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cc. Hon Rose Jackson MLC, Minister for Water;  
cc. shareholder Minister Hon Daniel Mookhey MLC, Treasurer;  
cc. shareholder Minister Hon Courtney Houssos MLC, Minister for Finance;  
cc. Hon Paul Scully, Minister for Planning.

To whom it may concern

## **Sydney Water Infrastructure Contributions**

### **Introduction**

Urban Taskforce Australia appreciates the opportunity to comment on the reintroduction of water infrastructure contributions.

Urban Taskforce opposes the re-introduction of DSP charges.

Confronted with an unprecedented housing supply crisis, the reintroduction of these charges, as proposed by the former Government, is ill timed and ill conceived. Further, the magnitude of the proposed charges as exhibited have the effect of killing off major greenfield housing supply that Sydney and the rest of NSW desperately needs.

When the former NSW Labor Government removed DSP infrastructure charges back in 2008, it did so with explicit reference to the negative impact those charges were having on housing supply and project feasibility.

The magnitude of the current housing supply crisis represents a significant challenge to the NSW economy, as was that presented by the GFC in 2008. The housing supply crisis demands a root and branch re-examination of the current proposal by Sydney Water, (as well as the Minister for Water and its shareholder Ministers).

Alternate ways of funding housing enabling water infrastructure that is fairer and will not threaten the delivery of new housing supply are detailed in this submission.

The introduction of new charges or changes to charges must be introduced over a minimum 10-year period to allow land purchase price expectations to adjust and avoiding the extra costs being passed through to new home buyers.

***Former Government's Shareholder Minister directions were too narrow and failed to grasp broad ramifications of their direction for the housing supply crisis. They should not be progressed.***

Urban Taskforce was advised by Sydney Water that Sydney Water was directed by the former shareholding Ministers of the former NSW Government to restrict funding options solely to imposing contributions on those developments directly benefitting from the provision of new water infrastructure.

Assuming that this advice from Sydney Water is correct, Urban Taskforce considers this to be a wantonly myopic view which fails to appreciate the broader policy imperatives of new housing, particularly when confronted with a housing supply crisis.

It is a limited, short-term outlook that fails to recognise the challenge of population growth and the need to look at housing a growing population (needed to address labour shortages and boost the State's productivity) from a Sydney wide perspective. Further, it fails to consider the benefits derived by the NSW economy as a whole from economic growth and the major contribution made towards that growth by population growth and thus the need for additional housing.

The owners of businesses in Sydney's built-up urban areas benefit from a growing economy. NSW government revenues benefit from a growing economy. The aged care and health care needs of an ageing cohort of un superannuated older Australians will demand taxpayer support and this, in turn, demands a growing economy. Without a massive improvement in productivity or the participation rate, the only other way to grow the economy is through population growth. But that requires housing supply growth.

This lesson is a common theme of both Commonwealth and State Inter-generational Reports, which all detail precisely this point.

The election of a new Government in New South Wales presents a timely opportunity to reappraise the current approach to the funding of water infrastructure in Greater Sydney.

Greenfield development delivers a critical part of the solution to the housing supply crisis in Sydney. The directives previously issued to Sydney Water by the former Minister for Finance and Treasurer are too restrictive, fail to appreciate the broader policy considerations associated with the delivery of water and wastewater infrastructure and should be abandoned.

### ***A new tax on new housing amidst a supply crisis***

The proposed water infrastructure contributions amount to a new tax on new housing. This proposal directly works against the stated ambitions of the new NSW State Government and the Commonwealth because it adds to the cost of the delivery of new housing supply. The magnitude of the proposed charges are extraordinary and should not be imposed on new home buyers.

New home buyers will contribute to our economy once properties are purchased. To expect them to shoulder all of the full up-front costs of providing infrastructure is grossly inequitable.

The suggestion by Sydney Water stakeholder managers that these new charges will be borne by existing landowners is both laughable and lamentable, given that all prospective development locations have long since been purchased without these new charges being factored in. If this were to be the case, a phase in period of 10 years would be required. As it stands, this is simply a new tax that will render a huge number of opportunities unfeasible.

### ***Contributions disproportionately impact potential new homebuyers in Sydney's West***

Further, the existing approach is inequitable in that it shifts the cost of new water infrastructure onto new home buyers in Sydney's west. Urban Taskforce is concerned that the impact of the contributions will affect those who can least afford to pay it. The original landowners have largely sold and pocketed windfall gains. The current tight conditions of financing means that all costs associated with development, as well as the tightness in housing supply, will be passed onto the customer.

In Western Sydney, these new customers tend to be new home buyers, predominantly younger families and individuals. Urban Taskforce notes that households in established

suburbs did not face such burdens, where the cost of housing enabling infrastructure like water and wastewater was seen as a cost that should be met through State budget allocations.

### ***Cumulative impacts of contributions***

These charges should not be looked at in isolation. On top of these charges, developers are faced with existing section 7.11 and 7.12 charges, the new Housing and Productivity Contributions, as well as higher costs associated with the new version of BASIX which is to be introduced in October. The cumulative impacts of these charges (in addition to other State and Federal taxes) are not insignificant, and in some instances will combine to add up to \$100,000 to the cost of a new home.

### ***Risk of bleeding out into the regions***

A number of Urban Taskforce members have also raised concerns that the methodology embedded in the Sydney and Hunter Water infrastructure charges will be closely monitored by regional water infrastructure providers, who may seek to adopt a similar approach when looking at ways of paying for its future water infrastructure needs. Thus the incidence of the costs of new water infrastructure may spread to new home buyers right across the State, rather than being seen as a shared responsibility requiring a shared solution.

**Recommendation 1: that Sydney Water seek approval from the Treasurer, Minister for Finance and the Minister for Water to abandon the current approach to the provision and funding of water and wastewater infrastructure as contained in Sydney Water's Draft Infrastructure Contributions**

### ***The fiscal conundrum***

NSW, indeed the entire nation, is confronted by the significant demographic challenge of an ageing population. To address this, we need economic growth to pay for the goods and services this ageing cohort requires. This economic growth will largely be driven by population growth and is reflected in the Commonwealth's recent move to lift permanent migration numbers to address labour and skill shortages and to lift productivity. These challenges are laid in in State and Federal Government Inter-generational reports, which consistently highlight the declining number of taxpayers who are supporting a growing number of non tax-payers.

This conundrum represents the jaws of fiscal death for NSW Treasury unless we grow the population through skilled migration. Yet in the face of this economic necessity, we are gripped by a housing supply crisis. So Governments recognise the urgent need to lift productivity and boost population growth, yet are slow to meet this need with the housing that will be needed to accommodate these new arrivals.

To make matters worse, Sydney Water's proposal places a massive financial impost on new arrivals (as well as the predominantly younger families who buy their homes in greenfield development areas), many of whom will look to Sydney's West as a place to live and work. They are being asked to pay for the provision of water infrastructure to their homes, while the established suburbs of urban Sydney continue to benefit from the skills and labour of these new arrivals and younger members of society, but do not contribute towards the cost of providing this housing enabling infrastructure.

### ***So how do you pay for the water infrastructure?***

Not by applying a new tax on housing when we are in the middle of a housing supply and affordability crisis. The most equitable way to generate funding for this critical economy building infrastructure is for a levy to be applied across the entire Sydney Water rate payer base, which we understand from advice received from Sydney Water would amount to an increase of less than \$10 per annum per account holder, rising to approximately \$100 a decade later.

An alternative available to the Government is to consider funding the water infrastructure as a growth initiative through an alternative funding source, through consolidated revenue, and/or debt financing.

The provision of productivity enhancing infrastructure should be a core concern for the State Government and the Sydney Water Shareholding Ministers.

**Recommendation 2 – that the NSW Government investigate alternate means of funding water infrastructure that ensures costs are more broadly met by the beneficiaries of economic growth.**

### ***Competition in the provision of water infrastructure must be encouraged***

Competition in the provision of infrastructure should be encouraged. IPART reviews of water charges for infrastructure are useful in preventing the worst aspects of public monopoly propensity for gold plating, but they do not facilitate innovation and lateral thinking. Worse, Sydney Water actively punishes any potential competitor for its revenue base by effectively excluding them from connections into Sydney Water Assets, thus limiting options for private provision of this infrastructure.

Enabling competition in the design and delivery of infrastructure (and the connection of this new infrastructure into Sydney Water systems over time) is all the more important now that the new State Government has ruled out the privatisation of Sydney and Hunter Water. Technological change is driving innovative approaches to the provision of water infrastructure, particularly wastewater.

Developers need a “release valve” where they can explore alternative solutions to water and wastewater that may be more cost effective and suit their particular needs.

The NSW Government needs to ensure that competition is encouraged in water infrastructure provision. This needs to be coupled with strong support for the integration of private sector delivered water infrastructure solutions with Sydney water infrastructure once they are completed.

**Recommendation 3 – that the NSW Government ensure that private sector providers of water infrastructure are encouraged to ensure competition, innovation and water infrastructure solutions that meet market needs.**

### ***The process - rezoning prior to acquisition***

Part of the challenge of the provision of housing enabling infrastructure is that the former NSW Government decided to rezone large swathes of land in Western Sydney which sent signals to the private sector that development would occur.

Land was purchased by developers on the basis that the Government was encouraging the delivery of new homes in greenfield locations. All the land which is earmarked for growth in the areas that are subject to the proposed new DSP charges have been held by developers for some time. Now developers are faced with new prohibitive water charges (not to mention an array of other Infrastructure charges) which were not know or contemplated at the time of purchase and were not included in their feasibility analyses.

**Recommendation 4: that the introduction of any new fee, charge or tax be introduced over a minimum 10 year period to allow land purchase price expectations to adjust and avoiding the extra costs being passed through to new home buyers.**

## Conclusion

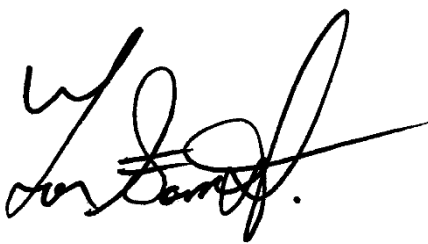
Urban Taskforce believes that the election of a new State Government presents a timely opportunity to revisit the approach to the funding of water infrastructure.

The growth of Sydney's population is a Sydney wide issue. We need increased migration to boost productivity and address the chronic labour shortages. By successfully solving these issues all of Sydney wins. It stands to reason that the costs associated with addressing undersupply of housing should be distributed fairly. The NSW Government must reconsider how we pay for Sydney's growth. It is not beholden to the decisions of the former Government which decided to reintroduce these charges.

Sydney Water has been left with a short term, myopic and inequitable set of parameters in determining its infrastructure charges. Beyond this, there is a very real concern that the proposed charges as exhibited will threaten the feasibility of many greenfield housing developments that are needed to help address the chronic housing supply crisis faced by Sydney and the rest of NSW.

Should you wish to discuss this matter further, please call our Head of Policy, Planning and Research, Stephen Fenn on 9238 3969 or via email [stephen@urbantaskforce.com.au](mailto:stephen@urbantaskforce.com.au).

Yours sincerely



**Tom Forrest**  
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