6 August 2024

Carmel Donelly 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 Sydney 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 Sydney Water's pricing 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 Sydney Water, continues to invest in augmenting its existing network to support housing growth.

UDIA's first edition of the National Housing Pipeline (NHP)® report for New South Wales, released in September 2024, presented real concerns around the capacity for NSW to meet its housing targets. The NHP has identified that without additional interventions from government, the Sydney

Megaregion (the area which most closely aligns with Sydney Water's network footprint) is unlikely to exceed 171,400 completed homes during the five-year National Housing Accord period, representing a shortfall of 150,600 homes on the target for the region.

The NHP was commissioned by UDIA to provide an accurate picture of developable land capacity across Australia's key housing regions. It not only assesses the technical and planning constraints impacting development, but combines it with a unique UDIA "developer intentions survey", to provide an on the ground picture of what land developers actually intend to develop.

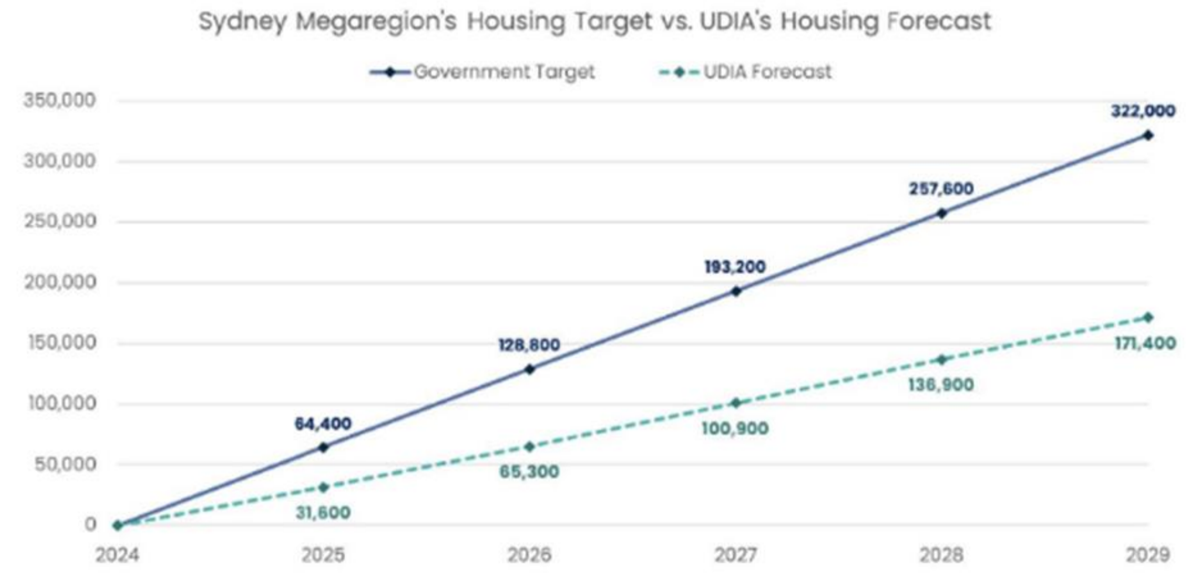
The State Government has a strong understanding about lands that have been rezoned for housing and is using the Urban Development Program (UDP) to understand what infrastructure is required to unlock housing. However, without an understanding of developer intentions (how much housing and when they will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

The NHP bridges this data gap, 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.

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

The three main factors impacting housing supply over the next 5 years are:

- **A slow Planning System** –42% of potential homes are awaiting at least one approval determination before development can commence.
- **A lack of Enabling Infrastructure** – 30% of potential homes lack committed, funded, or completed enabling infrastructure (water, power, sewer, and roads).
- **Environmental Constraints** – 19% of potential homes are awaiting resolution of biodiversity approval or certification.



-ENDS-

Sydney Megaregion: Metropolitan Sydney, Central Coast, Lower Hunter, Illawarra-Shoalhaven

Of the total number of potential new homes - around 20% or 32,600 by number – require water or wastewater services to enable new homes to be built.

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.

While housing supply is driven by a range of factors as the above data shows, 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 Sydney Water so it can invest in capacity to support the efforts across government to increase housing supply.

Sydney Water's proposed investment in growth infrastructure

Sydney Water has proposed $16.5 billion in investment over the next 5 years. Almost 60% of its proposed capital investment ($11 billion) over the next 5 years is to deliver new services to growth areas across Greater Sydney, including for new water assets and wastewater treatment facilities.

We note there are many recent examples of Sydney Water being unable to accurately align growth infrastructure delivery with the planned construction of housing development, both due to challenges with forecasting development yields and the "just in time policy" which prohibits Sydney Water commencing detailed business case development until after land has been rezoned for housing. While UDIA has repeatedly advocated for changes to this policy setting, we note this is beyond the scope of IPART's current review.

However, despite Sydney Water's efforts under previous price determinations, they have not been able to fund the growth infrastructure required to support adequate levels of supply.

UDIA has been repeatedly assured the proposed allocation for growth services has been subject to appropriate peer review (including by Infrastructure NSW) to ensure it aligns with the government's housing targets set for each local government area in the next five years. As such, UDIA does not seek to make detailed commentary on the timing of, or proposed capital allocation for, specific assets outlined in the pricing proposal.

We simply observe that any reduction in the proposed capital allocation will necessarily impact the supply of housing in the Sydney megaregion and further impact the NSW Government's commitments under the National Housing Accord to deliver 377,000 news homes over five years, including 322,000 in the Sydney Megaregion.

The Development Industry's contribution to water infrastructure

In December 2023, IPART registered the final Development Servicing Plans (DSPs) for Sydney Water confirming new development charges of between $9,000 and $45,600 for new homes built in the Western Sydney and North Western Sydney growth areas.

These charges were 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 $3.9 billion over the next five years towards the cost of major infrastructure needed to serve their developments. This represents 35% of the proposed $11bn investment in growth infrastructure and is 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 Sydney 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 water infrastructure delivery

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. We remain supportive of Works-in-Kind (WIK) agreements which enable the private sector to deliver enabling infrastructure to support their own projects, ensuring housing is delivered systematically.

There are significant opportunities to allow developers to discharge their financial contributions via DSPs through a 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 these opportunities will improve the comprehensiveness of the DSP regime and more importantly, unlock the potential for Sydney 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 lead works, while they have equipment and contractors on site undertaking sub-division works.

UDIA has been impressed with Works-in-Kind policies applied by Hunter Water and has received very positive feedback from our members operating in this region on the *Funding and Delivery of Growth Infrastructure Standard* policy, since its introduction in 2016. The policy allows developers to deliver, connect, augment and fund enabling infrastructure assets and be fully reimbursed upon handing the asset to Hunter Water for management. This has allowed Hunter Water to evolve into a highly productive service provider.

Further, 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. 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 potential for developers to bring forward the delivery of Sydney Water's planned growth infrastructure sooner than if it was funded from Sydney Waters capital 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 Sydney Water can make investment decisions that are based on greater levels of confidence that infrastructure will be in place in a timely manner.

Sydney faces a 'societal' pivot point – it needs to address growth and water security now, but in a sustainable and fair way for both current and future generations. UDIA believes Sydney 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 Sydney's long term water supply. We encourage IPART to recommend approval of the proposal in its current form.

For further information on this submission or should your team require further information please contact [redacted]

Kind Regards,

[redacted]

[redacted]

UDIA NSW