

**Water Services Association of
Australia**

**Submission to the
Queensland Government's
Infrastructure planning and
charging framework review**



WATER SERVICES
ASSOCIATION OF AUSTRALIA

OVERVIEW OF WSAA

WSAA IS THE INDUSTRY BODY THAT SUPPORTS THE AUSTRALIAN URBAN WATER INDUSTRY

Its members and associate members provide water and wastewater services to approximately 16 million Australians and many of Australia's largest industrial and commercial enterprises.

The Association facilitates collaboration, knowledge sharing, networking and cooperation within the urban water industry. It is proud of the collegiate attitude of its members which has led to industry-wide approaches to national water issues.

WSAA can demonstrate success in the standardisation of industry performance monitoring and benchmarking, as well as many research outcomes of national significance. The Executive of the Association retain strong links with policy makers and legislative bodies to monitor emerging issues of importance to the urban water industry. WSAA is regularly consulted and its advice sought by decision makers when developing strategic directions for the water industry.

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Key messages

- The water industry supports the Queensland Government's growth objectives for cities and regions.
- However, servicing greenfield growth generally costs more than the revenue that it generates from new customers via water and wastewater prices.
- Developer contributions have an essential role to play in funding growth infrastructure.
- Because of the close interaction with water and wastewater pricing, developer contributions and water pricing regimes need to be developed in a holistic and integrated way – ideally by the same authority.
- The proposal to allow water Distributer-Retailers to exceed a maximum cap if they can justify a 'planned charge' would appear to offer a way forward. The proposal to subject 'planned charges' to a higher level of scrutiny would provide developers and other stakeholders with transparency and certainty that planned charges would only be used when necessary to support financial sustainability.
- Any charging regime should not inhibit water authorities reaching commercial agreements with major industrial and commercial customers with specific requirements or with developers for out-of-sequence developments.

1.0 Introduction

The Water Services Association of Australia welcomes the opportunity to comment on the Queensland Department of State Development and Infrastructure Planning's Discussion Paper *Infrastructure planning and charging framework review - Options for the reform of Queensland's local infrastructure planning and charges framework*.

WSAA is the industry body which supports the Australian urban water industry. Our members include the largest water utilities in Australia, providing urban water services to around 16 million Australians. The Association facilitates collaboration, knowledge sharing, networking and cooperation within the urban water industry. We also provide a forum for debate on issues important to the industry and a voice for communicating the members' views.

The *Infrastructure planning and charging review* sets out four outcomes which a new framework should achieve.

1. Development feasibility
2. Financial sustainability of local authorities (including Distributor-Retailer water businesses)
3. Certainty
4. Equity

In addition, in a number of places the Discussion paper cites the need for infrastructure charges to be efficient.

WSAA supports these outcomes. Queensland Distributor-Retailers and water authorities have made detailed submissions on the Discussion paper. Based on our members' national experience, this submission provides high level comments on the implication of these outcomes for the form of charging regime.

2.0 Key features of the policy landscape

In the water industry, funding growth infrastructure presents complex policy challenges. Across Australia there are three key features of the policy landscape which shape the frameworks for developer contributions and infrastructure charges.

First, nearly all major utilities operate under a form of postage-stamp pricing. This is where there are uniform water and wastewater prices across a utility's area of operations, regardless of the costs of service provision in particular areas. This policy enjoys strong government and customer support but has implications for cost recovery for services.

Second, for many utilities, new growth areas involve high costs to service – often multiples higher than the costs of servicing infill growth or existing customers. An additional factor is that the cost of water infrastructure is lumpy and occurs up-front, but development and revenue may take a number of years to materialise. An implication of the timing and cost of greenfield growth is that under a postage-stamp pricing regime the revenue generated from customers in new growth areas, in many cases, will never be sufficient to recover the costs of providing the services.

The third feature of the policy landscape is significant community concern about the affordability of utility services, including water. In most jurisdictions water prices have increased to fund essential water security infrastructure to meet the challenge of the millennium drought.

These features have significant implications for the review's objective of achieving equitable and efficient outcomes and of achieving financial sustainability for local authorities and water utilities. In relation to financial sustainability, all infrastructure costs need to be funded. In most cases the funding options are limited to:

- recovery through water and wastewater charges;
- developer contributions; or
- local and state government owners accepting lower returns from water businesses.

Government owners may accept lower returns on their investment in water infrastructure for a period of time. However, in the longer term this approach is unlikely to be consistent with financial viability. In practical terms growth infrastructure has to be funded either from customers (often existing customers) through water and wastewater prices, or from developers.

As is covered in the Distributor-Retailer's submissions to this review, it is neither equitable nor efficient for existing customers to bear the majority of costs of funding infrastructure for new customers. The equity argument is straightforward. Unity Water's submission sets out the amount by which general prices would need to rise for all customers to fund growth under different caps on developer contributions.

On efficiency, it is unlikely to be efficient for developers to face no price signals as to which areas to develop, and for all the weight of development decisions to fall on the planning system.

WSAA therefore considers that developer contributions have an essential role to play in funding growth infrastructure. More critically, because of the close interactions with water pricing, developer contributions and water pricing regimes need to be developed in a holistic and integrated way. Ideally this task is undertaken by the same body and there are examples across Australia where this is the case. At a minimum, ongoing formal consultation between those responsible for the contributions regime and general water prices is a prerequisite for good outcomes. We also support Unity Water's call for a regulatory impact statement to accompany any new regime.

3.0 Developer contributions in theory and practice

As noted in the options paper, there are a number of different frameworks across Australia for funding growth. At one end of the spectrum, in Sydney, developer charges for water infrastructure (except recycled water) were removed in 2008, while at the other end, in Victoria, the Essential Services Commission is requiring utilities to adopt an 'incremental cost' approach (see below). States such as Western Australia have a series of uniform charges.

These differences reflect the difficult trade-offs between policy objectives. There is unlikely to be a one-size-fits-all approach to the form or level of developer contributions. For example, the appropriate level of developer contributions in an area of modest growth with a large existing population is likely to be very different from that in a high growth area with a limited existing population base.

The differences in approach across Australia partly reflect the degree to which governments have sought to use developer contributions as a price signalling tool to influence where development occurs.

Economic theory supports the use of an incremental cost approach. Pioneered by IPART in NSW and now adopted in Victoria, the incremental cost approach sets location-based developer contributions. In each specified area developers are required to meet the incremental costs that they impose on the water business when they connect to the water, sewerage or recycled water networks, less the incremental revenues earned from the new customers. This approach is intended to ensure that developer contributions are cost reflective and that equity is maintained between new and existing users. It is one way of resolving the issue posed by the gap between postage-stamp revenue and the costs to develop new areas referred to above.

However, as the Discussion paper recognises, the incremental cost approach is not straightforward to implement. The experience of WSAA members does not rule out the incremental approach, but it does suggest that if applied it should be applied with some flexibility. There is a trade-off between the elegance of the approach and simplicity and certainty. In NSW a formula driven approach was adopted which led to a complex regime and a range of perverse outcomes, such as very high charges in many areas designated as high priority for growth. This is likely to have been a factor in the Government's decision to set developer charges to zero. To date a more workable approach has been adopted in Victoria

At a minimum, one area where WSAA considers it important for utilities to be able to send a location-based signal is for out of sequence development. This is where a developer wishes to develop an area that is not the planning authority's priority for orderly development. Servicing these areas can magnify already high costs. It is important that utilities have the flexibility to service these areas, if they choose to, on a fully commercial basis, and are able to pass on full cost to the developer of bringing the servicing forward. Likewise the general developer contribution arrangements should not hamper utilities and major commercial/industrial customers reaching commercial agreements where those customers have special needs.

4.0 Options for a capped regime

For water utilities, the combination of developer contributions and water and wastewater prices needs to provide financial stability. Whether a capped regime allows this depends on the level of the cap in relation to infrastructure costs and the development demand.

While there are a number of options raised in the discussion paper, the proposal to allow water Distributer-Retailers to exceed the cap if they can justify a 'planned charge' would appear to offer a way forward. Planned charges are proposed to be available in circumstances where a Distributor-Retailer can demonstrate that the capped charges create long-term financial sustainability issues. The proposal to subject them to a higher level of scrutiny would provide developers and other stakeholders with transparency and certainty that planned charges would only be used when necessary.