

**Submission by City of Salisbury to  
Australian Government Productivity Commission  
Enquiry into “Australia’s Urban Water Sector”**

**Introduction**

The City of Salisbury is one of the leading local government bodies in the harvesting and reuse of urban stormwater. The Council has been at the forefront of this development, partnering with CSIRO, State and Commonwealth Governments, and now has in place systems which can provide over 8GL/year of fit for purpose non-potable water for community irrigation, industry and residential third pipe systems.

The City has led its neighboring Councils into the development of similar systems which now have South Australia as the leading State in urban stormwater reuse.

This experience informs this submission.

In this submission we focus on three issues which are critical to the development of urban stormwater reuse as a significant competitive force which can provide for between a third and half of Australia’s urban water needs. In Adelaide it is estimated that stormwater reuse could provide in excess of 20% of the medium term needs and will probably supply closer to 35%.

Our submission addresses fundamental issues which need to be addressed if the water sector is to be properly understood and reformed.

**Inclusion of Stormwater Management as a distinct part of the Australian Water Sector.**

At present in all economic analyses only the reuse component of Stormwater Management is included in the Water Sector.

Stormwater management includes:

- Catchment management
- Flood protection
- Environmental improvement
- Reuse

The stormwater management infrastructure can, if well designed, provide all elements of this and thus the totality of these actions needs to be included. This will allow a proper discussion of all the needs of this component of the sector. The operation, maintenance and replacement of the total system must be considered and costs allocated to the various objectives.

Catchment Management involves additional costs from higher maintenance and greater attention to pollution in the catchments if the water resource is to be reused. The institutional reforms will need to provide a mechanism for this to be recovered. This could be by way of a water allocation to the Council for their efforts in managing the catchments.

Catchment management also involves the capture and control of water as it runs from roofs and paving onto streets and into drains. At this point the Council, who manage the drains, should be provided with some certainty of water allocation. Without this there will be no certainty of management or supply and the development of this will be stifled.

Flood protection is hazard management and is the functional core of all stormwater management systems. The funding for this is shared between developers, Local, State and Commonwealth Government. Because flooding is an infrequent event, and difficult to predict this has been underfunded and the systems under-maintained. Much of the existing drainage system was constructed to standards of protection which are now considered inadequate. No system for funding the upgrading of these works has been devised. The effect of Climate Change, to increase the severity of rainfall events and hence flooding, compounds this shortfall.

Flood protection will remain a higher priority than reuse for any Council. Hence unless it is better funded it will be a barrier to investment in reuse and will hold back to development of this alternative supply.

Environmental improvement is usually recognized in economic analyses as an intangible benefit eg reduced ocean outfall, improved bio-diversity. No ongoing means of recovery of these costs is provided to the Councils. This compounds the underfunding of other aspects of stormwater management and adds to the barrier to investment in reuse. Again this could be provided as a water allocation to provide an incentive to the Council to develop the systems which will convert the allocation into income.

Reuse suffers from shortage of capital to invest and by having to make up for the deficiencies in the current systems. Because the other elements of stormwater management (catchment management, flood protection and environmental services) are underfunded, often the reuse scheme is called upon to bear a greater proportion than it should. This makes the investment per unit of production higher, the depreciation and operating costs higher and hence the water produced is less able to provide a competitive spur to the sector.

Recognition of the whole of Stormwater Management in the sector will allow Water Sensitive Planning for the whole sector, not just for a few aspects of new development. A key element in this is the creation of secure water allocations to the local government which has the obligation to manage the stormwater in their area.

### **Inadequate Asset Management in the water distribution systems.**

A system which produces nationwide underinvestment in its infrastructure for many decades should not be classified as efficient. This has occurred across Australia and across most areas of public infrastructure. It may be necessary for the economists to review their definitions of efficiency.

There has been a long history of inadequate investment in water supply distribution. This is in addition to the now much publicized shortfall of investment in supply. This underinvestment in distribution has been masked by the fact that for over 30 years the main investment in extensions of these long lived assets has been by developers. This has allowed water supply authorities to hold very low prices while achieving sufficient revenue to operate their systems.

Assets have been undervalued, eg donated assets have usually been added to the books without increasing assets valuation. The result of this practice has left the current operators with a significantly undervalued asset and one which they have not maintained. The current round of Infrastructure Report Cards by Engineers Australia rates water systems at C- to C. Any institutional arrangement which allows prices to be set to mine the value out of the assets is going to both allow the natural monopolies to use predatory pricing to protect their business and to discourage new entrants from even considering the investment.

This matter of the enforcement of responsible Asset Management, including replacement, should be enforced through the NWI pricing principles and enforced by the State's economic regulators via the definition of Long Run Marginal Cost. The LRMC should include sufficient investment to maintain the system under review at the currently acceptable functional standards of service and reliability.

### **Water for New Development**

The major investment in the water sector is in providing infrastructure and supply to new development. At present this is met by developers who will have no ongoing interest in the investment after they attempt to recover their cost from property sales.

The evolving requirement for WSUD increases the scope and complexity of this investment. However the developer who is planning to pass the system over in whole or parts to Local and State governments to own and operate has no incentive to develop an effective system. The developer will also be tempted to provide a system with least capital cost and higher operating costs. The regulatory enforcement procedures are not a useful tool to secure innovation.

In much of the USA a new development has to provide both the infrastructure and the water allocation. This requires an even greater level of investment. In Australia where compliance with minimum standards is enforced and the retailer will provide the water allocation. This provides little opportunity for the developer to pursue innovation above the regulatory and financial minima. If the developer was put into ownership of all or part of the water allocation generated from the additional run off created this may provide an offset to foster greater investment which would increase the magnitude and utility of the stormwater generated for reuse. This could be coupled with the requirement for providing allocation to drive innovation.

## **Conclusion**

The urban water sector as currently defined and described in the Discussion Paper is only part of the scope of water management. To secure a diversity of water supplies and a range of operators, particularly those based on reuse of urban stormwater needs;

- The inclusion of the full scope of urban Stormwater Management in the enquiry and the provision of a cost recovery mechanism for the Councils operating the systems.
- The development of systems which provide for the long term maintenance of full functionality of distribution infrastructure and do not perpetuate the managed decline of water infrastructure.
- The development of effective approaches to the development of Water Sensitive new developments which allow the developer to secure a return from the water their development releases for reuse.