



Government of **Western Australia**
Department of **Treasury and Finance**

Department of Treasury and Finance
Response to the Economic Regulation Authority's
Issues Paper on the Inquiry into water resource
management and planning charges

The views expressed herein are solely those of the Department of Treasury and Finance and not those of the Treasurer or the Government of Western Australia.

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Which tasks or activities undertaken in the efficient management of the State's water resources, by the Department of Water, are appropriately recovered from water users?

The tasks or activities that could be appropriately recovered from water users are those that benefit water consumers in a direct and tangible way. The extent of the charge should reflect the extent to which a water consumer is a beneficiary. The specific activities of the Department of Water (DoW) are listed in the attachment where it is clearly indicated whether the Department of Treasury and Finance (DTF) consider cost recovery appropriate.

The underlying principle applied to consideration of management and planning activities is whether the function is necessary for the DoW to meet its obligations under the *Rights in Water and Irrigation Act 1914* (the RIWI Act)¹. It is only appropriate for a water resource management and planning charge to recover the costs of those functions and not those of the broader portfolio responsibilities of the DoW.

The extent to which the costs of these activities should be recovered from licence holders should be determined by the extent to which licence holders are the beneficiaries of the functions necessary for the efficient management of the State's water resources. It is important to note that licence holders may expect to pay only for the benefits that are direct and tangible to themselves, rather than for the broader management of the State's water resources.

For example, while there is an argument for some licence holder contribution to floodplain management, it is likely that such a contribution would only form part of the total cost. This is because some of the costs are for the sustainable management of the resource and would be of benefit to the licence holder and its clients. However, there may be other costs incurred in achieving the Government's objectives of draining public open spaces, which should not be recovered from licence holders.

In considering what costs should be recovered it is essential to investigate the functions of the DoW with particular reference to the 'efficient costs' of these, which is similar to the approach taken in other industries, such as electricity, in relation to access pricing. The list of the DoW's functions contained in the Issues Paper and the corresponding full time equivalent numbers contained in the DoW's budget, suggest that almost half of its total staff numbers are administrative support roles.

The number of administration support roles should be investigated from the perspective of administrative efficiency and also because this raises a key issue in regard to the appropriate proportion of administration support roles that should be paid for by the water user.

To this end, the ERA is requested to investigate this issue further and determine an efficient level of administrative oversight in the provision of water resource management and planning activities and therefore, the proportion of administration support roles that are cost recoverable.

¹ Or the equivalent legislative responsibilities under the proposed Water Resource Management Bill.

What is the role of the Department of Water in comparison to the role of other large water users and water service providers?

The DoW is the State's water resource manager under the RIWI Act. Therefore, the DoW has the responsibility for all water resource management and planning activities in the State.

However, there are participants in the water industry (such as the Water Corporation and larger mining companies), which have expansive and expert knowledge and capabilities in niche areas. Furthermore, the State's natural water resources are highly diverse, largely due to the size of the State and climatic and geographical differences across the State. There is, therefore, merit in consulting and at times seeking the assistance of others in providing resource management services, although, the ultimate responsibility must remain with the DoW. Essentially, the separation of the resource management and retail functions of the water sector must be maintained.

Even though the resourcing of the Water Corporation may enable it to undertake certain water resource management functions (which are in its interest to do so), it is necessary that such functions are overseen and endorsed by the DoW. The same principles must also apply to private sector entities undertaking water resource management activities.

In essence, other entities involved in the water sector, be they licence holders or not, should essentially be treated as contractors carrying out delegated functions of the DoW, as required of it under the RIWI Act.

So while it is still appropriate that the costs of those activities and management functions be efficiently recovered from licence holders, it is equally important that the 'contractors' (which in this example could be the Water Corporation or a mining company) are paid or essentially 'reimbursed' for the costs of the activities it undertakes on behalf of the DoW.

While this approach may lead to unwanted cross-subsidies between licence holders under an inadequate cost recovery regime, an appropriately targeted, cost-reflective arrangement would see the allocation of costs being targeted to specific licence holders in specific areas or regions, and recovered on an 'impactor pays' basis.

In this instance, the costs incurred by both the DoW and the Water Corporation or mining company would not be 'spread' across other users but rather more appropriately be recovered only from those who caused the costs to be incurred in the first place. This approach is ideal, however, depends on low administrative costs, as excessive costs of administration would outweigh the benefits of cost reflectivity.

What costs of the Department of Water's resource management and planning activities should be allocated to users and what is the appropriate method of cost recovery?

The attached table illustrates what are considered to be the appropriate functions or activities that should form the basis of the DoW's cost recovery regime for water resource management and planning.

The recovery of those costs should be on an impactor pays basis, similar to the model developed by ACIL Tasman in March 2003 and by the Independent Pricing and Regulatory Tribunal (IPART) in New South Wales.

Consistent with the approach adopted by ACIL and IPART, the costs incurred in efficiently managing and planning the State's water resources should be equitably recovered from current users, past users and government (as a representative of legacy costs and functions incurred in operating the government agency).

In terms of the scale of the charging regime, consideration of the administrative costs and efficiency benefits should be undertaken. The least administratively costly charge would be a flat, Statewide charge levied equally on all licence holders. At the other end of the scale, a charge calculated for each watercourse throughout the entire State would be most efficient but also most costly.

The ERA is requested to consider a range of charging scales and provide an indication of the subsequent pricing efficiencies that will be gained by progressing through to each subsequent scale and a recommendation on the most appropriate level.

What regulatory arrangements should be considered to assist the Department of Water achieve high service standards and efficiency in operations?

The Government's current budgeting arrangements review the costs of the DoW on an annual basis but with the advent of broader cost recovery measures and in order to attract greater levels of public acceptance of the efficiency and equity of the charges, an independent review is likely to be appropriate. For example, an ERA review as per infrastructure access arrangements may be appropriate, particularly as it identified 'efficient costs' that could be rightfully recouped.

Given that the IPART model of cost recovery is supported, including its regulatory oversight arrangements, it appears that the involvement of the ERA in Western Australia is appropriate.

This current inquiry is an important first step in independently reviewing the costs of the DoW incurred for its water resource management and planning functions.

Periodic review of the charging regime of the DoW will ensure that the services being delivered, the costs incurred and the charges levied on its licence holders (as customers of its services) are appropriate and efficient.

The frequency of this review process should be investigated to determine the optimal frequency of such a review in consideration of the costs of this undertaking. For example, it should be determined whether an annual review is necessary or a biennial or greater review process would be sufficient (by comparison, the major tariffs inquiry into the Water Corporation's charges occurs every three years). The frequency of the review should take into account the Government's annual budget process and the likelihood of organisational changes to functions and activities over certain timeframes.

It is also considered important that the licence holders who pay the charges have an appropriate level of involvement in the ongoing process of management and planning to help ensure the efficiency of services and charging.

For example, the fisheries industry sets its levels of service and of cost recovery through extensive stakeholder consultation and agreement. The water industry is like the fisheries industry in that, if left to itself, it may over extract water and, as such, needs to have proactive management of the resource. Participants in the fishing industry realise the fundamental importance of sustainable management, and as a result of the charge, have a say in how the resources are used. There is also an ability to hold the management agency to account for expenditure of industry funds (a purchaser provider model) in the fisheries industry that does not require regulatory oversight.

The DoW is accountable for the costs it recovers performing its role as the State's resource manager and therefore its functions should be transparent to stakeholders. The water industry recognises that a fundamental requirement is sustainable water supply. Its lack of enthusiasm to pay for the service may be less if it has input into how the resources are allocated.

It is recommended that the ERA investigate such a model for possible application to the water industry and in this process could examine resource management, financing and governance within the fisheries industry (and other relevant industries).

How would water resource management and planning charges impact on different types of users?

It is expected that water resource management and planning charges will form part of a business' (regulatory) expenses and will have an impact on its profit margins, albeit only marginally, because it will have a large base of beneficiaries.

The ERA is requested to undertake the necessary modelling of various licence holders across the State to illustrate the impact a proposed charge would have.

What issues would need to be considered in implementing water resource management and planning charges under the existing legislation and what provisions would any future legislation need to make for the possible implementation of water resource management and planning charges?

The existing legislation allows charging for some activities, which if identified with reference to the related Acts of legislation, such as the RIWI Act, would clarify the areas of focus for cost-recovery in the period before new legislation is introduced. By identifying the charges permissible under existing legislation, the development of new legislation will be guided to ensure the gaps in existing legislation are amended through the legislative reform process.

This process should also ensure that the optimum, recommended charging regime can be implemented under the new legislation.

The new legislation should endeavour to improve the range of charges permissible under the existing legislation while effectively incorporating the requirements of the National Water Initiative. This includes clauses to enable full cost recovery for water resource management and planning charges.

DEPARTMENT OF WATER'S ACTIVITIES TO BE INCLUDED IN A COST RECOVERY REGIME

Department of Water activity	Costs recovered from users?
Water services policy	x
Indigenous and remote community water services	x
Strategic water industry policy	x
Urban drainage planning	✓
Urban water assessment	✓
Water and land use coordination	✓
Floodplain management	✓
Water source protection	✓
Salinity recovery and catchment research	✓
Water recycling and efficiency	x
Environmental water planning	✓
Water allocation planning	✓
Rural water planning	✓
Water licensing policy	✓
Water licensing	✓
Water reform implementation	x
Water licensing and support	✓
IWSS licensing and special projects	✓
Metering	✓
Salinity engineering	✓
Waterways	✓
Groundwater assessment	✓
Groundwater investigation	✓
Groundwater review	✓
Surface water assessment	✓
Water quality and land use	✓
Aquatic ecology and chemistry	✓
Aquatic risk	✓
Spatial analysis	✓
Water information management	✓
Water information collection	✓
Water information provision	✓
Water reform coordination	x
Strategic water management	x

Strategic water issues	x
Legal services	x
Legislation	x
Regional office support	x
Compliance and enforcement	x
Indigenous support	x
Land management	✓
Finance administration and assets	x
Financial planning	x
Financial services	x
Human resource operations	x
Organisational development	x
Workforce planning and development	x
Information systems	x
Information management	x
Information communication and technology	x
Information business improvement	x
Corporate communication	x
Government relations	x
Corporate development	x