

9 October 2008

Review of prices for water, wastewater and stormwater services
for Gosford City Council and Wyong Shire Council;
Independent Pricing and Regulatory Tribunal
PO Box Q290
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By e-mail: ipart@ipart.nsw.gov.au

Dear Sir/Madam

The Urban Taskforce represents Australia's most prominent developers and equity financiers.

Headworks

New home buyers should not be singled out to subsidise from major infrastructure investments, particularly headworks like the Tillegra Dam, or Sydney's desalination plant, through increased development servicing plan (DSP) charges.

We note and agree with comments made by Sydney Water on page 86 of their *Submission to the IPART Review of Prices for Sydney Water Corporation* (14 September 2007).

Sydney Water says that it's not appropriate to recover the costs of the desalination project from developer charges because the plant is to secure the water supply for all customers – new and existing – during low and variable rainfall and severe and sustained droughts, possibly related to climate change. They argued (and we agree) that it is not practicable to separately identify a component related to growth from that of security.

Furthermore Sydney Water correctly argued that if desalination costs are included in developer charges, customers would be required to make an up-front contribution to the cost of the plant even if they choose an alternative supplier of bulk water in the future. The increasing supply of recycled water for uses other than drinking is also important.

Like Sydney's desalination plant, the Tillegra Dam is about securing the water supply for all customers – new and existing – during low and variable rainfall and severe and sustained droughts.

In any event – even if – despite all the evidence – the IPART decided that some part of the headworks could be attributable to a 'growth component' we do not think that any of this cost should be recovered from DSP charges.

Any increased developer charge imposition will flow through to the homebuyers (or, if this is not possible, prevent land from being developed, which in turn will place upward pressure on regional property prices). Conventional economic thinking is that higher

developer charges lead to lower prices being received by the original owners of undeveloped land, however this argument ignores the following facts:

- In locations such as the Central Coast many developers have already acquired the land and factored in all the charges known about at the time of purchase – in these cases it is too late to adjust the price paid to landowners, yet the development cannot proceed unless the necessary internal rate of return can be earned.
- There is a natural floor to land prices, below which the owners of undeveloped land will not accept. This floor does, in part, reflect the opportunity cost for other uses of the land – such as rural lifestyle blocks. The floor is also driven by the long-held expectations of those land holders. Even though those expectations may not be realisable in the short term, these land holders are very patient, hold minimal debt and originally acquired the land at very low prices. They tend to have no difficulty in waiting for prices to rise to the level consistent with their expectations.
- The production of new urban land is a highly regulated activity and many of the normal market forces do not apply because of the command and control approach of planning authorities. Large areas are unable to be developed because of legal restrictions imposed by the planning system. Land tends to be drip fed by the planning system into the market. If it is not economic for the land that has been 'released' to be developed the planning system does not normally respond by releasing more land. Instead planning authorities blame 'the market' and say that we all have to wait for the next boom when they assume the 'released' land will become economic once again. This essentially means that home buyers must pay for more than they should and wait longer than they should in order to access the newly developed land.

In theory, everyone pays for their water at the same price. It's called 'postage stamp' pricing. The system of 'postage stamp pricing' is an illusion because homebuyers in new housing areas have to borrow a lot more money to cover the cost of connections to the water grid (i.e. DSP charges).

A homebuyer may have to borrow the cost of DSP charges that are passed onto them when they buy a new home. This homebuyer will effectively be paying twice for the water infrastructure – once through a higher purchase cost for their home and a second time through their regular water and wastewater charges.

Costs associated with the growth of the Central Coast's population are a burden that is shared by everyone - not just those whose need for housing sees them buying properties built in the new development areas.

Development (DSP) charges imposed by water utilities are often many thousands of dollars per home. But, as Sydney Water itself admits, had they not received any developer charges since 2000-01, annual prices for water and wastewater would only be around two per cent higher than presently charged.

Higher infrastructure charges also lead to a more inefficient economic outcome because land which is reasonably well located to infrastructure, ironically, is the land least able to afford to bear higher developer charges. This is because the location of this land - and its anticipated favourable treatment by the planning system - has been factored into land prices for some time.

As charges for headworks would rarely reflect the true costs of developing a given parcel of land (and are uniform across land of different value and characteristics), more expensive well located land is less likely to be developed when such a blanket infrastructure charge is introduced or increased.

On the other hand, some land that is not as well located to infrastructure, may have been acquired at lower prices and therefore may still be developable when uniform infrastructure charges are increased. Hence the imposition or increase of uniform infrastructure charges for headworks leads to an inefficient outcome: the land that should be developed is not able to be developed; but cheaper land located further away from infrastructure may still be able to be developed.

There is no good policy reason why the purchasers of newly-built homes should be held particularly responsible for the economic costs of growth. In many cases such purchasers will be existing residents of the region who have re-located. They are no more responsible for growth than others in the community. By making them pay for the cost of growth through higher home prices, they will be bearing a disproportionate share of the burden, because they will, in effect, be paying twice.

Wyong Council

The Tribunal's proposal to remove a cap on charges for Wyong Council will increase the cost of new homes in the area between 2009 and 2012.

IPART has not properly quantified the implications of this proposal. Indeed, as levels of underlying demand are strong and the main reason for demand not being met is because of a high cost base, a further increase in the costs of producing new housing in Wyong will aggravate the current supply shortfall in the region.

Thank you for the opportunity to comment on your issues paper and the submissions of the two councils.

As always, we are available to discuss any aspect of our submission.

Yours sincerely,

Urban Taskforce Australia

A handwritten signature in black ink that reads "Aaron Gadiel". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Aaron Gadiel
Chief Executive Officer