Review of DEUS Developer Charges Guidelines for Water Supply, Sewerage and Stormwater

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PROJECT: REVIEW OF DEUS DEVELOPER CHARGES GUIDELINES FOR WATER SUPPLY, SEWERAGE AND STORMWATER	
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EXPERIENCE:	IAN MURPHY JOINED HARPER SOMERS O'SULLIVAN AFTER 22 YEARS WITH THE HUNTER WATER CORPORATION (HWC). IAN'S EXPERIENCE AT HWC WAS PRIMARILY IN THE URBAN DEVELOPMENT SECTION. IAN WAS INVOLVED WITH THE PREPARATION OF DEVELOPMENT SERVICING PLANS (DSP) FOR HWC IN ACCORDANCE WITH THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL DETERMINATION ISSUED IN SEPTEMBER 2000.

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INTRODUCTION

As a prelude to the comments on the calculation of developer charge it is considered worth noting the following.

Although developer charges are paid by developers it is ultimately the community that pays the charge. The developer may absorb some of the cost but essentially, as with all development costs, the developer charge is passed on to the purchaser of the land.

So whether the cost of providing servicing infrastructure is funded by developer charges or through water & sewer fixed fees or usage costs it is the general community that is funding the cost of infrastructure.

The most valid function of developer charges is to provide pricing signals to encourage rational urban development.

3.1 SIMPLIFICATION OF CALCULATION OF DEVELOPER CHARGES.

If better data is available it should be used to calculate the most accurate maximum developer charge applicable. LWA & developers can then negotiate to determine an appropriate charge for individual development if required.

Certainty of the level of developer charges give developers confidence to proceed with projects and LWA a greater level of confidence in revenue.

3.2 TRANSPARENCY IN CALCULATION OF DEVELOPER CHARGES

All data used to calculate developer charges should be available for review so developers can be assured that they are only paying for a fair and equitable share of infrastructure. Concept plans of proposed infrastructure in the DSP allow easier assessment and determination of development opportunities.

The items listed below should always be included in DSP.

Costs of existing infrastructure (MEERA or similar)
Estimates for proposed infrastructure
Revenue streams
OM&A costs

3.3 CONSISTENCY OF CHARGING ACROSS NSW

Base charges should be calculated consistently to determine maximum charges. LWA & developers could then negotiate lower DC if LWA considers it reasonable. Eg. If the LWA considers a development desirable in the area they may choose to subsidise or offset DC.

With better data available to LWA, implementation of the Tribunals methodology would not be considered all that onerous. Template spreadsheets could be constructed and forwarded to LWA as required. Base templates have been constructed by Sydney Water, Hunter Water etc these could be reasonably simply modified and standardised.

3.4 COST REFLECTIVITY

One of the main functions of DC is to provide an indication of where development can be most economically completed. Differences between charges in different LGA achieve this aim but can only be achieved if there is consistency between the calculations. If required LWA can subsidise DC through a separate procedure.

3.5 TREATMENT OF SUBSIDIES

LWA's need to operate within the guidelines set by State Government. Therefore if LWA's can justify subsidizing/offsetting DC then they should be allowed to do so to maintain growth in the LGA. These cross subsidies/offsets should not form part of the DC calculation process.

3.5.1 TREATMENT OF CROSS SUBSIDIES

Cross subsidization should not be allowed in the DC calculation rather, any subsidy/offset should be negotiated as a separate process to the calculation of the DC. Any subsidy or offset should be fully disclosed and based on sound fiscal policies. i.e. subsidies should not be provided unless it can be proved there is a benefit to the rate payers of the LGA.

3.5.2 BACKLOG SERVICE AREAS

Servicing the backlog areas should be subsidized to the extent of impact on the environment of not providing the service. ie no impact on the environment no subsidy. Once it has been determined that a backlog area needs to be serviced, residents should only be required to contribute the cost of installing a suitable septic treatment system (ENVIROCYCLE or similar).

Developers should pay the full cost of any capacity utilized which is provided by backlog schemes. This ensures that the true cost of development is reflected.

3.5.3 INCLUSION OF SUBSIDIES IN DEVELOPER CHARGE CALCULATIONS

Subsidies given to LWA's should be excluded from DC calculations. Such subsidies come from State funds that have been funded by the general population. These subsidies are given to assist with the provision of infrastructure. Unless the subsidy is in the form of a loan (ie needing to be repaid) it should not be included in DC calculations. As stated including subsidies in DC calculations is effectively 'double dipping' which would only serve to increase development costs. This could have the effect of sending 'false' price signals.

3.6 REGULATORY OVERSIGHT

Developer charges should be registered and reviewed by DEUS to ensure compliance with the guidelines.

A clear and well documented dispute resolution process should form part of developer charge guidelines. This would not only allow some comfort for developers in appealing LWA calculations but ensure more rigor in the calculation of developer charges.

3.7 DEVELOPER CHARGES FOR NON-RESIDENTIAL DEVELOPMENT

There is enough data to determine ET's for most categories of development. DC should be levied on all developments that take up capacity of infrastructure funded by LWA based on the proportion capacity used. Infrastructure constructed to provide services should not only be funded by residential development but any development that places loading on the system. This ensures that commercial/industrial development are not being subsidised by residential development.

4.1.1 PRE-1970 ASSETS

Pre 1970 assets should only be included in DC calculations if
1. there is capacity available to serve growth and
2. That the asset has not been fully funded and recovered eg some assets (ocean dams outfalls) are necessarily constructed because of efficiencies with growth capacity of more than 30-40 years. LWA should be able to recover the full cost of the asset attributable to growth.

Historical costs adjusted for inflation and MEERA costs should be compared to determine the most reasonable and equitable cost for pre 1970 assets. In most cases due to the large amount of capacity provided $/ET is only small.

4.1.2 FUTURE ASSETS

Assets should be included in DC calculations once there is a reasonable certainty that they will be required regardless of whether this is 5, 10 or15 years into the future. LWA should also be prepared to deliver assets used in DC calculations or allow developers to deliver the assets and be funded by LWA. The critical ingredient in the determination of calculation of developer charges is the prediction of growth. Regular review of DSP should allow for appropriate adjustment of all relevant factors.

Assets should be sized and costed using best available information in consultation with development industry.

4.1.3 DEFINITION OF SYSTEM ASSETS

Rather than define assets as reticulation or system it may be simpler to determine inclusion of assets in DSP by the benefits provided. If an asset services more than one development lot/area/parcel then costs should be included in the DSP and funded accordingly.

If assets serve only a singular development lot/area/parcel then they should be funded by the developer.

Regardless, a cost reimbursement process should be implemented to ensure any developer taking advantage or gaining benefit from previously laid mains (by another developer) reimburses the original developer.

4.1.4 ASSESSING THE CAPACITY OF ASSETS

Guidelines should be formulated to develop consistent design standards or existing standards should be adopted statewide. It is understood that a number of authorities have already adopted the Water Services Association of Australia (WSAA) codes.

The major variable would be the definition of an ET. An ET should always defined as an average residential dwelling. However ET's should be based on data from each LWA and should be used consistently throughout the LWA.

Eg. If the average annual water use at a typical domestic dwelling is 185kl then 1 ET would be 185kl.
For consistency and simplicity, a sewer ET should be defined as 50% of a water ET. In the above example 1 sewer ET would equal 92.5kl discharged annually.

The guidelines should be reviewed periodically to ensure that advance in technology are accommodated.

Allowances need to be made in the capacity of systems for vacant lots that have paid developer charges. These lots are entitled to connect to systems and could do so at any

time. Lack of income from vacant lots may be offset by lower operation & maintenance costs as a result of the lot not being connected to the systems.

As previously discussed assets with more than 30 years growth capacity should be included in DSP until costs are fully recovered. LWA would need to implement accounting systems that indicate when assets are fully recovered.

4.2 VALUATION OF ASSETS

Only the actual estimated (without contingencies) cost of the asset should be included in the DSP. Once an asset has been constructed actual costs should be used in the DSP at the next review.

The interest earned on DC levied prior to the construction of the asset can take the form of an interim contingency. Contingencies are generally included for budget purposes and DSP are not budgets, rather a likely indication of servicing costs.

The use of actual costs ensures that the growth component of assets is fully recovered. Regular review of developer charges would allow for updating of infrastructure costs.

4.3 AGGLOMERATION OF DSP

As stated, one of the key objectives of DC is to provide pricing signals for rational development. Agglomeration may not completely eliminate signals but certainly blurs them.

It is not thought that the administrative burden of numerous DSP would be great with the use of software and systems similar to those developed by Sydney and Hunter Water.

DC still need to be calculated for each DSP and the only perceived administrative issue is the definition of boundaries and where developments lay. DC are charged according to the DSP assets utilised by each development. Therefore it is only a matter of accurately placing a development within a DSP boundary.

4.4 CALCULATION OF THE CAPITAL CHARGE WHERE LOT TAKE UP IS NON UNIFORM

As lot take up is almost impossible to accurately determine mainly due to market factors, it is considered that the NPV methodology is the most appropriate for calculating DC.

Again there is software technology available that simplifies the NPV process and because it is not an iterative process should be less time consuming and simpler than the RDI methodology.

4.5 CALCULATION OF THE REDUCTION AMOUNT

Adoption of the NPV (spreadsheet) process not only allows for simpler and clearer DC charge calculation but allows easier data entry.

Once the model has been created it is a relatively straight forward task, for anyone proficient in data entry, to update data to reflect new, current, future data.

LWA could recalculate DC each time there is a change in revenue or operating costs. It is not expected that these changes would take place any more often than every 12 months.

This update would not be dissimilar to the updates implemented by SWC, HWC etc to adjust for CPI annually.

4.6 EQUIVALENT TENEMENTS

As previously discussed an ET should always be the loading placed on systems by an average residential dwelling. It is accepted that these loadings vary from LWA but the volume of an ET should be consistent throughout the LWA.

All available relevant information should be used when determining growth. As previously discussed this is one of the major factors affecting the calculation of developer charges. Growth is used to determine the timing of investment, revenue streams, reduction amounts etc.

To provide some contingency in the system and provide consistency in the calculations it is considered worthwhile to discount ET using the NPV methodology.