



25 August 2008

Mr James Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB POST OFFICE NSW 1230

By email: ipart@ipart.nsw.gov.au

Dear Mr Cox

IPART draft determination and draft report on the review of development charges for metropolitan water agencies

The Property Council of Australia welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal's (IPART) draft determination and draft report on the review of development charges for metropolitan water agencies.

In our response to the issues paper released in November 2007 we addressed the following concerns with the current development charge methodology:

- it fails to address the impact of development charges on housing affordability;
- it is too complex and results in increasingly prohibitive charges being levied on residential and employment generating development;
- it fails to adjust to the demand implications of the Building Sustainability Index (BASIX); and
- it lacks the flexibility to accommodate the uptake of innovation to improve sustainability.

Having reviewed the draft determination and draft report the Property Council makes the following comments and recommendations:

Housing Affordability

At the IPART public workshop held on 10 March 2008 it was stated that "while the housing affordability crisis is obviously a critical issue, it won't be solved by developer charges" (10/03/08 31, 41).

Although we agree that there is no silver bullet that will fix housing affordability in NSW it is short sighted of IPART to discount the impact water and wastewater development charges have on the cost of residential property.

A residential development costs benchmarking study completed for the Residential Development Council in 2006 indicated that per unit produced the cost impact of infrastructure charges was higher than the impact of stamp duty, council application fees and consultant fees.

In the Federal Government's *Housing Affordability Fund Consultation Paper* released in June 2008 the Federal Government nominates reducing the burden of infrastructure charges on

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developers in order to generate savings for purchasers of new, moderately priced homes as one of four key priority areas of the Fund.

The focus generated by the Federal Government in this recent consultation paper suggests that IPART should reconsider its position and address the impact development charges are having on housing affordability.

The Property Council reiterates its previous recommendation that a housing affordability statement which commits IPART and the metropolitan water agencies to addressing the impact development charges have on housing affordability should be incorporated into the determination.

Charge Reductions

The Property Council is pleased that IPART's draft determination will lead to the reduction of levies charged in 42% of water Development Servicing Plan areas (DSP areas) and 58% of wastewater DSP areas in Sydney Water's area of operation.

However there are still a significant number of DSP areas which will experience an increase in charges. In some instances a development will be forced to absorb an increase from an existing charge base of \$13,000+ per ET.

The Property Council has reviewed the figures provided by IPART. Highlighted below are some DSP areas where a significant percentage increase to the charge is proposed (Narrabeen wastewater, Liverpool water, Narellan water), areas where an increase will be experienced when the current charge is already excessive (Pleasure Point water and Liverpool wastewater) and areas where a proposed decrease will do little to lessen the quantum and impact of the development charge (Pleasure Point wastewater).

Table 1: Example of possible changes to developer charges

DSP	Existing	Proposed	% change
Water			
Liverpool	\$1,338	\$2,062	54%
Narellan	\$629	\$880	40%
Minchinbury	\$2,375	\$2,846	20%
Pleasure Point	\$13,601	\$14,799	9%
Wastewater			
Narrabeen	\$180	\$2,731	1,417%
Gerringong	\$16,479	\$18,028	9%
Liverpool	\$7,882	\$8,009	2%
Pleasure Point	\$26,466	\$24,321	- 8%

Although it is positive that the draft determination is proposing a general reduction in charges levied, IPART needs to readdress the DSP areas where charges are still excessive and will continue to erode development feasibilities in key residential and employment growth areas of metropolitan Sydney and the Hunter.

Technical Panel

The Property Council strongly supports IPART's decision to establish a Technical Panel comprised of members of the development industry and water agencies to provide advice on the application of the new methodology.

This Technical Panel should be tasked with ensuring a consistent and fair interpretation and application of the methodology across the metropolitan water agencies.

Upon the finalisation of its determination and report IPART should release a draft terms of reference for the Technical Panel and give an indication of when it could be expected to be established.

We would be pleased to nominate appropriate representatives from our membership who could sit on this Technical Panel and assist IPART.

BASIX

Under the current methodology the net operating result (the revenue derived from a system) is used to offset the capital investment in infrastructure. As BASIX results in 40% less water being used, the revenue and the resulting offset from the system is lowered. This results in an increase in the development charge for water.

The Property Council reiterates that this outcome is unfair to potential home owners who are legally required to conform to BASIX. It also discourages best practice in sustainability and environmental performance.

The draft report suggests that in the long term BASIX will reduce the demand for water at the source, reduce or delay the need for the construction of headworks assets and consequently lower development charges.

The Property Council recommends that IPART deliver certainty (ie. an outline of cost savings and timeframes) to this assumption and give the development industry confidence that this issue will be appropriately addressed in the longer term.

IPART has fallen short of incorporating a mechanism into the draft determination to neutralise the development charge increases resulting from the introduction of BASIX in the short term. IPART should still consider addressing the short term impact BASIX is having on the levying of development charges.

The Property Council recommends that a short term solution be introduced to ensure that developments and prospective home owners are not unfairly impacted by the introduction of BASIX. This could take the form of a rebate on development charges.

Sustainability Incentives

The Property Council has previously recommended that IPART consider introducing an incentive mechanism into the development charge methodology to encourage developments to achieve sustainability gains above and beyond BASIX.

Improvements in sustainability resulting in reduced demand for water services will also defer the capital investment required by the metropolitan water agencies to increase the capacity of systems.

IPART has not incorporated an incentive mechanism into the methodology to encourage commercial, industrial and residential developments to achieve water self sufficiency through significantly increasing water storage and reuse options in projects.

The Property Council recommends that IPART reconsider this issue prior to finalising its determination and report.

Thank you again for the opportunity to comment on the draft determination and draft report. Please contact Kristin Pryce, NSW Policy Advisor, on 9033 1951 if you have any questions regarding this submission.

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized 'K' followed by a long, sweeping horizontal line that ends in a small upward flick.

Ken Morrison
NSW Executive Director

C.c: The Hon Nathan Rees MP, Minister for Water