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3 November 2003

Inquiry into First Home Ownership
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Sirs

PUBLIC CONSULTATION – WATER CORPORATION SUBMISSION

The Water Corporation exerts positive and proactive influence on first and subsequent home ownership by:

- promoting timely and appropriate servicing fronts, enabling an adequate supply of serviceable land;
- providing equitable charging policies, which are clear and transparent;
- encouraging sustainable development; and
- continual liaison and partnering with the land development industry.

A recent review undertaken in conjunction with the Urban Development Advisory Committee, which advises the Board of the Water Corporation, confirmed that the Corporation, is using acceptable worldwide practice of obtaining up-front developer contributions. This contribution enables the timely provision of infrastructure for servicing land development, and reduces servicing constraints by optimising efficient servicing fronts. Concern over first home affordability does not provide a valid reason for abolishing or reducing headworks contributions.

The Corporation believes that in providing targeted assistance to first home buyers a direct subsidy would be the most efficient and transparent method, e.g. the first home buyers grant.

I look forward to the release of the draft report and hope that the Corporation's submission is of assistance to the Commission in making its findings.

Yours faithfully

J. I. Gill
MANAGING DIRECTOR

FIRST HOME OWNERSHIP

Issues Paper

Water Corporation Submission

October 2003



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1.0 INTRODUCTION TO THE WATER CORPORATION

The Water Corporation operates within licensed areas approved by the Office of Water Regulation (OWR). It is the major water services utility in Western Australia, and works closely with the land development and building industry. By efficient liaison with the industry, including the State and Local Governments, the urban form can be influenced to be serviced in a sustainable manner. This impacts on the provision of land and dwellings available for home ownership, or investment.

Our purpose

The purpose set by the Water Corporation to drive its actions is:

**“sustainable management of water services
to make WA a great place to live and invest”**

In support of this purpose, the Water Corporation was one of the first government agencies in Western Australia to publish a triple bottom line report in 2000 (the “Community and Environment” report).

Service delivery

The Water Corporation in 2002/03:

- served more than 1.8 million people, and 51,000 businesses in 255 cities, towns and rural areas spread across 2.5 million kilometres;
- delivered 329 million kilolitres of high quality drinking water;
- treated 122 million kilolitres of wastewater;
- provided drainage services to over 452,000 hectares;
- supplied 587 million kilolitres of irrigation water; and
- maintained high standards of customer and environmental management.

Legislative parameters

The Water Corporation operates under the *Water Corporation Act 1995*. Established on 1 January 1996, the Corporation is headed by a Board of Directors acting in accordance with Corporations Law and responsible to the Minister for Government Enterprises.

Service regulation in the water industry in Western Australia is governed by the *Water Services Co-ordination Act 1995*. As required under the *Water Corporation Act 1995*, the Corporation’s Statement of Corporate Intent is produced annually. This is a publicly available document.

The Water Corporation is a centre of expertise with respect to planning for service delivery, as required under its Operating Licence.

Total water cycle management

The Water Corporation is the only participant in the water industry in WA that has interface with all industry aspects, across all products and in all regions of the State. The Corporation is proud of its regional presence and considers it essential to building communication and delivering services that meet the needs of its customers in their communities.

Increasingly the Corporation understands that it is the interplay between all aspects of the water cycle that will yield tomorrow’s solutions. The Corporation's knowledge of customer needs, local issues and differentiators, water reuse options, demand management strategies, water sensitive urban design and the concentration of engineering, environmental and commercial expertise are an enormous asset, which is owned by the people of Western Australia.

The principles of sustainability recognise the need for innovation and collaboration in new models of partnership. The Corporation works with and looks forward to strengthening relationships with its customers, communities, Government, private enterprise and other stakeholders.

2.0 IDENTIFICATION, RELEASE AND DEVELOPMENT OF LAND AND THE PROVISION OF BASIC RELATED INFRASTRUCTURE

The development servicing model for water services is based on the State Planning Strategy discussion paper on public utilities and services (1995). It includes three distinct categories of works.

- Private plumbing – is generally recognized as the landowners responsibility.
- Minor Works – these include subdivision reticulation and temporary facilities forming part of the on-site development costs, which are generally fully funded by developers. Pipe diameter can be used to establish the boundary between major and minor works, keeping in mind the scale of the relevant scheme and implications relating to development viability.
- Major Works - include the sources, trunk and distribution mains, pump stations and treatment plants. Developers are required to contribute to these works by means of a cash contribution to the Water Corporation.

Major works is the vast network of infrastructure by which the Water Corporation provides water supply, wastewater and drainage services to the State of Western Australia and are usually referred to as headworks. The Water Corporation takes responsibility for the provision and maintenance of headworks infrastructure and requires contributions towards this from customers. Part of the cost is recovered through a one-off up front payment termed 'headworks contributions'. The balance of the money needed to construct these assets is funded from annual service charges and consumption charges.

The State Government has set the Standard Headworks Contribution (SHC) amount as forty percent of the average State wide cost of providing headworks infrastructure to meet the demand on the infrastructure from a typical residence on an average residential lot. The demand is for capacity within the system of infrastructure to supply the level of service required under the Operating Licence. The percentage has been set by government to share the headworks cost between the person creating the demand and the long term user of the service. The SHC contribution (amount and method of calculation) is reviewed every three years with the involvement of representative bodies from the land development industry. Between reviews, the SHC is indexed annually by the application of a combination of various Australian Bureau of Statistics indices.

The Standard Headworks Contribution (SHC) approach is based on a simple and equitable formula applied uniformly throughout Western Australia. SHCs are typically payable by anyone increasing their water, wastewater or drainage demand on Water Corporation services. The main circumstances where additional demand may occur includes, but is not limited to subdivision of land to create extra lots and additional residential dwellings other than the first residential dwelling on a served lot. The payment of the SHCs is the responsibility of the landowner at the time of increasing the demand.

The formula is based on the average service requirements for a typical residential property. This demand on the headworks infrastructure is known as a Single Residential Equivalent (SRE). One SHC is payable for each SRE. The variation in demand on the system from residential properties of varying size is recognized by the use of a table of (SRE) Factors. Where a residential property fits the average, one SRE is applicable. As lots, (or for multi residential sites the area of land for each unit) reduce in size, so the factor also reduces. For example a 200 square metre block contributes only approximately 75% of the standard SRE for water supply. Having a system of

factors maintains equity for properties where the demand on the system varies owing to the size of the property. The system is simple to understand and easy to use.

Where developments occur distant from the servicing front, additional contributions may be obtained by the implementation of Special Developer Contribution Areas or developer pre-funding arrangements for the required headworks infrastructure.

Redevelopment attracts credits for existing deemed service demands and contributions are appropriately reduced.

The Government funded sewer infill initiative has been the catalyst for urban consolidation in older residential areas. This has produced financially attractive redevelopment opportunities, as generally all other servicing and support requirements already exist.

Where development is adjacent to services, and pays annual service charges, connection fees only are applicable (\$600 for water and \$300 for a sewer cut-in). Headworks contributions are not paid, and this anomaly is to be corrected if current proposals to change legislation occur.

Current proposals, as requested by the development industry, for sharing of the cost of the minor works, i.e. the reticulation, are also pending this legislative change. This will make the development servicing costs more equitable, and will promote competitive development. The proposed new reticulation contribution does not have to be considered as an additional cost, as it will have a neutral impact on the development industry, as contributions will be re-distributed.

Design standards are continually modified to ensure appropriate improvements to manufacturing, construction, operation and maintenance practices can be deployed. Significant reductions in servicing costs have been achieved, and the development industry in WA is considered to be extremely efficient.

A Water Corporation objective is to keep pricing policies equitable from a “user-pays” principle, and yet simple enough for self assessment. Public information brochures are available and processes include electronic assessment and processing through Web-enabled software.

3.0 EFFICIENCY AND TRANSPARENCY OF DIFFERENT PLANNING AND APPROVAL PROCESSES FOR RESIDENTIAL LAND

Land planning is pivotal and requires considerable foresight and activity to address compatible land uses and development conditions around the State. Water resource management is appropriately placed in the Water and Rivers Commission (WRC). Infrastructure planning and service delivery is undertaken by water utilities.

Role of the Water Corporation

The Water Corporation participates in planning discussions for the following reasons:

- It is a major Licence Obligation, regulated by OWR, to plan for new services within its Operating Areas.
- As the primary agency responsible for delivering and expanding the provision of water services in Operating Areas throughout WA, the Corporation has a direct link to customers and communities throughout the State, providing first hand knowledge of infrastructure needs and priorities, concerns and conflicts.
- Strong links and relationships with the development industry have been developed, enhancing the Corporation's ability to work within the planning framework, while meeting needs of retail customers and developers.
- Planning issues are often affected by technical matters (technology, buffer zones, environment, resource assessment and operations) in which the Corporation has expertise.

Many areas of the State are not allocated by OWR to a water service provider, as they are undeveloped. Service providers are not required and generally do not undertake planning in most of these areas. However, there is on occasion some conceptual planning in these areas for two reasons:

- 1 To understand the impact of potential development on existing services (ability to use existing capacity, water quality, sizing issues for infrastructure renewals etc.).
- 2 As an investment in potential future business development.

In 1999, the OWR published a process for the selection of service providers for greenfield areas. Under that process OWR was able to advertise seeking expressions of interest for water service providers for greenfield sites. At the time the Water Corporation was critical of this process as being too cumbersome and an additional burden on the development industry.

In practice, the Water Corporation has either won through this competitive process the right to service these areas (e.g.: Dalyellup, Kemerton) or has been called upon to undertake works at short notice when the 'successful' tenderer, or alternate supplier, has withdrawn (e.g.: Coral Bay).

More recently, during 2003, OWR withdrew that process although an alternative process has not been published.

Participation in planning discussions must be distinguished from strategic policy setting, which is the role of Government. No single water provider, or regulator, should undertake this role. However, participation by knowledgeable industry representatives assists in both planning discussions and strategic policy setting and should contribute to more sustainable outcomes.

Delivery of infrastructure

On average, the Water Corporation expends over \$300 million pa on a capital investment program to support service growth, asset replacement and service improvements. The majority of activities associated with asset design, construction and commissioning are outsourced to private enterprise. Approximately 90% of the capital investment program was undertaken by private enterprise on behalf of the Water Corporation in 2002 / 03.

The Water Corporation's role in proactive planning, and sustainable orderly land development is to:-

- Provide infrastructure planning for water services, including source planning
- Liaise with development industry
- Ensure consistency and certainty of policies and pricing mechanisms
- Enhance industry and public awareness of appropriate procedures and processes
- Ensure efficient approvals
- Constant review of World's best practice
- Influence water sensitive urban form
- Influence efficient total water cycle management
- Service redevelopment with flexibility and responsiveness (minimising constraints)
- Promote standardisation of service requirements and alignment
- Monitor land development trends and changing requirements
- Ensure efficient use of existing infrastructure
- Design appropriate standards
- Respond to climate change with sustainable source development combined with water conservation initiatives

Through the provision of an internet site and the availability of brochures and flyers, eg Appendices 1 & 2, the Water Corporation maintains transparency for its customers of all land development policies and charges.

4.0 EFFICIENCY AND TRANSPARENCY OF TAXES, LEVIES AND CHARGES IMPOSED AT ALL STAGES OF THE HOUSING SUPPLY CHAIN

Water Corporation's influence on the provision of land for home ownership is the cost implications for the provision of water, wastewater and drainage services including:

- Developer costs to satisfy servicing conditions
- Capital up-front developer contributions
- Building approval fees
- Connection charges
- Annual rates and charges

A recent review undertaken in conjunction with the Urban Development Advisory Committee (UDAC), confirmed that the Water Corporation, and most other water utilities in Australia, is using acceptable worldwide practice of obtaining up-front developer contributions. This contribution enables the timely provision of infrastructure for land development, and reduces servicing constraints by maximising efficient servicing fronts.

The development servicing model includes three distinct categories of works; private plumbing, minor works and major works. The developer is responsible for funding the private and minor works.

Major works (Headworks) are the responsibility of the WC to fund, but contributions are required from developers. Currently, Government has set a 40% contribution rate from developers. This arrangement recognises that the developer and eventual occupier are both beneficiaries to the servicing of the land.

The headworks contribution required from a development proposal is calculated in proportion to the increased service demand imposed on the system by its development. The standard unit is based on the demand of a single house on a single lot, i.e. the Single Residential Equivalent (SRE). The Standard Headworks Contribution (SHC) is based on demand, and applies State-wide. Current amounts are approximately:

| | | | | | |
|-------|----------|------------|----------|----------|-------|
| Water | \$2,600, | Wastewater | \$1,500, | Drainage | \$290 |
|-------|----------|------------|----------|----------|-------|

Service loads are considered lower for smaller lots, and contributions are reduced accordingly, eg headworks contributions for lots less than 200 m² would be approximately:

| | | | | | |
|-------|----------|------------|----------|----------|-------|
| Water | \$1,900, | Wastewater | \$1,000, | Drainage | \$190 |
|-------|----------|------------|----------|----------|-------|

The advantages seen by the land development industry in having a single State-wide standard headworks charge include:

- Simplicity and uniformity – Developers know what they will need to pay regardless of the location
- Predictability and stability – As a backward looking average concept Standard Headworks do not reflect spikes in the cost of bulk supplies

These advantages provide developers in WA with an increased level of confidence and certainty.

Standard Headworks charges are reviewed triennially to ensure amounts reflect changes in the cost of providing services by the Water Corporation. This review also ensures that increases are introduced in an incremental manner, not large step changes that would have significant impacts on developers and the land development industry.

Risk of inappropriate regulatory intervention

The Water Corporation is regulated on different fronts by the following regulators:

| | |
|-----------------------------|--|
| Office of Water Regulation | Service standards, asset management and customer service |
| Water and Rivers Commission | Water Allocations |
| Department of Environment | Environmental impacts of operations |
| Department of Health | Drinking water quality |
| Cabinet | Pricing |

The Water Corporation operates on a uniform charging structure for Headworks Contributions based on cost recovery of forty percent for headworks and 100% for minor works as stated earlier. Any reduction in specific charges would be across the board and would need to be compensated by increases in other charges such as annual rates.

Increases in regulatory standards imposed generally lead to increased operating costs for the Corporation. These increased costs would need to be passed on to the end consumer through price increases. A complex pricing system is more expensive to administer, and may not be acceptable to industry.

Attempts to regulate charges levied on a target group by the Water Corporation would run the risk of forcing cross subsidisation which directly contradicts the objectives of the NCC and COAG reforms. A half a percent increase in mortgage rates would have a greater impact on housing affordability than even a doubling of Headworks Contributions. When assessed against effectiveness and equity criteria, abolitions of headworks contributions is inferior to other options for assisting first home owners, particularly low income first home buyers. Most of the benefit of reducing headworks contributions would be passed onto existing home buyers and/or developers as only 20% of new homes are purchased by first home buyers.

In providing targeted assistance to first home buyers a direct subsidy would be the most efficient and transparent method, such as the first home buyers grant.

As noted by the Industry Commission in the 1993 report, *Taxation and Financial Policy Impacts on Urban Settlement*:

“Subsidies from general revenue sources are more effective in achieving equity objectives than providing subsidised urban infrastructure”

5.0 CONCLUSIONS

Each new service makes an incremental demand on the capacity of the system and the beneficiary should make a contribution towards the cost of the works associated with providing the capacity for that service. The Water Corporation influences the cost of provision of serviced land for home ownership by requiring developer contributions and setting annual servicing charges. The Standard Headworks Contribution (SHC) approach, which was developed in conjunction with the land development industry, is based on a simple and equitable formula applied uniformly throughout Western Australia.

The Water Corporation exerts positive and proactive influence on first and subsequent home ownership by:

- Promoting timely and appropriate servicing fronts, enabling an adequate supply of serviceable land.
- Providing equitable charging policies, which are clear and transparent.
- Encouraging sustainable development.
- Continual liaison and partnering with the land development industry.

A recent review undertaken in conjunction with the Urban Development Advisory Committee confirmed that the Water Corporation, and most other water utilities in Australia, is using acceptable worldwide practice of obtaining up-front developer contributions. This contribution enables the timely provision of infrastructure for servicing land development, and reduces servicing constraints by optimising servicing front efficiencies.

The advantages in having a single State wide stand headworks charge include:

- Simplicity and uniformity
- Predictability and stability

These advantages provide developers in WA with an increased level of confidence and certainty.

The development servicing model includes three distinct categories of works; private plumbing, minor works and major works. The developer is responsible for funding the private and minor works.

Attempts to regulate charges levied on a target group by the Water Corporation would run the risk of forcing cross subsidisation which directly contradicts the objects of the NCC and COAG reforms. Concern over first home affordability does not provide as valid reason for abolishing or reducing headworks contributions.

In providing targeted assistance to first home buyers a direct subsidy would be the most efficient and transparent, such as the first home buyers grant.

APPENDIX 1

LAND DEVELOPMENT BRANCH

Information Service

WHAT ARE HEADWORKS?

The Water Corporation provides water supply, wastewater and drainage services to the state of Western Australia through a vast network of infrastructure. This infrastructure is classified as headworks or minor works.

“HEADWORKS” are also called Major Works and refer to the regional scheme infrastructure, such as:

| | |
|-------------------|---|
| For Water Supply; | dams, catchments, bores, water treatment plants, distribution mains, and reservoirs |
| For Wastewater; | treatment plants, pumping stations, rising mains, and main sewers |
| For Drainage; | main drains, and compensation basins. |

The headworks accommodate regional demands where local scheme infrastructure is called minor works and is mainly reticulation pipework. The Water Corporation takes responsibility for the provision and maintenance of headworks infrastructure and requires contributions towards this from customers. The minor works meeting local demand is funded by the developer.

WHY ARE HEADWORKS CONTRIBUTIONS NECESSARY?

Western Australia's continued growth generates the need for additional water services. New headworks are constructed in advance of the demand and it is only through charging new developments as they occur that the cost for the new infrastructure is recovered.

Part of the cost of providing headworks infrastructure is recovered through a one-off upfront payment termed headworks contributions. The balance of the money needed to construct these assets is funded from annual service charges and consumption charges. In this way the, the cost of the new infrastructure is shared between the person creating the demand (40%) and the long term user of the service (60%).

The state government has set an amount of forty percent of the cost of new headworks infrastructure average statewide cost of providing headworks infrastructure to a typical residence on an average residential lot. The amount of forty percent has been set by government to share the headworks cost between the person creating the demand and the long term user of the service.

WHO PAYS HEADWORKS CONTRIBUTIONS?

The Standard Headworks Contribution (SHC) approach is based on a simple and equitable formula applied uniformly throughout Western Australia. This approach has been developed in liaison with the State Government and the land development industry.

SHC s are typically payable by anyone increasing their water, wastewater or drainage demand on Water Corporation services.

The circumstances where additional demand may occur includes, but is not limited to any of the following

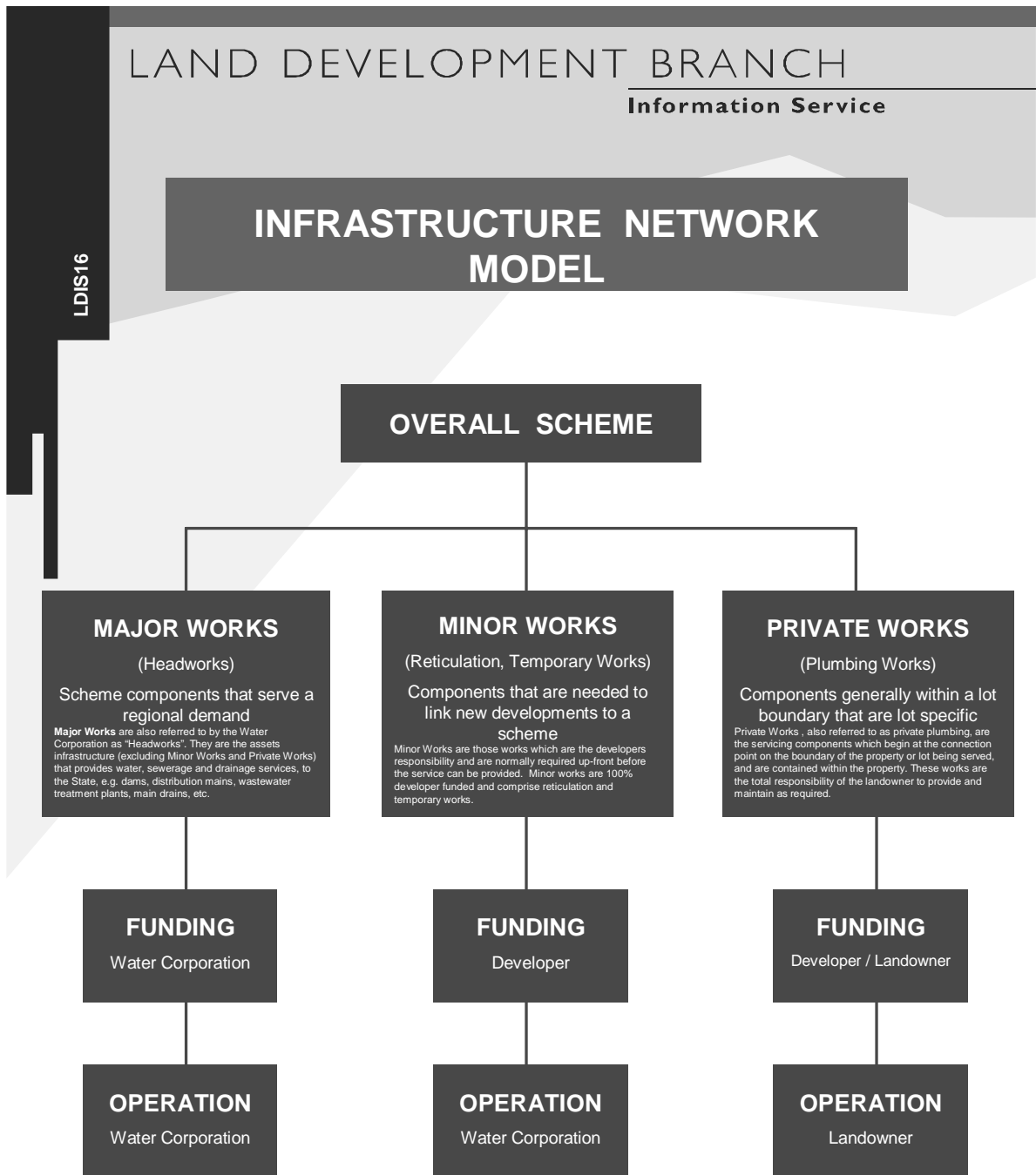
- Subdivision of land to create extra lots
- Additional residential dwellings other than the first residential dwelling on a served lot
- Redevelopment of an existing building or dwelling
- Increase of the water supply peak flow rate or water meter size
- Increase in the wastewater discharged to sewer
- Request for additional service connection points
- Request for water supply or wastewater services to land that does not have an existing connection
- Requirement for a permit to discharge industrial waste
- Change in land use or rezoning

The payment of the SHCs is the responsibility of the landowner at the time of increasing the demand. The paid SHCs represent a commitment by the Water Corporation to meet that demand for that land location. This commitment then stays with the land through changes of ownership.

This information is provided as a guide only and is current as at April 2003. The Water Corporation takes no responsibility for providing updates to this information unless requested. Further information can be obtained from the Corporation's Internet site http://www.watercorporation.com.au/land/land_ldis.cfm or by telephone on (08) 9420 2099



APPENDIX 2



Acknowledgment: This Model of the Water Corporations Infrastructure Network is based on Fig 6 of the State Planning Strategy discussion paper for Public Utilities and Services (November 1995)

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