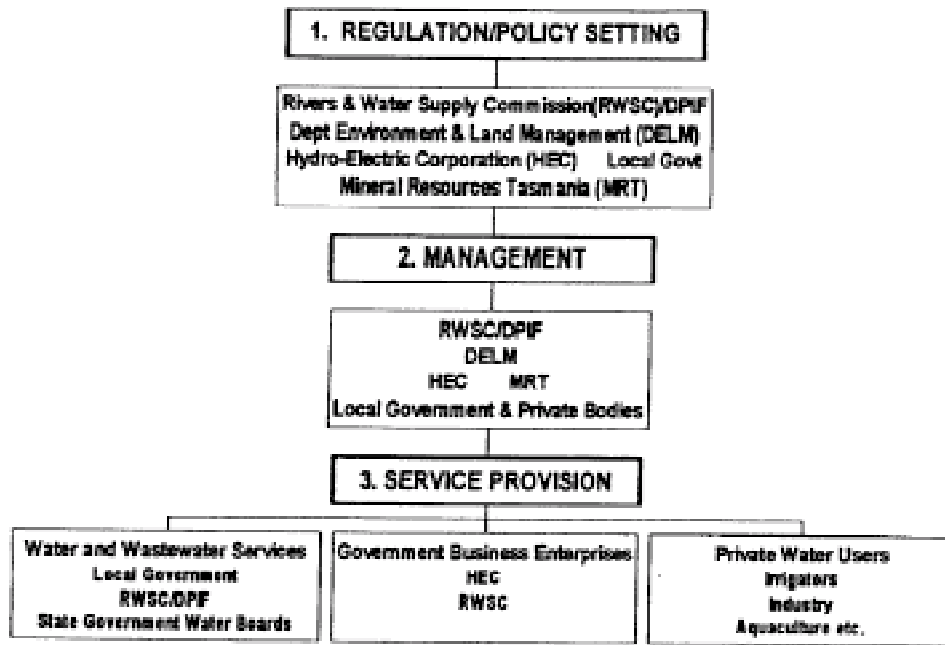
The strategic and operational plan requirements under the *Local Government Act 1993* provide a mechanism for providing information to the community and developing service delivery standards and related costs with customers as appropriate. The Council understands that changes to reporting requirements are being considered that will see local governments being required to make operational plans for water and sewerage services available for public comment 42 days before setting fees, rates or charges.

Waterwatch is the primary mechanism for formal water education programs in Tasmania. A 25 hour framework syllabus has been developed for use by grade 9/10 teachers and Waterwatch Field Handbook was released in 1996. A pre-tertiary syllabus and technical reference manual for Waterwatch coordinators have also been developed while professional development training has been provided to assist teachers involved in the schools programs.

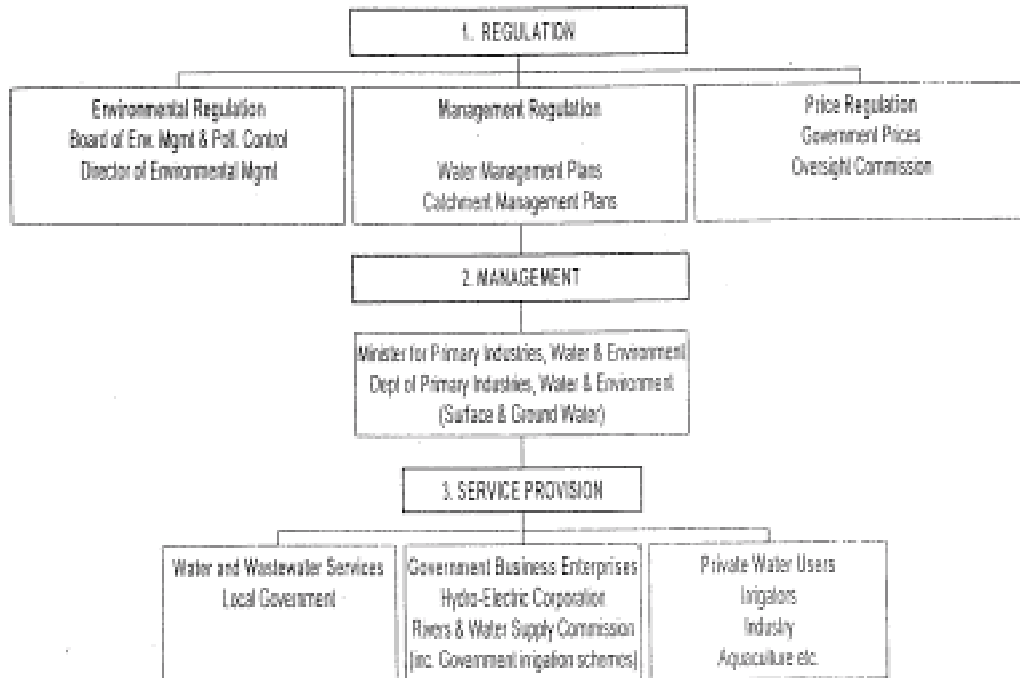
COUNCIL COMMENT

Tasmania's approach to public consultation is illustrated by the broad consultation process undertaken by Tasmania in preparing the Water Management Bill, and the proposed moved to a more open and transparent approach to the preparation of the operational plans for local governments. Overall the Council is satisfied that the education and consultation initiatives undertaken by Tasmania to date are consistent with the intent of the framework.

Attachment 1: Current Institutional Arrangements



Attachment 2: Proposed Institutional Arrangements



Attachment 3: Environmental Flows and Water Management Plans for Priority River Systems¹

| WATER RESOURCE | EXPECTED COMPLETION DATE ENVIRONMENTAL FLOW ASSESSMENT | EXPECTED COMPLETION DATE ² OF DRAFT WATER MANAGEMENT PLANS ³ |
|---|--|--|
| Northeastern Region | | |
| Little Forester River | 31 December 1999 | |
| Great Forester River | 30 November 1999 | 31 December 2004 |
| Lower Ringarooma River | 30 June 1999 | 31 December 2003 |
| North Esk River | 31 August 1999 | 31 December 2005 |
| St Patricks River | 31 August 1999 | 31 December 2005 |
| Upper Ringarooma River | 31 August 1999 | 31 December 2003 |
| Boobyalla River | 31 March 2000 | |
| Little Musselroe River | 31 March 2000 | |
| Great Musselroe River | 31 March 2000 | |
| Brid River | 31 August 1999 | |
| Pipers River | 31 August 1999 | |
| Tomahawk River | 31 March 1999 | |
| South Esk Basin | | |
| Liffey River | 31 August 1999 | 31 December 2002 |
| South Esk River ⁴ | Completed | 31 December 2004 |
| Meander River | Completed | 30 December 2001 |
| Elizabeth River | 31 July 1999 | 30 December 2002 |
| Macquarie River d/s Ross | 30 September 1999 | 30 December 2003 |
| Tooms River | 31 July 1999 | 30 December 2002 |
| Lake River & Macquarie below Lake River | 31 December 2000 | 31 December 2004 |
| Southern Region | | |
| Coal River | 30 June 2000 | 30 June 2004 |
| Clyde River | 30 June 2000 | 30 June 2005 |
| NW Bay River | 31 March 2000 | |
| Mountain River | 31 March 2000 | |
| Browns River | 31 August 2000 | |
| Ouse River | 30 June 2003 | |
| Jordan River | 30 June 2001 | |
| Nicholls Rivulet | 31 December 1999 | |

| | | |
|--|------------------|------------------|
| Esperance | Completed | |
| Derwent River ¹ | 30 June 2006 | |
| East Coast Region | | |
| George River | 31 March 2000 | |
| Ansons Rivulet | 31 March 2000 | |
| Swan River | 31 December 2000 | |
| Little Swanport | 31 December 2000 | |
| North West Region | | |
| Upper Mersey | Completed | 31 December 2001 |
| Lower Mersey | 31 March 2000 | 31 December 2001 |
| Welcome River | 31 December 2001 | |
| Montagu River | 31 December 2001 | |
| Duck River | 31 December 2000 | |
| Cam River | 31 December 2001 | |
| Erno River | 31 December 2001 | |
| Leven River | 31 December 2001 | |
| Blythe River | 31 December 2001 | |
| Rubicon River | 31 December 2001 | |
| Forth River ² | 30 June 2006 | |
| Others on NW Coast | 31 December 2001 | |
| West Coast | | |
| Gordon River ³ | 30 June 2003 | |
| HEC West Coast Catchments ⁴ | 30 June 2006 | |
| Remaining rivers including South West | 31 December 2004 | |

¹The timetable for Water Management Plans is based on initial determinations of which rivers systems may be stressed. It is possible that this priority list will change once environmental flows are formally determined.

²Water resources without a date are not considered to be stressed. Water Management Plans will be developed following the adoption of Plans for the stressed resources. In the interim, environmental flows will be protected through the continuation of the current moratorium on new allocations and the implementation of water use restriction thresholds.

³Water Management Plans are statutory plans under the *Water Management Bill 1999*. They include environmental flows, water allocation and usage policies and, where appropriate, trading guidelines.

⁴South Esk (from Poatina via Brumbys, Macquarie and lower South Esk) to Trevallyn and Ouse are due to finish by December 2003.

⁵Water resource in Hydro Electric Corporation (HEC) area - work to be undertaken in conjunction with HEC and may be accelerated by input of HEC resources.

Attachment 4: Resource Management Planning System

