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National Water Reform 2026
Productivity Commission
GPO Box 1428
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**Submission – Productivity Commission's National Water Reform 2026: Water services reform directions – Interim Update**

VicWater is the peak industry association for the Victorian water sector and all 18 Victorian water corporations are our members. We support our members to be 'better together' by facilitating industry advocacy, collaboration and innovation to achieve better outcomes for customers and community.

VicWater welcomes the opportunity to provide a submission to the Productivity Commission's National Water Reform 2026 Inquiry: Water services reform directions – Interim Update. This submission is additional to our previous submission to the Public Inquiry into National Water Reform 2026.

Our submission focuses on some of the key concerns for VicWater's member organisations and are presented under the relevant Information Request sections from the Interim report. No responses have been provided to Information requests 3, 4, 5 and 6 as these are not directly relevant to the Victorian context.

**Information request 1: Improve accountability for pricing trade-offs**

Roles and responsibilities of governments and regulators
From a Victorian perspective, the roles of governments, regulators and utilities are well defined and understood in the industry. Having clear public statements about their respective roles may improve customers' understanding of how the price determination process operates, but it is not clear that it would improve pricing and investment decisions.

We note it is common for governments to make claims in public documents and the media about which state or city has the lowest water bills. This tends to create the impression of a government preference for prices to remain low and can amount to a de-facto policy statement, which appears to be contrary to the principle that prices should reflect the full and efficient cost of service provision.

Affordability as a social equity objective
Affordability is currently viewed by economic regulators through the lens of a price determination period which is typically 5 years in duration. This can have a negative effect on maintenance expenditure and long-term capital investment by pushing it into a future price period, which in turn may create future affordability issues if the need to invest becomes urgent, leading to bill shock for customers.

Economic regulators should be encouraged to look at affordability over a longer time period (e.g. 10 or 20 years) and report on any affordability trade-offs made in pricing decisions. The most appropriate means for doing this would be through either policy statements, pricing guidance or shareholder expectations. These tools are quicker and easier to develop than legislation and are easier to amend if conditions change.

A longer term view of affordability would also improve water agencies' financial sustainability/resilience by ensuring that investment can be made in a timely and efficient manner and spread out over an appropriate timeframe.

A further social equity consideration that governments and economic regulators should consider is the principle of 'same price for same service'. As raised in our previous submission, Victorian regional customers in most parts of the state receive the same level and quality of service as metropolitan customers however their bills are nearly $300 higher per household. While this reflects the higher cost of regional service provision, it raises broader issues of fairness, equity and affordability, particularly given that regional customers are often less able to afford the higher service charges.

<u>Financial sustainability objective</u>

The financial management of Victoria's water agencies is governed by the *Financial Management Act 1994* and the *Water Act 1989*. These Acts allow the responsible Ministers and departments to issue financial reporting guidelines and ministerial reporting directions which provide guidance to water agencies on the financial indicators that they are expected to meet and must report on each year.

The Victorian Auditor General's Office undertakes an audit of each agency's annual report (including financial indicators) in accordance with Part 7 of the *Financial Management Act 1994*. The annual reports are then tabled in Parliament and made available for public scrutiny on water agency websites.

Given the highly regulated and comprehensive nature of the current financial reporting by Victorian water agencies, we would not consider further reporting requirements to be of value in terms of meeting financial sustainability objectives.

<u>Enabling timely investment in large, long-term assets</u>

Separating expenditure decisions on large, long-term assets from the pricing process has already commenced in Victoria. In recognition that new large scale water supplies can take 10 years to plan and deliver, in 2025 the Victorian Government released the *Water Security Plan for Greater Melbourne, Geelong and connected towns*. The Government is taking a 'readiness approach' and starting early planning to determine a preferred combination of water supply options for the future. An expert Water Security Taskforce will review the potential future water supply options outlined in the Plan and consult with the community before reporting in early 2027.

This model could form a template for other jurisdictions, although it would have to consider each state and territory's unique climatic, geographic and operating conditions.

<u>Transparent risk profile that reflects public preferences</u>

In Victoria the Essential Services Commission (ESC) is starting to consider ways to improve transparency about the trade-offs it makes between near-term bill impacts and longer-term system resilience. Improving this transparency would help to demystify the "black box" that is the current price determination process.

We consider that the alignment of risk settings with public preferences and willingness to pay for resilient services sits appropriately with the individual water agencies, who can set their own risk levels and appetite and then test that with their customers to determine their willingness to pay and the service levels they are willing to accept. If governments were to undertake this function it may result in a transfer of risk responsibility to the government, which is not best placed to manage it.

One area where government could be more proactive is to provide consistent guidance and/or support better processes for risk management decision making in areas of increasing complexity and uncertainty. This is particularly relevant for climate change risk and climate adaptation decisions where actions can involve significant expenditure and often require state-level information gathering and coordination to maximise effectiveness and efficiency. Work is currently underway in Victoria to develop a principles-based guidance document to assist water agencies to utilise all relevant data sets and decision frameworks for climate risk assessments.

<u>Balancing national consistency versus jurisdictional flexibility</u>
While pricing and governance arrangements continue to be regulated at a state/territory level, we do not see what improvements would flow from having nationally consistent guidance, and there is a risk of introducing additional complexity and regulatory burden for water agencies in needing to reference two sets of guidance.

**Information request 2: Support more integrated planning, charging and regulation**

<u>Improve integrated planning for growth</u>
As highlighted in our previous submission, the main impediment to integrated planning is that local government development approval processes do not necessarily align with the timing of water price determinations, which can lead to a delay in the provision of services when a development has not been considered by a water corporation in its capital plan. Without addressing this issue, we do not see how an improvement to economic oversight and pricing arrangements of water agencies is likely assist the delivery urban growth or speed up the delivery of water services to new growth.

<u>Improve charging for growth</u>
In Victoria the ESC released its New Customer Contributions Framework in January 2026 which provides for two types of charges, standard and negotiated new customer contributions. In line with our comments above, it is not clear how nationally consistent guidance would improve charging for growth, and there is a risk of introducing additional complexity and regulatory burden for water agencies in needing to reference two sets of guidance.

<u>Reduce regulatory burden</u>
Although technically outside the remit of economic regulation, economic regulators should be engaged at key points in the Regulatory Impact Statement process to ensure they have a good understanding of the intent of any potential new regulations and the true cost of implementing the regulations.

There are also situations where regulatory burdens are placed on water agencies without any impact analysis being undertaken, for example when additional conditions are imposed in the operating licence of a wastewater treatment plant. This can lead to the need for increased expenditure (either operating, capital or both) to meet the new conditions with no formal analysis made of the costs and benefits of the licence change.

**Information request 7: Nationally consistent reporting on drinking water quality**

Water quality in Victoria is regulated by the Department of Health (the department) under the *Safe Drinking Water Act 2003* (the Act) and the Safe Drinking Water Regulations 2025 (the Regulations) which provide Victoria's water agencies with a framework to ensure the supply of safe drinking water that supports the health and wellbeing of Victorian communities. The Regulations have direct links with the Australian Drinking Water Guidelines.

Victoria's water agencies are required, under Section 26 of the Act, to submit an annual report to the department on issues relating to the quality of drinking water and regulated water. A summary of the water agencies' performance is included in the department's Safe Drinking Water Act Annual Report which is tabled in the Victorian Parliament and provides a statewide perspective on drinking water quality.

Victorian drinking water quality data is already publicly available. If national reporting requirements were to be introduced, we would seek to avoid duplication or inconsistency with state reporting and ensure there is no additional regulatory burden to Victoria's water agencies.

**Information request 8: Role of Australian Government investment and funding programs**

We note that Australian Government contributions have assisted in the delivery of several Victorian water agency major capital projects. We would welcome any efforts to streamline the application processes for Australian Government funding and the release of those funds to the successful agencies.

We also support examining opportunities to fund water projects through other Australian Government programs that may not be "dedicated water" funding. Many Australian Government funding programs require applicants to have matching state funding, which can create a barrier to funding. A relaxation of this requirement would be welcomed by Victorian water agencies.

We look forward to the Commission's final report on the reform directions for water services. If you have any questions regarding this submission, please contact Stuart Craven, Policy and Regulation Manager, VicWater

Yours sincerely

Jo Lim
Chief Executive Officer