

DRIVING URBAN WATER REFORM

There is a growing chorus calling for fundamental reform to Australia's urban water sector. The challenges of population growth, increasing climate variability and broader economic conditions underscore the need for action.

In late 2015, the Water Services Association of Australia (WSAA) and Infrastructure Partnerships Australia (IPA), released a report calling for fundamental reform to urban water. The strong case presented for renewed water reform backed with meaningful incentives, is consistent with findings and recommendations from Infrastructure Australia, the Productivity Commission, and the former National Water Commission. And yet, there is little by way of progress in converting this consensus into an actionable reform process at the state or national level.

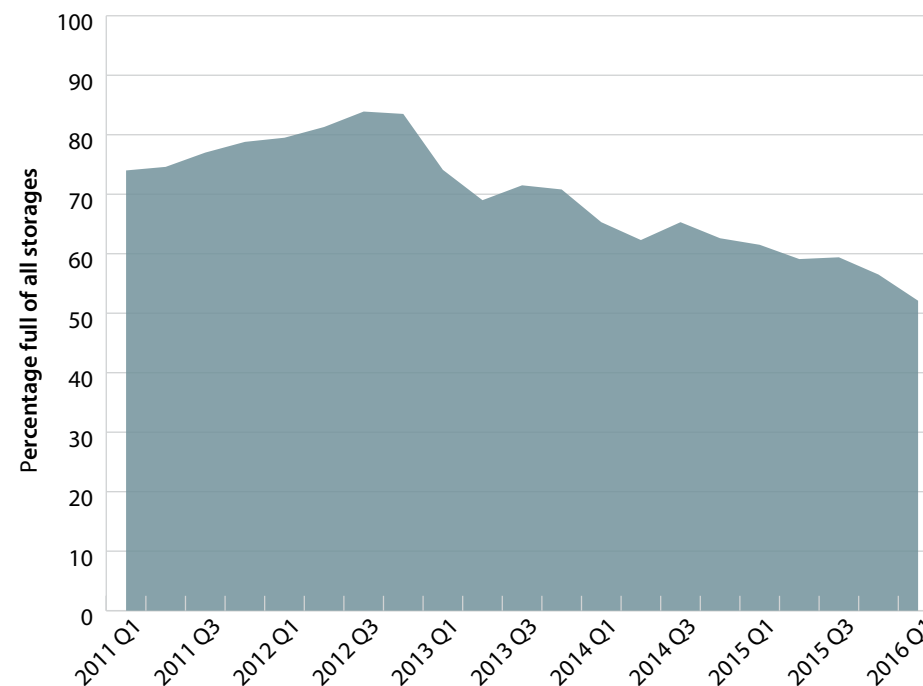
It is time to turn consensus around the fundamental importance of good urban water policy into action. We need to agree to and implement the essential institutional and policy changes required to build on lessons learnt from drought, and to set the industry up for long-term success in response to challenges posed by population growth, climate change and broader economic conditions.

Over the next few months Aither will provide our views on what we consider to be key economic and policy issues in the urban water sector, including: balancing affordability with supply security; infrastructure funding and financing; and the role of the water sector in making our urban centres productive and liveable.

This introductory piece provides some context to these issues.

A highly variable climate is a perpetual challenge for Australia's urban water sector. While wet conditions in many areas between 2010 and 2012 provided a brief reprieve for water storages, a return to dry conditions across much of the country has seen storage levels drop again in recent years (see chart). In Victoria, the reduction in catchment streamflows has been sufficient for the government to place its first order for water from the Victorian Desalination Plant to buffer further storage decline.

Percentage full of aggregated Australian capital city urban water storages



Source: based on data from Bureau of Meteorology

A future impacted by an even more variable climate will exacerbate this challenge.

Rainfall patterns have changed markedly in many parts of the country, with continued reduction from long-term averages evolving from possibility to a dawning reality. Regardless of what eventuates as a result of climate change, the urban water sector needs to plan to manage longer and more frequent droughts, higher temperatures, and drier catchments, which will collectively reduce the reliability of traditional surface water sources.

At the same time, most major urban centres are continuing to experience high rates of population growth. Despite success in driving down per capita levels of consumption, burgeoning populations in our biggest cities will see total water demand continue to rise. The urban water sector must prepare to service almost 6 million more people across Sydney, Melbourne, Brisbane and Perth alone by 2031.

The sector is now expected to do more with less. Shareholders, customers and economic regulators are collectively contributing to pressure for greater efficiency and affordable water bills, yet utilities must manage ageing infrastructure, climate risk and more stringent health and environmental regulations. The shift towards integrated water management (IWM) has also seen the scope of services that water utilities are expected to provide broaden to include 'liveability' and other community outcomes. Yet these services all come at a cost. In our view, it is incumbent upon water businesses to make decisions that are efficient and that meet defined levels of service agreed by customers. It is up to governments to ensure that institutional and governance arrangements help facilitate and demonstrate this.

Building from a position of strength, the urban water sector can continue evolving to meet these diverse challenges and expectations. A lot was achieved in the urban water sector since the 1990s and the need is for continual improvement rather than wholesale change. However, momentum has been lost and attention divided as the industry has grappled with simultaneously reducing costs and focusing more on meeting customer expectations. Economics has a key role to play in better aligning outcomes with customer focus. Well defined institutional and governance arrangements can also help resolve trade-offs by focusing on how outcomes – such as improved liveability – can be defined and delivered most efficiently.

We see a number of opportunities to enhance the sector. Over the coming months we will explore some of these in more detail, incorporating insights informed by our project experience.

- **Planning and investment could be improved to optimise the water supply-demand balance in uncertain conditions.** We need better institutional arrangements and decision making tools to efficiently manage supply security risk. The urban water sector needs to consider all options and be capable of optimising the operation of multiple sources under uncertainty.
- **The private sector can contribute more effectively in the future.** In May we will be facilitating a workshop at the industry's peak conference, OzWater, entitled "Making capital work – future infrastructure investment in the water sector". Our aim is to influence the debate about future water infrastructure investment in Australia, with speakers from Infrastructure Australia, Water Services Association of Australia, Colonial First State Global Asset Management, South East Water, and the NSW Independent Pricing and Regulatory Tribunal.
- **A better way to think about integrated water management and liveability.** In 2011, the National Water Commission found that "the urban water sector is receiving confused messages about its role in contributing to 'water sensitive' or 'liveable' cities". Aither believes that limited progress has been made in implementing the Commission's recommendations for clarifying objectives, the roles and responsibilities of the water sector as well as state and local governments, decision making frameworks and funding arrangements.
- **Better management of urban waterways could yield real benefits.** Urban development has a fundamental impact on waterways that are increasingly recognised for their value in the urban environment. But how can we best protect and manage their health? What outcomes should be aspired to for different waterways?

We are excited about playing a role in ongoing reform to strengthen Australia's urban water sector. We invite you to share your views and experiences.



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