7th July 2023

Mr. Darren Cleary
Managing Director
Hunter Water Corporation
PO Box 5171
HRMC NSW 2310
By email: developer.charges@hunterwater.com.au

Re: Reintroduction of Hunter Water DSP Developer Charges

Dear Darren,

The Urban Development Institute of Australia NSW (UDIA) is the leading development industry body, representing more than 450 member companies and agencies across the public and private sector. We are proud to count Hunter Water as a valued member. We invest in evidence-based research to inform our advocacy to Government, which enables our members to create liveable, affordable, and connected smart cities.

UDIA appreciates this opportunity to respond to Hunter Water Corporation's (HWC) public exhibition of the plan to reintroduce development servicing plans (DSP) and related developer charges to recover costs associated with providing infrastructure for new developments.

UDIA has been clear from the start that we are opposed to the reintroduction of DSP developer charges without comprehensive infrastructure contributions reform, as recommended by the NSW Productivity Commission. UDIA maintains our strong objection to imposing developer charges given:

- **the lack of comprehensive infrastructure contributions reform to rebalance overall contributions and reduce the impact of the added cost on development, as recommended by the NSW Productivity Commission;**

- **NSW is now in a severe housing supply and affordability crisis and the NSW Government is focused on increasing housing supply to address the crisis. Now is the time to reduce costs to accelerate the delivery of much-needed housing supply. Now is not the time to increase costs, such as reintroducing DSP developer charges which will either impact project feasibility, resulting in projects being delayed or abandoned, or add to the end price homeowners will have to pay. Neither of these outcomes is desirable in the midst of a deep housing supply and affordability crisis; and**

- **Hunter Water is enjoying strong financial performance under its current policies to fund growth. We see no justification to alter the current productive and efficient approach.**

UDIA strongly recommends that HWC keep developer charges set to zero and defer the consideration to reintroduce DSPs until such time as the full suite of infrastructure contributions reforms is implemented by the NSW Government and productivity gains to offset new costs are proven.

Our submission outlines our reasoning and also provides additional recommendations for optimal policy settings should a decision be made to implement DSPs.

Executive Summary

UDIA is grateful for the ongoing constructive working relationship we have established with Hunter Water. We meet on a quarterly basis with the Development Services team where we discuss and resolve challenges from both perspectives.

One of the issues we have tackled together in recent years has been how to deliver lead water and sewer infrastructure most efficiently for new developments in the evolving era of the Water Industry Competition Act (WICA). Prior to 2008, HWC utilised DSPs but this approach did not deliver the necessary infrastructure in a timely way and was a constraint on development. DSPs were set to zero in 2008, but by 2016, the HWC service model unreasonably burdened developers by obliging them, in most instances, to fund the cost of enabling infrastructure in full. In 2016, UDIA strongly supported HWC to change the way it managed and funded growth infrastructure, resulting in the current approach under HWC's Growth Plan, which is supported by the Funding and Delivery of Growth Infrastructure Standard (FoG policy). The current approach is funded through HWC's general income and has provided a productive pathway for the provision of lead infrastructure that has unlocked thousands of new dwellings and jobs. UDIA considers HWC's Growth Plan and complementary FoG policy to be a resounding success.

We are pleased that the Funding of Growth policy will continue as the rebranded Connecting Assets Funding (CAF) Standard. UDIA is pleased to endorse the new CAF Standard (with a clarification outlined below).

Given the success of HWC's current approach to growth funding, we are perplexed by the reintroduction of DSP developer charges.

Since 2008 when HWC DSPs were last used, HWC has maintained profitability, paid healthy dividends to the NSW Government, efficiently enabled development, and reimbursed developers for construction of network assets. UDIA sees no reason or logic to impose DSPs on the HWC system that is currently working so efficiently.

On the other hand, UDIA sees every reason not to add DSP developer charges at this time, when NSW is in a severe housing supply crisis, and housing approvals, commencements and completions are at decade-low rates. Without immediate government intervention this crisis will only get worse and have lasting negative social and economic outcomes for NSW including in the Hunter.

In recognition of this crisis, UDIA released the *UDIA NSW Housing Crisis Action Plan* in June 2023 (the Action Plan), recommending immediate steps to turn the housing crisis around and bring confidence back to both developers and consumers. One of our key recommendations

is "Do not impose new developer charges (such as DSPs) that negatively impact on development feasibility and without any commitment to productivity gains."

Another key recommendation of our Action Plan, and a continued priority for UDIA NSW, is the improved coordination and delivery of enabling infrastructure aligned with strategic land use planning to support new homes and jobs. Recent policy changes by the NSW Government, such as the creation of Urban Development Program (UDP) Committees and the focus on "infrastructure-led" development, shows that there is broad agreement that infrastructure must be delivered in line with development to support new housing and jobs growth. UDIA believes that HWC's CAF (former FoG) program is the best approach to achieve that practical alignment for water and wastewater infrastructure.

The exhibition documents do not explain how the reintroduction of DSPs will improve productivity at HWC. Indeed, there is no certainty that the coordination and delivery of water and sewer infrastructure will become more efficient or productive under DSPs. However, there is certainty that DSPs will negatively impact the future viability of new housing through increased costs on development.

Imposing this unexpected and significant new cost on the immediate pipeline of projects will undermine industry's ability to deliver much-needed housing supply and new jobs and make housing affordability worse.

UDIA seeks to work with HWC and the NSW Government to pull all levers to address the housing crisis, including the smooth and timely delivery of infrastructure aligned with development. We are hopeful that HWC will be able to continue its recent productive performance in enabling development in the Hunter.

UDIA's recommendations are:

1. ***Defer the reintroduction of DSPs and keep developer charges set to zero until such time as the full suite of infrastructure contributions reforms is implemented by the NSW Government and productivity gains to offset new costs are proven.***

If DSPs proceed:

2. ***To maintain the Connecting Assets Funding Standard as an efficient means to deliver growth infrastructure in line with development, amend the definition of 'right sized connecting asset' as "An asset that has been optimised, sized and configured to serve growth in addition to that of the Lead Developer and as a consequence is larger than the minimum size to serve the Lead Developer; or an asset that has been optimised, sized and configured to serve greater than 10 hectares of development delivered by a single developer."***

3. ***Consistent with the Productivity Commission's recommendation, honour an exemption from DSP developer charges for projects that purchased land before 1 July 2023, with a commitment to complete and register the first stage of the project before 1 July 2028.***

4. ***Wind back all charges, and cap maximum total charges (water plus wastewater) at $3,000 (Newcastle) and $8,500 (all other areas) per Equivalent Tenement (ET) to align with the estimates published in the Productivity Commission's Review of Infrastructure Contributions 2021 Final Report.***

5. ***Delay the reintroduction of DSPs, to allow both development feasibilities and the market adequate time to adjust and prepare for them. This proposed transition would provide for a more appropriate adjustment period: 20% from July 2024, 40% from July 2025, 60% from July 2026, 80% from July 2027, with full charges applying from July 2028.***

Background

In November 2020, the NSW Productivity Commission (PC) published its *Review of Infrastructure Contributions in New South Wales Final Report* (PC Final Report), which made 29 recommendations to reform developer infrastructure contributions in order to increase productivity. The gradual phase-in of DSPs was one of those 29 recommendations. The Productivity Commission emphasized in its Final Report:

- *Piecemeal changes to the contributions system, applied over many years, have resulted in a build-up of ad hoc measures. This has led to an opaque system with higher costs, less certainty, and weak price signals. It has forced communities to accept some combination of fewer services, more expensive housing, lower expenditure, higher taxation, or more borrowing. This holistic review is therefore timely and sets out a system that is transparent, certain, efficient, and consistent.* (covering letter accompanying the PC Final Report)

- Holistic reform to infrastructure contributions is needed. This is clearly identified and underpinned by the PC Final Report's *Recommendation 7.1: Strong governance to guide implementation*, which requires the immediate establishment of an Implementation Steering Committee to oversee the changes from the 29 recommendations.

In March 2021, the NSW Government accepted all 29 recommendations and committed to implementing them. The NSW Government introduced a comprehensive reform package in October 2021, but announced in September 2022 that the broad reforms would not be progressed. On 19 October 2022, (then) NSW Treasurer Matt Kean wrote to HWC to approve the gradual phase-in of DSP developer charges commencing 1 July 2023. On 28 April 2023, HWC exhibited its proposed DSP developer charges, the subject of this submission. Those charges average $3,371 for water and $7,245 for wastewater, or $10,304 total per Equivalent Tenement (ET).

We note that in 2021, UDIA provided feedback to the Parliamentary inquiry of the PC Final Report and stated our opposition to DSPs:

> *"We believe the re-introduction of service charges for water infrastructure is a retrograde step, having previously been abolished because they created a large administrative burden without delivering more timely water infrastructure."*
> *(UDIA NSW, 2021).*

The UDIA submission further noted that the result of not getting these reforms done once and done right, would be increased housing costs for new home buyers, and an exacerbation of the housing supply and affordability crisis. That is exactly what is occurring now as contributions reform is being implemented in a piecemeal fashion and without any consideration to the cumulative impacts of the total contributions on development and housing supply.

Growth Funding at Hunter Water

Prior to 2008, HWC operated DSPs and collected related developer charges for water and wastewater to help fund growth infrastructure. It should be noted that UDIA criticised HWC's DSPs prior to 2008, due to the program's low productivity performance, citing HWC's inefficiency in the timely delivery of growth infrastructure in line with new development. By 2008, the DSP framework had become an ineffective funding mechanism for Hunter Water growth infrastructure. DSP charges were uncertain (dependent upon housing completions), untimely (collected after the infrastructure was needed), inefficient (low return on administrative effort), and counter-productive (reduced dwelling supply).

In 2008, in response to the global financial crisis (GFC), the NSW Government instructed Hunter Water to set DSP developer charges to zero. This was partly in response to the issues cited above and was also a means to reduce development costs and encourage more construction during the economic downturn. The DSP charge was replaced with a broad-based customer charge to fund population growth infrastructure. Development feasibility improved, and UDIA considers this policy response to have been a success.

However, by 2016, the evolved HWC service model was again counter-productive to development. At that time, HWC unreasonably burdened developers by obliging them, in most instances, to fund the cost of enabling infrastructure in full. The developer not only donated the infrastructure to HWC at no cost, without any provision for reimbursement from Hunter Water (other benefitting developments contributed toward the cost of the infrastructure as they connected), but also carried this financial burden throughout the life of the development, accumulating interest on that capital expenditure. As we understood it, that pre-2016 funding model was utilised due to the severely limited HWC growth capital works program, which was not available to the public.

In 2016, HWC introduced their transparent and annual Growth Plan and Funding and Delivery of Growth Infrastructure Standard (FoG policy). Under the Growth Plan and FoG policy the following has been achieved:

- Proposed development fronts have been clearly identified based on objective approvals and connections data.

- Hunter Water and developers have together delivered the necessary water and wastewater infrastructure to allow for the timely delivery of new housing and employment areas.

- Developers have been reimbursed by Hunter Water for delivering connecting and upsize water and wastewater growth assets.

UDIA has supported HWC in these initiatives and fully commends the higher levels of productivity and performance it has achieved since moving away from its reliance on DSPs and adopting a financial model for growth based on general customer (i.e., ratepayer) revenue.

UDIA notes that since 2008, without DSPs in place, HWC has continued to perform strongly, maintaining healthy profits, and paying over a half a billion dollars in dividends to the NSW Treasury as shown in Table 1. These dividends go into NSW consolidated revenue. There is no evidence that the NSW Government spends these funds to the direct benefit of the Hunter region where they were generated.

Year	Dividend to NSW Treasury
2009	$ 30,400,000
2010	$ 34,100,000
2011	$ 16,600,000
2012	$ 20,820,000
2013	$ 15,600,000
2014	$ 36,000,000
2015	$ 21,300,000
2016	$ 37,300,000
2017	$ 41,600,000
2018	$ 43,200,000
2019	$144,400,000
2020	$ 32,900,000
2021	$ 26,900,000
2022	$ 27,200,000
TOTAL since 2008	**$528,320,000**

Table 1: HWC Annual Dividend to NSW Treasury

Based on the above it is clear that without DSPs in place, HWC has:

- maintained profitability;
- paid healthy dividends to the NSW Government;
- enabled development; and
- reimbursed developers for construction of network assets.

We contend that HWC's service since 2016 has been highly productive, and HWC's efficient approach to growth servicing was not adequately considered by the Productivity Commission, whose review mostly highlighted issues with the approach taken at Sydney Water Corporation (SWC).

UDIA observes that since 2016, HWC has been the best performing enabling infrastructure agency in the Hunter Region with regard to enabling development and providing infrastructure in line with development. Reflective of HWC's quality planning around growth, its connections data and detailed annual Growth Plan have served as the backbone of the recent incarnations of the Lower Hunter

Urban Development Program (UDP), which seeks to align infrastructure delivery to support development growth areas.

Reintroducing DSP developer charges in the Hunter is not necessary to address infrastructure delivery productivity issues at HWC and would be a retrograde policy that overlooks the lessons of the previous regime.

The reintroduction of DSPs was instigated by the Productivity Commission's *Infrastructure Contributions Review Final Report 2020* (PC Final Report) whose purpose was to "*enable more efficient development and support housing affordability*".

As exhibited, the average DSP charge would be $10,304 per new detached house. The DSP charges would be applied across HWC's area of operations, adding development costs which would reduce the ability to deliver new housing, inflate the regional market and be added to the cost of a new home.

It is noted that HWC's April 2023 Developer Charges Fact Sheet states:

> *"We have modelled possible future customer bills with and without developer charges. Our analysis of the phased re-introduction of developer charges shows a bill saving for existing customers of about $20 per year from 2025."*

We consider that adding an average of $10,304 to the cost of a new lot or dwelling paid by new homeowners, for the benefit of reducing the bills of existing homeowners by $20 per year, does not meet the Productivity Commission's objectives and is particularly unreasoned during the current housing crisis.

We maintain our position that no single cost-raising recommendation – including DSPs – should be imposed on development without the balancing effects of implementing all other 28 recommendations of the PC Final Report at the same time and demonstrating gains in productivity that would offset the new costs.

UDIA recommends:

1. ***Defer the reintroduction of DSPs and keep developer charges set to zero until such time as the full suite of infrastructure contributions reforms is implemented by the NSW Government and productivity gains to offset new costs are proven.***

<u>Connecting Assets Funding Standard</u>

In addition to the draft DSPs, Hunter Water Corporation is also exhibiting the Connecting Assets Funding (CAF) Standard, which is the next iteration of the current Funding of Growth (FoG) Standard. As stated above, UDIA strongly supports the retention of the FoG policy as the CAF Standard. We are pleased that the CAF Standard provides for full reimbursement of the asset(s) upon completion, which is an important improvement from the previous approach of staged reimbursement.

We have noted one area where the wording of the CAF Standard may limit its ability to achieve the objective of supporting growth. The CAF Standard states that the *"Funding Deed provides for the repayment of asset costs incurred by the Lead Developer in building right-sized assets when delivery milestones are met",* and that the definition of "*Right Sized Connecting Asset*" is an *"asset that has been optimised, sized and configured to serve growth in addition to that of the Lead Developer and as a consequence is larger than the minimum size to serve the Lead Developer."*

We note that under the current FoG policy, single developers of scale have entered into FoG Funding Deeds with HWC to service their development. Such agreements have supported important growth in the Hunter and there are other sites in the pipeline where the scenario could also apply. This type of funding agreement should continue to be possible under the CAF Standard to achieve the growth outcomes envisioned and we are concerned that it could be excluded.

UDIA recommends:

2. ***To maintain the Connecting Assets Funding Standard as an efficient means to deliver growth infrastructure in line with development, amend the definition of 'right sized connecting asset' as "An asset that has been optimised, sized and configured to serve growth in addition to that of the Lead Developer and as a consequence is larger than the minimum size to serve the Lead Developer; or an asset that has been optimised, sized and configured to serve greater than 10 hectares of development delivered by a single developer."***

<u>Improvements to Exhibited Charges</u>

If the decision is made by Government, against our primary recommendation above, to implement the reintroduction of DSP developer charges, we recommend several changes to reduce the negative impact on housing supply.

Exempt land purchased prior to known developer charges

The PC Final Report premised the reintroduction of DSPs on the desire to create a price signal to market. The Final Report states: *"Zero developer charges introduce a range of distortions into development decision-making: industry does not receive a price signal about where and when to develop to ensure best use of existing water and wastewater assets" (PC Final Report, 2020, pg.101).*

UDIA accepts that there can be benefits through price signalling and in an ideal scenario, this can assist in establishing a prioritisation framework for the delivery of infrastructure. However, introducing DSP charges on projects already in development will not in itself improve infrastructure coordination and delivery; rather, it will simply increase risk and cost on the immediate development pipeline, inevitably reducing supply. If HWC proceeds with the reintroduction of DSPs, such risks must be averted to ensure development can progress with confidence.

In order for efficient price signalling to occur, the developer charge must be factored into the feasibility analysis of the development project. This is most fairly and efficiently accomplished during negotiation of the land purchase price, i.e., the charge should be known prior to land acquisition.

According to the PC Final Report (2020, pg.103), *"Further, a temporary exemption would be appropriate to ensure that developments underway are not unduly affected by the change."* The PC Final Report recommended an exemption where *"all land required for the development was purchased with the expectation that zero developer charges would apply. A future cut-off date … should be applied to avoid disrupting land negotiations that were already underway under this presumption."* UDIA notes that the proposed DSP developer charge was not known prior to the exhibition on 28 April 2023.

The PC Final Report also recommended that *"the land is developed within a reasonable timeframe."* UDIA believes a reasonable timeframe would align with the regular DA validity period of 5 years, noting that it is common in NSW that the entire process from approval to lot registration, including enabling infrastructure delivery, can take as long as this period.

This PC Final Report recommendation does not appear in HWC's public exhibition, and we believe these exemptions should be a minimum commitment.

UDIA recommends:

3. ***Consistent with the Productivity Commission's recommendation, honour an exemption from DSP developer charges for projects that purchased land before 1 July 2023, with a commitment to complete and register the first stage of the project before 1 July 2028.***

Cap charges consistent with the PC Review Final Report estimates

Table 2 lists the proposed charges per ET based on their service areas, and calculates the average charges based on a) the overall service area; b) Newcastle; c) non-Newcastle areas, i.e., inland and regional areas (including Maitland, Port Stephens, Cessnock and Lake Macquarie).

The final column of Table 2 contrasts the Newcastle and non-Newcastle charges with the estimated highest charges published in November 2021 in the PC Final Report (page 102), which stated:

> *Hunter Water has provided early estimates of charges of $2,000-$3,000 for an average residential dwelling – or 'equivalent tenement' – in Newcastle developments and $5,500-$8,500 per equivalent tenement for developments in inland and regional areas (including Maitland, Port Stephens, Cessnock and Lake Macquarie).*

It is evident in Table 2 that the April 2023 average exhibited charges markedly exceed the November 2021 published upper estimates.

Hunter Water 2023 proposed DSP Developer Charges						Difference between
Water Area	Charge	Wastewater Area	Charge	Total	PC Review High Estimate	Estimate and Exhibited Charge
Newcastle and ELM	$1,040.00	Burwood Beach	$ -	$ 1,040.00	$ 3,000.00	-$ 1,960.00
		Shortland	$ 3,487.00	$ 4,527.00	$ 3,000.00	$ 1,527.00
		Belmont	$ 4,568.00	$ 5,608.00	$ 3,000.00	$ 2,608.00
Raymond Terrace and Medowie	$2,095.00	Raymond Terrace	$ 10,371.00	$ 12,466.00	$ 8,500.00	$ 3,966.00
Lemon Tree Passage	$2,387.00	Tanilba Bay	$ 8,189.00	$ 10,576.00	$ 8,500.00	$ 2,076.00
		Karuah	$ 20,542.00	$ 22,929.00	$ 8,500.00	$ 14,429.00
South Wallsend and WLM	$2,480.00	Shortland	$ 3,487.00	$ 5,967.00	$ 8,500.00	-$ 2,533.00
		Edgeworth	$ 4,856.00	$ 7,336.00	$ 8,500.00	-$ 1,164.00
		Belmont	$ 4,568.00	$ 7,048.00	$ 8,500.00	-$ 1,452.00
		Toronto	$ 7,605.00	$ 10,085.00	$ 8,500.00	$ 1,585.00
		Dora Creek	$ 7,878.00	$ 10,358.00	$ 8,500.00	$ 1,858.00
Dungog and Chichester	$2,511.00	Clarence Town	$ 6,210.00	$ 8,721.00	N/A	N/A
		Dungog	$ 13,803.00	$ 16,314.00	N/A	N/A
Maitland and Branxton	$2,705.00	Morpeth	$ 3,710.00	$ 6,415.00	$ 8,500.00	-$ 2,085.00
		Farley	$ 2,086.00	$ 4,791.00	$ 8,500.00	-$ 3,709.00
		Branxton	$ 9,895.00	$ 12,600.00	$ 8,500.00	$ 4,100.00
Nelson Bay	$3,549.00	Boulder Bay	$ 4,753.00	$ 8,302.00	$ 8,500.00	-$ 198.00
Cessnock	$4,881.00	Kurri Kurri	$ 3,624.00	$ 8,505.00	$ 8,500.00	$ 5.00
		Cessnock	$ 2,813.00	$ 7,694.00	$ 8,500.00	-$ 806.00
		Kearsley	$ 7,463.00	$ 12,344.00	$ 8,500.00	$ 3,844.00
		Paxton	$ 17,593.00	$ 22,474.00	$ 8,500.00	$ 13,974.00
Kings Hill	$8,694.00	Kings Hill	$ 11,902.00	$ 20,596.00	$ 8,500.00	$ 12,096.00
OVERALL AVERAGE	**$3,371.33**		$ 7,245.59	$ 10,304.36	$ 7,675.00	$ 2,629.36
AVERAGE Newcastle	**$1,040.00**		$ 4,027.50	$ 3,725.00	$ 3,000.00	$ 725.00
AVERAGE non-New	**$3,662.75**		$ 7,965.68	$ 11,343.21	$ 8,500.00	$ 2,843.21

Table 2: Comparison of April 2023 exhibited charges vs estimates published in November 2021 PC Final Report

The exhibited charges are not in line with the estimated charges cited by the Productivity Commission, exceeding the estimate on average by $2,629. We recommend that HWC further reviews the DSPs to find ways to bring the maximum charge in line with the PC Final Report estimates.

In general, UDIA commends HWC for the detail provided in the exhibition materials, and the availability of HWC staff to answer questions. This approach is consistent with HWC's ongoing stakeholder engagement with the development sector, in which transparency is valued to create trust and confidence in HWC's processes.

UDIA recommends that HWC builds on this commitment to transparency by addressing the following concerns, with the goal of lowering charges.

Use of maximum charge

One simple deduction for the higher charges is that the IPART methodology and formulas exist to calculate the maximum price chargeable to developers, and we note HWC appears to have opted to use the maximum charge. We contend HWC has discretion to set the charge less than this "ceiling," while not contravening its Operating Licence. UDIA therefore believes it is reasonable to cap charges so as not to exceed the estimates in the PC Final Report.

Continue use of a more consistent funding stream

UDIA appreciates the potential cost savings to HWC ratepayers through the imposition of DSPs, lessening the burden on households. We acknowledge that the crisis facing residential and employment lands development is not the only societal issue that Government must deal with, as many homeowners attempt to weather recent consecutive cash rate hikes in the order of 400 basis points over a 14-month period.

It is noted from HWC's April 2023 Developer Charges Fact Sheet that HWC estimates that the average ratepayer will save *"about $20 per year from 2025"* with the reintroduction of DSPs.

To provide that $20 per ratepayer savings, DSPs instead impose a cost burden on new home buyers in the Hunter – on average by $10,304 per new home. In addition to reintroducing DSPs, the NSW Government is also bringing in other additional costs on new housing, notably the new Housing and Productivity Contribution (H&PC) at $8,000 per dwelling, and new BASIX requirements. Together, these higher costs will add up to $50,000 to the cost of a new home, as illustrated in Figure 1.

Figure 1: Incoming additional costs to a new home

The proposed approach threatens to increase inequity, despite proclaiming to do the opposite. Under an impactor-pays-only DSP model, HWC's revenue stream is entirely contingent on development proceeding. Development feasibility will be reduced under the cumulative impact of new and existing developer contributions, such that development is likely to stall. If this scenario transpires, HWC will forego its expected DSP revenue stream, reducing its income certainty.

A more equitable approach should consider all the above – i.e., keeping new development feasible, not placing untold pressure on households, and maintaining a consistent revenue stream for HWC to continue its operations. UDIA believes this should be achieved by continuing to rely on the customer base overall, with the potential to spread the base to developers via a lower DSP charge that is capped at the estimates published in the PC Final Report.

List of assets

We appreciate the detailed list of assets outlined in each Development Servicing Plan, and HWC's statement that each DSP includes "all water and wastewater assets that Hunter Water has funded or will fund to provide services to new development."

However, upon review of the lists of assets, UDIA questions whether all included assets are for growth. We have noted the inclusion of a number of minimum-size assets as well as equipment that are replacements rather than upgrades.

There are further issues that UDIA members have questioned including the charging of infrastructure assets dating back to 1970 as well as for infrastructure delivered between 2009 and 2023 when DSPs were not applied.

We appreciate the challenges to create an fair model across geographies, but there are concerns that warrant review. We request that HWC provides a review and transparent justification of the assets included in each developer charge calculation to ensure that only growth infrastructure is included. We would be pleased to assist HWC in this review.

Use of contingency

UDIA questions how HWC has applied contingency within the DSP charge calculation. We are inferring a baseline assumption of 30%. However, this is not documented as a line item in the publicly exhibited calculations. UDIA therefore requests, for transparency, that the contingency rate be listed as its own line item in the cost calculations. Further, a framework should be developed and exhibited for how the contingency is managed throughout the process as design and construction occurs.

Addressing the above concerns could feasibly provide a path for Hunter Water to reduce the charge per ET in line with the more reasonable estimates from the PC Final Report.

UDIA recommends:

4. ***Wind back all charges, and cap maximum total charges (water plus wastewater) at $3,000 (Newcastle) and $8,500 (all other areas) per Equivalent Tenement (ET) to align with the estimates published in the Productivity Commission's 2020 Review of Infrastructure Contributions Final Report.***

Extend the transition period

The phased reintroduction of DSP charges over a period of time, allowing some room for industry adjustment, is critical. However, having regard to the current economic environment and development conditions and the cumulative impact of the piecemeal contribution reforms, this timeframe should be extended beyond the proposed 3 years.

UDIA remains supportive of comprehensive contributions reform to create a simpler more transparent and more equitable system in NSW where productivity gains can offset costs. However, industry is currently being asked to accept multiple new and increased contributions, each resulting in added costs and with no regard to the cumulative impact on development feasibility. This was outlined above in Figure 1. The cumulative impact of these multiple changes will significantly reduce development feasibility and exacerbate the existing housing supply crisis.

Development in NSW is already subject to the highest taxes, levies and contributions in Australia. If DSPs are introduced under the current economic conditions, they will simply materialise as yet another increased tax, and another barrier for first homebuyers, further excluding them from the Hunter housing market. To soften this impact, we recommend a longer phase in of the charges, being 20% from July 2024, 40% from July 2025, 60% from July 2026, 80% from July 2027, with full charges applying from July 2028.

UDIA recommends:

5. ***Delay the reintroduction of DSPs, to allow both development feasibilities and the market adequate time to adjust and prepare for them. This proposed transition would provide for a more appropriate adjustment period: 20% from July 2024, 40% from July 2025, 60% from July 2026, 80% from July 2027, with full charges applying from July 2028.***

<u>Conclusion</u>

UDIA highly values the constructive working relationship we have established with Hunter Water Corporation. We acknowledge that HWC, as a State-Owned Corporation must operate as efficiently as any comparable business and maximise the NSW Government’s net investment. We also appreciate that HWC is acting according to the Treasurer’s mandate.

We maintain that our primary position is to defer the reintroduction of DSPs due to the current economic conditions and housing supply crisis, and we provide recommendations to progress only where this position is not supported.

UDIA remains supportive of comprehensive contributions reform to create a simpler, more transparent and more equitable system in NSW, where productivity gains can offset costs. However, industry is currently being asked to accept multiple new and increased costs without evidence they will deliver any productivity gains, and without regard to the cumulative impact on development feasibility. The added costs will only stall housing supply and damage affordability, making the housing crisis worse and creating lasting negative social and economic outcomes for our State.

UDIA commits to continue working with HWC to ensure growth infrastructure is equitably funded and delivered in line with development, having regard to development feasibility.

We would be pleased to provide further detail on any of these proposals, either in person or in writing. Should you have any questions, please contact UDIA NSW Hunter Regional Manager Elizabeth York on 0434 914 901 or eyork@udiansw.com.au.

Kind regards,

Steve Mann
CEO

cc: The Hon. Daniel Mookhey, NSW Treasurer
The Hon. Rose Jackson, Minister for Water