



## **COUNCIL ON THE AGEING, SOUTH AUSTRALIA**

### **SUBMISSION TO THE ESSENTIAL SERVICES COMMISSION OF SA'S INQUIRY INTO THE REFORM OF SA WATER'S DRINKING WATER AND SEWERAGE PRICES**

#### **Prepared by**

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## 1. INTRODUCTION

The Council on the Ageing, SA (COTA SA) appreciates the opportunity to provide this late submission to the Essential Services Commission of SA's (ESCOSA's) Inquiry into the Reform of SA Water's Drinking Water and Sewerage Prices.

COTA SA commends ESCOSA on a comprehensive public consultation. In particular we would like to commend its web-based consultation and the series of issues papers written in plain English – a significant achievement given the complexity of the issue.

## 2. COTA SA

The Council on the Ageing, SA (COTA SA) is the peak body representing older South Australians. Our aim is to advance the rights, needs and interests of older South Australians.

COTA SA has 17,000 individual members and 250 seniors' organisations with a combined membership of more than 60,000. We have 80 associate members including aged care providers, local government bodies, health units, and other service and educational institutions.

Through our membership in the national COTA federation we influence national policy that affects older Australians and draw on the resources and expertise of our national body.

## 3. SCOPE OF INQUIRY

Through the terms of reference for the inquiry, ESCOSA has identified six areas for potential reform:

- changes to the structure of drinking water tariffs
- changes to how sewerage prices are set
- factoring in water planning and management costs
- changes to metering
- review of who should pay water and sewerage charges
- management of the variable impacts of price reform.

The distributional impacts on consumers of the options proposed by ESCOSA are likely to be significant, eg between regional and metropolitan users, landowners and renters, and concession versus non-concession holders.

However, the information provided by ESCOSA within the issues papers does not detail these impacts. Modelling of the financial impacts is needed to enable more comprehensive comment from the public.

In the first instance, this will require reliable baseline (ie current pricing) information on the distribution of water consumption by or sewerage costs incurred by consumers.

COTA SA therefore strongly encourages ESCOSA to undertake this work at the next stage of its inquiry in time for considered public comment.

COTA SA will not be providing comment on each topic within this submission, but will concentrate on those areas most relevant to its stakeholders. Until more complete modeling is provided, the comments in this submission are necessarily contingent and limited.

#### **4. PRINCIPLES OF REFORM**

Water and sewerage are not merely utilities: they are basic rights. Clean, potable water is required for human health, hygiene and wellbeing. Ongoing and equitable access must be a key principle of reform, without any compromise to water quality.

Similarly, sewerage services are vital to the health of communities. It has been argued, for example, that the greatest leap in human health came not with medical advances, but advances in sewerage engineering and waste services.

Drinking water and sewerage pricing, as currently constructed, is a complex mixture of market forces, regulation, historical decisions, and social policy adjustments. It is characterised by pricing principles and practices that are not always compatible or transparent.

There is a case for smoothing out the current pricing systems to reduce red tape, increase transparency and support other policy principles, such as equity and water efficiency.

In undertaking any reform, however, this must not be at the expense of vulnerable consumers or, from COTA SA's perspective, older South Australians.

COTA SA advocates for the right of all older South Australians to have access to services, including vital utilities such as water and sewerage, that is equitable, reliable and affordable.

We acknowledge that, as with any reform, change to drinking water and sewerage pricing will create immediate 'winners and losers' in terms of cost.

For instance, the number of single-person households increases with age. This may lead to reduced use of utilities but, in those cases where bills are based on property values, no diminution in account costs. In Indigenous communities, extended and mobile families may mean high or highly variable usage of utilities. Grandparents taking on parenting roles can stretch pension or lower superannuation budgets.

Any single solution for ameliorating the impacts of price reform on those aged over 60 would therefore be inaccurate.

On this basis, COTA SA encourages ESCOSA to apply the following principles to the next stages of its inquiry, in addition to cost-reflective pricing:

- social equity
- pricing stability, both short and long term
- water efficiency and water security
- transparency of pricing
- reduction in red tape
- consumer protection.

#### **5. SOUTH AUSTRALIA'S AGEING DEMOGRAPHIC**

South Australia is, as the recent Thinker in Residence Alexandre Kalache has said, facing a longevity revolution.

South Australia is the second-fastest ageing state in Australia, eclipsed only by Tasmania. The 2011 census showed that 22.3% of South Australia's population of 1.6 million people were 60-plus years of age. By 2031, it is projected that 26.5% of our population will be aged over 65 years.

Getting older is not a single stage of life – it is a number stages, as are other times of our lives. The

years from 60 to 100, after all, span 40 years. In that time, the needs and interests of older people do change radically.

And an older person is not a single type – people aged over 60 are as diverse as those under 60. They may be employed or retired or volunteering (or a combination), they may be from an Indigenous or culturally and linguistically diverse (CALD) background, they may live in the city or in a remote setting, they may be grandparents or be without family, they may live with others or be on their own, they may be self-funded or be reliant on the pension... The alternatives are endless. Again, their needs and interests will vary.

The policy challenge for the state is to not lump all older South Australians into one cohort but recognise the variety of means, aspirations, abilities, cultures and locations that this group represents. This applies equal to the provision of utilities and basic services.

## **6. PRICING OPTIONS**

It is COTA's view that both property-based charges and user-based charges provide pros and cons for consumers, property owners, water efficiency and transparency.

The current property-based charges impact negatively on those owner-occupiers who are "asset rich but cash poor", many of these age pensioners or self-funded retirees on limited incomes.

On the other hand, tenants are reliant upon owners to maintain water and sewerage infrastructure. Where this is not done and leaks occur (often undetectable until a bill arrives), a tenant who is liable for water-usage payments may be faced with exorbitant bills through no fault of their own. (The Residential Appeals Tribunal notes the increasing tendency of tenancy agreements to require tenants to pay for all water use and supply. There is little evidence that rental costs have been reduced accordingly.)

The current practice under some tenancy agreements in which the owner receives the bill and passes on the cost to the tenant lacks transparency and can result in unnecessary disputes.

### **6.1 User-based charges**

While directly billing tenants for usage (rather than through the landlord) may positively impact upon the efficient use of water by tenants, this should be weighed against expected increases in red tape – for SA Water as well as for tenants. In the case of tenants, many already experience a level of insecurity of tenure and, because of this, may frequently have to connect, disconnect and reconnect services. For SA Water (in the absence of smart meters) this will require a new service model of meter readings.

Any shift to user pays will require a strong consumer protection regime for tenants (and owner-occupiers). Protection cannot be stripped away in future cost-saving measures by government or SA Water, but must be built into the structure of any reform.

Consideration should be given to the tacking of rental reductions for tenants should they be billed directly for water usage, in order to reduce any windfall for landlords and to reduce household financial stress.

COTA SA notes that in Queensland tenants can only be required to pay the full cost of water consumption where the property meets water-efficiency standards. This option should be more fully explored. It meets the principles of consumer protection and water efficiency, but may add a layer of red tape to water supply and pricing.

### **6.2 Regional impacts**

COTA SA notes that there is already differential pricing for those in regional areas. We also note that,

as a percentage of the population, regional communities have greater proportions of older people than metropolitan Adelaide.

Further discrepancy in water prices between the regions and Adelaide will undermine the principle of equity. It will also be a discouragement to regional development and the maintenance of lively regional communities, including through a further impost on local employers and industries.

The financial impacts of pricing reform based on location, particularly on those on lower incomes and on regional economies, require modelling and communication in the next stages of the inquiry.

### **6.3 Metering**

While metering has the advantage of more accurately tracking usage, it has the disadvantage of up-front costs to landlords or tenants. COTA SA understands that most community housing tenants, for example, are on fixed low incomes and would experience financial stress to purchase an individual meter.

The water-efficiency impacts of both universal metering and of smart meters should be further explored and communicated.

### **6.4 Subsidies**

Any shift to subsidies and away from concessions is considered a significant shift in policy. Such a shift requires detailed costings which, despite its mandate to look at the social impact of its recommendations, may not be within the scope of ESCOSA's inquiry.

Any shift should therefore only follow careful economic and social modelling, with similar caution on implementation so that a guiding principle is smoothing changes for customers will not introducing unintended consequences and hardship.

### **6.5 Water efficiency**

Pricing reform should not be introduced in isolation from other water-efficiency policies and programs. Pricing is but one lever. For example, while user-pay models support the principle of water efficiency, other policy approaches may be more (or equally) useful, such as concessions for the installation of rainwater tanks or retrofitting grey water capability.

One longer term pricing approach, which rewards decreased usage, is to reduce the per-unit cost of water where there is demonstrated decreased usage over time, such as a two- to three-year period. There could also be incentives for usage stabilisation over time.

The scarcity pricing option proposed by ESCOSA will more likely impact low income users than those on higher incomes. The latter group is less likely to change its usage habits due to the more marginal impact increased water prices will have on overall household expenditure. COTA SA therefore does not, without more information, support the scarcity option due to its detrimental effect on those on lower incomes.

### **6.6 Implementation**

In all good policy, reform options are only as good as their implementation. Options must come with an implementation tag that is realistic, well communicated and fully cognisant of the implications of reform. The unintended consequences of reform may particularly affect those least able to afford it.

In any water and sewerage pricing reform, for example, stability of pricing is important to reduce financial stress for those on lower incomes, such as through the stress of 'bill shock'. Payment options that reduce stress, such as monthly payments, must be considered and communicated.

Consumer protection must be central to implementation, as must reduction in red tape.

## 7. SUMMARY

In summary, COTA SA support drinking water and sewerage pricing that uses cost-reflective pricing as its starting point – but not its finishing point.

The principle of social equity must be preserved, reviewed and, where appropriate, extended. To do this, ESCOSA is encouraged to embed this principle within its inquiry, plus consider at all times: pricing stability, both short and long term; water efficiency and water security; transparency of pricing; reduction in red tape; and consumer protection.

For older people, ESCOSA is encouraged to consider the breadth of impacts that may be felt on what is approaching one in four South Australians – whether as owner-occupiers, landlords, or tenants. While this may lead to the continuation of complexity in pricing, transparency and user-friendly approaches to billing and service provisions can be achieved.