



1 February 2008

Office of the General Manager

Reference File: F01804 – 08/5317

Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Sir/Madam,

SUBJECT: Submission from Blue Mountains City Council regarding the Review of Developer Charges for Metropolitan Water Agencies

Thank you for the opportunity to forward a submission to IPART, in relation to developer charges for the provision of water, sewerage, stormwater and recycled water services to new development in the Blue Mountains Region.

The Blue Mountains City Council acknowledges the efforts of Sydney Water to significantly upgrade reticulated sewer and water infrastructure within the Blue Mountain LGA and this has been of great benefit to the Region. The Council is aware that Sydney Water has submitted an application to IPART with a new formula for calculating developer charges for metropolitan water agencies and the Council is responding accordingly.

The Council has concerns regarding the changes that have occurred to developer charges in the past year. The increase in these charges will represent a significant deterrent to economic growth in this Region. Revised developer charges in 2005/06 as per the attached table, resulted in rises of up to 490%. The major changes occurred to industrial land where the costs increased from \$179,604 PNHa to \$1,057,000 PNHa.

These charges were seen to be untenable and after listening to concerns from the Blue Mountains Community with the support of the Western Sydney Regional Organisation of Councils (WSROC), Nathan Rees, Minister for Water Utilities reduced the charges to \$418,952 PNHa. This still represented an increase of 133% over the original 2005/06 charges in industrial areas. It should be noted that the Blue Mountains charges are the second highest on a list of 33 suburbs on the Sydney Water website.

Whilst it is acknowledged that the revised formula will generally reduce charges in the Blue Mountains, the Council still believes that these charges are too high and will have a significant negative impact on the Region's economic position.

Although the number of parcels of commercial and industrial land affected may be relatively small, the consequences of having charges that are too high are significant. The specific issues of concern relating to increased developer charges in the Blue Mountains are:

1. Increased commercial and industrial developer charges will have a significant negative impact on development feasibility. The cost to develop commercial/industrial land is prohibitive and as a consequence land may not be developed for commercial purposes resulting in less employment. This is particularly relevant in the Blue Mountains as 51% of the work force already work outside of the area. This is the 2nd highest area in NSW after Sydney's North Shore.
2. The higher rates for industrial land will in particular, impact negatively on industrial land values and seriously undermine the region's jobs growth strategies. The increased development costs for undeveloped industrial sites will jeopardise the commercial viability of these sites, where there is already tenuous market competitiveness with other regions. Any resulting drop in values will potentially render some industrial estates e.g. Lawson Industrial Estate as "white elephants "
3. Unlike residential development, commercial/industrial development has broad catchments and their supply can be based in neighbouring LGAs, if economics are favourable. Unless the Blue Mountains LGA can provide land competitively to surrounding LGAs/regions it will lose out, resulting in further job losses. Blue Mountains City Council has engaged the services of property consultant Hill PDA to substantiate this viewpoint (see attached report)
4. Development is limited and infrastructure cost already high due to the need to protect the world heritage listed National Park – a responsibility of the Federal and State Governments.
5. The percentage of commercial and industrial land affected, whilst extremely important to the local economy, is relatively small and will not have major impact on State funding if charges are reduced to a level that allows for commercially viable development.
6. The current formula for calculating developer charges appears to be based largely on the capital cost of the assets required to service the area. Whilst it is acknowledged that the terrain of the Blue Mountains can in some cases increase the cost of providing such assets this needs to be balanced against the broader social and economic impacts that will result from unrealistic development costs. In other words developer charges need to take into account governments' community obligations and not just the cost of providing the service.
7. In addition, Sydney's water supply starts in the Blue Mountains. Accordingly, it is critical that infrastructure in the Mountains is constructed and maintained to a high standard. Whilst this may increase costs, this should not be passed on to the Blue Mountains community. These costs should be borne across the Sydney Water network.

In putting forward this submission to IPART, the Council requests that the serious implications to future economic development in the Region arising from increases in

developer charges i.e. the potential impact on housing affordability and potential loss of commercial and industrial development be taken into account. The Council asks that Sydney Water absorb any increases in cost for industrial/commercial land by reverting to 2005/06 charges i.e. "existing developer charges 05/06" see table.

If you have any further questions in respect to this submission, please contact Bronwen Johnston, Economic Development Program Leader on (02) 4780 5737.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Pinyon', with a stylized, cursive script.

PHIL PINYON
General Manager

Attach.

Executive Summary – Winmalee Wastewater System Developer Charge

In accordance with the Independent Pricing and Regulatory Tribunal's (IPART) Determination No. 9, Sydney Water has revised its existing developer charges and Development Servicing Plans.

This Development Servicing Plan has been prepared for the Winmalee wastewater system and is currently on public exhibition for a period of 30 working days.

The revised developer charge for the Winmalee wastewater system is \$19,125/ET as compared with the existing charge of \$6,652/ET. Table 1 details the schedule of charges for different development types.

Existing Developer Charge \$2005/06			
Development	Density		Charge
Residential			
	0 - 20	\$/dwell	\$6,652
	>20 – 40	\$/dwell	\$5,321
	>40 – 60	\$/dwell	\$4,656
	>60 – 80	\$/dwell	\$3,791
	>80 – 100	\$/dwell	\$3,326
	>100 – 130	\$/dwell	\$3,059
	>130 – 180	\$/dwell	\$2,727
	> 180	\$/dwell	\$2,727
Commercial			
	Light	\$/PNHa	\$179,604
	Heavy	Assess As Required	
Industrial			
	Light	\$/PNHa	\$179,604
	Heavy	Assess As Required	
Other			
		Assess As Required	

Revised Developer Charge \$2005/06			
Development	Density		Charge
Residential			
	0 – 20	\$/dwell	\$19,125
	21 – 35	\$/dwell	\$13,387
	36 – 50	\$/dwell	\$10,519
	51 – 65	\$/dwell	\$9,945
	66 – 81	\$/dwell	\$9,754
	82 – 95	\$/dwell	\$9,754
	96 – 125	\$/dwell	\$9,562
	126 – 155	\$/dwell	\$9,180
> 155	\$/dwell	\$8,797	
Commercial			
	Light	\$/PNHa	\$571,835
	Heavy	Assess As Required	
Industrial			
	Light	\$/PNHa	\$1,057,608
	Heavy	Assess As Required	
Other			
		Assess As Required	

PNHa: Pure Net Hectare, which approximately equates to developable area.

Assess as Required: These charges are determined by assessing the likely demands of each individual development.

Once Sydney Water has considered the submissions received during the public exhibition period, Sydney Water will register the final revised developer charges with IPART prior to the new charges becoming effective.

The final charges will be subject to an annual adjustment in line with movements in the consumer price index. The quantum of each adjustment will be determined by IPART.



Nathan Rees MP
Minister for Emergency Services
Minister for Water Utilities

NEWS RELEASE

7 November 2007

SYDNEY WATER REDUCES DEVELOPER CHARGES

NSW Water Utilities Minister Nathan Rees today announced that Sydney Water will reduce its IPART-approved developer charges for water and wastewater services in nine areas across Sydney, the Blue Mountains and the Illawarra.

Mr Rees said the move comes after listening to concerns raised by developers, retirement village builders and representations from the Member for Blue Mountains, Phil Koperberg.

"The reductions range from \$306 to \$12,752, with the maximum increases over last year's prices for the combined water and wastewater connection charges now capped at \$5000 per single dwelling.

"The capped charges will be back-dated to 1 July 2007 and those who have paid a higher charge will receive a refund."

Mr Rees said the lemma Government made the decision after recognising that some developers had made investments prior to the new charges coming into effect on 1 July this year.

"Given this, we have agreed that Sydney Water will limit the increase for the combined water and wastewater charges to \$5000 per single dwelling until a pricing review by the Independent Pricing and Regulatory Tribunal is completed," Mr Rees said.

"The comprehensive review of the pricing formula will start later this year.

"Sydney Water will make a submission to the Tribunal as part of that review."

A developer charge is a fee levied by Sydney Water on developers to recover part of the costs incurred in providing water, wastewater, and in some cases stormwater and recycled water services to new developments.

Mr Rees said one of the reasons why Sydney Water levied large increases in some areas was that some developments are located across small areas of difficult terrain and a small number of dwellings.

Sydney Water will invest more than \$1.2 billion over the next five years to meet the water, wastewater and recycled water needs of new developments including:

Sydney Water will spend:

- \$317 million on water infrastructure.
- \$537 million on wastewater infrastructure.
- \$338 million on recycled water facilities.
- \$18 million on stormwater.

1 February, 2008

Bronwen Johnston
Program leader, Economic Development
Blue Mountains City Council
Locked Bag 1005
Katoomba NSW 2780

Dear Bronwen,

Re: IPART Submission

From our recent discussions, it's understood you require Hill PDA to provide a comparative examination of industrial land values between the Blue Mountains and Penrith Local Government Areas. This is to include an analysis of the relationship between land values and the cost of development contributions.

Hill PDA was required to analyse the cost of industrial land in the Blue Mountains under three different scenarios being:

- 05/06 period with Developer Contributions of \$179,000 per hectare of land or \$17.9 per square metre;
- From July 2007 with Developer Contributions of \$ 1,000,000 per hectare of land or \$100 per square metre; and
- From November 2007 to January 2008, with Developer Contributions of \$412,000 per hectare of land or \$41.20 per square metre.

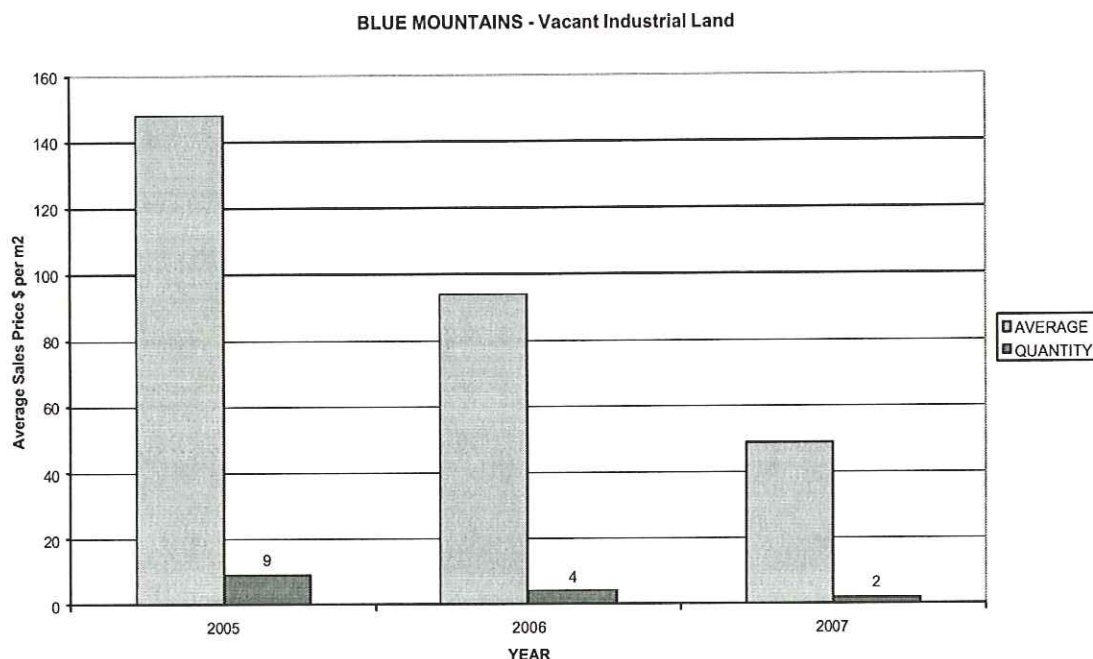
Given the time limitations to complete this task, we have undertaken a desktop analysis using sales evidence from such sources as Property Information Monitor, RP Data and the Department of Lands.

Our research suggests the volume of sales from the 05/06 period is somewhat limited, with only few industrial land sales during this time.

Comparable Market Evidence

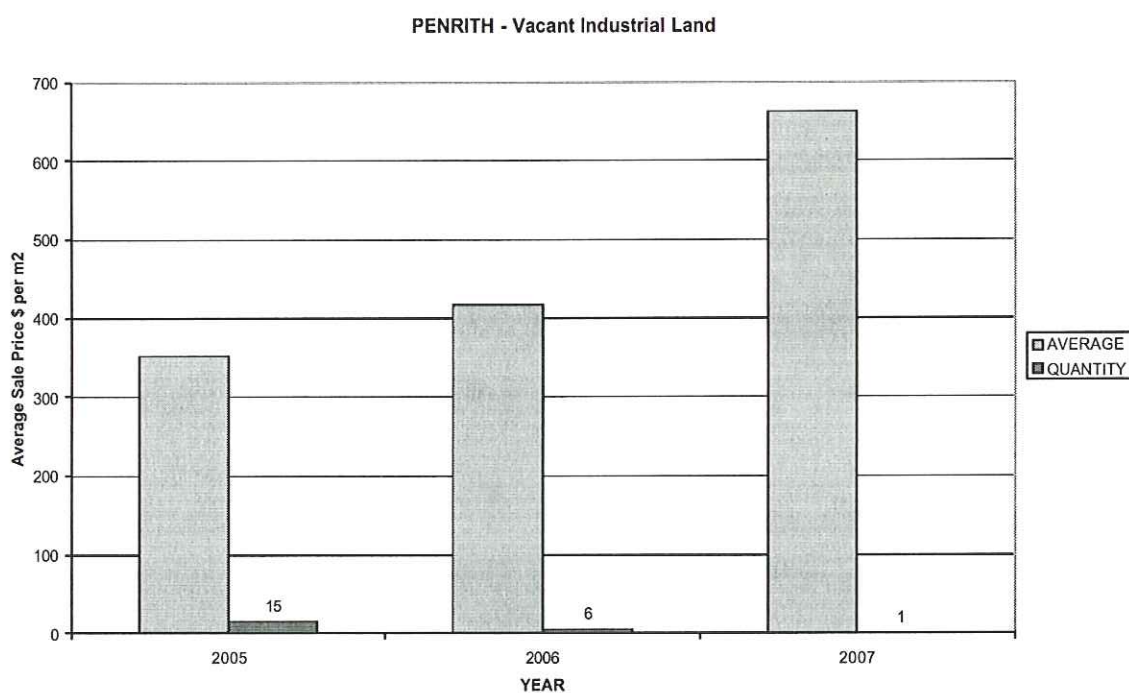
The following graphs represent vacant light industrial land values from 2005-2007 for the Blue Mountains and Penrith Local Government Areas, as well as Sydney Metropolitan and NSW Regional areas (made up of 16 regional towns e.g. Bathurst, Dubbo, Goulburn, Lismore and Taree).

The following graph represents the average sale price (analysed as a rate per square metre of land) and volume of vacant industrial land sales within the Blue Mountains Local Government Area from 2005-2007.

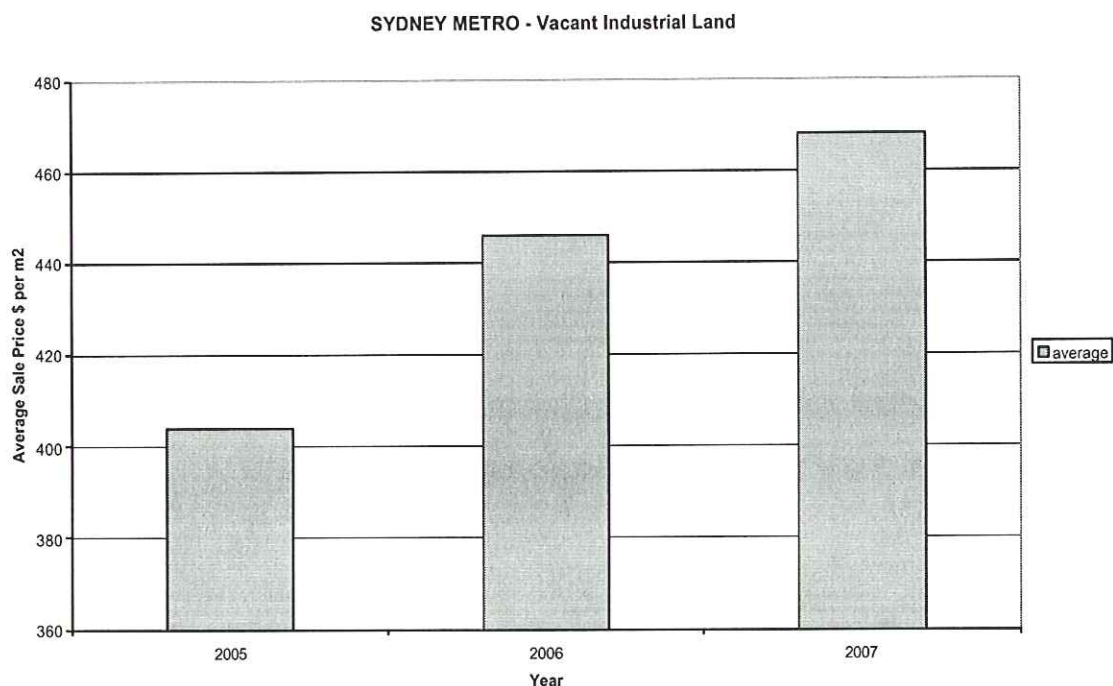


The graph indicates average sales prices and volume of sales have declined. As such, it is difficult for this analysis to accurately represent the current market trend.

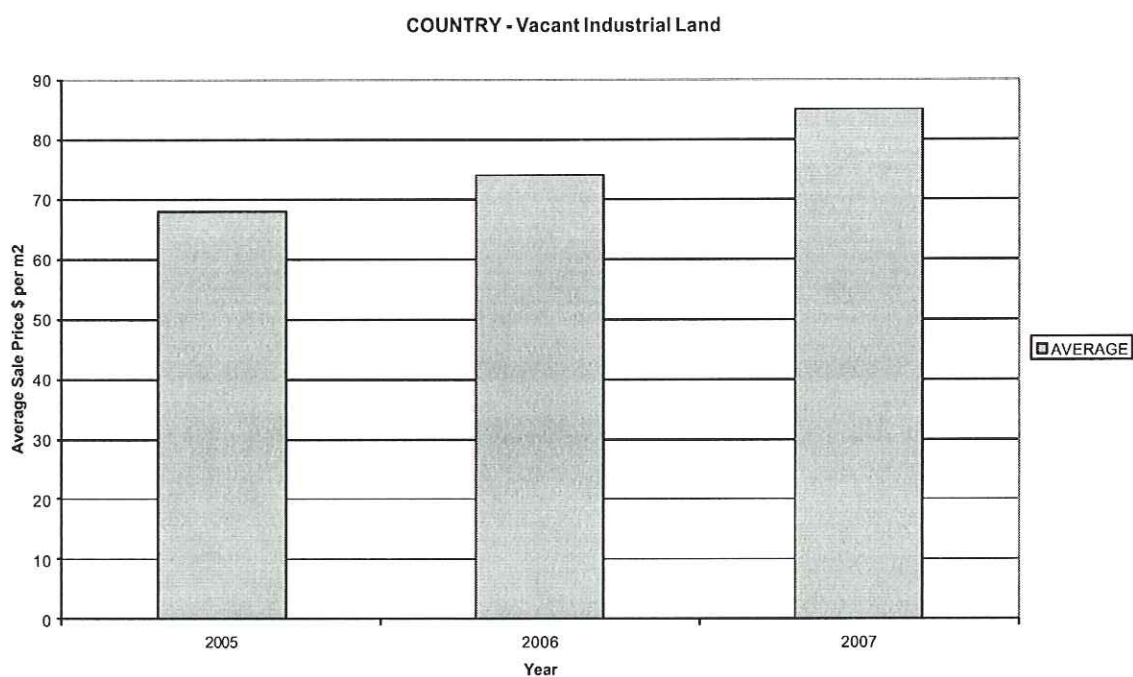
Penrith industrial land sales for the same period are represented in the graph below. It demonstrates that there is generally an upward trend in values over the same period, although like the Blue Mountains, the volume of sales has declined.



The following graphs represent the average sale price of industrial land (expressed as a rate per square metre of land) in both the Sydney Metropolitan Area and NSW Country.



Both graphs show that there is generally a consistent trend upwards in industrial land values.



Summary;

- Out of the three main property markets, Residential, Industrial and Commercial, the industrial property market is usually the most robust and on average generally out performs the other two.
- Developer charges have a significant impact on development feasibility.
- From the market evidence available, it would appear that the value of light industrial land within the Blue Mountains Local Government Area has been affected by changes in Developers Contributions which have increased from \$179,000 per hectare to \$1m per hectare. However, it's acknowledged that other market influences, such as interest rates, fluctuations in the costs of construction, may also have resulted in the general decline of values.
- In contrast, industrial land values in the Sydney Metropolitan Area and in NSW regional locations have been increasing over the same period.
- The higher the development contribution, the less the developer is willing to pay for the land. Correspondingly, a proposed development is considered unfeasible. As such, the \$1M per hectare development contribution has prohibited proposed industrial development from proceeding, driving land values and sales volume down. With such a high development contribution there is little incentive for a developer to invest within the Blue Mountains LGA.
- We note that Developer Contributions have been recently reduced from \$1M to \$412,000 per hectare. In time this will probably have some affect on land values but to what extent without a further in depth analysis it is difficult to assess. None the less, \$412,000 per hectare would be considered to still be excessive in the light of the current state of the Blue Mountains Industrial Market.
- If the economics are not favourable, industrial development is likely to relocate to a neighbouring LGA.
- Unless the Blue Mountains can set consistent and competitive development contributions, inline with surrounding areas, it will be unable to attract new industrial development, which would ultimately impact on regional development overall.

Based on the limited evidence and time frame to complete this study, we suggest Council should undertake a more in-depth study to analyse contributions of surrounding LGAs. This further analysis should determine whether development contributions being charged by Council are prohibiting development and undermining employment growth. This study should also be supported with an economic study indicating what charges would encourage sustainable development.

Should you have any questions or if we can provide a further in depth study, please do not hesitate to call me.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Robert Wilson'.

Robert Wilson AAPI
Certified Practicing Valuer
Associate
Hill PDA

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