



Submission in response to the Productivity Commission Issues Paper ‘Australia’s urban water sector’

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Introduction

Anglicare welcomes the opportunity to provide a response to the Productivity Commission’s urban water sector issues paper.

Anglicare is the largest community services organisation in Tasmania and offers a wide range of services to people in poverty and crisis and support to people with disabilities and mental health problems. Many of our clients are on very low incomes or face other disadvantages, including chronic health problems, unemployment, drug or alcohol issues, homelessness, personal trauma and family violence. Anglicare also has a research and policy arm, the Social Action and Research Centre (SARC), which works to address the causes of poverty through research, advocacy and public debate. Because access to essential services is a critical concern of many of our clients, SARC has participated in the public consultation processes run by the Tasmanian Department of Treasury and Finance and the Office of the Economic Regulator around the development of community service obligations and customer service standards in the water and sewerage sector.

Anglicare is responding to this inquiry in the interests of low income earners and people who are disadvantaged. The Tasmanian context for our submission is one of recent, radical reform to the water and sewerage sector. Previously services were managed by local councils. They have now been restructured into three regional, government-owned corporations and a fourth ‘common services’ corporation, all of which are owned by — and thus pay dividends to — local councils under a government trading enterprise model. While the corporations remain under the control of local government, the reforms themselves were driven by the State Government, and the State retains responsibility for many elements of the reform, including oversight of regulatory frameworks, policy development and the funding of concessions for low income earners.

The rationale for the reforms was that water and sewerage infrastructure in Tasmania was sub-standard, with many communities on permanent boil water alerts and regular breaches of guidelines

for wastewater treatment. The cost of the upgrades required has been estimated at \$1 billion. Anglicare does not dispute the need for investment, and acknowledges that the many individual councils lacked the capacity to address the issues. However, the approach being adopted in Tasmania appears to be based on the assumption that the users of the service will, through cost-reflective pricing, meet the entire cost of the \$1 billion investment required. While it may not be politically feasible for the Government to continue down this path, significant price increases are expected. Anglicare is extremely concerned about the effect these price increases will have on people on low incomes, particularly as the cost of living more generally is increasing and people are coming under sustained pressure from rising electricity prices, rising food prices and an ongoing shortage of affordable housing.

Anglicare's submission will not address all of the questions in the Productivity Commission's issues paper as many of these cover areas in which we do not have relevant expertise. Instead, we will focus on responding to the first three 'key questions' listed on p. 8 of the issues paper.

These are:

- **What objectives should governments have for the urban water sector?**
- **What are the impediments to achieving those objectives?**
- **Is there a strong case for reforming Australia's urban water sector? What is it?**

1. What objectives should governments have for the urban water sector?

The primary and most important objective of the water sector should be to ensure that all Australians in metropolitan and rural urban areas (and indeed in other areas) have access to safe, affordable water and sewerage services and a sufficient level of service to meet their reasonable needs for health, wellbeing and dignity.

Discussion

As the issues paper notes, water and sewerage services are essential services (Productivity Commission 2010, p. 14). The word 'essential' in this case implies a number of things. Firstly, water is not just an essential of life, it is essential to life. Secondly, access to these services (rather than simply, say, free bottled water from emergency relief providers for the purposes of sustaining life) is essential for people to have a decent quality of life and to be accepted and included in their community. Thirdly, these services are essential for standards of public health to be met and maintained. Put simply, use of water and sewerage services in Australia is not discretionary, although some components of usage (such as using water for long showers or hosing down driveways) may be discretionary. Because of this, Anglicare believes that the primary and most important objective of the water and sewerage sector should be to ensure that all Australians in metropolitan and rural urban areas (and indeed in other areas) have access to safe, affordable water and sewerage services and a sufficient level of service to meet their reasonable needs for health, wellbeing and dignity.

The word 'affordable' requires further definition as this is a complex area. As Milne (c. 2003, p. 1) states,

[b]eing affordable is not the same thing as being low-cost (though that helps); nor is it the same as being cost-effective (which may help) or sustainable... The essence of affordability lies in the

resources that are available for a purchase. This means that affordability only has meaning when speaking of a certain group getting particular products or services.

Elsewhere, she argues that affordability includes elements of the ‘ability to pay a price without suffering hardship’ and the ‘degree of need for what is bought’, but notes that there is a ‘big variation in people’s needs as well as resources’ (Milne 2003, p. 3).

In discussing the affordability of healthcare in the United States, Feder (2009, p. 21) argues that affordability

must be defined broadly across multiple family types and income categories. ... What is affordable for one family living at a certain income level, may not be affordable for another family living on the same income, depending on their financial responsibilities.

Generally, the understanding of affordability, in as disparate policy areas as the affordability of local government rates and the affordability of healthcare, is that it relates to the capacity to purchase the product or service without compromising expenditure on other essential items (e.g. Local Government Rates Inquiry Panel 2007, p. 183; Community Services Society of New York 2009, p. 1). The affordability or otherwise of a particular item must be considered in the context of all the demands on a household budget and the standard of living the household is able to achieve.

This context must be taken into account when considering any reforms to the pricing and delivery of water and sewerage services and the frameworks to support this.

2. What are the impediments to achieving those objectives?

A focus on user-pays and full cost recovery, accompanied by punitive responses for people who do not pay, places people on very low incomes at risk of exclusion from adequate levels of service.

Discussion

One of the main impediments towards achieving an objective that centres around affordability and access for all is the increasing push to user-pays pricing in the water and sewerage sector in Tasmania, accompanied by the development of punitive responses to people who are unable to pay. Anglicare has welcomed the decision of the Tasmanian Government to prohibit disconnection of services for failure to pay. But people who are unable to pay for their services due to simple inability to afford them are still at risk of having their services restricted to a level defined in the Tasmanian water and sewerage industry Customer Service Code as ‘no less than two litres per minute at the tap nearest the meeting’ (s. 8.2.2).

One in three (34.1%) of Tasmanian households are reliant on income support payments as their main source of income (Australian Bureau of Statistics 2009). These payments can provide as little as \$377 a fortnight (\$9802 per annum) for a student or young jobseeker.¹ In this context, an affordable price has to be a very low price to be meaningful. In addition, many people on very low incomes are living

¹ This is the base rate paid to a young person on Youth Allowance, as published on Centrelink’s website (www.centrelink.gov.au) on 9 November 2010.

in rental properties, particularly in the private rental market, and do not always have control over the fixtures in their properties, which means that they may be unable to avoid using appliances and fittings that consume an excessive amount of water.

Pricing structures for water and sewerage services therefore need to be designed to take account of the needs of low income customers. Anglicare supports the following pricing principles:

- postage stamp pricing, to ensure that people living in rural or regional areas because of cheaper housing are not faced with higher prices;
- an inclining block tariff, with the first tariff block kept at an at-cost or below-cost price (or even free) to ensure a minimum level of service is available for everyone at a minimal price; and
- keeping the fixed price element of the two-part price low, proportional to the consumption component, in order to maximise the impact of water conservation strategies on individual budgets.

These principles will ensure all people have access to a minimum level of service and that people will not be disadvantaged by where they live (recognising that in a constrained housing market, people on low incomes often have limited choices about where they live and many people are often pushed out into regional centres or onto the urban fringe to avoid homelessness). The inclining block tariff and the low fixed price will also provide an incentive for all customers to reduce their water usage and adopt more environmentally sustainable practices in their homes and gardens.

3. Is there a strong case for reforming Australia's urban water sector? What is it?

Tasmania has just been through a significant reform process in the water and sewerage sector, intended to address the problems arising from long-term underinvestment in infrastructure. This reform process will result in substantial price increases, including for low income households. Any further reform should be designed with the needs of low income customers in mind to ensure that they are not further pushed to the margins of the market. This may mean in the area of pricing that cross-subsidies are preserved or additional government investment is made to ensure that services remain affordable for those on the lowest incomes.

Discussion

Anglicare does not have the expertise to comment on the wider Australian urban water sector, but in Tasmania, as stated above, we do not dispute that investment and reform were and are needed, and we acknowledge the reasons for the recent radical restructure of Tasmania's industry.

However, we are concerned that the push for 'reform' can sometimes lead to detrimental social consequences. As the discussion paper notes, micro-economic reform measures 'are simply tools to achieve an objective and not goals in their own right' (Productivity Commission 2010, p. 13). It may be that sometimes 'inefficient' practices, such as the cross-subsidising of the poor by the rich, are required to ensure that social goals, like a decent standard of living for all, are met. It may also be that competition is not always of benefit to consumers and that the market does not deliver evenly to everyone. As has been noted, '[l]ow income customers, in a competitive market, will be the least desired customer segment' (Binz, Feller & McFadden, cited in Duggan & Sharam 2004, p. 5).

Effectively, these ‘unattractive’ customers become the customers that no one wants to service because the primary goal of companies in an open market is to maximise profits, and it is not possible to make a profit out of people on very low incomes. As Duggan and Sharam (2004, p. 16) conclude, ‘[b]enefits from competition flow to those at the top of the labour market whereas low income users of essential services are vulnerable to assignment into residual markets. Consumers in residual markets lack market power’.

Anglicare notes some of the options for pricing reform included in the issues paper, such as:

- removing or modifying inclining block tariffs and postage stamp pricing;
- wider implementation of cost-recovery pricing; and
- ‘multiple service offerings’ — allowing customers to choose to pay more to secure their water supply and avoid restrictions.

In the area of pricing, as previously stated, Anglicare supports wider implementation of inclining block tariffs and postage stamp pricing, not their removal. These forms of pricing do imply a level of cross-subsidy within the system and may not represent the purest form of economic efficiency. But efficiency should not be pursued at the expense of affordability for the people on the lowest incomes, and retaining some cross-subsidies within the system is justified given that the services under discussion are essential. Simply put, some people in the community cannot afford to pay the full cost of providing a service like water and sewerage, and widespread implementation of full cost recovery would lead to these people missing out on the service, with significant implications for individual wellbeing, community cohesion and public health.

We also have some concerns about the ‘multiple service offerings’ defined above. While in theory, charging people above the standard price for excessive use in times of scarcity sounds attractive and environmentally sensible, it is important to acknowledge that for some people in the community (and despite persistent and unacceptably high levels of poverty, Australia remains in the main a wealthy country), price rises do not impose any hardship or indeed send any meaningful price signal. We would be very concerned if such a policy of multiple service offerings ended up creating a two-tiered system, where those on very high incomes who can effectively afford not to care about how much money they spend on the service are absolved from any responsibility with regard to social and environmental outcomes, while those who are forced by their financial circumstances to care very much must shoulder the full burden, to the detriment of their own quality of life.

Conclusion

Once again, Anglicare appreciates the opportunity to provide comment on the Productivity Commission’s issues paper on the urban water sector. We have argued that the main objective of any reform process should be to ensure that all Australians have access to safe, affordable water and sewerage services and a sufficient level of service to meet their reasonable needs for health, wellbeing, and that any reform process should be designed to meet this objective.

We look forward to further participation in this debate as the Commission’s inquiry continues.

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