



IPART ISSUES PAPER

**REVIEW OF PRICES FOR WATER,
SEWERAGE, STORMWATER AND
RECYCLED WATER SERVICES FOR
HUNTER WATER CORPORATION**

AND

**REVIEW OF PRICES FOR WATER,
WASTEWATER AND STORMWATER
SERVICES FOR GOSFORD CITY COUNCIL
AND WYONG SHIRE COUNCIL**

**Submission of the Urban Development
Institute of Australia (NSW)**

OCTOBER 2008

INTRODUCTION

UDIA NSW has reviewed the respective IPART Issue Paper's for Hunter Water Corporation's, Gosford City Council's and Wyong Shire Council's Prices from 1 July 2009. UDIA NSW welcomes the opportunity to comment.

UDIA NSW contends costs for Tillegra Dam should not be recovered by Hunter Water Corporation (Hunter Water) or the Gosford/Wyong Councils' Water Authority (GWCWA) via developer charges. UDIA NSW contends that an annualised charge remains the most effective and equitable approach for apportioning costs to beneficiaries of Tillegra Dam for the following reasons:

- Tillegra Dam is intended to benefit existing and future customers in both the Hunter and Central Coast and provide substantial 'drought proofing' to both regions. It is difficult to distinguish how Tillegra can be apportioned to new development in both regions.
- The implementation of BASIX in urban development has led to a reduction in potable water demand. A pre BASIX home uses on average 240kL/year while a post BASIX home uses 150kL/year. The BASIX design requirements have had financial impact upon the development industry sector and new homebuyers. BASIX has deferred the need for investment in new infrastructure by water utilities.
- Apportioning costs of Tillegra in the form of annualised charges equally to all existing and future customers provides for a more equitable and transparent financing model. The Sydney desalination plant also serves as a precedent to Tillegra as discussed in Box 1 below.

Rather than respond to each Issues Paper individually, UDIA NSW will address matters of most relevance to our members in the Hunter and on the Central Coast. These represent issues 17 to 20 in Section 4.4 of the Review of Hunter Water Corporation's Prices and corresponding issues 8 and 9 addressed in Section 3.4.1 of the Review of Gosford City Council's and Wyong Shire Council's Prices.

Future population growth and development in the Hunter has been considered by Hunter Water as one of the reasons for constructing Tillegra Dam. The projected increase in frequency of drought as a result of climate change has also been cited as a key reason for construction.

The Lower Hunter Regional Strategy (the Strategy) released in 2006, is the pre-eminent strategic planning document for the region. The Strategy estimates a regional population growth of 160000 new residents by 2031.

The Strategy states, *'Provided demand for water in the non-residential sector does not exceed current expectations and there is no significant unpredicted change in climatic conditions there will be sufficient water for the anticipated population growth in the Regional Strategy.'*

Apportioning the cost of the dam to new growth in the Hunter cannot be justified considering that there is already *'sufficient water for the anticipated population growth'* according to the Strategy. A Department of Planning Circular (6 November 2007) provided advice to local councils, state agencies, the development industry and the community on recent changes to the collection of infrastructure contributions in NSW. The circular advised that infrastructure contributions can no longer be attributed to general population growth.

UDIA NSW provides comment on the following issues in response to the IPART Issue Paper's.

ISSUE 17 - Principles that should be considered in the apportionment of Tillegra Dam costs between its beneficiaries

To understand the apportionment of costs between beneficiaries, the beneficiaries need to be clearly identified. Hunter Water has submitted costs be apportioned to beneficiaries in the following:

- 40% to existing customers in the Hunter
- 60% to future growth in the Hunter only or, future growth in Hunter plus Central Coast

According to Hunter Water's Submission, an appropriate cost sharing model is yet to be agreed upon between Hunter Water and the Central Coast Councils. Without an agreement on cost sharing with the Central Coast Councils a fair apportionment of costs can not be delineated between apparent beneficiaries.

Hunter Water also submits that Tillegra will meet projected water demand for at least 50 years. To reasonably distribute cost over this time frame, alternative beneficiaries need to be considered.

In 2006 Hunter Water entered into a supply agreement with the Gosford/Wyong Councils Water Authority (GWCWA). In June 2008 Hunter Water also assumed responsibility for water and sewer services in Dungog Shire Council

It is estimated Tillegra will produce a reliable water yield of 120,000 ML/year representing a 178% increase in reliable yield compared to current capacity. The additional capacity provided by Tillegra offers Hunter Water substantial opportunities to sell water to still unknown beneficiaries. UDIA NSW contends there is a high likelihood beneficiaries other than those considered by Hunter Water and those listed above will emerge over the next 50 years.

RECOMMENDATION 1

UDIA NSW recommends consideration of apportionment of costs for Tillegra between Hunter Water and the Central Coast Councils be postponed until an agreement on an appropriate cost sharing model is reached. This will improve transparency and a more equitable apportionment of costs between beneficiaries.

RECOMMENDATION 2

UDIA NSW recommends that Hunter Water increase its proportion of funding to take into account potential future unknown beneficiaries rather than pass this cost onto future development.

Issue 18 - Appropriate arrangements for apportioning and sharing costs of Tillegra Dam between Hunter Water and the Central Coast

Tillegra is intended to improve drought security for both the Central Coast and Hunter regions. In this regard the cost component of the dam attributed to drought security should be apportioned as an annualised charge to all beneficiaries on the Central Coast and in the Hunter.

In considering the fair distribution of costs between the GWCWA, Hunter Water and developers in the respective Hunter and Central Coast regions, the introduction of *State Environmental Planning Policy (Building Sustainability Index: BASIX) 2004* cannot be ignored. BASIX requires all new single and multi unit dwellings to demonstrate a reduction in water consumption by 40%.

Adhering to BASIX requires significant investment on the part of new homebuyers. This cost is associated with the connection of water tanks to selected internal plumbing, connection to recycled water systems which are already funded by existing DSPs, and the use of water saving devices such as restricted flow shower heads.

New residential development in both the Hunter and Central Coast will benefit least on a consumption basis when considering the proportion of comparative water consumption by existing pre-BASIX housing stock. Anecdotal estimates of the cost of BASIX compliance for new dwellings are around \$10-15k. BASIX defers investment by water utilities in major headworks, such as Tillegra Dam, onto new homebuyers.

Hunter Water proposes a 60% apportionment of costs for Tillegra to new development on the Central Coast and Hunter to be recovered through DSPs. UDIA NSW contends this presents an inequitable burden of costs on new homeowners in both regions considering water consumption for new dwellings is dramatically less than existing housing stock and BASIX compliance is a significant financial cost.

RECOMMENDATION 3

UDIA NSW recommends that costs for Tillegra be apportioned equally to all existing and future beneficiaries of the dam in periodic pricing or an annualised charge for both the Hunter and Central Coast regions. Apportioning developer charges for the dam on new development is inequitable considering BASIX compliance defers the need for investment in water infrastructure by reducing demand and consumption.

Issue 19 - Whether Hunter Water's costs of Tillegra Dam should be incorporated in upfront developer charges or periodic prices or a combination of both

Hunter Water's Submission to IPART notes that based on the current developer methodology, the impact of developer charges for Tillegra is approximately \$1400 per lot. Hunter Water has also indicated the cost for existing customers will be \$38 per year. This raises the issue of intergenerational equity between existing homeowners and first homebuyers.

The application of DSP charges to fund the provision of water infrastructure in new release areas in the Hunter and Central Coast is inequitable and unsustainable. The significant disparity in DSP charges and periodic charges proposed by Hunter Water for Tillegra Dam reflect the considerable intergenerational and geographical inequities between existing Hunter Water customers and future customers. A precedent for cost apportionment for major headworks such as Tillegra Dam has already been set by Sydney Water in regards to Sydney's desalination plant (see box above)

UDIA NSW contends that an alternative approach to funding infrastructure must be implemented that provides a recurrent revenue stream for Hunter Water that is not dependent on the release of new land to recover capital investment for Tillegra Dam. The application of an increase to the periodic charges for Tillegra to all existing and future customers is an equitable and sustainable financial model that will assist with affordability for new homebuyers.

Box 1

Funding of Headworks- Sydney Desalination Plant

Sydney Water's Submission to IPART's Review of Sydney Water Corporation's Pricing (14 September 2007) noted, *It is not appropriate to recover the costs of the desalination project from developer charges because:*

- 'the plant is to secure the water supply for all customers- new and existing- during low and variable rainfall and severe and sustained droughts, possibly related to climate change. It is difficult to separately identify a component related to growth from that of security.'

Sydney Water's Submission to IPART set's a precedent for an equitable distribution of costs for major headworks in the form of annualised charges and not apportioning cost for the project in the form of developer charges.

RECOMMENDATION 4

UDIA NSW recommends that no cost be apportioned to new residential development in the form of DSP Charges. An annualised or periodic charge to all customers and beneficiaries remains the most equitable model to finance major water infrastructure such as the Tillegra Dam.

20. Appropriate arrangements for apportioning and sharing costs of Tillegra Dam between new development (developer charges) and existing customers (periodic charges)

As addressed by issues 17, 18 and 19, UDIA NSW contends developer charges are unjustified on the following basis:

- Appropriate arrangements for apportioning costs cannot be established without first establishing current and future beneficiaries of the dam and without an appropriate model for cost sharing between Hunter Water and the GWCWA

- BASIX requires all new residential dwellings to have a reduced water consumption of 40% compared to pre- BASIX dwellings and therefore it is inequitable to apportion the highest burden of costs on new development.
- Based on the assertions of the pre-eminent planning document, the Lower Hunter Regional Strategy, existing water supplies are adequate to meet future growth in the Hunter until 2031. Additionally an annualised charge to all customers and beneficiaries of Tillegra on the Central Coast and in the Hunter is the most equitable model to finance new infrastructure.
- A precedent has been established in cost apportionment for other major headworks. Sydney Water has previously submitted to IPART that it is inappropriate to recover costs for the Sydney desalination project from developer charges as, *'It is difficult to separately identify a component related to growth from that of security.'*

Conclusion

UDIA NSW is concerned that the application of an additional charge on new development as a result of the construction of Tillegra Dam will further exacerbate constraints on housing affordability in the Hunter and on the Central Coast. UDIA NSW contends that the existing developer contribution framework including DSP charges when combined with the costs of land, construction, associated holding costs and overheads, will provide conditions prohibitive to urban development in the short to medium term.

The following is an example of a feasibility derived from known inputs and outputs relevant to the residential marketplace at present for the Warnervale Town Centre (WTC) on the Central Coast. For simplicity, residential product that is tried and tested by the marketplace has been used in the analysis as a starting point.

	Per lot	Percentage
Construction	\$40,500	18.5%
Consultants	\$5,000	2.3%
Contingency	\$5,000	2.3%
Legals/sales costs	\$6,000	2.7%
Finance/holding costs [^]	\$15,000	6.8%
Land acquisition [#]	\$62,000	28.2%
Fees/contributions incl. DSP and s94	\$86,000	39.2%
Total Costs	\$219,500	100%
Sell^{^^}	\$190,000	
Margin/Residual	-\$29,500	

Assumptions

* based on recent construction data in the area

** total contributions based on a 600 sqm residential lot

[^] assumes two year development timeframe @ 8.5%

[#] based on last reported sale of englobo land in Warnervale area

^{^^} average of 28 sales in area over last 12 months @ \$167.5k for an avg 605 sqm lot

Hunter Water claims in their submission to IPART that the imposition of a \$1400 developer charge should add no more than 2% to a typical residential block of land in the Hunter. The feasibility illustrates that the combination of developer charges, fees and contributions already represents 39.2% of the total development costs of a typical residential block in the WTC on the Central Coast.

UDIA/Matusik Affordability Research (2007) identified 70 centres around Australia which could be categorised as having some constraints on affordability, being seriously constrained or unaffordable on the basis of the capacity of households on average incomes to purchase specified percentages of the housing

sold in their local area. Markets were considered affordable where those on average incomes could purchase more than half of houses in a particular centre.

The table below rates affordability in various centres around NSW. In 2006 Gosford on the Central Coast was considered 'seriously constrained' whereas Newcastle in the Hunter was identified as having 'some constraints' to housing affordability. UDIA NSW contends that to maintain or improve housing affordability in both regions alternative infrastructure financing to developer charges needs to be considered.

New South Wales

UDIA/Matusik Affordability Measure

Location	Detached houses		Attached dwellings	
	2001	2006	2001	2006
Ballina/Lismore/Tweed	Affordable	Unaffordable	Affordable	Seriously constrained
Bathurst	Affordable	Affordable	Affordable	Affordable
Blue Mountains	Affordable	Seriously constrained	Affordable	Some constraints
Coffs Harbour	Affordable	Seriously constrained	Affordable	Some constraints
Dubbo	Affordable	Affordable	Affordable	Affordable
Gosford	Affordable	Seriously constrained	Affordable	Some constraints
Newcastle	Affordable	Some constraints	Affordable	Some constraints
Orange	Affordable	Affordable	Affordable	Affordable
Port Macquarie	Affordable	Seriously constrained	Affordable	Some constraints
Sydney Inner	Seriously constrained	Unaffordable	Affordable	Some constraints
Sydney Middle	Affordable	Unaffordable	Affordable	Some constraints
Sydney Outer	Affordable	Unaffordable	Affordable	Some constraints
Tamworth	Affordable	Affordable	Affordable	Affordable
Wagga Wagga	Affordable	Affordable	Affordable	Affordable
Wollongong	Affordable	Seriously constrained	Affordable	Some constraints
State average	Affordable	Seriously constrained	Affordable	Some constraints

Matusik Property Insights, RPData, Australian Tax Office & the Reserve Bank of Australia – June 2007. See tables 1 to 6 for New South Wales enclosed.

UDIA NSW requests IPART consider the following issues discussed in this submission in their review of prices for Hunter Water Corporation, Gosford City Council and Wyong Shire Council.

- BASIX requirements for new residential development. New dwellings consume 40% less water than existing dwellings at a cost to the homebuyer of \$10-15k.
- Sydney Water's precedent for cost apportionment of the desalination plant. Sydney Water acknowledges it is inappropriate to require developer contributions for the project which will secure water supplies for new and existing customers.
- State Government reforms to infrastructure contribution requirements. Contributions can no longer be required for infrastructure that supports general population growth.
- An additional developer charge of \$1400 will further exacerbate housing affordability and development feasibilities in the Hunter and on the Central Coast.

UDIA NSW offers the following recommendations in response to the IPART Issue Paper's.

RECOMMENDATIONS

1. UDIA NSW recommends consideration of apportionment of costs for Tillegra between Hunter Water and the Central Coast Councils be postponed until an agreement on an appropriate cost sharing model is reached. This will improve transparency and a more equitable apportionment of costs between beneficiaries.
2. UDIA NSW recommends that Hunter Water increase its proportion of funding to take into account potential future unknown beneficiaries rather than pass this cost onto future development.
3. UDIA NSW recommends that costs for Tillegra be apportioned equally to all existing and future beneficiaries of the dam in periodic pricing or an annualised charge for both the Hunter and Central Coast regions. Apportioning developer charges for the dam on new development is inequitable

considering BASIX compliance defers the need for investment in water infrastructure by reducing demand and consumption.

- 4. UDIANSW recommends that no cost be apportioned to new residential development in the form of DSP Charges. An annualised or periodic charge to all customers and beneficiaries remains the most equitable model to finance major water infrastructure such as the Tillegra Dam.*