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Reintroduction of Developer Contributions by Hunter Water

The Property Council of Australia welcomes the opportunity to provide a submission (overleaf) on the reintroduction of Developer Contributions by Hunter Water.

The Property Council of Australia, as Australia's peak representative of the property and construction industry, has members from all parts of the sector including owners, developers and investors in all asset classes. Our members own and develop property across most of Hunter Water's area of operations.

Our submission draws on the advice of members operating in the Hunter region, including advice provided through our Infrastructure Contributions Taskforce. We appreciate and acknowledge the efforts Hunter Water has taken to consult constructively with industry and the community on the reintroduction of developer charges and look forward to continuing our constructive relationship to improve the delivery of infrastructure in the Hunter region.

We look forward to these comments and recommendations being taken into consideration in the final decision regarding the DSP areas and pricing of the DSP charges. Should you have any questions, please do not hesitate to contact me on (02) 9033-1900.

Yours sincerely

A handwritten signature in black ink that reads "Anita Hugo".

Anita Hugo
Hunter Regional Director
Property Council of Australia

Submission to Hunter Water

Reintroduction of Developer Charges

7 July 2023

SECTION 1 - EXECUTIVE SUMMARY

1.1 Executive Summary

The Property Council of Australia welcomes the opportunity to provide comments on the proposed reintroduction of Developer Contributions by Hunter Water. We understand that although these charges were discontinued in 2008 during the Global Financial Crisis, the statutory mechanism that provides for their collection has remained within the *Hunter Water Act 1991*. We also understand that in October 2022, the NSW Treasurer authorised the reintroduction of these charges.

Hunter Water is currently exhibiting a package of 29 Development Servicing Plans (including 20 wastewater plans and nine drinking water plans) across its area of operations that extends from Lake Macquarie in the south to Port Stephens in the north. Each draft DSP provides the amount of the DSP charge that will apply to new connections from 1 July 2026. New development and land subdivision will be required to pay the relevant DSP charges for drinking water and wastewater after receiving development consent. The amounts specified in the each of the draft DSP will be indexed for CPI annually between 1 July 2023 and 1 July 2026.

The Property Council provided in-principle support to the reform of infrastructure contributions on the condition that the entire package would be implemented concurrently. The proposal Hunter Water has placed on exhibition appears to have been developed in isolation from the broader package of reforms that were accepted by the former Government. **On that basis, the Property Council and its membership does not support the reintroduction of Development Servicing Plans and requests a complete deferral of the charges until the recommendations in this submission have been fully implemented.**

The proposed re-introduction of DSP charges comes at a time of record low housing approvals and completions, escalating interest rates, increased construction insolvencies and an expansion of overseas migration which is placing significant pressure on the housing affordability crisis in NSW. Whilst industry accepts the need for a more efficient and fair funding system to avoid distortions in infrastructure decision-making and support growth in demand over the coming decades, the broader impacts on the Hunter region's housing market is of greater significance.

This submission provides detail on what impact the proposed reintroduction of DSP charges will have on the cost of housing and the feasibility of development projects in the Hunter region. The current arrangements for funding new and upgraded water and wastewater infrastructure in the Hunter is through water pricing. This currently involves all of Hunter Water customers contributing towards the funding of capital works to support new urban growth (greenfield and infill development). In 2019, IPART conducted a review of Hunter Water prices from 1 July 2020 until 30 June 2025. A significant component of the water prices included capital investment. The 2020/2025 pricing request to IPART included \$54.7m for water and \$84.9m for wastewater. This was higher than the amounts invested for the previous 2016 period.

In the context of strong headwinds facing the development industry due to rising interest rates, labour and materials shortages, the timing of this proposal is a major concern to our members. It is also understood that Hunter Water intends to seek approval from the Independent Pricing

and Regulatory Tribunal (IPART) in June 2023 ahead of the reintroduction of the charges (albeit

In this submission, the Property Council has proposed a total of 12 recommendations regarding the proposed reintroduction of DSP charges by Hunter Water. These recommendations are listed in Section 2 of the submission.

SECTION 2 - RECOMMENDATIONS

2.1 Recommendations

Below are 12 recommendations for the consideration of Hunter Water that are provided to address the concerns of the Property Council regarding the proposed re-introduction of DSP charges. Our recommendations include three threshold recommendations and nine recommendations of a general nature.

Threshold Recommendations

1. Hunter Water should

- ***defer the re-introduction of DSP charges until a wider review of options for available funding models, pricing and discounting methodology for water infrastructure in greenfield and infill areas within Hunter Water area of operations.***

2. Hunter Water should:

- ***acknowledge it is not Hunter Water's role to create a locational price signal***
- ***amend its DSP charge framework to remove reference to creation of a locational price signal, and***
- ***maintain the current funding arrangements for development that is out of sequence or not in areas that have been zoned for new development.***

3. Hunter Water should:

- ***postpone re-introduction of DSP charges until it has implemented improved governance arrangements regarding the collection of levies and the delivery of water infrastructure.***

Design of Development Servicing Plan Areas

4. Hunter Water should:

- ***give consideration to consolidating the nine proposed drinking water DSPs to provide for a broad-based charge approach that will result in a much simpler contribution system.***

5. Hunter Water should:

- ***give consideration to a broad-based charge approach for wastewater***
- ***alternatively, consideration should be given to the consolidation of the 20 proposed wastewater DSPs into no more than 5 to provide a simpler contribution system, and***
- ***consider the consolidation of the DSPs into the 5 groups as suggested in Table 3 above.***

6. Hunter Water should:

- *indicate whether it has considered the difference between the proposed DSP charges for areas adjacent to Central Coast Council and the existing DSP charges imposed for water and sewer infrastructure by Central Coast Council, and*
- *give consideration to investigating any potential sharing of water and sewer infrastructure with Central Coast Council in these fringe areas to provide for reduced DSP charges.*

7. Hunter Water should:

- *indicate whether it has considered the difference between the proposed DSP charges for areas adjacent to Singleton Council and the existing DSP charges imposed for water and sewer infrastructure by Singleton Council, and*
- *give consideration to investigating any potential sharing of water and sewer infrastructure with Singleton Council in these fringe areas to provide for reduced DSP charges.*

8. Hunter Water should:

- *indicate whether it has considered the difference between the proposed DSP charges for areas adjacent to Mid Coast Council and the existing DSP charges imposed for water and sewer infrastructure by Mid Coast Council, and*
- *give consideration to investigating any potential sharing of water and sewer infrastructure with Mid Coast Council in these fringe areas to provide for reduced DSP charges.*

Non-Residential Developments

9. Hunter Water should:

- *clearly refer to the DSP amounts that will be applied to non-residential uses,*
- *make clear the methodology for calculating the charges to be applied to non-residential development*
- *establish a working group of key stakeholders (including representatives from the industrial, retail and commercial asset classes) to progress the details of implementation of DSP charges for these sectors, and*
- *establish an alternative process involving actual water services usage for collection of DSP charges for non-residential development as described in this section.*

Transitional Arrangements

10. Hunter Water should:

- *support the development industry by advocating the State Government to defer the commencement date of the DSP charges.*

11. Hunter Water should:

- *implement a temporary exemption from DSP charges to certain developments on land acquired before 1 July 2021 that fully meets the criteria indicated in the Productivity Commission Final Report*
- *extend the transitional period for DSP charges so that the full rates do not apply until 1 July 2030*
- *provide more clarity regarding the commencement of the DSP charges and when charges will begin to be levied on development through the Notice of Requirements process, and*
- *provide clearer guidance regarding at what stage during the land and building development process the DSP charge will be levied based on specific feasibility modelling and case study examples.*

12. Hunter Water should implement governance and accountability reforms to the collection and expenditure of DSP charges that include but are not limited to the following:

- *the establishment of a service level agreement with the development industry in respect of the DSP charge funding*
- *the implementation of greater transparency regarding evidence of the planning and delivery of its capital works*
- *the introduction of greater accountability and governance measures for the implementation of DSPs and the funds collected under each plan, and*
- *the establishment of a consultation forum with members of the development industry to provide an opportunity to discuss issues associated with the implementation of DSPs and to coordinate future consultations regarding the periodical review of each DSP.*

SECTION 3 - INTRODUCTION

3.1 Introduction

The Property Council of Australia welcomes the opportunity to provide feedback on the proposed reintroduction of development contributions by Hunter Water. We have been notified of the public exhibition of a package of Development Servicing Plans (the Draft Plans) for land within Hunter Water's area of operations.

Our submission relates to the following documents:

- *W.1 Newcastle and ELM Water DSP*
- *W.2 Nelson Bay Water DSP*
- *W.3 Maitland and Branxton Water DSP*
- *W.4 South Wallsend Water DSP*
- *W.5 Dungog and Chichester Water DSP*
- *W.6 Cessnock Water DSP*
- *W.7 Raymond Terrace and Medowie Water DSP*
- *W.8 Kings Hill Water DSP*
- *W.9 Lemon Tree Passage Water DSP*
- *S.1 Belmont Wastewater DSP*
- *S.2 Boulder Bay Wastewater DSP*
- *S.3 Branxton Wastewater DSP*
- *S.4 Burwood Beach Wastewater DSP*
- *S.5 Cessnock Wastewater DSP*
- *S.6 Clarence Town Wastewater DSP*
- *S.7 Dora Creek Wastewater DSP*
- *S.8 Dungog Wastewater DSP*
- *S.9 Edgeworth Wastewater DSP*
- *S.10 Farley Wastewater DSP*
- *S.11 Karuah Wastewater DSP*
- *S.12 Kearsley Wastewater DSP*
- *S.13 Kings Hill Wastewater DSP*
- *S.14 Kurri Kurri Wastewater DSP*
- *S.15 Morpeth Wastewater DSP*
- *S.16 Paxton Wastewater DSP*
- *S.17 Raymond Terrace Wastewater DSP*
- *S.18 Shortland Wastewater DSP*
- *S.19 Tanilba Bay Wastewater DSP*
- *S.20 Toronto Wastewater DSP*
- *Reintroduction of Developer Charges Fact Sheet – April 2023*

The Property Council is Australia's peak representative of the property and construction industry, the Property Council's members include investors, owners, managers and developers of property across all asset classes. We are pleased to provide the following comments that we ask you to take into consideration as part of this consultation process.

Members of our Hunter Chapter are active in the development of land across the entire Hunter region, including the local government areas of Lake Macquarie and Port Stephens. We have included comments from our members into this submission.

Our members are concerned that the re-introduction of DSP charges will have unacceptable impacts on the feasibility of development projects within the Hunter Region. Any proposal that negatively impacts on the feasibility of residential development will have the unintended consequence of hampering the Government's concerted efforts to increase housing supply and address the current housing diversity shortage. As such, the proposal as currently exhibited must be deferred until the Government holds a broad review of funding mechanisms used by metropolitan water utilities for the delivery of water infrastructure. The review should be informed by the final report of the NSW Productivity Commission and include governance and service improvements discussed in this submission.

SECTION 4 - BACKGROUND

4.1 Background

This section provides relevant background information to the re-introduction of the DSP charges by Hunter Water.

- Until the Global Financial Crisis, Hunter Water levied infrastructure charges upon developers within its area of operations through various developer service plans.
- In 2008, the NSW Government abolished Sydney Water and Hunter Water's developer charges for water, wastewater and stormwater services.
- During 2017 and 2018, the Independent Pricing and Regulatory Tribunal (IPART) commenced a *"Review of Developer Charges and Backlog Sewerage Charges for Metropolitan Water Agencies"*. An issues paper was released in October 2017, followed by a draft report in June 2018 and a final report in October 2018. The review was principally concerned with the methodology for the calculation of these charges.
- IPART in its final report and determination have retained the key features of the previous methodology which calculates capital charges, minus the reduction amount, per equivalent tenement, on a net present value basis be maintained. Generally, this approach was found to provide location-based cost signals to foster more efficient growth. The review also recommended maintaining the current DSP content requirements.
- A further outcome from the review was to: *"provide for a transition period of up to 18 months apply in the event that the Government's nil developer charges policy is removed, and set maximum prices to zero until the end of that period, or until the relevant utility complies with the relevant procedural requirements set out in the determination, whichever occurs earliest"*.
- During 2020/21, the NSW Productivity Commission carried out a broad review of infrastructure contributions (IC Review) at the request of the Minister for Planning and Public Spaces. The Terms of Reference for the review did not specifically include contributions to metropolitan water agencies, although it included *"consideration of the relationships to and impact of other charges and levies relating to the development process"*.
- The IC Review considered the introduction of a simple principles-based infrastructure contributions system that sought to find the right balance between the principles of efficiency, equity and certainty.
- An Issues Paper released in July 2020 identified water charges under Chapter 4(e). The paper described the existing funding model in place for both Sydney Water and Hunter Water as: *"Presently, costs of new water connections and upgrades to existing connections are not recovered from developers. Charges, are instead, set at zero, with the water entities recovering these costs from all their consumers. These arrangements*

date back to the NSW Government's response to the 2008-09 Global Financial Crisis and were aimed at supporting the construction sector. The arrangements have remained in place, notwithstanding the passage of time and the recovery of the housing market that began in 2012".

- Section 5.5 of the IC Review's final report noted: *"The longer the 2008 decision remains in place, the greater the impact on household water bills will become. IPART's submission on the Issues Paper projected that capital expenditure required to service growth in the next ten years alone translates to \$140 on average per connection, every year. As a policy to increase housing supply, however, zero developer charges are costly. While a modest number of projects would have been made viable that would otherwise not have been, overwhelmingly the reduced charge was reflected in higher land values. The current policy has predominantly been a transfer from water customers to owners of developable land, including those that would have developed land regardless".*
- The recommendations made by the NSW Productivity Commission are principally based on economics as evidenced by the following statement: *"The variation in the cost of providing water services to different locations highlights the value of cost-reflective water charges. When charges were set to zero, these costs did not disappear, but were embedded in customer's bills. Reintroducing charges therefore would encourage better development decision-making support growth and ease pressure on household water bills".*
- The NSW Productivity Commission adopted a "well-managed return to cost-reflective water charges to encourage more efficient development in New South Wales and help to contain growth in household water bills. This has been reflected in **Recommendation 5.5** of the Review which was as follows:

"Phase in metropolitan water charges for more efficient delivery of water infrastructure

 - i. Rescind the 2008 Section 18 Direction that approved zero developer charges for water, wastewater and stormwater for Sydney Water and Hunter Water.*
 - ii. Direct Sydney Water and Hunter Water to reintroduce water charges and include provision for: the approach to phase-in, and exemptions for development completed prior to 1 July 2026.*
 - iii. Establish a service level agreement for Sydney Water and Hunter Water for expenditure of water charges funding".*
- The former Government announced in March 2021 that it had accepted all 29 recommendations made by Productivity Commission, including the recommendation 5.5 above.
- In October 2022, the former Treasurer informed Hunter Water of the NSW Government's decision to re-introduce developer charges gradually over four years. In accordance with section 18(2) of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Treasurer:
 - (i) Revoked the approval granted in 2008 for Hunter Water to charge nil prices for the services of providing connections to a water, wastewater or drainage system, and

- (ii) Approved Hunter Water charging a percentage of the relevant prices that apply under IPART's determination for those services.

SECTION 5 - PROPOSAL TO RE-INTRODUCE DSP CHARGES

5.1 The Proposal

The proposal involves the staged introduction (to occur between 1 July 2024 and 1 July 2026) of 29 Development Servicing Plans (comprising 20 wastewater and 9 drinking water plans) for the Hunter region. Under these plans new development (connections) will be required to pay the respective DSP charges for both drinking water and wastewater.

DSPs involve the imposition of a charge based on an Equivalent Tenement (ET). All metropolitan water utilities use a common concept of an ET which Hunter Water indicates is equal to the annual total demand of an average detached residential dwelling.

The return of the DSP charges will be implemented through the development approval process with development consents requiring developers to apply for Section 50 Compliance Certificate. Payment of the DSP charges will be included in the Notice of Requirements issued by Hunter Water to developers.

The proposals follow the October 2022 approval under Section 18(2) of the *Independent Pricing and Regulatory Tribunal Act 1992* to authorise charges less than the maximum price calculated under the 2018 Determination until 30 June 2026.

The exhibition relates to 29 draft Plans (20 wastewater and 9 drinking water) that apply across most of the Hunter region (including Lake Macquarie LGA). The name of each of the plans is identified below:

Wastewater

S1.Belmont
S2.Boulder Bay
S3.Branxton
S4.Burwood Beach
S5.Cessnock
S6.Clarence Town
S7.Dora Creek
S8.Dungog
S9.Edgeworth
S10.Farley
S11.Karuah
S12.Kearsley
S13.Kurri Kurri
S14.Kings Hill
S15.Morpeth
S16.Paxton
S17.Raymond Terrace
S18.Shortland
S19.Tanilba Bay
S20.Toronto

Drinking Water

W1.Newcastle and ELM
W2.Nelson Bay
W3.Maitland and Branxton
W4.South Wallsend
W5.Dungog and Chichester
W6.Cessnock
W7.Raymond Terrace and Medowie
W8.Kings Hill
W9.Lemon Tree Passage

The location of each drinking water DSP area is indicated in **Figure 1** below.

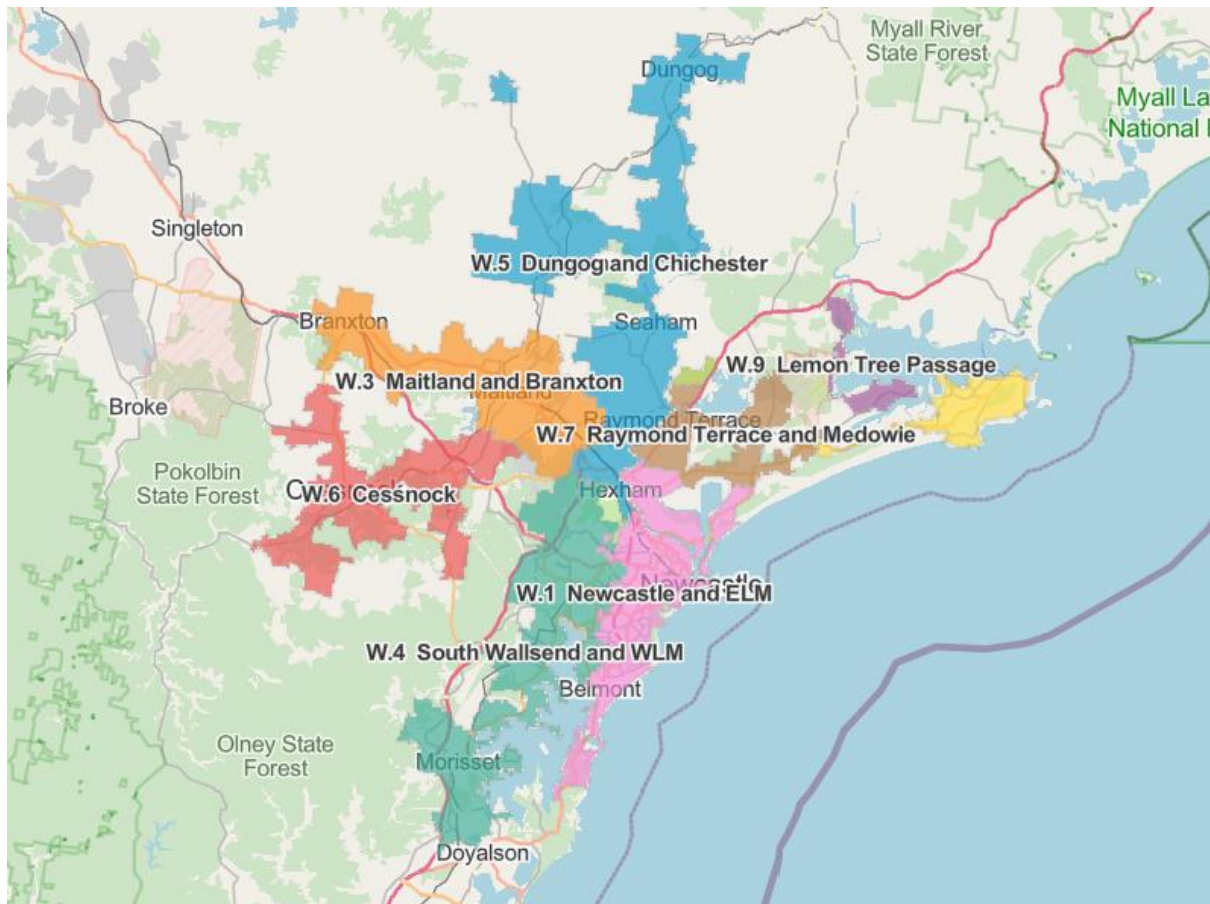


Figure 1 Drinking Water DSP areas (Source: Hunter Water)

The location of each wastewater DSP area is indicated in **Figure 2** below.

Property Council response:

This submission has considered the boundaries of the proposed Drinking Water DSPs in Section 7 of this submission.

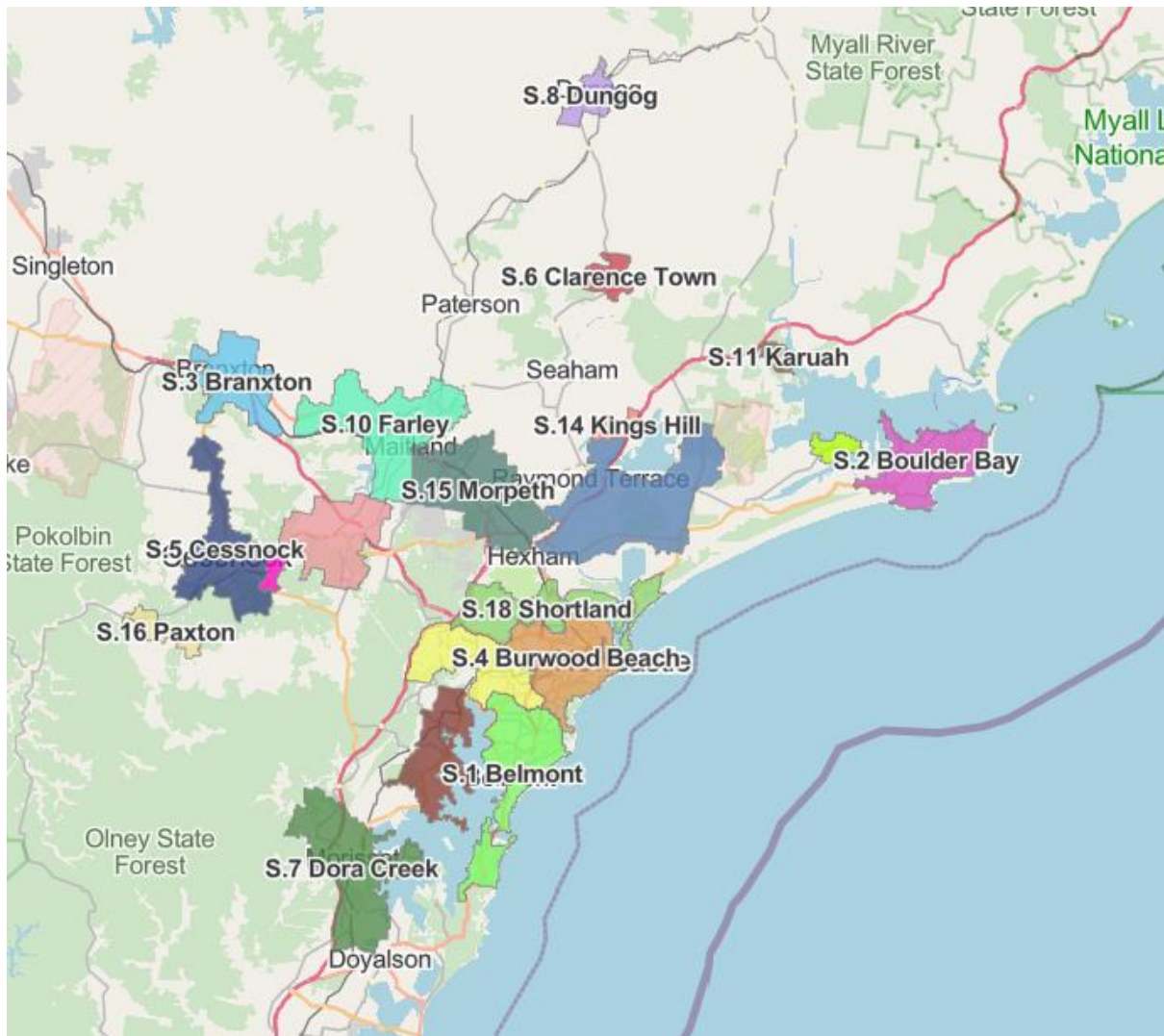


Figure 2 Wastewater DSP areas (Source: Hunter Water)

Property Council response:

This submission has considered the boundaries of the proposed Wastewater DSPs in Section 7 of this submission.

5.2 IPART pricing method

On its website, Hunter Water has indicated that the IPART methodology is applied to calculate charges using the most recent asset and cost information and best available estimates of future investment needs. Each DSP explains how Hunter Water has applied to the methodology to each DSP.

Property Council response:

The Property Council supports the use of a standard pricing methodology by all three metropolitan water agencies (Sydney Water, Hunter Water and Central Coast Council). Hunter

Water is proposing to apply the 2018 IPART Determination to recent and future investment in water infrastructure. In 2018, IPART reviewed the methodology and issued an updated Determination that would apply to metropolitan water utilities, despite charges being set to zero for Sydney Water and Hunter Water.

The 2018 Determination was issued on the basis of the charges being set to zero and there being no firm proposals to reintroduce the levying of these costs upon the development industry.

There would be considerable benefits to be gained from a wider discussion on the way that drinking water and wastewater infrastructure is funded by bodies such as Hunter Water and Sydney Water and moving away from a simple re-introduction of the pre-2008 DSP charges. A new funding model that is simple and easy to implement would be far more efficient than a complex.

Recommendation:

1. Hunter Water should

- ***defer the re-introduction of DSP charges until a wider review of options for available funding models, pricing and discounting methodology for water infrastructure in greenfield and infill areas within Hunter Water area of operations.***

5.3 Creation of a price signal

Hunter Water's Fact Sheet states:

"IPART's methodology incorporates the existing and future costs of providing services in different parts of our area of operation. By charging location-specific developer charges, we encourage urban development in the areas with the lowest infrastructure costs"

Property Council response:

The Property Council does not support the use of DSP charges to provide locational prices signals to determine the areas where development should occur. It is not Hunter Water's role to assume a leading role to dictate urban policy within the Hunter Region. Hunter Water should be focused on funding and delivering the enabling infrastructure to support urban growth within the Hunter Region.

The Greater Cities Commission and the Department of Planning and Environment are Government's lead planning agencies that must take a lead role for urban planning and deciding when and where development occurs. These agencies prepare strategic plans and delivery plans that guide the Hunter's future urban development. The *Hunter Regional Plan 2041* aimed to address development issues across the Hunter.

The proposed DSP charges that will be applied to new development within the Hunter, particularly those areas away from the coast and major centres will be penalise the people living in those areas. The imposition of DSP charges in excess of \$10,000 per ET will add thousands of dollars to new homes in the region and the costs are disproportionate in comparison to existing urban areas not targeted to support growth.

Where there is development that is out of sequence or proposed to extend beyond currently zoned land, there is merit for using a cost recovery or developer funded mechanism for water infrastructure. It is understood that the current arrangements that apply for these types of developments work well and should be continued.

Recommendation:

2. Hunter Water should:

- ***acknowledge it is not Hunter Water's role to create a locational price signal.***
- ***amend its DSP charge framework to remove reference to creation of a locational price signal.***
- ***maintain the current funding arrangements for development that is out of sequence or not in areas that have been zoned for new development.***

5.4 Governance Improvements

The proposal as set out in the DSPs and other information provided by Hunter Water fails to provide adequate detail regarding how the change in funding mechanism will deliver service improvements and better governance.

Property Council response:

The draft DSPs do not provide any indication of how the collection of funds under each of the DSPs will improve the planning and delivery of water infrastructure compared to the current situation. The re-introduction of DSPs provides Hunter Water with a significant boost in revenue that will be exclusively collected for the purpose of funding infrastructure for new urban growth.

The proposal for the re-introduction of DSP charges must be accompanied by reforms to the Hunter Water business specifically targeted at planning and delivery of water infrastructure particularly in greenfield areas. Existing arrangements that have been applied to the timing of water infrastructure should be reformed to provide more certainty and efficiency with the delivery of water infrastructure.

Governance is further considered in Section 9 of this submission.

Recommendation:

3. Hunter Water should:

- ***postpone re-introduction of DSP charges until it has implemented improved governance arrangements regarding the collection, investment of levies and the delivery of water infrastructure.***

SECTION 6 - PROPOSED DSP CHARGES

6.0 Introduction

This section of the submission provides the Property Council's response to the proposed DSP rates for drinking water and wastewater.

6.1 Drinking Water DSPs

Hunter Water has indicated that the boundaries of each drinking water DSP area have been determined using the existing water zones that it uses for operational purposes. As Hunter Water operate nine wastewater drinking water catchment zones, it has prepared nine drinking water DSPs.

The following table shows the proposed drinking water DSP charges per equivalent tenement (ET) for each of the nine draft DSP between 2023/24 and from 2026 onwards:

Table 1 – Proposed DSP charges for drinking water (\$2022/2023)				
DSP Area	2023-2024 0%	2024-2025 25%	2025-2026 50%	2026 onwards 100%
W1. Newcastle and East Lake Macquarie	\$0	\$260	\$520	\$1,040
W2. Nelson Bay	\$0	\$887	\$1,774	\$3,549
W3. Maitland and Branxton	\$0	\$676	\$1,352	\$2,705
W4. South Wallsend and West Lake Macquarie	\$0	\$602	\$1,204	\$2,408
W5. Dungog and Chichester	\$0	\$627	\$1,255	\$2,511
W6. Cessnock	\$0	\$1,220	\$2,440	\$4,881
W7. Raymond Terrace and Medowie	\$0	\$523	\$1,047	\$2,095
W8. Kings Hill	\$0	\$2,173	\$4,347	\$8,694
W9. Lemon Tree Passage	\$0	\$596	\$1,193	\$2,387

Source: Hunter Water

As the table indicates, these rates are expressed as \$2022/2023 and will be indexed annually in accordance with the CPI multiplier which is indicated in the IPART determination.

Each DSP provides a section headed "Indexation" that states:

"the maximum price in Table 5 is indexed to \$2022-23. The applied index of 1.128 reflects actual inflation for the year to June 2022 of 6.14%, and an estimate of inflation for the year to June 2023 of 6.25%. This estimate will be updated with the actual year to March 2023 inflation once related in April 2023.

The Maximum Price is \$2022-23 will then be adjusted by the CPI multiplier outlined in Schedule 6 of the 2018 Determination. The first CPI multiplier will apply to prices from 1 July 2023 and will reflect the year to March 2023 inflation".

Property Council response:

The introduction of nine DSPs for drinking water across the Hunter Water operational area is generally supported. In most cases these reflect the main growth areas reflected in the NSW Government's Hunter Regional Plan and Greater Newcastle Metropolitan Plan. The rates of DSP charges for drinking water are generally below \$5,000 per ET, except for the Kings Hill precinct in the northern part of Hunter Water's area of operations.

Given the small variation between DSP charges in the Hunter, consideration should be given to merging the boundaries of several of these areas to reduce the complexity of the DSP charges. Rather than operating nine DSPs for drinking water, Hunter Water should review the draft plans to consolidate them to provide a broad-based charge.

The Property Council understands the need to index DSP charges to maintain constant values in future years. Hunter Water is restricted to applying the indexation rate that is provided in the IPART determination. Although the draft DSPs indicate a specific amount per ET for 2026, the actual 2026 amount will be subject to indexation each year until 2026. It is imperative that the final version of each DSP provide clear information regarding indexed amounts which will be higher than the stated dollar amounts. Applying the current 5% annual rate of inflation, the 2026 DSP amounts will be much higher.

Recommendation:

4. Hunter Water should:

- ***give consideration to consolidating the 9 proposed drinking water DSPs to provide for a broad-based charge approach that will result in a much simpler contribution system***
- ***provide detailed information to the development industry regarding the expected drinking water DSP charges to apply in future years.***

6.2 Wastewater DSP

Hunter Water has indicated in the exhibition documents that the boundaries of each wastewater DSP area have been determined based upon each standalone wastewater treatment catchment. As Hunter Water operate twenty wastewater treatment plans, it has prepared twenty DSPs.

The following table shows the proposed DSP charges per equivalent charges (ET) for wastewater for each of the 20 draft DSP:

Table 2 – Proposed DSP charges for wastewater (2023-2026).				
DSP Area	2023-2024 0%	2024-2025 25%	2025-2026 50%	2026 onwards 100%
S1. Belmont	\$0	\$1,142	\$2,284	\$4,568
S2. Boulder Bay	\$0	\$1,188	\$2,376	\$4,753
S3. Branxton	\$0	\$2,473	\$4,947	\$9,895
S4. Burwood Beach	\$0	\$0	\$0	\$0
S5. Cessnock	\$0	\$703	\$1,406	\$2,813
S6. Clarence Town	\$0	\$1,552	\$3,105	\$6,210
S7. Dora Creek	\$0	\$1,969	\$3,939	\$7,878
S8. Dungog	\$0	\$3,450	\$6,901	\$13,803
S9. Edgeworth	\$0	\$1,214	\$2,428	\$4,856
S10. Farley	\$0	\$521	\$1,043	\$2,086
S11. Karuah	\$0	\$5,135	\$10,271	\$20,542

S12. Kearsley	\$0	\$1,865	\$3,731	\$7,463
S13. Kings Hill	\$0	\$2,975	\$5,951	\$11,902
S14. Kurri Kurri	\$0	\$927	\$1,855	\$3,710
S15. Morpeth	\$0	\$927	\$1,855	\$3,710
S16. Paxton	\$0	\$4,398	\$8,796	\$17,593
S17. Raymond Terrace	\$0	\$2,592	\$5,185	\$10,371
S18. Shortland	\$0	\$871	\$1,743	\$3,487
S19. Tanilba Bay	\$0	\$2,047	\$4,094	\$8,189
S20. Toronto	\$0	\$950	\$3,802	\$7,605

Source: Hunter Water

Property Council response:

The introduction of twenty (20) DSPs for wastewater across the Hunter Water operational area is not supported. The operation of such a large number of plans with differing rates adds unnecessary complexity to these funding arrangements.

Should a broad-based charge approach not be viable for wastewater, we would support a the introduction of fewer wastewater DSP areas in the Hunter (such as the five (5) areas described below where we have suggested consolidating groups of DSP areas as indicated in the table below).

The average of the DSP charges below would range between \$3,487 for the Coastal South DSP area and \$11,161 for the Coastal North DSP area.

Table 3 – Suggested DSP areas for wastewater					
	Lake Macquarie	Coastal South	Coastal North	Inland South	Inland North
DSP areas	S1. Belmont S7. Dora Creek S9. Edgeworth S20. Toronto	S4. Burwood Beach S18. Shortland	S2. Boulder Bay S11. Karuah S19. Tanilba Bay	S3. Branxton S5. Cessnock S12. Kearsley S13. Kurri Kurri S16. Paxton	S6. Clarence Town S8. Dungog S10. Farley S14. Kings Hill S15. Morpeth S17. Raymond Terrace
Averaging of proposed DSP charges	\$6,226	\$3,487	\$11,161	\$8,294	\$8,013

Recommendation:

5. Hunter Water should:

- ***give consideration to a broad-based charge approach for wastewater.***
- ***alternatively, consideration should be given to the consolidation of the 20 proposed wastewater DSPs into no more than 5 to provide a simpler contribution system, and***
- ***consider the consolidation of the DSPs into the 5 groups as suggested in Table 3 above.***

SECTION 7 - DSP CHARGES FOR SURROUNDING AREAS

7.0 Comparison of Hunter Water DSP charges to DSP charges for surrounding areas

As indicated in the **Figure 4** below, there are differing methodologies for funding water and sewer infrastructure across New South Wales.

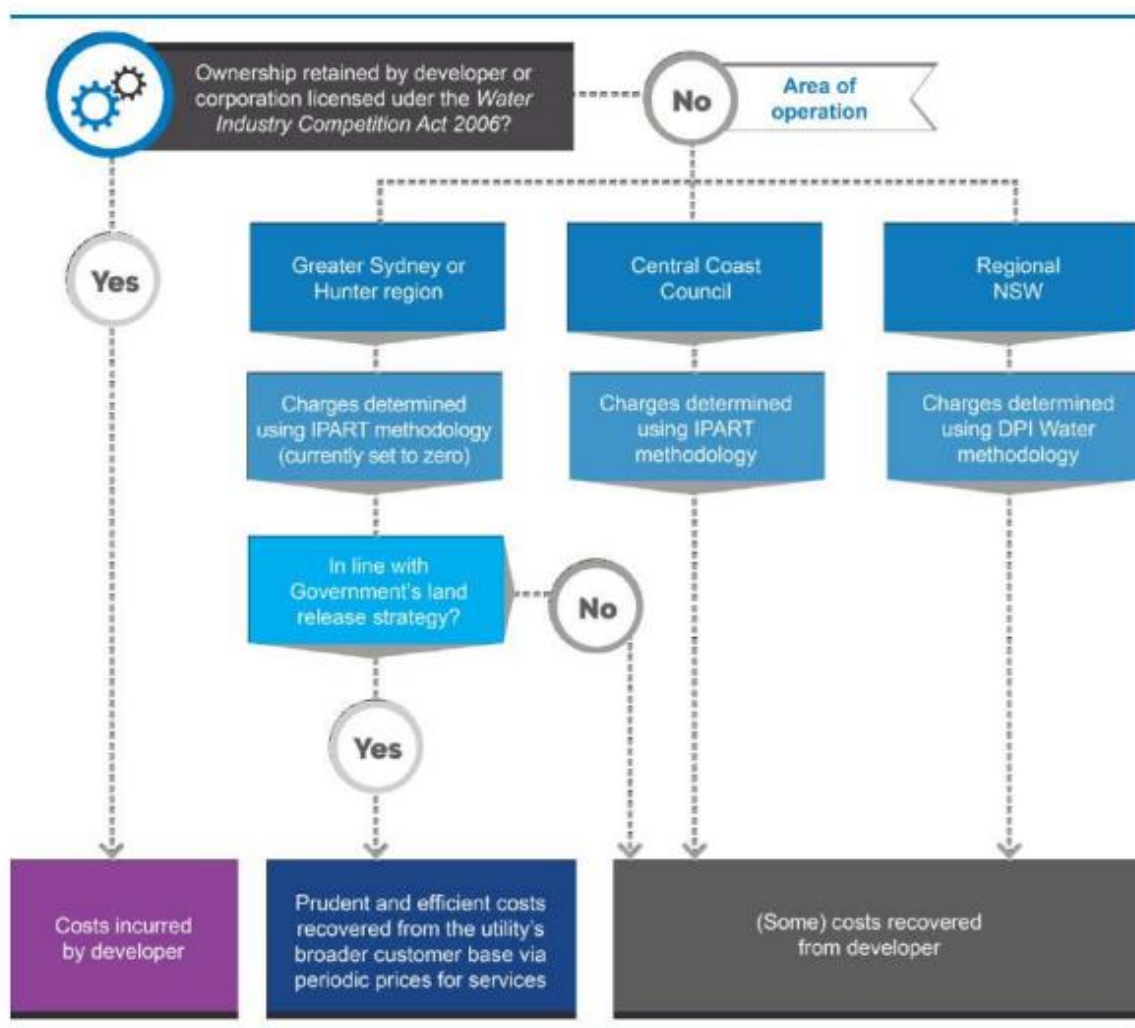


Figure 4 Flow diagram indicating differing methodologies for funding water and sewer infrastructure across NSW

As a metropolitan water utility, Hunter Water follows the IPART methodology used by Sydney Water and Central Coast Council to determine the funding arrangements for drinking water and wastewater services.

Surrounding areas that are adjacent to Hunter Water's area of operations are:

- (a) Central Coast Council to the south
- (b) Singleton Council to the west
- (c) Mid Coast Council to the north

These councils are responsible for the provision of drinking water and wastewater services to urban growth areas within their boundaries.

7.1 Central Coast Council

A major urban growth area in the southern part of Hunter Water's operational area is around the shores of Lake Macquarie. This growth is also located near the northern part of the Central Coast LGA which is also experiencing considerable urban growth. The table below provides a comparison between the current DSP charges imposed by Central Coast Council and those proposed for the relevant DSP that Hunter Water will apply from 1 July 2026.

Table 4 - Comparison of DSP charges between Hunter Water and Central Coast Council			
	Central Coast Council (2022/23)	W4. West Wallsend & WLM S2. Dora Creek (2026)	W.1 Newcastle and ELM S1. Belmont (2026)
Water DSP	\$3,619	\$2,408	\$1,040
Wastewater DSP	\$2,534	\$7,878	\$4,568
Total DSP charges	\$6,153	\$10,286	\$5,608

Source: Hunter Water and Central Coast Council

Property Council response:

This comparison shows that there will be considerably lower DSP charges for the Central Coast growth areas (located in the following areas Gwandalan, Summerland Point and Chain Valley Bay) compared to the proposed DSP rates for Wyee and Morisset. It is not clear whether Hunter Water has considered the difference between these charges and what consequence they will have.

Given the variation in charges, is there any potential for these areas in the western part of Lake Macquarie to be serviced from existing water and sewer infrastructure located in the Central Coast Council LGA?

Recommendation:

6. Hunter Water should:

- **indicate whether it has considered the difference between the proposed DSP charges for areas adjacent to Central Coast Council and the existing DSP charges imposed for water and sewer infrastructure by Central Coast Council, and**
- **give consideration to investigating any potential sharing of water and sewer infrastructure with Central Coast Council in these fringe areas to provide for reduced DSP charges.**

7.2 Singleton Council

The western part of Hunter Water's area of operations is experiencing a period of high growth associated with the development of both the Huntlee new town and strong tourism-related growth in the Hunter Valley wine region. New developments in these areas will be required to contribute to water infrastructure under the respective drinking water and wastewater DSPs.

Immediately to the west of these growth areas around Cessnock, there is new growth underway within the Singleton Council LGA adjacent to the western part of Cessnock LGA. The following table provides a comparison between the current DSP charges imposed by

Singleton Council and those proposed for the relevant DSP that Hunter Water will apply from 1 July 2016.

Table 5 - Comparison of DSP charges between Hunter Water and Singleton Council			
	Singleton Council (s64 (Headworks charges) (2022/23)	W6. Cessnock S5. Cessnock (2026)	W3. Maitland & Branxton S3. Branxton
Water DSP	\$6,950	\$4,881	\$2,705
Wastewater DSP	\$4,160	\$2,813	\$9,895
Total DSP charges	\$11,110	\$7,694	\$12,600

Source: Hunter Water and Singleton Council

Property Council response:

This comparison shows that there is variation between the DSP charges proposed for the western growth areas of Cessnock and Branxton and the neighbouring areas in Singleton Council LGA. It is not clear whether Hunter Water has considered the difference between these charges and what consequence they will have on the rate and pattern of development in that area.

Given the variation in charges, is there any potential for these areas in the northern part of the Cessnock LGA to be serviced from existing water and sewer infrastructure located in the Singleton Council LGA?

Recommendation:

7. Hunter Water should:

- ***indicate whether it has considered the difference between the proposed DSP charges for areas adjacent to Singleton Council and the existing DSP charges imposed for water and sewer infrastructure by Singleton Council, and***
- ***give consideration to investigating any potential sharing of water and sewer infrastructure with Singleton Council in these fringe areas to provide for reduced DSP charges.***

7.3 Mid Coast Council

The northern part of Hunter Water's area of operations is experiencing growth around Karuah. New developments in these areas will be required to contribute to water infrastructure under the respective drinking water and wastewater DSPs.

Immediately to the north of this growth area around Karuah, there is new growth underway within the Mid Coast Council LGA in areas such as Tea Gardens and Bulahdelah. The following table provides a comparison between the current DSP charges imposed by Mid Coast Council and those proposed for the relevant DSP that Hunter Water will apply from 1 July 2016.

Table 6 - Comparison of DSP charges between Hunter Water and Mid Coast Council		
	Mid Coast Council (2022/23)	W9. Lemon Tree Passage S11. Karuah
Water DSP	\$6,485	\$2,387
Wastewater DSP	\$8,950	\$20,542
Total DSP charges	\$15,435	\$22,929

Source: Hunter Water and Mid Coast Council.

Property Council response:

This comparison shows that there is significant variation between the proposed DSP charges for the northern area DSP area of Karuah and the neighbouring areas in Mid Coast Council LGA. It is not clear whether Hunter Water has considered the difference between these charges and what consequences they will have on the rate and pattern of development in that area.

Given the variation in charges, is there any potential for these areas in the northern part of Port Stephens LGA to be serviced from existing water and sewer infrastructure located in the Mid Coast Council LGA?

Recommendation:

8. Hunter Water should:

- ***indicate whether it has considered the difference between the proposed DSP charges for areas adjacent to Mid Coast Council and the existing DSP charges imposed for water and sewer infrastructure by Mid Coast Council, and***
- ***give consideration to investigating any potential sharing of water and sewer infrastructure with Mid Coast Council in these fringe areas to provide for reduced DSP charges.***

SECTION 8 – NON RESIDENTIAL DEVELOPMENT

8.1 Non-Residential Development

Each DSP provides the rate of the proposed DSP charge for an ET (equivalent tenement). The draft DSPs do not provide any detailed information regarding the applicable charge for non-residential development such as commercial and industrial land uses.

Property Council response:

Our members develop, own, manage the following types of developments within Hunter Water area of operations.

- Retail development, including shopping centres and stand along retail activity.
- Commercial development, including office buildings and business parks.
- Industrial development, including large warehouses and data centres.
- Seniors Housing, including residential aged care, hostels and independent living units.

All of the draft DSPs should make clear reference to the amounts that will be applied to non-residential uses such as commercial, retail and industrial development.

It is unclear whether Hunter Water will impose a proportion of the ET rate to these types of employment land uses or instead apply an alternative methodology. Each of the DSPs should provide a method for calculating the relevant charge for water and wastewater within the DSP area.

The Property Council requires specific detail regarding how the introduction of DSPs will be applied to non-residential development. Each of the DSPs that have been released for comment fail to provide any certainty regarding the treatment of non-residential development types.

Following discussions with our members, we ask Hunter Water to give consideration to the following step by step process during the section 50 process for non-residential development:

- (1) Allow non-residential developments to provide an insurance bond for the applicable DSP charges on a development or specific stage of a development, based on water volume estimates provided by the developer's hydraulic consultant, to satisfy Notice of Requirements, so that Hunter Water can issue the Section 50 Compliance Certificate, with 10 working days after confirmation of the receipt of the insurance bond.
- (2) 12 months following the issue of the Occupation Certificate, Hunter Water will receive the actual water usage from the developer allowing the DSP charges to be finalised based on actual water usage.
- (3) Within 20 working days of receipt of the actual water usage for the land, Hunter Water issues a DSP invoice to the developer.
- (4) Within 5 working days of DSP payment date, Hunter Water releases the insurance bond to the developer.

Recommendation:

9. Hunter Water should:

- *clearly refer to the DSP amounts that will be applied to non-residential uses, and*
- *make clear the methodology for calculating the charges to be applied to non-residential development.*
- *establish a working group of key stakeholders (including representatives from the industrial, retail and commercial asset classes) to progress the details of implementation of DSP charges for these sectors.*
- *establish an alternative process involving actual water services usage for collection of DSP charges for non-residential development as described in this section.*

SECTION 9 - IMPLEMENTATION & TRANSITIONAL ARRANGEMENTS

8.1 Commencement

The Hunter Water website indicates that charges will be determined when a developer makes an application for a section 50 Compliance Certificate.

Property Council response:

The proposed re-introduction of DSP charges by Hunter Water from 1 July 2024 provides a very short timeframe for industry to prepare for this change. The consequences of imposing a new cost onto the development of land will, in the short term, have significant impacts to land developers who have or are in the process of settling on land acquisition transactions. The cost of the DSP charges will not have been factored into the purchase price of land sites. Ultimately these costs will need to be passed onto the buyer of the land (homebuyer) and contribute towards increasing costs of housing in the Hunter region.

Recommendation:

10. Hunter Water should:

- **support the development industry by advocating the State Government to defer the commencement date of the DSP charges.**

8.2 Staged implementation

DSP levies will be re-introduced by Hunter Water from 1 July 2024. The NSW Government has directed that charges will remain at zero for financial year 2023/24. After 1 July 2024, the relevant DSP charge (25% of full rate) will be levied. Between 1 July 2025 and 30 June 2026, the DSP charge will be levied at a 50% discount. From 1 July 2026, the full DSP rate is applied.

Property Council response:

The Property Council is concerned there is inadequate transitional arrangements proposed for the re-introduction of DSP charges. As Hunter Water would be aware, the development of land across the Hunter Region can take many years to move through the planning system. Hunter Water must consider increasing the transition period to a minimum of 5 years (commencement charges from 1 July 2030) to allow for the cost of these charges to be fully incorporated into the price of land acquired by developers.

It is understood where Hunter Water issues a Notice of Requirements (NOR) to a developer under the *Hunter Water Act* from 1 July 2024, a DSP charge will be imposed. The development of land requires certainty as to the charges that will be levied in relation to a proposed development. Unexpected variation to costs, such as infrastructure charges and contributions, particularly while a development is underway, undermines feasibility and has the potential to halt construction mid-project. If a NOR is issued prior to the implementation of the new charges, there is no justification for that NOR to require payment of a charge. If the requirements of that NOR are met, a section 50 certificate should be issued without a charge having been paid, irrespective of whether the certificate is issued before or after 1 July 2024.

It is not clear from the documentation provided whether the charges will apply to applications for NOR made after 1 July 2024 or for any NOR that is issued after that date. Hunter Water should clearly explain at what point in the application process that the charge will be levied on a developer. Hunter Water must provide more clarity regarding the commencement of collection of the DSP charges.

The Property Council expects that Hunter Water will provide for adequate transitional arrangements that will provide for current NOR that are yet to be met to be re-issued by Hunter Water before their expiration in order to retrospectively apply a DSP charge after 1 July 2024. This would undermine the certainty that a NOR provides while a development is ongoing. It would also be inconsistent with the administration of the previous DSP scheme, whereby developments for which a NOR had been issued would not be required to pay an increased or new contribution if introduced prior to the issue of a section 50 certificate for that development. The same principle should apply to the phasing in of the new contributions, so that, for example, a development for which a NOR is issued between 1 July 2024 and 30 June 2025 would attract a 25% contribution, even if it is completed and a section 73 certificate issue after 1 July 2025. These are matters that require further clarification from Sydney and Hunter Water.

In terms of a pathway back to a cost-reflective water charges, the Productivity Commission Review Final Report identified a need for a:

“transition path that avoids unintended market impacts. Sydney Water and Hunter Water will ultimately adopt the system charging methodology – subject to IPART approval – and any transition will need to have regard to:

- *The time necessary for each organisation to rebuild the necessary internal capacity to implement these charges and develop and consult on charging methodologies,*
- *Requirements of IPART’s 2018 water charges determination including to retain zero charges for up to 18 months while utilities revise development servicing plans.*
- *The need to avoid any rush to lodge development applications by a certain time or encouraging developers to delay development.*

The current proposal does not provide adequate transition as recommended by the Productivity Commission.

It also proposed a: *“temporary exemption would be appropriate to ensure that developments underway are not unduly affected by the change. This exemption should be limited to developments that meet both of the following criteria:*

- *All land required for the development was purchased with the expectation that zero developer charges would apply. A future cut-off date, for example of 1 July 2021, could be applied to avoid disrupting land negotiations that were already underway.*
- *The land is developed within a reasonable timeframe. For example, if the building is complete and subdivision of the development (including strata subdivision) is registered by 1 July 2026.*

The Property Council expects that IPART needs to consider the findings of the NSW Productivity Commission Final Report and the lapse in time between the publication of the report and the current exhibition period. Specifically, IPART should consider the timeframes for the exemption period to apply to projects as follows:

- All land required for the development was purchased before 1 July 2021,

- The development of the land is completed (to the stage where section 50 Certificate is required, whether for the subdivision of land or the completion of development, before 1 July 2028).
- Regarding phasing in NOR contemplating DSP charges would take the same structure currently proposed but commencing 1 July 2028 (with discounts being applied until 1 July 2030).

Recommendation:

11. Hunter Water should:

- ***implement a temporary exemption from DSP charges to certain developments on land acquired before 1 July 2021 that fully meets the criteria indicated in the Productivity Commission Final Report.***
- ***extend the transitional period for DSP charges so that the full rates do not apply until 1 July 2030.***
- ***provide more clarity regarding the commencement of the DSP charges and when charges will begin to be levied on development through the Notice of Requirements process.***
- ***provide clearer guidance regarding at what stage during the land and building development process the DSP charge will be levied based on specific feasibility modelling and case study examples.***

SECTION 9 – GOVERNANCE & ACCOUNTABILITY ARRANGEMENTS

9.1 Governance and accountability arrangements

Section 5.5 of the NSW Productivity Commission Final Report provided some discussion and a recommendation regarding the service levels provided by Hunter Water:

“As this policy will provide a more efficient and certain funding base for Sydney Water and Hunter Water, it would be appropriate for them to give developers greater certainty about available capacity and timing of infrastructure delivery. The Government should work with water utilities to develop a service level agreement that outlines what developers can expect in exchange for the contributions they provide. This could include, for example, the level of access to information they can expect and the timeframes within which infrastructure will be provided”.

The public exhibition of the draft DSPs does not provide any information about the existing or proposed governance and accountability arrangements for the delivery of water and wastewater infrastructure.

Property Council response:

The Property Council understands that the current proposal is limited to the planning and establishment of DSP areas and charges. However, as the NSW Productivity Commission identified in its report, there must be improvements in the way Hunter Water provides information to those paying these charges. There are significant concerns held by the development industry regarding Hunter Water’s transparency, particularly with details for the timing and location of infrastructure delivery. The development industry needs accessible evidence that Hunter Water has the ability to deliver the ambitious infrastructure pipeline that is proposed across the 29 DSPs and to track performance of delivery over time.

Should the proposed DSP charges be re-introduced, there must be improved levels of service provided to customers paying the charges. We support the recommendation of the NSW Productivity Commission that a service level agreement be established by Hunter Water for the expenditure of water charges funding.

It is understood that the next step in this process, once Hunter Water has finalised the suite of DSPs, is for the DSPs to be provided to IPART for its approval. It is not fully understood what role IPART will play in the approval of DSPs and to what extent it will undertake a detailed review of the costings and design methodology. It is important that IPART have a role in looking at the costs and timing of delivering infrastructure as it does with certain reviewable local contributions plans.

Recommendation:

12. Hunter Water should implement governance and accountability reforms to the collection and expenditure of DSP charges that include but are not limited to the following:

- **the establishment a service level agreement in respect of the DSP charge funding,**

- *the implementation of greater transparency regarding evidence of the planning and delivery of its capital works,*
- *the introduction of greater accountability and governance measures for the implementation of DSPs and the funds collected under each plan, and*
- *the establishment of a consultation forum with the development industry to provide an opportunity to discuss issues associated with the implementation of DSPs and to coordinate future consultations regarding the periodical review of each DSP.*

SECTION 10 - CONCLUSION

10.1 Conclusion

The Property Council has reviewed all of the 29 draft DSPs for the Hunter region and these proposals have been considered by the Infrastructure Contributions Taskforce, comprising a wide cross-section of members involved in residential and non-residential development.

We do not support the re-introduction of DSP charges in complete isolation from the other 28 recommendations made by the NSW Productivity Commission. The NSW Productivity Commission identified \$12 billion of net benefits to the State's economy over 20 years from the full rollout of the reforms. To only proceed with partial implementation of the measures will limit the value and effectiveness of the potential benefits. We provided in-principle support to the reform of infrastructure contributions on the proviso that the entire package would be implemented concurrently.

We recognise that Hunter Water does not have the powers to make changes to the Government's infrastructure reform plans and has been directed to proceed with the re-introduction of the infrastructure contributions through implementation of development servicing plans. In the context of the current consultation process, the Property Council has sought to provide constructive recommendations for consideration by Hunter Water.

In this submission we have provided a total of 12 recommendations for consideration by Hunter Water. Our recommendations cover a broad range of issues relating to the re-introduction of DSP charges including the design of DSP areas, the number of DSPs, how the DSPs are implemented and how non-residential land uses are treated within the DSP process.

We appreciate and acknowledge the efforts Hunter Water has taken to consult constructively with industry and the community on the reintroduction of developer charges and look forward to continuing our constructive relationship to improve the delivery of infrastructure in the Hunter region. If it would be of any benefit to Hunter Water, we would be happy to convene a working group comprising a cross section of our members to assist with the re-introduction of DSPs across the Hunter region in line with our recommendations.