

Submission to Sydney Water Corporation

Reintroduction of Infrastructure Contribution Charges

7 July 2023

EXECUTIVE SUMMARY

1.1 Executive Summary

The Property Council of Australia welcomes the opportunity to provide a submission on the proposed re-introduction of Developer Contributions by Sydney Water. We understand that although these charges were discontinued in 2008 during the Global Financial Crisis, the statutory mechanism that provides for their collection remains in place. We also understand that in October 2022, the NSW Treasurer authorised the reintroduction of these charges.

Sydney Water is currently exhibiting a package of 14 Development Servicing Plans (DSP) - including ten wastewater plans and four drinking water plans - across its area of operations that extends from Kiama in the south to Hornsby in the north and west to the Blue Mountains. Each draft DSP provides the amounts of the DSP charges that will apply to new connections from 1 July 2024. We also understand the proposals for 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 each of the DSPs will be indexed for CPI (or equivalent) 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 Sydney 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 this basis, the Property Council and its membership do not support the reintroduction of Development Servicing Plans in their current form and requests a complete deferral of the charges until the recommendations in this submission are 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 Sydney region's housing market is of greater significance.

This submission provides detail on what impact the proposed re-introduction of DSP charges will have on the cost of housing and the feasibility of development precincts in the Greater Sydney region, including the Illawarra. The current arrangements for funding new and upgraded water and wastewater infrastructure across Greater Sydney is through water pricing. This currently involves all of Sydney Water customers contributing towards the funding of capital works to support new urban growth (greenfield and infill development). In 2019, the Independent Pricing and Regulatory Tribunal (IPART) conducted a review of Sydney Water's pricing of water services from 1 July 2020 until 30 June 2025. A significant component of the maximum water price included capital investment. The 2020/2025 pricing submission to IPART included \$570m for servicing new development. 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, land and labour shortages, the timing of this proposal is a major concern to our members.

Progressing with these charges without production of transparent modelling to assess the development feasibility impact of the changes is deeply inadvisable and risks setting back the Government's stated aim to increase housing supply across NSW and within the Greater Sydney region.

The lack of transitional provisions afforded to industry, as recommended by the Productivity Commission, also remains a significant concern for industry. As Sydney Water would be aware, the development of land in Sydney can take many years to move through the planning system. As such, Sydney Water must consider increasing the transition period to a minimum of 5 years (commence 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.

Furthermore, while the Productivity Commission recommended the NSW Government phase in metropolitan water contributions for more efficient delivery of water infrastructure, Sydney Water has not progressed its DSP model in line with the Productivity Commission's reform principles. Indeed, there is nothing about the proposals that improves certainty around the delivery of infrastructure. Sydney Water has provided no clarity on how it will improve infrastructure identification and prioritisation, consultation or indeed accountability through a revised governance model. This lack of detail is deeply concerning as it's unclear whether any demonstrable benefit will flow from the new charges imposed on the development sector.

Sydney Water has conveyed to the development industry that these changes are based upon a need to provide a locational price signal that represents the genuine costs to service growth areas. The flaw with this approach is that the price signal favours locations where urban growth and development is difficult to achieve due to local council resistance, inconsistent planning policies, and other Government policies such as the Greater Cities Commission's Retain and Manage policy for industrial land.

The DSP should not be the main determinant of what housing is provided where. Without a revised pricing methodology and effective and transparent governance model in place, the proposal to transfer costs from the existing pricing arrangements effectively makes this a tax on new housing supply. A modified version of this proposal could have merit in the future when and if these issues are resolved, but only if it is considered as part of a comprehensive reform of the state's broken infrastructure contributions system.

In this submission, the Property Council has provided 19 recommendations to Sydney Water that address our concerns regarding the proposed re-introduction of DSP charges. These recommendations are listed in Section 2 of this submission.

SECTION 2 – RECOMMENDATIONS

2. Recommendations

Below are 19 recommendations for the consideration of Sydney Water that are provided to address the concerns of the Property Council regarding the proposed re-introduction of the DSP charges. Our recommendations include four threshold recommendations and 15 general recommendations.

Threshold Recommendations

1. Sydney Water should:

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

2. Sydney Water should:

- *acknowledge it is not Sydney 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. Sydney 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.*

4. Sydney Water should:

- *provide detailed information to the development industry regarding the expected Drinking Water DSP charges to apply in future years particularly for the three DSP with zero charges.*

Design of Development Servicing Plan Areas

5. Sydney Water should:

- *consider a broad-based charge approach to the Wastewater DSPs as it has proposed for Drinking Water DSPs.*

6. Sydney Water should:

- *maintain the broad-based charge proposed for the Greater Sydney Drinking Water DSP subject to Recommendation 7 below in respect of the Illawarra region.*

7. Sydney Water should:

- *consider the introduction of a single drinking water DSP across the Illawarra region that includes land within the West Dapto precinct.*

8. Sydney Water should:

- *give consideration to the implementation of a broad-based charge for wastewater to apply across the entire Greater Sydney region as it has proposed for drinking water.*
- 9. Should a broad-based charge not be feasible, Sydney Water should:**
- *consider a DSP charge that is derived from the combination of the Norwest and Lower South Creek Wastewater charges into a single North West Growth Area DSP to remove the inequities between localities within the North West Growth Area.*
- 10. Should the recommendations outlined in 8 and 9 above not be feasible, Sydney Water should:**
- *consider combining the Nepean River and Greater Macarthur DSP areas into a single South West Growth Area DSP to remove inequities between localities within the South West Growth Area.*
- 11. Should the recommendations outlined in 8 and 9 above not be feasible, Sydney Water should:**
- *consider combining the Northern Illawarra DSP and Southern Illawarra DSP areas into a single DSP for the Illawarra region to remove inequities between localities within the Illawarra region.*
- 12. Sydney Water should:**
- *investigate alternative DSP area boundaries that provide for a more equitable sharing of infrastructure charges across Sydney.*
- 13. Sydney Water should:**
- *give consideration to a consistent DSP charge that will apply to land within the Campbelltown City LGA.*
- 14. Sydney Water should:**
- *give consideration to consistent DSP charge that will apply to land within the City of Parramatta LGA.*
- 15. Sydney Water should**
- *give consideration to a consistent DSP charge that will apply to land within the Liverpool City Council LGA.*
- 16. Sydney Water should**
- *give consideration to a consistent DSP charge that will apply to land within The Hills Shire Council LGA.*

Non-Residential Developments

- 17. Sydney Water should:**
- *defer the re-introduction of DSP charges for non-residential development until such time as it provides greater detail to stakeholders*
 - *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

18. Sydney Water should:

- *apply the findings of the NSW Productivity Commission IC Review final report and 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*
- *apply the findings of the NSW Productivity Commission final report and extend the transitional period for DSP charges so that the full rates do not apply until 1 July 2030*
- *provide industry with information that will improve 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*
- *release detailed guidance material 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.*

Governance improvements

19. Sydney 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 the evidence of 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*
- *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, and*
- *the provision of appropriate resources that will allow Sydney Water to manage the additional assessment requirements – including Works-in-Kind and the suite of additional application deliverables that are required by the proposed re-introduction of the Sydney Water Infrastructure charges, within reasonable timeframes.*

SECTION 3 – INTRODUCTION

3.1 Introduction

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

Our submission relates to the following documents:

- *Infrastructure Contributions – How we apply IPART's Pricing Method (April 2023) ("the IC summary document")*
- *Berowra Creek Wastewater DSP*
- *Greater Macarthur Wastewater DSP*
- *Greater Sydney Drinking Water DSP*
- *Illawarra Drinking Water DSP*
- *Lower South Creek Wastewater DSP*
- *Nepean River Wastewater DSP*
- *Northern Illawarra Wastewater DSP*
- *Norwest Wastewater DSP*
- *Outer Sydney Coastal Wastewater DSP*
- *Potts Hill Drinking Water DSP*
- *Prospect East Drinking Water DSP*
- *Richmond Wastewater DSP*
- *Southern Illawarra Wastewater DSP*
- *Sydney Coastal Wastewater DSP*

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.

We have members active in the development of land across the Greater Sydney and Illawarra regions, including members of our Western Sydney and Illawarra Chapters. We have included the comments of those members in this submission.

Our members are concerned that the re-introduction of DSP charges will have unacceptable impacts on the feasibility of development projects within Greater Sydney and the Illawarra 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

The following section provides a brief overview of the historical decisions which are relevant to the re-introduction of the DSP charges by Sydney Water within its area of operations.

- Until the Global Financial Crisis, Sydney Water levied charges to 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.
- IPART in its final report and determination for the 2018 review 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.
- 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 then 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 relationship to and impact of other charges and levies relating to the development process"*.
- The IC Review considered the introduction of a simple principle-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”.

- In its submission to the IC Review, Sydney Water provided estimates of the likely charges that suggested: *“development in established areas would attract small connection charges of \$1,500- \$3,500 per equivalent tenement, which would translate to approximately \$1,000-\$2,500 for apartments. Greenfield development would attract charges of \$5,000 - \$12,000 per equivalent tenement, depending on the growth area. The bulk of the variation across Sydney reflects the higher cost of wastewater services further from the coast”.*
- 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 Productivity Commission recommended 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. **Recommendation 5.5** of the IC Review proposed the:

“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 has accepted all 29 recommendations made by the Productivity Commission, including the recommendation 5.5 above.
 - In October 2022, the former Treasurer informed Sydney Water of the NSW Government’s decision to phase in the re-introduction of developer charges 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 Sydney Water to charge nil prices for the services of providing connections to a water, wastewater or drainage system, and
 - (ii) Approved Sydney 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 for the re-introduction of DSP charges

The proposal involves the staged introduction (between 1 July 2024 and 1 July 2026) of 14 Development Servicing Plans (comprising 10 wastewater plans and 4 drinking water plans) for the Greater Sydney and Illawarra regions. 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 Sydney Water has stated is “*by definition is a single residential dwelling. One ET is equal to the annual total demand of an average detached, single 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 73 Compliance Certificates. Payment of the DSP charges will be included in the Notice of Requirements issued by Sydney 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 Sydney Water to charges less than the maximum price calculated under the 2018 Determination until 30 June 2026.

The exhibition relates to the following draft Plans (10 wastewater and 4 drinking water) that apply across most of Greater Sydney (including the Blue Mountains) and the Illawarra region. The name of each of the plans is identified below:

Waste Water

- 1 Berowra Creek
- 2 Greater Macarthur
- 3 Lower South Creek
- 4 Nepean River
- 5 Northern Illawarra
- 6 Norwest
- 7 Outer Sydney Coastal
- 8 Richmond
- 9 Southern Illawarra
- 10 Sydney Coastal

Drinking Water

- 1 Greater Sydney
- 2 Illawarra
- 3 Potts Hill
- 4 Prospect East

A map showing the location of the four drinking water DSP areas is provided in **Figure 2** below.



Figure 1 Drinking water DSP areas (Source: Sydney Water)

Property Council response:

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

A map showing the location of the 10 wastewater DSP areas is provided in **Figure 3** below.

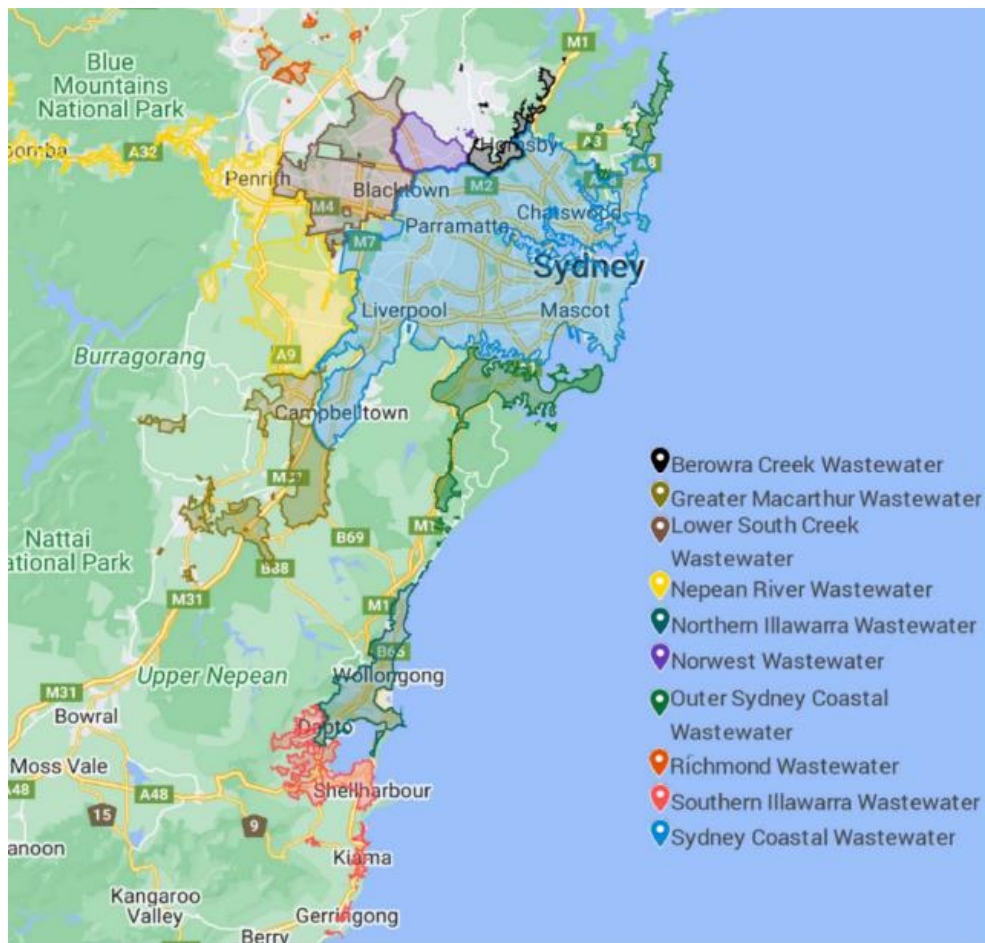


Figure 2 Wastewater DSP Areas (Source: Sydney Water)

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

Section 1.1 of the Infrastructure Contributions document states that:

“the IPART methodology generates a price payable by development inside discrete Development Servicing Plan (DSP) areas. The price in each DSP recovers the cost of assets needed to serve development, with an adjustment for the revenue to be received from new retail customers.

If servicing costs in an area are very low, it is possible that no contribution will be payable. In these low-cost areas, the normal ongoing revenue from each new customer is enough to cover the cost of providing them with services.

In areas with higher costs, the developer must contribute because revenue from new customers is not sufficient to fully recover costs. If we did not collect a contribution from new connections enabled by developers, bills for all other customers would have to increase”.

Section 2.2 of the Infrastructure Contributions summary document explains the way Sydney Water has applied the IPART price methodology. This methodology is produced in **Figure 4** below.

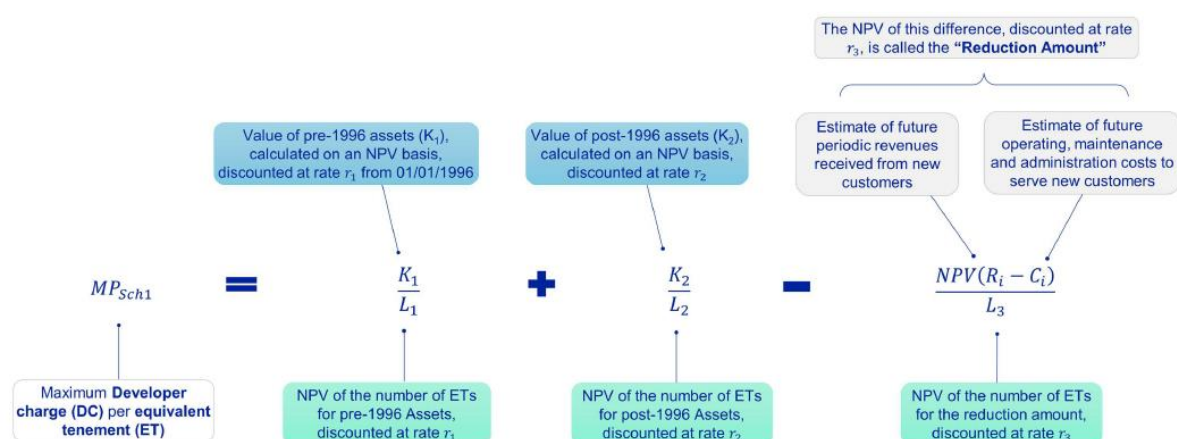


Figure 3 IPART's infrastructure contribution pricing method

Sydney Water has indicated that the IPART methodology does not specify the number or size of DSP areas, instead leaving the design of DSPs as something to be worked through with developers and customers.

Section 6 of the Infrastructure Contributions document states:

“IPART's pricing method only allows Sydney Water to recover the costs of infrastructure where there is a nexus to development. That is, the need for investment is due to an increase in demand for our services- in other words, but for the increase in demand we would not need to invest”.

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). Sydney Water has proposed the application of 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. Sydney Water in its response to IPART's Draft Report said:

"In our previous response to IPART's review of these charges we discussed the broader context for IPART's review and the outcomes any future developer charges framework should support in detail. As our positions have not changed since that response, in this chapter we reiterate a summary of our position and refer readers to see more detailed discussion provided in our December response".

Those comments are provided below:

"Our previous experience with implementing IPART's methodology was that it was overly costly to calculate (around \$5 million each four to five-year review cycle). Developers also saw the resulting charges as inequitable and unreasonable. As a result, the process required significant effort to manage interactions with developers and levy the charges (around a further \$1.5 million per year). We believe there is significant potential to improve on the previous experience. This could be supported by IPART providing clearer guidance in some respects and allowing greater flexibility in others".

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 Sydney Water and Hunter 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 one.

Recommendation:

1. Sydney 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 the Sydney Water area of operations.***

5.3 Creation of a price signal

Part 4 of the Infrastructure Contributions document provides details about how Sydney Water has selected DSP areas. It provides a quote from IPART's Final Report for the 2018 Determination which states the following:

"Developer charges should signal the location specific costs of development. If DSP areas are too small, the administrative costs ... may be too high and there may be undue price variations between areas and even, over time within an area. On the other hand, if DSP areas are too large, costs could be averaged across disparate areas, lowering administrative costs but nullifying the price signal. Our current approach is not to prescribe how to set DSP areas; therefore, utilities can balance cost-reflectivity and administrative costs".

On page 27 at section 4.3, Sydney Water provides the following explanation for its choice of DSP areas:

“Our proposed DSP areas, 10 Wastewater DSPs and four drinking water DSPs, are discussed below. In combination, we consider these areas will provide a meaningful price signal to guide development in our area of operations, without being overly complex”.

Property Council response:

The Property Council does not support the use of DSP charges to provide locational price signals to determine the areas where development should occur. It is not Sydney Water’s position to assume a leading role in dictating urban growth policy within the Greater Sydney Region and regions dependent on Sydney Water infrastructure. Sydney Water should be focused on funding and delivering the enabling infrastructure to support urban growth within the Greater Sydney region.

The Greater Cities Commission and the Department of Planning and Environment are the Government’s lead planning agencies that must take a lead role for urban policy and deciding when and where urban development occurs. These agencies prepare strategic plans and delivery plans that guide Sydney’s future urban development. The 2018 Greater Sydney Regional Plan, *A Metropolis of Three Cities*, aimed to address inequity across the cities particularly the areas where people lived and worked. The Regional Plan provided for greater investment in infrastructure within Western Sydney to encourage employment uses close to homes and to promote the Western Parkland City as an attractive place to live, work and recreate.

The proposed DSP charges that will be applied to new development within Western Sydney (particularly the Greater Macarthur area) will heavily penalise the people and development projects of this region. The imposition of DSP costs in excess of \$50,000 per ET will add tens of thousands of dollars to new homes and workplaces in the region and the costs of water-related infrastructure as a proportion of total development 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. Sydney Water should:

- ***acknowledge it is not Sydney 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.***

5.4 Governance Improvements

The proposal as set out in the DSPs and other information provided by Sydney Water fails to provide detail on 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 Sydney 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 Sydney Water business specifically targeted at planning and delivery of water infrastructure particularly in greenfield areas. Existing arrangements that have applied to the timing of water infrastructure under the current Growth Servicing Plan have been a failure due to both uncertainty and inefficiency.

Governance is further considered in Section 9 of this submission.

Recommendation:

3. Sydney 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.***

SECTION 6 – PROPOSED DSP RATES

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

In Section 4 of the Infrastructure Contributions document Sydney Water has indicated that it considered several options for the selection of DSP areas. These options were discussed with a representative group of stakeholders and the preferred basis for defining DSP areas was one that provided at least some degree of locational price signal.

The following table shows the proposed drinking water DSP charges per ET e for drinking water for each of the four draft DSP between 2023/24 and 2026/27.

Table 1 – Proposed DSP charges per ET for drinking water (\$2022/23)				
DSP area	2023-2024 0%	2024-2025 25%	2025-2026 50%	2026-27 100%
Greater Sydney	\$0	\$1,327.83	\$2,655.66	\$5,533.32
Potts Hill	\$0	\$0	\$0	\$0
Prospect East	\$0	\$0	\$0	\$0
Illawarra	\$0	\$0	\$0	\$0

Source: Sydney Water

As the above table indicates, these rates are expressed as \$2022/23 and will be indexed annually in accordance with the CPI multiplier which is indicated in the IPART Determination.

Sydney Water operates 13 water delivery systems across its area of operations. Rather than introduce 13 DSPs it has decided to pursue the introduction of a 'broad-based' charge for drinking water.

Section 4.3.2 of the *IC summary document* provides the following details:

- *more than 80% of drinking water is sourced via the Prospect Water Filtration Plant (WFP), and*
- *around 95% of development over the next 10 years will occur in the greater Prospect-Macarthur area,*
- *a broad-based charge is likely to be a suitable option for drinking water,*
- *three water delivery systems do not require an infrastructure contribution with new connections automatically providing sufficient revenue from normal retail prices to recover infrastructure costs,*
- *six delivery systems have a very similar infrastructure charge (between \$4,000 to \$7,000 per ET) covering 60% of anticipated development (including Illawarra growth precincts, Macarthur, Orchard Hills, Prospect North, Prospect South, Woronora),*
- *four delivery systems would require a much higher contribution (between \$12,000 and \$24,000) but cover less than 2% of future development (including Cascade, Nepean, North Richmond and Warragamba).*

The proposed DSP model for drinking water therefore consists of four (4) DSPs: three (3) DSPs representing the zero charge water delivery systems, and one (1) DSP that combines all remaining delivery systems.

Property Council response:

Whilst the Property Council does not support the re-introduction of DSP charges separate from the other recommendations of the NSW Productivity Commission's IC review, this submission seeks to take a constructive approach to Sydney Water's consultation exercise.

The Property Council generally supports the introduction of four (4) DSPs for drinking water across the Sydney Water operational area. In most cases these are reflective of the boundaries of the region's main growth areas that are reflected in the NSW Government's Greater Sydney Regional Plan and Illawarra Regional Plan. The rates of DSP charges for drinking water will approximately \$5,500 per ET.

Identifying two DSP areas where no infrastructure contribution is required (Potts Hill and East Prospect) is supported. Future residential and non-residential development within these two DSP areas will pay no DSP charge for drinking water. These broadly cover Sydney's eastern suburbs, inner west and southern suburbs where new development is generally in the form of infill development and urban consolidation.

The use of a broad-based charge for the other 10 water delivery systems that require an infrastructure contribution is generally supported by the Property Council. As indicated below in 6.2.2 below, the variation of charges for drinking water within the Illawarra region is discussed further.

The Property Council understands the need to index DSP charges to maintain constant values into future years. Sydney Water is restricted to applying the indexation method that is provided for within the IPART Determination. Although the draft DSPs indicate a 2026/2027 charge of \$5,533.32 per ET, the actual 2026/2027 amount will be subject to indexation each year. It is imperative that the final DSP provide clear information regarding the indexed amounts which will be higher than the stated dollar amount. Applying the current 5% annual rate of inflation, the 2026/2027 DSP amount that could be approximately \$6,725 per ET.

Recommendation:

4. Sydney Water should:

- ***provide detailed information to the development industry regarding the expected Drinking Water DSP charges to apply in future years particularly for the three DSP with zero charges.***

6.2 Wastewater DSPs

Sydney Water has indicated in the package of documents released that the motivation for determining the boundaries of the wastewater DSPs have been informed, in part, by the performance standards that apply under both its operating licence and environmental protection licence. It has grouped together wastewater systems that share similar environmental standards. Doing so has resulted in the development of ten (10) wastewater DSP areas involving the grouping of:

“individual wastewater systems into the same DSP area where:

- Each system discharges to the same reach of the Hawkesbury Nepean River and the Environment Protection Authority (EPA) has set licence limits that apply collectively to those systems;*
- For systems that ultimately discharge to the ocean, group areas if the level of treatment is the same (e.g. all primary treatment plants), and/or the discharge environment is similar (e.g. ocean-based plants in the Illawarra vs plants in Sydney).”*

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

Table 2 – Proposed DSP charges for wastewater (\$2022/2023)				
DSP area	2023-2024 0%	2024-2025 25%	2025-2026 50%	2026 onwards 100%
Sydney Coastal	\$0	\$514.95	\$1,029.90	\$2,059.80
Outer Sydney Coastal	\$0	\$4,343.35	\$8,686.69	\$17,373.38
Greater Macarthur	\$0	\$10,195.53	\$20,391.05	\$40,782.10
Nepean River	\$0	\$5,319.10	\$10,638.20	\$21,276.41
Berowra Creek	\$0	\$3,839.23	\$7,678.46	\$15,356.91
Richmond	\$0	\$9,554.53	\$19,109.07	\$38,218.13
Lower South Creek	\$0	\$2,201.71	\$4,403.43	\$8,806.85
Norwest	\$0	\$739.78	\$1,479.57	\$2,959.57
Northern Illawarra	\$0	\$0	\$0	\$0
Southern Illawarra	\$0	\$6,389.07	\$12,778.14	\$25,556.27

Source: Sydney Water

Property Council response:

Whilst the Property Council does not support the re-introduction of DSP charges separate from the other recommendations of the NSW Productivity Commission IC Review, this submission seeks to take a constructive approach to Sydney Water’s consultation exercise.

The Property Council notes the intention to create ten wastewater DSPs across the Greater Sydney region and that these DSPs have been developed having regard to where treated wastewater is disposed. There are two DSPs for wastewater disposed into the ocean and six DSPs for wastewater disposed into the Hawkesbury Nepean River system. The remaining two DSPs apply to the Illawarra region and involve wastewater being disposed into the ocean.

It is concerning there is such significant variation between the proposed DSP rates with the highest charges applying to the Greater Macarthur DSP (\$40,782) and the lowest charge applying to the Sydney Coastal DSP (\$2,059). The charges represent the cost of past and

present assets providing services to the DSP area. Section 4 of each draft DSP sets out the method for calculating each DSP charge.

The consequence of charging such a large infrastructure charge to one of Sydney's largest growth areas will have a massive impact on project feasibility and potentially result in new development projects being paused. The charges proposed for the South West Growth Area generally and the Greater Macarthur DSP specifically are directly counter to the stated aims of the new Government which are to increase housing supply and address the state's widely reported housing crisis.

Recommendation:

5. Sydney Water should:

- ***consider a broad-based charge approach to the Wastewater DSPs as it has proposed for Drinking Water DSPs.***

SECTION 7 - PROPOSED DSP AREAS

7.0 Proposed alterations to DSP boundaries

The Property Council understands the rationale behind the DSP boundaries that have been proposed by Sydney Water. In this section we raise a number of concerns with the DSP boundaries as they are currently proposed and make recommendations for modest changes where it is possible for them to be implemented.

7.1 Greater Sydney Drinking Water DSP

The Greater Sydney Drinking Water DSP (section 3.1) indicates that the DSP will generally apply to an area of approximately 264,620 hectares. This includes the following parts of the metropolitan area:

- all northern Sydney, including the LGAs of Northern Beaches, Willoughby, Mosman, North Sydney, Lane Cove, Ryde, Hornsby,
- the North-west Growth Centre – including The Hills and Blacktown LGA,
- the South-west Growth Centre – including Liverpool and Camden LGA,
- all western Sydney – Penrith, Fairfield Cumberland LGA,
- Blue Mountains LGA,
- all Greater Macarthur including Campbelltown and Wollondilly LGA,
- parts of Sutherland Shire including Sutherland and Menai,
- parts of Wollongong LGA including Helensburgh and West Dapto and parts of Shellharbour LGA.

A map showing the areas where this draft DSP will apply is provided in **Figure 5** below.

Figure 3-1 Greater Sydney Drinking Water Development Servicing Plan Area

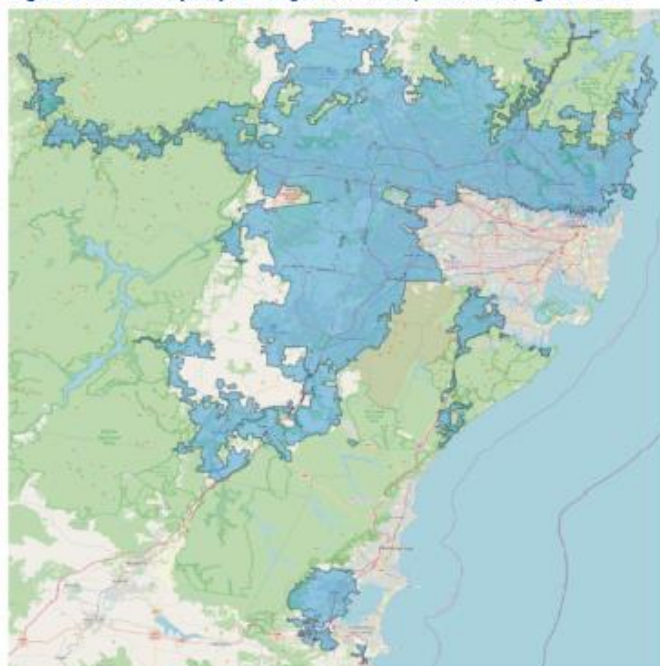


Figure 4 Greater Sydney Drinking Water DSP (Source: Sydney Water)

Part 3 of this DSP provides a detailed schedule of the future assets (required in the next 10 years) to be constructed to provide services to new development. These assets are described in **Table 2** below:

Table 2 - Greater Sydney Drinking Water DSP assets	
<i>Category</i>	<i>Description of Works</i>
Headworks	Prospect Water Filtration Plant Capacity (WFP) and Reliability upgrades
Illawarra growth areas	20.3km of mains, 2 new mains projects, 10 connecting mains, 4 pumping stations and 2 reservoirs totalling 5.5ML.
Macarthur	110.4km of mains, 27 supporting mains projects, 3 new pumping stations, 5 amplification projects, 2 existing station upgrades, 10 reservoir expansion projects, 2 new reservoirs, 2 re-chlorination projects, 1 reservoir amplification, 2 WFP treatment growth updates and production capacity upgrade totalling 372ML/d.,
Nepean	7 mains projects, 2 new reservoirs, 1 booster pump, Nepean WFP upgrade and supporting mains projects.
North Richmond	4 mains projects, 2 amplification projects, 1 pipe duplication project, 1 transfer pumping station, 1 new booster pump and booster pump upgrade, 2 new reservoirs totalling 1.8ML, re-chlorination facility and WFP Filter Upgrade with capacity totalling 54ML/d
Orchard Hills	1.6KM of mains, 2 supporting mains projects, 2 reservoir upgrades totalling 30ML of storage, Orchard Hills WFP upgrade to provide additional 180ML/d capacity and Filter Upgrades
Prospect North	60.9KM of mains, 23 new mains project, 3 pressure amplification mains projects, 3 mains augmentation project, 3 new pumping stations, 1 pumping station reinstatement, 1 new reservoir totalling 4ML and 2 capacity upgrades totalling 23.2ML

Prospect South	117 mains projects, 3 new pumping stations totalling 120ML/d, 3 new reservoirs and chlorination upgrade at Cecil Park, 5 pumping augmentation projects to amplify >300ML/d
Ryde	2.3KM of mains, 26 amplification and duplication mains projects, 1 pumping station and amplification project, 1 reservoir and AICV duplication totalling 10ML
Warragamba	4 pressure mains projects and WFP Chlorine Augmentation
Woronora	2.3KM of mains, 1 new pump station and 1 new reservoir totalling 1.8ML

Source: Sydney Water

Property Council response:

The proposal for a Greater Sydney Drinking Water DSP which has adopted a broad-based charge is generally supported by the Property Council. The DSP will apply to most of Sydney's growth areas that are served by the upgraded Prospect Water Filtration Plant.

We recognise that four of the water delivery systems, if implemented as stand-alone DSP areas, would have a DSP charge between \$12,000 and \$24,000 per ET. We endorse Sydney Water's model that has seen the averaging of these charges.

Recommendation:

6. Sydney Water should:

- ***maintain the broad-based charge proposed for the Greater Sydney Drinking Water DSP subject to Recommendation 7 below in respect of the Illawarra region.***

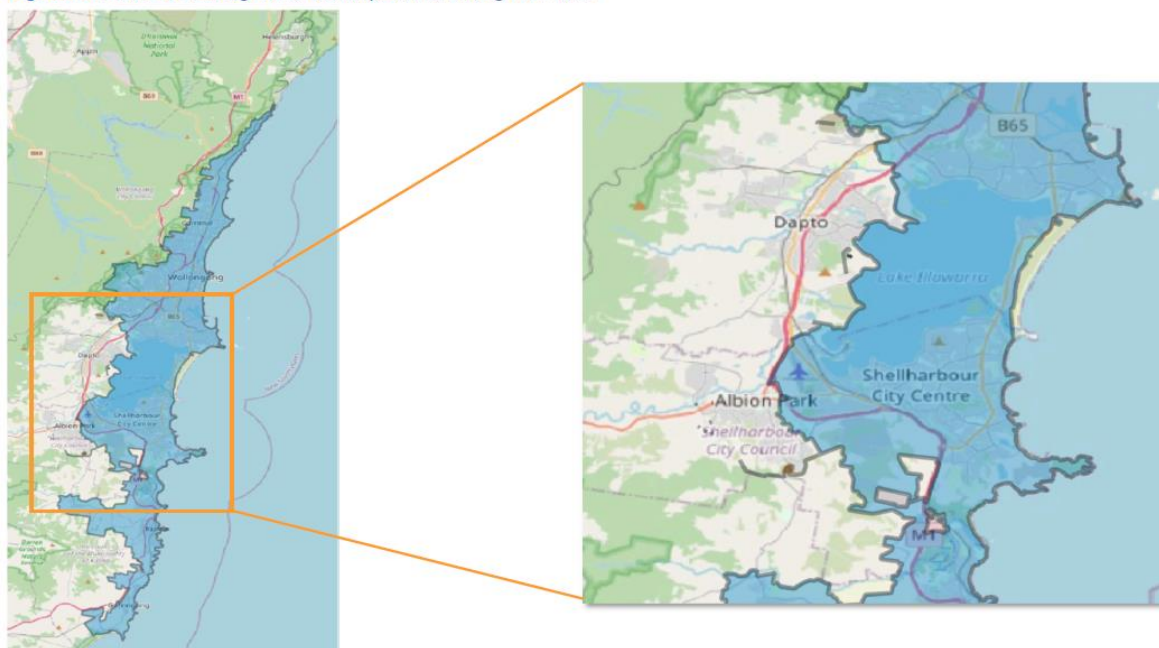
7.2 Illawarra Drinking Water DSP

Sydney Water has proposed a single drinking water DSP for the Illawarra that excludes the West Dapto land release area.

This DSP will apply to the coastal parts of the Illawarra between Scarborough in the north to Gerringong in the south. This draft DSP does not include the Illawarra Growth Areas of West Dapto and several rural parts of Shellharbour LGA.

A map showing the areas that included within the draft Illawarra Drinking Water DSP is provided in **Figure 6** below.

Figure 3-1 Illawarra Drinking Water Development Servicing Plan Area



The blue shaded area in both images represents the Illawarra Drinking Water DSP boundary.
Growth areas such as Dapto are excluded from this DSP.

Figure 5 Illawarra Drinking Water DSP (Source: Sydney Water)

Property Council response:

The members of the Property Council's Illawarra Chapter have reviewed the drinking water DSPs that will apply to the Illawarra region. We understand that there will be zero charge for the majority of the Illawarra region with the exception of the West Dapto growth area.

West Dapto is a growth area located within the City of Wollongong has been identified for urban growth since 2008. The current Structure Plan for West Dapto expects the development of approximately 19,500 dwellings and a population of approximately 56,000 over the full life of the plan. The precinct is divided into five stages that will be developed progressively over the next 50 years.

In recognition of the significant cost of delivering new infrastructure for this precinct, there is a section 7.11 contribution of \$59,498 per dwelling and a SIC charge of \$6,500 per dwelling. The re-introduction of the DSP charges will add a further \$5,533 for drinking water and \$25,556

for wastewater to the cost of a single dwelling. This would represent a total of \$97,087 in infrastructure charges for the construction of a new dwelling within the West Dapto precinct.

Calderwood, being an urban growth area located within the Shellharbour LGA, is identified within the Illawarra Drinking Water DSP and will have a zero charge. It is not clear from the DSP documents why Calderwood and West Dapto have been treated differently.

Based upon the feedback of our members, we do not support the division of the Illawarra region into two drinking water DSP areas. Although we do not know what DSP charges would apply to a single drinking water DSP for the Illawarra, we ask Sydney Water to consider applying a single DSP charge for drinking water services across the Illawarra and that this information be made available for public comment prior to the adoption of any changes.

Recommendation:

7. Sydney Water should:

- ***consider the introduction of a single drinking water DSP across the Illawarra region that includes land within the West Dapto precinct subject to public exhibition of the potential DSP changes.***
- ***provide an explanation for the different treatment of West Dapto and Calderwood precincts in the drinking water DSP.***

7.3 Western Sydney Wastewater DSPs

Sydney Water has proposed the introduction of six Wastewater DSPs across the Western Sydney region. These include the following:

- Berowra Creek
- Norwest
- Lower South Creek
- Richmond
- Nepean River
- Greater Macarthur.

These involve DCP charges in the order of between \$15,356 and \$40,782 per ET.

Table 3 indicates the infrastructure to be delivered in the Greater Macarthur DSP area.

Table 3 - Greater Macarthur DSP assets (\$40,782 per ET)		
<i>Category</i>	<i>Description of Works</i>	<i>Price if each system was a separate DSP</i>
Picton	0.4km of gravity mains, undefined mains project, 18.1km of rising mains, 14 new pump stations, 2 pump upgrades, 0.8ML of storage, 2 generators and staged Picton STP upgrades	\$53,023
Wilton	14 gravity main projects, 8.2km of pressure mains, 17 rising mains projects, 7 pumping stations, staged STP upgrades in Wilton, 1 new reservoir and 1 water storage totalling 6ML.	\$45,432
Upper Nepean	10 gravity main projects, 2 rising mains projects, 1 GMAC network growth pump, staged STP growth construction and supporting mains.	\$91,926

West Camden	2 gravity main projects, 9.29ML of storage, new rising main to service greenfield and new growth areas, 1 storage project and staged WRP upgrades in West Camden.	\$6,164
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Source: Sydney Water

Table 4 indicates the infrastructure to be delivered in the Nepean River DSP area.

Table 4 – Nepean River DSP assets (\$21,276 per ET)		
<i>Category</i>	<i>Description of Works</i>	<i>Price if each system was a separate DSP</i>
Penrith	7.3KM of gravity mains, an ERS project, 8.5KM of rising main, 1 new rising main project, 1 new pump station, 3.4ML of dry weather storage, 6 generators, capacity upgrades totalling 943L/s, 4 upgrades to Penrith WRP, 5ML/d of additional RO capacity and 3 stages of aerobic digestion investments	\$15,852
Wallacia	2.7KM of rising mains and 2 sewage pump stations totalling 6L/s	\$27,413
Winmalee	42.9KM of gravity mains, 2 undefined gravity main projects, 26.6KM of rising mains, 5 undefined rising main projects, 1 pump amplification project, 8 SPS and supporting pump and civil works, 1 storage project and Staged Upper South Creek STP project.	\$21,651
Upper South Creek	n/a	\$24,691

Property Council response:

The Property Council does not support the approach Sydney Water has taken with the proposed re-introduction of Wastewater DSPs across Western Sydney.

These charges involve significant variation and stem from the identification of the boundaries of each DSP. The Greater Macarthur and Upper Nepean DSPs involve the establishment of significant new infrastructure investment associated with the provision of new services to urban growth within these areas. Tables 2 and 3 above show the large variation between these precincts.

The Greater Macarthur DSP involves four sub-precincts that have been combined into a single DSP with a charge of \$40,782 per ET. The combination of these four sub-areas has allowed for a reduction of the DSP charge for Upper Nepean from more than \$91,000 to \$40,782. The Nepean River DSP involves four sub-areas that have been combined into a single DSP with a charge of \$21,276 per ET.

The Property Council does not support this approach within Western Sydney and would welcome reconsideration of this approach by providing a more broad-based charge to share the infrastructure costs more widely.

Recommendation:

8. Sydney Water should consider the implementation of a broad-based charge for wastewater that applies across the entire Greater Sydney region to reduce the significant cost burden placed on development within western Sydney.

7.4 Sydney Region Growth Centres

If a broad-based charge as proposed above is rejected by Sydney Water, the Property Council asks for consideration be given to exploring the feasibility of DSP boundaries that are aligned with the land use planning for the Sydney Region Growth Centres. The current proposal involves considerable price inequities and distortion between the North-West and the South-West Priority Growth Areas.

As Sydney Water would be aware, in July 2005 the *Growth Centres Commission Order 2005* established the Growth Centres Commission that was given the responsibility for promoting, co-ordinating, managing and securing the orderly and economic development of Sydney's growth centres in the north-west and south-west of the Sydney area as indicated in **Figure 7** below. Today, the Department of Planning and Environment refers to these areas by the following descriptions:

- North West Growth Area
- South West Growth Area



Figure 6 Location of the North West and South West Growth Areas

The majority of land within these 2 growth areas has been planned and subsequently rezoned for urban development in the past 20 years.

In July 2016, a third Growth Area was added to the State Environmental Planning Policy (Sydney Region Growth Centres) 2006, being the Wilton Priority Growth Area. In December 2019, the Greater Macarthur Growth Area was established. The Greater Macarthur and Wilton Growth Areas are now identified in various land use strategic plans as locations for new greenfield housing and employment uses. The South West Growth Area and the Greater Macarthur Growth Areas are closely linked and, for the purpose of this submission, refer to the one area.

7.5 North West Growth Area

Since it was established, the North West Growth Area has comprised seventeen (17) precincts located within Blacktown City Council and The Hills Shire local government areas

(LGA). This area is now supported by the major Government investment in the Sydney Metro rail providing direct rail connection to and from the Sydney CBD.

The following two wastewater DSPs comprise land in North West Growth Area:

- Norwest DSP area (2022/23 full charge \$2,959), and
- Lower South Creek DSP area (2022/23 full charge \$8,806).

The approximate boundaries of the Norwest and Lower South Creek DSP areas are provided below in **Figures 8 and 9** respectively.

Figure 3-1 Norwest Development Servicing Plan Area



Figure 7 Norwest DSP

Figure 3-1 Lower South Creek Development Servicing Plan Area

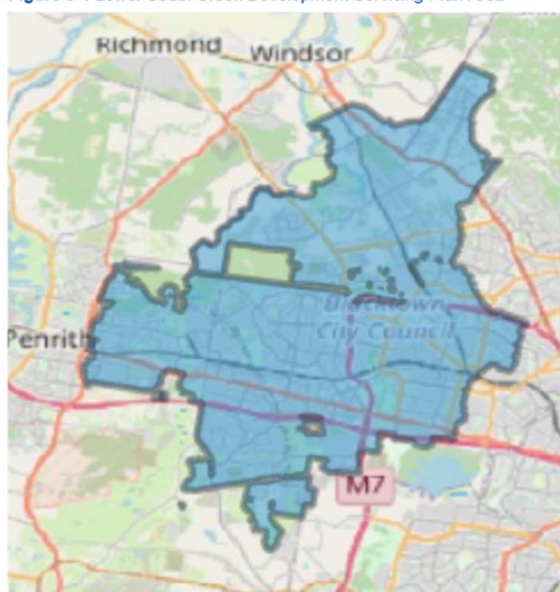


Figure 8 Lower South Creek DSP

Section 3.3 of the Norwest DSP identifies the future assets to be constructed to provide services to new development within area's two wastewater systems.

Table 5 below describes these assets:

Table 5 - Future assets for the Norwest DSP	
Wastewater System	Description of works
Castle Hill	1 pumping station, 7ML/d in capacity upgrades, 10.2km of pipelines, 1 amplification project and 1 ERS project.
Rouse Hill	4.1km of gravity mains, 2 amplification projects, an ERS project, 2.8km of rising mains, an undefined mains project, 2 pump upgrades totalling 2.5L/s, 200kW of generators, Staged Rouse Hill WRP upgrades and transfer pumping station.

Section 3.3 of the Lower South Creek DSP identifies the future assets to be constructed to provide services to new development within the area's three wastewater systems.

Table 6 below describes these assets.

Table 6 - Future assets for the Lower South Creek DSP	
Wastewater System	Description of works

Quakers Hill	0.4KM of gravity main amplification, 2 generators and Staged Quakers Hill STP upgrades.
Riverstone	18.1KM of gravity mains, 4.7GL of storage, 19.7KM of pressure mains, 4 new generators, 3 pump upgrades totalling 2.1kL/s, 3 new sewage pump stations totalling 138L/s, 2 new sewage pumps and Stage 2 of WWTP upgrade.
St Marys	2.9ML of storage, 3 generators and Solids stream amplification at St Marys STP.

Source: Sydney Water

Property Council response:

Based on the draft DSPs released for comment, the Property Council understands there will be a variation of \$5,847 per ET between these wastewater DSP areas that are located within the North West Growth Area.

Both of these areas include land that was released for urban development between 2007 and 2015 and includes the suburbs of Schofields, Quakers Hill, Riverstone, Rouse Hill, Box Hill and Marsden Park extending into Castle Hill and Cherrybrook in the east.

Given the significant similarity in these areas that are part of the North West Growth Area and subject to the Western Sydney Growth Areas Special Infrastructure Contribution (Western Sydney Growth Areas SIC), it is appropriate that a single DSP charge be applied to this area. By averaging these two DSP charges for these two areas an approximate DSP charge of \$5,882 per ET could apply.

Recommendation:

9. Should a broad-based charge not be feasible, Sydney Water should:

- ***consider a DSP charge that is derived from the combination of the Norwest and Lower South Creek Wastewater charges into a single North West Growth Area DSP to remove inequality in costs between localities within the North West Growth Area.***

7.6 South West Growth Area & Greater Macarthur Growth Area

The South West Growth Area and Greater Macarthur Growth Area comprise approximately seven (7) precincts within the Liverpool City Council, Camden Council, Campbelltown City Council and Wollondilly Shire Council LGA. This fast growing area is now supported by new heavy rail infrastructure operating between Leppington and Glenfield and a future Sydney Metro service to the Western Sydney Airport.

The following wastewater DSPs comprise land in the South West Growth Area and the Greater Macarthur Growth Area:

- Nepean River DSP (\$21,276), and
- Greater Macarthur DSP (\$40,782).

The approximate boundaries of the Nepean River and Greater Macarthur DSP areas are provided below in **Figures 10 and 11** respectively.

Figure 3-1 Nepean River Development Servicing Plan Area

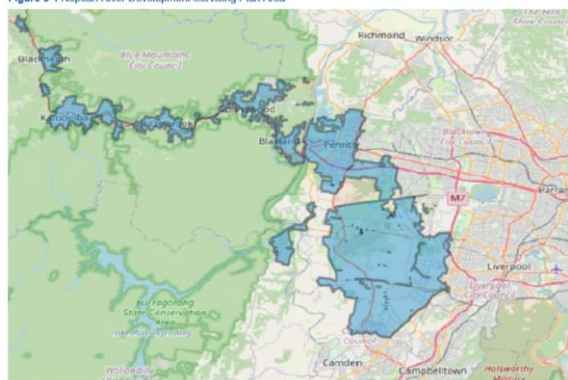


Figure 9 Nepean River DSP

Figure 3-1 Greater Macarthur Development Servicing Plan Area

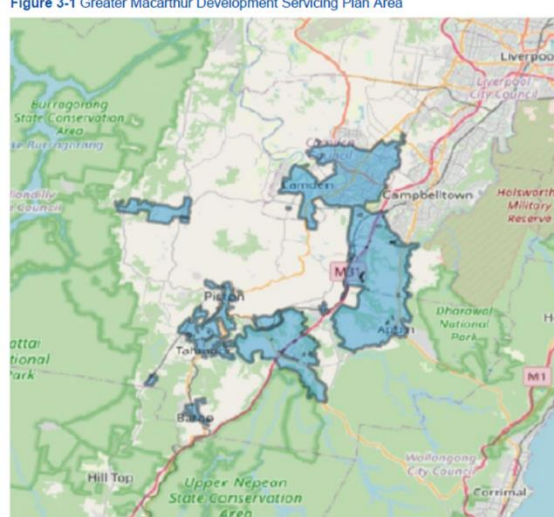


Figure 10 Greater Macarthur DSP

Section 3.3 of the Nepean River DSP identifies the future assets to be constructed to provide services to new development within area's three wastewater systems.

Property Council response:

Based on the draft DSPs released for comment, the Property Council understands there will be a \$19,506 per ET variation between these wastewater DSP areas located within the South West Growth Area and Greater Macarthur Growth Area.

Both of these areas include land that was released for urban development between 2007 and 2015. The Nepean River DSP includes the suburbs of Oran Park, Catherine Field, Leppington, Austral, Bringelly and Rossmore. This area extends north towards Orchard Hills, Penrith and the Blue Mountains. The Greater Macarthur DSP area includes the suburbs of Edmondson Park, Denham Court, West Hoxton and Gregory Hills. This area extends south to Camden, Picton, Appin, Wilton and Tahmoor.

Given the significant similarity in these areas that are part of the South West Growth Area and subject to the Western Sydney Growth Areas Special Infrastructure Contribution (Western Sydney Growth Areas SIC), it is appropriate that a single DSP charge be applied to this area.

By averaging the proposed DSP charge for these two areas an approximate DSP charge of \$31,029 per ET could apply.

Recommendation:

10. Should the recommendations outlined in 8 and 9 above not be feasible, Sydney Water should:

- ***consider combining the Nepean River and Greater Macarthur DSP areas into a single South West Growth Area DSP to remove the inequality in costs between the localities within the South West Growth Area.***

7.7 Northern Illawarra Wastewater DSP & Southern Illawarra Wastewater DSP

The Northern Illawarra Wastewater DSP extends from Stanwell Park in the north to Dapto and Windang in the south and includes the Wollongong CBD. The Southern Illawarra Wastewater DSP applies to land between West Dapto in the north and the Kiama and Gerringong communities in the south.

The proposed wastewater DSP charges for the Illawarra are:

- Northern Illawarra - \$0, and
- Southern Illawarra - \$25,556.27

The approximate boundaries of the Northern Illawarra and Southern Illawarra DSP areas are provided below in **Figures 12 and 13** respectively.

Figure 3-1 Northern Illawarra Development Servicing Plan Area



Figure 11 Northern Illawarra Wastewater DSP

Figure 3-1 Southern Illawarra Development Servicing Plan Area

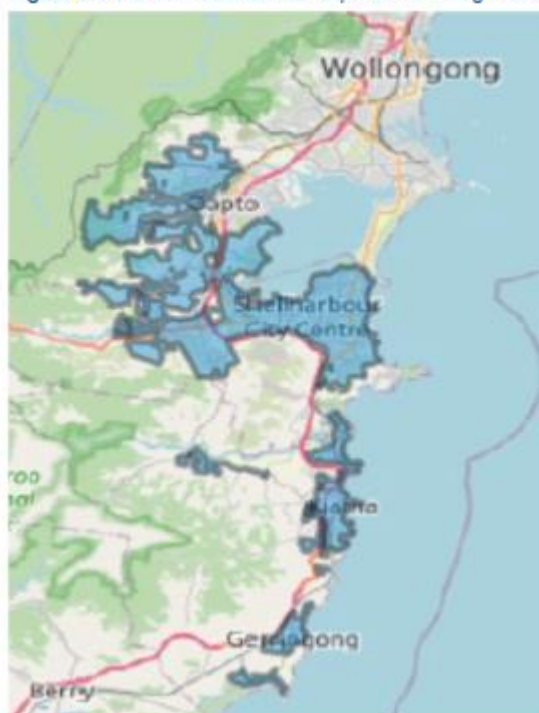


Figure 12 Southern Illawarra Wastewater DSP

Section 3.3 of the Southern Illawarra DSP identifies the future assets to be constructed to provide services to new development within area's four wastewater systems.

Table 7 below describes these assets:

Table 7 - Future assets for the Southern Illawarra DSP (\$25,556 per ET)		
Wastewater System	Description of works	Price if each system was a separate DSP
Bombo	2 new pumping stations and 6 gravity main projects.	\$10,275
Gerringong	0.4KM of gravity mains, 1.7KM of rising mains, 1 new pumping station, pumping station upgrade totalling 75L/s and 25m ³ of storage.	\$22,014
Shellharbour	5.3km of gravity mains, 11.2ML of storage, 3.9km of rising mains, 1 pressure main upgrade, 4 new pump stations, 2 pump upgrades totalling 165L/s, 0.28ML of storage, 2 new generators and 9 upgrades to Shellharbour STP.	\$10,938
Wollongong – Growth Precincts	14.8km of gravity mains, 2 storage projects to reduce overflows, 8 gravity main projects, 4.1KM of pressure mains and associated rising mains, 4 new pumping stations, pump station	\$49,661

	upgrades totalling 271L/s, 30kW in generators, 128kL of emergency storage and staged upgrades at Wollongong STP.	
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Source: Sydney Water

The exhibition documents indicate that Sydney Water cannot recover investment costs where changes in average demand and/or land use patterns have created spare capacity in its systems. In the northern Illawarra, the departure of large-scale non-residential land uses has resulted in negative demand.

In order to provide cost-reflective prices that align with IPART's pricing methodology, Sydney Water has split Wollongong into:

- (1) greenfield-focussed area to the south of the region and west of Wollongong, such as West Dapto, and
- (2) predominantly infill areas to the north of the region where, due to negative demand, the infrastructure contribution price for new wastewater connections will be zero.

Property Council response:

Members of our Illawarra Chapter have reviewed both draft DSP for the Northern Illawarra and the Southern Illawarra. A majority of our members are active across both parts of the Illawarra region. They strongly oppose the proposed introduction of two wastewater DSPs. They prefer the introduction of a single wastewater DSP charge for the Illawarra region.

Recommendation:

11. Should the recommendations outlined in 8 and 9 above not be feasible, Sydney Water should:

- ***consider combining the Northern Illawarra DSP and Southern Illawarra DSP areas into a single Illawarra DSP to remove inequality in costs across the Illawarra region.***

7.8 Combined Drinking Water and Wastewater Charges

Section 4.4 of the Infrastructure Contributions document provides indicative total charges based on feasible combinations of overlapping wastewater and drinking water DSP areas.

These amounts are reproduced in **Table 8** below.

Table 8 – Combined Infrastructure Charges from 206/2027 (\$2022-203)		
<i>Wastewater DSP</i>	<i>Drinking water DSP</i>	<i>Combined price (\$/ET)</i>
Northern Illawarra	Illawarra Drinking Water	\$0
Sydney Coastal Wastewater	Potts Hill Drinking Water	\$2,060
	Prospect East Drinking Water	\$2,060
	Greater Sydney Drinking Water	\$7,371
Norwest Wastewater	Greater Sydney Drinking Water	\$8,270
Lower South Creek Wastewater	Greater Sydney Drinking Water	\$14,118
Berowra Creek Wastewater	Greater Sydney Drinking Water	\$20,668
Outer Sydney Coastal Wastewater	Greater Sydney Drinking Water	\$22,684
Southern Illawarra Wastewater	Illawarra Drinking Water	\$25,556
Nepean River Wastewater	Greater Sydney Drinking Water	\$26,587
Southern Illawarra Wastewater	Greater Sydney Drinking Water	\$30,867
Richmond Wastewater	Greater Sydney Drinking Water	\$43,529
Greater Macarthur Wastewater	Greater Sydney Drinking Water	\$46,093

Source: Sydney Water

The geographical variation in charges is provided at **Figure 14**. Sydney Water points out that its drinking water network is covers a larger area than its wastewater network, explaining why in some parts of the image only the water-related charge is displayed.

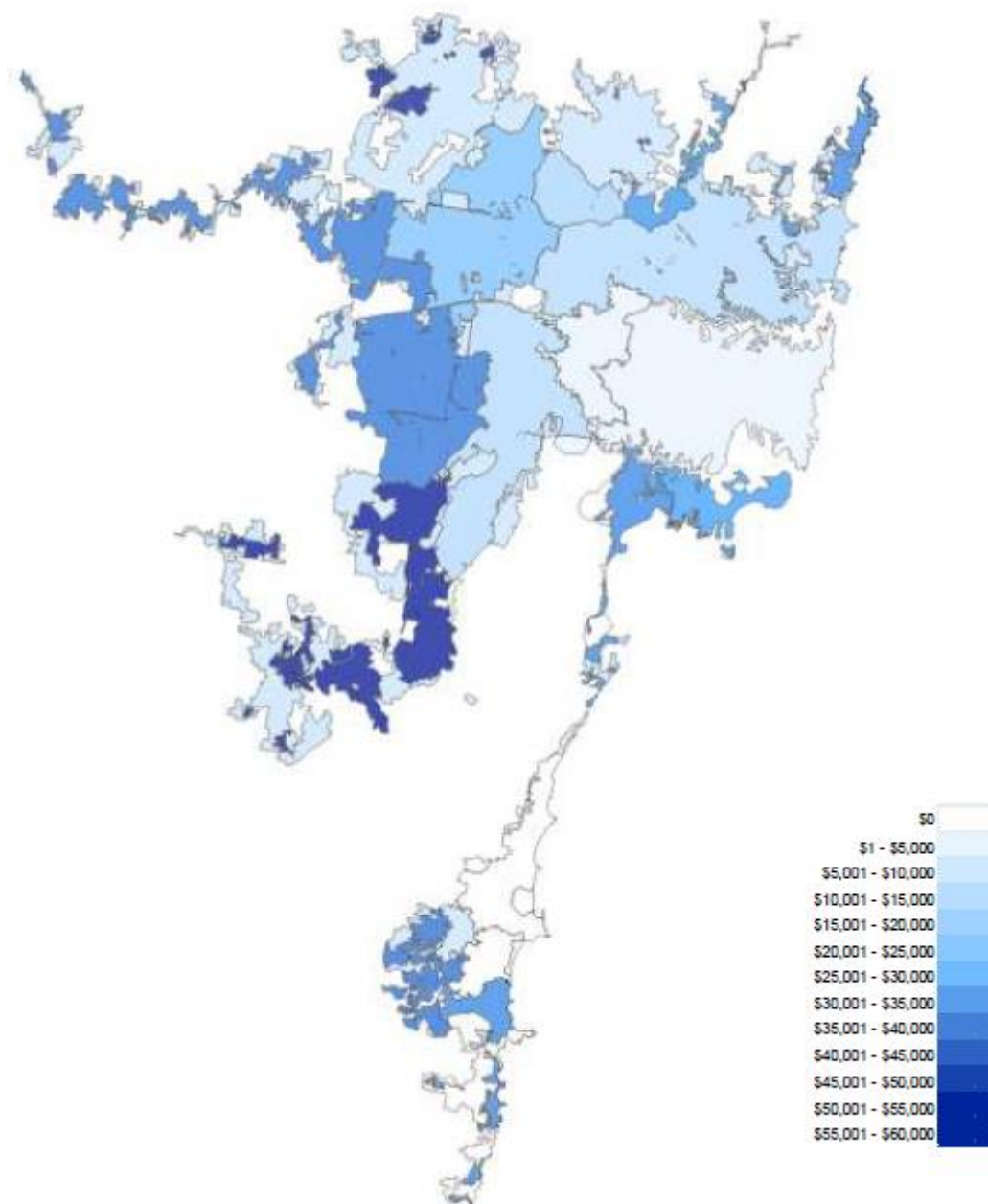


Figure 13 Cumulative water and wastewater contribution prices (\$/ET) across whole Sydney Water area of operations
(Source: Sydney Water)

Property Council response:

Figure 14 provides clear indication between the scale of the variation of infrastructure charges across Greater Sydney and the Illawarra regions. The greatest impact of these charges falls upon home and land purchasers in South-Western Sydney where a DSP charge of \$46,093 will apply.

Recommendation:

12. Sydney Water should:

- ***investigate alternative DSP area boundaries that provide for a more equitable sharing of infrastructure charges across Sydney.***

7.9 Variations in DSP charges across Local Government Areas

From our review of the proposed DSP areas released for public comment, we have identified a number of significant variations between the charges that will be applied to development occurring within the boundaries of several high growth LGAs.

Although we accept that LGA boundaries should not be used as the basis for implementing DSP charges, Sydney Water should endeavour to apply consistent charging rates across an LGA boundary.

The four LGAs we have identified with significant variation in DSP charges include:

- Campbelltown City Council LGA,
- City of Parramatta LGA,
- Liverpool City Council LGA, and
- The Hills Shire LGA.

These variations are explored in sections 7.9.1 to 7.9.4 below.

7.9.1 Campbelltown City Council LGA

Campbelltown City Council is an active member of the Property Council and has made a significant contribution to housing supply in south-west Sydney for many decades and continue to take a very high share of new urban growth.

Recent data released by the Department of Planning & Environment with the 2023 Sydney Housing Supply Forecast indicates that the Campbelltown City Council LGA has seen 703 dwelling completions over the last 12 months and 1,302 approvals. The latest 5 year pipeline of housing supply is 3,120 dwellings.

As Sydney Water will be aware, the Campbelltown City Council LGA is experiencing significant growth in housing due to its relative affordability availability of land for development. The NSW Government has led the development of the Greater Macarthur Growth Area including the Glenfield to Macarthur urban renewal precincts and major land release precincts to the south of Campbelltown, including Gilead, North Appin and Appin.

Due to its location straddling the boundary of the Georges River and Nepean River catchments, the treatment of wastewater for Campbelltown LGA involves either conveyance to the coast (for the established infill areas) or disposal via the Nepean River (for new greenfield areas). This results in the significant variation in DSP charges of some \$38,723 per ET or 625%.

This variation is explained in **Table 9** below.

Table 9 – Comparison of Campbelltown LGA Infill development vs Greenfield development			
<i>Location</i>	<i>Wastewater DSP & Charge</i>	<i>Drinking Water DSP & Charge</i>	<i>Total Combined DSP Charges</i> \$

Campbelltown LGA infill development (eg. Glenfield to Macarthur)	Sydney Coastal DSP \$2,059	Greater Sydney DSP \$5,311	\$7,370 per ET
Campbelltown LGA greenfield development (eg, Gilead and North Appin)	Greater Macarthur DSP \$40,782	Greater Sydney DSP \$5,311	\$46,093 per ET

Source: Sydney Water

Property Council response

Although we would expect some pricing variation to exist between the established infill areas of Campbelltown LGA and the greenfield areas located to the south of the city centre, the proposed \$38,723 per ET price difference is very significant and concerning.

The variability of proposed DSP charges within the LGA is not supported by the Property Council for the following reasons:

- It jeopardises the feasibility of several land release projects that have been underway for many years and where investment decisions were based upon the known costs that applied at the time those decisions were made. These developments are unlikely to be completed before July 2026 and are likely to be subject to the proposed new charges,
- Ignores the longstanding planning decisions of the Greater Cities Commission, Department of Planning and Environment and Campbelltown City Council to identify these areas for urban development and put into place land use plans to facilitate and support the efficient delivery of new housing, and
- Creates a significant cost burden to be borne by the purchasers of new housing and variability in potential pricing within the local property market which is particularly detrimental to housing affordability.

Recommendation:

13. Sydney Water should:

- ***give consideration to a consistent DSP charge that will apply to land within the Campbelltown City LGA.***

7.9.2 City of Parramatta LGA

The City of Parramatta is an active member of the Property Council and Council has made a significant contribution to housing supply in western Sydney for many decades and continue to take a very high share of new urban growth.

Recent data released by the Department of Planning & Environment with the 2023 Sydney Housing Supply Forecast indicates that the City of Parramatta has seen 2,066 dwelling completions over the last 12 months and 1,883 approvals. The latest 5 year pipeline of housing supply is 8,635 dwellings.

The City of Parramatta LGA is located within Greater Sydney and has been identified by the NSW Government for significant urban growth, primarily infill development in the following locations:

- Parramatta CBD,
- Epping Town Centre,
- Wentworth Point and Carter Street precincts,
- Parramatta Road Corridor (Granville).

The City of Parramatta has a long history of meeting its targets for both housing approvals and completions. These locations have been subject to several State-led and local council-led rezoning proposals to accommodate new housing and employment. This trend will continue into the foreseeable future.

Taking into consideration the boundaries of the Sydney Water drinking water and wastewater systems across the City of Parramatta there is a variation of \$5,311 per ET (or 257%) between the southern part of the LGA and the northern part of the LGA. This difference is due to the imposition of a \$5,311 charge for drinking water under the Greater Sydney DSP.

This variation is explained in **Table 10** below.

Table 10 – Comparison of DSP rates for land within the City of Parramatta LGA			
<i>Location</i>	<i>Wastewater DSP & Charge</i>	<i>Drinking Water DSP & Charge</i>	<i>Total Combined DSP Charges \$</i>
Parramatta CBD, Rosehill, Camelia, Dundas Valley	Sydney Coastal DSP \$2,059	Prospect East DSP \$0	\$2,059 per ET
Wentworth Point, Sydney Olympic Park, Silverwater	Sydney Coastal DSP \$2,059	Potts Hill DSP \$0	\$2,059 per ET
Epping, Carlingford, Westmead, Wentworthville	Sydney Coastal DSP \$2,059	Greater Sydney DSP \$5,311	\$7,370 per ET

Source: Sydney Water

Property Council response:

There is considerable pricing variation for water and wastewater services provided by Sydney Water between the southern and northern part of the City of Parramatta. The central and eastern parts of the LGA have a relatively low combined DSP charge of \$2,059 whilst the areas to the north of the CBD such as Epping and Carlingford have a much larger combined DSP charge owing to the larger drinking water charge that will apply.

Taking into consideration the boundaries of the Sydney Water drinking water and wastewater systems within the City of Parramatta LGA, the variation between these areas is not supported by the Property Council for the following reasons:

- It jeopardises the feasibility of several land release projects that have been underway for many years and where investment decisions were based upon the known costs that applied at the time those decisions were made. These developments are unlikely to be completed by July 2026 and are likely to be subject to the proposed new charges,
- Ignores the longstanding planning decisions of the Greater Cities Commission, Department of Planning and Environment and City of Parramatta to identify these areas for urban development and put into place land use plans to facilitate and support the efficient delivery of new housing, and
- Creates a significant cost burden to be borne by the purchasers of new housing and variability in potential pricing within the local property market which is particularly detrimental to housing affordability.

Recommendation:

14. Sydney Water should:

- ***give consideration to a consistent DSP charge that will apply to land within the City of Parramatta LGA.***

7.9.3 Liverpool City LGA

Liverpool City Council is an active member of the Property Council and has made a significant contribution to housing supply in south-west Sydney for many decades and continue to take a very high share of new urban growth.

Recent data released by the Department of Planning & Environment with the 2023 Sydney Housing Supply Forecast indicates that the Liverpool City Council LGA has seen 2,470 dwelling completions over the last 12 months and 2,721 approvals. The latest 5 year pipeline of housing supply is 11,325 dwellings.

As Sydney Water would be aware, the Liverpool City Council LGA is experiencing rapid urban growth that is spread across much of the LGA including high density housing close to transport within the Liverpool CBD, greenfield urban release areas within the rezoned precincts of the South-West Growth Area and also within the Western Sydney Aerotropolis surrounding the Western Sydney Airport. This follows a series of recent changes to the planning controls for these areas.

Due to the boundaries of the Sydney Water drinking water and wastewater systems provided for the Liverpool City Council LGA, there is a variation of \$24,528 per ET or 1,191%. This difference is due to the imposition of a \$21,276 charge for wastewater under the Nepean River DSP.

This variation is explained in **Table 11** below.

Table 11 – Comparison of DSP rates for land within the Liverpool LGA			
<i>Location</i>	<i>Wastewater DSP & Charge</i>	<i>Drinking Water DSP & Charge</i>	<i>Total Combined DSP Charges \$</i>
Liverpool CBD, Moorebank, Casula, Hoxton Park and Edmondson Park.	Sydney Coastal DSP: \$2,059	Greater Sydney DSP: \$5,311	\$7,370 per ET
Growth areas west of M7 including Austral, Bringelly, Western Sydney Aerotropolis, Leppington.	Nepean River DSP: \$21,276	Greater Sydney DSP: \$5,311	\$26,587 per ET

Source: Sydney Water

Property Council response:

There is considerable pricing variation for water and wastewater services provided by Sydney Water between the southern and northern part of the Liverpool City Council LGA driven by the

significant variation in wastewater DSP charges between the Sydney Coastal DSP and the Nepean River DSP.

The variation between these areas is not supported by the Property Council for the following reasons:

- It jeopardises the feasibility of several land release projects that have been underway for many years and where investment decisions were based upon the known costs that applied at the time those decisions were made. These developments are unlikely to be completed by July 2026 and are likely to be subject to the proposed new charges,
- Ignores the longstanding planning decisions of the Greater Cities Commission, Department of Planning and Environment and Liverpool City Council to identify these areas for urban development and put into place land use plans to facilitate and support the efficient delivery of new housing, and
- Creates a significant cost burden to be borne by the purchasers of new housing and variability in potential pricing within the local property market which is particularly detrimental to housing affordability.

Recommendation:

15. Sydney Water should:

- ***give consideration to a consistent DSP charge that will apply to land within the Liverpool City Council LGA.***

6.5.4 The Hills Shire Council LGA

The Hills Shire Council LGA is a member of the Property Council and Council has made a significant contribution to housing supply in north-west Sydney for many decades and continue to take a very high share of new urban growth.

Recent data released by the Department of Planning & Environment with the 2023 Sydney Housing Supply Forecast indicates that The Hills Shire Council LGA has seen 3,055 dwelling completions over the last 12 months and 4,164 approvals. The latest 5 year pipeline of housing supply is 13,830 dwellings.

As Sydney Water would be aware, The Hills Shire LGA is experiencing rapid urban growth the is geographically located along the Sydney Metro line from Cherrybrook to Rouse Hill and the precincts within the North-West Growth Area. This rate of growth is being driven by the availability of a large supply of rezoned and serviced land.

Due to the boundaries of the Sydney Water drinking water and wastewater systems provided for The Hills Shire LGA, there is a variation of \$6,747 per ET or 91%.

This variation is explained in **Table 12** below.

Table 12 – Comparison of DSP rates for land within The Hills Shire LGA			
<i>Location</i>	<i>Wastewater DSP & Charge</i>	<i>Drinking Water DSP & Charge</i>	<i>Total Combined DSP Charges \$</i>
Baulkham Hills	Sydney Coastal DSP \$2,059	Greater Sydney DSP \$5,311	\$7,370 per ET

Castle Hill, Bella Vista, Norwest business park, Rouse Hill, North Kellyville and Cherrybrook	Norwest DSP \$2,959	Greater Sydney DSP \$5,311	\$8,270 per ET
Box Hill, The Gables	Lower South Creek DSP \$8,806	Greater Sydney DSP \$5,311	\$14,117 per ET

Source: Sydney Water

Property Council response:

There is considerable pricing variation for water and wastewater services provided by Sydney Water between the southern and northern part of The Hills Shire LGA. The variation exists because the established parts of the LGA around Baulkham Hills will have a DSP charge of \$7,370 whilst locations along the Sydney Metro corridor will have a DSP charge of more than \$8,000. Within the northern part of the North West Growth Area, the Box Hill precinct will be levied a DSP charge of \$14,117. These DSP charge variations are due to the proposal for multiple wastewater DSPs that apply to land within The Hills Shire Council LGA.

The variation between these areas is not supported by the Property Council for the following reasons:

- It jeopardises the feasibility of several land release projects that have been underway for many years and where investment decisions were based upon the known costs that applied at the time those decisions were made. These developments are unlikely to be completed by July 2026 and are likely to subject to the proposed new charges,
- Ignores the longstanding planning decisions of the Greater Cities Commission, Department of Planning and Environment and The Hills Shire to identify these areas for urban development and put into place land use plans to facilitate and support the efficient delivery of new housing, and
- Creates a significant cost burden to be borne by the purchasers of new housing and variability in potential pricing within the local property market which is particularly detrimental to housing affordability.

Recommendation:

16. Sydney Water should:

- ***give consideration to a more equitable DSP charge that will apply to land within The Hills Shire Council LGA.***

SECTION 7 – NON-RESIDENTIAL DEVELOPMENT

7.1 Non-Residential Development

Each of the DSPs provides the rate of the proposed DSP charge for a single ET. Section 2.3 of each draft DSP indicates that Sydney Water calculates the ET in a development based on information supplied during the Section 73 process. Specifically:

“For non-residential developments, the number of ETs will be assessed based on the expected volumetric demand for the proposed land use”

The draft DSPs also go onto state:

“Further information on our approach to assessing the number of ETs in a development will be available prior to 1 July 2024”

No further details are provided to estimate the likely DSP charges that will be applied to non-residential development.

Property Council response:

The Property Council requires Sydney Water to provide more detailed information regarding how the introduction of DSPs will be applied to non-residential development. This should include a detailed process that sets out the method Sydney Water will use to determine the ET that will apply to non-residential developments.

Each of the DSPs that have been released for comment fails to provide any certainty regarding the treatment of non-residential development types. Given the significant variation in drinking water and wastewater usage between industrial land uses, it is critical that Sydney Water document the type of process that it will accept for estimating water usage charges. This information is essential to give developers certainty to estimate the costs they are likely to incur.

Following discussions with our members, we ask Sydney Water to give consideration to the following step by step process during the section 73 compliance certificate stage in respect of non-residential development types:

- (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 Sydney Water can issue the section 73 Compliance Certificate, within 10 working days after confirmation of the receipt of the insurance bond.
- (2) 12 months following the issue of the Occupation Certificate, Sydney 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, Sydney Water issues DSP invoice to developer.
- (4) Within 5 working days of payment of the DSP charge, Sydney Water releases insurance bond to the developer.

Recommendation:

17. Sydney Water should:

- *provide greater detail to stakeholders on the re-introduction of DSP charges to non-residential development before proceeding with implementation of this proposal,*
- *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 8 - IMPLEMENTATION & TRANSITIONAL ARRANGEMENTS

8.1 Transitional arrangements

The proposal released by Sydney Water involves the re-introduction of DSP charges from 1 July 2024. The imposition of charges will be made through the existing section 73 Compliance Certificate process and payment of charges will be required before a certificate will be issued by Sydney Water.

From 1 July 2026 the full re-introduction of DSP charges will begin. No other transitional arrangements are proposed by Sydney Water to reflect the long lead times that are involved in the development of land within Greater Sydney.

Property Council response:

The Property Council is concerned there are inadequate transitional arrangements proposed for the re-introduction of DSP charges. As Sydney Water would be aware, the development of land in Sydney can take many years to move through the planning system. Sydney Water must consider increasing the transition period to a minimum of 5 years (commence 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 Sydney Water issues a Notice of Requirements (NOR) to a developer under the *Sydney Water Act 1994* 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 73 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. Sydney Water should clearly explain at what point in the application process that the charge will be levied on a developer. Sydney Water must provide more clarity regarding the commencement of collection of the DSP charges.

The Property Council expects that Sydney Water will provide for adequate transitional arrangements that will provide for current NOR that are yet to be met to be re-issued by Sydney 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 73 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 issued after 1 July 2025. These are matters that require further clarification from Sydney Water.

8.2 Transitional Arrangements proposed in IC Review

The Property Council is concerned that Sydney Water has not adopted the transitional arrangements that were recommended in the final report of the NSW Productivity Commission's IC Review. The review report was very specific in terms of how the re-introduction of DSP charges should be implemented.

In terms of a pathway back to a cost-reflective water charges, the NSW 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 in the final report of the IC Review carried out by the NSW Productivity Commission which proposed the use of 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 must consider the findings of the NSW Productivity Commission IC Review 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 73 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:

18. Sydney Water should:

- apply the findings of the NSW Productivity Commission IC Review final report and 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

- ***apply the findings of the NSW Productivity Commission final report and extend the transitional period for DSP charges so that the full rates do not apply until at least 1 July 2030***
- ***provide industry with information that will improve 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***
- ***release detailed guidance material 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 AND ACCOUNTABILITY ARRANGEMENTS

9.1 Governance and accountability arrangements

Section 5.5 of the NSW Productivity Commission IC Review final report provided discussion and a recommendation regarding the service levels provided by Sydney 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 Sydney Water provides information those paying these charges. There are significant concerns held by the development industry regarding Sydney Water’s transparency, particularly with details for the timing of infrastructure delivery. The development industry needs accessible evidence that Sydney Water has the ability to deliver the ambitious infrastructure pipeline that is proposed across the fourteen 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 Sydney Water for the expenditure of water charges funding.

It is understood that the next step in this process, once Sydney Water has finalised the suite of DSPs, is for them 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:

19. Sydney 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 the evidence of 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.*
- *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, and*
- *the provision of appropriate resources that will allow Sydney Water to manage the additional assessment requirements – including Works In Kind and the suite of additional application deliverables that are required by the proposed re-introduction of the Sydney Water Infrastructure charges, within reasonable timeframes.*

SECTION 10 – CONCLUSION

10.1 Conclusion

The Property Council has reviewed all of the 14 draft DSPs for Greater Sydney and the Illawarra and these proposals have been considered by our Infrastructure Contributions Taskforce, which is comprised of a wide cross-section of our 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 and 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 condition that the entire package would be implemented concurrently.

We recognise that Sydney 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 Sydney Water.

In this submission we have provided a total of 19 recommendations for consideration by Sydney 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. If it would be of any benefit to Sydney 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 both the Greater Sydney area and the Illawarra region.