

December 9, 2024

Carmel Donnelly PSM
Chair Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
NSW 1240

Via email: ipart@ipart.nsw.gov.au

Re: Prices for Hunter Water Corporation from 1 July 2025

Dear Carmel,

The Urban Development Institute of Australia NSW (UDIA) is the state's leading development industry body. We represent the leading participants in the industry and have more than 450 members across the entire spectrum of the industry including developers, financiers, builders, suppliers, architects, contractors, engineers, consultants, academics and state and local government bodies.

UDIA invests in evidence-based research that informs our advocacy to state, federal and local government, so that development policies and critical investment are directed to where they are needed the most. Together with our members, we shape the places where people will live for generations to come and in doing so, we are city shapers. In NSW alone, the property industry creates more than \$581.4 billion in flow-on activity, generates around 387,000 jobs and provides around \$61.7 billion in wages and salaries to workers and their families.

UDIA welcomes the opportunity to make a submission to IPART's Review of Hunter Water's pricing proposal from July 2025.

The need for enabling water and sewer infrastructure to deliver new housing

This pricing proposal is being considered by IPART at a time when NSW is in a severe housing supply crisis, with housing approvals, commencements, and completions at decade-low rates. Without immediate government intervention, this crisis will only get worse and have lasting negative social and economic outcomes for our state. Amid the housing supply crisis where greenfield housing development is arguably the most feasible to develop, we believe it is imperative that the NSW Government, through Hunter Water, continues to invest in augmenting its existing network to support housing growth.

The State Government has a strong understanding about lands that have been rezoned for housing and is using the Urban Development Program (UDP) to understand what infrastructure is required to unlock housing. However, without an understanding of developer intentions (how much housing and when they will deliver it), the future housing supply pipeline will never be properly understood or efficiently unlocked.

To fill that knowledge gap, UDIA commissioned two research projects this year relative to the Hunter Water service area: the National Housing Pipeline (NHP)[®] report for New South Wales; and the *Lower Hunter Building Blocks Report* update. Both reports were released in September 2024.

NHP bridges the data gap by providing an industry vetted understanding of what land developers intend to develop over a 5, 10 and 15 year timeframe allowing Government and industry to understand the actual capacity to deliver housing and where Government should focus its investment and decision making. UDIA's first edition of the NHP presented real concerns around the capacity for NSW to meet its housing targets. The NHP has identified that without additional interventions from government, the overall Sydney Megaregion (which includes Hunter Water's network footprint) is likely to face a shortfall of 150,600 homes on the 5-year National Housing Accord target. The NHP identifies that nearly 4 in every 10 homes across the Hunter is awaiting enabling infrastructure such as water and sewer.

The NHP research found only 3% of new homes in the planning pipeline at the time of the survey (Nov 2023–Feb 2024) were unconstrained and truly “development ready” – that is where a developer owns land and intends to commence construction in the next five years. Critically for the NSW Government, the NHP research concluded there will be a significant shortfall in the Government's “Planned” housing targets, which are heavily weighted to greenfield development.

NHP identified the three main factors impacting housing supply over the next 5 years in the Hunter as:

- **A slow Planning System** – 37% of potential homes are awaiting at least one approval determination before development can commence.
- **A lack of Enabling Infrastructure** – 40% of potential homes lack committed, funded, or completed enabling infrastructure, including water, sewer, power and roads.
- **Environmental Constraints** – 30% of potential homes are awaiting resolution of biodiversity approval or certification.

The *Lower Hunter Building Blocks Report* focused on a more detailed analysis of the enabling infrastructure needs for development projects across the Lower Hunter region specifically. The 2024 *Building Blocks Report* identified \$17.4 million in sewer and \$28.7 million in water infrastructure that still must be funded and delivered to support the supply of the Lower Hunter's 5-year 30,400 Housing Accord target.

While housing supply is driven by a range of factors, water and sewer infrastructure availability is a crucial piece of the puzzle. We urge IPART to take a holistic view of housing supply and recognise the need to adequately fund Hunter Water so it can invest in capacity to support the efforts across Government to increase housing supply.

Hunter Water's proposed investment in growth infrastructure

Hunter Water has proposed \$1.55 billion in investment over the next 5 years, including \$530 million for a new desalination plant at Belmont. Excluding Belmont desalination, the proposed investment is a similar capital expenditure as in the current period.

We observe that any reduction in the proposed capital allocation would necessarily impact on the supply of housing in the Hunter region and further impact on the NSW Government's commitments under the National Housing Accord to deliver 30,400 new homes over five years for the Hunter.

The Development Industry's contribution to water and sewer infrastructure

IPART has now registered Development Servicing Plans (DSPs) for Hunter Water confirming new developer charges of between \$1,040 and \$22,929 (regional average \$10,304) for new homes built in the Hunter Water service area as of July 2024.

These charges have been added to the cost of new housing at a time when development feasibilities are already challenged with many new housing projects stalling. UDIA notes that under the current pricing proposal, developers will contribute around \$171.4 million in DSP developer charges between 2025 and 2030 towards the cost of major infrastructure needed to serve the new housing and employment area developments.

This represents a significant direct investment by the development sector, which in turn will need to be added to the already high cost of new housing for purchasers. We believe it is an appropriate contribution and encourage IPART to resist any calls to rebalance the proposed funding of Hunter Water's capital program by placing any further burden on the development sector, which cannot afford further material cost increases at this time.

Works-in-Kind: A Complementary Policy Solution to infrastructure delivery

UDIA remains strongly supportive of Hunter Water's Connecting Asset Funding (CAF) program and standard. The CAF (and its predecessor Funding of Growth) program have enabled the efficient delivery of growth infrastructure by working with developers who construct assets on behalf of Hunter Water while new development subdivision works are already underway. The CAF program is critical to supporting the growth of the Hunter region and delivering the forecasted housing and jobs.

UDIA acknowledges there are mechanisms where taxes and contributions significantly benefit industry and support the timely and equitable provision of infrastructure and well-located development. Building on the CAF model, UDIA believes there are opportunities to allow developers to discharge their financial contributions via DSPs through a works-in-kind (WIK) framework. UDIA has long maintained that a WIK framework sitting above a contribution obligation can be a key driver for integrated infrastructure delivery and housing supply. Providing WIK opportunities will improve the comprehensiveness of the DSP regime and more importantly, unlock the potential for Hunter Water to deliver its planned growth infrastructure program more quickly and at a potentially lower cost due to the efficiencies created by allowing developers to undertake works while they have equipment and contractors already on site.

The NSW Government is preparing a governance and policy framework to guide how, when and where WIK should be considered in areas where development contributions under the Housing and Productivity Contribution (H&PC) scheme apply, such as in the Lower Hunter. This would provide real opportunities to accelerate enabling infrastructure for housing and employment lands and UDIA maintains the WIK framework should apply to all enabling infrastructure including roads, sewer, water and electricity infrastructure. In doing so, there is further potential for developers to bring forward the delivery of Hunter Water's planned growth infrastructure sooner than if it was delivered directly by Hunter Water's capital works program.

Conclusion

As the NSW Government seeks to deliver the record number of new homes required to deliver its commitments under the National Housing Accord, it is critical that both developers and Hunter Water can make investment decisions that are based on greater levels of confidence that infrastructure will be in place in a timely manner.

UDIA believes Hunter Water has put forward a credible and well considered long-term and immediate investment strategy that supports the need to service population and housing growth and to secure the Hunter's long term water supply. We encourage IPART to recommend approval of the proposal in its current form.

Should your team require further information please contact Elizabeth York, Regional Manager on 0434 914 901 or eyork@udiansw.com.au.

Kind regards,



Hon. Stuart Ayres
Chief Executive Officer