

SUBMISSION FROM
THE HORTICULTURAL SOCIETY OF CANBERRA
ON
‘WATER FOR THE FUTURE –STRIKING THE BALANCE:
DRAFT ACT WATER STRATEGY 2013’

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Horticultural Society of Canberra

The Horticultural Society of Canberra (HSOC) is the oldest and largest organisation in Canberra representing gardeners. Its objectives are the 'encouragement, improvement and development of horticulture'. It has nearly 400 members and publishes 'The Canberra Gardener' - a standard reference for local gardeners now in its tenth edition.

HSOC's interest in the ACT Government's draft strategy on water stems from the obvious importance of water for Canberra gardeners, their concern to have an adequate and reliable supply of water for their gardens on reasonable terms, and experience from a period when these conditions were not met. The Society's interest stems also from its particular awareness of how Canberra gardens can contribute to the city's amenity and special character.

ACT draft water strategy

This submission is based on study of the ACT Government's draft strategy paper. It has also taken account of discussion at public workshops on the draft organised by the Environment & Sustainable Development Directorate, and of correspondence between HSOC and the Minister on some issues in the draft.

The brief 'strategy' paper now published, henceforth called 'the Draft', is a timely but very disappointing document. It is not what it purports to be, and its analysis of some water issues is superficial. The paper falls well short of what is now needed for developing a long-term water policy for the ACT.

The submission focuses on two aspects of a water strategy: its objectives, and its consideration of water supply and demand. In each case the submission comments first on how the Draft deals with these matters and then suggests briefly what should be in a water strategy yet to come ('the Strategy').

Objectives of a water strategy

The Draft

The Minister's introduction to the Draft states that it 'sets out the future pathway for our city and region's long-term water security and its relationship with integrated catchment management'; and the foreword to the Draft states that it is 'designed to guide changing needs of the Territory and region's water supply, management and catchment practices over the next 30 years...'

The Draft doesn't meet these goals. It doesn't have a clear overarching objective and a hierarchy of clear objectives logically related to the main objective. Instead, it has a muddle of objectives and is unclear about relationships and priorities between them.

For example, it has three 'themes' and associated 'outcomes', and a total of ten 'strategies' allocated to the outcomes. In addition, it has eight 'overarching principles' (adopted from COAG) and eight other 'key drivers'. But these sixteen principles are not explicitly linked with the paper's 'themes' or other objectives. While connections between objectives within their themes can

sometimes be inferred from their subject matter, the Draft doesn't explain the particular significance of each of the objectives selected or indicate priorities among them. In short, the Draft seems to have lost the plot.

Furthermore, the meaning of many of the Draft's individual objectives is vague. For example, the executive summary states that the vision for the paper is 'A community working together to manage water wisely to support a vibrant, sustainable and thriving region'. It also states the paper is 'designed to deliver improved outcomes in integrated water resource management, waterway quality and health, and the liveability of the ACT community. It will strike the balance between social, economic, environmental and public health outcomes'. These and numerous other similarly reassuring but woolly objectives throughout the Draft leave a lot to interpretation.

Vague objectives handicap efficient management because they can leave managers uncertain about government intentions, cloud the definition of responsibilities and accountabilities, and make performance assessment more difficult. For example, if the interpretation of important concepts like 'improved outcomes' and 'liveability' is left to management discretion, there is great scope for variations and inconsistencies in practices and for arguments about performance. 'Striking the balance' between social, economic, environmental and public health outcomes is not only a vague objective but is also potentially contradictory, because social, economic, environmental and health purposes can conflict. Assessing whether a water strategy had struck a balance between them could only be an exercise in creative writing (which could conclude whatever was required).

A comment in the recent exhaustive review of Australia's urban water sector by the Productivity Commission is worth quoting at this point:

'Conflicting objectives and unclear roles and responsibilities of governments, water utilities and regulators have led to inefficient allocation of water resources, misdirected investment, undue reliance on water restrictions and costly water conservation programs.' ('Australia's Urban Water Sector', 2011, pp. xvi)

Finally, and most importantly, the Draft is not a policy paper. It is oriented more towards management issues, and it foreshadows the preparation of 'management implementation plans' as the next step. Its themes and many of its objectives seem to refer to discrete areas for management; and they focus on management processes such as 'investigating', 'planning', 'reviewing', 'implementing' and 'monitoring', and on management concerns like 'well managed', 'actively managed' or 'adaptive' systems. A revealing example of the Draft's management mindset and consequent policy limitations is a statement in an associated fact sheet that the Draft 'is not about water restrictions – this is managed by ACTEW'.

Management arrangements for important public policies should be preceded by analysis and public discussion of the underlying policy issues, and the definition of clear policy objectives derived from that analysis. Such a policy paper has not yet been produced by the Government – and the Draft's muddle of woolly objectives and incoherence is one result. The Draft also leaves the impression that some important policy issues for a water strategy, elaborated below, have not yet been seriously addressed by the Government.

The Strategy

The Strategy should have a hierarchy of limited, clear and coherent policy objectives of demonstrated significance for long-term water planning, and against which performance can be assessed. An obvious and ultimate objective for water policy over the long term is to meet the demand for water, and such an objective could be the basis for a water strategy. Thus the Productivity Commission states in the report already quoted:

'Governments should set an overarching objective for the urban water sector of delivering water, wastewater and stormwater services in an economically efficient manner so as to maximise net benefits to the community' (ibid., p.53)

Policies to achieve such an objective should therefore be explicitly grounded on the fundamentals of water supply and demand. They should be informed by expert estimates or projections of future demand and supply for water in the ACT over the planning period of 30 years. These estimates should in turn provide the empirical basis for identifying demand and supply issues likely to be important in the future; and analysis of the factors shaping water demand and supply should be the basis for developing a rational hierarchy of policy objectives for a water strategy. Those objectives would in turn be the basis for developing management implementation plans.

There would be a place within such a structure for addressing many of the topics in the Draft – in a rational way. For example, 'environmental water and urban waterways' (Theme 1 in the Draft) raises issues relevant to water demand and supply – as also does a program for Water Sensitive Urban Design. The latter is currently being reviewed by the Government; but not, however, in the context of its water strategy. Such a program would have a place in a comprehensive water strategy, such as that outlined above (which focuses on meeting demand for water in 'an economically efficient manner so as to maximise net benefits to the community').

Separation of the Water Sensitive Urban Design program from the subject of the Draft is perhaps a small example of how management without a policy can lose the plot. The Draft's consideration of demand for water (including its by-passing of the issue of water restrictions) is a much more significant example.

Water demand and supply

The Draft

'Water supply and demand' is rightly nominated as one of the main themes in the Draft. But most of the Draft relates to aspects of water supply. This is partly understandable, because water supply raises many complex policy and management issues. But as the ultimate purpose of water supply should be to meet demand, much more serious attention should have been given to demand.

References to demand in the Draft give the impression that it is seen mainly as something to be managed by the Government, rather than as something to be determined by consumers with freedom of choice. Thus Strategy 7 in the Draft is to '*Manage water usage* to optimise the liveability outcome for the ACT community ...' Related objectives are to 'Develop effective education and information campaigns focused on providing consumers with objective information on the costs and benefits of *managing demand* using prices, restrictions, water use efficiency and conservation measures', and 'reviewing and revising current *demand management regulations*'

(our italics). Correspondence between HSOC and the Minister (discussed further below), together with comments at recent public workshops on the Draft and a close reading of the Draft and other material published by the Government on its 'water efficiency' programs, reinforce an impression of entrenched and institutionalised commitment by the Government to managing demand for water in accordance with its views on 'sound water use behaviour'.

A focus on managing demand for water was prominent and understandable in the Government's 2004 water strategy, which was produced during extreme drought and a water supply emergency. That strategy led to, among other things, Permanent Water Conservation Measures (including water restrictions). But with dams now full, the recent substantial increase in the ACT's water storage from construction of the new Cotter Dam, other new water infrastructure, arrangements to obtain water from outside the ACT through trading, and lower water usage in the ACT, a case for continuing Government management of water demand seems hard to justify.

That case should be assessed against expert projections of future water supply and demand and expected imbalances in supply and demand. The Draft's analysis of this is superficial. It provides a graph of ACT water demand only up to 2009-10, projections of future population, and general information about climate change and rainfall variability, the possibility of future purchases of water from outside the ACT, and possible future constraints on ACT water use under the Murray-Darling Basin Plan. But there is no synthesis of all this information to provide a clear, factually based picture of future trends in water supply and demand over the 30 year planning period, and no analysis of how each of the factors mentioned above might affect the balance between water supply and demand.

One apparent result of the Government's narrow and interventionist approach towards water demand is a continuing commitment to water restrictions as the best way of dealing with occasional water scarcity, and a seeming reluctance to recognise and address seriously the significance of water pricing in determining the demand for water. This is discussed further below, under 'Water restrictions' and 'Water pricing'.

The Strategy

Suggestions have already been made above, under 'Objectives of a water strategy', about how the Strategy should deal with water demand and supply.

There is now publicly available a great deal of empirical research and analysis on water issues – notably in the report of the Productivity Commission already referred to and in papers produced by ACTEW – which would provide a good basis for developing a professional and worthwhile strategy paper on the future for ACT water.

Water restrictions

Immediately after acknowledging the high costs of water restrictions, the Draft notes that the Government 'has set a one in twenty year standard for the need for temporary water restrictions as a performance measure'. Two questions should be asked about such a target: why is it necessary, and how would it work?

In a recent letter to HSOC, the Minister has said that the target is necessary to guide ACTEW on the amount of water it should aim to supply:

‘Without such an objective ACTEW could either provide insufficient supply capacity thereby causing the ACT water users to face more frequent and severe water restrictions and the related economic and social costs of those restrictions, or provide excessive supply and impose excessive cost on ACT water users as they meet the infrastructure, depreciation and operational costs of the overly generous supply capacity. The twenty year target is compatible to the targets applied in other capital cities.’

Implicit in this explanation is an expectation of high annual rainfall variability in the future, with occasional years of abnormally low rainfall and resulting water scarcity which it would be very costly to prevent through additional infrastructure investment. But the statement above identifies the costs of water restrictions and targets for restrictions in other capital cities as key determinants of the level of investment in water infrastructure.

This leads to more questions, however. What is the relevance of such targets in other cities, with different water supply situations? How was the target of restrictions once in twenty years calculated? What difference has the Government’s unusual method of determining an optimum level of investment in water infrastructure made so far, or what difference would it make in future, compared with more conventional methods of analysing the economics of investment in water infrastructure (such as those used by the ACT’s Independent Commission for Regulation of Competition)? Why is a system of water restrictions being maintained for what is expected to be very infrequent use? Finally, why in principle should a water policy have a scarcity target, however expressed?

Other questions arise about how a performance target for infrequent water restrictions might work in practice. For example, in the event of emerging water scarcity, what priority would the target give to introducing water restrictions in preference to other possible measures, such as buying water from outside ACT? What status, if any, would the one-in-twenty year target have in the event of prolonged water scarcity over many years, or conversely a prolonged absence of scarcity (either of which circumstances could be expected to override such a target)? Does the target imply any level of restrictions or only ‘significant’ restrictions? If some of these questions are difficult to answer because of future uncertainties, this would raise further doubts about the practical value of the target.

It might be noted here that the type of analysis of future water supply and demand recommended earlier in this submission would provide a more robust basis than is in the Draft for addressing the nature and probability of future water scarcity, and thus the likelihood that water restrictions or ‘scarcity’ pricing of water might be required (see below).

Water pricing

Related to the issue of water restrictions – and more broadly, demand management - is the issue of water pricing. The key questions here are: how do water prices influence demand; and what is the potential for ‘scarcity’ pricing to replace water restrictions (that is, discouragement of water use through higher prices in times of scarcity)?

A serious weakness of the Draft is that it gives only limited, seemingly token, recognition to the relevance of water prices and pricing to a water strategy. It mentions ‘the costs and benefits of managing demand using prices...’; and one of its ‘overarching principles’ refers to ‘Using prices and markets, where efficient and feasible, to help achieve planned urban water supply/demand

balance'. But when explaining the recent significant reduction in ACT water use, the Draft refers only to the success of the Government's 'water efficiency' programs (including water restrictions) as the reason. It omits to mention also that a massive increase occurred in many consumers' water bills over about the same period, from rising prices, and that water use has continued at a low level though restrictions have been greatly reduced. HSOC's concern is that this omission, viewed in the context of the Government's focus on demand management, may reflect a limited interest in, and appreciation of, the way water prices interact with demand and supply and, as now, encourage more careful use of water.

On the issue of restrictions v. scarcity pricing of water, the Minister has said in a recent letter to HSOC that the Government considers such pricing is *'too blunt an instrument to achieve the outcomes required in times of restrictions'*. The Government is also *'concerned about the social equity aspects of pricing alone being the determinant of water demand and the excessive costs in developing the means for financial assistance to those who genuinely need it against a target of desired water consumption in such times'*.

Rejection of scarcity pricing of water as too blunt an instrument for restraining demand is simplistic. The responsiveness of water demand to prices has been extensively researched and analysed and is fully discussed in the report of the Productivity Commission. The essence of the Commission's report is that while water demand tends to be more responsive to prices over the longer term, there are ways open to governments for increasing the responsiveness of demand to prices in the shorter term; that scarcity pricing of water is not necessarily inferior to restrictions for restraining demand; and that retail pricing of water should have regard to, among other things, *'the scarcity value of water as supply and demand conditions change'* (ibid. pp.170-173).

On the social equity aspects of scarcity pricing of water, there is evidence (documented in the Productivity Commission's report) to suggest that the Government's concern about 'excessive costs' of compensation for those seriously disadvantaged by higher water costs is not well founded. Water costs are a small part of most household spending relative to other items such as energy, housing and food – including for low-income groups – and access to water for subsistence is highly unlikely to become an issue. There is already some price concession to lower water users in the structure of water tariffs. In addition, financial assistance to low-income groups is addressed more generally through welfare programs and the tax system (ibid. p.203ff).

Recommendations

- The Government should produce for public comment a comprehensive policy-oriented paper on water that could guide the long term planning and management of water in the ACT.
- An overarching objective of water policy should be to meet the demand for water in 'an economically efficient manner so as to maximise net benefits to the community'.
- The paper should contain analysis and discussion of issues and options for a long term water policy, based on expert estimates of future water demand and supply, and should recommend a set of clear objectives and priorities derived from this analysis.
- The analysis should address the role of water prices and pricing in a water policy.