



2002
National Competition Policy
Assessment Framework
for Water Reform

National Competition Council

Abbreviations

ACT	Australian Capital Territory
ARMCANZ	Australian Resource Management Council of Australia and New Zealand
ANZECC	Australian and New Zealand Environment and Conservation Council
CoAG	Council of Australian Governments
CPA	Competition Principles Agreement
CSO	Community Service Obligation
DLWC	Department of Land and Water Conservation
IPART	Independent Pricing and Regulatory Tribunal
MDBC	Murray-Darling Basin Commission
NCC	National Competition Council
NCP	National Competition Policy
NMU	Non-metropolitan urban
NSW	New South Wales
SA	South Australia
SWMOP	State Water Management Outcomes Plan

1 Introduction

For the last seven years governments across Australia have been implementing the strategic framework for the reform of the Australian water industry. As the reform program has progressed, there has been growth in both the understanding of the complexity of these reforms and the level of national recognition of the importance of change.

There has been significant progress since governments first agreed to the water reform framework.

- Metropolitan water businesses have shifted from being part of large government bureaucracies to customer focused commercial operations. This has generated benefits such as a real reduction in customer bills of nearly five per cent over the last four years, and improvements in drinking water quality and effluent treatment.
- Most Australians living in urban areas now face water prices that reflect the amount of water they use and that reward water conservation.
- The need for water to be allocated to the environment is legally recognised across Australia.
- Regional planning processes on natural resource management issues have started in all States and Territories and communities are heavily involved in consultation on these processes.
- All governments recognise the difficulties that are arising from incomplete scientific information on the ecology and hydrology of water systems, particularly groundwater systems. Governments are addressing this by adopting a precautionary approach to any further allocations of water and increasing the level of monitoring and research.

The 2001 National Competition Policy (NCP) assessment was completed in June 2001¹. This assessment included consideration of: rural water pricing for the first time; further developments of urban water pricing; water allocations and water property rights systems; providing environmental allocations or provisions for the environment in stressed river systems; integrated catchment management and water quality issues; trading arrangements; and institutional reform.

The benchmarks for the Council's assessments of water reform progress are set by the 1994 CoAG Strategic Framework for water reform (the CoAG Framework) and related documents subsequently endorsed by CoAG².

¹ See 2001a.

² The CoAG water framework is reproduced in NCC 1998.

The implementation of water reform highlights the multifaceted nature of NCP. The reform package put in place by CoAG in 1994 encompasses urban and rural water and wastewater industries and includes economic, environmental and social objectives. The reform program is aimed at improving the efficiency and effectiveness of water service providers and instituting water management planning that takes into account the effect of all water use (by agriculture, industry, households and the environment).

2 National Developments

(a) The 1999 Tripartite Meeting

In January 1999, a Tripartite Meeting on national water reform was held between Senior Officials, the Committee on Regulatory Reform and the High Level Steering Group on Water augmented with representatives from the Australian Resource Management Council of Australia and New Zealand (ARMCANZ) and the Australian and New Zealand Environment and Conservation Council (ANZECC), to discuss concerns regarding the implementation of the CoAG water reform framework and the timeframe for implementation.

The result of this meeting was to provide for more time to achieve the reform outcomes. In particular, Senior Officials recommended that:

- in relation to water allocations and trade, States and Territories would need to demonstrate substantial progress in implementing their agreed programs for action on stressed or overallocated rivers for the 2001 assessment. By 2005, allocation and trading must be substantially completed for all river and groundwater sources identified in implementation programs;
- in relation to pricing for rural water supply, where rural full cost recovery has not been achieved, jurisdictions needed to have established a price path to achieve full cost recovery beyond 2001 with transitional CSOs made transparent; and
- CSOs and cross-subsidies should not undermine the overall policy objectives of the strategic framework.

The outcomes of this meeting were endorsed by all governments following a letter from the Prime Minister in April 1999.

(b) Senior Officials December 2001

In December 2001, Senior Officials endorsed a proposal out-of-session to prioritise national water reform commitments across the 2002 to 2005 NCP water assessments.

The Tripartite Meeting called for substantial progress to be achieved for the 2001 NCP assessment, and the entire program of national water reforms to be completed by 2005. As a result of the CoAG November 2000 meeting, the Council is now required to conduct annual assessments of reform progress³. With these parameters in mind, Senior Officials agreed that the following areas of reform would be the national focus for the 2002 to 2005 NCP water assessments.

- **The 2002 assessment** is to be a follow-up on issues raised in the 2001 assessment. Only those issues raised in the past and any issues raised from public submissions will be considered. For example, for some jurisdictions a key focus of this assessment will be on the development of property rights systems and environmental reforms for surface water systems.
 - The Council may also report on the progress of developments in relation to some areas identified for the 2003 assessment, for example, intrastate trading arrangements and outstanding institutional reform issues. These areas will not be assessed in 2002 but rather will be included for reporting purposes as a bridge to the 2003 assessment.
- **In the 2003 assessment**, the Council will look again at institutional reform, urban pricing reforms, intrastate trading arrangements, and environment and water quality commitments relating to integrated catchment management and the National Water Quality Management Strategy. These areas were chosen because:
 - the Council thoroughly considered these areas in the 2001 assessment;
 - the midterm timeframe gives governments time to further develop reforms such as intrastate trading arrangements, and urban pricing arrangements (for example, tax-equivalent regimes, reporting cross-subsidies and community service obligations, and including externalities in pricing); and
 - institutional reform and mechanisms to meet water quality requirements should be fundamentally completed.
- **For the 2004 assessment**, the focus will be on rural cost recovery, interstate trading arrangements, and a stocktake of progress on environmental allocations against each jurisdiction's implementation program. These elements are chosen because:

³ See communiqué (CoAG 2000).

- most jurisdictions price paths for rural full cost recovery will be substantially completed by 2004;
- this is the penultimate assessment before the reforms are to be completed and this assessment will provide a stocktake of progress against a jurisdiction's implementation program to identify remaining areas for assessment in 2005.
- **In the 2005 assessment**, the Council will conduct a full assessment across the entire package of reforms (akin to the 2001 assessment).
- **Public consultation and education commitments** will be assessed in relation to the reform area priority that falls due for assessment in that year. For example, consultation and education requirements for the 2003 assessment would be in the areas of interstate trade, institutional reform and water quality.

This approach has been chosen because the Council thoroughly considered progress across all areas in detail in the 2001 assessment reflecting the fact that 2001 was specified as a pivotal timeframe in the water agreements. This level of detail is not required again until 2005 when water reform is scheduled to be complete.

At this point in the reform process, it is more appropriate to target specific remaining elements of the reform package to ensure reforms in high priority areas are achieved. Also some reform elements are now substantially complete. For example, there is little to be gained from annually revisiting reform commitments such as the need for a commercial focus by metropolitan service providers or benchmarking water businesses.

(C) Other Developments

There is a lot of work in train at the national level that may impact on the 2002 and future NCP assessments of water reform. National developments that may impact on the Council's NCP assessments of water reform include:

- **The Murray-Darling Basin Commission Ministerial Council** is currently conducting a project for the River Murray aimed at establishing water quality objectives and environmental flow objectives and a flow regime to achieve them.

It is the Council's view that the Ministerial Council should ensure implementation of environmental allocations for the River Murray by 2005 based on best scientific advice. Given the national significance of this issue, the Council is looking for robust progress in this area in future assessments.

- **CoAG** may meet to discuss issues concerning water property rights.

The Commonwealth Government may seek to hold a CoAG meeting to consider such issues as definitions of property rights, including water rights, and compensation or structural adjustment assistance for the loss of any rights. The Commonwealth has attached a high level of importance to the establishment of an effective and efficient system of property rights for water and the need for water users for certainty of access to water.

- Under the **National Action Plan on Salinity and Water Quality**, the Natural Resource Management (NRM) Council is working on water reform issues.

In November 2000, CoAG endorsed the Commonwealth's proposal for an action plan to address salinity and deteriorating water quality issues. The Action Plan builds on the achievements of the Natural Heritage Trust, individual State and Territory government initiatives, the CoAG water reforms, and the work of the Murray-Darling Basin Commission. The action plan involves new expenditure by Commonwealth, State and Territory governments of \$1.4 billion over the next six years. The Commonwealth will contribute \$700 million for implementation of regional action plans to be matched by new State and Territory financial contributions.

CoAG agreed that compensation to assist adjustment where property rights are lost will need to be addressed in developing catchment plans under the Strategy. While any such compensation is the responsibility of the States and Territories, the Commonwealth committed to consider making additional contributions, separate from the \$700 million announced to implement the action plan.

3 Background

The 2002 assessment framework for water reform aims to:

- provide a clear, transparent basis for assessment;
- identify the type of information that jurisdictions should provide to demonstrate compliance;
- outline the scope of the 2002 assessment and issues identified for future assessment to guide public submissions; and
- provide a basis for early identification and bilateral discussion of areas where achieving reform outcomes is proving difficult.

The 2002 assessment will differ from previous assessments in a number of ways. The focus is on matters that remain unresolved from the 2001 assessment and hence in many ways is akin to a supplementary assessment of reform progress. The June 2002 assessment and all future NCP water assessments will comprise:

- **assessment issues** that are the subject to recommendations for 2002-03 NCP payments; and
- **progress report items** that are not subject to assessment and NCP payment recommendations. As a general rule, the Council will be calling for progress reports on key issues in the year prior to their assessment. Hence for June 2002 the Council is seeking progress reports from jurisdictions on items that will be fully assessed in 2003. These include further urban pricing reforms, institutional reform, and environment and water quality reforms.

In relation to clause 3d(iii) of the CoAG commitments (where Governments undertook to only invest in new rural water schemes or extensions to existing schemes where appraisal shows it is economically viable and ecologically sustainable to do so), the Council will examine any investments made by a government in the year a final decision is made to proceed with that investment to ensure the twin tests have been met. Hence, this commitment may be subject to assessment in any year to 2005.

The Council also reserves the right to conduct supplementary assessments where its of the view there is a strong need. Otherwise, the Council will be conducting annual assessments.

Attachment 1 to this Framework sets out issues identified in the June 2001 assessment for future water assessments and ties these issues to a year for assessment as per the Senior Officials Agreement. It should be noted upfront that the issues contained in this section are not an exhaustive list. Rather, these are issues that have been identified to date that will be considered as part of a broad assessment of the reform element in that year.

For further details on the source of the issues raised in the 2002 assessment framework, interested parties should refer to the 2001 NCP assessment. The 2001 water assessment comprised a standalone chapter in the general NCP assessment report⁴, supported by a technical volume for each jurisdiction on progress against all of the water reform commitments⁵.

The 2001 water assessment began the process of reviewing how the legislation that provides the overarching framework for many for the water reforms was being implemented and whether, in practice, it is delivering appropriate reform outcomes.

The CoAG documents generally provide very broad descriptions of the water reform obligations. Because of this, prior to the 2001 NCP assessment the Council developed and publicly released a 2001 third tranche assessment framework to provide more detailed explanation and interpretation of the water reform obligations. The detail provided in the 2001 assessment

⁴ See chapter 8 in 2001a.

⁵ See 2001b-j.

framework, has not been duplicated in this framework. For a full discussion of the meaning and interpretations associated with the CoAG commitments, interested parties are referred to the 2001 assessment framework (NCC 2001k). The Council's interpretations are based on the experience of earlier assessments, discussions with States and Territories and other stakeholders, and other work by the Council and other relevant organisations.

The 2001 third tranche assessment framework, the 2001 NCP assessment documents, and the CoAG water reform agreements are available on the Council's website at www.ncc.gov.au.

Submissions

The Council recognises that the reforms may be applied in different ways depending upon the specific circumstances of each state and territory. For example, effective natural resource management is important for all governments but the manner in which it is applied may vary according to factors such as the level and number of stressed river systems within the state or territory. Also, some reforms may not be relevant for some states or territories. The ACT, for example, does not have any rural water supply schemes and hence these reforms are not applicable.

The Council considers that it is necessary to consult widely across interested parties. Consequently, the Council is calling for public input and invites **interested parties to make submissions to the 2002 assessment**. In particular, submissions should target those aspects of this framework that are required to be assessed by June 2002.

Written submissions should be sent to:

Ed Willett
Executive Director
National Competition Council
GPO Box 250B
Melbourne VIC 3001
(or e-mailed to paul.swan@ncc.gov.au)

by COB **Monday, 1 April 2002**.

Due to the need to complete the assessment report by 30 June 2002, the Council may not be able to consider submissions received after this date.

It would be appreciated if parties could supply a copy of their submission in both electronic and print form.

Unless confidentiality is requested, all submissions will be treated as public documents and will be made available to interested parties on the Council's website at the time the Council's assessment report is released. Where possible, a submission should have individual sections marked as confidential so that the remainder of the document can be made publicly available. If

sections of a submission are confidential, two copies should be provided – one with the confidential sections omitted and the other with the confidential sections included.

The Council will conduct the 2002 water assessment using the same process it adopted in 2001. Jurisdictions will produce an annual State or Territory report on the 2002 issues contained in this framework. The Council will follow up with bilateral discussions with governments on jurisdiction-specific matters, including issues raised by public submissions. All views expressed will be taken into account in the assessment and will provide valuable verification and/or testing of government reporting.

Should you have any queries, please contact Mr Paul Swan (water reform matters) on 03 9285 7479 or Sam Drummond on 03 9285 7781.

4 The 2002 Framework

Pricing and cost recovery: urban

Full cost recovery

Governments agreed to set prices so water and wastewater businesses earn sufficient revenue to ensure their ongoing commercial viability but to avoid monopoly returns. To this end governments agreed that prices should be set by a jurisdictional regulator (or its equivalent) to recover:

- at most the operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes, provision for the cost of asset consumption and cost of capital, the latter being calculated using a weighted average cost of capital; and
- at least, the operational, maintenance and administrative costs, externalities, taxes or tax equivalents (not including income tax), the interest cost on debt, dividends (if any) and provision for future asset refurbishment/replacement. Dividends should be set at a level that reflects commercial realities and stimulates a competitive market outcome.

Asset values should be based on deprival methodology unless an alternative approach can be justified, and an annuity approach should be used to determine medium to long term cash requirements for asset replacement/refurbishment. Governments can still provide assistance to special needs groups through community service obligations but this should be done in a transparent way. (clauses 3a and 3b)

For the Council's 2001 assessment states and territories made significant progress in implementing full cost recovery commitments. Metropolitan water full cost recovery reform is largely complete. However, most states have outstanding issues with regard to non-metropolitan urban (NMU) water supply.

The following specific areas were identified in the 2001 assessment report for further assessment in 2002.

- For Victoria, consider evidence on the level of cost recovery in all NMU water and wastewater businesses.
- For Queensland, improve the financial performance of services outside the big 18 local governments with greater than 1000 connections in line with CoAG pricing principles. The Council will also review cost recovery including rates of return etc, following the corporatisation of the Gladstone Area Water Board, Townsville-Thuringowa Water Supply Board and Mount Isa Water Board.
- For South Australia, ensure that SA Water's dividend policy is consistent with CoAG commitments.
- For Tasmania, demonstrated progress across all retail and distribution service providers with respect to cost recovery and meeting the lower pricing bound as defined by the CoAG pricing guidelines, with particular attention paid to asset valuations. The Council will also review reasons for the high returns earned by Latrobe water services, and King Island wastewater services.
- For the ACT, revisit the Government's dividend policy to address whether a pay-out ratio of 100 per cent is consistent with CoAG commitments.

The Council's 2001 assessment identified the following issues for future assessments. The Council will provide progress reports on these items.

- Developments to implement tax equivalent regimes for metropolitan service providers.
- Developments in factoring externalities into pricing by urban service providers.
- For New South Wales, review any updated NMU pricing guidelines.
- For Victoria, consider evidence on whether returns more closely reflect the weighted average cost of capital for retail companies. The Council will also review independent auditing of NMU compliance with the State's Asset Valuation and Financial Reporting statement, and progress with introducing commercially based dividend arrangements including appropriate returns earned on NMU headworks services.
- For Western Australia, improvements in asset valuation by Aqwest, Busselton Water Board and the City of Kalgoorlie-Boulder.
- For Tasmania, demonstrated progress in the application of appropriate asset management arrangements by bulk water services. Where an annuity approach is not introduced, the use of depreciation will need to be consistent with CoAG commitments.

The Council will next assess urban full cost recovery in detail in 2003.

Consumption based pricing

Governments endorsed the principle that prices should reflect the volume of water supplied so prices encourage more efficient water use and to give customers more control over the size of their water bill. For urban water providers using surface or groundwater, two-part tariffs (comprising a fixed access component and a volumetric cost component) are to be introduced where cost effective. (clauses 3a and 3b)

In the 2001 assessment all states and territories made progress towards implementing two-part tariffs. The Council identified the following outstanding issues to be assessed in 2002.

- For New South Wales, significant progress (primarily with Tweed Heads), in reviewing the cost effectiveness of two-part tariffs, winding back free water allowances, and a commitment to action if reforms are cost effective. For NMUs, progress in the use of trade waste charges and winding back property value based charges. For Sydney Water Corporation, progress in eliminating property values in determining water charges. The Council will also review the level of ringfencing of bulk water services provided by the Hunter Water Corporation, Gosford and Wyong.
- For Queensland, progress on Townsville's two-part tariff arrangements. Also the development of trade waste charges by Queensland local governments will be assessed where appropriate.
- For South Australia, progress in introducing new arrangements for commercial water, wastewater prices, and trade waste.
- For Tasmania, demonstrated progress against the two-part tariff implementation timetable, and a process to rigorously consider the introduction of trade waste charges where cost effective.
- For the ACT, address concerns that ACTEW does not have trade waste charges.

In future assessments, the Council has noted the following assessment items for the following states. The Council will provide progress reports in 2002 on these issues.

- For New South Wales, continued progress in the elimination of free water allowances and property values from service charges or evidence that these values do not lead to non-transparent cross-subsidies.
- For Queensland, progress on assessments of the cost effectiveness of introducing two-part tariffs for the seven local governments, with between 1000 and 5000 connections that have not reviewed existing tariff arrangements. These local governments have some of the state's largest free water allowances.
- For Western Australia, progress in eliminating free water allowances and gross rental values from water and wastewater charges, implementation

of pricing reforms for metropolitan commercial wastewater services, and consideration by Kalgoorlie-Boulder of charges for trade wastes and other wastewater services.

The Council will assess urban consumption-based pricing reforms in 2003.

Community Service Obligations

Where service deliverers are required to provide water services to classes of customers at less than full cost this cost be fully disclosed and ideally be paid to the service deliverer as a community service obligation. Governments have agreed that the Council would not make its own assessment of the appropriateness of any individual community service obligation, but would review information provided by governments in totality to ensure these community service obligations do not undermine the objectives of the agreed water reform framework. (clause 3a)

The Council will provide a progress report on developments on the following Community Service Obligation issues in the 2002 assessment .

- For Victoria, the transparent reporting of the size and nature of community service obligations (CSOs) provided by urban service providers.
- For Queensland, the identification and transparent reporting of CSOs in smaller local governments.
- For Tasmania, significantly progress the transparent reporting of CSOs.

The Council will assess governments' progress in reporting CSOs in 2003.

Cross Subsidies

Cross-subsidies should be transparently reported and ideally removed where they are not consistent with efficient service provision and use. (clauses 3a, 3b and 3c)

Specific issues were identified in the Council's 2001 assessment. A progress report will be provided on these in 2002.

- For New South Wales and Victoria, progress in implementing reforms and identifying and reporting cross-subsidies.
- For Queensland, progress in transparent reporting of cross-subsidies among those local governments outside the big 18.
- For Western Australia, progress in phasing out gross rental values as well as broader and more systematic consideration of cross-subsidies.

- For South Australia, more explicit treatment of cross-subsidies (particularly within irrigation districts).
- For Tasmania, identification and transparent reporting of cross-subsidies, particularly among retail and distribution services.
- For the Northern Territory, the reporting of cross-subsidies in the Power and Water Authority's Annual Report.

The Council will assess all future issues regarding the reporting of cross-subsidies in detail in 2003.

Rural water services

Full cost recovery, consumption based pricing, CSOs and cross-subsidies

The Council will next assess rural pricing and cost recovery in detail in 2004. However, there are a number of issues specifically identified in the 2001 assessment that will be assessed in 2002.

- For New South Wales, guidance on price paths for achieving full cost recovery for rural water, and further consideration of the transparency in the relationship between the Department of Land and Water Conservation and StateWater.
- For Victoria, provision of the final cost recovery figures for Rural Water Authorities for 2001 and 2002 that indicate appropriate returns earned on rural headworks services, improved asset valuation arrangements, and completed guidelines for renewals annuities and oversight by the Essential Services Commission. The Council will also examine dividend payments to ensure they reflect CoAG commitments, and consider the differential in returns earned by Goulburn-Murray Water, Southern Rural Water, and Wimmera Mallee Water. Arrangements for the transparent reporting of CSOs by rural water authorities are proposed to be implemented before the 2002 assessment. There should also be consideration of the issue of identifying and reporting cross-subsidies with a view to establishing a preferred approach before the Essential Services Commission assumes responsibility for regulating water and wastewater prices.
- For South Australia, more explicit treatment of cross-subsidies (particularly within irrigation districts).
- For the Murray-Darling Basin Commission (MDBC), assess the independent audit of cost-sharing arrangements including the issue of

transparent future asset financial management, and progress on consumption based pricing.

New rural schemes

Governments have agreed that all investments in new rural water schemes or extensions to existing schemes should only be undertaken after appraisal indicates that it is economically viable and ecologically sustainable. (clause 3d(iii))

The Council will assess any new developments annually to ensure that all new developments are economically viable and ecologically sustainable where a government decides to proceed with an investment.

- For South Australia, the Council will consider evidence to demonstrate the ecological sustainability of the Loxton rehabilitation project, the Lower Murray rehabilitation proposal, and the Barossa and Clare Valley proposals following any final decision to proceed with these projects.

Institutional reform

Structural separation

As far as possible the roles of water resource management, standards setting and regulatory enforcement and service provision should be separated institutionally by 1998. (clauses 6c and d)

For the Council's 2001 assessment most states and territories made significant progress on implementing institutional separation. That assessment discussed the level of separation between water service providers and regulation, including economic regulation and service standards, health regulation, and resource allocation, water management and environmental regulation.

The Council will provide a progress report in 2002 on several specific areas.

- For New South Wales, progress to ensure that decision making in StateWater is sufficiently separate from decision making on regulatory issues, and implementation of mechanisms to improve the transparency in setting service standards and water quality in NMU service provision.
- For Victoria, implementation of the institutional reforms outlined in the Council's 2001 assessment.
- For Queensland, proposals to improve the transparency of reporting price and subsidy information for smaller local governments, the role of the ombudsman in regulating service standards for local government and the

management of drinking water standards. The Council will also provide an update on the commercialisation of the Townsville—Thuringowa Water Supply Board.

- For Western Australia, implementation of independent price regulation and changes in ministerial responsibilities.
- For South Australia, transparency of the processes for price setting and a review of any price issues that emerge.
- For Tasmania, development of mechanisms to improve the transparency of reporting local government performance, including service charters and complaints handling mechanisms, the separation of service provision and regulation and the role of the Rivers and Water Supply Commission, and the application of competitive neutrality in local government.
- For the ACT, finalisation of benchmark customer contract and utility services licences, and establishment of other relevant industry codes.
- For the Northern Territory, enforcement of drinking water standards.
- For the MDBC, completion of the independent pricing audit, the Ministerial Council's response to that audit and whether sufficient information is available to stakeholders to understand the audit's recommendations.

Performance monitoring and best practice

ARMCANZ is to develop further comparisons of interagency performance with service providers seeking best practice. (clause 6e)
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In the 2001 assessment all states and territories demonstrated a commitment to benchmarking their water businesses. Unless significant new issues emerge the Council does not intend to reconsider this reform area until 2003.

Commercial focus

Metropolitan service providers must have a commercial focus, whether achieved by contracting out, corporatisation, privatisation etcetera, to maximise efficiency of service delivery. (clause 6f)
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In the 2001 assessment all states and territories demonstrated a commitment to implementing a commercial focus for urban water service providers. Unless significant new issues emerge the Council does not intend to reconsider this reform area until 2003.

Devolution of irrigation scheme management

Constituents be given a greater degree of responsibility in the management of irrigation areas, for example, through operational responsibility being devolved to local bodies, subject to appropriate regulatory frameworks being established. (clause 6g)

In the 2001 assessment all states and territories made progress in giving irrigators more responsibility in the management of irrigation areas. While the Council will fully assess these areas in 2003 it will provide a progress report in 2002 for those states and territories where assessment issues were identified in the 2001 assessment report.

The Council will provide a progress report in 2002 on the following issues.

- For Queensland, whether Customer Councils are an effective mechanism for irrigator input into decision making.
- For Western Australia, progress in devolving local management in the remaining irrigation schemes.
- For South Australia, progress in converting the Loxton Irrigation District to self-management and discussions in the Lower Murray Reclaimed Irrigation Area.
- For Tasmania, developments in devolution of irrigation scheme management.

Allocations

Water allocations and property rights

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. Governments must have determined and specified property rights, including the review of dormant rights. (clause 4a)

For the Council's 2001 assessment all states and territories were progressing implementation of water allocation and property rights reform. That assessment considered the determination of water allocations in water management plans, as well as key aspects of water property rights, such as security of ownership, reliability of entitlements, recognition of third party interests, licensing and registry systems.

The Council will be assessing the following specific areas in 2002.

- For New South Wales, the Council conducted a January 2002 supplementary assessment to consider one aspect of the property rights issue, namely the proposed form of the registry system of water entitlements including how public consultation was managed. In June 2002, the Council will assess progress against the property rights action plan published in the 2001 assessment, including development of the interim register.
- For Victoria, developments against the River Health Strategy, progress on the 2001 Farm Dams Review, and the decision by Sunraysia rural water authority to reduce the duration of private diverter's licences from 15 years to five years.
 - For the River Health Strategy, the Council will examine how comprehensive the strategy is with regard to CoAG commitments, how public consultation is managed, the nature of any trade-offs, and the implementation pathway proposed for the strategy.
 - For the 2001 Farm Dams Review, the Council will examine how Victoria has addressed the recommendations of the review in relation to farm dams and legal recognition of streamflow management plans.
- For Tasmania, the proposed policy on farm dams.

Provision for the Environment

Jurisdictions must establish a sustainable balance between the environment and other uses, including formal provisions for the environment for surface water and groundwater consistent with the ARMCANZ/ANZECC national principles.

Best available scientific information should be used and regard should be had to the intertemporal and interspatial water needs of river systems and groundwater systems.

For 2001, States and Territories had to demonstrate substantial progress in implementing their agreed and endorsed implementation programs. Progress must include at least allocation to the environment in all river systems that have been overallocated, or that are deemed to be stressed. By 2005, allocations and trading must be substantially complete for all river systems and groundwater resources must be identified in implementation programs.

Jurisdictions are to consider environmental contingency allocations, with a review of allocations five years after they have been initially determined. (clauses 4b to 4f)

In the Council's 2001 assessment, all states and territories were progressing implementation of water allocations for the environment. That assessment considered action on overallocated or stressed river systems based on each jurisdiction's implementation program and the national principles for the provision of water for ecosystems. The Council will assess the following areas in 2002.

New South Wales

In 2001, the Council found that further environmental allocations for stressed rivers were to be set for high stress or conservation areas in water sharing plans in December 2001. Given New South Wales already has in place interim environmental allocations for the regulated systems, which account for 80 per cent of all water used in the state, the determination of final water allocations for the environment for the next 10 years was considered to be a question of timing rather than a lack of commitment by New South Wales.

There are several specific issues for assessment in 2002.

- The timeliness and the quality of the reforms achieved in the 51 water sharing plans will be assessed against the national principles for the provision of water for ecosystems.
- At the time of the 2001 assessment, a State Water Management Outcomes Plan (SWMOP) was being developed. This plan may set a range of environmental flow targets to increase environmental flows across the state. Should targets be adopted, the Council would assess whether there was a scientific basis for the level of the chosen target. The Council will look at how targets and management principles are incorporated in any interim SWMOP and advice to water management committees has been reflected in water sharing plans.

Victoria

In 2001, the Council found that while provisions for the environment had been made in all bulk entitlements and streamflow management plans examined, actual environmental allocations were insufficient, particularly with regard to the stressed rivers. The following areas will be assessed by the Council in 2002.

- The Council expects that Victoria will have a final publicly endorsed River Health Strategy in place and will have begun to implement plans in accordance with the stressed rivers action timetable provided in 2001.
- *Principle 3⁶ (environmental water provisions should be legally recognised).* The Council will review Victoria's response to the 2001 Farm Dams Review to ensure environmental water provisions for unregulated systems are legally recognised.
- Principle 5 (where environmental water requirements cannot be met due to existing uses, action including reallocation should be taken to meet environmental needs). The Council will reassess progress against this

⁶ The environmental principles outlined in this assessment framework are drawn from the "*National Principles for the Provision of Water for Ecosystems*" (ARMCANZ/ANZECC 1996).

principle in light of the finalised River Health Strategy and three year action plan.

- Principle 6 (further allocation of water for any use should only be on the basis that natural ecological processes and biodiversity are sustained). The Council will examine the government's response to the recommendations of the 2001 Farm Dams Review to determine whether this principle is met.

Queensland

In 2001, the Council found that the Condamine-Balonne basin should now be considered to be a stressed river system. The Queensland Government has also committed to joining the Murray-Darling Basin Ministerial Council cap by finalising the Condamine-Balonne water resource plan. The MDBC's Independent Audit Group will be given the option to review the final draft water resource plan before the Queensland Government finalises the plan.

In the 2001 assessment, the Council had serious concerns with the three options proposed in the Condamine-Balonne draft water resource plan as being insufficient for the environment. In 2002, the Council will assess the following issues.

- Whether Queensland's final water resource plan for the Condamine-Balonne is consistent with CoAG commitments. Development of the associated resource operation plan should also be underway.
- Further consideration by Queensland of all relevant issues raised in submissions in determining the final Condamine-Balonne plan.
- The *Water Infrastructure Development (Burnett Basin) Amendment Act*, (December 2001) modified the environmental flow objectives contained in the Burnett Water Resource Plan that the Council assessed as complying with commitments in June 2001.
 - The Council needs to re-examine the modified Burnett WRP to satisfy itself that the new environmental objectives are still in accordance with the provision for environment commitments under CoAG water reform.
- An examination of any final water resource plans where the area covered is considered to be stressed or overallocated.
- Principle 4 (in systems where there are existing users, provision of water for ecosystems should go as far as possible to sustain the ecological values of aquatic ecosystems whilst recognising the existing rights of other water users). Resource operation plans will implement the environmental flows contained in water resource plans. The Council will consider this principle in 2002 by assessing progress in finalising and implementing the first resource operation plan for the Fitzroy Basin.

- Principle 5 (where environmental water requirements cannot be met due to existing uses, action including reallocation should be taken to meet environmental needs). The Council will look at Queensland's response to the Condamine-Balonne water resource plan to assess whether action is being taken to meet environmental needs against this principle.
- Principle 8 (environmental water provisions should be responsive to monitoring and improvements in understanding of environmental water requirements). The Council will assess further developments on whether environmental water provisions are responsive to monitoring and improvements in understanding of environmental water requirements. In doing so, the Council will seek to examine resource operation plans, monitoring reports and any other relevant documents.

Western Australia

In 2001, the Council found there was no stressed or overallocated surface water systems in Western Australia which required action by June 2001. Western Australia is developing three levels of water management plans and is setting environmental water provisions in the form of a notional or interim allocation limit, or through formal assignment based on science in areas that are highly or fully developed. Given Western Australia is largely a groundwater dependent State, the sole issue identified for 2002 is the revision of Western Australia's implementation program.

- In the 2001 assessment, the Council accepted the need for Western Australia to revise its implementation program to bring it more into line with the priorities identified by the Western Australian Water Assessment 2000. The Council requires Western Australia to provide an updated program in 2002 including a list of existing plans and the date of effect of these plans for both surface and groundwater systems.

South Australia

In 2001, the Council found South Australia had made substantial progress in developing water allocation plans in the 16 prescribed water resource areas in accordance with the implementation program. Water allocation plans are the main tool for allocating water to the environment. While South Australia is not implementing volumetric allocations for the environment, the plans incorporate a range of measures set on a precautionary basis to deliver comparable results. The Council will assess the following in 2002.

- A Stressed Resources Assessment Review will examine the current knowledge of environmental water needs and definitions of stressed resources. The Council will report on further developments with regard to South Australia's progress, including the outcomes of this review.
- Principle 5 (where environmental water requirements cannot be met due to existing uses, action including reallocation should be taken to meet

environmental needs). As well as South Australia's stressed resources review, emerging evidence suggests the Marne river system could be considered to be stressed. Action to reallocate water to the environment should have occurred by 2001 where river systems are identified as stressed. The Council will report on further developments and conduct another assessment against this principle in 2002.

Tasmania

In 2001, the Council found that water for the environment was established as environmental water requirements for all water systems. These were set either as a notional or interim allocation limit in under-utilised catchments with triggers at which robust environmental flow assessments would occur, or formal assignment of environmental flow provisions in areas that are highly/fully developed or stressed to be set in water management plans. Tasmania had 16 stressed surface water systems that required action by June 2001. For all stressed systems, environmental water requirements had been determined and water management plans were well underway. The Council will assess the following in 2002.

- Principle 5 (where environmental water requirements cannot be met due to existing uses, action including reallocation should be taken to meet environmental needs). The Council will reassess Tasmania's progress in 2002 against the implementation program and this principle.

Northern Territory

- The 2001 assessment for the Northern Territory stressed the need to complete research projects to provide a scientific basis for further development of environmental requirements.
- *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) and principle 11 (strategic and applied research to improve understanding of environmental water requirements is essential).*
 - The Council will continue to monitor developments in this area including the results of research as it emerges.

Murray–Darling Basin Commission

According to the National Land and Water Resources Audit 2000, all rivers in the Murray–Darling basin (except the Ovens River in Victoria) are stressed. The Commission is committed to providing environmental flows as opportunities arise on the basis of the best scientific advice. The Commission has commenced a project on environmental flows and water quality objectives for the River Murray aimed at establishing water quality objectives and

environmental flow objectives and a flow regime to achieve them. Given the national significance of this issue, the Council will be looking for robust progress in this area in future assessments and will report on further developments in 2002.

The Murray–Darling Basin Commission Ministerial Council should ensure implementation of environmental allocations for the River Murray by 2005. In this regard, the Council will look to ensure the outcomes of the current work on environmental flows for the River Murray provides a timeframe with milestones to deliver adequate flows to the environment by 2005 based on best scientific advice.

Water trading

Governments have agreed that water trading arrangements should be in place to so as to maximise water's contribution to national income and welfare, within the social, physical and ecological constraints of catchments. (clause 5)

In the 2001 assessment all states and territories made progress in developing trading arrangements. In Queensland, Western Australia, South Australia and Tasmania these processes were still being implemented. In addition, the MDBC is still developing mechanisms to further facilitate interstate trade. While the Council will fully assess these areas in 2003 it will provide a progress report in 2002 on the following issues.

- For New South Wales, property rights and their effect on trade, the rollout of water sharing plans and embodied trading rules in line with the action plan on property rights published in the 2001 assessment. Progress in resolving the limitation of trade out of irrigation districts.
- For Victoria, the use of a “2 per cent rule” allows rural water authorities to refuse trades that would result in more than 2 per cent of the total water entitlement being transferred from an irrigation district in any given financial year. These regulations were sunset in December 2001. Victoria is considering other options to manage this issue including capacity shares and exit fees. In 2002, the Council will report on progress including the extent to which the “2 per cent rule” is reached, and other mechanisms to manage this issue.
- For Queensland, progress with the implementation of interim trading arrangements.
- For Western Australia, progress with the practical implementation of water trading.
- For South Australia, additional information and policy developments on the use of restrictions on trading out of irrigation areas.

- For the ACT, progress in resolving a lack of rules governing interstate trade of water in the Murrumbidgee and Murray Rivers and the adoption of the Murray-Darling Cap.

Environment and water quality

Integrated Catchment Management

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 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. (clauses 6a and 6b, 8b and 8c)

The specific areas the Council will assess in 2002 are outlined below.

- For Western Australia, review implementation of integrated catchment management reforms.
- For South Australia, of the eight catchment management boards which cover the State, two catchment management plans were in place and three more were expected to be in place by end 2001. The plan for the South East is expected to be finalised by mid 2002, and the remaining new catchment management boards have until 2003 to complete plans. The Council will examine progress against this timetable.

National Water Quality Management Strategy

Jurisdictions agreed to support ANZECC and ARMCANZ in developing the National Water Quality Management Strategy, through the adoption of market-based and regulatory measures, water quality monitoring, catchment management policies, town wastewater and sewage disposal, and community consultation and awareness.

Jurisdictions are to demonstrate a high level of political commitment and a jurisdictional response to ongoing implementation of the principles contained in the National Water Quality Management Strategy guidelines, including on-the-ground action to achieving the policy objectives. (clauses 8b and 8d)

In the 2001 assessment, all states and territories were committed to implementing the national water quality management strategy. However, a number were still to pass legislation to implement the Strategy. Therefore, for the 2002 assessment, the Council will assess the following issues.

- For Western Australia, compliance with the National Water Quality Management Strategy. The Council is seeking a finalised State Water Quality Implementation Plan that has been publicly released, and completed drafts for specific strategy guidelines for fresh and marine water quality, drinking water and water quality monitoring and reporting.
- For South Australia, finalisation of the Environmental Protection (water quality) Policy.
- For Tasmania, developments concerning the State Natural Resource Management Strategy.

Public consultation and education

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. (clauses 7a to 7e)
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In the 2001 assessment all states and territories were progressing implementation of water reform through public consultation mechanisms and public education programs. Unless consultation issues emerge in other areas that are under assessment, the Council will only assess this area in 2002 for those states and territories where assessment issues were identified in the 2001 assessment report.

- For Queensland, the Council undertook to monitor developments in public consultation on water resource plans.
- For South Australia, the Council has noted continued concerns with the level of transparency in water pricing and recommended that this issue be examined in future NCP assessments.
- For the Northern Territory, the Council undertook to monitor the development of public education programs in future assessments.

For all future assessments, the Council will examine public consultation and education measures for the reform area priority that falls due for assessment in that year. For example, consultation and education requirements for the 2003 assessment would be in the areas of intrastate trade, institutional reform, further developments in urban pricing and water quality issues.

Attachment 1 - Future NCP Water Assessments

Rural water services

Full cost recovery, consumption based pricing, CSOs and cross-subsidies

In future assessments, the Council has noted the following assessment issues for the following states.

- Pricing rural water outside irrigation districts for such purposes as mining, hydro-electricity, local industry, golf courses etc from regulated, unregulated, and groundwater systems. Pricing will need to consider both economic and environmental costs.
- The approach to tax equivalent regimes and externality charges across the board.
- For New South Wales, consideration of the structure of licence fees as discussed in IPART's 1998 and 2000 bulk water determinations.
- For Queensland, benchmark SunWater's costs in 2004 and consider the possibility for any further efficiency improvements. Sufficient information should be available to customers to enable customer councils to have informed input into the operations of schemes and to assess whether benchmarked efficiency improvements in irrigation schemes are being achieved. The current review of licence charges for water harvesting should consider cost reflective pricing and cross-subsidies in other rural charges.
- For Western Australia, progress in cost reflective pricing of licences for unregulated water resources and cost recovery for the Ord and Carnarvon district regulated schemes, including considering the adoption of consumption based pricing principles. Volumetric pricing in bulk water services for each of the districts (specifically Ord and Carnarvon) as well as disclosure of CSOs.
- For Tasmania, state irrigation schemes to progress full cost recovery (if not already achieved) and ensure an adequate level of transparency in water pricing.

- For the ACT, mechanisms for setting other rural charges including the establishment of a more robust estimate of the cost of processing and enforcing licences and an appropriate methodology for estimating these costs.
- For the Northern Territory, the appropriate treatment of resource management costs (including administration costs) in water allocation plans and licensing arrangements.

Progress reports will be obtained on these issues for the 2003 assessment. The full assessment will take place in 2004.

Institutional reform

Structural separation

As far as possible the roles of water resource management, standards setting and regulatory enforcement and service provision should be separated institutionally by 1998. (clauses 6c and d)

The Council identified the following issues in June 2001.

- For New South Wales, the involvement of service providers in benchmarking.
- For Queensland, the expansion of the section 51 report on the finalisation of water resource plans.
- For Western Australia, the implementation of resource management committees and appeals mechanisms.
- For the Northern Territory, the finalisation of institutional arrangements,
- For the MDBC, whether the ringfenced structure of Murray Water is still appropriate and whether pricing audits are occurring periodically.

The Council will assess institutional reform in detail in 2003. At that time the Council will expect that the institutional reforms states and territories planned in 2001 would have been implemented and any outstanding issues would have been resolved.

Allocations

Water allocations and property rights

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. Governments must have determined and specified property rights, including the review of dormant rights. (clause 4a)

Several future assessment issues were identified in the 2001 assessment report.

- The vesting of water property rights and the development of registry systems. For Victoria, Western Australia, South Australia and Tasmania the Council will continue to monitor developments in property rights systems as issues arise. For example, the ability of third party interests listed on the register to have priority over non-registered interests is a common issue likely to arise.
- For South Australia, regulation of farm dam development in those areas where farm dams impact on stream flow and aquifer recharge levels.
- For Queensland, the processes employed in implementing water resource plans.
- For the MDBC, the five-year review concluded that there is no reason to believe the present level of the cap is sustainable and there is a compelling case for the cap to be tightened over time. The Council will review the MDBC's approach to managing environmental issues.
- For the ACT, the process of further refining water allocations based on metering of licensed water will commence by the end of 2002.

These issues will be assessed in 2004.

Provision for the Environment

Jurisdictions must establish a sustainable balance between the environment and other uses, including formal provisions for the environment for surface water and groundwater consistent with the ARMCANZ/ANZECC national principles.

Best available scientific information should be used and regard should be had to the intertemporal and interspatial water needs of river systems and groundwater systems.

For 2001, States and Territories had to demonstrate substantial progress in implementing their agreed and endorsed implementation programs. Progress must include at least allocation to the environment in all river systems that have been overallocated, or that are deemed to be stressed. By 2005, allocations and trading must be substantially complete for all river systems and groundwater resources must be identified in implementation programs.

Jurisdictions are to consider environmental contingency allocations, with a review of allocations five years after they have been initially determined. (clauses 4b to 4f)

The Council will assess allocations for the environment and further developments of property right systems again in detail in 2004. As this is the penultimate assessment before the reforms are scheduled to be completed, this assessment will provide a stocktake of progress against a jurisdiction's implementation program to identify remaining areas for assessment in 2005. Under the Tripartite meeting requirement, states and territories have until 2005 to substantially complete environmental allocations.

The following issues were identified in the 2001 assessment as issues for future assessments.

Murray-Darling Basin Commission

- The Murray–Darling Basin Commission Ministerial Council should ensure implementation of environmental allocations for the River Murray by 2005.

New South Wales

- Where a review of the implementation of a water sharing plan identifies the environmental objectives are not being met, there should be a change within the 10 year life and compensation (if required by legislation) paid where the identified change is significant.
- Determination of environmental allocations must have a scientific basis for the size of the allocation chosen.

Victoria

For Victoria, the River Health Strategy is expected to set the framework to establish waterway health plans. The Council will reconsider several outstanding assessment issues in light of these plans.

- *Principle 4 (in systems where there are existing users, provision of water for ecosystems should go as far as possible to sustain the ecological values of aquatic ecosystems whilst recognising the existing rights of other water users).* The Council will defer examination of compliance with this principle to consider the adequacy of waterway health plans in future assessments.
- *Principle 9 (all water users should be managed in a manner that recognises ecological values).* The Council concluded that Victoria did not meet this principle and this would be reassessed in future assessments.

Queensland

The results from water resource plans, resource operations plans and monitoring of ecological outcomes are yet to be seen. The following assessment issues were identified in the 2001 assessment for Queensland.

- The Council will consider the implementation actions proposed in resource operation plans. For example, the implementation actions proposed in the resource operations plan for the Burnett Basin to ensure ecological sustainability.
- *Principle 11 (strategic and applied research to improve understanding of environmental water requirements).* The Council will assess Queensland's response to the outcomes from scientific investigations Queensland is undertaking on how changes in both land use and flow regimes affect the ecological health of rivers. The studies will examine how various indicators of ecological health respond to changes in environmental conditions.
- *Principle 12 (all relevant environmental, social and economic stakeholders will be involved in water allocation planning and decision making on environmental water provisions).* The Queensland government has committed to bolster section 51 reports to include a summary of the issues raised during the consultation process and how issues were dealt with in coming to the final water resource plan. There will be a summary of the approved plan, its implications and a discussion of the aspects that are significantly different from the draft plan. This may require the legislation to be amended. If transparency is improved the need for acute scrutiny of water resource plans would be alleviated.
- Where a review of the implementation of a water resources plan or resource operations plan identifies the environmental objectives are not being met, there should be a change within the 10 year life and compensation (if required by legislation) paid.

Western Australia

- The Council will monitor both the progress made in developing plans and any increased water use which may indicate a need to bring forward the schedule for completion of particular plans.
- The establishment of water resource management committees to aid the Water and Rivers Commission in establishing water management plans.
- *Principle 4 (in systems where there are existing users, provision of water for ecosystems should go as far as possible to sustain the ecological values of aquatic ecosystems whilst recognising the existing rights of other water users).* The National Land and Water Resources Audit noted the reliability of the data for sustainable yield was low in Western Australia including for some groundwater management units operating at 100 per cent

allocation. The Council will continue to monitor progress against this principle.

- *Principle 6 (further allocation of water for any use should only be on the basis that natural ecological processes and biodiversity are sustained).* The 2001 assessment found that most of the State's surface and groundwater systems were being managed at a level appropriate to the degree of utilisation. However, some 30 per cent of the systems (8 per cent of the resources by sustainable volume) required more detailed work on environmental water provisions and allocation planning to fully comply with the national principles. The Council will continue to monitor compliance with this principle in future assessments.

South Australia

- A number of plans identify the need for further research work to be completed before environmental water requirements could be implemented. For example, the Onkaparinga Catchment Water Management Plan requires an action plan to be prepared by 2005 to implement environmental water requirements following the outcomes of scientific research due for completion in June 2003. While supporting the need to adopt the best scientific information available in plans, the Council is concerned with the timeframe to implement the provisions and the need to ensure South Australia meets its commitment to address the implementation program in full by 2005.
- The Council is concerned about the level of farm dam development in some areas of South Australia such as the Mount Lofty Ranges and the potential impact on environmental flows.

Tasmania

No water management plans are yet in place. Future assessment issues identified in the 2001 assessment for Tasmania are outlined below.

- *Principle 5 (where environmental water requirements cannot be met due to existing uses, action including reallocation should be taken to meet environmental needs).* Tasmania has identified a critical period from December to Autumn where the South Esk and the Meander Rivers can be classed as overdeveloped. The Council will review the water management plans for these rivers to determine if Tasmania has addressed the issue of allocations to the environment over the critical period.
- *Principle 6 (further allocation of water for any use should only be on the basis that natural ecological processes and biodiversity are sustained).* The Council will examine this principle again when water management plans are in place.

- *Principle 8 (environmental water provisions should be responsive to monitoring and improvements in understanding of environmental water requirements).* The Council will monitor developments in this area in future assessments.
- *Principle 9 (all water users should be managed in a manner that recognises ecological values).* The Council will monitor this issue in future assessments.

ACT

- The 2003 review of the Water Resource Management Plan is expected to ensure allocations reflect existing use following further metering of groundwater bores, and consider the results of scientific research on environmental flows, streamflow management and groundwater management. The Council will consider the outcomes of this review.
- The National Land and Water Resources Audit 2000 found the reliability of the ACT's data used to determine sustainable yield was low. In the event that the demand for the groundwater resources of a specific area exceeds the ACT's conservative limits, the ACT will need to conduct further investigations to more accurately define sustainable use.
- The Council will review the outcomes of the ACT commissioned study with the Co-operative Research Centre for Freshwater Ecology of the impacts of existing environmental flows and whether the anticipated ecological outcomes are being achieved for the Cotter River.

Northern Territory

- *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 Council will look to ensure the Government uses the results of the research projects for the Daly River and Darwin rural areas as a scientific basis for determining environmental water requirements.
- *Principle 10 (appropriate demand management and water pricing strategies should be used to assist in sustaining ecological values of water resources).* The Council will monitor developments in this area in future assessments.

Water trading

Governments have agreed that water trading arrangements should be in place to so as to maximise water's contribution to national income and welfare, within the social, physical and ecological constraints of catchments. (clause 5)

The following issues have been identified as part of the detailed assessment of intrastate trading arrangements in 2003.

- Restrictions on trading out of irrigation areas is an issue for South Australia, Victoria, New South Wales, and potentially Western Australia.
- Availability of market information is an issue for New South Wales, Queensland, and the ACT.
- For New South Wales, providing evidence of effective trade in areas of demand and measures to be in place to increase the depth of water trading markets; and ensuring that uncertainty and timeliness are not impediments to water trading under the new management plans.
- For Victoria, trade in unregulated streams is limited to downstream trade only, and there is a 20 per cent reduction on volume traded unless it is a winter-fill licence. The Council believes that these provisions should only be used where other mechanisms are not possible and should ideally not be included in the finalised streamflow management plans. Once appropriate provisions have been made within the streamflow management plans, the Council will look to see that unnecessary constraints on trade are removed including the requirement to own land as a condition of owning a licence.
- For Queensland, procedures to protect market participants and third parties, including the environment; liberalisation of trade beyond primary production with the implementation of relevant resource operation plans; finalisation of allocation and trading frameworks, including the register of property rights, timely processing of applications for trade and the streamlining of administrative processes for clearances; and the arrangements for capital efficiency in Queensland as the market develops.
- For Tasmania, water property rights and the efficacy of trading rules in water management plans, improvements in market confidence, and ensuring that timeliness is not an impediment to efficient trade as the market develops.
- For the Northern Territory, as demand for water increases, the development of trading markets consistent with the national trading rules developed by the High Level Steering Group on Water. Until demand for trade reaches a base threshold level, the costs of establishing markets may outweigh the benefits from trading.

The following issues have been identified as part of the detailed assessment of interstate trading arrangements in 2004.

- For the MDBC, progress issues of inconsistencies in property rights between the states that may have an impact on trade. Together with member governments, consider the best means to address the environmental impact of interstate trade. Develop streamline trading processes to ensure risks to buyers, sellers and third parties (including the environment) are reasonable and do not unduly impede timely trade. Expand the scope and/or scale of the interstate trading pilot once the residual problems in the existing scheme are resolved.
- For the ACT, the Council will review the future application of legislative provisions and will consider whether the ACT has established clear definitions of water rights, water trading zones and rules, market and trading procedures, a variety of market choices to effect trades, and access to equitable market information to promote certainty, confidence, timeliness and capital efficiency.

Environment and water quality

Integrated Catchment Management

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 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. (clauses 6a and 6b, 8b and 8c)

For future assessments, the Council has noted the following assessment issues for various states.

- For Victoria, implementation of integrated catchment management arrangements particularly the River Health Strategy which is expected to result in further developments in integrated catchment management.
- For Queensland, monitoring of any water use plans to control potentially adverse impacts arising from new allocations.
- For South Australia, progress against the catchment management plan timetable provided in 2001.

- For the Northern Territory, the expansion of the four water allocation plans to include complementary regional water resource strategies to address integrated catchment management issues.
- For the MDBC, developments including the outcomes of the review on water quality monitoring, and the Algal Management Strategy.

The Council will assess integrated catchment management in detail in 2003. At that time the Council will expect that the integrated catchment management reforms planned in 2001 would have been implemented and any outstanding issues would have been resolved.

National Water Quality Management Strategy

Jurisdictions agreed to support ANZECC and ARMCANZ in developing the National Water Quality Management Strategy, through the adoption of market-based and regulatory measures, water quality monitoring, catchment management policies, town wastewater and sewage disposal, and community consultation and awareness.

Jurisdictions are to demonstrate a high level of political commitment and a jurisdictional response to ongoing implementation of the principles contained in the National Water Quality Management Strategy guidelines, including on-the-ground action to achieving the policy objectives. (clauses 8b and 8d)

This area will be reassessed in 2003. The Council has identified the following issues for that assessment.

- For New South Wales and Victoria, further progress in implementing the National Water Quality Management Strategy.
- For Queensland, the level of data reliability for determining water quality trends.
- For the Northern Territory, review and further developments in the declaration of beneficial uses based on the modules of the national strategy.

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