



Government of **Western Australia**  
Department of **Water**

# Economic Regulation Authority inquiry into water resource management and planning charges

Response to the issues paper

Department of Water

June 2009

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June 2009

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## Executive summary

The Department of Water is the lead agency responsible for managing the state's water resources and advising the Minister for Water on water policy and governance issues. This document sets out the Department of Water's response to the Economic Regulation Authority's issues paper on water resource management and planning charges.

This submission presents the current views of the department for the purpose of responding to the ERA's issues paper on water management and planning charges. The submission should not be taken to reflect government policy.

The department's response to the issues raised in submission is in line with its five business areas as categorised by the Economic Regulation Authority (the ERA):

1. Assess, allocate and licence water resources
2. Manage flooding and drainage
3. Manage water quality
4. Provide policy advice and water reform
5. Support the water services industry

### Why is cost recovery important?

Our climate is drying, population is growing, industry is expanding and water use is increasing rapidly. Each of these factors is putting considerable pressure on our state's water resources – to manage them into the future, to provide quality products and services to the community and to improve water management in a rapidly changing environment.

The department carries out water management and planning functions across the state. Since the Office of Auditor General (OAG) reviewed our business activities in 2003, we have worked hard to improve our water management and planning through improved processes and increases in funding from consolidated revenue.

The value of our efforts is seen in: secure licensed allocations in high demand areas (surface water in the South West), improving catchment quality (the Avon Valley and Collie River), improved licensing processes (Pilbara mining), improved drainage planning in low lying areas to allow for further development (greater Perth area) and major activity in allocation planning in high demand areas (Gnangara, Whicher, Collie and South West groundwater areas), to name a just a few.

However, this increased effort has come at a cost. Following the initial OAG review we secured an additional \$5.4 million per year, and over recent years secured a further \$10.8 million per year to maintain and improve our water management and planning. This financial year our budget totals \$108 million, including \$69 million in funds from consolidated funds

(recurrent), \$10 million in capital and around \$29 million in external funding including commonwealth funds<sup>1</sup>.

To continue improving our services to our customers and ensure that they can benefit from secure water supplies, safe residential developments and quality drinking sources, it is important to identify where the department can recover some of its costs from the private beneficiaries of our services. This will provide a degree of certainty to funding and ensure that our customers and stakeholders will be able to rely on stable and consistent access to our products and services into the future.

### What is water resource management and planning?

All of the department's functions fall within the scope of water resource management and planning. However, we do not expect to recover all of the costs associated with our work through a fee or charge. Many of our activities are undertaken for public benefit or for government purposes and will remain supported through government funding.

### What activities ought to be cost recovered?

The department has carefully considered each of its activities to determine whether the activity is done only for an individual or company (private user) or whether it is done for the benefit of the broader community (public user). Many of the department's activities are for both private users and the public and the costs have been broadly apportioned to reflect this.

While the scope of our ERA response includes all water resource management and planning activities we do not expect to recover the costs of our whole water business.

It should be noted that the department has a range of 'users' of its products and services, not just licensed water users. This means that some of the charges proposed could be applied to land developers, local councils, water service providers or others, as suitable.

Table 1 sets out our broad approach to what activities could be recovered from users. Please note that only the costs associated with private users are recommended to be cost recovered.

*Table 1 Possible cost recovery against core functions of the Department of Water*

Function	Cost estimate for 2009/10	User	User cost allocation	Possible cost recovery
Assess, allocate and license water resources	\$ 26,153,189	Public	Some	Most
		Private	Most	
Manage flooding and drainage	\$ 6,176,207	Public	Some	Most
		Private	Most	
Manage water quality	\$ 8,498,790	Public	Most	Some
		Private	Some	

<sup>1</sup> Please note this figure includes over \$12 million in funding for the Collie salinity recovery project and is subject to change throughout 2009/10

Function	Cost estimate for 2009/10	User	User cost allocation	Possible cost recovery
Provide policy advice and water reform	\$ 2,724,516	Public	All	None
		Private	Some	
Support the water services industry	\$ 1,671,918	Public	Most	Some
		Private	Some	
Executive and corporate functions	\$ 23,809,881	As above*	As above	As above

Note: Corporate and executive functions include all corporate services (human resources, finance, information systems), the Office of the Director General (communications, government relations, corporate development), all directors and regional managers and their support staff, and land purchase/management.

Note\*: Executive and corporate functions enable core water management and planning functions and would be applied to the primary function which they contribute to.

Please note the tables in each chapter include our funds from consolidated funding (recurrent) for each function. This totals \$69 million for 2009/10. In instances where the function is supported by significant external or capital funding, the figures are included in brackets for indicative purposes.

### Cost recovery into the future

At this stage, we hope to achieve low to medium-scale cost recovery where we recover costs for activities that have a clear private user (or portion thereof) with each of our principles of equity, transparency, practicality and consistency (described in chapter 1) being met.

Pending government decisions and approvals, our priorities for cost recovery in the next one to two years are:

- licensing, compliance and enforcement
- allocation planning
- metering
- drainage assessment and planning
- water source protection.

The potential method of cost recovery varies depending on the activity and the ‘user’ of the products and services, and are described in detail in each chapter. Some of the costs for these functions would be recovered through licence-related charges and others, such as source protection and drainage assessment, through direct charges or alternative methods of cost recovery.

Implementing cost recovery will also bring the state in to line with its obligations under the National Water Initiative (the NWI). One of the department’s key goals in adopting cost

recovery is to ensure that any approach is in line with the NWI, of which Western Australia is a signatory.

## Focus areas for the inquiry

The end of each chapter within this report contains a set of focus areas that the department would like the ERA to consider and address during the inquiry. A summary of the key focus areas is included below:

### Chapter 1: Setting the scene for the inquiry

We recommend that the ERA:

- fully consider each of the department's principles in designing and assessing options for cost recovery
- develop options and make recommendations based on either a total, medium or low-scale cost recovery approach and identify which approach is preferred
- consider and design cost recovery options for, at a minimum, each of the department's high and medium priorities for cost recovery (Table 2)
- consider the administrative costs and staff resources required associated with implementing cost recovery and include in any proposed cost recovery model
- in its options assessments, fully consider the issues raised by stakeholders around the previous charging structures proposed
- fully consider the perceived lack of fairness in previously proposed tiered fee structures and develop options that accommodate this
- recognise that some proposed options may require regulation, legislation and/or systems changes that will take some time to implement.

### Chapter 2: The Department of Water's business functions and activities

We recommend that the ERA:

- make recommendations on how the costs associated with corporate service functions would be fairly apportioned to private benefit activities, such as licensing or water source protection
- make recommendations on how cost recovery should occur when a number of government agencies are involved and one is currently cost recovering from private users, such as development assessments and the Department of Planning and Infrastructure.

### Chapter 3: Assess, allocate and licence water resources

We recommend that the ERA:

- consider the options for cost recovery presented in each area, particularly the four options presented for licensing cost recovery
- develop an appropriate model for recovering the costs associated with water resource investigation and assessment, considering the issues raised in section 3.7

- develop an appropriate model for recovering the costs associated with water information, including how costs could fairly be apportioned between current and future water users
- define suitable options for recovering the costs associated with data provision to external stakeholders.

#### Chapter 4: Manage flooding and drainage

We recommend that the ERA:

- to consider a suitable model for cost recovery when the private user of a product or service is another government agency and that agency has already established cost recovery mechanisms with its users.

#### Chapter 5: Manage water quality

- provide advise on suitable methods for recovering costs for water source protection
- explore the feasibility of, and possibilities for, cost recovery in salinity recovery work.

#### Chapter 6: Provide policy advice and water reform

- n/a

#### Chapter 7: Support the water services industry

- n/a

#### Chapter 8: Enabling functions

We recommend that the ERA:

- develop models for cost recovery that may incorporate indirect costs (such as executive and corporate functions) for services, on either a 'usage' or 'benefit' approach and a pro-rata approach.

#### Chapter 9: Funding sources and impacts of cost recovery on users

We recommend that the ERA:

- assess the impacts of charges on various users, including licensed water users and others
- proposes approaches to address and accommodate social equity where a fee or charge may negatively affect any disadvantaged socio-economic groups
- investigate and design an appropriate and equitable model for reducing charges to water users who have spent considerable private funds on resource or environmental investigation.

#### Chapter 10: Legislation and regulatory arrangements

We recommend that the ERA:

- fully consider options for ongoing arrangements to regulate the department's potential charges, including options to limit the impacts described.

### *How to use this document*

Chapter 1 sets out the department's approach to cost recovery including priorities and how the department would likely implement cost recovery following a decision towards cost recovery by Government.

Chapter 2 responds to the first two questions in the ERA's report regarding which activities constitute water resource management and planning and a broad description of the department's primary service functions.

Chapters 3 to 8 go through the detail of each of the department's functions and activities and respond to the ERA's questions regarding the role of the department, expenses incurred and methods for cost recovery. Please note that only the costs associated with private users would be recovered. As such, the 'portion' allocated to private users is what we would hope to recover. The portion to be recovered is stated as all, most, some or none.

Chapter 9 provides a response to the ERA's question on managing impacts on water users.

Chapter 10 sets out the key issues and considerations in implementing cost recovery under our current legislative arrangements.

# 1 Setting the scene for the inquiry

## 1.1 Managing and planning for Western Australia's water resources

Efficient and effective water management is vital for achieving the balance of a strong state economy, good communities and a healthy environment. But it is by no means a simple task. In just over five years, water demand has risen by 45 per cent<sup>2</sup>. This is coupled with Western Australia's long-term trend of a growing population, expanding industries and severe reductions in rainfall.

The Department of Water has the complex, and often contentious, role of planning, allocating and managing use of this scarce resource.

Water is essential to the Western Australian environment and economy. Water is used for drinking, mining, agriculture, industry and supports our cities and towns. In addition to its economic value, water must be left in the environment to support our unique ecology, our tourism industry, Aboriginal cultural values and to allow Western Australians to enjoy our lakes, rivers and wetlands into the future.

We manage other crucial aspects of our water resources. Many cities and towns, including Perth, are built in low-lying areas. In these areas, drainage is required to allow new homes and infrastructure to be built. We need clean drinking water which means that the areas where drinking water comes from need to be kept clear of polluting or dangerous activities. Additionally, there are towns across Western Australia, including Perth, where flooding can occur with the potential to damage homes and infrastructure if planning is not carried out to manage that risk.

Water is key to our society, our environment and the future growth of Western Australia. Without careful management of water resources our economy, environment and standard of living will be affected. Western Australia is well placed in these areas compared to New South Wales, South Australia, Europe and the United States where unsustainable water use is having significant negative consequences. However we must continue to build on and strengthen our current practices.

## 1.2 Recovering the costs associated with water management and planning

### Why the department is hoping to achieve cost recovery

The need and demand for the department's products and services is rising. This has placed major pressure on delivering the department's water resource management and planning functions – whether it's ensuring that there is enough good quality water for public water supply or monitoring how much our water users are taking from a resource.

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<sup>2</sup> Office of Auditor General, Public Sector Performance report April, 2009

We need to ensure that we can manage our state's water resources into the future, provide quality products and services to the community and modernise water management in a rapidly changing environment. To deliver this expanding, and often contentious role, our costs have risen significantly between 2003 and 2009.

This has placed additional pressure on the Western Australian government to provide the funds for adequate water management and planning services to the state.

The department is funded primarily through the state government's consolidated revenue fund, with some support for major or capital works projects coming from temporary commonwealth funding initiatives such as the Water Smart Australia fund and Natural Heritage Trust. This means that all costs generated through demand from private 'users' are met by state and federal governments general revenue, other than the investigations done by some water users such as mining companies or water service providers.

To continue improving our services and ensuring that they can benefit from secure water supplies, safe residential developments, and quality drinking sources, for example, it is important to identify where the department can recover some of its costs from the private users of our services. This approach will ensure that our customers and stakeholders will be able to rely on stable and consistent access to our services into the future and that as demands grow, resources are available to meet those demands.

### **Identifying who uses the department's products and services**

To maintain long-term viability of providing water-related products and services to the people and organisations that need them, the department is identifying where its work is done for a particular user (or private user) and how these costs could potentially be recovered.

Generally, when the department completes its work, such as licensing, metering or monitoring, it is only doing this as a result of someone having demand for, or using, water. If there was no water use in a particular catchment, we would not have to assess water availability, issue licences, monitor water use in the area and so on. The same is true for areas where we complete drainage assessment and planning for developers who wish to develop a new land area or for a service provider wanting to protect water sources that will be supplied to its customers.

Other activities, such as waterways management, are not necessarily done because there is particular demand for water or a water-related service in an area. These activities are generally for the benefit of the environment and have benefits that flow on to the wider community (public user).

'Users' of the department's products and services can be considered as beneficiaries or 'impactors', depending on the department's activity and/or the output of the activity. Throughout our document, we refer to 'users' as customers of the department's products or services. The department has a wide range of users of its products and services, including licence holders, water service providers, land developers, local councils and other government agencies, to name a few.

## 1.3 Implementing cost recovery into the future

We see implementing cost recovery as a major part of maintaining good water management and planning practices across our state.

Users of the department's products and services will benefit in the short and long run from stable and consistent delivery of services in all of our water management and planning functions.

### Principles for cost recovery

The first step in designing and implementing a charging scheme is to set out the core principles that any charging system would need to meet. We believe that a cost recovery system ought to:

- encourage outcomes that are regarded as equitable
- encourage outcomes which involve the lowest possible overall costs to society
- be simple, transparent and avoid excessive administrative costs.

We have developed the following principles which would apply to any approach to cost recovery.

#### Equity and fairness

- Costs will be recovered on activities (or a portion thereof) that are attributed to a private benefit.
- Where practical, charges will be based on the level of effort required to deliver the product or service.
- Ability to pay will be considered and appropriate mechanisms established to ensure that support is provided to disadvantaged socio-economic groups.

#### Transparency

- Where practical, users will be provided with detail on what activities, products and/or services their charges have covered.
- Any income from charges will be based on discrete activities and costs and transparently reported on an agreed term.
- The Economic Regulation Authority will periodically review any fees and charges.

#### Practicality

- The system associated with implementing or administering charging arrangements would not be so complex as to diminish the benefit of a charge.
- A phased-in approach will be taken to ensure that charges are applied appropriately and accurately.

#### Consistency

- Cost recovery for products and services will be applied consistently throughout the state, that is, if people are charged for a service in the Pilbara they will also be

charged for that service in the South West. However, depending on the model adopted, actual charges may be different across areas to reflect the difference in effort required to deliver the service.

- Charges and fees will be applied using the appropriate legislation and regulatory framework.
- All proposed cost recovery models will be in line with the Department of Treasury and Finance's guideline on costing and pricing for government services<sup>3</sup>
- All proposed cost recovery models will be in line with the national water reform agenda (in particular the National Water Initiative).

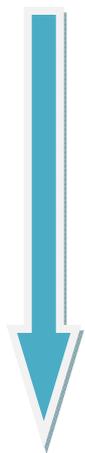
#### Efficiency

- Where there is a significant and potentially avoidable marginal cost associated with providing a service to users, the charge for that service should incorporate that cost.

#### Our plan for implementing cost recovery

We feel, it would not be suitable to go for immediate, total cost recovery without detailed consideration of a fair and transparent approach to charging in certain areas of the business, such as environmental water planning or salinity recovery. As such, we would prefer a phased-in approach to cost recovery, should the government decide to implement charging arrangements.

The department considers that there are three broad approaches to implementing cost recovery:



1. Low-scale cost recovery – costs are recovered only from eligible functions where there is a clear definition between public and private users, with no corporate overhead apportionment.
2. Medium-scale cost recovery – costs are recovered from most eligible functions, excluding those where there is major difficulty in assigning public and private users, with some corporate service costs recovered from eligible functions.
3. Total cost recovery – all costs are recovered across all eligible functions; activities across each function are attributed to public or private users to identify all activities where costs can be charged; and all corporate service functions are apportioned across each function and included in charging arrangements where applicable.

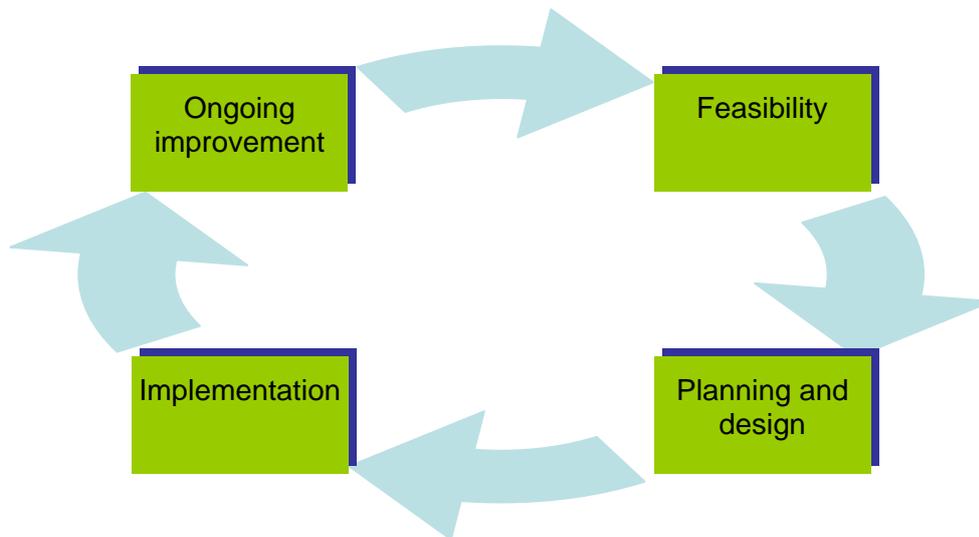
At this stage, the department hopes to achieve low- to medium-scale cost recovery. So far, New South Wales is the only state that has progressed towards total cost recovery. For now, the department believes low- to medium-scale cost recovery will ensure that any charging models we put in place will be robust and the products and services that are charged for will be equitable and transparent. This conservative approach is necessary as costs, charging structures and recovery models are under-developed in some areas.

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<sup>3</sup> Department of Treasury and Finance (2007) *Costing and pricing government services* 5<sup>th</sup> edition

We would phase-in cost recovery by working through each of the following stages:

1. *Feasibility*: assessing principles and options for cost recovery.
2. *Planning and design*: designing models and methods for cost recovery with close consideration of the product/service users and consultation.
3. *Implementation*: putting in place legislation, systems, processes and staff resources to accommodate cost recovery roll-out.
4. *Ongoing improvement*: through external review, reporting and refining of what has been implemented to date, including stakeholder feedback.



*Figure 1 Implementing cost recovery*

There are also a number of practical constraints which reasonably limit the department's ability to cost-recover all aspects of water management and planning. These would need to be resolved prior to implementing cost recovery. Constraints include:

- the level of detail to which charges have been explored in that particular function to date
- complexity around apportioning costs to users where there is not a clear distinction between a public and a private beneficiary (such as floodplain management)
- the ability to charge fees under our existing systems and legislation.

Please refer to chapter 10 for more detail on our current legislation and its applicability in implementing cost recovery.

### Priorities for cost recovery

Given the constraints listed above, Table 2 sets out the department's priorities for cost recovery according to high, medium, and low priority. Areas that we consider not for cost recovery are also listed here.

*Table 2 The Department of Water's priorities for cost recovery*

<b>Priority for cost recovery</b>	<b>Timeframe</b>	<b>Water management and planning activity</b>
High priority	1 – 2 years	<ul style="list-style-type: none"> <li>• licensing, compliance and enforcement</li> <li>• allocation planning (as a part of licensing)</li> <li>• metering</li> <li>• drainage assessment and planning</li> <li>• water source protection</li> </ul>
Medium priority	2 – 5 years	<ul style="list-style-type: none"> <li>• environmental water planning</li> <li>• water recycling and efficiency</li> <li>• ground and surface water assessment and investigation</li> <li>• water information and management</li> </ul>
Low priority	5 years onwards	<ul style="list-style-type: none"> <li>• floodplain management</li> <li>• salinity recovery and engineering</li> <li>• waterways</li> <li>• water quality and land-use</li> <li>• aquatic risk, chemistry and ecology</li> <li>• strategic water issues</li> <li>• legal services and legislation</li> </ul>
Not for cost recovery	n/a	<ul style="list-style-type: none"> <li>• rural water planning</li> <li>• water reform implementation and co-ordination</li> <li>• strategic water planning</li> <li>• government relations</li> <li>• water services and strategic industry policy</li> <li>• indigenous and remote community, services and support</li> </ul>

Note: all priorities for cost recovery are subject to appropriate government decision making and some may require enabling legislation prior to being implemented.

### Decision-making processes for cost recovery

The Department of Water does not have the statutory authority to decide whether cost recovery is implemented or not – or to what degree it will be put in place. The decision as to what extent, and how, cost recovery will be implemented rests with the government. The government will consider the ERA final report upon its receipt and determine what form of cost recovery will be established, if any. Depending on the timing of new fees or charges being introduced, this may be part of the annual process of setting fees and charges in determining the annual state budget.

Assuming that any cost recovery arrangements that are agreed to by the Western Australian government can be achieved without legislative amendment, it is likely that any cost recovery arrangements will require the Minister for Water to gazette regulations under the relevant

act. Regulations generally become effective when they are gazetted but are also tabled in Parliament, where they are subject to disallowance.

## 1.4 The history of cost recovery in Western Australia

The Department of Water, and its predecessors, have put forward three previous proposals to introduce fees to cover the costs of licensing administration and the associated support databases. It should be noted that these attempts covered only the costs associated with licensing administration and did not include any of water management or planning aspects of licensing or any indirect costs.

Throughout each of these processes a number of issues were raised which are covered below. We recognise that building on these past attempts and addressing the issues raised previously is an important part of successfully implementing cost recovery in the future. As such, we are highlighting these to the ERA to consider in its inquiry.

### Cost recovery in early 1990s

The first attempt at cost recovery was in the early 1990's on the basis that the then Water Authority would recover around \$2 million of the \$3.8 million a year it spent on water management, by charging water users licence administration fees. The expected benefits of recovering some of these costs included increased water use efficiency as well as the ability to deliver a better service to water users and the state.

The proposed charging system was based on a block tariff structure with superimposed volumetric fees. A \$100/yr discount was factored in for those licensees with a significant contribution to self management.

*Table 3 Annual licence fee structure proposed in 1991*

<b>Allocation Category (kL/yr)</b>	<b>Licence admin fee (\$)</b>	<b>Resource management fee (\$)</b>	<b>Total fee (\$)</b>	<b>Self management discount (\$)</b>	<b>Number of licences</b>
0 – 500	50	0	50	0	646
500 – 1,000	50	0	50	0	814
1,000 – 2,500	120	1	121	0	3225
2,500-5,000	180	2	182	0	969
5-10,000	190	8	198	100	1158
10-25,000	200	16	216	100	1392
25-50,000	210	33	243	100	969
50-100,000	220	62	282	100	627
100-250,000	230	115	345	100	390
250-500,000	240	220	460	100	206
500-1,000,000	250	454	704	100	141
1-2,500,000	260	918	1178	100	52
2.5-5,000,000	270	1806	2076	100	21
> 5,000,000	280	3990	4270	100	5

At the time, a CSIRO report for the Western Australian Water Resources Council found that there was community support for groundwater licence fees as the proposed fee structure accommodated a wide range of licensees with acceptable levels of charges applying to each allocation.

In late 1991, the licence fee proposal was dropped when advice was received that the legislation at the time did not provide a mechanism for allowing government to charge.

### Cost recovery in 2003

Released in early 2003, the State Water Strategy included a commitment to investigate water resource management charges. The Water and Rivers Commission contracted ACIL Tasman to develop a financial charging model which was then presented to the Minister for Water. The commission also consulted with key stakeholders across all groups including agriculture, industry, mining and conservation.

The proposed model (see Table 4) would recover just over \$3 million – around 86 per cent of the cost to administer licences across the state.

*Table 4 Annual licence fee structure proposed in 2003*

Licence class	Size of allocation (kL)	Annual fee (\$ per licence)	Application and/or renewal fee (\$ per licence)
1	0 to 5,000	50	250
2	5,001 to 50,000	150	500
3	50,001 to 500,000	300	750
4	500,001 to 5,000,000	500	1,000
5	> 5,000,000	750	1,250

In late 2003, the Minister for Water withdrew the proposal to charge water users a licence administration fees because a new taskforce was established in response to the Auditor General's report *Management of Water Resources in Western Australia*.

### Cost recovery in 2007 and 2008

Prior to 2007, two significant water reform processes took place in Western Australia. Both recognised the need for implementing licence administration charges to support the rapid increases in water demand. The 2005 irrigation review supported introducing “water resource management charges that recover the share of management cost attributable to water users.” The 2006 Blueprint for water reform recommended that “the Department of Water introduce a water licence administration fee consisting of an application fee for all licences and permits and an annual administration fee.”

Government then proposed that fees would apply from 1 July 2007. The fees would fully recover the \$5.8 million it cost the state to administer and maintain licences and licensing systems (databases).

The new fee structure included an additional two licence classes (following feedback from Blueprint consultations) and was based on:

- licence entitlement classes based on the amount of work (in hours) required for that licence volume
- the number of licences in each class
- the portion of budget directly related to (spent in delivering) that licence class
- the costs to be recovered (the department's total licensing budget for 2005/2006 financial year)

*Table 5 Original annual licence fee structure proposed in 2007*

Licence class	Size of allocation (kL)	Fee (\$ per licence)	Frequency
	Application fee	200	On application
1	1,5001 to 5,000	200	Annual
2	5,001 to 50,000	325	Annual
3	50,001 to 100,000	600	Annual
4	100,001 to 500,000	1200	Annual
5	500,001 to 1,000,000	1800	Annual
6	1,000,001 to 5,000,000	2400	Annual
7	>5,000,000	3000	Annual

The original fee structure (Table 5) that would recover the full \$5.8 million was criticised for a lack of variance in charges between small and large users. It was revised and implemented in late 2007 (Table 6). Under the revised fee structure it was proposed that \$3.05 million in costs would be recovered.

*Table 6 Revised annual licence fee structure proposed in 2007*

Licence class	Size of allocation (kL)	Fee (\$ per licence)	Frequency
	Application fee	200	On application
1	1,5001 to 5,000	100	Annual
2	5,001 to 50,000	150	Annual
3	50,001 to 100,000	250	Annual
4	100,001 to 500,000	700	Annual
5	500,001 to 1,000,000	1,600	Annual
6	1,000,001 to 5,000,000	2,500	Annual
7	5,000,001 to 10,000,000	4,000	Annual
8	> 10,000,000	6,000	Annual

With the new charges, regulations to allow fees were gazetted twice and disallowed by Parliament in both 2007 and 2008. In July 2008 the department refunded the initial licence fees that had been charged for that year.

Following this, an Economics and Industry Standing Committee inquiry was held into water licensing and services. See Appendix B for a summary of the inquiry process and outcomes.

This also includes a list of the key stakeholder issues raised and the department's response to the final inquiry report.

## The views of our stakeholders

Our previous consultations around water licence fees have generally found a number of common responses:

- general support (or conditional support) for water licence fees with people recognising that good water management needs adequate funding
- that the funds generated through licence fees should be used to directly benefit those who are paying for them; this includes using the funds for local water resource management and not returning it to consolidated revenue
- a lack of clarity around how the charges were developed and how the costs were attributed to licence classes
- inequity between the charging classes when applied to individual situations
- that the contributions by large water users towards resource management or environmental investigations are considered in setting fees and charges
- that the cost of building water infrastructure (such as farm dams) is considered in setting fees and charges.

To date, one of the largest consultations around licence administration fees was during the blueprint for water reform process. The most recent opportunity for our stakeholders to comment on licence administration charges was during the recent Economics and Industry Standing Committee inquiry. See Appendix B for more information on the inquiry.

### *Blueprint for reform*

The blueprint for water reform involved extensive workshops – one with a particular focus on water licence administration fees. Of the participants from across the state 47 per cent answered 'yes' to "generally at this time are you in support of the proposed direction to introduce licence administration fees?"; 35 per cent of respondents said no<sup>4</sup>.

Major concerns expressed by participants included:

- a perceived lack of transparency in the setting of the quantum of the fee
- concerns about ongoing administrative efficiency resulting in the fee
- the equity of the proposed tiered fee structure when applied to individual situations
- concerns over future increases if the fee was not capped.

The blueprint report also noted that more support would be offered for the proposal if the fee was directly linked to levels of service provided within each region.

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<sup>4</sup> A blueprint for water reform in Western Australia: final advice to the WA Government, December 2006

## 1.5 Focus areas for the inquiry

We recommend that the ERA:

- fully consider each of the department's principles in designing and assessing options for cost recovery
- develop options and make recommendations based on either a total, medium or low-scale cost recovery approach and identify which approach is preferred
- consider and design cost recovery options for, at a minimum, each of the department's high and medium priorities for cost recovery (Table 2)
- consider the administrative costs and staff resources required associated with implementing cost recovery and include in any proposed cost recovery model
- in its options assessments, fully consider the issues raised by stakeholders around the previous charging structures proposed
- fully consider the perceived lack of fairness in previously proposed tiered fee structures and develop options that accommodate this
- recognise that some proposed options may require regulation, legislation and/or systems changes that will take some time to implement.

## 2 The Department of Water's business functions and activities

Water resource management and planning entails many different functions and activities. The department, being the lead agency for water management in the state, is responsible for managing Western Australia's precious water resources.

The Department of Water also supports the Minister for Water in administering water acts that are relevant to plan for and manage our state's water resources. As such, the department is considered as the regulator, guiding water planning and management in the state according to the legislative requirements. See chapter 10 for a further detail on what acts the department operates under and the statutory provisions available for implementing cost recovery.

The department offers many services, from completing drainage plans for land developers who create new suburbs within the Perth area to ensuring that water is shared appropriately among users when there is demand for that water.

In total, the department has 27 core functions which operate within the five groups described in the ERA issues paper. Each function has a number of activities associated with it.

In setting out the Department of Water's core functions and activities, this chapter addresses the first two issues raised in the ERA issues paper on page 11. It also addresses the last issue on the same page, which refers to distinguishing the role of the department from that of water service providers.

### 2.1 What are the key elements of water resource management and planning?

The Department of Water considers that all of its activities are key elements of water resource management and planning. We undertake all these activities to achieve a range of outcomes, from keeping our resources in good condition to ensuring there is security of supply to users. However, we do not consider that all of these activities ought to be cost recovered since some serve functions that are required by government or provide outcomes that benefit the whole of the community.

The department's latest business delivery model (see Figure 2) reflects its core business activities. In this model, the key areas of water resource use, waterways health, and urban water management and industry services are supported by strategic planning and policy. Each of these primary services is based on a foundation of water resource assessment, measurement and science.

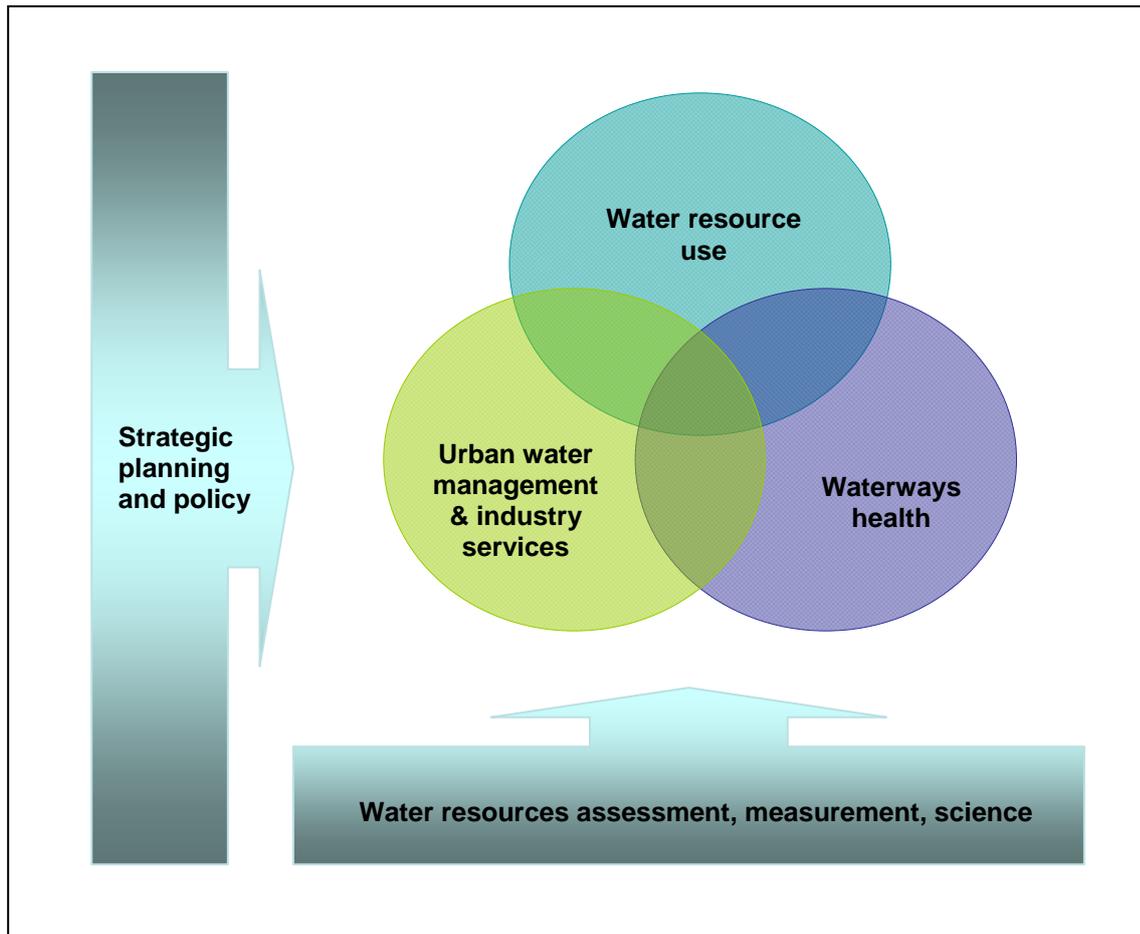


Figure 2 The new business model of the Department of Water

This business model aligns the department with its current as well as its potential future legislative mandate, but also supports our commitment to water reform.

The *Intergovernmental agreement on a National Water Initiative* (the NWI), of which Western Australia is a signatory, recognises the importance of good management and planning to achieve satisfactory outcomes for competing interests in water.

Our position, that all of our activities fall within water management and planning, is generally in line with the approach of the NWI.

The requirements for cost recovery are a part of Western Australia's commitments under the NWI – paragraphs 64, 67 and 68 of the agreement apply. This requires us to implement water pricing and institutional arrangements which give effect to 'user pays' pricing and cost recovery for water planning and management activities, with costs recovered matching the actual costs incurred. The National Water Commission considers that activities such as water reform and policy development are not cost recovered, and this also reflects our view.

## 2.2 Which activities fall within the scope of water resource management and planning?

All activities of the Department of Water are part of water resource management and planning. While corporate services are not responsible for delivering water management and

planning outcomes per se, they are an essential enabler in terms of the department delivering its business. Standard corporate service and executive support function are not discussed in this document – for a description of each of corporate service and executive functions see appendix A.

The department’s business model (functions and activities) is outlined in section 2.1 and described in detail in appendix A. This structure differs from that considered by the ERA in its issues paper, and the structure of this document reflects the functions identified by the ERA and not the department’s business delivery model.

The ERA have categorised the department’s business functions into five broad categories, along with standard corporate and executive functions:

1. Assess, allocate and licence water resources
2. Manage flooding and drainage
3. Manage water quality
4. Provide policy advice and water reform
5. Support the water services industry
6. Executive and corporate service functions

Table 7 sets out each of the department’s business areas as per the ERA functions and activities. All of the department’s activities are covered within this table.

*Table 7 The main activities that fall within each function of the Department of Water*

Function	Activities
Assess, allocate & licence water resources	<ul style="list-style-type: none"> <li>• licensing</li> <li>• allocation planning</li> <li>• environmental water planning</li> <li>• water recycling and efficiency</li> <li>• rural water planning</li> <li>• metering</li> <li>• groundwater assessment, investigation and review</li> <li>• surface water assessment</li> <li>• spatial analysis (GIS)</li> <li>• water information and management</li> <li>• compliance and enforcement</li> </ul>
Manage flooding and drainage	<ul style="list-style-type: none"> <li>• urban drainage planning</li> <li>• urban water assessment</li> <li>• water and land-use coordination</li> <li>• floodplain management</li> </ul>
Manage water quality	<ul style="list-style-type: none"> <li>• water source protection</li> <li>• salinity recovery and engineering</li> <li>• waterways</li> <li>• water quality and land use</li> </ul>

Function	Activities
	<ul style="list-style-type: none"> <li>• aquatic risk, chemistry and ecology</li> </ul>
Provide policy advice and water reform	<ul style="list-style-type: none"> <li>• water reform co-ordination and implementation</li> <li>• strategic water planning</li> <li>• strategic water issues</li> <li>• legal services and legislation</li> </ul>
Support water services industry	<ul style="list-style-type: none"> <li>• water services and strategic water industry policy</li> <li>• Indigenous and remote community services and support</li> </ul>
Executive and corporate functions	<ul style="list-style-type: none"> <li>• the Director General, all Directors, Regional Managers, support and administration staff (including regional office accommodation costs)</li> <li>• corporate services functions, including finance, HR and information management</li> <li>• land management functions</li> <li>• government relations</li> <li>• corporate development</li> <li>• communications</li> </ul>

Some activities are intricately connected and therefore were amalgamated in this response. This applies to:

- licensing combined with compliance and enforcement
- all water information functions which now include GIS spatial analysis, water information collection, information provision and information management
- waterways combined with aquatic risk, chemistry and ecology
- groundwater investigation, assessment and review were combined with surface water assessment.

Executive and corporate functions are not discussed in detail in this report – see chapter 8 for details on what these functions entail. However, we do consider that these functions are essential in enabling our water management and planning activities. Executive and corporate functions could be cost recovered through core water resource management and planning functions. The extent that they are apportioned to core activities would be based on the number of staff working against each core function.

## 2.3 Focus areas for the inquiry

We recommend that the ERA:

- make recommendations on how the costs associated with corporate service functions would be fairly apportioned to private user activities, such as licensing or water source protection.
- make recommendations on how cost recovery should occur when a number of government agencies are involved and one is currently cost recovering from private users, such as development assessments and the Department of Planning and Infrastructure.

## 3 Assessing, allocating and licensing water resources

Managing our state's resources to ensure they are sustained into the future isn't just about issuing licences to people who want to abstract water. Along with licensing, the department has many functions to understand how much water is within a system, manage its use and prevent too much from being taken out. Over-abstraction leads to reduced security of supply for water users and damages ecosystems. By doing the activities described below we are ensuring that water users and our environment are protected into the future.

In assessing, allocating and licensing water resources the department provides many products and services for water users. Some of these include:

- models assessing use impacts in an area
- guidance notes on licence compliance
- allocation plans setting out water availability
- surface water and groundwater reports detailing the hydrology of hydrogeology of a particular area
- advice on local water use and availability
- local use and security of supply assessments
- monitoring of local trends and compliance.

This chapter sets out in detail the department's responses to each issue that ERA raised in the issues paper, relevant to the first function – assessing, allocating and licensing water resources.

### 3.1 Licensing, compliance and enforcement

#### Specific role of the department

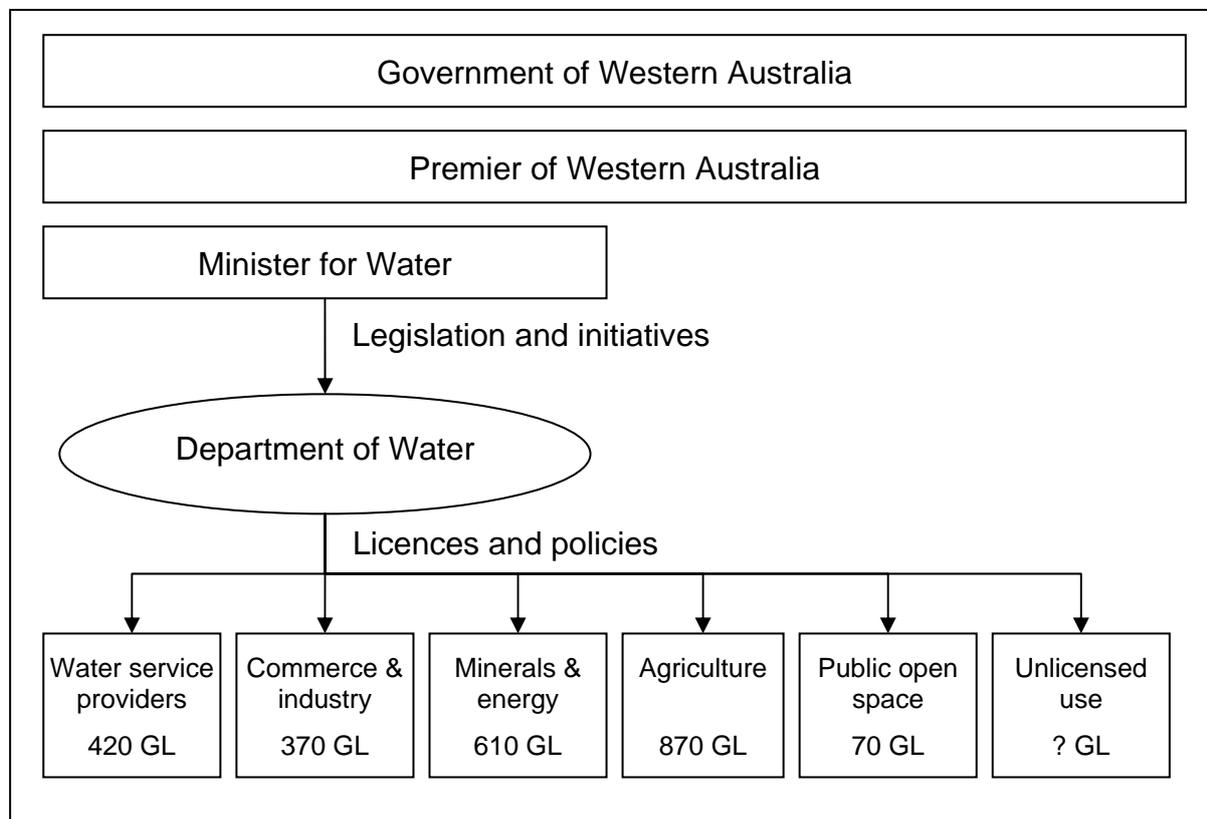
What is the role of the Department of Water in comparison to the role of large water users and water service providers?

Under the *Rights in Water and Irrigation Act 1914* the Department of Water has vested powers to manage water resources, and more specifically, issue water users with licences to take surface or groundwater in proclaimed areas. We provide licences to all types of water users – from water service providers, such as the Water Corporation, who then treat the water to sell to domestic customers to small agriculture and horticultural water users who need water to run their business.

We also manage other water users who do not require a licence, such as those who don't have access to scheme water and need to abstract water for purposes such as showering and washing.

To put it simply, we manage any water user who takes water from the ground or from a river system – whether it's a mining company, irrigation co-operative, commercial producer or household. Source: State Water Plan, 2007

Figure 3 sets out our role in managing water users across the State and broadly describes our water use customers.



Source: State Water Plan, 2007

Figure 3 The Department of Water’s customers as per water user groups

Table 8 shows the breakdown of amounts of water allocated by the Department of Water to different types of users.

Table 8 The Department of Water’s water use customers

Type of water user	Total estimated volume allocated	Percentage of state total
Water service providers (Water Corp; Aqwest; Busselton), stock and domestic users	420 GL	18%
Commerce and industry	370 GL	16%
Minerals and energy	610 GL	26%
Agriculture	870 GL	37%
Public open space	70 GL	3%
Unlicensed use	?*	?
<b>Total</b>	<b>2,340 GL</b>	

Source: State water plan

\*Note: The department currently estimates unlicensed use in Western Australia to be around 150 to 200 gigalitres per year

As at 31 December 2008, there were 14,650 water licences in force in Western Australia, with 12,896 for groundwater, 843 for surface water and 911 related to Permits/26D licences.

Of the 12,896 groundwater licences, over 75 per cent are in high demand areas where water resources are allocated at between 70 to over 100 per cent of capacity. Most of the groundwater licences in force (11,738) are for allocations of less than 100 megalitres per year.

### Activities, expenses, and cost allocations

Table 9 presents the department's response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state's water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department's resource management and planning activities should be allocated to users?

As the requirements for granting a licence are set out in legislation, we have little flexibility in the tasks that we undertake as part of a licence assessment. However, this does not mean that there aren't opportunities for introducing more efficient operating practices.

The department currently has around 85 staff working in licensing across the state in a number of areas, as described below. Please note that staff salary, office costs and operational expenditure are combined in the budget total.

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 9 Costs of licensing, compliance and enforcement and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Allocate & license	Water licensing policy	\$ 367,509	Public	Some
			Private	Most
Allocate & license	Water licensing	\$ 5,539,226	Public	Some
			Private	Most
Allocate & license	Water licensing and support	\$ 683,859	Public	Some
			Private	Most

Category	Functions	Cost	User	Portion
Allocate & license	Integrated Water Supply Scheme (IWSS) <sup>5</sup> licensing and special projects	\$ 270,117	Public	Some
			Private	Most
Allocate & license	Compliance and enforcement	\$ 553,000	Public	Some
			Private	Most

Note: for a description of the activities under each function refer to appendix A of this submission.

Note: no executive management costs are included above – see chapter 8

## Methods of cost recovery

### What is the appropriate method of cost recovery?

The water licensing scheme is a part of our business where there is clear, unequivocal private benefit to those people who are granted a water licence. As described in chapter 1, cost recovery arrangements for this portion of the department's work was previously considered and enacted. As such, we have done considerable work to outline options for how the costs associated with administering water licences could be recovered from water users.

This section summarises four possible options to achieve cost recovery for licensing, compliance and enforcement activities. Each of the options has advantages and disadvantages and all would be legally achievable under current legislation. The department encourages the ERA to consider these options in preparing its advice to the Western Australian Government.

We consider that in introducing a fee schedule, we must:

1. identify the **level** of licence administration costs to be recovered from users
2. establish how those costs are to be **allocated** across different classes of users
3. determine the **structure** of charges.

In responding to the ERA's issues paper, we provide the ERA with four cost recovery options to consider:

- Option 1 – Fee bands based broadly on effort (or time taken) to issue a licence. This is the model previously gazetted and disallowed in 2008.
- Option 2 – A fee for service approach.
- Option 3 – A fee based on level of volumetric allocation and total level of resource use in that area.
- Option 4 – A fee based purely on volumetric allocation.

<sup>5</sup> The IWSS is the name of Water Corporation's public water supply network to the greater Perth and Goldfields areas.

In preparing these options, we considered the following:

- the tasks or activities undertaken in the efficient operation of the licence administration regime that should be recovered from licence holder
- the most appropriate level of cost recovery from licence holders
- the most appropriate allocation of costs amongst licence holders, considering such factors as the difference between the licensed entitlement and actual water used
- the scope and potential for differing the level or amount of cost recovery across, groundwater and surface water licences, and across regions.

For more information on what we have considered in developing our options, see Appendix B for a summary of the Economics and Industry Standing Committee inquiry that held on licence fees. This summary also includes the key stakeholder issues raised.

*Option 1 - Revised version of "effort-based" volumetric bands*

This option is based on the model previously gazetted and disallowed in 2007/08. It has been modified to reflect the estimated cost of the department's licensing activity in 2009/10.

The specific costs for which recovery were sought were the costs related to:

- receipting and assessment of new and renewal water licence applications for all relevant licensed activities, including taking water, constructing wells and altering water course banks
- the costs incurred in relation to the operation of various advisory committees that provide community input
- compliance and enforcement costs, including the costs incurred with appeals to the State Administrative Tribunal
- general operational type expenses such as database management, training, general administrative overheads.

To determine the cost of these activities the department went through an extensive accounting reconciliation process for the 2005/06 year. Costs for 2005/06 were determined to be \$5.8M, and estimates for the two subsequent years were \$6.3M and \$6.6M, respectively. The breakdown of costs for the reference year is shown below in Table 10, decomposed into the various activities. .

*Table 10 Department of Water costs associated with licensing in 2005/06*

<b>Description</b>	<b>Cost (\$)</b>
Direct licensing	4,145,918
Licensing support	386,986
Compliance	812,875
State Administrative Tribunal	237,965
Community input	243,653
<b>Total</b>	<b>5,827,397</b>

Source: Department of Water submission to the Economics and Industry Standing Committee Inquiry into water licensing and services

Having determined the quantum of funding required (which we will denote  $R$ ) the department then determined the licence fee as follows. Let  $L_i$  denote the estimated length of time it takes to process a water licence application for a allocation of quantity  $i$ , where water allocation quantities are defined as bands so that  $(i = 1, \dots, 7)$ . Let  $X_i$  denote the stock of water licences in each of the seven water allocation bands so that the total number of man hours required to process the stock of existing water licences is

$$\sum_{i=1}^7 L_i X_i = T$$

The man hour share for water volume category  $i$  is then  $s_i = L_i X_i / T$  where

$$\sum_{i=1}^7 s_i = 1.$$

The revenue to be collected from each water quantity band was then determined as  $r_i = s_i \times R$ , where as noted above  $R$  is required revenue. The individual licence fee was determined as  $f_i = r_i / X_i$ . At the time of the calculation there were 13,541 licences on issue and so:

$$\sum_{i=1}^{13,541} f_i = R.$$

As such, the total annual revenue requirement for the licensing function is allocated across all licences. As a licence is generally issued for a 10 year period, the fee was then proposed to be levied each year. As a practical matter, the fee was rounded for ease of payment so that the actual fee was only approximately equal to  $f_i$ .

As discussed above, different licences represent different risks. Therefore, assessment processes vary with each licence application. For a small water allocation, the assessment requirements can be relatively low and so licences can be processed relatively quickly. On the other hand, large licence applications may require a hydrogeology report and hydrology modelling, a full assessment of operating strategies, advertising followed by a period of comment etc. Therefore, the time required to process such licences is substantial. The original proposed fee schedule is shown below in Table 11.

It should also be noted that the conditions imposed on a licence holder may vary on a case-by-case basis. For example, a condition on all water licences over 500,000 kilolitres is that the licence holder meter and report water use.

Table 11 Original proposed annual water licence fee schedule

Category (kL)	Stock of licences	Hours per licence	Total hours	Share of hours	Revenue require	Annual cost	Charge
	$X_i$	$L_i$	$L_i X_i = T$	$s_i$	$r_i$	$f_i$	$w_i$
0 - 5,000	5,279	7	36,953	.19	\$1,098,644	\$208	200
5,001 - 50,000	5,752	11	63,272	.32	\$1,881,131	\$327	325

Category (kL)	Stock of licences	Hours per licence	Total hours	Share of hours	Revenue require	Annual cost	Charge
50,001 - 100,000	1,114	20	22,280	.11	\$662,404	\$595	600
100,001 - 500,000	898	40	35,920	.18	\$1,067,932	\$1,189	1,200
500,001 - 1,000,000	179	60	10,740	.05	\$319,309	\$1,784	1,800
1,000,001 - 5,000,000	253	80	20,240	.10	\$601,753	\$2,378	2,400
More than 5,000,000	66	100	6,600	.03	\$196,224	\$2,973	3,000
Total	13,541	NA	196,005	1.00	\$5,827,397	NA	NA

Note: The licensing requirements for an application of more than 5,000,000 kilolitres were actually assessed as being at least 100 hours.

### *Issues with the original fee structure*

With respect to the original fee schedule, we would like to point out several key issues for the ERA to consider, namely:

- insufficient funds for compliance activity
- consideration of future costs and future licence numbers
- proportion of cost recovery from ongoing activities versus the proportion from application activity
- transparency in charging
- matching costs with activities undertaken
- accounting for public benefits.

*Insufficient funds for compliance:* The current level of compliance activity undertaken by the department is not adequate and resource limitations have resulted in a substantial number of applications taking more than 90 days to assess. The backlog of applications, combined with the lack of compliance activity, suggests that a fee recovery system based on recouping the current level of costs incurred (assuming for the moment that all costs relate to efficiently incurred costs) does not recover sufficient funds to operate the licensing function at an appropriate level.

*Future costs and future licences:* Both the stock of licences on issue and department costs are growing through time. In the case of department costs, relative to 2005/06, the estimated annual forecast was for an increase of 8.6 per cent for 2006-07, with an additional increase of 4.5 per cent for 2007/08. Given the expansion of proclaimed areas for surface water, it is difficult to predict future annual growth in licence applications other than to note that it is likely to be positive and may be substantial. The annual fee should be set with reference to expected future costs for activities related to compliance activity and the costs incurred in the

requirement to have an effective licensing system in place. To determine average costs, the estimated number of licences held over a defined forward looking period should be used.

*Application vs ongoing charges:* an example may be useful to illustrate the relationship between application fees and ongoing fees. Assume the proportion of licences issued in each licence band category and the quantity of licences issued each year is approximately constant. Then, based on the department's estimated average time to process a licence, approximately 19,600 man hours are needed each year for direct licensing activity. In Western Australia, there are ten public holidays per year and employees are entitled to four weeks annual leave. Therefore, the reference individual works approximately  $38 \times 46 = 1,748$  hours per year, not including any of the time required for training, responding to queries and other essential activities.

In this indicative example, application fees should recover approximately 20 per cent of annual costs and recurrent annual fees should recover approximately 80 per cent of costs. The actual system of licence fee charges proposed would have seen 10 per cent of costs recovered from application fees, and 90 per cent of costs recovered through annual fees.

*Transparency:* transparency in charging is important. With the previous fee structure, it was not clear what the licence holder was getting for the fee they paid. The charges were set out, in essence, as banded volumetric charges. Given the submissions to the inquiry, it is clear that some license holders saw the charge as a volumetric water charge rather than a charge directly related to costs incurred to assess a licence. It is important that the charges are labelled in a way that makes it clear to the licence holder that the charges represent a fee-for-service charge.

*Matching costs and charges:* fees did not represent a direct mapping of costs, both in terms of the licence application fee and the annual ongoing fee. For example, consider an application for a licence of 400 ML in a catchment that is only 10 per cent allocated. For such a licence application, metering would not be a licence condition. Now consider a licence for the same volume of water in a catchment that is very close to being fully allocated. It is likely that such an application would have metering placed as a condition on the licence. The overall application assessment would also have been more involved and, hence, more costly. So, in this example there are two licences for the same volume of water but one licence involved greater assessment time, and also cost. The application fee for the more involved assessment should ideally be greater than the fee for the straightforward assessment. Additionally, as one licence requires meter data to be read each year and the other does not, the annual ongoing cost of administering the two licences is different. This difference in cost should be reflected in the annual charge.

*Considering community benefits:* the information obtained from compliance activity contributes to managing water resources efficiently. This means that the wider community benefits from the efficient management of water resources. The original calculations do not appear to take account of the possible public benefit that accrues from such activities. Even within the 'impactor/user pays' framework, there is room to allocate costs to the community on the grounds that they require certain standards to be met with respect to resources.

Specifically, if the expectations of the community have changed in how environmental resources are to be managed and this results in the department incurring costs or installing

infrastructure that was previously not required, then the public can be considered as a ‘user’ and the total amount recovered from licence holders reduced accordingly. The situation is similar in concept to that which led IPART to recognise both bulk water users and the community as impactors<sup>6</sup>.

While Table 11 details the original department calculations, the actual proposed fee schedule was revised several times following stakeholder negotiations and negotiations within Parliament. The changes made to the fee structure involved decreasing charges for small water users and increasing charges for large water users. The revised fee structure is shown at Table 12.

Importantly, the revised fee structure would not have recovered the full cost of the licensing system, but only around \$3 million. Despite the changes, the basic methodology used to determine the fees was left unchanged.

*Table 12 Rights in Water Irrigation amendment regulations (No. 3) 2007*

Description	Type	Cost (\$)
Application fee	Licence applications (5C and 26D)	200
	Permit application fee	200
Amendment fee	Licence applications (5C and 26D)	200
	Permit application fee	200
Annual fee (water entitlements as kilolitres per year)	1,501 – 5,000	100
	5001 – 50,000	150
	50,001 – 100,000	250
	100,001 – 500,000	700
	500,001 – 1,000,000	1,600
	1,000,001 – 5,000,000	2,500
	5,000,001 – 10,000,000	4,000
	10,000,000+	6,000
	Miscellaneous charges	
	Late payment fee	200
	Duplicate copy fee	50
	Meter test maximum fee	50

Data source: Rights in Water Irrigation Amendment Regulations (No. 3) 2007

### *Option 2: Fee for service*

Another option is to develop cost estimates for a range of standard assessment services and provide a price schedule for the specific components of a licence assessment. The fee charged for a licence application would then depend on the actual processes undertaken as part of the assessment. The cost of the service would be based on the level of allocation in

<sup>6</sup> IPART, Dec 2001, Department of Land and Water Conservation: Bulk Water Prices from 1 October 2001, p32.

an area and the services required for the assessment This would accommodate the varying levels of complexity and effort required to manage low use areas compared to high use areas.

With care, it would be possible to develop some simple rules that would provide licence applicants with a clear understanding of the costs their application is likely to incur. Examples of the type of rules that could be put in place might be as follows:

- all applications above 'X megalitres' require an operation management plan
- all applications above 'Y megalitres' and in a catchment that is allocated over 70% require an operation management plan
- all applications where sensitive issues are identified require an operational management plan.

A stylistic representation of charges is shown below in *Table 13*.

*Table 13 Groundwater licence application fee - hypothetical*

<b>Description</b>	<b>Guidelines</b>	<b>Fee (\$)</b>
Water availability assessment fee	Applies to all licence applications	250 (range 600-5,300)
Hydrology report assessment fee	Applies to all applications greater than 20 megalitres Applies to all applications greater than 5 megalitres areas allocated over 70 per cent	1,500 (range 400-2,000)
Operational management plan assessment fee (level one)	Applies to all applications greater than 5 megalitres	500 (range 650-5,550)

Source: Hypothetical data for illustration purposes only

The application fee payable is determined by:

- the expected costs incurred by the department in undertaking the licence assessment inclusive of expenses for non-specific, but directly related activity such as applicant negotiation meetings
- the average state-wide costs for the performance of broad groupings of activities undertaken as part of a licence assessment
- the services required for each application.

Table 14 sets out the basic building blocks of the charge which consist of fees that apply to all licence applications, fees that apply only if the specific assessment function is required and fees that apply to approved applications.

*Table 14 Application and annual fee components*

<b>Fee component</b>	<b>Who pays</b>	<b>Services and/or functions</b>
Initial application fee	Applicable to all licences	The right to drill charge The basic water availability assessment fee
Processing fee	May apply to applicants only if they follow through with the application	Technical assessment fee Groundwater information report (hydrogeological/hydrological report) Operating strategy assessment fee
Annual fees for approved applications	Applicable to all licences	Standard fee Review of meter data Compliance with management plan Land use survey fee
Miscellaneous fees	Applicable to certain licences	Incomplete application Application for variation in licensed volume

The charge will vary with the nature of the application and each application will be assessed on a case-by-case basis.

Note that the discussion is framed in terms of groundwater licences, but the approach fits surface water licences as well.

*The right to drill fee:* The first fee payable would be the right to drill fee. All applicants seeking to take water from a groundwater resource would be required to pay this fee. Anyone proposing exploratory drilling would also be required to pay for a right to drill licence. The right to drill licence would not be issued until the fee for a right to drill licence had been paid.

*Water availability assessment fee:* This is the basic fee charged for all licence assessments. It recovers the average cost of completing the minimum amount of work involved in a licence application, inclusive of a component related to general licence application assessments such as negotiation with applicants and a proportional allocation of overhead costs. It is the fee charged to someone that receives the lowest risk assessment.

*Technical assessment fee:* As part of a licence application the applicant may need to provide flow information from test bores or information on chemical analysis. Where assessment of such material is required this fee would be payable.

As with other charges, reference to the risk assessment matrix means that most potential applicants will know whether or not a technical assessment fee will be payable at the time information is submitted to obtain a right to drill licence.

*Hydrogeological/hydrological reporting fee:* This fee is a charge that arises whenever there is a need for an assessment of hydrogeological/hydrology information as part of a licence assessment.

*Operating strategy assessment fee:* If, as a condition of granting a licence, a management plan, such as an operating strategy, is required, then the submitted plan must be reviewed. Plans that are well written and clear will take less time to assess than poorly drafted plans,

but as a first stage it is proposed to use only average assessment time rather than actual time.

*Components of the annual fee:* The annual fee structure uses the same basic approach used for licence applications, but is simpler. There are only four different fees:

- *Standard fee:* applies to all licences and recovers the share of general overheads allocated to compliance and monitoring activity. It includes provision for the minimum level of compliance and inspection activity for licences of different volumes.
- *Review of meter data:* where the use is uncertain, there is thought to be a risk of overuse, or the volume of water is large, metering will be a licence condition. The department incurs costs in processing annual water meter data. There is some evidence that due to an overall lack of resources water meter data is not being reviewed. Inclusion of an explicit charge related to this function should ensure this activity is not neglected in the future.
- *Compliance with management plan:* the standard fee recovers the cost associated with the level of monitoring required in a catchment that is allocated to not more than 70%. All licences will attract an additional fee where an operational management plan is required. The fee captures both the cost of reviewing the material required under the operational management plan and the cost associated with additional physical compliance and monitoring activity appropriate for a licence where an operational management plan is required.
- *Land use survey fee:* in the normal course of a licence renewal one of the first steps in the process will be a land use survey. As there are a range of issues to investigate as part of the survey, such as whether there has been a change in use, the need for the survey is largely independent of licensed volume and whether or not annual water meter data has been provided, and the allocation level of the catchment.

The sum of these four fees will then be fed into a volume by catchment matrix to determine the actual fee that a licensee pays. This matrix will reflect the amount of effort that is required in assessing various licences. The cost of administering water licensing among is spread among users, depending on the volume of their water entitlement as well as the category of the catchment where water is taken. This process is described in Option 3.

*Incomplete applications:* the time required in assessing a complex but well drafted level three hydrology report can be less than the time taken to assess a simple but poorly drafted level one hydrology report. The costs of reference building blocks are average costs. In a technical sense the reference costs represent the expected values of random variables that are described by a probability density function. Actual realised costs are therefore not equal to the reference average cost except by chance, and so the type of outcome described above is not, in and of itself, a concern.

There are circumstances that cause an application to take longer to process than average that are not related to the inherent properties of a random variable. Although it will not be a requirement in the future, currently, it is necessary to prove access to the land to obtain a water licence. An application that does not involve provision of proof of access to land therefore incurs additional costs in processing that licence.

Where an applicant does not complete a fundamentally important part of the licence application this result in additional costs to the department (in terms of licence officer time). A 'user' pays principle suggests that these costs should be recovered. In terms of simplicity, it is relatively straightforward to include an additional charge for failure to complete an application correctly.

*Application for variation in licensed volume:* to reflect the additional work involved in the assessment.

A licence to drill application is required if an additional bore is to be drilled at an existing site. If the assessment is to increase the extraction from an existing bore then charge is to reflect the functions undertaken. A base charge would apply that reflects a standard revision involving no additional assessments of plans or reports. Additional charges would apply if the application triggered a need to undertake any of the previously identified and costed functions. The respective charges defined for each of the assessment functions for licence applications would then apply.

Note that even if a volume by catchment approach was used it would still be necessary to set out the basic assessment tasks and cost each task. It will simply be a simplified and bundled package. The steps described can therefore be seen as equally relevant to the creation of a volume by catchment fee schedule as described below.

### Option 3: Volume and area based charges

A major determinant of costs is the level of allocation in an area. One approach to determine a fee would therefore be to establish the functions carried out as part of an assessment for different volumes in each of the areas. The schedule of charges would then refer only to volume, but would differ each area to reflect the different tasks involved.

The *Table 15* example assumes that the three areas vary in terms of their allocation level resulting in a different assessment process in each area. The more intensive the assessment process the greater the fee.

Note that the department is currently exploring a variety of models for this option to determine the most equitable method of cost distribution among licensees. The example below is hypothetical only.

*Table 15 Groundwater application fee schedule – hypothetical*

Allocation (ML)	Hypothetical fee (\$)			
	Area 1	Area 2	Area 3	Area 4
0 - 5,000	\$350	\$350	\$600	\$600
5,001- 50,000	\$350	\$350	\$600	\$600
50,001-100,000	\$600	\$600	\$1,100	\$1,100
100,001 - 500,000	\$1,100	\$1,100	\$2,300	\$2,300
500,001 -1,000,000	\$2,300	\$2,300	\$3,500	\$3,500
1,000,001- 5,000,000	\$3,500	\$3,500	\$5,000	\$5,000
>5,000,000	\$5,000	\$5,000	\$6,000	\$6,000

Source: Hypothetical data for illustration purposes only

Although there are 174 groundwater catchments and 44 surface water catchments in Western Australia, it would not be necessary to produce a totally disaggregated fee schedule. Rather, the catchment allocation level embedded into each of the risk category assessment matrices could be used.

A fee structure that is based on the required tasks is likely to be slightly better at reflecting the costs involved. This is because the volumetric approach involves approximating the relationship between areas, volumes and tasks. The task-based approach performs better on equity grounds, in terms of ensuring that licence-holders pay the costs involved. However, there are unlikely to be direct efficiency implications from the choice between options, since it is unlikely to impact on applicant behaviour.

A second order issue relates to how much variation there is between actual costs and fee charges. It is important to recognise that catchment allocation levels change through time. Over the longer term, catchments tend towards being fully allocated. However, over shorter periods, the allocation level can also fall as licences are handed back. To ensure recovery of the appropriate level of funds, and to ensure consistency with a user or impactor pays approach, frequent revisions to the level of charges in different areas may be required.

Under a task-based approach, the level of fees charged would increase automatically, avoiding the need for frequent revisions to the volume/fee relationship. The same is true for the catchment volume approach to charging if the catchment costs were determined based on allocation level.

There is a trade-off between transparency and complexity. Compared to a schedule based on volume and catchment allocation level a task-based fee involves a more complex fee structure. A fee-for-task approach is, however, more transparent, and is also likely to assist regional offices in improving their cost-recording efforts.

A more transparent charging system, may, at the margin, assist with dynamic efficiency, but a more important determinant will be the nature of the regulatory regime.

#### *Option 4: Volumetric charge (cost-based system)*

Another option for the department to recover its costs in administering the water licensing process is a volumetric charge. This is simply a cost-based system whereby a licensee is charged for the volume of water that they are entitled to take on their licence against a pre-determined value. As such, costs to the licensees are proportional to their entitlement and may be viewed as equitable across all users.

Recent amendments to the *Rights in Water and Irrigation Act 1914* have made such a charging regime possible. As stated under clause 27 of Division 4 Part 3 of the RIWI Act:

(3) Without limiting the generality of paragraph (h) of subsection (1) the fees or charges referred to in that paragraph may be set by reference to the volume of water allocated under a licence.

Therefore, this clause would allow regulations to provide for the Department of Water to introduce a volumetric charge for licensed users.

As at 31 December 2008, the department licensed approximately 2,550 GL of water to users including the Water Corporation. This information, coupled with the \$9.1 million cost of administering water licensing, equates to approximately \$3.53 per megalitre for 100% cost recovery. Based on this figure, a 15 megalitre licence would cost the user approximately \$53 and a 15,000 megalitre licence \$53,000 annually (Table 16).

*Table 16 Potential fees imposed on user types for cost recovery based on a \$3.53 per ML*

User type	Annual water licence administration fee
Small user (2 ML)	0
Small rural holding (15 ML)	\$52.95
Large vineyard (100 ML)	\$353.00
Mining company (2,000 ML)	\$7,060.00
Water service provider (15,000 ML)	\$52,950.00

It is important to note that, under this system, users with annual water entitlements of less than 15 ML will pay between \$5 and \$50. Taking into consideration the possibility of having some licences exempt from fees (reducing the number of fee-paying users) and the distribution of effort in processing applications for water licences of all volumes, it may be worthwhile to set a minimum charge for licences below 15 ML, to assist in recovering costs in the administration and processing of applications, and then applying the volumetric charge thereafter to all other users.

From an administrative viewpoint, this option is relatively simple to implement. However, there may be equity issues around this including:

- those users paying fees may question the portion of domestic users that (potentially) do not have to pay
- large volume users may question the linear determination of fees given the lack of a linear relationship in the effort of processing and administering their licence. That is, a 200 ML licence does not take twice as long to process as a 100 ML licence
- environmental considerations have not been taken into account, such as the level of use and the level of risk that the resource is at

In summary, this option is relatively simple to implement and current legislation provides for it, however, in its simplest form, equity issues may arise.

The department has a range of other issues which it would like the ERA to consider in its cost recovery options for licensing. These are included as appendix C – other fee structure issues to consider.

## 3.2 Allocation planning

Water allocation plans are a fundamental output for the Department of Water as they set out how we manage the use of groundwater and surface water across the state. Water allocation plans provide the collective and geographic scale framework for managing water use. This

supports how we issue licences, which are the statutory instrument for managing water use at the individual and localised scale.

The purpose of allocation planning is to maximise water available for use within the sustainable limits of the water resource. Allocation planning involves deciding how much water can be taken for consumptive uses while leaving enough water in the environment to meet ecological, recreational and cultural needs. This includes ensuring that 'take' by water users doesn't impact on other users and that the reliability of water supplies for future years is taken into account.

Our current plans are developed under the *Rights in Water and Irrigation Act 1914*. We aim to achieve the intent of Western Australian and Australian government water reforms as far as possible under current legislation.

### Specific role of department

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

The department is responsible for managing all of the water resources across the state. We are the only organisation responsible for setting allocation limits in all aquifers and catchments of proclaimed management areas. As planning maximises the amount of water that can be made available for use within the sustainable limits of the resource, the individual users and the overall economy benefit.

Our planning work ensures:

- security of supply for individual users
- that users don't impact unacceptably on each other or on the environment
- that the viability of the resource is maintained for future users.

In areas where there are many small- and medium-scale users, such as the South West, the department undertakes most or all of the work to support planning. Where use is isolated (such as in the central Pilbara) or where one or two private users (such as water service providers) propose to take a large share of the available water, we require those private users to undertake a high level of investigation of their proposed water use and resource management. In these cases, the department retains responsibility for determining the water availability but the management obligations are imposed on users through licence conditions.

Planning relies significantly on water resource investigation and assessment work funded by the department or through funding partners, such as the Australian government.

The project coordination aspect of planning could not be done by any party with vested interests. Similarly, to maintain water supply security for water users and the medium to long-term viability of the water resources, decision-making and policy aspects of planning depend on robust decision-making by a government agency that is grounded in legislation.

Even where individual licensees contribute to the management of their own allocation, and the impacts of that allocation and use, they cannot make the collective scale assessment required for planning that is rightly the role of government.

## Activities, expenses, and cost allocations

Table 17 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 17 Costs of allocation planning and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Allocate & license	Water allocation planning	\$ 2,453,303	Public	Some
			Private	Some

Note: for a description of the activities under each function refer to appendix A of this submission.

## Methods of cost recovery

What is the appropriate method of cost recovery?

Planning relies significantly on water resource investigation and assessment work funded by the department or through funding partners, such as the Australian government.

Our planning work ensures:

- security of supply for individual users
- that users don’t impact on each other or unacceptably on the environment
- that the viability of the resource is maintained for future users.

As such, not all of the activities undertaken by the department in allocation planning could arguably be attributed to licensed water users as there is some broader public benefit associated with protecting water resources using water allocation planning. This is why we propose that only some of the costs of allocation planning could be recovered.

The private users of any allocation planning activity would be the water users (the licence holders) in that particular area. As such, the benefits that could be reasonably attributed would be folded into a water resource management and planning charge added to a licence fee.

A portion (less than 50 per cent) of the costs associated with water allocation planning are attributed directly to licensed water users.

### 3.3 Environmental water planning

The Department of Water must direct effort to understanding environmental water requirements and the potential impact of water use on the environment in order to inform water allocation planning and licensing decisions.

The policy objective of the Department of Water with regard to water for the environment is to: 'provide for the protection of water dependent ecosystems while allowing for the management of water resources for their sustainable use and development to meet the needs of current and future users<sup>7</sup>.'

These policy obligations along with changes in water availability (through climate change and variability), water demand (increased abstraction and interception of flows), and catchment level changes (land clearing and altered drainage patterns) have key implications for environmental water management. Implications include:

- an increasing requirement to be able to articulate environmental water outcomes to policy and community audiences across the different geographical areas of the state
- a heightened need for accountable, defensible, transparent processes for identifying environmental outcomes and setting the environmental water requirements to meet those outcomes; the investigative work to support environmental decision making for groundwater resources requires drilling and monitoring which is resource intensive
- a requirement to establish effective, efficient and independent audit processes
- a proactive approach to areas of high conservation value which will need to be supported both within the department (at head office and regional levels) and by others involved in natural resource management, for example, other government departments or catchment councils.

#### Specific role of department

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

The Department of Water provides environmental water management services in areas where there is a single large user of a water resource and where there are multiple water users, sharing the same water resource.

Single large water users are required to manage the impacts of their abstraction on the water resource. In these cases, the role of the department is to review supporting technical work and to ensure compliance with environmental objectives. The benefits of this activity accrue to the large water user as it allows them to take water on a sustainable basis.

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<sup>7</sup> Water and Rivers Commission (2000), *State-wide Policy No 5 – Environmental water provisions policy for Western Australia*

In areas where there are multiple users, sharing the same water resource, the department is required to undertake the supporting scientific and technical work in order to set environmental objectives and impact management rules. Large planning areas will require two to three years of investigative work as well as groundwater-environmental modelling at a cost of \$2 – 3 million.

Smaller plans require compilation of existing information and conceptual groundwater-environmental modelling at a cost of \$250,000 – \$1 million.

This work is done by Department of Water staff or by contractors under the supervision of department staff. Irrespective of the approach, departmental expertise is required in discharging this activity.

### Activities, expenses, and cost allocations

Table 18 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 18 Costs of environmental planning and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Allocate & license	Environmental water planning	\$ 2,221,591	Public	Some
			Private	Some

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

The benefits of this work are largely public benefits arising from the sustainable management of the water resource.

Some of the costs associated with the environmental water planning function are attributable to private water users through the work undertaken to support allocation planning and

licensing decisions. These costs could be recovered through a water licence fee or charging arrangement as for allocation planning above.

However, the major portion of the section's activities is more likely to be of public benefit, resulting in improved understanding of the water resources and the environmental systems which depend on them. This means that we would not expect to recover these costs.

### 3.4 Water recycling and efficiency

The water recycling and efficiency section works to ensure the efficient use of fit-for-purpose water by promoting:

- the efficient use of scheme and non-scheme water
- minimal use of scheme water for non-drinking purposes
- optimal use of non-drinking supplies (such as recycled water and stormwater) for non-drinking purposes.

This section develops policy, guidelines and scientific knowledge to support water recycling and efficiency. This includes input through the planning and licensing processes.

#### Specific role of department

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

The department has a number of roles in efficiency and recycling these include:

- ensuring licensed water users are efficient in their water use by applying licensing conditions or requiring water conservation plans as part of operating strategies - this is supported through the development of policy and strategies for all water use sectors, such as working with local councils to produce water conservation plans
- implementing the State Water Recycling Strategy that tasks us with coordinating and expediting policy development across government, and streamlining administrative processes for proponents to facilitate the uptake of recycled water
- advising the minister in relation to water conservation initiatives such as the introduction of garden watering restrictions.

Water service providers, such as the Water Corporation, also have a particular interest in water use efficiency and recycling, because it helps reduce the amount of water that customers use and reduces the need for Water Corporation to develop costly new sources. Recently user groups, such as developers and local councils, have become engaged in water efficiency – with the department providing toolkits, advice and guidance to support them.

#### Activities, expenses, and cost allocations

Table 19 presents the department's response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 19 Costs of water recycling and efficiency and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Allocate & license	Water recycling and efficiency	\$ 1,035,458	Public	Most
			Private	Some

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

A small portion of the section’s activity could be attributed to private users, for example, providing advice to developers that results in reduced reliance on groundwater with associated reductions in cost. Some cost recovery could be obtained through the licensing process or a ‘fee for service model’ could be applied if it was seen as beneficial (and the net benefit was positive).

However, most of the section’s activities have a broader public benefit, for example, maintenance of public open space by local government and reduced demand on scheme supplies. Policy functions, such as administering the State Recycling Strategy, are also seen as having public benefit as this work is done for government itself. As such, most of our work in water recycling and efficiency would not be cost recovered.

## 3.5 Rural water planning

The Department of Water is responsible for ensuring that people living in rural areas have reliable and sustainable water supplies. Our rural water planning work and grants program supports all dry land farming areas in the agricultural region of the South West, that receive less than 600 mm annual average rainfall, and all areas of the rangelands.

We provide grants to encourage rural local governments and farmland community groups to plan and construct improved community water supplies. Grants also assist commercial properties in developing additional sources of water to satisfy domestic, crop-spray and livestock requirements where they benefit the broader community. In pastoral areas, grants assist in securing homestead water supplies and encourage pastoralists to develop alternative watering points to reduce grazing pressure around existing water supplies.

The water supply initiatives we deliver through the rural water planning program include:

- Farm Water Grants Scheme (now the Farm Water Rebate Scheme) – encourages on-farm water supply improvements
- farm water supply planning program – promotes integrated on-farm water supply planning
- pastoral water grants scheme – addresses overgrazing and land degradation at existing water points and domestic water deficiency on pastoral leases
- community water supply program – encourages development of in-situ emergency farmland water supplies during times of serious on-farm shortages
- water deficiency arrangements – implement the Water deficiency declaration policy
- management of strategic emergency water supplies – protects a strategic network of emergency farmland water supplies
- providing technical support – ensures best practice.

### Specific role of department

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

Landowners in Western Australia's agricultural and rangeland areas who do not have access to scheme water are at greater risk of inadequate supplies than those who get water from scheme water systems offered by service providers, such as the Water Corporation. Our program ensures that rural landholders who must meet their water requirements through on-farm supplies have access to secure water supplies.

Our work does not cover providing treated drinking water suitable for human consumption to rural towns. This is the role of licensed water service providers, such as the Water Corporation.

Since 2008, we have broadened the scope of our work from mainly addressing serious water deficiency in broad acre farming districts to include support for intensive commercial farming industries and farms connected to a piped water service.

A greater emphasis on managing water resources effectively means more effort in dealing with the underlying causes of water deficiency, such as poor maintenance of water supply infrastructure and lack of attention to demand management and water conservation principles.

During periods of critical deficiencies in water supplies in rural areas, the Department of Water is the lead agency in planning and coordinating orderly emergency water responses, particularly for livestock requirements.

### Activities, expenses, and cost allocations

Table 20 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 20 Costs of rural water planning and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Allocate & license	Rural water planning	\$ 2,909,252*	Public	All
			Private	None

Note: for a description of the activities under each function refer to appendix A of this submission

Note\*: this includes \$2,340,000 million in grants administered for water supply in rural areas

### Methods of cost recovery

What is the appropriate method of cost recovery?

The rural water planning program is essentially a grants program for farmers who need access to secure water supplies. While it can be argued that the expenditure results in a private benefit, it would make no sense for us to expect to recover costs on a grant. That would mean that the benefit of the grant was completely cancelled.

As such, our expenditure on the rural water planning program will not be considered for cost recovery.

## 3.6 Water metering

The Department of Water’s work in metering is critical to ensure that resources are shared and managed sustainably. Metering is the only accurate way to gauge that water users are taking only what they are entitled to through their licensed allocation.

The metering work we do provides essential input to water licensing, water resource assessment, allocation planning and water accounting. Water metering is also a key tenet of the National Water Initiative, of which we are a signatory. Accurate and reliable metering within our priority water resource planning areas allows us to:

- determine the level of management response needed to ensure sustainable use of the water resource
- define the sustainable limits of a water resource (particularly for over-allocated water resources)
- assess the performance of a water resource and its dependent values
- ensure water users stay within their allocated volumes and usage.
- enable water efficiency benefits, such as trades.

The activities we do as part of metering include:

- assessing sites for meter installation
- managing contractors for the design, supply, installation and maintenance of water meters
- collecting meter readings and reporting on data
- developing metering information, policy, guidelines and legislation
- trialling different types of metering technology
- providing expert metering advice to the Australian Government and other jurisdictions.

### Specific role of department

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

The Department of Water is responsible for installing state-owned meters in priority areas across the state, as well as meter reading and maintenance. We use information from meters to inform any compliance actions and incorporate meter data into assessment models.

Licence holders with allocations above 500 megalitres per year are responsible for installing, maintaining and reading of their own water meters as part of meeting their licence conditions and managing their own water use. This would be considered as a direct cost to the user, and hence is not considered in cost recovery.

We have also begun installing meters ourselves for other licences above 50 megalitres in high demand, high risk areas (namely sub-areas on the Gngangara Mound) to ensure that the resource is not unduly affected.

It is our intention that in the future most licensed water users above 50 megalitres will be metered. However, there are uncertainties around whether the department would install the meters with state or federal funding or if the water user would be required to install them.

## Activities, expenses, and cost allocations

Table 21 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 21 Costs of water metering and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Allocate & license	Metering	\$ 987,874	Public	Some
			Private	Most

Note: for a description of the activities under each function refer to Appendix A of this submission.

The portion of metering expenditure that is for the benefit of the state includes work that is done for the state-wide network as well as for managing government objectives, such as meeting a particular groundwater level to support a wetland.

However, given that metering is explicitly linked with consumptive water use, most metering work is about ensuring that water is not over-abstracted, security of supply for water users is not at risk and the environment is not unduly harmed through abstraction. This means that we consider most metering work to contribute to a private benefit.

## Methods of cost recovery

What is the appropriate method of cost recovery?

In principle, there are a number of ways to recover the cost of metering services from users. The options relate to potential variations in:

- who pays (including the extent to which users pay directly)
- what they pay (such as the types of costs that are recovered)
- how they pay (how water authorities convert those costs into charges for metering services)
- when they start paying.

In practice, the options that the department could implement include:

- making it a licence condition that water users install, maintain and read their water meters (imposing all the costs on users, as currently done to some degree for larger users)
- the state making the necessary investment and, where possible, recovering the costs or some proportion of the costs from users
- splitting the costs between the Australian government, the state, water service providers and end users
- assigning charges according to the nature of the cost and in line with a fee-for-service approach for different types of metering services, such as new meters, repairs, reading and additional services
- funding the initial rollout of meters to overcome the current limited incentive to install meters for some users, but recovering all the costs of metering beyond that point.

Full cost recovery for metering would imply recovery of all the costs associated with providing metering services, including:

- capital costs of the meter
- installation
- maintenance, repair and replacement
- meter reading
- monitoring meter performance, potentially including the costs of audits (or validation) of meter reading
- enforcement and dealing with disputes
- costs associated with managing these activities.

Where the obligations for metering lie entirely with private water users, and they have a strong incentive to monitor their own use appropriately, for example, where there is a market for water, then it seems likely that almost all these costs would be borne by private users.

Where this is not yet the case, water data-collection agencies may need to undertake some of these activities and incur the costs on behalf of private water users. At a minimum, this scenario is likely to involve the cost of meter reading as well as monitoring meter performance. It may also involve the broader costs of ensuring compliance, that is, private users having their water use metered.

In the interim, however, while governments are encouraging the wider use of metering (as there is insufficient incentive for users to install their own meters), they are continuing to bear these costs in many circumstances and are seeking to recover them from users.

### *Issues to consider in implementing full cost recovery*

In practice, there are likely to be a number of issues to consider in recovering the costs of metering. These include:

- private vs public benefits from metering – how the principle should be applied in terms of what proportion of the benefits of metering in particular circumstances are related directly to the water users' consumptive use
- types of users and different licensing agreements – what are the implications for different types of users with potentially different licensing arrangements
- equity issues – what are the likely impacts on different users and types of users (see below); this raises a number of subsidiary questions including:
  - whether the full cost should be recovered
  - whether staggered implementation is best
  - how the payment is made – the proportion up-front, gradual liquidation over the life of the meter, a separate charge for the capital cost of the meter and the ongoing operational expense.
- efficiency considerations – are there likely to be any efficiency impacts from implementing cost recovery (as opposed to imposing the responsibility on users)
- the necessary legislative changes to facilitate cost recovery and any constraints that it might impose.

No matter which scenario is adopted, some requirements will be fundamental to the rollout of metering including:

- the introduction of cost recovery
- a quality process for the supply and installation of meters
- business planning rules to ensure the integration of meter readings to support water resource assessment, water planning, water trading and water accounting
- improved governance arrangements.

### 3.7 Groundwater and surface water assessment, investigation and review

The Department of Water is responsible for determining how much water can be abstracted from a particular resource, then planning and licensing its use. Groundwater and surface water assessment, investigation and review are the first steps in understanding and managing our water resources. This function is also crucial in determining impacts of water abstraction and changes through a drying climate over time.

As demand for use of water is nearing or has reached the estimated sustainable supply from natural systems in the most of the populated parts of the state, our role in understanding water resources and water use is increasing in both importance and the level of effort required to deliver the function. Growing water demand and the drying climate are likely to put further pressures on delivering assessment and investigation activities.

## Specific role of department

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

As the state’s water resource manager, it is generally our responsibility to assess and understand water resources. The Department of Water provides water resource investigation and assessment services in areas where there is a single large user of a water resource and where there are multiple water users, sharing the same water resource.

Single large water users, such as the Water Corporation or large mining companies, are required to investigate and understand the water resource, both initially and continuously throughout the licence term. In these cases, the role of the department is to review supporting technical work and to ensure compliance with resource objectives, licence conditions and operating strategy.

The benefits of this activity accrue to the large water user as it allows them to take water on a sustainable basis and manage their security of supply.

In areas where there are multiple users, sharing the same water resource, the department is required to undertake the supporting scientific and technical work in order to set resource objectives and impact management rules. This work is done by Department of Water staff or by contractors under our supervision. Irrespective of the approach, departmental expertise is required in discharging this activity.

## Activities, expenses, and cost allocations

Table 22 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 22 Costs of groundwater assessment, investigation and review and surface water assessment and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Allocate & license	Groundwater investigation	\$940,000	Public	Some
		(\$1,694,000 in capital)	Private	Most

Allocate & license	Groundwater assessment	\$1,040,000	Public	Some
			Private	Most
Allocate & license	Groundwater review	\$885,000	Public	Some
			Private	Most
Allocate & license	Surface water assessment	\$649,000	Public	Some
			Private	Most

Note: for a description of the activities under each function refer to appendix A of this submission.

## Methods of cost recovery

### What is the appropriate method of cost recovery?

Water resource investigation and assessment work feeds significantly into making water available for water users through licensing and allocation planning. It is currently funded by the department or through funding partners, such as the Australian Government.

Our investigation and assessment work determines how much water users can take from a resource, without unduly affecting:

- security of supply for individual users
- the environment
- the viability of the resource for future users.

We consider that most of the cost of investigation and assessment could be recovered from water users as the private 'user' of any investigation or assessment are the water users (the licence holders) in that particular area. As such, the benefits that could be reasonably attributed would be folded into a water resource management and planning charge added to a licence-based water resource management and planning charge, for current or future users.

However, not all of the activity undertaken by the department in investigation and assessment could arguably be attributed to licensed water users as there is some broader public benefit associated with a better understanding of the resource.

Issues to consider in establishing an approach to cost recovery for resource investigation and assessment include the mechanisms of cost recovery and liability to pay.

Potential mechanism to recover costs include:

- a new charge attached to all future licences
- a fee for service approach to all future licences
- a water sale or auction of any future water.

Distinguishing current and future users in terms of what they are liable to pay is significant area for further consideration. Areas needing consideration include:

- How the new costs would be fairly apportioned if an area was fully allocated and new investigations and assessment found additional water.
- What the most equitable means of recouping costs would be between current and future users.
- How costs would be recovered for new resource investigations and assessments where no water is released as there are no water users.

## 3.8 Water measurement and information

Our water measurement and information function includes the work we do in spatial analysis (Geographic Information Systems), water information collection, information management and information provision.

Our service covers a range of activities including:

- collecting measurements in the field from the State Reference Network and other sources
- storing information in central databases
- providing the data to interested parties
- providing the means to display water information on maps and models
- reporting water information in the form of water accounts.

This function differs from groundwater assessment or floodplain monitoring. In this role we conduct state-wide monitoring programs and bring all of our water information together so it can be analysed and used in our core licensing, planning and water quality business or provided to external stakeholders. Our water information collection and management is critical for assessing available water yields and quality and monitoring the impacts of water use to ensure that water resources are used sustainably.

Our program also maintains a significant regional presence in terms of workforce and capital assets so we can assess water resource trends throughout the state.

### Specific role of department

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

The Department of Water's measurement and water information function is unique in that it maintains for the state a central repository of major datasets relating to water quality and quantity, spanning the last 100 years. These wide-ranging, state-wide datasets are of great value in conducting our business, where short- and long-term trends can be discerned and analysed for planning, allocating and licensing water.

We also maintain the State Reference Network of bores and gauging stations which are central to collecting water information for management purposes. The replacement value of the network is around \$150 million dollars and we undertake a large maintenance program each year.

The Department of Water has a highly trained specialist workforce to collect, manage and provide the data collected from the State Reference Network and other sources.

**Activities, expenses, and cost allocations**

Table 23 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 23 Costs of water measurement and information and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Allocate & license	Spatial analysis (GIS)	\$ 410,000	Public	All
			Private	None
Allocate & license	Water information collection	\$ 3,768,000	Public	Some
			Private	Some
Allocate & license	Water information management	\$ 680,000 (\$ 5,550,000 external) (\$ 4,060,000 capital)	Public	Some
			Private	Some
Allocate & license	Water information provision	\$ 380,000	Public	Some
			Private	Most
Allocate & license	Water accounting	\$ 380,000	Public	Some
			Private	Some

Note: for a description of the activities under each function refer to appendix A of this submission.

The Department of Water uses the outputs of this function extensively to manage water use and catchment health. This includes water assessments, waterways monitoring and drainage planning. For this reason, some of the costs of this function could be apportioned to private users – as in the people who abstract water and who may have an impact on the resource.

Historical water quality and quantity information is also in high demand by external parties, such as consultants, mining companies, the Water Corporation, universities, and other government departments, such as the Bureau of Meteorology and CSIRO. The water information provision program fulfils this function.

Where external stakeholders have demand for our products it may be possible to recover costs associated with either the administration costs required providing the information or that associated with the actual information collection and maintenance itself.

## Methods of cost recovery

### What is the appropriate method of cost recovery?

The costs of water information collection, management and accounting could be apportioned to private users – through either the licensing process or other means such as charges for drainage planning (depending on what the output is used for).

Water information is currently provided to stakeholders at no cost. There are three proposed options for how the costs associated with water information provision (\$380,000) could be recovered from users.

Please note the other four functions listed above in Table 23 are not considered in the below discussion, as they are considered to have a public benefit.

#### *Flat fee structure*

Considering that two-thirds of our time is spent providing information (data) to external stakeholders there is potential for full or partial cost recovery through introducing a service charge or fee.

A flat fee of \$329.90 ex tax per data provision in 2009/10 would fully recoup the cost of the service to commercial and private users. The figure is based on:

- the additional cost of collecting and administering a fee-based service
- efficiency gains to the volume of use after introducing a fee
- making allowance for bad debts
- factoring in recovery of corporate overheads.

Under this proposed scenario, we would continue to provide information to non-commercial users at no cost, which would leave \$130,182 in 2009/10 value to be paid from existing consolidated fund sources.

#### *Sliding scale fees*

An alternative structure would be to introduce fees on a sliding scale based on the complexity of the data request (such as low, medium and high complexity).

If this fee option were to be adopted, more work would be required to define what sliding scale of fees would most suit stakeholder profiles and to ensure costs were not over-recovered. The fee would need to be derived from:

- effort categories such as hours to process request
- the number of requests in each category
- requests and effort apportioned as such that the total cost of the function was recovered

#### *Hourly-rate based fee*

A third option would be to introduce a fee based on an hourly rate. This fee would be in the order of \$171 per hour for providing commercial use data based on current data provision profiles.

The downside of this option is that the fee-for-service is not fixed or capped and the stakeholder may receive a fee in excess of their expectations.

### 3.9 Focus areas for the inquiry

We recommend that the ERA:

- consider the options for cost recovery presented in each area, particularly the four options presented for licensing cost recovery
- develop an appropriate model for recovering the costs associated with water resource investigation and assessment, considering the issues raised in section 3.7
- develop an appropriate model for recovering the costs associated with water information, including how costs could fairly be apportioned between current and future water users
- define suitable options for recovering the costs associated with data provision to external stakeholders.

## 4 Managing flooding and drainage

In Western Australia, many cities and towns are built in low lying areas and require drainage to allow new homes and infrastructure to be built without risk of damage.

There are also towns and cities across Western Australia, including Perth, where flooding can occur. This can lead to millions of dollars of damage to homes and infrastructure if adequate planning and management is not put in place.

Our role is crucial in terms of planning and management to ensure that our cities and towns are built with suitable drainage and that they are protected from flood events in the long term. Development of urban land cannot occur without our work to manage water in the urban environment.

### 4.1 Urban drainage, assessment and land-use coordination

We are responsible for developing strategies, management plans and land-use planning initiatives to deliver sound and sustainable water, waterways and drainage management outcomes.

We have recently embarked on a five-year strategy to prepare drainage plans that cover the major urban expansion areas of the state. We take a catchment management approach, which makes the most of total water cycle and water sensitive urban design principles.

#### Specific role of department

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

We undertake drainage planning in particular areas as the demand for drainage planning is triggered. The need may be triggered through local government, developers or planning agencies proposals. Our input and advice includes many different aspects for managing urban water, including best practice for storm water management, surface water flow rates, floodplain management and/or protection, and current catchment conditions.

When local government authorities (LGA) deal with development applications the *Planning and Development (Local Government Planning Fees) Regulations 2000* enable them to collect fees for development applications. Where an LGA is responsible for a drainage area, it may also charge developer contribution fees towards the provision and maintenance of drainage services. We provide significant advice to local agencies on local area conditions and how to manage drainage.

The Water Corporation also plays a role in drainage as the state's largest water service provider. The *Metropolitan Water Authority Act* provides for the constitution of drainage areas. Under the *Water Agencies (Charges) By-laws* the Water Corporation is able to specify the drainage rates payable in respect of land located in a drainage area. In the course of this role, the corporation can charge for the costs incurred in the provision of drainage services to developers, via a contribution fee.

The Western Australian Planning Commission (WAPC) deals with applications made under the *Planning and Development Act 2005* and the *Strata Titles Act 1985*, for which they also charge fees.

### Activities, expenses, and cost allocations

Table 24 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 24 Costs of urban water management and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Flood & drainage	Drainage executive (includes some flood resources also)	\$ 699,466	Public	As below
			Private	As below
Flood & drainage	Urban water planning and assessment	\$ 3,724,028	Public	Some
			Private	Most
Flood & drainage	Water and land-use coordination	\$ 826,713	Public	All
			Private	None

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

#### *Cost recovery for water quality improvements*

An urban drainage summit was held in October 2007 to progress elements of the Urban Drainage Initiative. Three main options for drainage funding were examined. Due to the complexity of the issue a working group was also established to attempt to identify which funding model would be best for Perth. Two alternative models were identified.

1. Modified status quo (Melbourne model)

Under this model there is a designated agency responsible for quality and quantity management. A separate body is responsible for setting standards and high-level policy and planning. This model envisages:

- extensive liaison between agency and local government, with agency responsible for operational planning
- drainage rate extended to the whole metropolitan area
- charging to include a stormwater quality charge plus a quantity management charge in main drainage areas
- stormwater quality charge included in the headworks charge (quality charge abated if developers implement best practice)
- natural resource management charges for drainage planning.

Variants include:

- annual charges – fixed or by land area
- scheme-based headworks charges

## 2. Universal Charge

The Water Corporation is responsible for both water quality and quantity management in urban areas. A separate body would be responsible for setting standards and high level policy and planning. This approach requires:

- drainage charges that cover water quality and quantity management and are extended to the whole of the metropolitan area replacing existing charges by Water Corporation and local government authorities
- developer charges that are based on specific scheme costs
- centralised collection of charges and allocation of revenue across suppliers
- expenditures that are prioritised using the regional roads model, South Australian model and/or some other model
- determining the method for the allocation of revenues, determining the revenue requirement of licensed suppliers, and setting and collecting charges.

Variants include:

- a levy structure
- universal charge for water quality only.

The drainage funding working group assessed each funding model against criteria of social equity, efficiency of outcomes and simplicity of operation/implementation. The group also considered the ability of each model to accommodate the characteristics of a water sensitive city. The members agreed in principle that:

- One central planning body should be responsible for setting standards and priorities for the delivery of drainage services.

- Improvements in the management of drainage discharges and water quality, in particular, are required to secure acceptable environmental outcomes and to enable Perth to achieve its vision of a water sensitive city.
- These improvements require evolution of both governance and funding arrangements, with governance and funding being closely inter-linked.
- Either of the two proposed new funding models (modified status quo or universal charge) could deliver desired outcomes. The universal charge offers advantages in equity and efficiency terms, but requires more extensive institutional and legislative change.

### *Cost recovery for Department of Water assessments in the land development process*

During 2008, the department received 1,800 statutory subdivision referrals from the Western Australian Planning Commission (the WAPC). We currently assess and respond to statutory referrals within 28 days as agreed with the WAPC. In most cases, the department's response contains conditions and recommendations for water management documentation.

We also received 200 requests for the clearance of subdivision conditions in the same period. Many of these conditions were related to the need to prepare water management documentation in the application process. The initial assessment of water management documentation can take anywhere between 4 to 6 weeks depending on complexity of proposal. This time frame does not take into consideration the need for additional information and assessment where required.

Due to a combination of unprecedented urban growth and more technically complex urban water management requirements the department has to meet rapidly increasing demands, which affects reliability of service in terms of quality and time..

Two options for cost recovery have been briefly explored.

*Option 1:* incorporate the department's subdivision assessment costs into the current WAPC subdivision fees. Funds can then be transferred to us from the DPI.

This has the benefit of us tapping into an existing process and also streamlining it. It may however have some flow-on effect to other agencies.

*Option 2:* introduce fees for clearance of subdivision conditions similar to those of local government. Standard fees could apply with additional cost for clearance that requires the assessment of water management documentation.

The advantage of this option is that fees for subdivision clearance already exist.

## 4.2 Floodplain management

We are the lead agency in major floodplain and river flooding management activities.

Floodplains are under pressure from more intensive uses, such as urban development, despite the significant flood risk. This pressure is increasing as desirable undeveloped land

becomes scarce. We manage floodplains for the benefit of the whole community to minimise risk and damage and protect environmental values.

Western Australia has an average annual flood damage bill of ~\$20 million. Studies indicate that for every \$1 spent on mitigation, between \$2 to \$3 are saved in the response and recovery phases. The most effective strategy for reducing the long-term impact of natural hazards, such as flooding, is to promote mitigation activities.<sup>8</sup>

### Specific role of department

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

Effective floodplain management requires cooperation and coordination between three levels of government and all stakeholders to reduce future losses caused by floods. The Department of Planning and Infrastructure (the DPI), local governments, Fire and Emergency Services Authority (FESA), developers/consultants, insurance companies and the community all have a key interest and role in this work.

Our role is related to the water resource aspects of flooding, such as:

- floodplain mapping and floodplain management studies for existing and future urban areas which are flood-prone
- providing advice and guidelines for development on floodplains with the object of minimising flood risk and damage
- assisting with implementing flood mitigation
- assisting with flood forecasting and warning.

This work is essential for the DPI in its land use planning purposes, local government in undertaking development controls and FESA in planning emergency flood responses.

As a central advisory service for floodplain management we also provide consistent minimum standards of flood protection throughout the state and give impartial advice with regard to proposed development. These activities are advisory only as the department is not a decision-making authority in these areas.

The Water Corporation focuses on their urban and rural drainage networks and flood protection works although there are overlaps in the work that both agencies undertake to manage floodplains.

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<sup>8</sup> Department of Primary Industries and Energy, Australian Water Resources Council (1992) *Floodplain Management in Australia Volume 2: Main Report*, Water Management Series No 21.

Department of Transport and Regional Services, Bureau of Transport and Regional Economics (2002) *Benefits of Flood Mitigation in Australia*.

## Activities, expenses, and cost allocations

Table 25 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 25 Costs of floodplain management activities and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Flood & drainage	Floodplain management	\$ 926,000	Public	Some
			Private	Some

Note: for a description of the activities under each function refer to appendix A of this submission.

## Methods of cost recovery

What is the appropriate method of cost recovery?

Currently, the department does not recover any of its costs associated with flood management. Generally, our work is for the public benefit and there is no direct private user. However, this could be challenged because other government agencies are essentially the private ‘users’ of our work, not the general public.

Each year we undertake around ~\$600,000 of activity for the DPI and local governments towards floodplain mapping and guidance on floodplain planning and development.

We also provide advice (costed at around ~\$300,000) on flood forecasting and warning to FESA, who is the hazard management agency for flood response.

Normally, work we do for other government agencies would not be cost recovered from that particular agency. Yet, floodplain services are different in that both the DPI and local governments charge a fee for development proposals in which our floodplain mapping and development advice is a key input. We currently provide at least 1200 advices per year. As such, the department believes it possible that we could recoup some of the costs of our work from DPI or local government and the associated fees that they currently recoup.

The funding detailed above does not include the ongoing maintenance costs of the state's telemetered flood monitoring network.

The method for cost recovery is uncertain, however, it may be that a fee-for-service model could apply. Under this approach the department would define each of its standard products and services, such as a floodplain map or hours of advice on a particular flood area, and develop a standard pricing structure for these products and services. Each product or service would be invoiced on a case-by-case basis (using the set fees and charges) and would be charged to the relevant government agency.

### 4.3 Focus areas for the inquiry

We recommend that the ERA:

- consider a suitable model for cost recovery when the private user of a product or service is another government agency and that agency has already established cost recovery mechanisms with its users.

## 5 Managing water quality

We are responsible for assessing and managing water quality in Western Australia. While this function has significant cross-over with the Department of Environment and Conservation, our work is significant in this area. Some of the outputs from our water quality work include:

- water source protection plans across the state, to protect public drinking water supplies
- salinity recovery work in the Mundaring and Collie River catchments
- assessments of aquatic ecology and health of our important rivers, such as the Swan River.

We consider that the quality of water in the state's limited public drinking water source areas is critical to the existence and growth of our state's population centres. Managing water quality is also an important part of ensuring that we have healthy catchments and waterways where the environment is protected and people can enjoy living near, and visiting, healthy rivers.

### 5.1 Water source protection

Good quality drinking water is essential to the state. Water source protection ensures that we have access to healthy drinking water that can be provided at lesser cost than water which requires tertiary treatment due to high-risk contamination activities (such as people swimming or boating) taking place on a particular water source.

Drinking water must come from a reliable supply to meet consumer expectations of a constant and safe supply. We meet these requirements through implementing the 'catchment to consumer' framework outlined in the Australian Drinking Water Guidelines. We operate under the *Metropolitan Water Supply and Sewerage Drainage Act 1909* and the *Country Area Water Supply Act 1947*, which provide a legislative foundation for the state drinking water protection program together with supporting health, planning and conservation legislation.

#### Specific role of department

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

As the state's water manager, we protect drinking water sources that are then licensed for abstraction by water service providers, such as the Water Corporation, or smaller providers such as Aqwest (Bunbury) and Busselton Water.

We also provide extensive land-use advice to the Western Australian Planning Commission, the Department of Planning and Infrastructure and to local government authorities via responses to statutory referrals.

Our role includes:

- preparing drinking water source protection plans for around 150 water sources that are used as a source for public water supplies
- giving advice on protecting water source areas for about 300 Indigenous communities and about 500 mines and/or associated communities, which may not have water supply provided through licensed water service provider
- preparing land-use advice, policy, strategies and guidance documents to protect the state’s water resources
- providing information, specific project guidance and advice on water resource protection to other government agencies, individual land owners or managers, development consultants and the general community.

### Activities, expenses, and cost allocations

Table 26 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 26 Costs of water source protection and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Water quality	Water source protection	\$ 2,166,960	Public	Some
			Private	Most

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

Most of our water source protection work is in developing water source protection plans for areas where there are public water supplies. This means that most of the work we do is for a private benefit, that is, for the benefit of water service providers.

As such, there is potential to recover most of the costs associated with water source protection through a direct charge or negotiated arrangement with service providers.

## 5.2 Salinity recovery and engineering

Large-scale land clearing has started a trend towards water resources becoming saline across the south-west corner of our state. This has had a major impact on water availability and water users' access to fresh and secure supplies. We play a role in managing salinity and restoring affected water resources by:

- assessing the impact of salinity on certain resources and producing salinity situation statements
- developing salinity recovery plans for resources identified within water resource recovery areas
- preparing drainage plans for priority areas across the Wheatbelt
- undertaking investigations into critical water resource issues around salinity, such impact of climate on water resources and ability of plantations to improve water resources.

### Specific role of department

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

As the state's water manager we have a broad role that drives the delivery of our state-wide initiatives to recover saline water resources and manage saline areas of the Wheatbelt. The water that we recover through salinity recovery programs is used by licensed water users in that area, from farmers to industry or water service providers.

Our work in the Wheatbelt area focuses on managing saline water resources that impact farmers' access to fresh, secure water resources.

Other agencies such as the Department of Agriculture and Food are also involved in managing rural salinity.

### Activities, expenses, and cost allocations

Table 27 presents the department's response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state's water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department's resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 27 Costs of salinity recovery and engineering and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Water quality	Water resource recovery	\$ 1,980,000	Public	Most
			Private	Some
Water quality	Wheatbelt catchment water management	\$ 587,000	Public	Most
			Private	Some
Water quality	Climate, water and vegetation	\$ 512,000	Public	Most
			Private	Some

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

There are some expenses which could be attributed to specific water users, but the majority of expenses in the salinity recovery sub-program are broader public good expenses.

So far, we have not considered any appropriate method for recovering costs in this area.

## 5.3 Waterways, aquatic risk, chemistry and ecology

The department's waterways role is to assess, protect or recover water and waterways to best meet social, environmental and economic needs. We achieve this through:

- developing best management practices and policies
- aligning land planning and development with waterway management planning
- completing resource condition assessments
- implementing on-ground works to manage, maintain, stabilise and improve the physical, ecological and biological integrity of priority waterways
- building community capacity.

In the State Waterways Initiative we identified a number of waterways for priority management. Our focus in these areas includes preventing and minimising degradation and supporting restoration of degraded waterways.

### Specific role of department

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

In this role we undertake a broad, natural resource management function which would not be done by private stakeholders.

### Activities, expenses, and cost allocations

Table 28 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 28 Costs of waterways, aquatic risk, chemistry and ecology and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Water quality	Waterways	\$2,241,479	Public	All
			Private	None
Water quality	Aquatic risk	\$ 423,451	Public	All
			Private	None
Water quality	Aquatic chemistry and ecology	\$ 587,900	Public	All
			Private	None

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

The key output of this work is initiatives that aim to improve waterway environments for economic, social and environment outcomes.

As this work is for a public benefit (or stems from a public impact) we consider than none of our activities here would be cost recovered.

## 5.4 Focus areas for the inquiry

We recommend that the ERA:

- provide advice on suitable methods for recovering costs for water source protection
- explore the feasibility of, and possibilities for, cost recovery in salinity recovery.

## 6 Providing policy advice and reform

The department develops policy that guides how water is managed in Western Australia. We also develop policy to guide decision making under the range of acts we administer, and implement policy positions established by the Government of Western Australia

A key component of our policy work is give direction to the reform of the legislative framework for water management. Central to this work is modernising the up to a century-old legislation for water management to enable the department to manage modern water resource management problems. The key driver is the increased scarcity and competition for limited water and the impacts of climate change. The Irrigation Review 2005, Blueprint for water reform in 2006 and the signing of the National Water Initiative agreement in 2006 provide a framework for this review.

Other bodies play a role in recommending positions for policy and reform to government. The Economic Regulatory Authority provides independent advice on costing and pricing issues. Water service providers, including the Water Corporation, promote water industry policy. Mining and agricultural representative groups and user groups also develop positions they would like to see adopted by government. The department considers all of these inputs when developing policy for government consideration.

We do not expect that any of our policy functions are cost recoverable. This is also in keeping with the National Water Initiative.

### 6.1 Water reform implementation and coordination

The complete modernisation of water management is complicated. Legislative review is a key component, but we also need to:

- be involved in the national reform agenda
- develop internal operational policy, processes, and supporting systems
- put in place staff training and capacity
- raise awareness in the community and water users to the impacts of the change.

Our service provides a central point of coordination for an efficiency and coherent water reform process to achieve best outcomes for invested government resources. The key users are the department and the government.

In addition, significant work is required in liaising and reporting to the National Water Commission and the Department of Water, Heritage and the Arts to implement the NWI. These federal bodies are the users of this work and the department views the delivery of this work to these federal users as part of the state government's responsibilities under the National Water Initiative agreement.

## Activities, expenses, and cost allocations

Table 29 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 29 Costs of water reform implementation and coordination and their allocation to users based on water management and planning function*

Category	Functions	Cost	User	Portion
Policy & reform	Policy reform implementation	\$ 400,000	Public	All
			Private	None
Policy & reform	Policy and water reform coordination	\$ 440,626	Public	All
			Private	None

Note: for a description of the activities under each function refer to appendix A of this submission.

## Methods of cost recovery

What is the appropriate method of cost recovery?

The reform work will improve the management and regulation of water resources for all water users and water service providers. It will ensure better outcomes for the state as a whole. The key user of this service is the department.

As such we do not expect to recover any costs from these areas. These areas will remain funded through consolidated revenue. See chapter 9 for more detail.

## 6.2 Strategic water management and strategic water issues

Strategic water management designs and develops strategic plans and policies. The strategic issues function establishes, plans and delivers cross-departmental projects of very high risk and complexity. Examples are the Gngangara Sustainability Strategy, the cost recovery project, water and climate change and the South West Yaragadee assessment

project. This function is necessary to re-prioritise departmental resources and ensure that projects deliver efficiently where resources and capacity to deliver may be limited in an area.

### Specific role of department

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

The primary user of strategic planning and strategic policy are the department's operational functions, other government departments and the community. Most strategic functions improve the efficiency of how the department operates by providing clear direction on where and when particular operational activities are required. For example, the South West regional water plan identifies the need and priority for planning activities in that region to be followed as resources allow. The plans also provide interim positions for decision makers pending the outcome of complicated, and often long, operational planning or policy timelines.

Strategic management takes a whole-of-water-cycle view providing direction on water management issues that are not covered by existing legislation. Other agencies may then use this clear strategic direction on issues, such as plantation impacts on water, farm dams or dewatering discharges, to achieve the water outcome through alternative decision-making measures (such land planning decisions by local government).

Strategic issues are managed for a variety of users but principally it provides a close coordination of highly risky or contentious issues for the department. For example, the cost recovery project has been established as a strategic issue project to provide information to the ERA inquiry, then provide advice to government on implementation of cost recovery, and eventually to implement the project. This is a large and cross divisional project that is cross-department and therefore this function provides a useful central coordination point.

### Activities, expenses, and cost allocations

Table 30 presents the department's response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state's water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department's resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 30 Costs of strategic water management and strategic water issues and the portion to be cost recovered*

Category	Functions	Cost	User	Portion
Policy & reform	Strategic water policy and planning branch administration	\$ 181,180	Public	All
			Private	None
Policy & reform	Strategic water management	\$ 692,662	Public	All
			Private	None
Policy & reform	Strategic water issues	\$ 292,220 (\$ 735,000 grant)	Public	All
			Private	None

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

This work is completed for the benefit of government and the benefit of the public and we do not expect to recover any costs from these areas. These areas will remain funded through consolidated revenue. See chapter 9 for more detail.

## 6.3 Legal services and legislation

This function is where we develop drafting instructions for new legislation, regulations and codes to be created. This includes the key water reform projects of the water services and water resources management legislation. This function also delivers legal advice to all operational parts of the department, including licensing and land-use planning.

Legal services provides key input that allows decision making on many aspects of water management, including allocation planning, process development, licensing arrangements and land-use planning decisions.

### Specific role of department

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

The department is solely responsible for developing new water management legislation. While other organisations may have their own legislative frameworks addressing their own internal workings, they do not have a role in overarching legislative development.

### Activities, expenses, and cost allocations

Table 31 presents the department's response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 31 Costs of legal services and legislation and the portion to be cost recovered*

Category	Functions	Cost	User	Portion
Policy & reform	Legislation and legal services branch administration	\$ 114,342	Public	Most
			Private	Some
Policy & reform	Legal services	\$ 173,636	Public	Most
			Private	Some
Policy & reform	Legislation	\$ 429,850	Public	All
			Private	None

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

Legal services provides key input to decision making on many aspects of water management, including allocation planning, process development, licensing arrangements and land use planning decisions.

There has been no investigation into the potential to recover costs for legal services. Suggestions for further assessment include:

- increasing charges for licensing or other decision-making activities for an area based on previous year’s legal advice costs (very approximate)
- direct inclusion of related legal advice costs on an individual licence (administration heavy).

It should be noted that legal services that are associated with licensing or other decision-making activities are generally reactive and therefore cannot be identified at the beginning of the year for equal spread across water users, developers or other ‘users’.

Work to develop new legislation is completed for the benefit of government and the benefit of the public and we do not expect to recover any costs for this. These activities will remain funded through consolidated revenue. See chapter 9 for more details.

## 7 Supporting the water services industry

The Department of Water provides support to aspects of the water services industry. Essentially, the department's work helps protect customers by regulating water service providers to uphold standards in health, services and customer service.

In addition, we manage the water service operating environment to:

- provide opportunities for competition
- assist sustainable development
- provide services at least cost to customers and the government
- ensure water schemes are sustainable and environmentally responsible
- ensure the ongoing technical and financial viability of service providers
- ensure water is used efficiently
- avoid monopolistic behaviour.

We manage water service providers (and provide support to the Minister for Water) using a regulatory framework for water service providers. Our regulatory framework for managing service providers involves several government organisations, pieces of legislation and policy guidelines.

### 7.1 Water services and strategic water industry policy

#### Specific role of department

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

The Department of Water provides advice to the Minister for Water to support his role in setting licensing policies and regulations for water service providers who operate under water services licences issued by Economic Regulation Authority.

We also provide the minister with advice on setting by-laws that control water prices and monitoring WA's obligations under the National Competition Policy agreement.

We work with key stakeholders in the water industry, such as service providers, regulators and customers, to develop effective industry policy and administer legislation on behalf of the Minister for Water.

#### Activities, expenses, and cost allocations

Table 32 presents the department's response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state's water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department's resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 32 Costs of water services and strategic water industry policy and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Support service providers	Water services branch administration	\$ 171,341	Public	As below
			Private	
Support service providers	Water services policy	\$ 826,374*	Public	Most
			Private	Some
Support service providers	Strategic water industry policy	\$ 228,689	Public	Some
			Private	Most

Note: for a description of the activities under each function refer to appendix A of this submission.

Note\*: this includes \$339,000 in grants administered for the State Water Strategy.

While we develop water services policy for water service providers and the ERA, the main beneficiaries of this work are the customers of service providers. Our aim is to create an operating environment for water service providers that ensures the efficient and sustainable delivery of safe, fit-for-purpose water to customers at low cost.

### Methods of cost recovery

What is the appropriate method of cost recovery?

Upholding standards for service delivery ultimately results in a benefit to customers and, arguably, the cost for policy development in this area could be passed on to the service providers, who would pass them on to these main beneficiaries.

However, we do not expect to recover any of the costs associated with these functions for two reasons:

1. These costs are excluded under section 67 ii of the NWI, which identifies policy development as an excluded activity and limits cost recovery to areas where activities are closely linked to those costs.

2. A key component of the new water services legislation will be the establishment and administration of a Water Ombudsman Scheme. Participation in the scheme will be a condition of every water services licence. The water industry will be added to the existing Energy Ombudsman Scheme to create an Energy and Water Ombudsman. The scheme will be industry funded and will follow the model already established for the energy industry. In contrast to the existing customer complaint resolution process operated by the Department of Water, the Energy and Water Ombudsman will have the power to make decisions that are binding on all parties in a dispute.

## 7.2 Indigenous and remote community services and support

The department's Indigenous services and support areas provide assistance for Indigenous issues across the state at regional and local level.

This area of the department also endeavours to increase Indigenous participation in water resource management at all levels whilst adhering to the Aboriginal Heritage and Native Title acts.

Our Indigenous affairs area has responsibility for:

- developing processes and capacity to engage Indigenous people in water resource planning and management
- ensuring that the department meets its legal obligations for Indigenous employment and adheres to acts that are relevant to its work.

### Specific role of department

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

The department has an important government responsibility to engage Indigenous people in the areas of water management and planning, which is the core function of the department. While water users and service providers may also engage Indigenous people in their business activities, this area within the department ensures that government is working towards best practice.

### Activities, expenses, and cost allocations

Table 33 presents the department's response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state's water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 33 Costs of Indigenous and remote community services and support and the potential portion to be cost recovered*

Category	Functions	Cost	User	Portion
Service providers	Indigenous and remote communities water services	\$ 249,514	Public	All
			Private	None
Service providers	Indigenous support (affairs)	\$ 196,000	Public	All
			Private	None

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

The Department of Water does not expect to recover any of the costs associated with its Indigenous services and support functions as the outputs of this work have a public benefit and are focussed on government improving its internal practices and approach to water management and planning.

## 7.3 Focus areas for the inquiry

We have not identified any particular focus areas for these functions.

## 8 Enabling functions

The department has a number of functions which enable our water resource management and planning business to operate. These include our corporate service functions that manage human resources, finances and information services, but also functions that deal with staff in our regional offices (and their accommodation) and land that we purchase and manage to protect resources. The Director General and the five directors are included in this chapter as they work across the business in addition to the discrete functions they fulfil in their directorates. All these functions are indirect costs incurred in delivering water management and planning.

Standard corporate services and executive functions, such as finance, human resources and information services, are an essential enabling function. See appendix A for details on each of the department's corporate service functions and the associated activities.

Regional water management and land management functions are discussed below as they are considered essential water resource management and planning activities and not standard corporate functions.

### 8.1 Regional water management

The primary focus of our regional management group is to assist staff in the regions in delivering the core work of the department. It supports many of the strategic priorities of the department and provides a local service for all parts of the water business. The regional management group includes all of our regional managers and staff, as well as their support functions, to ensure the regions can operate smoothly.

Our regional offices play a major role in ensuring that we have people on the ground who understand local issues and are available to work with water users and others who use our products and services, such as licence holders, the local community or water service providers, to name a few.

Having seven regional offices across our state and a regional co-ordination function ensures that we can provide:

- a coordinated service for all parts of the water business across our large state
- a local area context for outputs that may be delivered centrally, such as allocation plans
- a safe working environment and appropriate accommodation for staff in the regions
- line management for all regional staff which includes training and OSH requirements.

#### Specific role of department

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

The regions are responsible for delivering all facets of the department’s business across the seven regional areas, from licensing and groundwater monitoring to water source protection and strategic water planning.

An important additional function that the regions deliver is working with stakeholders and managing local water management and planning issues as they arise. Depending on the stakeholder or the issue, the department may represent government in water management decision-making, or it could be a facilitator between a number of stakeholders.

The role of the department in its regions varies depending on the functions that the region is responsible for delivering, although, generally regions deliver all of the department’s functions. For more detail on the department’s role across the regions, see responses in the previous chapters.

### Activities, expenses, and cost allocations

Table 34 presents the department’s response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the state’s water resources?

Which tasks or activities undertaken in the efficient management of the state water resource, by the department, are appropriately recovered from water users?

What costs of the department’s resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 34 Costs of other departmental activities and the potential portion to be cost recovered*

Category	Functions	Cost	User
Executive and corporate	Regions: Kimberley, Kwinana/Peel, Mid-West, South Coast, South West, Swan-Avon, Pilbara	\$ 3,215,000	Public
	Regional co-ordination	\$ 929,000	Public

Note: For a description of the activities under each function refer to appendix A of this submission.

Please note that regional managers and their teams work across the department and contribute to all areas of the business which is why their time has not been apportioned to specific areas for the purpose of this report. The costs above do not include staff who are paid through a centrally managed program budget, such as licensing.

## Methods of cost recovery

What is the appropriate method of cost recovery?

Given that regions deliver each of the department's functions, we expect to recover regional costs in line with the particular function that the staff member contributed to. For regional managers, costs would be recovered for a portion of their time that is spent on appropriate activities, such as licensing, allocation planning and urban water management. Other activities provided by regional services that are for the government's, the department's or the public's benefit would not be cost recovered.

## 8.2 Managing land assets

From time to time, the Department of Water purchases land to ensure best management of water resources. We may purchase a tract of land to protect water resources that are significant for current or future public water supplies, to maintain important ecosystems or to protect Indigenous and cultural heritage.

Once purchased, the department plays an active role in maintaining these reserves.

### Specific role of department

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

The department purchases land where there is a broader government or public benefit to do so and where no private beneficiary has an interest to act.

### Activities, expenses, and cost allocations

Table 35 presents the department's response to the following issues raised by the ERA in Chapter 2 of the issues paper:

Which planning and management expenses incurred by the department are for the sustainable management of the State's water resources?

Which tasks or activities undertaken in the efficient management of the State water resource, by the department, are appropriately recovered from water users?

What costs of the department's resource management and planning activities should be allocated to users?

The first question is translated into activities and their cost, and the second and third questions were translated into type of user and the portion of costs that can be allocated to each.

*Table 35 Costs of managing land assets and the potential portion for cost recovery*

Category	Functions	Cost	User	Portion
Executive and corporate	Land management	\$ 200,000 (\$ 1,000,000 capital)	Public	Most
			Private	Some

Note: for a description of the activities under each function refer to appendix A of this submission.

### Methods of cost recovery

What is the appropriate method of cost recovery?

Generally, a land purchase results in a public or government benefit. It is unlikely that the department would recover the costs associated with purchasing and maintaining land assets.

However, some of the land we purchase is for source protection purposes. If such purchases and subsequent management protect a particular water source for a water service provider, such as the Water Corporation, there could be some scope for passing these costs onto the service provider who benefits.

## 8.3 Executive and corporate service functions

As with any organisation, we have a number of staff working in executive management and corporate services. Executive management includes the Director General, five directors and their support and administrative staff. The Director General's office is supported by corporate communications, government relations and corporate development staff.

Our corporate services division includes staff working in human resources, finance, and information services.

These areas are not discussed in the same detail as our core water management and planning activities as they are standard business functions.

*Table 36 Executive management and corporate services budgets 2009/10*

Category	Function	Details	Cost
Executive and corporate	Corporate services	<ul style="list-style-type: none"> <li>finance</li> <li>human resources</li> <li>information services</li> </ul>	\$14,576,858
Executive and corporate	Office of the Director General	<ul style="list-style-type: none"> <li>communications</li> <li>government relations</li> <li>corporate development</li> </ul>	\$ 2,339,104
Executive and corporate	Water resource use executive	<ul style="list-style-type: none"> <li>licensing</li> <li>allocation planning</li> <li>water recycling and efficiency</li> </ul>	\$ 366,072
Executive and	Water resource management	<ul style="list-style-type: none"> <li>drainage and waterways</li> <li>water source protection</li> </ul>	\$ 551,170

Category	Function	Details	Cost
corporate	executive	<ul style="list-style-type: none"> <li>• salinity and recovery</li> <li>• water science</li> <li>• water resource assessment</li> </ul>	
Executive and corporate	Policy and planning executive	<ul style="list-style-type: none"> <li>• policy co-ordination and reform</li> <li>• legislative reform</li> <li>• strategic water planning</li> <li>• water industry support</li> </ul>	\$ 441,248
Executive and corporate	Regional management and water information executive	<ul style="list-style-type: none"> <li>• all regions</li> <li>• water information</li> <li>• regional integration</li> </ul>	\$ 1,191,429

Please note that the Director General and each of the five directors work across the department and contribute to all areas of the business which is why their time has not been apportioned into specific areas for the purpose of this report.

The Department of Treasury and Finance considered the functions above (executive administration, human resources etc.) in their guideline *Costing and pricing government services: guidelines for use by agencies in the West Australian public sector*, (April 2007)

The guideline notes that: “the fact that indirect costs are more difficult to attribute to the service being costed does not make them any less relevant. They frequently make a significant contribution to the full cost of a service and should not be ignored.”

## 8.4 Focus areas for the inquiry

We recommend that the ERA:

- develop models for cost recovery that may incorporate indirect costs, such as executive and corporate functions, for services on either a ‘usage’ or ‘benefit’ approach and a pro-rata approach.

## 9 Funding sources and impacts of charges on users

This chapter sets out the department's response to the issue regarding the impacts of charges on users. It includes a discussion on the department's current funding sources and how these will work in the future. This is essential in considering the likely impacts on the users of our products and services and how charges may apply.

While the scope of our ERA response includes all water resource management and planning activities, we do not expect to recover the costs of our whole water business. This is because some activities are done for the benefit of government or for the benefit of the state.

It should also be noted that the department has a range of 'users' of its products and services, not just licensed water users. This means that some of the charges proposed would not be applied to licence users, but would be applied to land developers, local councils, water service providers or others as suitable.

### 9.1 How the department's work is currently funded

Western Australia has not yet achieved cost recovery for any of its water resource management and planning activities. For the 2009/10 financial year our water management and planning activities will total over \$108 million. This is funded through a combination of:

- state government consolidated funds – recurrent
- state government capital
- commonwealth and other external funds.

See Table 37 for a description of each funding source and the 2009/10 allocation.

Please note that, as described in chapters 3 to 8, user charges do not necessarily relate to licensed water users. There are a range of stakeholders whose use of the department's products and services are not related to licensed water use. This includes land developers, local councils and water service providers, to name a few.

*Table 37 Funding types, amounts and definitions for the Department of Water*

<b>Funding type</b>	<b>Definition</b>	<b>Amount in 2008/09</b>	<b>Percentage of total</b>	<b>Continuity risk</b>
Consolidated fund – recurrent	Annual funds received from the State Government	\$ 68,955,000	63 %	Low risk
Capital	Funds received from the State Government for capital works projects	\$ 10,750,000	10 %	Medium risk, temporary funding
Commonwealth and other external funds	Funds received from the Commonwealth Government and	\$ 29,166,000	27 %	High risk, temporary initiatives

Funding type	Definition	Amount in 2008/09	Percentage of total	Continuity risk
	other sources			funding only
Direct user cost	Costs that users incur towards water resource management and planning (non-supply infrastructure)	Unknown	-	High risk, no guarantee of work completed
User charge	Revenue earned through water resource management and planning charges	\$ 0	-	Low risk
Water sale	Revenue earned through water sale – price based on either water resource management and planning or water value	\$ 0	-	Low risk
TOTAL		\$ 108,871,100	100 %	

Each of the above funding sources will exist in the future. For activities that mainly contribute to a public benefit, the funding source is likely to remain the state or federal government (assuming that water resource management agendas are not shifted).

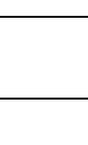
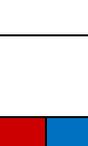
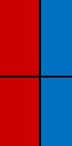
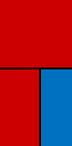
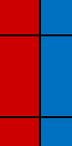
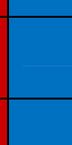
Where activities can be directly related to a private benefit, such as source protection planning or urban drainage and assessment, the funding source may change in the future depending on if, and how, cost recovery is implemented. For example, this could mean that Water Corporation would pay the department for the activities that we undertake for source protection planning. It could mean that some of the costs of developing a new allocation plan (such as groundwater investigations or environmental water assessments) could be recovered through the sale of new water allocations.

Table 38 sets out each of the department’s water resource management and planning activities, how the activity is currently funded and how it may be funded in the future. Descriptions of each funding type are included below.

 Current funding source: acts as a funding source now  
 Future funding source: not a current source but may come into place

This table describes how we are currently funded (the red areas) and how we may be funded in the future (blue areas). Some funding types that exist now and will also exist in the future.

*Table 38 Current and future funding sources for water management and planning*

Activity	Consolidated fund – capital	Consolidated fund – recurrent	C/wealth funds	Direct user cost	User charge	Water sale - capital
Licensing (systems and administration, including transfers)						
Allocation planning						
Environmental water planning						
Water recycling and efficiency						
Rural water planning						
Metering						
Groundwater and surface water assessment, investigation & review						
Spatial analysis (GIS)						
Water information and management						
Compliance and enforcement						
Urban drainage planning						
Urban water assessment						
Water and land-use coordination						
Floodplain management						
Water source protection						
Salinity recovery and engineering						
Waterways						

Activity	Consolidated fund – capital	Consolidated fund – recurrent	C/wealth funds	Direct user cost	User charge	Water sale - capital
Water quality and land use						
Aquatic risk, chemistry and ecology						
Water reform co-ordination and implementation						
Strategic water planning						
Strategic water issues						
Legal services and legislation						
Government relations						
Water services and strategic water industry policy						
Indigenous and remote community services and support						
Regional integration						
Land management						

## 9.2 How water resource management and planning charges impact on different types of users

The department has not proposed specific charges in this document so we cannot assess the potential impact of charges on users at this stage.

## 9.3 Focus areas for the inquiry

We recommend that the ERA:

- assess the impacts of charges on various users, including licensed water users and others
- proposes approaches to address and accommodate social equity where a fee or charge may negatively affect any disadvantaged socio-economic groups
- investigate and design an appropriate and equitable model for reducing charges to users who have spent considerable private funds on resource or environmental investigation.

## 10 Legislation and regulatory arrangements

This chapter responds to the ERA's questions relating to legislation and regulatory arrangements.

### 10.1 Legislative requirements

What issues would need to be considered in implementing water resource management and planning charges under the existing legislation?

There are two primary issues around implementing cost recovery under existing and future legislation. These are:

- if the existing legislation (and its regulations) enable government to recover its costs of administering a function specified under a particular act
- to what extent does the legislation (or regulation) specify arrangements for cost recovery (such as specifics regarding administrative or fee for service charges).

We consider that other issues around legislation are in fact policy concerns (such as equity and transparency and stakeholder involvement) which we have covered in previous chapters.

See *appendix D legislation containing powers to recover costs (via fees) for certain planning functions and existing water resource protection approvals* for a detailed list of acts and considerations in implementing cost recovery.

What provisions would any future legislation need to make for the possible implementation of water resource management and planning charges?

Future legislation would need to ensure that regulation making powers are available to set charges for the range of resource management and planning costs to be recovered.

Future legislation also needs to provide for the consequences of not paying the established charges. Any future legislation would need to consider what the result of not paying charges would be on the entitlement holders' more secure property rights associated with the National Water Initiative.

### 10.2 Regulatory arrangements

What regulatory arrangement should be considered to assist the department achieve high service standards and efficiency in operations?

Water users have the right to expect that water planning and management charges are:

- transparently set
- for activities that are efficient and necessary to achieve outcomes
- linked to relevant service standards

- free from *ad hoc* intervention
- based on objectives of fair and efficient cost sharing and improving outcomes, that is revenue should not be an outcome in its own right.

The department believes that fully independent setting of charges and the associated service standards is the most effective means of ensuring that these objectives are met. Under this approach, the Economic Regulation Authority would directly set charges. This is the model used in NSW, where the Independent Pricing and Regulatory Tribunal (IPART) directly sets the charges of the Department of Water and Energy and State Water.

This would also help minimise any conflict of interest related to the department advising on its own charges or the setting of charges to support the budget process.

Independent setting of charges need not prevent the government from taking action to limit charges if it believed that their impact were unacceptable. Options for limiting the impact of charges include:

- financial assistance for licence holders suffering from financial hardship
- community service obligation payments: government could use or forego part of its revenue from charges to subsidise some charges to reduce their impact
- reserve power: government could reserve a right to intervene and override the regulator's decision.

However, independent regulation has the effect of capping charges and would limit the government's ability to increase charges.

### 10.3 Focus areas for the inquiry

We recommend that the ERA:

- fully consider options for ongoing arrangements to regulate the department's potential charges, including options to limit the impacts described.

## Appendices

### Appendix A – Activities of the Department of Water

This outline of the Department of Water's primary and support services and associated activities for 2009/10 estimates the Full Time Equivalent (FTE) allocation for that year. In reality, the average FTE usage at any given time may be less than that (perhaps in the order of 600) which reflects vacant positions.

#### *Activities of the Department of Water*

Services	Program	Sections	Activities	Area	FTE
Urban water management and services	Water Services	Water Services Policy	Establish monitoring and review procedures/processes for the prudent management of water service licensing exemptions. Identify and document the policies, procedures and guidelines that fall within the responsibility of the WSP Sub-program. Plan and implement a program of policy review. Determine preferred policy positions. Draft policy position papers for discussion with major stakeholders. Advise Minister on his responsibilities under WSLA 1995.	service providers	9
		Indigenous and Remote Community Water Services	Together with other stakeholders, identify communities requiring water services. Negotiate with the Water Corporation on the extent of its involvement in service provision. Develop standards of service, plan and prioritise service delivery. Develop a servicing model and undertake negotiations to secure funding for model implementation. Develop Strategic Water Issue Plans for Indigenous Water Services and Small Community Water Services. Develop a long term plan to service all required communities to the agreed standard, and be involved in	service providers	

2.5

Services	Program	Sections	Activities	Area	FTE
			managing and monitoring implementation.		
		Strategic Water Industry Policy	<p>Support for the Minister for Water in his roles:                      in setting water and wastewater tariffs and pricing policy                      -as shareholder minister for Government owned water utilities</p> <p>Development of pricing policies, through participation in:                      Economic Regulation Authority inquiries into water pricing matters and development of associated Government responses</p> <p>national discussions on pricing matters.</p> <p>Consideration and review of governance arrangements and competitive neutrality issues.</p> <p>Competition in the water industry and the potential for expanding the role of the private sector</p> <p>Advice on the application of market instruments in water resource management.</p> <p>General economic advice on emerging issues and published policy papers.</p> <p>Provision of economic advice on COAG/NWC policy development.</p>	service providers	2
	Urban Water Management	Urban Drainage Planning	As below.	flood & drainage	40.27
		Urban Water Assessment	Develops drainage and water management plans for urban and coastal areas. Leads development of urban water best management practices; industry guidelines and research	flood & drainage	

Services	Program	Sections	Activities	Area	FTE
			and development. The plans lay the foundation for future urban development.		
		Water and Land Use Coordination	Leads land use planning initiatives to deliver sound and sustainable water, waterways and drainage management outcomes in particular by better aligning land and water planning. Provide advice to decision making authorities for example WAPC on planning proposals that have water management implications. Develop strategic planning guidance on how the development industry can meet water management requirements. Co-operation with other government departments and the development industry on streamlining approvals processes.	flood & drainage	
	Surface Water Assessment	Floodplain Management	Prepares floodplain mapping and floodplain development strategies to minimise flood damage. Assists with flood forecasting and warning.	flood & drainage	6
	Water Source Protection	N/A	Prepares and implements drinking water source protection plans for new and existing water sources. Prepares land and water use activity guidance documents.	quality	25.5
	Salinity Recovery	Salinity recovery and catchment research	Builds on the Salinity Action Plan, progresses work on key catchments to recover “fit for purpose” water supplies. Management of plantation estates and clearing regulations in water resource recovery catchments. Scientifically assesses land use change, vegetation and climatic impacts on key water resources.	quality	32.29
Water Recycling and Efficiency	Water Recycling and Efficiency	Develop policy, guidelines and scientific knowledge to support recycling. Provide support to Local Government Authorities in developing water conservation plans. Provision of advice to water allocation planning and licensing functions.	allocate & license	7.8	

Services	Program	Sections	Activities	Area	FTE
Water use allocation and optimisation	Water Allocation Planning	Environmental Water Planning	<p>Manage projects to investigate environmental water dependency and understand potential impacts of water use.</p> <p>Set water resource objectives to maintain groundwater and surface water systems.</p> <p>Set water regimes which will maintain renewability of supply and maintain in-situ social, cultural and environmental values to the resource objectives.</p> <p>Monitor water resources and dependent systems to inform environmental water planning, and to meet compliance criteria.</p> <p>Provide advice to support licensing to reduce impacts of water use on environments.</p>	allocate & license	12
		Water Allocation Planning	<p>Develop standard process for water allocation planning.</p> <p>Project manage water allocation planning process.</p> <p>Source, commission and coordinate information needed for water allocation planning (Attachment B - Water allocation planning process).</p> <p>Setting prioritising program for water allocation plans.</p> <p>Advise on Public Water Supply source development planning.</p> <p>Advise on licensing decisions on the context of allocation plans.</p>	allocate & license	17.3
	Water Services	Rural Water Planning	<p>Provision of on-property water grants</p> <p>Strategic Development of emergency community water supplies</p> <p>Development of emergency farmland water response plans in partnership with local government</p> <p>Enhancement of technical competencies in the water industry in dryland areas of the state</p> <p>Review of overall water demands in dryland area including broadacre, intensive and small commercial farming industries</p>	allocate & license	

5.3

Services	Program	Sections	Activities	Area	FTE
			<p>Development of water resource management plans for strategic farmland water supplies                      Introduction of new water management and water efficiency initiatives                      Greater emphasis on water planning                      Ministerial advice on rural water situation (non-potable)</p>		
	Water Licensing	Water Licensing Policy	<p>Develop policies and processes that underpin the department's water resource management and licensing decisions. Policy development activities include: consultation with stakeholders, obtain legal opinion to ensure enforceability of the policy, review policy intent to ensure it meets government and the department's strategic direction and not contradictory to other pieces of legislation or departmental policies.</p>	allocate & license	4
		Water Licensing	<p>Assessment of applications for licences in accordance with clause 7(2) of the RiWI Act (Attachment C - Detailed Licence Application Assessment Process). Assessment includes the determination of licence conditions for how water is to be extracted including the quantity, timing, water use and management of any impacts of such use. Large complex licence applications may involve stakeholder engagement.                      Granting new, amended or renewed licences and associated construction of works permits. Approving applications for trading of water licences / entitlements. Ongoing management of licences including monitoring report reviews, compliance with licence conditions, property inspections.                      Preparation of case briefs for the defence of licensing decisions in the State Administrative Tribunal.</p>	allocate & license	67.34

Services	Program	Sections	Activities	Area	FTE
		Water Reform Implementation	<p>Development of policies and systems enhancements to implement elements of water reform agenda under the existing legislation.</p> <p>Development of transitional arrangements and new system design to transition the existing licensing function to the new unbundled water entitlement system.</p> <p>Development of procedures for the administration of entitlements and facilitation of water trading.</p>	policy & reform	3
		Water Licensing and Support	<p>Development of licensing process enhancements.</p> <p>Consultation with industry representatives.</p> <p>Undertake internal QA audits.</p> <p>Staff training, education and maintenance of systems user manuals and procedural handbook.</p> <p>Maintenance and administration of water licence information systems.</p> <p>Undertakes state-wide water use audits in priority areas.</p> <p>Coordination of reviews of licensing decisions by the State Administrative Tribunal with relevant areas of the Department of Water.</p>	allocate & license	9
		IWSS Licensing and Special Projects	<p>Assessment of applications for licences from the Water Corporation in accordance with clause 7(2) of the RiWI Act (Attachment C - Detailed Licence Application Assessment Process). Assessment includes the determination of licence conditions for how water is to be extracted including the quantity, timing, water use and management of any impacts of such use.</p> <p>Granting new, amended or renewed Water Corporation licences and associated construction of works permits.</p> <p>Ongoing management of Water Corporation licences including monitoring report reviews, compliance with licence conditions.</p> <p>Annual negotiations with Water Corporation to determine the annual water source allocations for the IWSS</p>	allocate & license	

3

Services	Program	Sections	Activities	Area	FTE
			(groundwater, surface water and desalinated) and the subsequent licensing modifications to authorise. Provision of advice to regional offices on how to manage large complex licensing projects which are of state significance.		11
	Water Recycling and Efficiency	Metering	Assess sites for installation. Manage contractors for the design supply installation and maintenance of water meters. Collect meter readings and report on data. Develop metering policy and guidelines and provide expert metering support for the state. Further information on the planned roll-out of meters state-wide is available on request.	allocate & license	
Catchments and waterways health	Wheatbelt Salinity	Salinity Engineering	Develop drainage and water management plans for the Wheatbelt area, based on scientific evaluation and demonstration of potential impacts on waterways.	quality	24.5
	Waterways	Waterways		quality	
Underpinning support service - Water Resources Assessment, Measurement and Science	Groundwater Resource Assessment	Groundwater Assessment	Undertakes technical assessments of the state's groundwater resources for use by water managers & water users	allocate & license	34.6
		Groundwater Investigation	Ongoing exploration and investigation of the state's groundwater resources through the state Groundwater Investigation Programme	allocate & license	
		Groundwater Review	Conducts annual reviews of the status and performance of groundwater resources across the state	allocate & license	

Services	Program	Sections	Activities	Area	FTE
	Surface Water Assessment	Surface Water Assessment	Undertakes surface water hydrology studies to support allocation planning and determine climate change impacts.	allocate & license	
	Water Science	Water Quality and Land Use	Integrated land use and water quality modelling to support development approvals and catchment management decisions with a focus on the South West of WA. Developing and implementing river and estuary restoration activities	quality	33
		Aquatic Ecology and Chemistry	Estuary condition assessment and science for estuary management in support to SRT. River Health assessment through the NWC Framework for Assessment of River and Estuary Health Assess aquatic impact of Acid Sulphate Soil drainage Coordinates state-wide water quality monitoring	quality	
		Aquatic Risk	State-wide algal Management Strategy Toxicity assessment approaches to rivers and estuaries and water for reuse and waste water Assess water contamination	quality	
	Water Measurement and Information	Spatial Analysis (GIS)	GIS data capture and management of 126 custodial datasets including those for floodplains, public drinking water supplies, and for foreshore assessment. GIS products such as publication maps, 3d visualisations of the aquifers in the Perth and the South West regions and fly-through models of river systems (eg Blackwood river) are prepared and maintained. GIS data is exchanged with other government departments and industry in accordance with WALIS policies, procedures and practices.	allocate & license	10
		Water Information Management	Data from the State Reference Network and other sources is captured into enterprise database systems. This capture incorporates quality control procedures to ensure that base data is fit for purpose. The data is managed on an ongoing and consistent basis. The data in the WIN database forms	allocate & license	
					10.3

Services	Program	Sections	Activities	Area	FTE
			a valuable asset for the state which is in constant demand from a wide range of stakeholders.		
		Water Information Collection	In the field water data collection activities are undertaken during each year from the State Reference Network of 3,000 bores and 350 gauging stations spread throughout the state. Data analysis and interpretation is performed on the information collected. An expert technology centre provides state-wide instrument support and a specialist team provides asset management capabilities. Base hydrography training and documentation services are also undertaken.	allocate & license	65
		Water Information Provision	Base water quality, quantity and availability data is provided from the enterprise water information systems to a wide range of interested stakeholders. Up to 3,000 data requests per annum are serviced from private and public interests. Telemetry data is used on a constant basis for WA's flood warning sites providing an important service to the state and to emergency service agencies. River levels are published on the web and are accessible free of cost. The department operates a popular depth to groundwater hot-line particularly for positioning new private groundwater bores.	allocate & license	5.2

Services	Program	Sections	Activities	Area	FTE
Underpinning support service - Strategic Policy and Planning	Strategic Policy and Planning	Water Reform Coordination	Coordination of National Water Initiative reporting including conducting a review of Western Australia's Implementation Plan for the National Water Initiative Project management function for implementing the National Water Initiative Intergovernmental relations, including the COAG water reform agenda: Correspond with DPC; DEC; DAFWA; WC mainly within WA and the NWC and DEWHA mainly at Commonwealth level Preparation of briefing notes for DG and the Minister in response to papers for meetings or out of session papers for COAG, COAG Working Group on Climate Change Water Sub Group, Natural Resource Management Standing Committee and the Natural Resource Management Ministerial Council Coordination of funding applications for external funds from Federal government to WA state projects (not just DoW, includes Harvey Water, Gascoyne etc.)	policy & reform	4
		Strategic Water Management	Ensure implementation of core state water planning actions, review plan by 2012 and determine new five-year priority actions Implementation and maintenance of a strategic water policy framework for the department and the State Water Planning Framework for consistency and efficiency of plan/policy delivery Writing of policy to enable water reform Core input/expertise into operational policy development and allocation planning Manage a comprehensive economic forecasting model to provide advice on future demands for water across the state to focus planning and management In each region (where appropriate - Perth/SW/Pilbara as urgent):	policy & reform	

6.6

Services	Program	Sections	Activities	Area	FTE
			<ul style="list-style-type: none"> <li>- Scope the needs for regional planning</li> <li>- Develop comprehensive background papers on key issues</li> <li>- Engage stakeholders and govt agencies in strategic issues</li> <li>- Develop regional Plans that identify where water should be used and moved, links land and water planning (i.e. not just allocation but water services, drainage, waterways protection), and provides strategic direction on all water issues in that region to improve the efficiency of operational management where resources do not allow regional planning, develop Strategic Issue Plans on the key and urgent issues in that region to ensure responsible management and guide operational planning and management (i.e. allocation) until a wider regional plan can be developed</li> </ul> <p>Develop stand alone and concise strategic policy (state-wide, geographic, issue based depending on need) on key issues to provide clear positions to other decision making authorities and DoW decision makers until such time as operational plans/policies can be developed with supporting science/technical work</p>		
		Strategic Water Issues	<p>Identify the top strategic water issues facing the department in the short, medium and long term</p> <p>Coordinate groups in the department to determine how to resolve strategic and cross-divisional issues</p> <p>Carry out the work and resolve those strategic issues that are allocated to this branch</p>	policy & reform	2.3
	Legislation and Legal Services	Legal Services	<p>Ad hoc legal advice for licensing, allocation planning, other planning, land use stat referrals</p> <p>Supporting information for SAT appeals</p> <p>Dealing with contracts and funding deeds</p>	policy & reform	1.5

Services	Program	Sections	Activities	Area	FTE
		Legislation	<p>Planning and implementing a program of reform for Western Australia's water legislation</p> <p>Preparation of documents necessary for the drafting of legislation and obtaining necessary Cabinet approvals</p> <p>Preparation of policy documents that guide the drafting of legislation</p> <p>Preparation of documentation to support the passage of the legislation through Parliament</p> <p>Discussion with stakeholders to ensure legislation is effective, comprehensive and supported</p> <p>Reporting to the Minister, Director General and others on the progress of legislative reform</p>	policy & reform	3.5
Underpinning support service - Regional Management	<p>Kimberley Region,</p> <p>Kwinana/Peel Region, Mid-West Region, South Coast Region, South West Region, Swan-Avon Region, Pilbara Region</p>	N/A	<p>Provides a central executive management and support service to the entire region. Assists in the implementation of an integrated program delivery service to regional stakeholders. Management of the OSH and Training requirements of all regional staff.</p>	regions	20
	Regional Coordination	Compliance and Enforcement	<p>Supporting water resource management regulation compliance and enforcement including:</p> <p>Undertaking a key role in ensuring consistency across the Department.</p> <p>Improving the department's commitment towards enforcement against non-compliance of licences, and offences committed against the legislation. 2. Decision Making Function for Enforcement Actions:</p> <ul style="list-style-type: none"> <li>- Continuing the development of policy and guidelines to ensure the department undertakes best practice in</li> </ul>	allocate & license	

Services	Program	Sections	Activities	Area	FTE
			enforcement and compliance. - Ensuring the ongoing improvement of enforcement and compliance practices of the department in accordance with best practice - Conducting investigations and providing advice in relation to investigations into breaches of statutes to ensure sufficient evidence is gathered to support any required enforcement action		
		Indigenous Support	Further developing the capacity in the department to engage with Indigenous people in water resource planning and management Ensure DoW's legal obligations are met.	service providers	2
		Land Management	Managing the department's land assets to meet the strategic priorities of the department where: - Water resources are of significance for current or future public water supply. - Groundwater or surface water dependent ecosystems have ecological or social values. - Water resources or water related infrastructure or relics have indigenous or other cultural heritage. Land Asset Management - further developing an ongoing program of land management and risk mitigation for the land it does own or manage. Land Acquisition - continuing a program of acquiring land which meets DoW's strategic priorities and which cannot be accommodated via alternate means (restrictive covenants, easements, ownership by other agency etc). Capital funding approx \$1M per annum Land Asset Disposal - transferring land to another entity where land can be managed by alternate means (and still meet strategic priorities) or dispose of land to another entity where strategies priorities do not apply.	csd total	

Services	Program	Sections	Activities	Area	FTE
			Strategic Use of Land Asset Revenues - ensuring that Capital Funds generated from disposal of any of its land estate are best used as a Capital Investment in key initiatives for the strategic benefit of the department and provide long-term benefit to the State of Western Australia.		
	Land Management	N/A		csd total	
Underpinning support service - Corporate Services	Finance and Administration	Finance Administration and Assets	Provision of the Department's vehicle fleet and the management of general accommodation and fixed asset matters Provides general administrative support services, as required, including the provision of reception for the Department. Financial and administration management for Department of Water	csd total	25
		Financial Planning	Coordinate the agency's budget submission to parliament, including the annual Bi-lateral process, preparation and submission of agency's strategic asset plan and annual review of fees and Coordination of departmental financial reporting internally and to the Department of Treasury and Finance Financial management against Resource Agreement commitments Provide financial modelling and general budgetary advice External funds management and development	csd total	
		Financial Services	Manages and prepares annual financial statements, Business Activity Statements (BAS), and Fringe Benefits tax returns for the whole of the organisation Implementing and maintaining all finance and asset related policies and procedures; Prepares whole of government reporting returns; and Oversees the development, maintenance and	csd total	

Services	Program	Sections	Activities	Area	FTE
			enhancement of financial management systems across the organisation. Liaise with government agencies, external finance groups and internal employees on finance, system development and policy related issues		
	Human Resources	Human Resources Operations	The Operations Program has specific responsibility for the delivery of effective services in the HR functions of payroll and recruitment. It also provides assistance in the area of classification management.	csd total	24
		Organisational Development	The major output of the Organisational Development Section is to assist in providing support and advice to the Department on organisational change and development and to implement a range of program and structural reforms which will impact on service delivery and staff roles and responsibilities.	csd total	
		Workforce Planning and Development	The major output of the Workforce Planning Section is to ensure sound workplace practices are maintained. This Section has specific responsibility for workforce planning, business analysis, organisational structuring and HR Consultancy, including case management managerial coaching and support.	csd total	
		Workplace Planning and Development	The major output of the Workplace Planning Section is to ensure sound workplace practices are maintained. This Section has specific responsibility for Industrial Relations advice, Occupational Safety and Health management, EEO and Diversity and HR Consultancy, including case management.	csd total	
	Information Services	Information systems	Strategic information planning Policy setting Standards and compliance	csd total	

Services	Program	Sections	Activities	Area	FTE
		Information Management	Records and document management Mail services Library services Web site management	csd total	32
		Information Communication and Technology	Management of Information & Communication Technology (ICT) including backup and recovery services, ICT purchase requests, system and network administration, Helpdesk services Disaster Recovery Telecommunication services ICT asset management	csd total	
		Information - Business Improvement	Management of systems development and maintenance Template management Software licence management Management of GIS infrastructure	csd total	
Underpinning support service - ODG	Corporate Communications	N/A	Manage the department's corporate positioning and corporate reputation; Strategic management of the department's communications service and delivery strategies including public and stakeholder relations, issues and events management; Communicate the department's function and role; Manage the department's relationship with the news media; Manage the department's internal communications.	odg total	6
	Government Relations	N/A	Ministerial Issues: i. Finalise up-dating of Ministerial Handbook; ii. Promote improved handling of Ministerials and associated issues within the Department; iii. Ensure that Ministerials are dealt with in a timely manner, consistent with the CEO's performance agreement; iv. On-going improvement of communication between the Department and Minister's Office. Freedom of Information (Fol): i. ensure applications are processed according to statutory requirements; ii. enhance	policy & reform	

Services	Program	Sections	Activities	Area	FTE
			FoI understanding across the agency. Governance and Customer Complaints: i. Finalise roll-out of ethics and good governance training; ii. Promote implementation of ethics and good governance training in agency operations; iii. Ensure complaints are processed according to policy and other whole of government requirements.		
	Corporate Development	N/A	Coordinate 2009/10 business planning; Develop and implement business continuity plan; Manage the strategic audit plan; Develop and implement performance management framework; Develop Project Management Office capability.	csd total	3

## Appendix B – Economics and Industry standing committee inquiry: summary of process and outcomes

The Legislative Assembly Economics and Industry Committee held an Inquiry into Water Licensing and Services that ran from 24 October 2007 through to 28 February 2008. The Inquiry terms are reproduced in full below:

1. The benefits to, cost to and imposts on irrigators, industry, community and environment of a licensing system for the taking of water from groundwater or stream flow;
2. The full cost incurred by the Department of Water for administration of the current water licence system;
3. The extent to which the water licence administration fees meet cost recovery requirements the National Water Initiative (NWI) places on the State with respect to services delivered to water users;
4. The penalty or cost that might be applied to Western Australia by the Commonwealth under the NWI, if there was minimal or no cost recovery for services provided to water users by the Department of Water;
5. Whether water licences and/or licence administration fees should be required for taking water under arrangements that are currently exempt; for example, residential bores drawing from an unconfined aquifer;
6. What recognition needs to be given to the cost incurred by landholders in harvesting water, including dam construction costs; and
7. The extent to which the NWI provides for a range of different licensing systems.

The issues of concern were varied but certain themes emerged. The following represents a summary of the views expressed in the various submissions.

### Fee to be charged

- Reflecting the different tasks involved, there should be one charge for the initial assessment and a lower annual on-going fee that covers database management
- The assessment fee should consider only the marginal cost of providing the service
- Fees should be based on use rather than storage capacity

### Costs to be recovered

- As costs determined by DoW would not represent efficient costs, the independent economic regulator needs to be involved in approving costs that are to be recovered
- Appeals costs, and possibly compliance costs, are not appropriate costs to recover from licence holders
- Data collected as part of the licensing function contributes to water resource management outcomes so less than full cost recovery is appropriate
- The number of licence holders that costs are to be recovered from keeps changing

## Equity issues

- Domestic bores in metropolitan regions should also be licensed
- Farmers with multiple dams, or local government authorities with multiple licences, should have the ability to aggregate volumes for calculating charges
- There should be no charge where the water is drawn for fire protection purposes
- Irrigators appear to be charged a low amount relative to other licence holder
- There are both licensed and unlicensed dams and charging only the licensed holders is inequitable
- Some licence holders have incurred substantial costs for the construction of dam related infrastructure.

### *Department of Water submission and response*

Many of the concerns raised were addressed in the Department of Water's original submission, subsequent submission to specific questions and verbal testimony. The information provided by the department is summarised below.

In respect of when a licence is needed, the *Rights in Water and Irrigation Act 1914* requires farm dams to be licensed only when they are located in a proclaimed area and they are taking water from a natural water course and the water is not for fire fighting, stock watering, household use, or irrigation of up to two hectares. Where water is collected from overland flow, that is 'turkey nest' dams, there is no requirement for a licence.

The change in the number of licences on issue arose following decisions to exempt small domestic users that were licensed, such as those in Albany and Exmouth, and people returning unused water licences prior to the inception of a licence fee charge.

The approximately 155,000 residential domestic bores access water from a shallow unconfined aquifer and the water drawn does not compete with water drawn for other purposes. The cost of administration for a licensing system that applied to residential bores would be substantial (in the tens of millions) and would not contribute to better resource management. While not licensing residential bores, the department undertakes residential garden bore management through:

- discouraging use in areas not suitable for further domestic bores
- encouraging use in areas that are suitable for bore use
- restricting watering opportunities
- continually monitoring the aquifer resource to ensure it is not over used.

Whether or not a farm owner has constructed works on their property to capture water does not impact the cost of the licensing system. As such it was not a factor considered when calculating licence fee costs.

With respect to the total cost of the system, the department sought legal advice that appeals costs were a recoverable cost and so these costs were included as part of the revenue to be recovered.

As a water licence is for use, not storage, if an existing licence holder has a licence reflecting storage capacity rather than annual use they have the opportunity to have their licence reclassified.

### *Inquiry recommendations and findings*

The final report of the committee addresses several matters and before moving to a discussion of a fee structure it is worth noting the relevant recommendations and findings of the Inquiry. In total the Inquiry made 25 recommendations. The relevant recommendations are detailed below.

#### Fees to be charged

- That there be a fixed licence administration fee that reflects the cost of administration of a licensing system.
- A fixed application fee should remain.

#### Costs to be recovered

- Revenue from licence administration fees should be used for providing the licence administration service. The allocation of those costs should be transparent.
- That the Treasurer directs the Economic Regulation Authority to review the Department of Water's costs as a priority.
- The formula for calculating the licence fee be examined by the Economic Regulation Authority.
- The cost of appeals should not be included in the calculation of the licence administration fee.
- The Economic Regulation Authority independently review the water licence administration fees.
- The Department of Water develop a system of water accounting for plantations with a view to regulation and licensing.

#### Equity

The costs incurred by landholders in harvesting water, including dam construction costs should:

- Not be considered in the determination of the licence application fee
- Not be considered in the determination of the licence administration fee.

The indication is that the costs associated with the mandatory licensing of all domestic bores would far outweigh the benefits of this activity.

## Appendix C – Other licensing fee issues to consider

There are a number of additional matters that must be considered in determining a fee structure. These apply equally to the fee for task approach to setting fees as well as the area and volume approach. Where possible we have provided our preferred position or outcome for the ERA to consider.

### *Regional vs. state cost metrics*

The first of these is whether costs are determined for each service at a regional level or State level.

Determining department operating costs on a catchment-by-catchment basis is costly. While the variation in the cost of operation of different regional offices is not thought to be great, the amount and proportion of time spent on individual activities can vary, and the variation can be across time within a given catchment or across different catchments at the same point in time.

Accurate measurement of costs over time and across locations would imply that such variation would not matter. However, the law of averages suggests that the amount of time spent on tasks is likely to be more stable if calculated over a wider base. If the fee structure was based on the experience of each regional office, there is a danger that fees could be biased by individual applications that proved to be an “outlier” in terms of cost.

A strict application of a user / impactor pays principle to costs incurred at the regional level could be interpreted as requiring regional office costs to be allocated across the licence holders in that region, and overhead costs to be allocated in proportion.

However, there may be variations in the cost of undertaking functions that are caused by economies of scale or scope within individual regional offices. Since the determination of regional office locations is not within the control of those applying for a licence, the reflection of such cost differences is unlikely to be efficient, and could be regarded as inequitable by licence applicants. Moreover, averaging of task costs across officers is likely to produce results that are at less risk of bias and are more stable.

It should be emphasised that what is being kept uniform is the cost associated with the performance of a specific assessment or compliance function, not the cost of an application itself. The department recommends that average state costs be used.

### *Licensed capacity vs actual use*

There is also a choice to be made on whether charges are based on licensed or actual volumes.

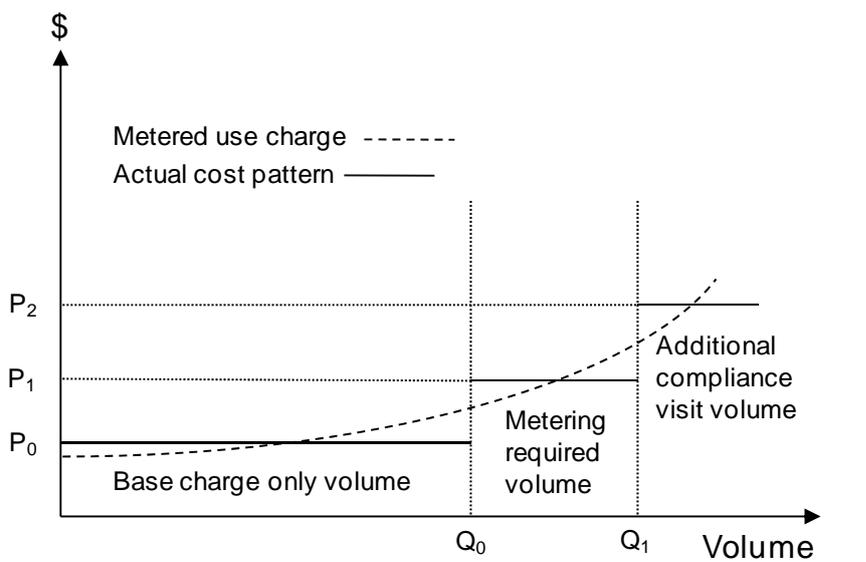
The department recommends that the various fee charges be framed in terms of licensed volumes. This approach has been suggested as the majority of licences do not currently have metering as a condition on the licence and because the licensed volume should reflect actual use. In the future, it is possible that a very low threshold could be introduced for when metering is required. In such circumstances, it would be possible to move to metered based

charging. Given this possibility, it is worth addressing explicitly whether charging based on metered volume is a better system than an approach based on licensed use.

At the time of application there can be no difference between an application under a regime of fees based on metered use and a system based on licensed volume. Therefore, the issue only applies to the consideration of the annual fee that reflects monitoring and compliance costs.

Annual fees will recover the cost of some of the general office functions as part of the base charge, and then, in line with an impactor pays approach, the costs required for monitoring of licence conditions and related compliance activity. The extent of monitoring and compliance activity required in turn depends on both the volume of water extracted, and the allocation level of the catchment. For example, the monitoring required for a medium licence in a fully allocated catchment is greater than monitoring and compliance required for a licence of the same size in a catchment that is allocated to only 20%.

Actual costs are incurred with respect to the activity undertaken. This means they move in a step-wise fashion rather than in a smooth continuous function. There would therefore be little efficiency advantage to basing the annual licence fee on metered volumes rather than licensed volumes, as the difference is unlikely to result in shifting into a new cost band.



Data source: ACIL Tasman

Figure 4 Actual costs path and volumetric charge cost path

Metering based charging, using one year lagged water meter data, is also less simple than a charging system based on licensed volumes. It is also more costly to administer a metering based system than a system based on licensed volume. Finally, to the extent that an annual per megalitre charge could be seen as a charge for water rather than a charge for licence administration related costs, a charge based on metered volume is potentially confusing.

### Developing and implementing exemptions

*Domestic bores:* the cost of administering a licence system for domestic bores would run into the millions. For example, the minimum cost of processing a recreational fishing licence in Western Australia is \$24. This charge is likely to represent a reasonable approximation to the

cost of processing domestic bore information, assuming no assessment is required. Using the recreation fishing licence administration charge, and assuming approximately 155,000 domestic bores, it would cost around \$3.72 million to administer the system, where it is assumed that there is no assessment function merely a licence issuing function.

Domestic bores do not compete for water with commercial and industrial bores. As such, licensing domestic bores would not add to better resource management. Domestic bore should continue to be exempt from licensing.

*Plantations:* current legislation does not allow plantations to be licensed, other than in the sense that for the initial post-planting period a plantation operator will require access to water for the newly planted saplings. In some circumstances, a plantation can be viewed as a series of solar power water pumps, where the water drawn does compete with commercial and industrial use. If commercial plantations are viewed in this manner, it then follows that commercial plantations should be required to obtain a water licence.

Any activity that can have a substantial impact on the amount of water available for allocation to commercial and agricultural use in a catchment should be licensed. Commercial plantations have the ability to impact the amount of water available for allocation to other competing uses and so should be licensed.

While outside the scope of the current exercise, commercial plantations should not be exempt from licensing.

### *Payment options*

An indicative cost of the licence assessment can be determined in advance, but the actual cost will be determined only once the application is received. For example, an applicant might think they need only 1 megalitre of water, but once the application is received the licensing officer might realise that in fact 1.5 megalitre of water would be required for the purpose describe in the application. Full payment cannot, therefore, be made in advance of submission of the assessment.

With respect to method of payment, once a fee notice has been issued it would seem appropriate that all payments be possible via BPAY®, and a secure online service of the type that exists for the payment of recreation fishing licences or car registration licence fees that allows use of credit cards.

### *Water utility service provider and other large users*

The costs imposed on water licensing by the activities of the water utility service provider and co-operatives are different to those that arise from general industrial and agricultural water licensing activities. In the case of co-operatives, much for the management function is undertaken internally by the co-operatives. In the case of the water utility service provider a close working relationship exists.

For water utility service providers, it is thought that the department will prepare and present the Water Corporation with an annual bill. This individual relationship will allow the Water Corporation and the department to agree directly regarding processes that reduce the time taken by the department to deal with Water Corporation matters and allow these savings to be directly passed on to the Water Corporation.

While in the first instance it is thought that the various co-operatives and other large users would be covered by the general fee structure, the ability to treat co-operatives and other large users separately should also be built into the institutional architecture from the inception.

#### *Compliance and monitoring charge*

The actual compliance and monitoring activity undertaken with respect to a specific licence varies from year-to-year. For example, in the first three years for which a licence is granted the licence holder may be required to submit a simple data information report that requires little effort on the part of the department to process; in the four year the licence holder might be required to submit a comprehensive report that takes substantial department time to process; and in the fifth year no material may be required.

Although the annually incurred costs associated with a licence vary through time, the expected total effort for licences of various volumes in catchments allocated to different levels is known. It is therefore possible to use catchment allocation level data and licence volume data to determine the total cost for different licences and the recover an average charge each year.

## Appendix D – legislation containing powers to recover costs (via fees) for certain planning functions and existing water resource protection approvals

Law	Section	Activity	Comments on use	Legal issues
Powers in use				
Rights in Water and Irrigation Act 1914 <sup>9</sup> (RWI Act) and Rights in Water and Irrigation Regulations 2000	Section 26GZT	Maintaining a register of instruments, namely: licences under Section 5C exemptions under Section 26C directions under Section 22, 26G or 26GC	RWI Regulations 2000 include fees connected with maintenance of register e.g. charging a fee for copies of entries in register (section 26GZI(4) and regulation 49)	Section 45A of the <i>Interpretation Act 1984</i> (IA): fees must be reasonably related to the recovery of costs expended in administration of the licence scheme, namely the scheme under Part III of the Act related to licences directions and allocation planning through management plans. The JSCDL disallowance debate is not relevant to the issues on which ERA seeks advice. <sup>10</sup>
	Sections 27(1)(h) <sup>11</sup> and 27(3) which is new and provides for fees to be set by volume of water allocated on licence	Licensing of water takes under section 5C and Schedule 1 of the RWI Act including renewals, duplicates, amendments etc.	RWI Regulations Part III. Note: the 2007 amendments (licence fees, metering etc) were disallowed by the Joint Standing Committee on Delegated Legislation (JSCDL). Following additional advice from DoW that Committee withdrew its disallowance motion. However, the disallowance was successfully moved in the Legislative Council.	
Waterways Conservation Act	Sections 46(3) and 47(10)	Powers to charge fees in connection with licences /	Not used often	Unaware of any legal issues arising at the time

<sup>9</sup> As amended by the Water Resources Legislation Amendment Act 2007 which came into force on 1 February 2008

<sup>10</sup> Fees do not have to be justified based on a dichotomy between ‘fees for service’ and ‘tax’, but rather on the basis that they are authorised by their empowering Act: High Court decision in *Marsh v Serpentine-Jarrahdale* ([citation omitted] per Barwick CJ). The scheme of fees needs to be authorised by the relevant Act and s 45A of the Interpretation Act 1984.

<sup>11</sup> Any reference to section 27 of the RWI Act also relies on section 37 of the Water Agencies (Powers) Act 1984

Law	Section	Activity	Comments on use	Legal issues
1976; refer also Schedule 2 of the Waterways Conservation Regulations 1981		disposal licences under Part 5 (waters and land protection)		of the introduction of the fees
Powers available, but not in use				
Water Agencies (Powers) Act 1984 (WAP Act) together with Metropolitan Water Supply Sewerage and Drainage Act 1909 (MWSSD Act)	Sections 34, 36 and 37 together with section 5(1) of the WAP Act Note: Section 36(4) and (5) together with Sections 57F and 57G of the MWSSD Act	Licences for wells in Public Water Source Areas (PWSA)	Regulations would need to be introduced under the WAP Act that modified the MWSSD Bylaws (at B-15.2) to provide for fees to be payable for Section 57G licences. <sup>12</sup>	
WAP Act together with Metropolitan Water Supply, Sewerage and Drainage Bylaws 1981	Sections 34, 36 and 37 Note: 36(4) and (5) of the WAP Act together with Bylaws 4.3 to 4.6 inclusive - the catchment protection provisions - made under Section 57B of the MWSSD Act	Approval of Minister/CEO to activities in certain catchment areas (such as raising of stock, slaughtering of animals/birds, storage of chemicals/flammable products or petroleum products and controls on underground storage tanks)	Regulations would need to be introduced under the WAP Act that modified the MWSSD bylaws to provide for fees to be payable for an approval or authorisation under these bylaws.	

<sup>12</sup> Unlikely that regulations will be promulgated.

Law	Section	Activity	Comments on use	Legal issues
RWI Act	Section 26M	Fees connected with licensing schemes under of local bylaws made under Section 26L	No local bylaws made	
	Section 27(1)(g) <sup>13</sup>	Licensing of construction of artesian or non-artesian wells under Section 26D	Not used, as this section of the <i>RWI Amendment Regs 2007</i> was disallowed (refer item 2 above).	
	Section 27B together with Sections 17 (and 17B), 21A and 11	Head of power to make regulations to set fees in relation any permit that may be issued under the RWI Act <sup>14</sup>	Not used - fees set only where there is an express power to set fees for the approval in the relevant section, or Division.	
Country Areas Water Supply Act 1947	Section 12C(2)	Power to prescribe fees in connection with clearing licences under this part of the Act	Although the <i>Country Areas Water Supply (Clearing Licences) Regulations 1981</i> address a number of matters in the Act, fees are not included	At the time these provisions were introduced, they were controversial and fees were not seen to be feasible as part of the policy mix. With the advent of clearing laws under the EP Act, from July 2004, the workload has reduced. At this time the benefits of cost recovery to the department would be minor by comparison to the cost burden on potential licensees.

<sup>13</sup> See fn 2 above

<sup>14</sup> This is expressly envisaged as being applied to make regulations in relation to applications for bed and banks permits and permits for interference with watercourses.

