

AWA/Deloitte
State of the Water Sector
Report 2015



October 2015

The background of the entire image is a solid blue color, overlaid with a repeating pattern of stylized water droplets in two shades of blue. In the lower right quadrant, there is a large, dark blue teardrop-shaped graphic that serves as a container for two statistics. The first statistic, '53%', is written in white, with the percentage symbol in a smaller font. Below it, a line of smaller white text reads 'of respondents considered privatisation would lead to cost reductions.' The second statistic, '70%', is written in a light blue color, with the percentage symbol in a smaller font. Below it, a line of smaller light blue text reads 'of respondents considered improving the efficiency of water operations to be critical to the ongoing success of the sector.'

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Executive summary

The Australian Water Association and Deloitte are pleased to present the State of the Water Sector Report 2015, the full version of the report can be downloaded from the Deloitte website. The Report is the only one of its kind, reporting on the trends and insights of water sector professionals about their own industry.

The survey results reveal attitudes and behaviours relating to a range of topics affecting the industry. This year marks the fifth year that the survey has been run and as such, a summary of trends across the five years has been included in this year's report.

Trends observed over the last five years

Operational efficiency first emerged as an issue affecting the water sector in 2013, due to growing concerns about the need to control costs and demonstrate value for money, both within the sector itself and for customers. This rose to become the primary issue and area of concern in 2014 as operational costs continued to rise and new capital investment costs were being passed on to customers. In 2015 operational efficiency remains the second biggest issue for the industry, with efficiencies still to be gained through asset management, process improvement and works management and systems improvement.

Skills shortages, and talent retention and attraction were of significant concern when the survey commenced five years ago, with the issue of ageing workforces in particular seen by many as a looming threat for the industry. However in more recent years, these concerns have almost halved due to a reduction in demand for additional staff and the greater availability of skilled labour, given construction activity in the mining industry has eased.

Unconventional gas came onto the industry's radar in 2012. Last year, 70% of respondents stated that they believed unconventional gas had a significant to moderate effect on the overall management of ground or surface water. In 2015, 55% of respondents stated that produced water from unconventional gas activities can be treated to a suitable quality for irrigation and other purposes, still highlighting some concerns in relation to the oil and gas sector impact.

Although climate change was identified last year as posing a significant or moderate risk to sustainable management of water by 86% of respondents, sustainability is rated as less important than in previous years, with it being ranked as one of the top issues for the sector in 2011. This may be due to broader changes in community sentiment regarding environmental issues, and more benign weather conditions. While the sector believed the security of supply was being managed well, climate change, as well as population growth is viewed as the one of the greatest challenges over the next five years.

From a price and regulatory perspective, satisfaction with the role of economic regulators continues to increase slowly, and an increasing proportion of respondents support regulators making deterministic decisions on prices, rather than just monitoring prices. However a price monitoring role is still favoured by more than three times as many respondents as deterministic pricing.

2015 Key issues

While there are a number of key issues listed in the Report, the following five have been identified as the most significant in 2015.

The price of water and water regulation

In line with the 2014 findings, more respondents believed urban water prices were too low (32%) than too high (25%). However findings differed significantly across jurisdictions. For example, despite Western Australia having amongst the highest bills in the country, more than 50% of WA respondents considered the price of water was too low.

It is clear that views on whether prices are too high or too low are not solely dependent on the level of the bill, and other factors – including water scarcity and perceived value – are also important.

Respondents who considered economic regulation to be effective increased (to 55%), continuing an upward trend exhibited in every year of the survey.

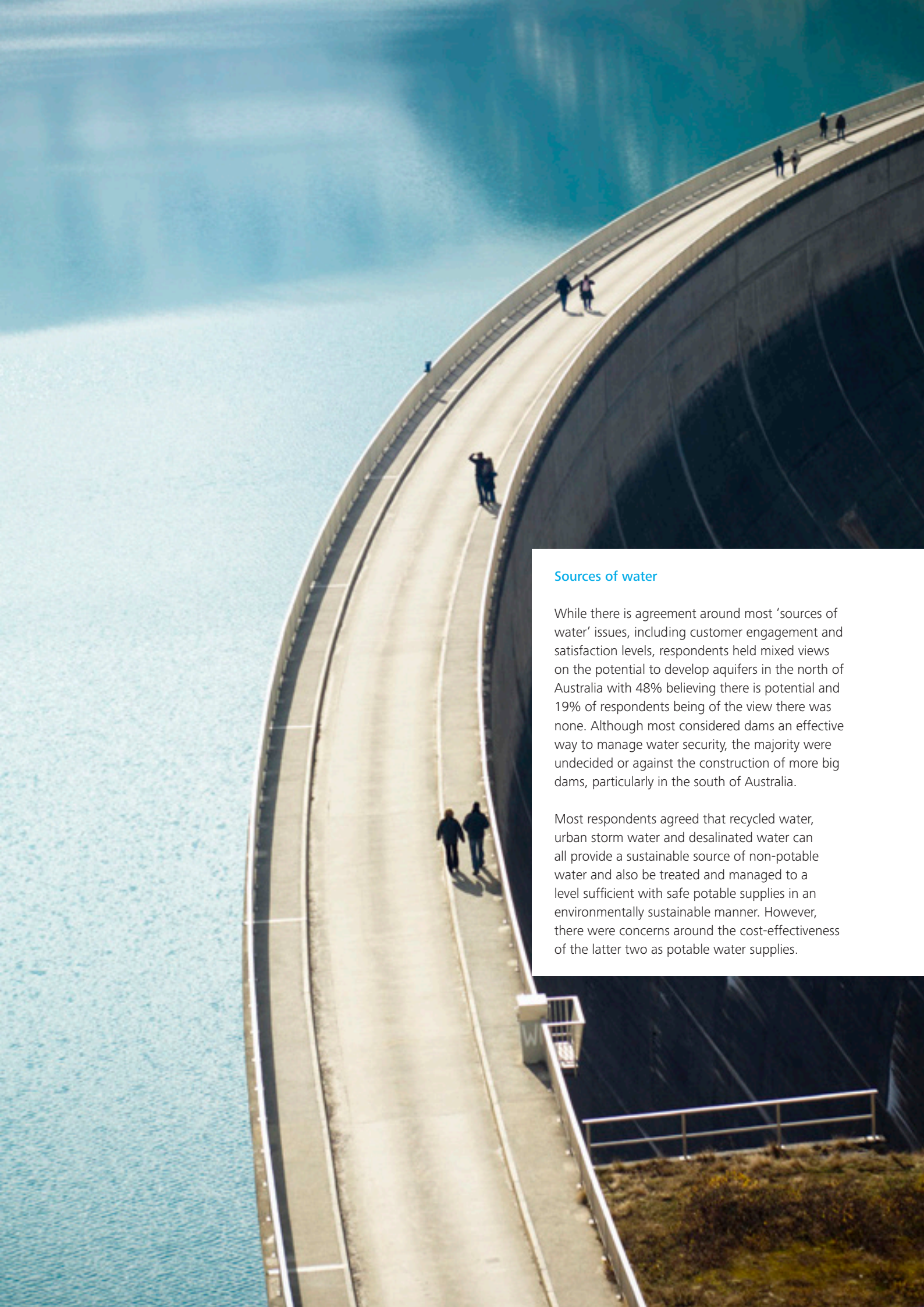
This year, the survey included new questions on pricing, privatisation and economic regulation. Some of the most interesting results included that 70% of respondents considered it beneficial to harmonise the regulation of water across jurisdictions; 72% of respondents considered there was potential for more private sector involvement in the sector – although 53% of respondents considered privatisation would lead to cost reductions, 58% thought it would increase prices.

Water sector professionals' perceptions of customers' beliefs

Customer expectations of their water utilities in recent years have shifted significantly, led by the changing way in which customers engage with other businesses and utilities via digital technologies and self-service options.

Nearly 60% of respondents believe customers are satisfied with the type and amount of communications they receive from their water provider along with a general consensus that customers understand their bill and the make-up of their charges (63%).

The finding that customers are satisfied with their current level of service reliability (87%) is consistent with Deloitte's customer research, as is the finding that the majority of customers would not be willing to decrease that level of reliability (66%) or increase it (68%) for a variation to their water account.



Sources of water

While there is agreement around most 'sources of water' issues, including customer engagement and satisfaction levels, respondents held mixed views on the potential to develop aquifers in the north of Australia with 48% believing there is potential and 19% of respondents being of the view there was none. Although most considered dams an effective way to manage water security, the majority were undecided or against the construction of more big dams, particularly in the south of Australia.

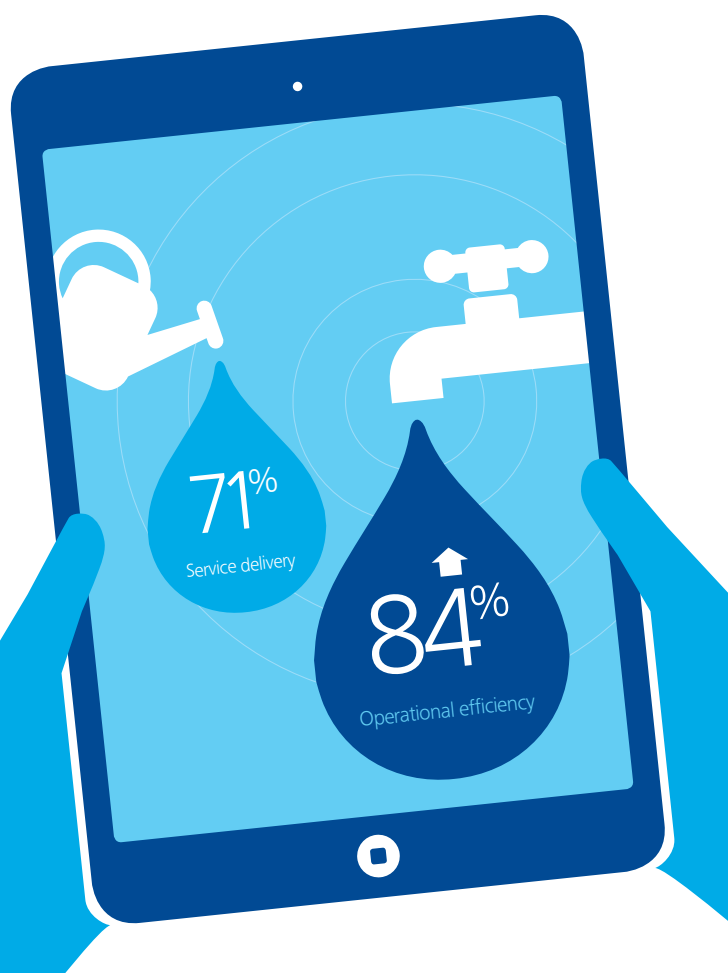
Most respondents agreed that recycled water, urban storm water and desalinated water can all provide a sustainable source of non-potable water and also be treated and managed to a level sufficient with safe potable supplies in an environmentally sustainable manner. However, there were concerns around the cost-effectiveness of the latter two as potable water supplies.

Digital technology

Respondents overwhelmingly believe the objective of digital technologies is to drive improvements in operational efficiency (over 84%) and service delivery (over 71%), and more than half identified a need for improvements in efficiency within asset management, process and systems improvement, (where investment in digital capabilities can directly improve processes), customer channels and operations management.

The use of digital technology to improve the customer and stakeholder experience is important in both regulated and non-regulated businesses. Improved digital channels, the use of social media and the personalisation of a customer's experience (supporting different customer segments) are important to enhance the perception of the service. This has been recognised through this year's survey with 57% of respondents stating that investment in digital technology is critical to support the immediate and future business needs of the water sector.

Water businesses generate and have access to rich customer, asset and external data sets. Amongst these businesses there is increasing emphasis to improve operational efficiency via enhancing the levels of discipline and rigour in the insights that underpin strategic decision-making processes with many opting to develop their own internal analytics function. This recognises the importance of taking an integrated approach to decision-making, complementing existing organisational knowledge with new sources of insight. For instance, analytics could be applied to gain a rapid quantification of the customers impacted by a network failure and then using this insight to inform both urgency grading as well as outbound customer communications.



Asset management and operational efficiency

Nearly 70% of respondents considered improving the efficiency of water operations to be critical to the ongoing success of the sector, with a further 29% agreeing it was an important consideration (but not a top three priority). This is reflected in 40% confirming their organisation has an internal operational efficiency business unit responsible for driving continuous improvement.

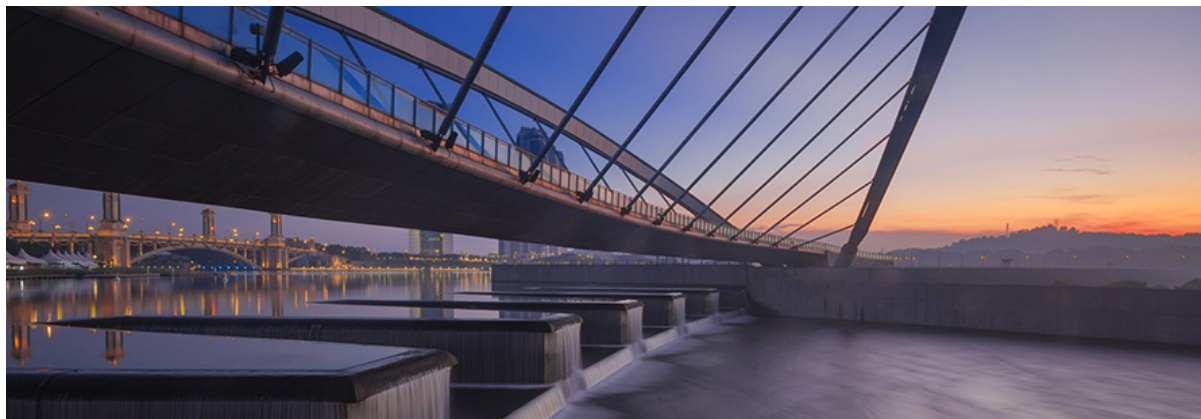
Areas in which respondents thought the industry could drive greater efficiency included asset management (57%), process improvement and works management and delivery (56%), systems improvement (49%), workforce optimisation (31%) and procurement/contract optimisation (28%).

It is not surprising that these areas of focus align to the common major investment areas in an organisation and there has been a clear shift over recent years for water businesses to look at optimising these areas, particularly with the ability to leverage technology and data to create efficiencies and improve decision making – for example moving to risk-based asset management using granular asset data, or increasing workforce mobility.

Procurement and contract optimisation is considered a real opportunity area in the context of the resources sector slow down, creating a tough market for a number of suppliers who are seeking opportunities in other asset intensive industries such as water utilities. This creates an advantage for water businesses to further capitalise on as the downturn continues.

More than 60% of respondents use benchmarking and comparators to look at areas for improvement and to define targets, and 39% use both external and internal benchmarks. Despite improving the efficiency of water operations being ranked as a critical issue, measurement around operations efficiency doesn't rank highly, with 39% of participants not knowing what savings have been realised in their business in the last 12 months, or considering this question to be not applicable to their business.

Of those who do measure savings, nearly 30% have realised savings of up to 10% of total expenditure. It's one thing to set targets to drive continuous improvement and operational efficiency, but unless these targets have defined measures and time frames and are embedded into the culture and even individual performance plans, it is hard to ensure that the full potential is realised.



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