



WATER SERVICES
ASSOCIATION OF AUSTRALIA

**Submission to the Productivity
Commission's Inquiry into
National Water Reform 2026
Interim update 1: Water
services reform directions**

July 2026



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National Water Reform 2026: reforming the ‘worst performing industry in Australia’

WSAA welcomes the opportunity to respond to the Productivity Commission’s *Interim update on National Water Reform 2026: Water services reform directions*.

The Productivity Commission’s update raises critical issues at a critical time. Australia has a world class water sector. Australian’s receive drinking water and sanitation services that are globally recognised as among the world’s best. However, the sector faces many challenges.

WSAA strongly supports the reform directions set out in the Interim Update. This brief submission highlights the key areas of agreement and provides some new information since our first submission to the inquiry. We look forward to the inquiry translating these directions for reform into firm recommendations for reform.

The water transition

WSAA has set out in detail how the water sector is in a transition of the same scale and magnitude as the energy transition ([here](#)). Policy makers are slow to appreciate the implications of this change.

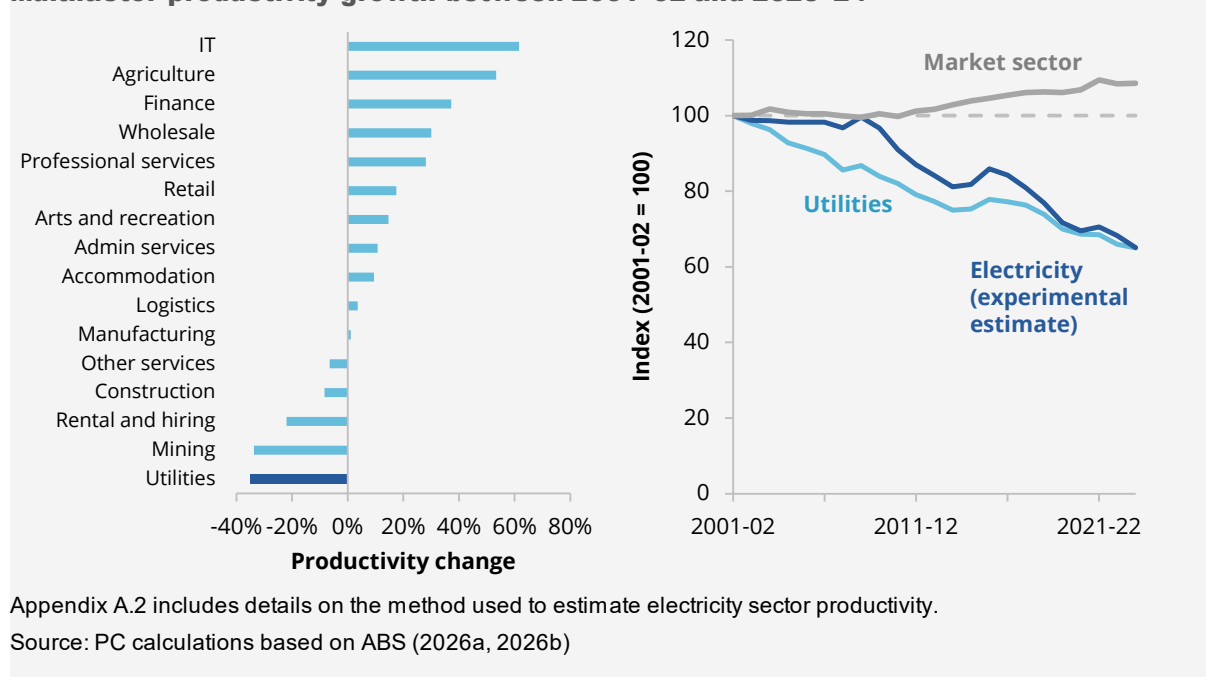
The Interim Update was released on 19 June 2026. A week earlier the Productivity Commission released its Quarterly Productivity Bulletin. There is an overwhelming link between both documents that should be a wake-up call to the policy making community. Alex Robson, Deputy Chair, stated that ‘Australia’s productivity growth is going from bad to worse.’ But among the poor performance, without naming the water sector the Bulletin nevertheless described it as the ‘worst performing industry in Australia’.

The focus of the Bulletin was analysing how the energy transition is having an impact on the *measured* productivity of the electricity sector. Productivity as conventionally measured has significantly declined because of the investment required for the rollout of renewable energy.

But the Bulletin pointed out that there is one sector where productivity — as conventionally measured — has declined even more than electricity: the water sector.

The Productivity Commission provided figure 1 below to illustrate the large decline in electricity productivity.

Figure 1 – Multifactor productivity growth in the electricity industry has been poor
Multifactor productivity growth between 2001–02 and 2023–24



The Productivity Commission said:

Our capacity to produce electricity efficiently is critical to our overall productivity. But productivity growth in the utilities industry, of which the electricity sector is a part, has been poor (figure 1; AER 2025a, 2025b). In fact, from 2000–01 to 2023–24, the utilities industry **was the worst performing industry in Australia** (figure 1a) [emphasis added]. The electricity sector itself did not fare much better.

The Productivity Commission made clear that the electricity sector is part of the electricity, gas, **water and waste management services sector** (the Utilities sector), and that electricity accounts for 57% of value added within the sector. The remainder, referred to as Utilities are, of course, mainly water utilities. The chart in the Productivity Bulletin shows measured productivity declining for Utilities (read water) in every year since 2000-01, and by nearly 40 per cent overall.

To be labelled as the worst performing industry in Australia is sobering, even if inaccurate. However, if it serves to get the attention of policy makers it is worthwhile.

The productivity numbers are the outcome of the profound transition that is underway in the water sector, which WSAA has been highlighting for some time (Box 1 below). WSAA emphasises that the measured productivity numbers do not reflect the underlying performance or efficiency of the water sector. **Australia has a world class water sector.** However, just as investment in the energy sector is influencing its measured productivity, the profound transition and investment required in the water sector is influencing our measured productivity.

These numbers put the spotlight on the importance of water reform to the national economy. Indeed, the importance is even greater than these numbers suggest.

The water sector requires a supportive policy environment if it is to navigate the water transition without succumbing to the crises that have beset countries such as the UK and

New Zealand. This type of crisis would have an infinitely greater impact on the Australian community than could be captured in any productivity analysis.

Box 1: What is going on with water sector productivity?

Productivity is outputs divided by inputs. For very good reasons the water transition is increasing input costs.

Most industries use labour and capital as inputs to produce outputs.

However, the water sector is one sector that has globally for centuries relied on three inputs. Labour, capital and 'free' natural capital inputs. Natural capital inputs are inputs the environment provides generally free of charge. Rainfall and water catchments are the most obvious. But equally important is that waterways and the ocean have been available as 'disposal sinks' for wastewater.

For the last 30 years (at least) the water industry has been augmenting natural capital inputs with conventional labour and capital. There are few remaining dam sites so desalination and recycling is augmenting our water supply for housing and growth. Wastewater treatment levels have increased to protect rather than exploit our waterways and beaches.

This changing input mix increases the sector's costs. Higher input costs, all things being equal, end up as lower measured productivity.

On the outputs side, paradoxically, the policy environment has contributed to lower measured output. In the productivity measurement world, output is often measured by a sector's Gross Value Added – the value of its output. However, the policy environment has suppressed water sector prices in the name of cost of living which has in turn meant that the sector value of output or Gross Value Added is not increasing at the rate it needs to. Measured output is therefore lower than it actually is through declining levels of cost recovery.

In short, the productivity performance of the 'worst performing industry in Australia' is a consequence of a poor policy environment (reducing output) combined with the profound changes to the input mix required by the water transition which is increasing costs (higher inputs).

Beyond a crisis, unless the water sector secures the ongoing investment it requires there will be severe consequences for the national economy. For example, without sufficient investment it will be difficult to meet national housing aspirations. And in the UK we have already seen data centres being denied because water is not available to meet their needs.

Against this background, the Productivity Commission's Interim Update has clearly articulated the weak policy environment facing the water sector and the directions that reform needs to take.

Secure, resilient and sustainable water services

In Section 1 of the Interim Update, the Productivity Commission sets out the importance of secure, resilient and sustainable water services. It notes:

Sustainable services matter because short-term decisions can create larger costs and inequalities over time. Delaying maintenance, underinvesting in infrastructure renewal, or overlooking environmental impacts may reduce the near-term costs, but can lead to higher future bills.

The Interim Update highlights the importance of economic efficiency and sets out its previously published principles for best practice independent economic regulation. It identifies the long-term interests of customers (LTIC) as the objective of economic regulation.

WSAA strongly supports the LTIC as the guiding objective of regulation and pricing. The Productivity Commission would be well aware that the LTIC is defined by regulators such as the Australian Energy Regulator, under legislation in the energy sector and by the courts as requiring economically efficient investment in and operation of the infrastructure in question. It is explicitly not concerned with the short-term affordability of those services.¹

Water services in urban centres

Defining affordability as a social equity objective

Improving reporting on financial resilience and investment capacity

WSAA supports the Productivity Commission's reform direction to improve accountability for pricing tradeoffs. There is a link between the sections of the Update on affordability and on financial resilience.

In these sections the Productivity Commission has recognised the policy and governance challenges faced by the sector from governments' desire to address cost of living issues:

... cost-of-living concerns can be interpreted as a general objective to restrain prices in the short term.

This creates a policy and governance challenge. Pressure to limit average bills sits in direct tension with cost recovery, which is a core feature of economically efficient pricing.

The Interim Update continued this theme in its section on *Defining Affordability as a social equity objective*. It was even more specific:

Affordability is fundamentally a social equity objective, not a general basis for suppressing average water prices.

As set out in WSAA's submission to the inquiry, the policy environment has generally allowed utilities to make efficient investment in water infrastructure, but it has struggled to allow sufficient revenue to fund that investment. The net result is a deterioration in the long-term sustainability of a number of major water utilities. However, as financial resilience continues to weaken, the capacity to continue to make efficient investment is constrained.

WSAA recommended in its first submission that there be greater reporting nationally on the financial resilience of utilities. We therefore support the reform direction to 'Improve reporting on financial resilience and investment capacity'.

¹ For example see, *Assessing the long-term interests of customer*, Australian Energy Regulator, May 2021 https://www.aer.gov.au/system/files/AER%20-%20Rate%20of%20return%20and%20assessing%20the%20long%20term%20interests%20of%20consumers%20-%20Position%20paper%20-%202021%20May%202021_1.pdf

Improve integrated planning for growth

Since the commencement of the inquiry WSAA has made submissions to the Productivity Commission's own housing inquiry ([here](#)) and IPART's review of developer charging methodology ([here](#)). In line with the Productivity Commission's information request we draw attention to the following.

The Commission's proposed reform direction is consistent with the National Urban Water Planning Principles: planning should be integrated, options should be broad, communities should be consulted, land-use planning should be connected to water planning, and roles and responsibilities should be clear.

WSAA's housing submission identified three major challenges for growth infrastructure:

- (i) funding and resourcing;
- (ii) alignment between growth locations and funded utility capital programs; and
- (iii) coordination and delivery. It also identified the need for earlier coordination with land-use decisions, streamlined infrastructure corridors and land access, improved funding frameworks, economic regulation that supports and recovers the cost of housing delivery, and earlier resolution of environmental constraints.

Improving charging for growth

One of the major friction points in the water transition is the high investment required to provide infrastructure for new housing and population growth. In particular, the Productivity Commission is right to point to concerns about how growth-related costs should be shared among new customers, developers and existing customers.

In line with the Interim Update information request, Box 2 below is an extract from our submission to the housing inquiry setting out the magnitude of growth-related costs and the shortfall currently from the developer community.

WSAA's submission to IPART's Developer Charges Inquiry dealt with some issues specific to IPART's methodology for NSW. Nevertheless, we commented extensively on the principles which should underpin developer charging and these remain common across jurisdictions. The key messages from that submission are:

- IPART's method recognises that there is a gap between the costs of growth infrastructure and the revenue that is generated from new customers
- WSAA strongly supports developers contributing to the full efficient costs of servicing growth, to minimise the burden borne by existing customers under postage stamp pricing of water and wastewater services
- As such, cost recovery should be the overriding principle of developer charges
- A well-designed system of developer charges will not affect housing affordability or the supply of housing
- On the other hand, developer charges are not an effective instrument for sending location specific price signals to developers and are not likely to be compatible with cost recovery
- A focus on cost recovery could allow the IPART formula to be implemented in a simpler more transparent way
- If the formula is retained, setting minimum and maximum developer charges are one way of ensuring cost recovery, with simplicity and transparency
- Other ways include IPART's suggestion of default values. WSAA supports exploring this approach further.

WSAA's IPART submission contains further analysis on why well designed developer charges do not affect housing supply. It also outlined why developer charges are not an effective instrument to determine where development should occur.

Box 2 The challenge of funding water infrastructure for housing

There is a demonstrable gap in growth funding. While the costs of providing greenfield water infrastructure vary widely, an indicative cost of water and wastewater infrastructure is \$50,000 per residential lot. Normal water and wastewater bills from new housing customers are likely to only recover around \$20,000 towards these costs over a 30-year period.

This leaves a gap of at least \$30,000 per lot to be recovered (and often much higher).

Traditionally the water sector has sought to recover this gap through up front charges on developers. However, these charges have rarely fully funded the gap.

Nationally, in 2025 the water sector invested around \$4.8 billion in water and wastewater infrastructure for growth. Developer contributions totalled around \$1.3 billion.

If the development sector does not make an appropriate contribution, the burden of new housing falls on existing customers, putting significant pressure on water and wastewater bills.

Making developers pay their fair share is an obvious regulatory reform, and WSAA has advocated for common principles for charging developers to be included in the national water agreement alongside the existing pricing principles.

However, it should be recognised that there is a limit also to the amount developers can contribute to general infrastructure costs without affecting housing supply. As the NSW Productivity and Equality Commission said in 2024:

'Many residential development projects in Sydney are not feasible in the current economic climate in many places, the sale price of a new home such as an apartment does not cover the costs and risk a developer faces to build that home. As a result, many residential developers are pausing their projects until the numbers stack up. Low feasibility is being driven by high interest rates and high construction costs, which have increased costs relative to the prices developers receive for selling new homes.'

WSAA's view is that we are entering an era where direct government funding of water and wastewater infrastructure is necessary and inevitable if governments' housing objectives are to be met. This would bring water in line with roads, transport and energy during the transition.

Source: WSAA submission to the Productivity Commission.

Services to remote First Nations communities

WSAA supports the Interim Update commentary on services for First Nations communities. WSAA supports members who have a role in providing these services through a First Nations Clean Water and Sanitation Network and we are in regular engagement with State and Territory government departments and regularly participate in community engagement across the country.

WSAA considers governments should focus on three broad reform areas:

1. Establish a national Closing the Gap pathway for water and wastewater services

Governments should work with Aboriginal and Torres Strait Islander organisations, communities, utilities and service providers to establish nationally consistent indicators,

reporting arrangements and service expectations aligned with Closing the Gap Target 9B. This would improve transparency, strengthen accountability and provide a clearer understanding of progress over time. WSAA has already commenced work with utilities and stakeholders to support the development of nationally consistent indicators and baseline data for water and wastewater services for all communities receiving formal water and/or sanitation services.

2. Commit to long-term capital and operational funding

Closing the water services gap will require ongoing investment over many years. We have estimated in the past that the overall investment required to achieve water quality of ADWG levels and water security for all communities is in the order \$4 billion, and that does not account for sanitation improvements.

Whilst the Federal Government has made welcome investments in this area in the past few years, we note that all National Water Grid funds not allocated have been removed and many projects that had been allocated funds are not going ahead. This is very disappointing and is counter to the evidence that we have seen, that National Water Grid funding has already been effective in many communities.

Governments should move beyond short-term funding cycles and establish funding arrangements that provide certainty for both infrastructure investment and ongoing operations. Whilst previous funding models have demonstrated some improvement, long-term funding pathways would allow for improved workforce capability, enable lasting service improvements, provide stability to programs currently underway, and provide community confidence that water services will be remediated within a reasonable timeframe. WSAA has previously suggested a change in mix of operating and capital funding such that a proportion of funding provided by the Australian Government could be set aside from operating expenses in recognition that states, territories and their respective service providers manage these costs over decades.

3. Strengthen First Nations leadership, participation and stewardship

Governments should continue to strengthen arrangements that enable Aboriginal and Torres Strait Islander peoples to participate in decisions about water services, water planning and water management. This includes supporting community-led planning processes, incorporating Indigenous knowledge and cultural values into decision-making, and strengthening opportunities for local leadership, employment and stewardship. These reforms align with WSAA's broader commitment to partnership, self-determination and the incorporation of Indigenous knowledge and practices into water management.

4. Service provision thresholds made clear

First Nations water programs currently provide services to ~42% (470 / 1,100) of the total number of Aboriginal and Torres Strait Islander communities across the country. Whilst communities within current programs will represent a considerable majority of the population of First Nations people in communities, equity concerns have been raised about communities not currently within programs. Centralised water service provider models may not be the most appropriate for communities of small to very small sized. However, self-supply models place the onus on communities to ensure effective public health outcomes, often without the technical expertise to realise them. For the smallest communities, those currently identified as self-supplied, and communities outside of programs, more robust support is required. Work should be undertaken to define the most appropriate water service delivery models for communities based on population, number of dwellings and growth, alongside community aspirations.

For further information in response to Information Requests 3, 4 and 5 please see Appendix 1.

Role of Australian Government investment and funding programs

In section 4 the Interim Update discussed the role of the Australian Government. The Productivity Commission expressed its traditional view that the states are primarily responsible for water investment and the Australian Government should only invest in line with national priorities or where there are issues across multiple jurisdictions. However, the Productivity Commission goes on to ask whether there is a broader role for the Australian Government?

WSAA considers that the traditional roles of the state and Australian Government will need to evolve to meet the challenges of the water transition. In the previous section we set out funding options for improving first nations outcomes. More generally, in the energy transition the Australian Government plays a major role as a direct investor and financier in the roll out of renewable projects.

WSAA considers it will need to play a similar role in water. As we set out in our first submission, equity injections will be necessary to fund water infrastructure across Australia. The scale of the investment required may mean that the capacity for state balance sheets to provide that equity is limited and the Australian Government balance sheet has a role to play.

In addition, as the productivity numbers show, water plays a critical role in the economy. Housing is a national priority that transcends state boards. We do not believe a decentralised approach under current regulatory arrangements will yield a satisfactory national outcome.

This is an area where WSAA is undertaking further work to identify how the Commonwealth's existing funding architecture for industry - particularly the energy industry - could be applied to water.

About WSAA

The Water Services Association of Australia (WSAA) is the peak body representing Australian water utilities. Our members provide water and wastewater services to over 24 million customers in Australia and New Zealand and many of Australia's largest industrial and commercial enterprises. WSAA facilitates collaboration, knowledge sharing, networking and cooperation within the water sector. The collaborative approach of WSAA members has led to sector wide advances to national water issues.

Contact

WSAA welcomes the opportunity to discuss this submission further.

Adam Lovell, Executive Director

Stuart Wilson, Deputy Executive Director

Appendix 1

Figure 2 – Identified priorities on self-determined improvements to water services

Standards and reporting	Community capability and partnerships	Infrastructure, governance and data
• National/jurisdictional standards for all water services (safety, acceptability, affordability) with locally determined goals and outcomes • Transparent and culturally appropriate reporting of water quality and service outcomes (Priority Reform 4; Closing the Gap Target 9b)	• Recognition of local skills and knowledge through employment, community-led decisions, and locally delivered training • Improved partnership by providers and governments with communities, with integrated planning across services (water, energy, health, housing)	• Sustainable infrastructure and technology solutions that are fit-for-place and maintainable locally • Governance reforms, such as new local arrangements (e.g. Indigenous water authorities; water rangers) • Indigenous water data sovereignty and, with free, prior and informed consent, Indigenous knowledges informing decisions and outcomes

Information request 3: Priorities for self-determined improvements to water services in Aboriginal and Torres Strait Islander communities

WSAA broadly supports the priorities identified in Figure 2 (above). We have some concerns about the terminology of ‘self determined improvements’ as self determination is a far broader concept than limiting to improvements. They align closely with themes emerging from the water sector's work with First Nations communities, including the findings of WSAA's publicly available Closing the Water for People and Communities Gap report, the development of the WSAA First Nations Water Program, and ongoing work to support Closing the Gap Target 9B. The following additions / considerations may enable further refinement of the priorities identified in Figure 2:

- **Transparent and culturally appropriate reporting**; Whilst water quality is crucial to report on, broader service outcomes must be included for such reporting to be effective, inclusive, but not limited to, sanitation services, service reliability, and customer / community support to navigate services. In order for culturally appropriate reporting to be effective, data must be presented in easy-to-access and understand formats, in local language where possible, and with the possibility of oral reporting in addition to or replacing written reporting.
- **Governance reforms**; The inclusion of new parties in governance arrangements for First Nations communities may add to already complex arrangements. More robust solutions would reflect alignment of governance arrangements and the functionality of local arrangements (i.e. cultural appropriateness / directions) built into established governing entities
- **Indigenous water data sovereignty**; Whilst critical to respect First Nations communities sovereign right to and access of data regarding water, clear delineations need to be established between water service provider performance information, and information that is the cultural property of First Nations communities. Failure to do so may result in providers obfuscating their reporting responsibilities under the guise of a lack of data ownership.

While the priorities identified by the Productivity Commission are important, WSAA considers that three additional priorities warrant greater emphasis if Australia is to achieve self-determined, sustainable and equitable water service outcomes for First Nations communities.

1. Service equity as a national outcome

The ultimate objective of water reform should be that Aboriginal and Torres Strait Islander communities have access to drinking water and wastewater services that meet the same standards expected elsewhere in Australia. While Figure 2 appropriately focuses on enabling conditions, greater emphasis should be placed on achieving equitable service outcomes and closing the gap in service standards, reliability and public health outcomes. WSAA's *Closing the Water for People and Communities Gap* report identified significant disparities in water quality monitoring, drinking water compliance and wastewater service provision across many remote and discrete communities.

2. Long-term operational sustainability

Experience across regional and remote Australia demonstrates that long-term service outcomes depend as much on ongoing operational resources and capability as they do on initial infrastructure investment. Many communities face challenges associated with retaining skilled operators, maintaining infrastructure, accessing technical expertise and supporting long-term asset management. Sustainable water services therefore require enduring investment in operations, maintenance, training, mentoring and local workforce capability, rather than a sole focus on capital delivery. WSAA's work with members has consistently highlighted the importance of operator support, local skills development and long-term service capability to achieve lasting improvements in water quality and service reliability.

3. Integrated community infrastructure planning

Water services cannot be considered in isolation from housing, health, energy and broader community development. Water infrastructure is often only one component of the challenges faced by regional and remote communities, and investment outcomes are improved when planning occurs across multiple services and sectors.

WSAA considers that a stronger emphasis should be placed on integrated planning approaches that align water service delivery with housing growth, community development, health outcomes and other essential services. This would support more efficient investment and help ensure infrastructure decisions reflect community priorities, enable more effective solutions, reduce community contact and engagement burden, and long-term aspirations.

4. Service provision thresholds made clear

First Nations water programs currently provide services to ~42% (470 / 1,100) of the total number of Aboriginal and Torres Strait Islander communities across the country. Whilst communities within current programs will represent a considerable majority of the population of First Nations people in communities, equity concerns have been raised about communities not currently within programs. Centralised water service provider models may not be the most appropriate for communities of small to very small sized. However, self-supply models place the onus on communities to ensure effective public health outcomes, often without the technical expertise to realise them. For the smallest communities, those currently identified as self-supplied, and communities outside of programs, more robust support is required. Work should be undertaken to define the most appropriate water service

delivery models for communities based on population, number of dwellings and growth, alongside community aspirations.

Information request 4: Service delivery in regional and remote areas

WSAA's response to Information Request 4 is closely linked to the issues raised in response to Information Request 3. While Information Request 3 focuses on improving outcomes for Aboriginal and Torres Strait Islander communities, many of the same structural challenges apply more broadly across regional and remote Australia. In both cases, successful service delivery depends not simply on infrastructure investment, but on long-term operational capability, effective coordination across government agencies, fit-for-place solutions, sustained funding, and meaningful engagement with local communities.

The strongest lesson emerging from WSAA's work is that successful regional and remote service delivery models are collaborative rather than transactional. They bring together governments, utilities, communities, regulators and service providers around shared outcomes, rather than relying on fragmented funding programs, siloed decision-making or isolated infrastructure projects.

Consistent with the response to Information Request 3, WSAA considers that policy reform should focus on creating the conditions that allow successful models to be replicated and scaled, rather than relying on individual project-by-project interventions.

Better coordination across governments - Many regional and remote communities interact with multiple government agencies responsible for water, health, housing, energy, local government and community services. However, funding and decision-making frequently remain fragmented.

State and territory governments should establish stronger coordination mechanisms that bring relevant agencies together around shared community outcomes. This would help reduce duplication, improve investment sequencing and ensure water services are planned alongside housing, energy and community infrastructure. The need for more coordinated regulatory and institutional arrangements is consistent with WSAA's broader submission to the Productivity Commission regarding regulatory coordination and integrated planning.

Reform grant and funding arrangements - Many funding programs remain short-term, highly prescriptive and focused on infrastructure delivery rather than long-term service outcomes.

Governments should redesign grant programs to incentivise collaboration, whole-of-life asset management, workforce capability development and community-led planning. Funding criteria should allow communities, utilities and service providers greater flexibility to identify locally appropriate solutions rather than prescribing specific technologies or delivery models. Long-term operational funding should be considered alongside capital investment to improve service sustainability.

Support fit-for-place service models - The experience of many regional and remote communities demonstrates that adopting metropolitan standards and infrastructure approaches without adaptation can produce poor outcomes.

Governments should support the development and adoption of fit-for-place design guidance, shared technical services, regional support models and innovative operating arrangements that reflect the realities of remote service delivery. Infrastructure selection should consider not only upfront capital costs but also lifecycle costs, local skills availability, maintenance requirements and resilience to climate and environmental risks.

Additional comments:**Information request 5**

Agree. Affordability metrics will exist within Department of Human Services (Centrelink), as recipients of this type of funding support have certain caps on the amount of funds that may be allocated as part of their fortnightly funding support when lessee's of public housing. A high percentage of First Nations communities have housing stock maintained by respective jurisdictions Dept. of Housing. These arrangements have Housing Management Agreements (WA), or equivalent, which cap the portion of fortnightly pays that can be attributed to rent, power and water.