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Independent Pricing and Regulatory Tribunal
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RE: Review of Sydney Water Corporation prices for 2025-2030

The Property Council of Australia welcomes the opportunity to provide a submission to the Independent Pricing and Regulatory Tribunal (IPART) on Sydney Water's pricing proposal for 2025-2030.

As Australia's peak representative of the property and construction industry, our members are the nation's major investors, owners, managers, and developers of properties of all asset classes. Our members own and develop property across most of Sydney Water's area of operations, including Western Sydney and the Illawarra region.

The Property Council conditionally accepts the indicative rate increase for Sydney Water customers as a necessary funding stream for sustainable water service delivery. However, we seek further clarity on how this interacts with infrastructure contributions through the recently introduced Development Servicing Plan (DSP) charges.

The development industry is under increased pressure to deliver more housing under a constrained operating environment. Any increase in charges need to be considered in this context and how it may impact industry's capacity to deliver homes for NSW residents. This is particularly important during the National Housing Accord period where NSW has a target to deliver 377,000 new homes by 2029.

The Property Council's comments and recommendations are summarised below:

1. Ensure Sydney Water is accountable for productivity and service delivery benefits with the increase in operating and capital costs.
2. Ensure Sydney Water has adequate capacity and capability to meet their proposed service and delivery targets.
3. Refine and shift operational costs of the Mamre Road stormwater scheme to water users in the precinct through their regular water rates. If charges render development unfeasible, we recommend these costs be borne by Sydney Water or the NSW Government given the productivity consequences for NSW if development does not occur.
4. Maintain the proposal to increase the water service charge to ensure a sustainable infrastructure funding stream.
5. Ensure sufficient investment in digital capability uplift and operational efficiency within Sydney Water.
6. We do not support the claim that the transitionary period for developer contributions has caused an increase to service and usage charges.
7. A third-party review of dwelling and population forecasting methodology used to calculate capital expenditure should be undertaken.

8. The draft pricing determination must have regard to the considerable increase in revenue from developer contributions that have been gradually reintroduced and will be in full effect from 1 July 2026.
9. The 3Cs framework should be evaluated before the commencement of the next pricing proposal period.

Sydney Water Pricing Proposal

Sydney Water is the leading water service provider for five million customers across Sydney, the Illawarra and the Blue Mountains.

The Property Council understands IPART is reviewing Sydney Water's proposal for $16.6 billion in capital investment and $9.9 billion in operating expenditure over the next five years, from 2025-2030, to maintain day-to-day operations and to deliver sustainable, long-term servicing solutions. A further $15.5 billion is estimated in the subsequent five years.

It is notable that this $32 billion investment over the next 10 years is almost 2.5 times greater than the average infrastructure spend over the past 10 years.

As a result, a typical household bill will increase by 18 per cent from 2025 and then 7 per cent each year over the following four years, not accounting for inflation. In comparison, the 2020-2025 price proposal saw a $4.6 billion capital expenditure budget and a decrease in typical household bill by 7 per cent.

The increase in capital expenditure aligns with the surge in residential development needed to boost housing supply and improve affordability for NSW residents amidst the housing crisis. Sydney Water is acutely aware of their role in supporting the NSW Government reach NSW's dwelling targets under the National Housing Accord, as highlighted in the price proposal (p.8):

> *Water services are integral to its success, influencing everything from the feasibility and affordability of new developments to their sustainability and long-term resilience. Coordinated planning between all levels of government, developers and other stakeholders is essential to align housing growth with delivery of water infrastructure. This ensures effective allocation of resources and integration with our existing network – where possible – or timely provision of new services in areas with no existing infrastructure.*

Performance - Credibility and Accountability

The Property Council understands the 3Cs framework has been developed for water businesses and IPART to have a consistent framework to examine the performance of a pricing proposal. IPART uses this framework in conjunction with other legislative responsibilities mandated by the NSW Government to assess the pricing proposal and determine whether it will meet Sydney Water's obligations.

We understand this pricing proposal will be the first that Sydney Water and Water NSW have developed using the framework and presents an opportunity for future improvements based on the outcome of this process for the 2025-2030 period. We recommend industry be consulted on whether this framework had the desired outcome for future pricing proposals.

The Property Council has raised concerns regarding reliability of service with Sydney Water throughout the course of regular engagement. We welcome the implementation of a robust framework to assess the pricing proposal and similarly are supportive of other mechanisms that incentivise accurate forecasting, expenditure efficiencies and service reliability. These are the Expenditure Benefits Sharing Scheme (EBSS) for operating expenditure, Capital Expenditure Sharing Scheme (CESS) for capital expenditure and Outcome Delivery Incentive (ODI) Scheme for customer agreed performance outcomes.

Capital Expenditure

The Property Council understands the critical importance of this capital expenditure to meet customer objectives, providing safe and reliable water whilst maintaining environmental protection efforts.

Sydney Water's growth expenditure forecast is based on regional master planning, systems plans and growth servicing investment. These plans are aligned to the Department of Planning, Housing and Infrastructure's (DPHI) high-growth housing targets.

The Property Council understands that during the consultation period, DPHI published new population forecasts anticipating NSW will reach 10 million by 2041, two years earlier than previously projected.

The Property Council would like greater assurance that the forecasts used to project Equivalent Tenements (ET), is robust, noting that there were errors in these forecasts in the first round of DSP proposals put forward to IPART, and that this is a significant factor in how intended capital expenditure is calculated.

Interaction with Developer Contributions

60 per cent of Sydney Water's capital expenditure will service growth areas and is estimated at $9.5 billion over the 5-year period. Developers are estimated to contribute $3.9 billion to funding growth capital expenditure by 2030 through the DSPs.

This gap in funding will be recovered through a broad-based increase to customer bills. The pricing proposal explains that the gap in funding is partly the result of the transitionary period for DSP charges prescribed by the NSW Government. The Property Council does not support the claim that the transitionary period is the cause of the funding gap, rather the previous price proposal failed to adequately account for future expenditure needs with sufficient revenue raising.

IPART should consider the price proposal in the context of the increase in Sydney Water's revenue streams, both through service and usage charges as well as infrastructure contributions by the development industry.

The property and development industry requires certainty that this increase in development cost will result in the timely delivery of development-enabling infrastructure.

Development Servicing Plan Charges

From 1 December 2023, IPART registered 13 wastewater DSP prices and four drinking water DSP prices to be levied by Sydney Water from new developments.

The DSP charges are levied by Sydney Water when a new development requires a Section 73 Compliance Certificate. This is paid by the proponent of the development prior to the Certificate being issued.

The reintroduction of developer charges was a recommendation in the NSW Productivity and Equality Commissioner's review of infrastructure contributions, which was adopted by the NSW Government in 2022. Developer charges had previously been in place but were set to nil in 2008 in response to the Global Financial Crisis and remained at this level until 2024.

Consultation on the proposed reintroduction of DSP charges occurred in 2023. At this time we recommended that the reintroduction of developer charges should be deferred until a wider review of alternative funding options is released and Sydney Water implements improved governance arrangements regarding the collection, investment of levies and the delivery of water infrastructure.

IPART did not defer the charges but approved an amended proposal made by Sydney Water which was adjusted based on stakeholder feedback. The final DSPs were reduced on average by 30 percent per Equivalent Tenement (ET) and DSP boundaries were amended. Sydney Water also agreed to introduce an industry dashboard and Developer Customer Transformation project aimed at ensuring greater accountability.

The NSW Government prescribed transitionary arrangements with charges gradually introduced from 1 July 2024. In 2024-25, prices will be capped at 25 per cent of the full price registered with IPART, rising to 50 per cent in 2025-26, with full contributions from 1 July 2026.

The Property Council has consistently advocated for infrastructure contributions reform. While we were broadly supportive of the Productivity and Equality Commissioner's review of infrastructure contributions, these recommendations were adopted on a piecemeal basis, with revenue enhancing reforms taking precedence over the recommendations, which improved timeliness, consistency and transparency.

In the Property Council's submission, we raised concerns about the lack of governance surrounding the reintroduction of a DSP charge. If industry needs to fund development-enabling infrastructure, greater clarity is needed around how Sydney Water will use these funds to improve infrastructure identification and prioritisation, as well as providing meaningful engagement with industry through a revised governance model.

The Property Council agrees with the findings of the Productivity and Equality Commissioner's review and recommends that IPART considers the capacity and capability of Sydney Water to deliver on the proposed projects within this price proposal.

Mamre Road Stormwater Review

Mamre Road is a leading example of where Development Service Plan Charges can negatively impact development feasibility, constricting future investment decisions and preventing the delivery of the warehousing and logistics developments required to service the productivity and employment needs of our city.

Sydney Water is the Regional Stormwater Authority for the Mamre Road and Aerotropolis precincts and is responsible for delivering, managing and maintaining the regional stormwater, drinking water, wastewater and recycled water networks.

In September 2024, IPART released the draft review of Stormwater charges for the Mamre Road Precinct, which provides a draft recommendation for a charge of $850,000 per hectare. While this charge is significantly lower than the $1.3 million per hectare initially proposed, it remains too high for development to be economically viable. This is a clear example of where "front-ending" infrastructure delivery costs has the risk of preventing development from being able to occur, adversely impacting the productivity of Greater Sydney.

The Property Council and Urban Development Institute of Australia (NSW) response proposes an alternate pathway, by further refining costs and shifting operational costs of the scheme to water users in the precinct through their regular water rates. Ultimately, if these recommendations cannot deliver a sufficient reduction in charges that can be afforded by industry, we would seek the balance of these costs to be borne through Sydney Water or the NSW Government.

By spreading initial costs of delivering once-in-a-generation infrastructure to the first owner, tenant or homebuyer there is an increased likelihood that Sydney's growth can be efficiently accommodated by Sydney Water's infrastructure without compromising the state's priorities to deliver housing and support the productivity of the state's supply chain network.

Digital Investment and Operating Expenditure

We welcome the investment in digitisation proposed by Sydney Water to enhance the developer experience and allow collaboration between Sydney Water and developers. It is essential that this project is resourced to succeed, and the development industry are key contributors to ensure the systems and processes that are developed are fit for purpose.

Digitisation will also aid in improving transparency, particularly regarding managing the funds collected through the DSP and for stakeholders to have visibility on how Sydney Water are tracking against key performance indicators.

Service and Usage Charge

The Property Council supports Sydney Water's proposal to increase service charge comparatively to the usage charge.

This price proposal is a significant increase in expenditure compared to the previous pricing period and reflects the need for increased capital expenditure to accommodate demand from current and future consumers. The increase in fixed charges to promote a reliable revenue stream is a sensible measure to address this challenge.

While aspects of the pricing proposal increase operational costs for the Sydney Water's customer base, our submission seeks to represent the consistent feedback of our members that the cost of accommodating Sydney's future growth needs to be shared across multiple funding sources, including the long-term beneficiaries of this infrastructure investment. Contributions from the property industry will play a role, but any increase in costs needs to be targeted in a manner that does not constrict planned delivery of new homes and jobs from occurring. This is imperative if government and industry are to be successful in achieving our shared objective to address the housing crisis in NSW and achieve our commitments under the National Housing Accord.

Should you have any questions about this submission or wish to discuss further, please contact NSW Policy Advisor, Nikki Allen at nallen@propertycouncil.com.au or 0428 663 633.

Yours sincerely

Katie Stevenson
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