



25 January 2013

David Heeps
Chief Executive Officer
Essential Services Commission
35 Spring Street
MELBOURNE VIC 3000

By email: david.heeps@esc.vic.gov.au

Dear David

Joint Submission: Summary Paper – Water Plans for Metropolitan Water Businesses

Thank you for the opportunity to respond to the Essential Services Commission's *Summary Paper – Water Plans for Metropolitan Water Businesses*. As you would be aware, the development industry is particularly concerned about New Customer Contributions (NCCs) and their impact on the housing sector. This submission should be read along with the Urban Development Institution of Australia (UDIA) and Property Council of Australia's joint letter of 5 September 2012.

The UDIA and the Property Council have worked closely with Melbourne's metropolitan water businesses to reach a joint position on the Essential Services Commission's (ESC) proposed new framework for New Customer Contributions (NCCs).

At a workshop in December 2012, convened by the ESC, several metropolitan water businesses presented the first draft of their water plans and the likely NCC charges to UDIA and Property Council members. While the quantum of charges appears to be lower than initially anticipated in 2012, there are still a number of aspects yet to be resolved.

Further to this workshop, substantial progress has been made directly between the water businesses and the UDIA and Property Council to resolve the outstanding issues. Agreement however, has not yet been reached but it is likely that a joint position will be achieved by the end of February 2013.

As such, we ask that you give detailed consideration to these matters prior to the release of the ESC's draft determination in February and in the meantime, we will continue to inform the ESC of further progress made between the water businesses and the development industry.

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Standardising NCC Charges

We consider it an imperative of this process that all water businesses across greater Melbourne establish the same standard charge for NCCs. This will lead to a fairer and more equitable payment structure to fund the large amount of capital required to invest in the water infrastructure needed to service Melbourne's growth.

We consider that outcomes of the proposed new framework for NCCs as evidenced by the water businesses' plans is clearly at odds with current similar Government reform. The Standard Development Contributions reform process underway is seeking to standardise levies across various development settings including Melbourne's growth areas. The proposed NCC framework will deliver varied charges and lead to increased uncertainty within the development industry.

In particular, we consider that the impact of a NCC of between \$6,800 and \$8,350 proposed by Western Water could result in stalling housing activity in the growth fronts of Rockbank North, Diggers Rest and Melton. While we understand that Western Water faces slightly different operational circumstances to the other three metropolitan water businesses, we submit that it is imperative that Western Water's NCCs align with the other metropolitan water businesses.

We are working with the water businesses to come to a standard charge amount across the water businesses. We hope to reach a consolidated position to put forward to the ESC and Ministers for Water and Planning in February 2013.

Basis for the Charges

The development industry considers that it is fair that NCCs are levied on a per dwelling basis. We also consider that in the interests of servicing Melbourne's growth equitably, it is fair that brownfield or infill development lots are charged a NCC greater than \$0.

Water businesses and the development industry both agree that incremental brownfields developments will, over time, impact the network, and that therefore a charge on brownfield or infill developments would be reflective of water businesses' costs.

At the workshop the matter of how to define a "brownfields" site and a "greenfields" site was debated at length. After discussion with the water businesses, we propose the definition be based on the size of the lot (or dwelling), rather than on whether the site has been used in the past for urban development or not.

We propose that the demarcation be between lots that are less than 350 square metres and greater than 350 square metres (that is lots for detached or semi-detached houses or dwellings for apartments).

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We consider that this approach will minimise the inevitable controversy over what is or is not a brownfields or and infill site, and is also cost-reflective for the water businesses.

Further discussions between UDIA and Property Council and South East Water, Yarra Valley Water and City West Water have also focused on the quantum of a standard charge for NCCs. The preliminary position that has been reached is as follows:

- Greater than 350 square metres, the standard NCC would be \$4,500: \$2,000 for water
\$2,000 for sewer
\$500 for recycled water
- Less than 350 square metres, the standard NCC would be \$2,000: \$1,000 for water
\$1,000 for sewer

While there has been some debate over definitions for reticulation and shared assets, the preliminary position is that a reticulation asset would remain as 225 for sewer and 150 for water, with the developer having a right of appeal if they contend that the asset is not being delivered at lowest community cost.

Bring-Forward Charges

Bring-forward charges remain a contentious issue. It is the view of the development industry that water businesses' capital works plans should extend for 30 years (with diminishing certainty), be formally updated every two years and be made publically available.

Water businesses have access to development and PSP rollout timelines and as they should be updating their plans regularly (in close consultation with developers, local government, DPCD and the GAA), it is reasonable to expect that water businesses do have a sufficient understanding of future activities to properly plan their capital works programs.

Therefore our position is that the bring-forward charge should be the difference in the financing cost of the water business being required to deliver the asset ahead of the time scheduled.

One of the most controversial aspects of bring-forward charges is the first mover/free-rider effect. Under current rules, a first mover is required to pay a bring-forward charge, but subsequent developers who use the extended infrastructure are not required to contribute. This creates a large inequity between developers and puts the subsequent developers in a better competitive position than the first mover. This is unfair and we seek a mechanism to ensure that where a bring forward is paid; those developers who take advantage of this extension are required to pay if they do so within a given timeframe.

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Our position also remains that there should not be a bring-forward amount payable for any site within a serviced PSP.

Transition

If the NCC charges determined as outlined above, our view is that a two-staged transition period would be acceptable with 50% of the increase to be applied in 2013 and 100% of the increase applied from 2014.

Impact on Housing Affordability

We remain deeply concerned of the impact on housing affordability if the draft NCCs are implemented. Slowing immigration and the end of government grants has been accompanied by a steep drop in affordability, causing demand in the housing market to weaken substantially over 2012.

In the September quarter 2012, only 41 per cent of lots on the market were priced at under \$200,000, the general benchmark level at which it is affordable for first home buyers to enter the market. By contrast, in June 2008, over 90 per cent of lots were under \$200,000.¹

Next Steps

Another meeting between the UDIA, Property Council and water businesses is scheduled for 5 February 2013 with the aim of reaching agreement on the matters outlined above.

In the meantime, we ask that the ESC refrains from publishing a dollar amount for NCCs in its draft determination in February. To do so would confuse both the development industry and the water businesses and potentially jeopardise what we believe has been significant progress made between the two sectors.

As we continue to work with the water businesses, we trust that the ESC will give its support to the outcome negotiated between the parties and to the principles outlined in this letter.

¹ National Land Survey Program, November 2012

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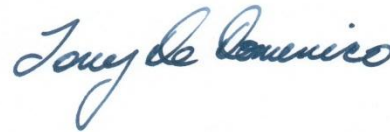
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If you wish to discuss the issues raised in this letter further, please contact Danni Addison, Property Council on 9650 8300 or Martin Musgrave, UDIA on 9832 9600.

Yours sincerely,



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