

FACT SHEET

Important issues in Determining new parameters for Gosford City Council's and Wyong Shire Council's developer charges

Based on *the Issues Paper for the review of developer charges for Gosford City Council and Wyong Shire Council*

22 June 2012

On 20 June 2012, we released an Issues Paper to start our review of calculation parameters (or assumptions) used by Gosford City Council and Wyong Shire Council when calculating their developer charges.¹ New parameters would apply from 1 July 2013. The Issues Paper outlines our approach to this review and the key issues that we will need to consider. It is available on IPART's website (www.ipart.nsw.gov.au).

The Councils and other interested stakeholders are invited to provide their views on the issues that are presented in the Issues Paper and comment on any issues that they consider to be important to this review. The Councils will provide us with submissions on 14 September 2012. We ask other interested stakeholders to provide comments on the Issues Paper and on the Councils' responses by 12 October 2012.

This Fact Sheet has been prepared to assist stakeholders in preparing their comments. We suggest that stakeholders also read the Issues Paper.

Background to the review

The current determination for developer charges was made in 2000. The determination provides a methodology that water agencies must use to calculate their own developer charges. The methodology uses a net present value (NPV) approach. This allows costs and revenues to be reconciled to a single value by discounting them to today's dollars to take account of the time value of money. The methodology requires that certain calculation parameters must be used in making the calculations, these were last set in 2000.

We ask stakeholders to provide comments on the following issues that we consider are important for this review.

¹ Developer charges recover the capital costs of providing water-related infrastructure to land developments.

Discount rates

The current determination requires the following discount rates to be used in the NPV calculation:

- ▼ a 0% real discount rate for pre 1996 assets
- ▼ a 7% real discount rate for post 1996 assets
- ▼ a 7% real discount rate for expected net revenues and costs.

We seek comment from stakeholders on the new discount rates that should be used in the calculation.

Average consumption parameter

The current determination specifies the annual consumption for an average residential customer that the Councils must use when calculating expected revenues. They are as follows:

- ▼ 207 kilolitres for Gosford Council customers
- ▼ 205 kilolitres for Wyong Council customers.

These amounts reflect average consumption levels in 2000 but actual consumption is now significantly lower. We seek comment from stakeholders on the average residential consumption figure that should be used in the calculation.

Wyong Council's 85% cap

In 1995, we replaced the individual developer charges regimes that the water agencies employed with a single consistent regime. As part of this change, we adopted a number of transitional measures to manage issues (such as pricing impacts) that would impede the smooth introduction of the determination. One of these measures was to cap Wyong Council's charges at 85% of the amount that would otherwise have applied. This cap was retained for the current (2000) determination. Wyong Council considers that the cap has no clear basis and asks for it to be removed.

We seek comment from stakeholders on whether the 85% cap on Wyong Council's developer charges should be removed.

For more information, please see the Issues Paper on IPART's website (www.ipart.nsw.gov.au).