



SUBMISSION BY THE  
**Housing Industry Association**

to the  
**Independent Pricing and Regulatory Tribunal  
(IPART)**  
on the  
**Review of DEUS Developer Charges Guidelines for  
Water Supply, Sewerage and Stormwater**

16 May 2007

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## Statement:

The enclosed submission has been prepared by the Housing Industry Association (NSW Region) in response to the *Review of DEUS Developer Charges Guidelines for Water Supply, Sewerage and Stormwater*.



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Date: 16 May 2007

## Introduction

This submission has been prepared by the Housing Industry Association (HIA) in response to the *Review of DEUS Developer Charges Guidelines for Water Supply, Sewerage and Stormwater*.

As Australia's peak residential building industry association, HIA represents over 40,000 members (15,000 of which are in NSW) in the building and development industry across Australia. HIA members include building and development companies, large and small, who construct over 85% of the nation's new housing stock. They are involved in all facets of the residential building industry including land development, detached housing, multi-unit construction, the various trade areas, architects and building professionals and manufacturers and suppliers of building materials.

The aim of this review is to control prices and at the same time manage the demand for water supply. HIA believes that Local Water Authorities (LWAs) should promote social equity by providing safe water services to all at an affordable price. HIA advocates the provision of infrastructure to meet community needs and expectations.

HIA seeks the support of the Independent Pricing and Regulatory Tribunal (IPART) to recognise and address the issues raised in this submission prior to the completion of the DEUS Developer Charges Guidelines for Water Supply, Sewerage and Stormwater.

## Issues of concern

### 1. Flexible funding mechanisms for infrastructure delivery by LWAs

The Department of Energy, Utilities and Sustainability's (DEUS) guidelines give Local Water Authorities (LWAs) the flexibility to establish a combination of developer charges and periodic charges that best reflect the needs of the community. Any flexibility given to LWAs to allow them to look at alternative funding options may help to minimise the developer charges and therefore relieve the burden being placed on new homebuyers.

Government borrowing is an alternate method of funding water, sewerage and stormwater infrastructure within LWAs. Borrowing for infrastructure would assist the funding of upfront investment and generate repayments from ratepayers or taxpayers. This would reduce the impact of developer charges passed onto homebuyers as part of the cost of new homes. Reliance on general rates would then provide a predictable and stable annual obligation on ratepayers, that could be used by local government to recoup the initial investment and the interest charges associated with borrowing for water infrastructure up front.

Past indiscretions have caused governments to avoid borrowing in order to reduce public debt. Since 1997, Governments have measured their performance by the quantum of surplus at year's end. Over the same period, household debt has deteriorated (to record levels in 2004/05 (Source: ABS). Reluctance to borrow for infrastructure is having a dire consequence on families and households. If councils establish a clear link between borrowing for infrastructure and increases in general rates or user charges, developer charges could potentially be reduced and housing affordability improved.

### ***2. Cross-subsidising unrelated DSPs***

DEUS are proposing to agglomerate a number of Development Servicing Plans (DSPs) if capital charges for different DSPs are within 30% of each other, even if they are not in geographical proximity. This will remove any nexus between the water infrastructure and the person responsible for payment, and is likely to lead to areas with lesser infrastructure burden and hence DSP charges, unknowingly subsidising areas where more expensive infrastructure is necessary. Cross-subsidy may not be supported by the small population of towns controlled by LWAs and should not be part of the proposed new charges.

### ***3. Increasing flexible pricing structures for LWAs***

If a local government area seeks to promote and attract development, they could choose to reduce the cost of DSP developer charges and find other means of funding infrastructure. A rigid approach may create an obstacle for areas that strive to attract future growth.

The model provides no scope for flexible funding and as such, simply adds significant extra costs to development. The formula is also extremely sensitive to final lot take-up assumption. Most LWAs apply a very conservative take-up rate which has the impact of ramping up the actual fee, with no real provision for review. Using these very conservative take-up assumptions creates a higher chance of delivering windfall revenue to the LWA at the end of the infrastructure project.

### ***4. Calculation of developer charges***

The DEUS guidelines state that the calculated developer charge is the maximum amount (i.e. capital costs minus reduction amount) that may be levied by a water utility to recover the costs associated with the provision of water and sewerage infrastructure to new developments, but a utility may elect to charge less than the calculated amount, provided that it discloses the resulting cross-subsidy from existing customers.

According to DEUS and IPART, the purpose of developer charges (up-front developer charges) is *“to provide a source of funding for infrastructure required for new urban development and to provide signals regarding the cost of urban development thereby encouraging less costly forms in areas of development”*.

HIA believes that the pricing approach used to fund infrastructure works associated with public health and environmental protection should be a government responsibility. The onus should not be placed on new homebuyers.

Backlog service areas should also be funded by the Government as a community health and environmental responsibility, as they were in the past. New homebuyers should not be forced to incur the financial penalty to subsidise the cost of servicing backlog areas as well as paying the full cost of their own water and sewerage services. Inevitably, the costs are realised in larger mortgages which equate to greater housing

stress. In many instances, the costs imposed become the ultimate barrier to home ownership.

Clearly, there are subsidiary benefits delivered to existing residents through the provision of infrastructure for new homebuyers. The infrastructure is spread throughout the existing and incoming population of a local government area. So too, should the costs to delivery the infrastructure.

### ***5. Pre-existing assets***

In 1995, the IPART methodology excluded pre-1970 assets in the calculation of developer charges because the Tribunal considered at the time that such assets would have been paid for. Twelve years later in 2007, it would be expected that pre-1982 assets should now be similarly excluded, although this does not seem to have occurred. HIA believes that the DEUS Guidelines should adopt this approach for all assets.

### ***6. Methodology for developer charges***

The methodology used by DEUS in calculating developer charges should be simple and easy to follow as there are limited data and resources in many LWAs. Flawed financial assumptions and calculations may cause inconsistent results.

### ***7. Accurate population growth figures***

Projected population growth figures must be transparent and open to the public for comment. Inaccurate population forecasting may result in miscalculation of DSP developer charges. Prior to the implementation of any methodology, the rate of future development needs to be determined based on past trends and population growth over time. If a council aims to attract development, they must keep developer charges to a minimum in order to provide incentives for new homebuyers.

### ***8. Pre-existing funds for future infrastructure***

If a LWA has already received funding from state government, they must disclose the amount and refrain from charging developers again. LWAs should include any subsidies or funding to the calculations of DSP developer charges, double-dipping must be eliminated.

### ***9. Variations in developer charges***

HIA is concerned with the substantial variations in developer charges between LWAs, and within the areas covered by the Metropolitan Water Agencies. Variations in water rates by Water Authorities, together with high developer charges, clearly benefit existing properties, at the expense of those purchasing new homes.

Water authorities may look at DSPs as a source for increasing revenue, and at the same time increase charges. This will lead to market development affordability becoming unsustainable, thereby undermining the very purpose of the exercise. As a consequence, developer charges will move upwards. This applies to both LWAs and the Metropolitan Water Authorities (especially in Western Sydney, Blue Mountains and The Illawarra).

## Conclusion

The methodology used in the *'Review of DEUS Developer Charges Guidelines for Water Supply, Sewerage and Stormwater'* may eliminate the reliance upon the whole of the community to contribute to infrastructure development and impose significant cost on a minority of the community, being new home purchasers. The result is a tangible and unjustified increase in house prices generating additional wealth for existing homeowners, at the expense of new home buyers.

LWAs should adhere to the principles of need, nexus, reasonableness, equity and accountability and set against an overriding objective of maintaining housing affordability.

The relationship between developer charge pricing, Government policy, and social and economic equity needs to be addressed. Broader consideration needs to be given to all of the above elements in order to support communities in NSW.

It is important that LWAs refrain from collecting revenue from new users to pay for assets that benefit existing users. Any beneficiaries of the provision of new infrastructure should share the cost of that benefit.

Infrastructure provision should be planned, developed, and implemented in a coordinated manner by all LWAs. Infrastructure provision and funding must have a minimal impact on affordability of new housing.

Governments play a lead role in providing infrastructure. Governments must equally take responsibility for funding a fair, whole of community benefit proportion of the cost of delivering that infrastructure.