

2015-16 Budget Review - Business Case – Water Abstraction Charge

Background

The Water Abstraction Charge (WAC) is a charge set by the government on users licensed to take water for urban and non-urban use in the ACT. The WAC raises approximately \$30 million revenue per annum, however this is ultimately dependent on weather conditions which directly impact water usage.

The WAC was introduced in 1999 as a result of COAG reforms to the water industry to ensure water pricing reflects its true value. The ICRC sets the ongoing price for water charged by Icon Water based on their costs of delivery. The WAC is an additional charge levied by the government to reflect the scarcity value of water and send a pricing signal to those licensed to abstract water. The WAC has been challenged in the past in the High Court as being unconstitutional as a “tax” on water. Whilst the proponent did not win the case, there continues to be close scrutiny of the WAC to ensure that the charge is reasonable and justifiable.

In 2014-15, the WAC for urban use increased from 51 to 54 cents per kilolitre and the WAC for non-urban use increased from 25 to 26 cents per kilolitre. This represented about a five per cent increase and was the only increase in nearly 10 years. In 2015-16, the WAC for urban use increased further to 55 cents and the WAC for non-urban use increased to 26.5 per cent (a 2 per cent increase).

Option

Treasury has explored increasing the WAC by annual indexation of 2 per cent to commence in 2016-17. This would raise the charge for urban water by a about 1 cent per kilolitre per annum, and 0.5 cents per kilolitre per annum for non-urban use, and yield additional revenue of around \$6.3 million over the next four years.

Financial impact – Increase annual indexation of 2 per cent

	2016-17	2017-18	2018-19	2019-20	Total
Additional revenue (\$'000)	565	1,265	1,865	2,565	6,260

Implications

The WAC is a relatively efficient way to raise additional revenue because the majority of revenue is collected by a single taxpayer, Icon Water, with the charge passed on to consumers. An annual two per cent increase in the WAC would increase the average consumer’s annual water bill by a total of \$22 over four years (for a consumer that uses 200 kilolitres of water per year).

As the WAC is passed on to households, there is no impact on Icon Water dividends by this proposal. Changes to the rate of the WAC can be implemented through the *Water Resources (Fees) Determination*.

Any increase to the WAC may attract criticism for adding to cost of living pressures, particularly in light of the 5 per cent increase in 2014-15 and the 2 per cent increase in 2015-16. In addition, the ACT is required to report annually to the Australian Competition

and Consumer Commission on water charges, and this requirement places a check on the amount of additional revenue that may be collected through the WAC each year.

It is our view that occasional one off increases to the WAC are more appropriate and should be based on maintaining the economic value of water as a scarce resource in the Territory rather than regular annual increases with the implied link to direct (indexed) costs of provision.