

Reference: 40/40/0005
Contact: Colin Johnson



11 May 2007

Mr Richard Warner
Program Manager – Metropolitan Water Pricing
Independent Pricing and Regulatory Tribunal
PO Box Q290
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Dear Richard

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

Please find enclosed AlburyCity's submission on the above matter as it relates to the "Water Issues Paper April 2007"

Council has no objection to its submission being publicly quoted in any of the Tribunal's publications following the review.

Should you have any further queries please contact Mr Colin Johnson on (02) 6023 8170.

Yours faithfully

for Dale Blampied
Manager Engineering



REVIEW OF DEUS 'DEVELOPER CHARGES GUIDELINES FOR WATER SUPPLY, SEWERAGE AND STORMWATER'

General Overview Commentary on Pages 1-16 (inclusive) of the Issues Paper

Council notes on page 2 of the *Issues Paper* the statement "that following a number of years in operation, LWAs and Developers now have experience with calculating and implementing charges in accordance with the guidelines". This implies that LWAs and Developers are experienced in using the guidelines – AlburyCity would challenge this statement.

We consider ourselves to be a progressive LWA, yet we only introduced our s64 charges in accordance with the guidelines in July 2005 – the date required by DEUS. Further, given that the guidelines indicate that they can be phased-in over three (3) years and should be reviewed every 5 to 6 years, then we have really only had the opportunity to calculate and implement charges once. We would also suggest that many LWAs have not even gone through the process of calculating and implementing developer charges.

The other issue we would challenge in the statement above is that it implies that Developers are experienced with calculating and implementing developer charges. In reading the *Issues Paper* it would appear that Developers have not even attempted to read and understand how the charges are calculated. This is quite evident here in Albury and is evidenced by the amount of comments Council received from developers following the public exhibition of the Development Servicing Plans (DSP) prior to us initially introducing them (i.e. Developers had no concept of the procedures detailed in the guidelines and how they were applied).

Regarding the last paragraph on page 2 of the *Issues Paper*, AlburyCity disagrees with the comment "the guidelines do not provide enough certainty and clarity for developers to understand the basis for developer charges". The guidelines are quite clear and the flowchart on page 8 and the chapters of the guidelines are quite specific as to how the various components/elements are calculated.

With respect to the comment in the 2nd paragraph of Section 2.3 on page 6 of the *Issues Paper* that the guidelines do not prescribe the way in which LWAs quantify ETs; this is strictly not correct. Pages 51 and 52 of the guidelines makes mention of the Public Works Department (PWD) *Water Supply Investigation Manual* and the *Manual of Practice: Sewer Design* for standard demand allowances for common types of development. In addition to these two references, the NSW Water Directorate have developed standard demand allowances for various types of development and these are very similar to the PWD references and more up-to-date (although the values are very similar). Also, within the DSP there should be a section/definition as to what ET values have been adopted for various types of development.

Commentary on Pages 17-21 (inclusive) of the Issues Paper

Simplicity Questions:

- AlburyCity believes the guidelines achieve the pricing objectivity of simplicity. Since the developer charges are common across a DSP it makes it very simple to understand and it does not matter where the development is occurring within the DSP, they will all receive the same charge. In Albury's case it has also eliminated varying charges within various parts of the city which was always challenged in the past.
- The various methods allowed by the guidelines for calculating the capital charge and reduction amount do not add unnecessary complexity. The guidelines are quite clear

and specific and if the flowchart on page 8 of the guidelines is followed, and one answers the various questions honestly, then there is only one way to proceed along the flowchart.

- AlburyCity believes that the method(s) allowed are already simple and therefore flexible. Again, the flowchart and the answers to the various questions posed automatically moves one along the correct path.

Transparency Questions:

- Regarding the need for greater transparency, AlburyCity believes that the guidelines are more than transparent. We believe that there are no difficulties in meeting the transparency requirement and if this is an issue then we believe that it will be in the standard of and how the DSP document is presented.

Consistency of Charging Across NSW:

- The question of a common approach to developer charge calculations across NSW already exists with, and by, the use of the guidelines. The advantage of the existing guidelines is that they already exist and are common across the state – one just has to follow the appropriate path through the flowchart on page 8 of the guidelines. However, if by this question it means having a common developer charge across the State then AlburyCity is opposed to this approach and questions how the amount would be derived? The guidelines are quite specific in the method to use in calculating developer charges and so if a LWA is a very proactive in providing the necessary infrastructure and its neighbour is not, why should the proactive LWA (including its customers/ratepayers) be disadvantaged because it wants to provide a better (and probably) higher standard?
- AlburyCity does not believe that the Tribunal's methodology for metropolitan areas be adopted across the state. There are major differences in customer needs, and consequently infrastructure, between metropolitan and regional areas, and therefore the methodology could not be used, however perhaps it could be adapted.
- Regarding the question of *how else could consistency be improved?* – AlburyCity believes the consistency is already incorporated in the guidelines, it is just a matter of ensuring all LWAs comply with those guidelines.

Cost Reflectivity:

- Whilst there are significant differences between developer charges within local government areas, this is a matter of fact and should be reflective (if each has used the guidelines correctly) of what has actually occurred in each of the local government areas. That is, if a LWA is a very proactive in providing the necessary infrastructure and its neighbour is not, why should the proactive LWA (including its customers/ratepayers) have the same charges as its neighbour which is not proactive?
- Regarding a LWA having the right to balance developer charges and periodic charges within their areas, this is their prerogative, especially if they are wanting to encourage development. Further, the developer guidelines and the pricing guidelines allows this with the provision that the subsidies are publicly disclosed in the LWA's annual report.

Treatment of Subsidies:

- AlburyCity totally agrees with the statement presented on page 19 of the *Issues Paper* on this matter.

Treatment of Cross-subsidies from Existing Development:

- AlburyCity does not believe that subsidies should be included in the calculation of developer charges. Incorporating the subsidy in the calculation will not and does not give an accurate final developer charge per ET. It will also 'cloud' the process and therefore make the issue of transparency more of an issue.
- Placing a limit on cross subsidisation is really a matter for the LWA to decide and whether it can afford to do so and who is actually going to subsidise it (i.e. does it come out of the Council's general fund or funded through higher water and sewerage charges?). And, as required, any subsidisation has to be disclosed in the LWA's annual report.

Backlog Service Areas:

- AlburyCity as such does not have any backlog areas and therefore this is not an issue. However, following the local government boundary adjustment in May 2004, AlburyCity inherited Hume Weir Village which will require major upgrade/augmentation of both the water and sewerage reticulation systems. This will be funded through the normal water and sewerage charges which are developed on a 30-year forward works and financial plan.

Inclusion of Subsidies in Developer Charge Calculations:

- AlburyCity agrees with the comment of 'double dipping' and believes those subsidies by the State Government should not be included in the calculations. The guidelines are not specific in instructing LWAs not to include State government subsidies in the calculations whereas Section 94 guidelines do. In calculating our developer charges, such subsidies/grants were not included in the calculations.

Regulatory Oversight:

- The issue of resolving disputes over LWA's developer charges has not been an issue at AlburyCity, and therefore we offer no comment with the exception that the guidelines appear to be quite specific in how disputes will be handled. Until Council has such a situation it is difficult to comment whether the guidelines are appropriate or not.

Developer Charges for Non-Residential Development:

- AlburyCity has no issues with calculating demand and cost allocation information for non-residential information. Council has adopted the NSW Water Directorate ET demands, which are a more up-to-date demand allowances to those in the PWD *Water Supply Investigation Manual* and the *Manual of Practice: Sewer Design* publications noted in the guidelines on pages 51 and 52. AlburyCity also clearly stated in our DSP what the demand allowances were and where they were obtained for calculations in developer charges and also offers developers the opportunity to submit demands for their development for consideration.

Commentary on Pages 23-29 (inclusive) of the Issues Paper

Which Assets should be included in Developer Charges – Pre-1970 Assets:

- Whilst some pre-1970 assets may not be fully recovered by the LWA such as dams, AlburyCity staff feel that only those items constructed after 1 January 1970 should be used in the calculations, and this is what we adopted.
- Should pre-1970 assets be included in the calculations then there needs to be a methodology developed and included in the guidelines for determining the capacity of the infrastructure still remaining and how this capacity will be assessed and incorporated in the developer charges. As AlburyCity did not use pre-1970 assets in our calculations we can not really offer any possible solution.
- There is no doubt that MEERA costs should be adopted for valuing existing assets as it provides consistency and transparency.

Which Assets should be included in Developer Charges – Future Assets:

- AlburyCity considers that a five year planning horizon is too short and 10 years would be considered an absolute minimum. Given that LWAs have to develop forward business plans, including financial and works programs, as part of complying with the 6 best-practice criteria, then it is logical to consider a planning horizon of at least 10 years. However, given the enormity of water and sewerage infrastructure and their respective operational life then perhaps 10 years is even too short especially for items such as water filtration plants, wastewater treatment plants and major pumping stations. AlburyCity developed a comprehensive 30-year capital works and financial plan and therefore we adopted a 30-year horizon in calculating the developer charges.

Which Assets should be included in Developer Charges – Definition of System Assets:

- Whilst the guidelines are quite specific that 'reticulation' assets should not be included in the calculations, AlburyCity believes that those pipelines that may be the same size as what might be normally considered 'reticulation' may in fact be a major transfer main and therefore their cost should be included in the calculations. Situations like this need to be clearly identified in the DSP and shown on the relevant plans forming part of the DSP. AlburyCity in fact designated that pipes equal to or greater than 300mm in water and 300mm in sewerage were considered as 'trunk' mains and were included in the calculations.

Which Assets should be included in Developer Charges – Assessing the Capacity of Assets:

- The use of different design standards is an option that the LWA considers and adopts as being best and relevant for its system(s). However, there should be minimum design standards that must be used and AlburyCity believes these should be the relevant WSA Water Supply and Sewerage Codes, the PWD *Water Supply Investigation Manual* and the *Manual of Practice: Sewer Design* and relevant NSW Water Directorate publications.
- LWAs should treat vacant lots and unoccupied dwellings as if they were developed or occupied. For vacant lots, ET demands should be the same as the purpose for which the land is zoned or likely to be zoned/developed. To overcome the development industry concerns that this treatment should be complied with, simply requires inclusion in the guidelines.
- In calculating developer charges the LWA has to assume certain demands on its system in the future and also plan for the future. Potential development areas are usually designated particular types/forms of development and therefore applying

relevant ET demands for that particular type of development allows the LWA to approximate the necessary infrastructure. Should the infrastructure have capacity above what was anticipated then this is a windfall for the LWA, although very unlikely. In fact in Albury it is quite the opposite, that is, usually the infrastructure does not have any spare capacity. Regarding the comment that stakeholders being concerned that the LWA does not provide information on spare capacity in existing assets, this may be true. However, if the developer does not ask the LWA then how will they know? If the question was asked at AlburyCity they would certainly be informed and in fact with the computer modelling programs available and being used, it is quite simple to provide the spare capacity in existing systems simply by requesting the information.

Valuation of Assets:

- The valuation of assets used in calculating developer charges definitely should be MEERA costs. As to where the relevant costs are obtained, this could raise some questions from developers, and rightly so. However the DSP should indicate where MEERA costs have been obtained. At AlburyCity we usually adopt the NSW Reference Rates Manual June 2003. In some instances we adopt current local costs which may differ to the NSW Reference Rates; these are used where we know that the local costs are more than likely to be more indicative and are specified in the DSP. For instance, upgrading a typical 2-pump sewage pump station with new electric switch-gear etc is approximately \$25K as we augment one every year.

Agglomeration of DSPs:

- Agglomeration is not an issue with AlburyCity as we only have one water supply system and one sewerage system. However, we see no issues with agglomeration and the guidelines detail how it is applied on page 19 of the guidelines and by example on page 93. However, it was better explained at the 'workshop' conducted by DEUS that we attended. What the impact would be administratively on LWAs if the 30% factor were altered is unknown, although one would assume that if it were reduced then the number of DSP would increase. This would then increase the administration of developer charges.

Calculation of the Capital Charge where Lot take-up is Non-uniform:

- AlburyCity prefers the ROI approach rather than the NPV approach, particularly for transparency. We used this method as we felt it was much easier and the calculation sheet (Table 3 in Attachment 4 of the guidelines) was in fact included in our DSP to show developers how the final charge was derived. AlburyCity would not support restricting the calculation method to only one method.

Calculation of the Reduction Amount:

- AlburyCity feels that the current guidelines are more than adequate for calculating the Reduction Amount. The flowchart on page 8 and Section 4.1.1 of the guidelines basically directs the LWA along the correct (and most appropriate) path which defines the method to use. Whilst the first sentence in the last paragraph of page 27 of the *Issues Paper* is correct, surely LWAs review their pricing structures annually when developing their budget and the ultimate water and sewerage pricing structure should be in accordance with DEUS's *Best-Practice Management Guidelines*; it certainly is at AlburyCity.

Equivalent Tenements:

- AlburyCity believes that the guidelines at the time (i.e. December 2002) were current and how ETs should be determined was satisfactory, especially by referring to the appropriate PWD publications (*Water Supply Investigation Manual* and the *Manual of Practice: Sewer Design*). Since then the NSW Water Directorate have completed extensive investigations throughout the state to determine ET demands for various forms of development (AlburyCity was part of this exercise), and have subsequently published a manual. The Directorate's investigations found that the PWD ET demands were very similar, and therefore the adoption of either the Directorate's or the PWD's demands should be adopted and this should form part of the developer charges guidelines.
- It is very difficult for LWAs to determine the exact final type of development that will occur in an area. However the LWA's strategic planner should have an inkling of what will/may occur in areas and surely the local Council's LEP and DCP contains this information, thereby allowing the appropriate ET demands to be assigned to various areas. The DSP itself should also define the various ET demands. Further, it should perhaps include a statement to the effect that if developers believe the ET demands placed on particular areas are different to what they believe it to be, then the developer should be given the opportunity to offer an alternative that may be negotiated – AlburyCity noted this in their DSP.
- AlburyCity does not support the concept of discounting ETs based on monetary factors or vacant lots.
- There is a further point with respect to ETs that should form part of this review and be possibly included in the guidelines. This is the need for s64 DSPs to refer to the relevant s94 DSPs for the same area and to clearly identify nexus and development assumptions. In other words, the two DSPs should be complimentary, not vastly different in terms of what is being planned for and be used as a valuable cross reference for development trends and/or likely ETs and demand. Even though in other areas, the s64 and s94 documents are prepared by two agencies, surely they should be considered by each authority as a good point of reference.



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11/5/07