

# AMENDED REPORT

23 April 2014  
To the Ordinary Council Meeting

Director's Report  
Infrastructure and Operations

## 5.4 Development Servicing Plan Update - Water Supply and Sewerage

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TRIM REFERENCE: F2005/01750 - D06678993

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### SUMMARY

The Independent Pricing and Regulatory Tribunal (IPART) requires Council to update its water and sewerage Development Servicing Plan every five years. A new Development Servicing Plan is due for implementation on 1 July 2014. This report is seeking adoption in principle of the revised Development Servicing Plan and associated developer contributions, and for the Plan to be exhibited in accordance with IPART requirements.

### RECOMMENDATION

- 1 ***That Council adopt the draft Development Servicing Plans in principle.***
- 2 ***That Council approve the draft Development Servicing Plans be placed on public exhibition for 30 working days in accordance with IPART requirements.***
- 3 ***That Council adopt the draft Development Servicing Plan and register with IPART should no significant objections be received as a result of the public exhibition.***
- 4 ***That Council note the revised water supply and sewerage contributions be effective as of 1 July 2014.***

### BACKGROUND

The Water Supply and Sewerage Development Servicing Plan (DSP) details the contributions that are required to be paid by developers towards the provision of water supply and sewerage infrastructure.

Council is required by the Independent Pricing and Regulatory Tribunal (IPART) of NSW to review the Water Supply and Sewerage DSP every five years. The DSP is required to be revised using parameters issued by IPART in its recent Determination on Developer Charges for Gosford City and Wyong Shire Council (May 2013). The determination required new charges to be implemented by 1 July 2014, with the methodology used to be consistent with its Determination No. 9, 2000, noting the update of certain parameters described later in this report. The last approved DSPs were prepared in 2001 and have been indexed annually since. The DSP was not updated in 2006 on IPART's advice due to issues Council had with IPART's calculation parameters. Discussions with IPART were held again in 2011 and an update of the DSP deferred until after the 2013 determination.

DSPs must be exhibited for a minimum of 30 working days prior to adoption.

## **5.4 Development Servicing Plan Update - Water Supply and Sewerage (contd)**

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Development Servicing Plans for Water Supply and Sewerage have been reviewed in accordance with the above Determination. The review incorporates the relevant parameters from IPART's Determination dated May 2013, which relate to net present value calculations of capital costs and an operating surplus within the DSP. In addition the 2013 determination removes the cap of 85% previously applicable, that is Council can now levy the full charge on developers rather than having to fund 15% of the cost from existing users.

The IPART methodology involves the following steps.

### **1 Calculation of the Capital Cost of Assets Servicing Development with the Development Servicing Plan area**

This involves:

- \* Identification of all existing and proposed assets, except those constructed prior to 1970, for use in the calculation.
- \* Costing the assets on the basis of modern equivalent replacement value.
- \* Applying a discount rate of 0% for assets constructed before 1996.
- \* Applying a discount rate of 5% for assets constructed after 1996.

As water supply headworks assets service development for both Wyong Shire and Gosford City Councils, there is a separate DSP for water supply headworks that is referenced in both Council's DSP's. This is prepared on behalf of both Council's by the joint headworks staff.

### **2 Calculation of the Capital Cost Per Equivalent Tenement**

One Equivalent Tenement (ET) is the water or sewerage demand from a typical residential dwelling. Industrial, commercial and varying densities of residential development are equated to multiples of ETs.

Conversion of projected additional dwellings and non-residential land uses as ETs were prepared by Consultants Jacobs SKM (formally Sinclair Knight Merz) using information obtained from Council's recent population studies completed by population forecasting consultants .i.d.

The discounted capital cost, calculated above, is divided by the number of ETs to calculate a capital charge per ET.

### **3 Reducing the Capital Charge by the Operating Surplus**

The IPART methodology requires the difference between IPART's projected future income and projected future costs to be subtracted from the calculated capital cost per ET to arrive at the developer contribution.

## **CURRENT STATUS**

Currently there are approximately 80 different developer charges for water supply or sewerage, spread across 12 DSPs. As part of the current review the numerous areas have been rationalised into one DSP with a single charge per ET for Water Supply and a single charge per ET for Sewerage.

This approach reduces the large variation in the price of connecting to Council's Water Supply and Sewerage schemes that currently exist. It also encourages the bankrolling of key infrastructure items by developers as credits would be paid from the single large water supply or sewerage developer charges fund. The current situation requires the developer to wait until sufficient charges are collected within the specific small DSP area in which the infrastructure was provided.

The consolidation of the existing DSP areas also greatly simplifies the process of levying charges on a development as single charges would apply to any property connecting to the Water Supply or Sewerage schemes within Wyong Shire.

In preparing the DSP, specialist consultants Jacobs SKM were engaged to prepare a staged future sewerage capital works plan for sewerage assets to service the forecast growth within the Shire. Water Supply future capital works were taken from a previous study prepared by NSW Department of Commerce (formally NSW Public Works Dept.). The value of existing assets was taken from the 2012 Water and Sewerage Asset Valuation which was audited and endorsed by PricewaterhouseCoopers (PWC) and indexed to current costs.

## **THE PROPOSAL**

Water and Sewer has calculated the updated developer charges in accordance with the parameters contained within the 2013 IPART Determination and the methodology described above. Previously the combined Water Supply and Sewerage Charges ranged from a minimum charge of \$2,868 to a maximum charge of \$17,720 dependant on location. The proposed combined charge of \$8,564 sits between the previous charges, with the increase attributable to the following:

- A decrease in the discount rate for post 1996 assets.
- The removal of the previous 85% cap on contributions.
- Updated charges (income) and allowed operating expenses being used to calculate the operating surplus (reduction amount).
- Update of unit costs from those used in 2001 based on Modern Day Engineering Equivalent Replacement Asset costs (MEERA) as used in Council's 2012 Infrastructure Valuation based on NSW Office of Water Reference Rates and Valuations by experienced cost estimation consultants Evans and Peck.

It is noted that the use of updated infrastructure cost estimates also means that developers are better able to recover the costs of infrastructure that they may bankroll as part of their development, in particular sewage pumping stations which were previously undervalued in the 2001 DSP.

## 5.4 Development Servicing Plan Update - Water Supply and Sewerage (contd)

A comparison between the proposed Wyong Shire Council developer charges and those of other similar sized water and sewerage utilities in New South Wales (NSW) is provided in Table 1

**Table 1 Water supply and sewerage charges for similar size utilities**

In 2013/14 dollars:

Water and Sewerage Utility	Water Supply Contribution (\$/ET)	Sewerage Contribution (\$/ET)	Contribution Combined (\$/ET)
Wyong Shire Council	\$3,574	\$4,990	8,564
Shoalhaven City Council	\$6,578	\$8,339	\$14,917
Port Macquarie Hastings Council			
- Port Macquarie & Wauchope	\$9,924	\$4,130	\$14,054
- Camden Haven, Lake Cathie and Bonny Hills	\$9,924	\$4,642	\$14,566
Coffs Harbour City Council (\$09/10)	\$8,690	\$8,309	\$16,999
Tweed Shire Council	\$12,575	\$6,042	\$18,617
Midcoast Water			
- Great Lakes & Greater Taree Council LGA	\$5,820	\$9,150	\$14,970
- Gloucester Shire Council LGA	\$6,640	\$6,910	\$13,550
Gosford City Council			
- Redevelopment			\$3,500
- Gosford City Centre			\$6,171

Table 1 shows that the proposed charges for Wyong Shire are lower than similar sized coastal councils. It is noted that these councils are not regulated by IPART but instead prepare their DSP based on Guidelines from the NSW Office of Water. Hunter Water Corporation and Sydney Water Corporation, who are IPART regulated Water Authorities, do not levy developer contributions following a previous decision by the State Government.

## **5.4 Development Servicing Plan Update - Water Supply and Sewerage (contd)**

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Comparison to Gosford City Council (GCC) requires caution as GCC has already constructed the majority of its assets required to service growth while Wyong is still required to provide a significant amount of future assets to service additional growth. It is noted that population forecasts by .i.d consulting indicate Wyong's population is predicted to increase by approximately 76,930 people between 2011 and 2041, while Gosford's population is predicted to increase by approximately 42,270 people for the same period.

### **OPTIONS**

The calculation of developer charges is required to be completed in accordance with a defined methodology set by IPART and using key financial parameters also set by IPART. Under section 18(2) of the IPART Act the approval of the Treasurer is required for a Water Authority to charge an amount less than the charge calculated by the IPART methodology.

The Water Supply charge has been calculated based on a single water supply area with a uniform charge applied across the shire. This is representative of the operation of the water supply system following recent upgrades (Mardi High Lift Pump Station) and provides a simplified method for levying contributions on proposed development that connects to the Wyong Water Supply scheme. As described earlier the provision of a single DSP area encourages bankrolling of key infrastructure items as council can refund/credit infrastructure costs from a larger base. This also provides equity for customers connecting to a basic service which is otherwise priced differently based on the prevailing topography. There are no other options recommended for water supply charges.

The Sewerage charge has also been calculated as a single sewerage scheme with a uniform charge applied across the shire. The method has eliminated the cost differential between different sewage treatment plant catchments and has the same benefits as described above. It is recommended to adopt the same approach as for water supply for consistency, ease of implementation and incentives to bankroll infrastructure.

### **STRATEGIC LINKS**

#### **Asset Management Strategy**

The implementation of the proposed Water and Sewerage DSP will guide the provision of the assets required to service future growth and provide a charging mechanism to recover the efficient costs of infrastructure provision.

#### **Budget Impact**

The charges contained within the proposed DSP would be indexed annually for the life of the DSP. The relevant IPART determination requires the DSP to be updated once and only once within a five year period following its adoption by Council or as otherwise directed by IPART. This would likely occur following IPART's next Water and Sewerage Determination which is due in 2017.

The proposed charges are a result of applying IPART's methodology and parameters and are designed to provide the mechanism to collect the required costs associated with providing the required infrastructure to service future growth within Wyong Shire.

## **CONSULTATION**

In preparation of the DSP staff consulted with the following internal parties:

- Council future planning staff regarding population forecasts and proposed development
- Council's communications team regarding public exhibition processes.
- Council's contributions team to setup appropriate fee codes
- Council's customer service team regarding the exhibition period and key changes to the DSP.

The following external parties were also involved in the preparation of the DSP:

- Consultant's .i.d regarding future population forecasts and future lot releases
- Consultant's Jacobs SKM in preparing a staged sewer capital works plan based on the .i.d population forecasts.

As part of the public exhibition process the DSP and supporting documents will be available for review via Council's website and via hardcopy in the Council Chambers for a period of 30 working days. As required by IPART, notification of the exhibition period will also be provided 10 working days prior to commencement to the following parties:

- Urban Development Institute of Australia
- Housing Industry Association
- Any Developer who has applied for planning approval any time in the 6 months prior to the commencement of the exhibition period.

An advertisement will also be placed in the local paper informing the public of the start date and length of exhibition and that written submissions on the draft DSP can be made to Council during the exhibition period.

## **GOVERNANCE AND POLICY IMPLICATIONS**

Following the adoption of the proposed Water and Sewerage Development Servicing Plan, all Water and Sewerage contributions listed on an applicant's Section 306 Certificate after 1 July 2014 will be based on the new charges. Any Section 306 Certificates issued prior to 1 July 2014 would remain at the existing charges (indexed to 2014).

## **CONCLUSION**

It is recommended to place the draft Development Servicing Plan (DSP) on public exhibition for 30 working days in accordance with IPART's requirements for notification as outlined in the above sections. The draft DSP has been prepared in accordance with the methodology set by IPART and uses the input parameters set by IPART in its 2013 Determination on Developer Charges.

The proposed reduction in DSP areas provides a charging mechanism that is fairer overall, encourages the bankrolling of infrastructure by developers and simplifies the process of administering Water and Sewerage developer charges.

## **5.4 Development Servicing Plan Update - Water Supply and Sewerage (contd)**

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The combined water supply and sewerage charges have increased for some existing areas while decreasing for others but are still attractive for developers when compared to other NSW Coastal Water and Sewerage Utilities.

### **ATTACHMENTS**

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| <b>1</b> | Development Servicing Plan - Water Supply and Sewerage - April 2014         | D06728932 |
| <b>2</b> | Figure 1 - Development Servicing Plan Area - Water and Sewerage DSP<br>2014 | D06734408 |