



# Falling through the gaps

A practical approach to improving drinking water services for regional and remote communities in South Australia

A final report prepared for the South Australian Council of Social Service

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## Glossary

<b>Agreed level of service</b>	Standards that reflect communities' aspirations, willingness to pay and tolerance for risk. They are tailored and agreed to with the community.
<b>Basic level of service</b>	The minimum standard of services required to ensure that adequate and safe drinking water is delivered to customers.
<b>(Drinking) water services</b>	For the purposes of this paper, drinking water services refer to water provided for critical human water needs; that is safe to drink and used for other domestic purposes, such as cooking, washing up and bathing. Drinking water is also often referred to as potable water. Drinking water services includes the services involved in providing safe (i.e., meeting water quality standards) and reliable water to customers. This paper does not consider sanitation services or provision of water for other uses such as irrigation, stock or industrial use.
<b>Service provider</b>	An entity licensed under the <i>Water Industry Act 2012</i> to provide water or sewerage services. For the purposes of this paper, service provider only refers to an entity that provides drinking water services (though an entity may also provide sewerage services).
<b>Vulnerability</b>	Vulnerability is a broad public policy term. This paper focusses on those South Australians who are vulnerable due to the regional or remote communities that they live in. These communities face specific barriers to the provision of safe, reliable (and affordable) drinking water. While this paper refers to 'vulnerable communities', it recognises that there are multiple factors that exacerbate and put people at risk of vulnerability, including disability, under and unemployment, low-income, as well as structural and market factors (CPRC 2020; Collier et al. 2019).
<b>Regional and remote communities</b>	This paper uses the term 'regional and remote communities' to refer to areas outside of major cities, following the definitions adopted by the Australian Bureau of Statistics (2016). It encompasses regional centres, rural townships and remote Indigenous communities

# Executive Summary

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Reforms over the last 20-30 years have improved the security, reliability and relative affordability of water for most South Australians. However the challenges faced by regional and remote communities have not been adequately addressed, and many still do not have secure and reliable access to the most basic of water services. South Australia has an opportunity to lead the way in demonstrating how material improvements can be made for regional and remote communities.

Access to safe, secure and reliable drinking water services<sup>1</sup> (water services) is a basic necessity. It underpins human health and wellbeing. For many regional and remote communities in South Australia, the practicalities of providing basic services such as drinking water and sewerage is extremely complex and costly. Previous work<sup>2</sup> has identified many of the challenges that specific regional and remote communities face. However, there is a lack of understanding of the collective problem and the challenges faced by regional and remote communities are not adequately addressed in the current policy, legislative and regulatory framework. As a result, some regional and remote communities are receiving poor (sometimes unsafe), unreliable and high-cost water services.

The conversation needs to progress from the 'why' of the problem to identifying practical solutions that can realise real change. The current state and national policy agendas provide the opportunity to consider and improve this situation. The Productivity Commission, in its recent draft report, *National Water Reform 2020* identified this area as a priority topic for consideration as part of a renewed National Water Initiative. The South Australian government is also developing a draft State Water Demand and Supply Statement. In this context, South Australia has the opportunity to lead the way and demonstrate how material improvements can be made for regional and remote communities.

A summary of key findings is provided below.

## Key findings

- Delivery of basic water services is recognised internationally as essential to social, economic and cultural wellbeing.
- Regional and remote Australian communities face specific challenges when it comes to the provision of water services.

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<sup>1</sup> Note: For the purposes of this paper, drinking water services refer to water provided for critical human water needs that is safe to drink and used for other domestic purposes, such as cooking, washing up and bathing. Drinking water is also often referred to as potable water. Drinking water services includes the services involved in providing safe (i.e., quality) and reliable water to customers. This paper has not considered sanitation services or provision of water for other uses such as irrigation, stock or industrial use.

<sup>2</sup> Including reports completed by SACOSS 2020a and Willis et al 2015.

- Water reforms have mostly remained silent on addressing the gap in standards of service delivery for water services in smaller regional and remote communities.
- Recent droughts, bushfires and the impacts of COVID-19 have brought the difference of service levels between major cities and regional and remote communities into contrast.
- The recent Productivity Commission's *National Water Reform 2020* (draft report) (2021a) recommends that State and Territory Governments develop a definition of, and commit to ensuring access to, a basic level of service for each community in their jurisdiction.
- Responsibility for water management in South Australia is distributed across a number of government agencies and stakeholders and various pieces of legislation. This complexity adds to confusion in leadership and a lack of direction and accountability.
- The introduction of the *Water Industry Act* (the Act) in 2012 established a new regulatory framework for South Australia. The implementation of the Act (and its associated policy and regulation) has focussed on larger water entities (such as SA Water) to the benefit of communities in larger metropolitan areas.
- Prioritisation of the issue by government and commitment to improving the policy and regulatory arrangements will deliver improvements and ultimately, better outcomes, for remote and regional communities.

## Approach for improved water services

There is a policy, planning and regulatory gap in terms of ensuring water services to regional and remote communities in South Australia. This reflects a focus to date on establishing appropriate arrangements for larger service providers, and a lack of visibility of the challenges and identification of appropriate solutions. Overall regional and remote communities make up around 1 per cent of total water customers. This small figure can inadvertently make the challenge seem small and insignificant. However, the implications for these communities are great, and the challenges require tailored solutions. Prioritisation of the issue by government and a commitment to improving the policy and regulatory arrangement could substantially improve the current situation.

The focus of the recommendations in this report is on improvements that can be achieved within the current legislative and institutional arrangements. It is our view that the current legislation (*Water Industry Act 2012*) does not present a barrier to improvements. Rather, it is a lack of attention by government to develop appropriate policies and arrangements that effectively address the challenges of servicing remote and regional communities.

This report provides a series of recommended actions (Figure 1) that work within the current legislative environment to better address water services of regional and remote communities. It will not solve all the problems, but provides a practical path to achieve material improvements and outcomes.

LEADERSHIP & STRATEGY		
Includes establishing clear roles and responsibilities, a strategy with a vision, objectives and principles		
KNOWLEDGE	LEVEL OF SERVICE	FUNDING
<b>UNDERSTAND CURRENT SITUATION</b> Undertake stock take of water supply services to townships/ communities including, adequacy of supply, quality, assets, pricing, governance and servicing.	<b>BASIC LEVEL OF SERVICE</b> Develop state wide agreed minimum (basic) level of service for all South Australian towns and communities.	<b>COMMUNITY SERVICE OBLIGATION</b> Broaden the application of the community service obligation (CSO) to all water service providers. This CSO is to meet the gap of cost of provision of service against the basic level of service.
LONG TERM PLANNING		
<b>WATER SECURITY PLANNING FOR REGIONAL AND REMOTE COMMUNITIES</b> Planning should include developing agreed levels of service, identification of options for delivery, understanding of costs and benefits determining most appropriate response arrangements.		
<b>MONITOR, EVALUATE AND REGULATE</b> ESCOSA is enabled to review delivery arrangements against agreed framework and levels of service		

*Note- area in dark blue relate to specific recommendations*

Figure 1 Summary of areas for improving water services to regional and remote communities

The recommendations are interrelated and are focused on areas where the South Australian Council of Social Service (SACOSS) can advocate for change. The best outcomes will be achieved if all of the recommendations are implemented.

Our recommended actions are for SACOSS to advocate that:

1. **Priority and leadership** be given to improving drinking water services for regional and remote communities in South Australia.
2. A **state-wide stocktake of current arrangements** to communities across the state is undertaken (including remote Indigenous communities). This stocktake should consider drinking water security of supply, quality, governance and service delivery arrangements and costs, and look at delivery from the source to the household.
3. The South Australian government (in particular DEW and ESCOSA) develops a **policy that outlines a basic level of safe and reliable water services** for all service providers (a basic level of service).
4. The South Australian government commit to **undertake water security planning** in regional and remote communities.
5. The South Australian government investigates the merits of **broadening the application of the Community Service Obligations** to all water service providers.

# 1. Introduction

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Access to safe, secure and reliable drinking water is essential to human health and wellbeing. It is a basic necessity for all South Australians.

However, access to drinking water is inconsistent across South Australia. In many parts of regional and remote South Australia, the provision of drinking water services is not nearly as secure, reliable or affordable as for those in Adelaide and other regional centres. This disproportionately affects vulnerable members of the community.<sup>3</sup>

South Australia is recognised as a leader in water management, particularly dry-region water management. Reforms implemented over the last 20-30 years have improved the security, reliability and relative affordability of water for most South Australians. And yet some of our most vulnerable citizens still do not have adequate, or affordable access to the most basic of water services.

The complexity and consequences of this challenge is likely to increase. Climate change projections point to drier and hotter conditions across much of inland Australia, affecting supply and demand for water, as well as the reliability of existing water sources in regional and remote areas (PC 2021b, p. 1).

While there has been work highlighting specific examples of these challenges, there is a lack of understanding of the collective challenge and its impact on communities. This, along with a focus on regulating water entities with a large customer base, has contributed to a lack of leadership and direction which is resulting in reactive responses and solutions that are not addressing the root causes of the problem. However, a combination of leadership and a commitment to ensure that all South Australians have access to safe, reliable and affordable water can improve the circumstances for our most vulnerable communities.

## 1.1. Purpose of this paper and its scope

The South Australian Council of Social Service (SACOSS) engaged Aither to better understand the challenges and opportunities to improve drinking water services<sup>4</sup> (water services) for vulnerable South Australians. While noting that vulnerable South Australians reside in all of our cities and communities, the challenges (in relation to water services) facing those who reside in regional and remote South Australia are more acute. This paper builds on recent work by SACOSS (2020a and 2020b) and identifies practical recommendations that SACOSS can use to advocate for improved water services for regional and remote communities in South Australia. It focuses on the current legislative and policy tools in place to manage and regulate water services.

Australia has a rigorous and multifaceted approach to regulating water services. It includes regulating for health and safety, water quality, the environment and natural resources, technical standards, customer protection and pricing and service standards. This paper refers to 'service standards'. This

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<sup>3</sup> Those living in rural and remote areas tend to have lower incomes, shorter lives, poorer health outcomes, and higher burden of disease compared to those living in major cities (AIHW 2019).

<sup>4</sup> For the purposes of this paper, drinking water services refer to water provided for critical human water needs that is safe to drink and used for other domestic purposes, such as cooking, washing up and bathing. Drinking water is also often referred to as potable water. Drinking water services includes the services involved in providing safe (i.e., quality) and reliable water to customers. This paper has not considered sanitation services or provision of water for other uses such as irrigation, stock or industrial use.

term is often used in relation to standards for customer protection (such as hardship policies, responsiveness, customer engagement and reporting) as well as service delivery (such as the quality and reliability of drinking water services). This paper also refers to basic and agreed 'levels of service'. These are two discrete terms. A 'basic level of service' refers to the minimum services required to ensure that adequate and safe drinking water is delivered to customers. 'Agreed levels of service' refer to a level of service which a community agrees meets their needs and aspirations, and that they are willing to pay for. This level of service is likely to be above the basic level and will come at an additional cost. An agreed level of service may deliver additional benefits such as recreational values for instance.

## Defining vulnerability for the purposes of drinking water

Vulnerability is a broad public policy term. Risk factors for consumer vulnerability covers a broad-spectrum, and can arise from individual circumstances, market features which exacerbate or put people at risk of experiencing disadvantage, or both (CPRC 2020). This paper focusses on those South Australians who are vulnerable due to the regional or remote communities that they live in. These communities face specific barriers to the provision of safe, reliable (and affordable) drinking water. Many of these communities are remote Aboriginal communities, where the consequences of inadequate water service provision can be more serious than other communities (PC 2021a).

## 2. Water services in regional and remote communities do not meet standards

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### Key findings

- Delivery of basic water services is recognised internationally as a fundamental pillar of social, economic and cultural wellbeing.
- Regional and remote Australian communities face specific challenges when it comes to the provision of water services.
- Water reforms have mostly remained silent on addressing the gap in standards of service delivery for water services in smaller regional and remote communities.
- Recent droughts, bushfires and the impacts of COVID-19 have brought the difference of service levels between major cities and regional and remote communities into contrast.
- The recent Productivity Commission inquiry into water reform (draft report) (2021a) recommends that State and Territory Governments develop a definition of, and commit to ensuring access to, a basic level of service for each community in their jurisdiction.
- Responsibility for water management in South Australia is distributed across a number of government agencies and stakeholders and various pieces of legislation. This complexity adds to confusion in leadership and a lack of direction and accountability.
- The introduction of the *Water Industry Act* (the Act) in 2012 established a new regulatory framework for South Australia. The implementation of the Act (and its associated policy and regulation) has focussed on larger water entities (such as SA Water) to the benefit of communities in larger metropolitan areas.

### 2.1. Growing recognition that current arrangements are not working well for regional and remote communities

Delivery of basic water services is recognised internationally as a fundamental pillar of social, economic and cultural wellbeing. The United Nations' Sustainable Development Goals has a specific goal relating to water - "*SDG 6 - ensure access to water and sanitation for all*". Targets underneath SDG 6 highlight the importance of water services, including:

- Target 6.1 - safe and affordable drinking water
- Target 6.3 - improve water quality, wastewater treatment and safe reuse.

At an aggregate level Australia meets the drinking water targets, with World Bank Development Indicators reporting 100 percent of the population having access to safe drinking water and sanitation services (World Bank 2014). However, this figure hides the reality that many smaller regional and remote communities across Australia do not have reliable access to safe water services.

Historically, Australia's water management focus has been on managing supply and demand - especially balancing demands between consumptive uses (both for drinking water and for productive uses) and the environment. They have focussed on improvements in areas where the majority of the Australian population reside and where water underpins major industries (such as the Murray-Darling Basin). Policies and reforms have mostly remained silent on addressing the gap in standards of service delivery for drinking water services in smaller regional and remote communities. These communities can be very small, with populations often under 1000 and sometimes under 100. For these communities it is usually not viable to fully cost recover these services. The policies and systems that work for larger regional and urban communities are often not practical or effective for smaller regional and remote communities.

Recent droughts, bushfires and the impacts of COVID-19 have brought the difference of service levels between major cities and regional and remote communities to the public debate. National water reform and policy discussions are now highlighting the challenges faced by regional and remote communities and the need to tailor principles and solutions of best-practice water service provision.

## Productivity Commission Inquiry on national water reform

### Highlighting the challenges for regional and remote service delivery

The recent Productivity Commission's recent draft report, *National Water Reform 2020*, raised the delivery challenges of drinking water service provision to regional and remote communities (PC 2021a). The inquiry summarised the challenges as being:

- poor water quality and high operating costs due to limited alternatives or poor-quality water sources
- vulnerability to extreme or shock events due to limited financial resources and shortage of skills or capabilities within water entities to undertake complex planning activities
- fragmented and opaque governance of water service provision, especially in remote Indigenous communities, resulting in confusion, lack of transparency and reduced public accountability.

The Productivity Commission suggests a tailored reform agenda is required for regional and remote water services considering these challenges. One of the draft recommendations is that:

*A renewed National Water Initiative should include a commitment to ensure access to at least a basic level of safe and reliable drinking water to all Australians. State and Territory Governments could each develop a definition of, and commit to ensure access to, a basic level of service for each community in their jurisdiction. (PC 2021 p155)*

## 2.2. Water service arrangements in South Australia are complex and multifaced

South Australia's geography makes it arguably one of the most challenging environments to provide basic services to. For many small and remote communities, the practicalities of providing basic levels of services such as water, sewerage (as well as electricity and telecommunications) is challenging, complex and costly. Successive governments have attempted to address these challenges (Willis et al.

2015). However, the circumstances many regional and remote communities find themselves in today (in relation to water) have not improved, and some argue it has deteriorated (Aboriginal Lands Trust, personal communication, 4 February 2021).

There are a number of government agencies and private entities involved in the management and delivery of water services across South Australia. Policy and regulatory responsibilities are distributed across the South Australian Department of Environment and Water (DEW), Landscape Boards, SA Health, the South Australian Environment Protection Authority (EPA), the Essential Services Commission of South Australia (ESCOSA) and the Office of the Technical Regulator (OTR). Local government as well as Aboriginal community managers (such as the Aboriginal Lands Trust) also play important roles in service delivery. This complexity adds to confusion in leadership and a lack of direction and accountability.

The South Australian water industry has undergone considerable policy and regulatory reform over the last 20 years. In particular, the *Water Industry Act 2012* (the Act) marked a foundational change in South Australian water services management and provided a framework for South Australia to move from a monopolised water industry to an independently regulated industry that encouraged new entrants and competition. There are now over 70 licensees that provide drinking and non-drinking water and sewerage services across South Australia. Their scale and scope of services vary considerably. SA Water continues to service over 99 percent of total drinking water customers across the state, with the remaining licensees servicing just one percent of drinking water customers (DEW 2018). Importantly, this one percent resides in regional and remote South Australia.

The Act reflects current national practice and principles designed to encourage competition. It has contributed to an improvement in services (through improved transparency and regulation) for most South Australians (particularly those serviced directly by the SA Water drinking water network). The implementation of the Act (including the development of policies, standards and regulations) has focussed on regulating water entities with large customer bases. This focus, in the early days of the Act was a sensible approach. However, it has meant that smaller communities continue to face challenges with insecure, poor quality and expensive water services (SACOSS 2020a).

With the Act now almost ten years old, it is time to also ensure that it adequately manages and regulates smaller service providers to ensure equitable access to basic water services for all South Australians. This can be achieved through the development of appropriate supporting policies, standards and planning. It is important to note that supporting policy and regulation should be designed to be appropriate to the scale of the service provider. The level of data collection, regulation and monitoring requirements should be cost effective and commensurate with the scale of the business and the service it provides.

## The *Water Industry Act 2012*

The *Water Industry Act 2012* establishes a legislative framework to provide South Australians with safe, reliable and quality water supplies, sewerage services and installations. It establishes:

- the licensing and regulatory functions and powers of ESCOSA and the Technical Regulator
- the license conditions and requirements for water industry entities
- the role of the Minister, including requirements for the Minister to prepare and maintain a *State Water Demand and Supply Statement* and to develop and publish a customer hardship policy.

Under the Act, ESCOSA is responsible for considering and issuing licences for water industry entities. To approve a licence, ESCOSA needs to be satisfied that (amongst other requirements):

- the proposed infrastructure to deliver the service is appropriate for the purposes it will be used
- the applicant has the capacity (financial, technical, organisational and other necessary capacity) to provide services safely and to appropriate standards that would be authorised by the licence.

The Act does not provide direction on standard service levels, but does require water industry entities to *“comply with code provisions as in force from time to time (which the Commission [ESCOSA] must make under the Essential Services Commission Act 2002)”*.

For example, ESCOSA sets service standards for major retailers in South Australia covering customer service standards, connections, responsiveness and restoration timeliness for major retailers. ESCOSA also sets standards for minor and intermediate retailers covering consumer protections and customer service obligations. However, these standards do not currently set out a basic level of service.

The Act requires ESCOSA to *“have regard to the scale and nature of the operations of the water industry entity”* but does not prescribe how ESCOSA does this. ESCOSA has adapted broad licence categories based on advice received from the Treasurer, and tailors its regulatory approach according to the size of the retailer:

- major retailers – those licensees with greater than 50,000 connections
- intermediate retailers – those with greater than 500 and up to 50,000 connections
- minor retailers – up to 500 connections.

SA Water is the only major retailer under this definition. The rest of South Australia is serviced by intermediate and minor retailers. The regulatory and reporting requirements for major and minor and intermediate retailers are different, recognising the cost implications of full price determination and reporting.

The Minister is responsible for establishing community service obligations for communities that were serviced by SA Water prior to the commencement of the Act and cannot afford cost recovery for services. There is currently no direction for communities outside of the SA Water network, or those that are more recent customers of SA Water (i.e. post 2012).

### 2.3. Symptoms being experienced reflect deeper challenges

As part of this project Aither spoke with a select group of stakeholders<sup>5</sup> in South Australia. While it was not within scope to complete a comprehensive stakeholder engagement process, the stories provide a snapshot of the experiences across remote and regional South Australia and reflect the feedback in SACOSS's earlier work (SACOSS 2020a).

We heard from stakeholders that legacy policy decisions have resulted in a distinction between the population that is serviced directly by SA Water's drinking water network (this includes metropolitan

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<sup>5</sup> Aither consulted with SA Water, DEW, ESCOSA, Aboriginal Lands Trust and the District Council of Coober Pedy.

Adelaide and some regional towns) and those outside of it. Those that are serviced by SA Water's drinking water network generally have access to reliable, secure, safe and (relatively) affordable drinking water. For these customers, service standards are in place to ensure appropriate quality and reliability of drinking water services. Pricing is smoothed across SA Water customers and hardship processes are in place to support vulnerable groups. If water supply arrangements are not meeting standards then a process exists for SA Water to seek funding to upgrade these systems. While it was acknowledged there are areas for improvement in this system, it is considerably better to what those outside of the SA Water network receive (including some of the water systems that SA Water operates for remote townships). For these communities, there is significant variation in the quality, reliability and price of water and there is no agreed policy or set of principles to ensure service standards are comparable across smaller providers.

We heard from stakeholders that this has resulted in challenges associated with:

- poor quality infrastructure, including ageing and degrading infrastructure, and in the cases of some remote Indigenous communities, a lack of infrastructure to the (household) door
- responsibility placed on remote Indigenous communities to maintain and operate infrastructure from the community "gate"
- significantly higher costs for water services than the majority of South Australians, in communities that typically have a greater socio-economic disadvantage than major towns
- lack of sustainable funding models to maintain infrastructure
- lack of access to safe drinking water due to poor water quality sources and poor treatment.

These challenges are experienced to differing degrees and result in different outcomes in each community. However, the challenges are symptomatic of broader challenges and gaps in the current policy and regulatory arrangements across South Australia.

The Goyder Institute for Water Research completed an options paper for improved water supply and governance for outback town in remote South Australia in 2015 (Willis et al. 2015). It found that there had already been a number of attempts by the state and commonwealth governments to determine the most effective mechanism for the delivery of drinking water to remote South Australian outback towns that comply with Australian Drinking Water Guidelines (ADWG) and ensure the development of the townships. The report summarised the challenges faced by these communities as being:

- a lack of capacity to identify and fund the agency responsible for rolling out a plan
- no agreed approach to identify appropriate water supply solutions and a consensus on these solutions
- a lack of appropriate implementation of governance mechanisms
- a lack of acceptable cost covering arrangements (Willis et al. 2015).

The situation has not progressed significantly since that time. The same issues were highlighted in SACOSS's work (2020a, 2020b) and the recent Productivity Commission Inquiry (2021a, 2021b) and reflect the experiences we heard as part of this project. This project highlighted there is a lack of clarity on the arrangements across remote and regional communities and a lack of understanding of the specific challenges and their impacts. What information exists, is fragmented and held by different organisations.

The conversation needs to progress from the 'why' of the problem to identifying practical and implementable solutions that can realise real change for regional and remote communities. The next

section of this report provides a framework and recommends actions that SACOSS can use to progress the narrative and improve water services in South Australia's regional and remote communities.

### 3. Approach for improved water services for regional and remote communities

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#### Key finding

- Prioritisation of the issue by government and commitment to improving the policy and regulatory arrangements will deliver improvements and ultimately, better outcomes, for remote and regional communities.

#### Recommendations

That SACOSS advocate for:

1. **Priority and leadership** be given to improving drinking water services for regional and remote communities in South Australia.
2. A **state-wide stocktake of current arrangements** to communities across the state is undertaken (including remote Indigenous communities). This stocktake should consider drinking water security of supply, quality, governance and service delivery arrangements and costs, and look at delivery from the source to the household.
3. The South Australian government (in particular DEW and ESCOSA) develops a **policy that outlines a basic level of safe and reliable water services** for all service providers (a basic level of service).
4. The South Australian government **commit to undertake water security planning** in regional and remote communities.
5. The South Australian government investigates the merits of **broadening the application of the Community Service Obligations** to all water service providers.

As outlined earlier in this report, there are complex and varied challenges with providing safe, reliable and affordable water services to regional and remote communities across South Australia. However, the underlying causes are consistent across communities in South Australia, and more broadly across Australia.

A policy and regulatory gap for regional and remote communities water services exists in South Australia. This has come about by focusing on establishing appropriate arrangements for larger service providers and a lack of collective understanding of the challenge. The combination of improved leadership, policy, planning and knowledge could substantially improve the current situation. We do not expect all of these challenges to disappear, or for this change to be instant. However, there are opportunities for significant improvement.

This section outlines a series of recommended actions. The recommendations work within the current legislative environment as changes within the current arrangements could make a significant difference.

Figure 2 below summarises the recommendations and areas where change could deliver tangible improvements for water services for regional and remote South Australian communities. Successful long-term change will require addressing each of these areas in a strategic and coordinated manner.

LEADERSHIP & STRATEGY		
Includes establishing clear roles and responsibilities, a strategy with a vision, objectives and principles		
KNOWLEDGE	LEVEL OF SERVICE	FUNDING
<b>UNDERSTAND CURRENT SITUATION</b> Undertake stock take of water supply services to townships/ communities including, adequacy of supply, quality, assets, pricing, governance and servicing.	<b>BASIC LEVEL OF SERVICE</b> Develop state wide agreed minimum (basic) level of service for all South Australian towns and communities.	<b>COMMUNITY SERVICE OBLIGATION</b> Broaden the application of the community service obligation (CSO) to all water service providers. This CSO is to meet the gap of cost of provision of service against the basic level of service.
LONG TERM PLANNING		
<b>WATER SECURITY PLANNING FOR REGIONAL AND REMOTE COMMUNITIES</b> Planning should include developing agreed levels of service, identification of options for delivery, understanding of costs and benefits determining most appropriate response arrangements.		
MONITOR, EVALUATE AND REGULATE		
ESCOSA is enabled to review delivery arrangements against agreed framework and levels of service		

*Note- area in dark blue relate to specific recommendations*

Figure 2 Summary of areas for improving water services to regional and remote communities

## Leadership and strategy

Long-term sustainable outcomes for regional and remote communities requires a foundational change in how we plan for, manage, regulate and monitor water services in regional and remote communities. Achieving this sustained change will only occur with strong and clear leadership. Leadership is required to make a commitment to change, and to then support and sustain that change. Effective leadership is enabled through a clear vision, water security plans, clarity on roles and responsibilities, and monitoring and evaluating progress towards the vision and against levels of service.

Given the complexities and relationship with broader economic, health and wellbeing outcomes, leadership for water services must come from the state government. Leadership rests with the Minister for Water and the DEW. Involvement of other agencies and partners will be critical to delivering successful outcomes but the leadership, oversight and responsibility should be with the ministerial portfolio and department that is responsible for the management of water across the state.

Leadership also comes through having agreed vision and policy. The State Water Demand and Supply Statement (refer to Box on page 11) currently being developed by the DEW, provides an opportunity for the state to articulate its vision and objectives in this space and set out a series of actions that will drive reform. The draft State Water Demand and Supply Statement is being made available for

consultation. SACOSS should use this to highlight the important role that the Minister for Water and DEW have in providing leadership in this space.

#### Recommendation No 1 - Leadership

SACOSS should advocate that **priority and leadership** be given to improving drinking water services for regional and remote communities in South Australia.

### State Water Demand and Supply Statement

The South Australian Government is in the process of preparing the State Water Demand and Supply Statement (as defined in Part 2 of the Water Industry Act). This statement must:

- assess the state of South Australia's water resources and the extent of water supplies available within the state
- assess current and future demand for water within the state
- outline policies, plans and strategies relevant to ensuring that the state's water supplies are secure and reliable and are able to sustain economic growth.

The State Water Demand and Supply Statement may also address any other matter considered to be relevant by the Minister; and take into account any policy, plan or strategy determined to be relevant by the Minister.

The State Water Demand and Supply Statement must be reviewed every five years and provide an annual report on any emerging risks or significant issues within any of the state's regions.

### Knowledge

Without an understanding of the current situation, decision-makers do not understand the magnitude of the problem. This creates an environment where there is a tendency to react to individual problems or implement short-term solutions.

This project identified that there was no one source of information or understanding regarding the ownership, delivery and status of water services to regional and remote communities across the state.

The feedback we heard highlighted a range of different experiences and challenges, ranging from poor infrastructure, high costs, lack of supply and poor water quality. However, we were unable to determine if these experiences were common across all communities or if they were isolated experiences. This reflects previous work undertaken by SACOSS and David Rathman (SACOSS 2020a) which found that there was a significant variation in servicing arrangements across Aboriginal communities.

The lack of understanding of the collective problem is contributing to a lack of responsibility and coordinated action. A state-wide stocktake of South Australian regional and remote communities water services is required to better understand:

- the extent and magnitude of challenges experienced
- the root causes of the challenges

- the amount of investment required to address the totality of the problem
- to identify any systemic challenges (such as legislative or regulatory environments) that need to be addressed

Information gathered through a stocktake should be regularly updated and can form the basis of future monitoring and reporting.

### *Expansion of planned stocktake*

DEW has plans to undertake a stocktake of select self-supplied communities. Aither understands that this work will focus on the adequacy of supply but will not look at the ownership, operations and servicing arrangements or the adequacy of the infrastructure. This work is welcomed and provides a good basis for further work - but it is not enough. A state-wide understanding of water service arrangements for regional and remote communities is required so that long-term decisions can be made. The stocktake should be expanded to include:

- water sources and their adequacy to meet supply needs across all regional and remote communities (in consideration of population changes and climate change impacts)
- current ownership, operating and servicing arrangements - this should consider arrangements to households and not just to community 'gates'
- the status of infrastructure, including storage, delivery and treatment - this should also consider local infrastructure such as community tanks, taps and pipes.
- the quality of the water supply as well as issues such as salinity that may affect the life of infrastructure
- pricing and long-term asset operation and management plans and arrangements.

This is a significant task. High priority communities may need to be assessed first in order for the task to be manageable and achievable. However, in doing this there is a risk that communities that today appear to have secure and viable water arrangements may in the near future face stress. This situation has arisen in communities in NSW where ongoing and prolonged drought has threatened the supply of a number of communities. The stocktake provides an opportunity to also identify those communities that may be at threat in the future under drought conditions.

#### **Recommendation No. 2- stocktake**

SACOSS should advocate that a **state-wide stocktake of current arrangements** to communities across the state is undertaken (including remote Indigenous communities). This stocktake should consider drinking water security of supply, quality, governance and service delivery arrangements and costs, and look at delivery from the source to the household.

### *Level of service*

Standards of services (of supply and delivery) can define a basic level, which the state agrees to not fall below (often referred to as the minimum or basic level of service), as well as an upper range that reflects communities' aspirations and willingness to pay (often referred to as agreed levels of service). Ideally both will be defined for communities. However, development of the basic level of service is critical. This will provide a clear state-wide basis and direction for policy decisions.

The recent Productivity Commission Report (2021a) highlights the importance of a basic level of service, recommending that "*State and Territory Governments should commit to ensuring access to a basic level of safe and reliable water for regional and remote communities*".

This project strongly endorses the Productivity Commission report's recommendation. South Australia has the opportunity to be a leader in this space by defining a basic level of water delivery service for all South Australian communities. This basic level of service will set the minimum standards that service providers must meet in terms of **quality** and **reliability** of supply across the state. This would be distinct from the existing customer service standards currently in place and regulated by ESCOSA – which focus on consumer protections and customer service. It would provide a clear direction for government policy and enable ESCOSA to regulate providers against this service level and undertake required monitoring, reporting and benchmarking of services.

If the costs of delivering this basic level of service is prohibitive for a particular community then the state government should consider how best to offset these costs through subsidies and concessions (such as Community Service Obligations (CSOs)). This is further explored in the Funding section below.

### **Recommendation No. 3 – state-wide basic level of water service**

SACOSS advocates that the South Australian government (in particular DEW and ESCOSA) develops a policy that outlines a basic level of safe and reliable water services for all service providers (a **basic level of service**).

## **Water security planning**

The challenges facing regional and remote communities have recently been highlighted in parts of New South Wales and Queensland where extended drought has threatened communities' water supply. While there has been little precedent in terms of the drought conditions experienced in these areas there is also a view that these situations arose from a lack of planning (PC 2021b, p. 13). While South Australia was fortunate to avoid the most extreme effects of the recent drought conditions, we will not always be so lucky. With climate change pointing to increased likelihood of dry and drought conditions, particularly in inland Australia, it is imperative that appropriate water security planning occurs for these communities.

Traditionally South Australia has considered water security planning through the lens of ensuring adequate water supplies to meet users' needs. We recommend that water security planning is broadened to consider a community's overarching water service arrangements (including adequate water supply, infrastructure and service delivery, as well as sustainable funding), and its ability to meet both a basic level of service (as described above) and an agreed level of service (if relevant) into the future (refer to box below).

## Agreed level of service

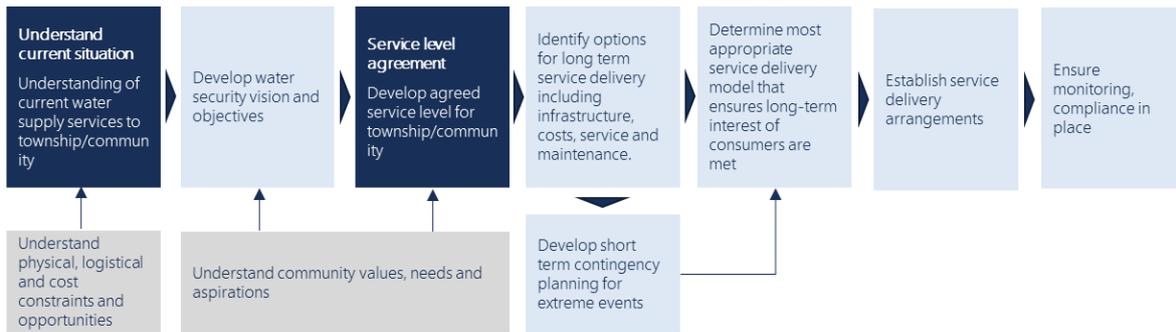
Agreed levels of service represent a trade-off between service quality (particularly water supply reliability, service standards and certain aspects of water quality such as palatability), and the prices that customers pay. The process for determining these levels of service needs to consider the benefits and costs of additional water supply in the context of a particular system and water plan. Agreed levels of service should be based on the community's values, willingness to pay and tolerance for risk. These are likely to change across communities and therefore one level of service will not be appropriate for all communities.

Establishing agreed levels of service with communities is an important component of water security planning. However, it does require a relatively high degree of community engagement so that local preferences concerning the trade-offs between service quality and prices are understood. This will take time and require sufficient funding to ensure a robust and thorough process.

The Productivity Commission (2021a) notes that the process of establishing agreed levels of service can be difficult in regional and remote communities, especially for smaller service providers, or for water systems where the long-term trade-offs between cost and service quality are not well understood. Establishing levels of service may bring affordability into question. Higher service standards may need to be matched with greater funding in order for smaller service providers to meet them.

Our proposed approach for long-term water security planning is briefly described in Figure 3 below. It should include:

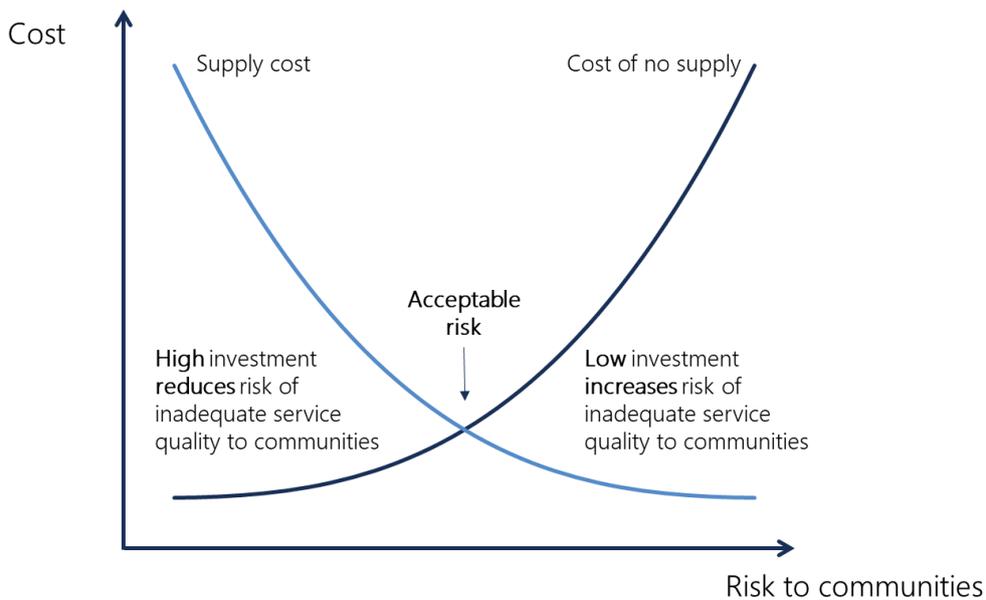
- an understanding of the current and future available water sources and needs (with consideration of climate change impacts)
- developing a water security vision and objectives for the community
- developing agreed levels of service and identifying and articulating the gap between the basic level of service and the agreed level of service (if there is one)
- identifying possible servicing options, including sources, infrastructure needs, delivery arrangements and costs to meet a basic and/or agreed level of service
- short term contingency planning to maintain water supply and quality during extreme events (integrated with water security plans at the local and catchment scale)
- developing an appropriate service delivery model and arrangements, including options for long-term funding. This funding may include a combination of external funding, user charges and the application of CSO (if appropriate) (PC 2021b, p20).



Note: Dark blue boxes refer to recommendations within this report

Figure 3 Approach to water security planning

It is likely that this type of water security planning (alongside the outcomes of the previous recommendations) will identify gaps in current service provision. It is also likely that cost recovery will be unaffordable for some communities. There will ultimately need to be trade-offs between service quality and risk (including drinking water quality, the reliability of water supply and the expected frequency of water restrictions) and the affordability of the service for each community (Figure 4).



Source Adapted from: Erianger and Neal 2005, Figure 3-1

Figure 4 Trade-off between cost, risk and level of service to communities

The South Australian government already has several initiatives underway which provide the opportunity to ensure adequate water security planning occurs. The proposed changes to the water allocation planning process to include critical human water needs (as already occurs in the Murray-Darling Basin) will assist in managing the allocation of water resources to ensure adequate supply of critical human needs during times of water scarcity. In some regions water security planning is being considered by DEW. Aither notes that the focus for water security planning is on those regions where there is a clear economic imperative to ensure secure and affordable sources of water to enable economic growth (for example in the Barossa and McLaren Vale regions). This type of planning is also needed in those regions where the economic imperative may not be so great but the social, community and human rights imperatives are.

We recommend that SACOSS works with the South Australian government to ensure that the Water Demand and Supply Statement includes actions that will provide for appropriate water security planning for remote and regional communities.

#### **Recommendation No. 4 – water security planning**

SACOSS should advocate that the South Australian government commit to undertake **water security planning in regional and remote communities**.

## Funding

Providing adequate, safe and reliable water services to regional and remote communities is costly and, in many cases, not commercially viable. The Productivity Commission captures the challenges of high-cost water services in regional and remote communities:

*"Some high cost regional and remote urban water systems are not commercially viable. This can mean that a service is not provided, or, even where a service is available, high prices can mean members of a community may be unable to afford their basic water needs - payment may represent an unacceptable cost burden, or some households might underutilise what is an essential service, with health and welfare implications" (PC 2021b, pp. 27)*

In regional and remote communities some form of cross subsidy is required to ensure access to basic services. This cross subsidy may be provided either through additional investment funded by a third party (e.g. government) or investment grant, or in the form of a direct financial subsidy (such as a CSO) to meet a basic level of service. The magnitude of the level of investment required across South Australian communities is likely to be clear if a state-wide stocktake was undertaken and water security planning occurred (as per recommendations 1 & 4).

In South Australia, this form of cross subsidy is in part addressed through CSO payments. CSO payments currently only apply to SA Water, and not to smaller service providers. This situation is inequitable because some of the most vulnerable communities in South Australia do not have access to provisions to offset the costs of receiving basic water services due to their location and service provider.

The situation needs to be reviewed. Consistent with the Productivity Commission report (2021a), Aither recommends that the CSO payments are extended beyond SA Water and instead are designed to ensure access to a basic level of service in those communities where such service provision would otherwise be unviable.

The Productivity Commission recommends that these CSO payments should be adequate to ensure that a basic level of service is affordable. That is, CSO funding should provide operational subsidies that allow the service provider to achieve and maintain lower-bound cost recovery, subject to:

- there being no other more cost-effective means to supply a basic level of service (such as self-supply)<sup>6</sup>
- the service provider charging a price that is considered to be affordable (PC 2021a).

This determines what share of costs are borne by users (through user charges), and what share is to be subsidised by taxpayers.

In South Australia a scheme is currently in place for supplying energy to remote areas (refer to the case study below). This scheme incorporates the use of a CSO and use of a single service provider to achieve economy of scale, and may provide a potential model for remote and regional water service delivery.

### **Recommendation No. 5 – Community Service Obligations**

SACOSS advocates that the South Australian government investigates the merits of broadening the application of the Community Service Obligations to all water service providers.

## **Case study- Remote Area Energy Supplies Scheme**

The South Australian government has responsibility for electricity in small remote communities through a Remote Area Energies Supplies Scheme (RAES). This recognises that costs are prohibitive (three times the cost of Adelaide supplies) for residents in many small communities that are off the power grid.

Subsidised tariffs for communities off grid are set based on the following principles:

- domestic customer tariffs are based on the average domestic standing offers by electricity retailers supplying to the South Australian on grid market
- general supply customer tariffs are based on the average small business standing offers by electricity retailers supplying to the South Australian on-grid market.
- state and commonwealth government customers pay the full cost of their electricity supply and consumption
- all customers pay a fixed supply charge, which is aligned with on-grid supply charge.

Electricity is supplied to remote towns through the RAES State and Independent Operator schemes. In 2011 the South Australian government assumed responsibility for the electricity supply to communities across three Aboriginal Land Holding Authorities (South Australian Government 2015 in Willis et al. 2015). The RAES Aboriginal Communities (AC) scheme supplies to the remote Aboriginal communities of Anangu Pitjantjatjara Yankunytjatjara (APY), Yalata on Aboriginal Lands Trust (ALT) and Oak Valley on Maralinga Tjarutja (MT).

The state government has allocated \$5.6 million over five years (commencing in 2019-20) to implement measures to address sustainability concerns with the RAES. Measures include the:

<sup>6</sup> Note: Communities may choose a higher level of service than the basic service level. The community should be responsible for paying for this level of service in these circumstances. However, if the basic level of service is not affordable then some form of additional funding may be required.

- installation of Smart Meters to improve energy efficiency and service delivery
- introduction of more flexible payment options, including the development of a customer pre-payment framework to reduce the level of customer indebtedness
- staged introduction of electricity charging for residents in the Anangu Pitjantjatjara Yankunytjatjara (APY) Lands, Oak Valley and Yalata.

Source Willis et al. 2015; DEM 2021a; DEM 2021b.

## 4. Closing remarks

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The practicalities of providing water services in South Australian regional and remote communities is challenging, complex and costly. Successive attempts to address these challenges have had limited success. However, this does not mean that the status quo should be accepted, or that there are not tangible opportunities for improvement.

The recommendations in this report provide a practical pathway forward within the existing legislative framework. The combination of improved leadership, policy, planning and knowledge could realise real change. It will not solve everything or change circumstances instantly. However, the recommendations can achieve material improvements and outcomes.

Current policy and reform agendas provide a timely backdrop for this work. The South Australian government has committed to water security planning and the development of a State Water Demand and Supply Statement. This provides an opportunity for SACOSS to engage with the South Australian government on the challenges of South Australian remote and regional communities and get government commitment to address these issues. Remote and regional water services are also of growing concern and visibility nationally. Other states and territories are grappling with the same challenges. South Australia has the opportunity to lead the way and demonstrate how material improvements can be made for regional and remote communities.

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