COTA SA

SUBMISSION TO THE ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA

on the

DRAFT INQUIRY REPORT: INQUIRY INTO REFORM OPTIONS FOR SA WATER'S DRINKING WATER AND SEWERAGE PRICES

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1. INTRODUCTION

COTA SA appreciates the opportunity to provide this submission to the Essential Services Commission of SA (ESCOSA) *Inquiry into Reform Options for SA Water's Drinking Water and Sewerage Prices: Draft Inquiry Report*.

COTA SA acknowledges ESCOSA's extensive consultation on the draft report, and in particular the opportunity to hear firsthand about the report and its recommendations.

2. COTA SA AND SOUTH AUSTRALIA'S OLDER POPULATION

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.

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

The impacts of any changes to water and sewerage pricing will therefore have a significant impact on this cohort. Yet, it is important to recognise that an older person is not a single type – people aged over 60 are as diverse as those under 60 in terms of their economic and financial status, their household structures, their health, and their engagement in employment and business.

3. KEY FINDINGS OF THE DRAFT REPORT

The terms of reference for the report requested ESCOSA look at economic efficiency and water security. The inquiry's terms of reference dictated that any pricing changes would be revenue-neutral for SA Water. In COTA's view, the terms of the inquiry were therefore fundamentally flawed.

However, we were pleased that the terms also required provision of information on customer impacts that would arise if various reform options were to be implemented by the state government.

COTA SA in this submission will address only those recommendations which it believes will have the most impact upon its stakeholders, ie older South Australians. Predominantly, these matters are around the social implications of the draft report.

WATER PRICING

The report concludes that charges have moved away from cost-reflective levels, with water usage charges higher than the actual costs of delivering water and maintaining infrastructure. It therefore recommends that usage charges be significantly cut. However, given revenue-neutrality for SA Water, cuts to usage charges necessitate large hikes in fixed supply charges.

The report also finds that the current pricing model is based on cross-subsidisation from large users to small users. It recommends that this be removed and that a single usage charge be applied to all customers (removing the currently differential usage charges).

It recommends that the end-user be charged for water, rather than property owners.

Water planning and management are currently charged through drinking water charges. The report recommends that this be reviewed.

SEWERAGE PRICING

On sewerage, charges for general services are now levied at landowners and are based on property value. The report recommends charging on capacity requirements rather than property value (with trade waste treated differently).

METERING

The report does not recommend the mandatory installation of meters or smart meters, calculating that the costs outweigh the benefits.

ECONOMIC BENEFITS

The draft report estimates that, should its proposals be accepted, that there will be economic benefits to South Australia of around $30 million to $40 million per year.

WATER SECURITY

The report finds that water security (supply) is not currently threatened, largely due to the establishment of the Adelaide Desalination Plant. The proposed pricing structure does not seek to limit demand, which is a significant change for water policy approaches for the state.

4. IMPACTS ON CONSUMERS

The effect of the report's proposals would be an increase in charges for around 75 per cent of South Australian consumers – estimated at $50 a year or more – with most residential customers paying around $200 more per year.

Larger and industrial users will pay comparatively less than in the current model.

Billing end-users will create a direct customer-retailer relationship between users and SA Water.

ESCOSA acknowledges that should cross-subsidisation be wound back, a "matter which should be considered…is support to vulnerable customers – both in a transitional (e.g., through the provision of subsidies) and an ongoing (e.g. concessions regime) sense."

5. OLDER CONSUMERS AND COST OF LIVING

In a 2011 report into the national costs of living,[1] the National Seniors Productive Ageing Centre (NSPAC) found that water, electricity, gas, medical services and rent all rose at more than double the inflation rate between June 2006 and June 2011 (national figures). It also found that between 2006 and 2011, Australian households of all age groups spent a larger proportion of their income on utilities (electricity, water and sewerage, gas and other household fuels).

The report found that the proportion of disposable income spent on essentials (groceries, public transport, petrol, communication, health insurance, other insurance, medical, pharmaceutical, utilities and rent) increased with consumer age. In 2011, on average:

- Households aged 75-plus spent almost half (44 per cent) of their disposable income on essentials (an increase from 2006).
- Households aged 65 to 74 years spent one-third (33 per cent) of their disposable income on essentials (lower than in 2006).
- Households aged 50 to 64 years spent one-quarter (26 per cent) of their disposable income on essentials (lower than in 2006).

Significantly:

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[1] Kelly S. *Are older Australians being short changed? An analysis of household living costs.* Melbourne; National Seniors Productive Ageing Centre: 2011.

- Seniors households (defined as over 50s) in the bottom 20 per cent for income spent an average of 80 per cent of their income on essentials. This group paid for utilities by reducing their spending on clothing, car maintenance, and groceries.
- Pensioner households spent over half (55 per cent) of their income on essentials, compared with one-quarter for employed households.

The report concluded that older people changed their spending habits to cope with the higher prices of essentials and were concerned that they couldn't pay their utilities bills on time.

An update report by NSPAC published in October 2013[2] confirmed these findings, further detailing that of the lowest-income households, almost half were of those aged 75 years and older.

These conclusions concur with the anecdotal evidence received by COTA SA through its network of stakeholders and members.

COTA SA is aware that older consumers are more likely to pay their essential bills first before considering other discretionary purchases or payments. In order to reduce essential bills, some older citizens are reducing their use of essential goods and services (such as energy and food), putting their health and wellbeing at risk.

In terms of financial stress, those in the oldest age brackets are more likely to be dependent on the age pension as the sole source of income, placing them under some of the most significant financial stress.

The conclusion is that older people are spending a higher proportion of their incomes on essentials, including water and sewerage, and an increasingly higher proportion as they age. Budget stress increases with age. Those on the age pension are experiencing the greatest financial stress for those aged over 65.

Some budget relief arises for those who own their own homes and do not have mortgages. However, the expectation that people will retire with their mortgages paid off is changing[3][4] – due to a range of factors, including divorce, higher property values, financial losses during the global financial crisis, and spending patterns prior to retirement. There is also a trend, which is predicted to double over the next three to five years, for cash-strapped retirees to access the equity in their homes to fund their retirement.[5]

In addition, there are an increasing number of retirees remaining within the private rental market,[6] where a greater proportion of income is dedicated to accommodation costs.

6. INCOME SQUEEZE ON OLDER AUSTRALIANS

The current maximum basic pension rates are $766 per fortnight for an individual and $1,154.80 for a couple (where the couple is not separated due to ill health). Under current arrangements, the best changes in CPI, the pensioner and beneficiary cost of living index (PBCLI) or male total average weekly earnings (MTAWE) are used for indexation purposes. The value of the single age pension must not fall below 27.7 per cent of MTAWE.

In this year's federal budget the Australian government proposed a number of changes which will reduce the incomes of age pensioners, namely to:

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[2] Kelly S. *A squeeze on spending? An update on household living costs for senior Australians.* Melbourne; National Seniors Productive Ageing Centre: October 2013.

[3] COTA WA, *Response to the Final Report of the Social Housing Taskforce*, 2009.

[4] Time, 'The share of retirees with a mortgage is soaring', 9 May 2014, http://time.com/91439/the-share-of-retirees-with-a-mortgage-is-soaring/.

[5] news.com.au, 'Retirees dip into mortgages to fund later life, rather than leaving it behind', 10 July 2014, http://www.news.com.au/national/retirees-dip-into-mortgages-to-fund-later-life-rather-than-leaving-it-behind/story-fncynjr2-1226984795680.

[6] COTA WA, 2009.

- index the age pension only by the consumer price index (CPI) from 1 September 2017
- freeze eligibility thresholds for the pension and pension-related payments for three years from 2017
- reset deeming thresholds for pension income testing from September 2017 – thresholds for singles will be reduced from $46,600 to $30,000 and for couples from $77,400 to $50,000
- increase the age pension qualifying age to gradually reach 70 years by 2035.

The effect of these measures will be to dramatically reduce incomes and therefore the standard of living of pensioners. If CPI indexation had been used since 2009, the pension would already be $30 per week or $1,560 per year less.

The federal government measures will also mean that older people unemployed due to age discrimination and lack of jobs will stay on Newstart for years longer rather than moving to the age pension.

Within the federal budget, the Australian Government also withdrew from the National Partnership Agreement on Certain Concessions for Pensions Concession Card and Seniors Card Holders. The partnership helped fund concessions on council rates, energy, water and sewerage, motor vehicle registration, and public transport and so provided important relief to the more vulnerable cohort of older South Australians.

In the coming year, the state government will make up the $30 million shortfall of federal funding to maintain concessions on rates, utilities and transport. For ratepayers, there will be continuation of a $190 concession for eligible pensioners and lower income earners and a $100 concession for eligible Seniors Card holders. However, state funding will only continue for the 2014-15 financial year.

The state government has, providing longer term relief, quarantined eligible pensioners and concession card holders from emergency services levy increases on their principal place of residence. For those renting, it is expected that this rise will be passed on to them.

For women, the income squeeze can be particularly harsh. Older women make up the largest number of single person households, relying on only one income to cover all expenses. For those in employment, women receive 17.5 per cent less than their male equivalents undertaking the same work.[7] In terms of superannuation, according to the Association of Superannuation Funds of Australia, women still lag substantially behind men when it comes to superannuation savings.[8]

7. COSTS FOR CONSUMERS FROM ESCOSA PROPOSALS

It is COTA SA's understanding that the proposals put forward in the draft ESCOSA report will impose the greatest cost increases on:

- those who are currently low users of water
- those who have low land-value properties
- single-person (and many dual-person) households
- pensioners, especially if concessions are removed
- those in rental properties
- if locational pricing is adopted, consumers in higher priced regions.

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[7] Australian Human Rights Commission, 'Equal pay for equal work', accessed 9 September 2014, http://somethingincommon.gov.au/dig-deeper/equality/equal-pay-equal-work.

[8] Association of Superannuation Funds of Australia, 'New superannuation account balance data shows gender gap still exists: ASFA', 7 March 2014, http://www.superannuation.asn.au/media-release-7-March-2014.

Price increases to these consumers would be on top of what are already, according to ESCOSA,[9] the highest residential water prices in Australia:

> "The typical SA Water residential drinking water bill ($873 per year) was the highest amongst comparable Australian water utilities in 2012/13."

The major reason for this growth was the company's regulated asset base which drove a high return on investment.

In 2012-13, SA Water's revenue from water services grew by 15 per cent over the previous year, largely driven by tariff increases. In the same period, water services operating costs rose by 19 per cent and revenue from sewerage services grew by three per cent (although the typical sewerage bill remained lower than the national average).

8. RESPONSE TO PROPOSALS

In light of the data provided, COTA SA does not support changes to the structure of SA Water's residential water and sewerage pricing as proposed in the ESCOSA draft report.

It is clear that the most significant and detrimental outcome would be to shift costs from those who can most afford them to those who are most vulnerable, are already experiencing financial stress and, if federal government budget initiatives are adopted, will experience increasing financial stress over the next decade.

Those on low incomes are already paying proportionally more of their incomes on essentials. For example, for a single pensioner on the maximum rate, the 2012-13 SA Water residential drinking water bill alone accounted for around 4.4 per cent of their income (in the absence of concessions). ESCOSA's estimation of bill increases of $100 or $200 per year for concession customers would take this percentage to 4.9 per cent and 5.4 per cent respectively.

COST-REFLECTIVE WATER PRICING

COTA SA welcomes the draft report's finding that if cost-reflective charges were applied, then the unit cost of drinking water would be decreased to as low as $0.62 per kL (from the two-tier usage price of $3.32 per kL).

The draft report, however, does not ultimately deliver cost-reflective pricing as it only applies this principle to the usage component of bills. The terms of reference for the inquiry, requiring revenue-neutrality for SA Water, did not allow the commission to deliver a report that fully applied cost-reflectivity. The inquiry terms were thus fundamentally flawed.

On this basis, COTA SA would welcome usage charges that reflected the actual cost of delivering drinking water, but not if other charges are imposed that are set at artificially high levels to maintain SA Water's revenue – as proposed in this report. As ESCOSA itself estimates, this approach would impose higher prices for 75 per cent of SA Water's customers – despite the true cost being lower than the present tariff settings.

Dramatic increases to fixed charges would also diminish consumer flexibility and limit customers' ability to reduce their water and sewerage bills through changes to their usage.

High, inflexible fixed charges will have a disproportionately high impact on those in single-person households (and dual-person households) whose usage levels are low. Those in the older age bracket, and in particular older women, account for the largest numbers of single-

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[9] Essential Services Commission of South Australia, *Performance of the South Australian Water Industry Overview 2012/13: Report 1*, http://www.escosa.sa.gov.au/library/140409-AnnualPerformanceReport-WaterIndustryOverview-Report1.pdf.

person households, with projections of even greater growth of this cohort over the next decade.[10]

Should the government pursue this proposal, it must ensure that relief in the form of concessions or other mechanisms continues for eligible pensioners and concession card holders based on the total bill and not limited to usage charges.

USER PAYS

As outlined in our submission to the inquiry in late 2013, it is COTA SA's view that both charges to landowners and user-based charges deliver pros and cons for consumers and property owners.

Charges to landowners can impact negatively on landlords whose tenants use excess water or do not report leaks. They can have limited impact on water usage. They can also be non-transparent, with charges passed on to tenants that may not reflect the actual cost.

On the other hand, user-pays charges may have a positive impact on water usage and should reduce rent payments. They are more transparent and accord renters consumer rights that do not currently exist or are limited. As ESCOSA will be aware, amendments to the Residential Tenancies Act 1995 were brought in on 1 March 2014. Under the reforms:[11]

- In the absence of an agreement about water, if the water supply is separately metered, all rates and charges for water supply will be borne by the tenant.
- Tenants will only be required to pay water charges if the landlord requests payment within three months of the issue of the bill.
- If the tenant requests a copy of the water bill, the landlord must provide this within 30 days (and at no cost); otherwise the tenant is not obliged to pay for water charges.

The impact of these reforms is likely to be an increase in the number of consumer-SA Water relationships.

On the other hand, the user-pays model provides no solution for those in retirement villages where a single meter covers a number of properties. It will also require new administrative arrangements on the part of SA Water, which will be passed on to consumers.

Should a user-pays model be accepted, consideration must be given to:

- the cost that SA Water may claim for the new administration, to ensure that this is not an opportunity for the company to maximise its return at the expense of consumers
- the situation of tenants, many of whom experience a level of insecurity of tenure and, because of this, may frequently have to connect, disconnect and reconnect services
- embedding a strong consumer protection regime for tenants – contrary to ESCOSA's claims, COTA SA is not convinced that user-pays bills will hasten repairs and leaks, but in fact may delay them
- providing protections for landowners who may be left with unpaid accounts linked with their properties
- ensuring reductions in rent for tenants, in order to reduce any windfall for landlords.

As in our 2013 submission, COTA SA notes that in Queensland tenants can only be required to pay

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[10] Department of Infrastructure and Transport, State of Australian Cities, 2010, https://www.infrastructure.gov.au/infrastructure/pab/soac/files/SOAC_Chapter_3.pdf.

[11] Consumer and Business Services SA, Summary of the Residential Tenancies Reforms, 2014, accessed 9 September 2014, http://www.cbs.sa.gov.au/assets/files/Summary_of_the_Changes.pdf.

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.

SEWERAGE PRICING

The proposed shift to capacity-based (eg pipe diameter) charging is not clear cut.

The current system of property-based charges impacts negatively on those owner-occupiers who are "asset rich but cash poor", many of these age pensioners or self-funded retirees on limited incomes. For rented properties, these charges are passed on to renters on a non-transparent basis – and add to the already high costs of private rental accommodation.

On the other hand, property-based charges represent a progressive charge which supports an important public good and in the main – with important exceptions – do target those with the greater ability to pay.

A charge based on infrastructure capacity may be fair and reasonable, however COTA SA is not in a position to examine how well capacity reflects property types and sizes and to comment on any variability in physical capacity that has little relationship to service requirements.

COMPLEXITY OF THE CURRENT ARRANGEMENTS

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.

COTA SA sees value in reducing complexity in the pricing structure where this does not adversely affect low-income customers. Transparency of pricing, including through direct communications with customers, must be increased.

9. ECONOMIC BENEFITS

COTA SA supports measures which boost economic activity in South Australia, as these benefit residents, employees and business owners.

According to the Government of South Australia's *Economic Statement: 2013*, South Australia's gross state product was $92 billion in 2011-12. Considered in these terms, the economic benefit identified from the inquiry's proposed changes ($30 to $40 million) is relatively low for the higher costs will be borne by individual households.

Reduction in discretionary spending by households as a result of increased water and sewerage charges will have some small negative impact on economic activity.

In COTA SA's view, therefore, the detriment arising from the proposed pricing reform largely outweighs the estimated economic benefits.

10. WATER SECURITY

COTA SA stakeholders have expressed concern about this fundamental change in principle, believing that careful use of water resources – including through demand management – should continue. The long-term environmental imperative should not be overlooked.

In its 2011 report, *Australia's Urban Water Sector*, the Productivity Commission noted that consumer demand for water was not particularly responsive to changes in price, yet it saw merit in facilitating consumer choice in terms of service offerings and allowing consumers to increase water for those willing to pay – suggesting price as a factor in demand.

Anecdotal evidence from COTA SA stakeholders is that the price of water is an important demand-management mechanism, alongside other mechanisms such as rebates for water-efficient appliances, community education and leakage reduction.

11. MANDATORY METERING

COTA SA accepts that the cost of mandatory installation of meters, including smart meters, exceeds the benefit.

We nevertheless remain concerned about multiple-dwelling properties with a single meter, such as retirement villages, units, and flats. Frugal users of water, such as those in single-person households, are continuing to subsidise others within these living arrangements.

Consideration should be given to this issue, but COTA SA recognises that this may be beyond the scope of ESCOSA's inquiry.

12. IMPLEMENTATION

The draft report advocates a range of transition measures and urges the state government to consider the social impacts of its proposals.

As the report outlines, currently around 20 per cent of water customers receive a concession and around 5,000 are exempted in full or in part from paying water charges. It concludes:

> "Well-targeted subsidies and concessions are a critical step in ensuring that the economic benefits of the proposed reforms can be realized, while ensuring that those customers most in need of financial assistance can receive it."[12]

COTA SA agrees with this conclusion and encourages the state government, when considering the final inquiry report, to retain this critical support.

ESCOSA recommends that subsidies and concessions should be through fixed-amount payments in order to avoid price distortions.

Detailed economic modelling is required to establish how this approach would affect differing cohorts. No decision on any such change should be made until this modelling has been undertaken and a strong case established that does not create further disadvantage.

12. CONCLUSION

Water and sewerage are not merely utilities: they are basic rights. Clean, potable water is needed for human health, hygiene and wellbeing, as are efficient and well-maintained sewerage services. Ongoing and equitable access must be a key principle of reform, without any compromise to quality or service.

Cross-subsidies are not a bad thing, although they may contravene economic-efficiency principles. If well-designed and targeted, they support equitable distribution of public goods. In this case, cross-subsidisation should not be abandoned. Further thought must be given to the nature and efficacy of this cross-subsidisation.

In making any decision on pricing for drinking water and sewerage, the state government should review:

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[12] Essential Services Commission of South Australia, *Inquiry into Reform Options for SA Water's Drinking Water and Sewerage Prices: Draft Inquiry Report*, July 2014.

- the appropriate balance of economic, social and environment principles it wishes to achieve
- how well the present system delivers on social and environmental principles
- mechanisms to support those less able to pay within any preferred models, including through detailed economic modelling.

COTA SA encourages the state government in its future water and sewerage pricing decisions to consider a balance of the following principles:

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

Critically, it must retain its support for low-income earners and the most vulnerable so that they can enjoy an equitable share of this important public good.

These considerations were not within the scope of the current ESCOSA inquiry. COTA SA commends ESCOSA for bringing these issues to the attention of the government nevertheless.

In conclusion, COTA SA does not support changes to the structure of SA Water's residential water and sewerage pricing as proposed in the ESCOSA draft report.

It is clear that the most significant and detrimental outcome would be to shift costs from those who can most afford them to those who are most vulnerable and are already experiencing financial stress. The overall economic gain is insufficient to justify this shift.