

27 October 2008

Review of prices for water, wastewater
and stormwater services for Hunter Water
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

By e-mail: ipart@ipart.nsw.gov.au

Dear Sir/Madam

The Urban Taskforce is an industry organisation representing Australia's most prominent property developers and equity financiers. Our membership also includes key infrastructure providers, economists, planners, architects and lawyers involved in property development. We provide a forum for people involved in the development and planning of the urban environment to engage in constructive dialogue with both government and the community.

The Taskforce is alarmed at Hunter Water's proposal to fund 60 per cent of the costs of the \$406 million Tillegra Dam by levying local development. That's why we commissioned BIS Shrapnel to prepare the report *Life's Essentials: Water and New Homes for the Hunter*. The report is attached and forms part of this submission. The report includes additional advice from Monteath and Powys.

The burden of development levies is ultimately borne by home buyers. They should not be singled out to subsidise major infrastructure investments, particularly headworks like the Tillegra Dam.

We find it odd that this proposal should even be raised. In relation to Sydney's new headworks – the desalination plant – the NSW Government said that the costs would be recovered through Sydney Water's prices. I refer the letter from the then Water Utilities Minister, the Hon. Nathan Rees MP, to the IPART, a copy of which is attached.

Sydney Water has also said that it's not appropriate to recover the cost of their desalination project from development charges – because the plant is to secure the water supply for all customers.

As *Life's Essentials* shows, Tillegra Dam is also about securing the water supply for all customers – not just new customers. The dam is needed to protect the Hunter and Central Coast's water supply during low and variable rainfall ... and severe and sustained droughts.

The main losers from any development charge will be home buyers and renters.

The attached report makes some key points:

- Hunter Water projects an increase in demand of 20,000 mega litres by 2031. This amount represents just 17 per cent of the expected additional annual yield of 120,000 mega litres.
Hunter Water's assertion that 60 per cent of the dam is attributable to 'growth' is inexplicable.

- Hunter Water's own modelling shows that **the marginal cost of supplying water for the planned population increase of 160,000 by 2031 is close to zero.** This means the entire cost of Tillegra Dam should be attributed to drought security. There is no case for development charges.
- A new dam will generate water that can be accessed by anyone in the customer base, irrespective of where they live. **New home construction will not directly relate to population growth.**

The ageing population will be the dominant force for population growth and housing demand over the next twenty years. More than 100,000 established houses in the Hunter are currently occupied by just one or two people. These households are under-utilising the housing stock. The ownership of these established homes will be gradually transferred to younger people - which will facilitate some of the region's population growth. Retirees will move into newly built medium and high density homes. **If a development levy is used to fund the dam, these retirees would be forced to pay for additional water infrastructure they do not use.** Younger families moving into a retiree's existing house would account for the 'new' population, but would not pay any development levies. This is clearly inequitable.

- There are insufficient homes already in the Hunter; with **a deficiency of 2,800 dwellings at June 2008.** Consequently, rental vacancy rates have tightened with substantial rises in rents.

Hunter Water has proposed a developer charge of \$1,400 for each new home. It is unclear whether there will be variations on this amount between different housing types, e.g. detached house, medium density or high density dwellings. BIS Shrapnel projects new home production at 4,600 dwellings a year – although there is a great deal of uncertainty in forecasting the residential market in the current climate. A total of 4,600 dwellings would generate revenue of about \$129 million over 20 years. This amount is less than half of the proposed growth-related cost recovery of \$251 million. **It seems likely that the proposed \$1,400 would prove to be insufficient and Hunter Water could seek to impose a levy of more than \$2,800 a home.**

A charge of \$2,800 a home would represent a large proportion of the developer margin. It is unlikely that this could be absorbed. An additional development charge will raise the cost structure of new housing and some developments will not be viable until new home prices rise. The most likely outcome is that **the charge will be passed on to home buyers, either through a higher price, or through a reduction in the size of new home lots.**

However- no-one can accurately predict what the full charge is likely to be. By imposing a \$251 million in increased levies on new homes, the production of new housing is likely to be crippled. The less housing that's produced in the Hunter, the higher the charge Hunter Water will want to impose on the few homes that are built.

A higher price for new homes would reduce the affordability of residential land. It would extend the period of weakness in the housing market, and **prolong the current housing supply deficiency.** The rental market will remain tight, and there would be additional upward pressure on rentals.

Using development levies to fund the Tillegra Dam would be the equivalent of having a road toll that only applies to new model cars.

While our report was prepared on the basis of the first Hunter Water submission and not the additional submission publicly released on 22 October 2008, a preliminary examination suggests that the additional document does not address the issues we are raising. In fact, figure 7.1 in further submission (page 89) makes it clear that the proportion of Tillegra Dam which is actually attributable to the Central Coast is - in the absence of a contribution by that region - to be cost recovered by a levy on development in the Hunter. This defies any reasonable or rational price-setting methodology.

The entire cost of the Tillegra Dam should be funded through the water prices imposed by Hunter Water, Gosford Council and Wyong Council. None of the cost should be recovered through a levy on development.

We are available to discuss any aspect of this submission with the Tribunal.

Yours sincerely,

Urban Taskforce Australia

A handwritten signature in black ink, reading "Aaron Gadiel". The signature is written in a cursive style with a long horizontal stroke extending from the end of the name.

Aaron Gadiel
Chief Executive Officer

Enc.