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21 December 2007

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Mr James Cox  
Chief Executive Officer and Full Time Member  
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Dear Mr Cox

### **Review of Developer Charges for Metropolitan Water Agencies**

I refer to your letter of 9 November 2007 regarding the Review of Developer Charges for Metropolitan Water Agencies.

Gosford City Council has reviewed the Issues Paper prepared by IPART and has provided written comment in the submission enclosed.

Thank you for the opportunity to participate in this review.

Please do not hesitate to contact me on 02 4304 7058 if we can provide IPART with any further information.

Yours sincerely

Brett Koizumi-Smith  
**Manager Regulatory Services**  
**Water and Sewerage**



# **GOSFORD CITY COUNCIL**

**SUBMISSION TO**

**INDEPENDENT PRICING AND  
REGULATORY TRIBUNAL**

**REVIEW OF DEVELOPER CHARGES FOR  
METROPOLITAN WATER AGENCIES**

**DECEMBER 2007**

## **EXECUTIVE SUMMARY**

The Gosford local government area has a relatively low level of development and, as such, the nature of service provision and associated developer charges in Gosford differs from that of the other agencies to which this review applies who also provide water related servicing solutions to greenfield development areas.

Council believes that the information it currently provides in regard to capacity and asset values in its development servicing plans is adequate and that IPART's regulatory oversight provides a level of transparency appropriate to the process.

While concerns have been expressed regarding increasing developer charges, Council believes that, with the exception of the 85 percent cap on Wyong Shire Council's developer charges, the determination enables the setting of developer charges that accurately reflect the cost of service provision in development areas.

Overall, Council is satisfied that the current developer charges methodology:

- provides the required balance of flexibility and prescription in calculating developer charges;
- enables full recovery of relevant costs to service new development;
- sends appropriate pricing signals regarding the cost of servicing different development areas; and
- minimises the economic impact of new development on existing and future generations.

## 1. CONTEXT

The Independent Pricing and Regulatory Tribunal (IPART) is conducting a review of developer charges levied by Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council. IPART has invited comment from these agencies and other interested parties on issues relevant to the review.

Gosford City Council understands that this review has been initiated as a result of issues raised by the development industry, the introduction of the Building and Sustainability Index (BASIX), increasing commitments to recycled water provision and the introduction of the *Water Industry Competition Act 2006*.

Council has responded in the next sections to those issues raised that are relevant to Council and to which Council can provide information to assist IPART in its consideration of the issues.

## 2. GOSFORD CITY COUNCIL WATER SUPPLY AUTHORITY

Gosford City Council, in addition to its general council operations, is also a Water Supply Authority under the Water Management Act 2000. Council is responsible for providing safe and reliable water, wastewater and stormwater services to over 65,000 properties within the Gosford local government area (LGA).

To provide these services, Council manages over \$500,000 million worth of water and wastewater related assets and invests over \$30 million each year to maintain and improve services to its customers. In providing these services, Council faces challenges such as ensuring it protects the region's natural environment as well as delivering services that are efficient and affordable.

Water supplied to Council's customers is harvested from Wyong River, Ourimbah Creek, Mangrove Creek and Mooney Mooney Creek and stored in Mangrove Creek Dam, Mooney Dam and Mardi Dam. These headworks assets are managed through a partnership with Wyong Shire Council by the Gosford-Wyong Councils' Water Authority. Raw water is treated at the Somersby water filtration plant before being delivered to our customers through an extensive distribution system.

Council is also responsible for managing wastewater produced by our customers. Wastewater is treated to advanced secondary treatment levels before being discharged to the ocean in accordance with environmental standards set by the NSW Department of Environment and Climate Change.

The Gosford LGA has a relatively low level of development with growth of less than one percent per annum between 2001 and 2006. The majority of this development is in the form of 'infill' development and redevelopment through subdivision and urban renewal. There are no remaining 'greenfield' areas in the Gosford LGA. As a result, the nature of service provision and associated developer charges in Gosford differs from that of the other agencies to which this review applies who also provide water related servicing solutions to greenfield areas.

### **3. DEVELOPER CHARGES**

In 2000, IPART issued Determination No 9, providing a revised methodology for setting developer charges to recover costs associated with providing water, wastewater and stormwater services to new developments. In 2006, IPART issued Determination No 8 prescribing a methodology for calculating recycled water developer charges.

Developer charges are designed to fully recover the costs required to service new development and to signal the cost of new development in different areas. Increasingly, new development is occurring in marginal areas where the cost of providing and operating new water related infrastructure is more expensive. The pricing signals sent by developer charges ensure that development occurs in areas which are most cost effective and play an important role in encouraging urban renewal consistent with State Government policy.

The provision of water related infrastructure and services for future urban development is inherently risky. Unlike other services which can be provided 'just in time' to meet development (e.g. electricity), water related services are largely provided 'upfront' and well before development commences. As a result, water infrastructure investments are subject to the risk associated with changes in expected development rates, construction costs and financial servicing costs over the period of the development. Developer

charges provide an important mechanism to ensure that water agencies that carry this risk are able to recover the full cost of the services provided.

The making of developer charges should be simple for water agencies to administer and easy for customers to understand. Complicated systems can increase administration and regulatory costs, and reduce the effectiveness of price signals (and thus encourage inefficient development).

Overall, Council is satisfied that the current developer charges methodology provided by IPART provides the required balance of flexibility and prescription in calculating developer charges in the Gosford LGA and sends appropriate pricing signals regarding the cost of development.

#### **4. ADOPTION DATE**

IPART has advised that they envisage the new Development Servicing Plans (DSPs) and developer charges resulting from this review will be adopted on or after 1 January 2009. Council has no objections to this date.

#### **5. ISSUES ARISING FROM THE RECYCLED WATER DETERMINATION**

In 2006, IPART made Determination No 8 Recycled Water Developer Charges, prescribing a methodology for the calculation of developer charges to recover the cost of investments in recycled water services. While Determination No 8 is based on Determination No 9, a number of changes were introduced as outlined in IPART's Issues Paper. IPART has asked agencies to consider whether there would be advantage in combining Determinations No 8 and No 9 into one determination. As part of this, it has been asked whether changes introduced as part of Determination No 8 2006 Recycled Water Developer Charges should be applied to Determination No 9 2000 Developer Charges.

Council is ambivalent to the proposition of having one developer charge determination for all water related services as it has not experienced or received any feedback from its stakeholders to suggest that there is an issue with the current arrangements. Council suggests that there should be consistency between the existing Determinations with regard to the application of factors such as discount rates.

## **6. REGULATORY OVERSIGHT**

Currently, IPART sets a methodology for calculating developer charges rather than setting the individual charges for each DSP area. IPART believes that this approach is appropriate to achieve the principles and objectives of previous Determinations.

The current level of regulatory oversight provided by IPART is considered appropriate to Council's situation and provides a suitable balance between flexibility and prescription. Determination No 9 requires a high level of transparency in Council's calculation of charges, including review by IPART to ensure compliance with the Determination. In addition, it is noted that the current process provides for a customer dispute resolution mechanism. Council has not received any feedback from stakeholders to suggest the current level of regulatory oversight is inadequate.

Council's current calculation spreadsheets satisfy the requirements of the IPART methodology whilst also providing the flexibility to reflect characteristics of the Gosford LGA. It is recommended that these features are maintained in any standard calculation spreadsheet.

## **7. MARKET COMPETITION**

The NSW *Water Industry Competition Act* (WICA) introduced by the NSW Government in 2006 currently applies to the areas serviced by Sydney Water and Hunter Water Corporations. It is noted that with amendment, the WICA could be applied to the operating area of Gosford City Council.

Council understands that IPART will regulate fees for access to an incumbent's services which will ensure the efficient operating costs can be recovered. Council is unclear and seeks assurances that for new developments, developer charges for new developments cannot be avoided by contracting to alternative services providers competing in the market under third party access arrangements.

## **8. INFORMATION REQUIREMENTS**

The Issues Paper discusses concerns raised in relation to the transparency of information provided in DSPs. Council generally considers that the amendments

introduced by IPART in 2000 have increased the transparency of DSPs and developer charge calculations and successfully promote compliance with the Determination.

Council's water related operations are relatively small compared with the metropolitan water agencies in the Sydney and Hunter regions. Additionally, Council's servicing areas and systems are largely homogeneous relative to the discrete wastewater and water servicing areas of the metropolitan water agencies.

Council currently has 11 DSPs within its area of operations. The DSP boundaries have been defined by areas subject to redevelopment, thus ensuing developments within the area are contributing to the cost associated with the development. The principles for defining the DSP boundaries have been based on adopting previous Urban Release Areas, Development Control Plans and Local Environment Plans of Council. These principles are operating satisfactorily in Gosford.

It is noted that the basis for defining the DSP boundaries in Gosford has not been the subject of any complaints from developers. It is not believed that DSP boundaries in the Gosford LGA result in distortion of associated developer charges and the number of DSP areas is considered acceptable.

The Issues Papers suggest that developers require further asset capacity information. It is noted that the amendments introduced in 2000 increased the amount of information that Council must provide in support of developer charges. It is considered that the current level of information provided, the way in which it is provided and the regulatory oversight by IPART, should afford the development industry confidence in the efficiency of developer charges. In addition, dispute resolution mechanisms provide the development industry with an avenue for addressing concerns that cannot be resolved through direct discussion with Council.

## **9. ASSET COSTS AND CAPACITY**

It is noted from the Issues Paper that there is concern regarding recent increases in developer charges and that it has been suggested that the increases are, in part, related to the failure of water agencies to apportion costs.



Council considers that the developer charge increases are attributable to a number of factors, namely:

- increasing regulatory performance standards
- increasing cost of construction
- development of marginal and 'non-prime' areas.

New development in Gosford is primarily in the form of urban renewal in developed areas which attract higher construction costs than greenfield sites. For example, the redevelopment of the Gosford Central Business District (CBD) project requires the provision of both new and augmented services to meet anticipated growth. This new infrastructure will need to be provided within existing developed areas attracting additional costs associated with minimising disturbance to business and services and restoration costs.

IPART's Issues Paper indicates that developers would like to see greater transparency regarding asset capacity included within DSPs. Total capacity is identified in the published DSPs of Council and it is believed that this information is appropriate for developers to assess the calculation of charges. The unit costs and valuation of assets have also been provided in DSPs and are considered sufficient to provide a level of transparency appropriate to the process.

Additionally, it is noted that IPART reviews DSPs and developers should feel confident that this provides rigorous and independent review of the information provided by Council. There have been no complaints from developers regarding the asset information (capacity or value) currently provided by Council. There is no additional asset information considered necessary that is not currently provided by Council.

The Issues Paper also indicates that developers would like to see greater transparency regarding cost apportionment included within DSPs. Council only includes costs associated with growth in developer charge calculations. Expenditure is apportioned between existing and new customers based on the service provided to each of these groups. Council welcomes the development of a consistent methodology to apportion these costs based on the drivers, but is unclear what the most appropriate way to

provide this would be. Council believes that continuation of a transparent process regulated by IPART is sufficient and that agencies should be responsible for the correct apportionment of drivers and costs.

## **10. OPERATING COSTS**

The Issues Paper indicates that the development industry has raised the issue of increasing developer charges as a result of operating costs exceeding projected revenues in some DSP areas. Although both capital and operating costs have increased in recent times there are no situations in Gosford where operating costs are higher than projected revenues. It is understood that other agencies are experiencing increasing servicing costs as new developments move into marginal areas with increased regulatory and performance standards.

Service provision costs have increased in Gosford due to increasing construction costs, additional regulatory costs and increasing energy costs. Additionally, the expenditure related to operating and maintaining assets in 'non-prime' development areas is reflected through higher costs.

The Issues Paper also raises concerns regarding shifting maintenance costs into upfront charges and the impact this may have on funding availability when maintenance is required in the future. Council currently collects maintenance funds through ongoing service charges and as such these funds are available as needed for maintenance works. Moreover, IPART in its role as a regulator of prices, investigates water agencies' accounts and managements systems to ensure funding is appropriately accounted for and allocated. It is considered that this oversight by IPART should provide confidence that water agencies are making appropriate provisions for maintenance and renewals.

One of the basic principles underlying IPART's developer charges methodology is to "reflect variations in the costs of servicing different development areas". Council believes the most appropriate mechanism for signalling these variations is based on charging the full cost of service provision to those who wish to develop in these areas. Any other alternative mechanisms will not directly capture the true economic differences between development areas, will not be effective signalling mechanisms and will result in current and future users being burdened with these costs.

## 11. EQUIVALENT TENEMENTS

As developer charges are levied on a per equivalent tenement (ET) basis, the way an ET is defined influences the value of developer charges. IPART's Issues Paper indicates that different agencies use 'annual demand' ETs while others use 'peak demand' ETs for the calculation of capital charges and reduction amounts.

Council calculates both capital charges and reduction amounts based on an 'average annual demand' ET. The Council criteria for assessment of ETs and ET multipliers are based on the Public Works Department design manuals and Council Policy. It is believed that if a new definition was provided to incorporate peaking factors this may provide a more consistent and unified approach to the definition of an ET and hence developer charges.

Council is not aware of any problems that exist with the current treatment of ETs in its DSPs. It is not believed that any improvements should be made to the methodology regarding the treatment of ETs, however, the importance of consistency between Gosford and Wyong Councils' ET methodologies will increase in the near future due to the proposed merger of the Councils' water businesses.

## 12. OTHER INPUT FACTORS

The current developer charges determination fixes the annual consumption for an average residential customer that must be used when calculating the reduction amount. The Issues Paper attributes recent consumption decreases to successful demand management measures initiated by agencies and the advent of Building Sustainability Index (BASIX) requirements by the NSW Government.

The Issues Paper notes, that as current consumption figures are significantly lower than the average value prescribed in the Determination, the developer charges are smaller than they would be if the current figures were used. Developers have expressed concern about increased developer charges being applied to a property with lower water consumption, particularly those properties whose water savings have been achieved through costly BASIX requirements.

In the Gosford LGA, there has been insufficient experience with and consequently limited information regarding water consumption figures for pre and post BASIX consumers. Post BASIX dwellings are scattered across the Gosford LGA (as opposed to concentrated clusters of new development) making determination of average demand for BASIX dwellings difficult. It is also not currently clear to Council what regulatory arrangements are in place to ensure reductions achieved by BASIX will be maintained for the longer term.

Recent demand reductions seen on the Central Coast are primarily due to an extended period of water usage restrictions. These restrictions place limitations upon, and currently prohibit, outdoor water use. Current restriction levels have achieved a demand reduction of approximately 32 percent. Easing or removal of water usage restrictions in the future will see consumption figures increase in a return to pre-restriction levels.

Demand management measures (including BASIX measures introduced in the Gosford area in July 2005) have also contributed to observed decreases in consumption. However, due to the low level of development in Gosford, these reductions are not of an order believed to be significant enough to warrant changes to long term consumption figures.

It is noted also that system design capacity is determined by other factors such as demand for public and private fire services.

Council believes that consumption predictions for developer charges should align with long term averages that eliminate short term impacts from drought and associated usage restrictions however noting that system capacity also needs to meet requirements for fire services.

### **13. WYONG SHIRE COUNCIL DEVELOPER CHARGES**

IPART in its Determination No 9 placed an 85 percent cap on Wyong Shire Council calculated development charges, due to concern regarding the possible impacts of potentially higher developer charges in the Wyong LGA.

This cap on Wyong Shire Council developer charges results in a significant cross subsidy to new development from existing customers as the 15 percent of costs not attributable to new development are passed onto the existing customer base. The 85 percent cap on Wyong Shire Council developer charges also impacts upon Gosford City Council's business as the Councils operate a shared headworks scheme. Capping developer charges results in the full cost of headworks services not being passed on to those receiving the services. As a result, existing customers from both Wyong and Gosford are currently contributing to the cost of headworks services to make up for the 15 percent funding shortfall.

Council suggests that the 85 percent cap runs against the principle of full cost recovery as the reduced developer charges cannot achieve full recovery of relevant costs from new development areas and do not accurately reflect the cost of service provision in the Wyong Shire. Removal of the 85 percent cap on developer charges will achieve full cost recovery, provide a more accurate signal of the cost of service provision in Wyong and remove the additional financial burden that has been placed upon existing customers in both Wyong Shire and Gosford City LGAs.

#### **14. DEMOGRAPHICS**

The Issues Paper indicates that queries have been made regarding the relationship between population estimates and ET forecasts. It is also suggested that the parameters used by agencies do not reflect the observed and projected trends.

Council's methods used to estimate existing ETs and demographic assumptions are based on State Government planning statistics. One equivalent population (EP) is based on the prescribed occupancy rate of 2.5 persons per ET. No concerns have been raised with Council in regards to demographic statistics used to estimate ETs.

#### **15. DISPUTE RESOLUTION**

Council has not had need to participate in the dispute resolution process and is therefore unaware of any improvements that could be made.