



WATER SERVICES
ASSOCIATION OF AUSTRALIA

NATIONAL WATER REFORM 2024 SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEW OF NATIONAL WATER INITIATIVE

FEBRUARY 2024



About WSAA

Water Services Association of Australia (WSAA) is the peak industry body representing the urban water industry. Our members provide water and sewerage services to over 24 million customers in Australia and New Zealand and many of Australia's largest industrial and commercial enterprises.

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For more information please contact info@wsaa.asn.au

Introduction and overview

Thank you for the opportunity to provide a submission to the Productivity Commission (PC) inquiry into the National Water Initiative (NWI). Our message in this submission is simple – all Governments in Australia should commit to an ambitious program of national water reform and a new National Water Initiative.

The PC's call for submissions says that the PC is interested in:

- Whether the findings and recommendations and the NWI renewal advice from the Commission's 2020 inquiry should be strengthened or added to in light of policy developments, environmental or other changes over the past three years (since the completion of the last inquiry).

Since the 2020 Productivity Commission Inquiry the issues facing urban water have not changed. The recommendations for reform as set out by the PC in 2020 and repeated in its discussion paper remain current.

What has changed is the urgency of the need for reform.

The drivers of change are well known. They centre on maintaining ageing assets and service levels, servicing rapid population growth and responding to climate change. Each of these challenges are now forcefully driving necessary investment to record levels (see Table 1). The water industry is expanding. It is not in a steady state and is not in equilibrium. The scale of changes across the industry could place pressure on existing pricing and institutional governance arrangements.

The need for national reform is therefore heightened.

This submission sets out the extent of the investment forecast by utilities, points to the detailed work WSAA has undertaken on the national reform agenda and summarises the key actions that should be advanced in a new National Water Initiative.



The operating environment is one of record investment and real price increases

Cost of living pressures are affecting all Australians. Interest rate increases have pushed up mortgages and rents. Prices for essential goods such as energy, fuel and food have also been increasing steeply.

There is no more essential service than water: for drinking, toilets, gardening, and our urban environment. Across Australia over the last 10 years the prices of water and wastewater services have been flat or declining slightly in real terms. Water has maintained a high level of affordability, and this will continue to be the case. However, the era of flat prices is over in many jurisdictions and the future will be one of managed price increases.

FACTORS IMPACTING WATER PRICES

There are short term and long-term factors that impact upon water prices. In the short-term inflation and rising costs are affecting water as these pressures affect all industries. But the long-term factors will increasingly be the most important. These are:

- the need to maintain and upgrade an ageing asset base
- the need to provide services to a rapidly growing population, and
- critically, the need to be resilient in the face of climate change.

AGEING ASSETS

The dams, pipes, and treatment plants used to provide you with water and treat and manage wastewater last a long time. Many of these assets were built, and paid for, by our grandparents. These assets have lasted us well and have not required a significant contribution from the current generation. However, this is starting to change. These assets are beginning to need higher levels of maintenance and upgrade if they are to continue to provide services for future generations. When we talk to the customers and community there is a strong consensus that we should not kick the tin down the road. That we must leave for our children, water systems in as good condition as they were provided to us.

CLIMATE CHANGE



Finally, we are seeing these issues compounded by the impact of climate change. We need to provide water supplies in an increasingly uncertain climatic outlook. Our dams are a vital source of water now and for the future. However, there is a need to diversify our sources of water to incorporate non-rainfall dependent sources of supply including further desalination, recycling for industry and purified recycled water for drinking.

POPULATION GROWTH



In turn, rapid population growth means that we need to provide further capacity. This is required in both our underground pipes and in our sources of water. Our populations are expanding into areas with significant environmental value. We need to provide higher levels of treatment to used water to protect our precious inland waterways and beaches.

Investment is expected to double

The National Performance Report has documented the increased capital investment (expenditure) in the urban water sector over the last 10 years. This trend is expected to accelerate. WSAA's forward looking data on capital expenditure shows a doubling of investment by 2027 to over \$10 billion annually. We expect this to be a step change in investment, not a transient wave.

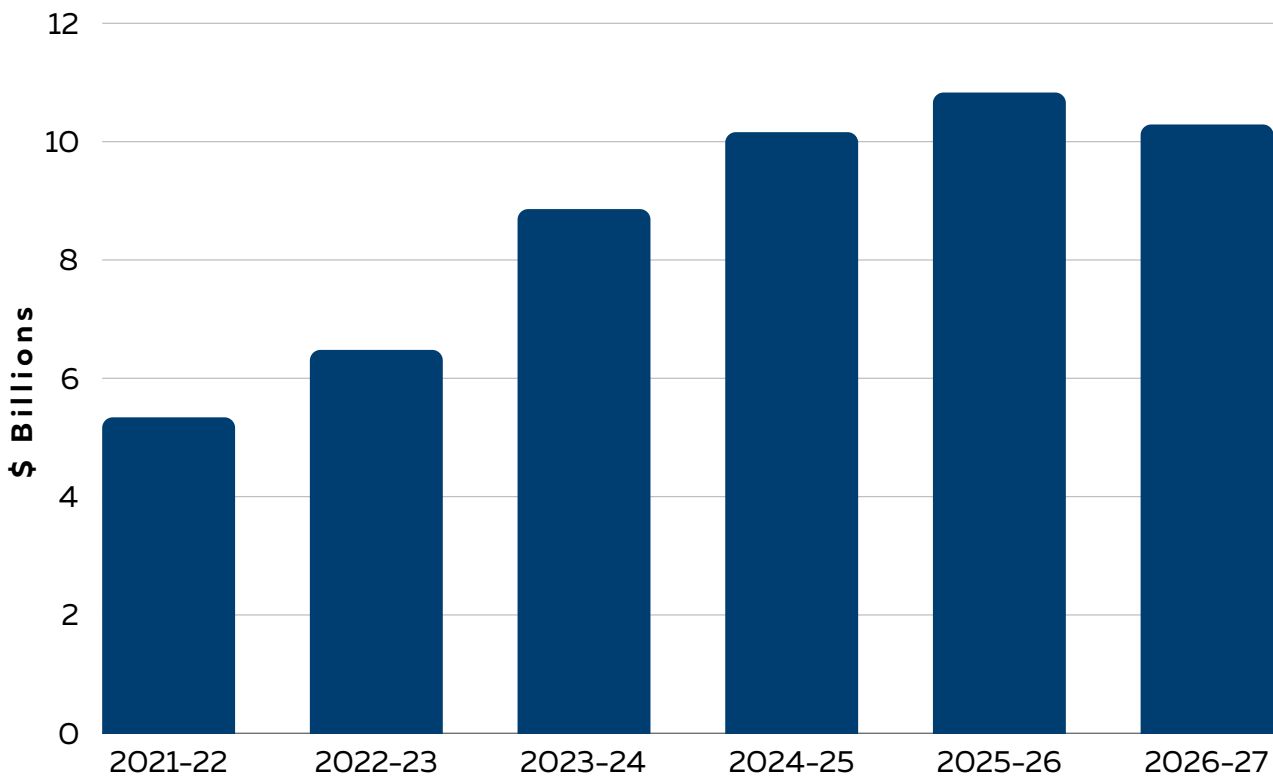
For example, Sydney Water has released its [Long Term Capital and Operating Plan](#). It forecasts \$34 billion of additional investment over the next 10 years and further increase in future decades. Nationally, beyond 2027 many jurisdictions are planning the next phase of investment for water security.

Notwithstanding efficiency and innovation, such an expansion of the industry requires greater operating costs.

In addition, financing costs across the industry are increasing to service debt.

The need for greater long-term investment means there will be pressure on prices for years to come. The impacts will vary across different water utilities but all utilities are facing these pressures. These issues are often compounded in rural and regional areas where small customer bases pose challenges for funding and maintaining infrastructure.

**Actual and forecast water and wastewater capital expenditure
22 water utilities, 2022-23 prices**



Managing price rises

Together with the community, utilities can manage these price rises to maintain the affordability of services. First, the industry is committed to doing everything it can to ensure our services are provided as efficiently as possible, including seeking to innovate to reduce costs.

Second, in concert with water industry regulators, we want to ensure that price rises are predictable and manageable over time and avoid sudden price spikes.

Third, together we can improve water efficiency. This has the double benefit of helping customers save money on their bills, while allowing the industry to potentially defer costly upgrades to our water supply, thus managing costs further.



Helping customers experiencing hardship

Regardless of these measures we know there will be those that struggle to pay their bills. The industry is also at the forefront of providing help to those experiencing hardship. Clean water and wastewater management is a human right and we will never deny people service. We have a wide range of measures to help.

Trends are similar internationally

Internationally the water industry is facing a similar future. In New Zealand the change of government has led to change in the course of reform. However, the need for significantly increased investment is well accepted, to improve service quality and reliability.

According to Infrastructure New Zealand existing water infrastructure (drinking water, wastewater, and stormwater) is worth roughly \$40 – \$50 billion but requires investment of \$120 billion to \$185 billion over the next 30 years.

Similarly, the UK water industry is facing a step change in investment. Water companies have submitted their price proposals for the next five years. On average companies are asking for a 30 per cent real price increase, however, some proposals are as high as 60 percent. While the circumstances are different the magnitude of price increases required in Australia may be comparable.

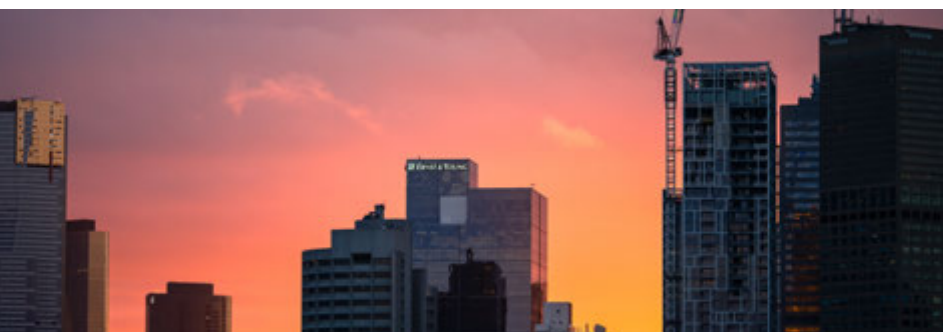
The key difference between the UK and Australia is the level of trust in the water sector. The UK is facing a crisis of trust in the water industry, with the

government, water regulators and water companies all facing heavy criticism for poor environmental performance. While this has many contributing factors, one of the root causes is the level of investment in the industry failing to keep pace with legitimate customer demands for clean waterways and water security.

Much more investment will be required beyond the next price period to fix the problems in the UK.

Unlike the UK the starting point for Australia is not a crisis of trust. Utilities enjoy a high level of trust from their customers. Box 1 sets out findings of WSAA's latest Customer Perceptions Survey. It shows customers value their waterways. Investment in the Australian water sector has continued to increase over the last 10 years. Utility spending maintains high levels of environmental performance.

However, the UK is illustrative of what can happen if required investment is not forthcoming in a timely and affordable manner that meets community expectations.



BOX 1: Customer views

Every 2 years WSAA surveys over 8000 customers across all regions of Australia to understand their perceptions, attitudes and knowledge about water and wastewater. The survey gives us insight into what Australians value and expect from their water and wastewater providers.

- **Australians trust their water and wastewater service providers.** This has increased steadily since 2015. About 3/5 respondents agree that they trust their water utility (with 1/5 disagreeing)[1]. This is significantly higher than levels of trust in other utilities such as energy and local councils
- **The majority agree that their water bill is affordable[2].** In fact perceptions of affordability have remained constant even though 70% of respondents say that their water bill has increased in the last 12 months.
- **The effects of the cost of living crisis are clear.** More people are struggling to make ends meet with “just” and “not meeting” basic expenses rising from an aggregate of 25% to 26% since 2021[3]. 14% of respondents were late paying their water bill over the last 12 months[4] while one in three struggled to pay a bill on time in last 12 months[5]. Interestingly this is not limited to low-income households. As a result, many water utilities are increasing investment in a range of flexible options and financial support for customers that struggle to pay their water bill.
- The health of local waterways is a priority[6]: In fact, the majority of people think it is MORE important than keeping bills as low as possible.
- Maintaining service reliability and ensuring small towns have access to drinking water is important to Australians with more than a third indicating they are more important than keeping bills as low as possible.
- Australians are open to alternative sources of drinking water. 79% agree that “we need to think about all possible sources of water, as current water sources may not be as available in future” while 57% agree that “so long as water can be purified, is safe and pleasant to drink, it doesn’t really matter where it comes from”.

Sources:

WSAA Customer Perceptions Survey, September 2023, n=8063

WSAA Water Literacy Survey, July 2023, n=7500

[1] I trust my water provider – agreement is % of respondents that scored 7-10 on a 0-10 scale

[2] My water utility has affordable bills – agreement is % of respondents that scored 7-10 on a 0-10 scale

[3] Which of the following best describes your financial situation?

[4] In the last 12 months, I have missed or been late paying my water bill

[5] Did you struggle to pay either your water bill or another bill (electricity, gas, phone/internet, mortgage, rent) on time over the last year?

[6] Please indicate if any of these are more important to you than keeping water bills as low as possible...

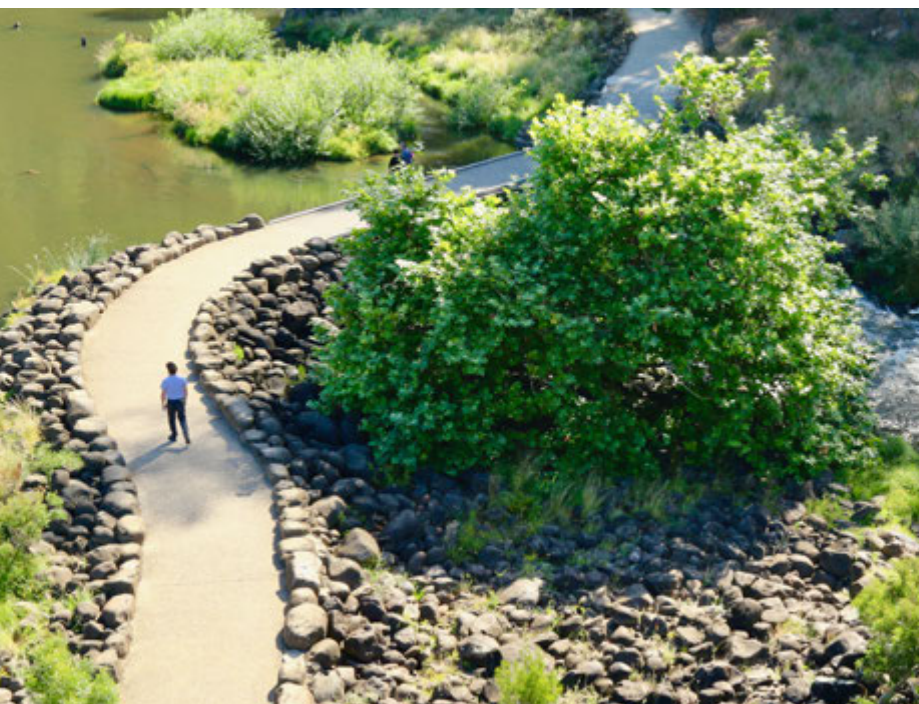
Reinforcing the need for a national agreement

The elevated investment environment and associated price impacts in Australia reinforces the need for national reform. The PC and WSAA have made broadly consistent recommendations for a new agreement.

Rising prices will directly and indirectly affect many elements of a new agreement.

Directly they will test the full cost recovery model across jurisdictions, and it is important that these existing elements of the NWI be reinforced. Utility balance sheets will also come under pressure and it will be important that all governments commit to maintaining an investment grade credit rating for water utilities.

But indirectly unless we have a strong water industry, water security, regional water services and closing the First Nations water gap will all be significantly harder.



Elements of National Water Reform

WSAA has released a number of comprehensive publications on water reform in general and national water reform in particular. We refer the PC to the following:

WSAA, [Renewing the National Water Initiative – Securing the Future of Water for People and Communities](#), May 2023

WSAA, [Blue x Green = Thriving](#), August 2023

WSAA, [Closing the Water for People and Communities Gap: A review on the management of drinking water supplies in Indigenous remote communities around Australia](#), November 2022

WSAA, [All Options on the Table: Urban Water Supply Options](#), September 2020



Refined list of priorities

WSAA has already made key recommendations about inclusions for a renewed National Water Initiative, in the submissions listed above. Since their publication, the Commonwealth has been engaging on these matters, and below is our list of slightly refined recommendations:

<p>1. Water supply security in a changing climate</p>	<p>We recommend two inclusions, whether as new additions or incorporated into retained measures in the current NWI:</p> <p><i>1. Proposed new Action:</i> <i>Develop a national water security framework that incorporates:</i></p> <ul style="list-style-type: none"><i>• A consistent framework and metrics to measure water security in Australia</i><i>• A guiding principle that all options must be on the table for water security</i><i>• Guidelines on a national approach to engaging with local communities, using facts and evidence, for sustainable and supported local solutions</i><i>• A requirement to consistently and transparently publish information and data on all options as part of community engagement</i> <p><i>2. Proposed Outcome and Action:</i> <i>Outcome: The Australian Drinking Water Guidelines should provide a single guidance on producing drinking water from all sources (including desalination and purified recycled water).</i> <i>Action: Investigate the most cost-effective and practical way of updating and consolidating the Australian Drinking Water Guidelines, so that it:</i></p> <ul style="list-style-type: none"><i>• applies to all sources of drinking water including purified recycled water</i><i>• provides clear regulatory guidance on pathways to implement production of drinking water from different sources</i><i>• incorporates effective validation protocols for treatment systems that produce drinking water.</i>
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<p>2. Closing the First Nations water gap</p>	<p>The NWI must express the right of all Australian communities to have access to safe, clean drinking water, to meet the Closing the Gap target and UN Sustainable Development Goals, and set Outcomes and Actions to drive progress towards this.</p> <p>We recommend the NWI include an Outcome around: <i>The States and Territories provide appropriate funding for culturally affirmative programs in skills and business development for First Nations people, to support self-empowerment.</i></p> <p>And an Action around: <i>States and Territories to fund and enable research and development on policy for integrated water services for First Nations communities, through household plumbing and sanitation, that will provide liveability benefits.</i></p>
<p>3. Building productive, liveable cities</p>	<p>We recommend several inclusions, whether these be new Objectives/Outcomes or incorporated into retained measures in the new NWI:</p> <p>1. <i>Outcomes regarding integrated water management:</i></p> <ul style="list-style-type: none"> • <i>The States and Territories will ensure that water-related assets and services are provided following a national and systemic approach incorporating blue-green grids and Integrated Water Management.</i> • <i>Policies for appropriately valuing all water investment benefits, across a range of beneficiaries including public health and ecosystem protection and regeneration, are recognised or embedded in State and Territory regulatory frameworks.</i> <p>2. <i>Outcome:</i> <i>States and Territories will pursue continuous improvement in the management of stormwater and drainage for best gains in waterway health, water security through water recycling options, and public health.</i></p>

	<p>3. Outcome in sections of the NWI relating to cost recovery, to help equitably share costs of provision of water-related infrastructure for urban growth: Nationally consistent principles for developer contributions to water-related infrastructure will be applied, to help deliver cool, green cities.</p> <p>4. Outcome on nutrient trading, to enable innovative and cost-effective new ways of producing environmental benefits to be realised in appropriate circumstances: The States and Territories agree to develop policy settings and regulatory frameworks that enable nutrient off-setting and trading where cost-effective environmental benefit can be achieved. To be supported by concrete Action/s:</p> <ul style="list-style-type: none"> • Develop a national Roadmap on nutrient trading • National Guidelines on nutrient trading (to be implemented by States and Territories) to cover agreed aspects such as market protocols, equivalence regimes, monitoring and reporting regimes, results assessment, benefit sharing with customers.
<p>4. Unlocking circular economy potential</p>	<p>We propose that existing and ongoing policy and regulatory measures in the NWI be refined to incorporate:</p> <p>Outcome: The urban water industry is able to lead, support and facilitate circular approaches such as renewable energy, green hydrogen, biochar for soil improvement and carbon sequestration, energy from food, garden and liquid waste, and recovery of other resources from waste and water.</p> <p>Action: Instigate national review of product stewardship policies to minimise contaminants including PFAS entering the supply chains that the water industry has to manage.</p> <p>Proposed new Objective: All States and Territories work towards optimising the use of biosolids in biochar</p>

<p>5. Cost recovery and economic regulation</p>	<p>We propose that the NWI:</p> <p><i>Renew government commitment to maintaining all elements of full cost recovery model for major cities and communities.</i></p> <p><i>Expand the existing pricing principles to include best practice principles for developer contributions to growth infrastructure.</i></p> <p><i>State that where subsidies are needed, they should be provided as transparent community service obligation payments rather than ad-hoc capital grants (regional, rural and remote areas).</i></p> <p><i>Commit to maintaining water utilities' investment grade credit ratings.</i></p> <p><i>Outcome: affordable price paths that allow utilities are deliver the services that customers need and are willing to pay for today, while maintaining an investment grade credit rating to enable them to deliver services to future customers.</i></p>
<p>6. A transparent and open industry, using data for good decision-making</p>	<p>To best manage this space which has rapidly evolved since the original NWI we propose that new or continuing NWI measures ensure:</p> <p><i>Data and productivity:</i></p> <p><i>Outcome: All States and territories commit to transparency through ongoing public reporting of performance by all water utilities, including National Performance Report and data collection and reporting for Closing the Gap targets</i></p> <p><i>Outcome: The Commonwealth commits to ongoing improvement in the frameworks used for public performance reporting such as the National Performance Report</i></p> <p><i>Outcome: All States and Territories ensure cross-sector data collection and retention systems are in place for diverse, high priority benefits including water system security, identification and assistance of customers experiencing vulnerability, planning and delivery of infrastructure.</i></p>

	<p><i>Digital:</i></p> <ul style="list-style-type: none"> • <i>Outcome – to accelerate digital implementation to optimise water-related services.</i> • <i>Action – States and Territories to develop and share education initiatives on digital pitfalls and options, and the best available tools and approaches.</i> <p><i>Cyber security:</i></p> <ul style="list-style-type: none"> • <i>Action – States and Territories to collaborate on a water-sector-specific best practice guide for managing IT, OT, IoT and SCADA cyber security, supported by case studies; with targeted roll-out to small and medium utilities.</i>
<p>7. Skills and training</p>	<p>We propose that the NWI addresses the skills uplift and resourcing required for essential water services.</p> <p>We recommend a new Action for national coordination on skills and training to:</p> <ul style="list-style-type: none"> • <i>Develop and implement an optimal model for the development of a national, standardised, quality training program for water operators</i> • <i>Evaluate establishing a minimum training requirement for water operators</i> • <i>Support a conversation of water operations to a trade qualification</i> • <i>Promote the portability of qualifications across States and Territories and evaluate the impacts of cross-border skills recognition frameworks</i> • <i>Build training capacity and delivery through the Registered Training Organisation market</i> • <i>Promote the alignment of higher education and VET to meet emerging needs</i> • <i>Communicate opportunities to access grant/funding opportunities</i> • <i>Support First Nations peoples to co-design training frameworks, to empower communities with skills and improve capacity</i>

<p>8. Research and innovation</p>	<p>To further progress an able, well-structured RDI ecosystem, that meets our challenges efficiently, we propose the NWI measures be built on to incorporate the below Outcomes:</p> <ul style="list-style-type: none"> • <i>Enduring collaboration across scientific disciplines, industries and institutions (to reduce current fragmentation and competition issues)</i> • <i>Translation of research and science to practical outcomes . The NWI could reference Water Research Australia’s “Value of Research, VoR” initiative as national guidance.</i> • <i>‘Workforce of tomorrow’ outcomes are created including optimising digital capabilities</i> • <i>Research enables extending the life of existing infrastructure where efficient and transition pathways</i> • <i>Research exploration and investment prioritises ‘braided’ First Nations and Western scientific approaches, that can yield ‘best of both worlds’ outcomes</i> • <i>Accelerate the transition to a circular economy</i>
<p>9. Improving water efficiency</p>	<p>Water efficiency was one of the few elements included the 2004 Initiative relating to urban water, with specific actions on WELS and SAWM. We recommend retaining an Outcome seeking ongoing water efficiency improvements in the 2024 NWI. There are still substantial gains still to make in this area, for example through outdoor water efficiency products, which support broader objectives like urban cooling, greening and liveability.</p> <p>These activities also tend to be strongly supported by the community, as they can help families and businesses save water and money.</p> <p>Regarding the current Outcome, we recommend:</p>

	<p>1. Lift the current Outcome out of the dedicated 'Urban Water' section, as water efficiency is equally valuable in all settings including regional and rural. It should also be linked to Water Security Objectives and Outcomes, to highlight that efficient water use is a precursor to augmenting water supplies.</p> <p>2. Make the Outcome more focussed on continuous improvement, eg Continue to implement WELS and SAWM, also seeking continued refinement of their product range and coverage to maximise potential water efficiency gain.</p> <p>Regarding the current Action, we recommend:</p> <p>1. Replace the current once-off tactical Action with a more strategic, enduring Action that enables continuous improvement, such as The states and territories agree to develop a roadmap to identify pathways to continuous improvement, and implementation of suitable initiatives, to support increased water use efficiency in all settings. This would give jurisdictions flexibility to implement emerging options like:</p> <ul style="list-style-type: none"> • Mandatory training on water efficiency for water-related professions such as plumbers, landscapers, gardeners • Incorporation of SAWM products and services into home/design certification eg NSW BASIX, Vic BESS, naBERS, naTHERS, Green Star etc • Including water efficiency certified as a desirable criteria for government procurement guidelines • Mandating SAWM products where feasible into public housing, which could have benefits for tenants.
<p>10. National supply chain security</p>	<p>We propose supply chain be heightened in the current and ongoing NWi measures:</p> <p><i>New Outcome: National supply chain for critical water sector chemicals and assets be safeguarded through supply chain protection, to ensure public health is maintained through functioning water and sanitation systems.</i></p>

