



DIRECTOR SHIRE SERVICES REPORT

11th October 2005

**DSS8 DEVELOPMENT SERVICING PLANS FOR
WATER AND SEWERAGE
FILE: JNW**

SUMMARY:

Reporting on the Development Servicing Plans (DSPs) prepared for water supply and sewerage.

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Developer charges are up-front charges levied to recover part of the infrastructure costs incurred in servicing new developments or redevelopments. Developer charges serve two related functions:

- They provide a source of funding for infrastructure required for new urban development.
- They provide signals regarding the cost of urban development and thus encourage less costly forms and areas of development.

Development creates a demand for services and it is therefore equitable that new development pays a contribution towards the capital cost of infrastructure and headworks required to meet that demand. Developer charges are based on user-pays principles. The fundamental principle of the net present value methodology used to calculate the charges is that the investment in assets for servicing a development area is fully recovered from the development.

Council's power to levy developer charges for water supply and sewerage derives from section 64 of the *Local Government Act 1993* by means of a cross-reference to sections 305 and 307 of the *Water Management Act 2000*. (Council may levy developer charges for stormwater either under the above, or under section 94 of the *Environmental Planning and Assessment Act 1979*)

The following table summarises the developer charges currently being levied in Kempsey Shire and the proposed full-cost reflective

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developer charges calculated as part of the preparation of the DSPs.

Developer Charge	Typical developer charge (2004/05 \$/ET)	Proposed Developer Charge (2005/06 \$/ET)
Water Supply	2,940	7,468
Sewerage	4,530	6,300

The proposed increase in the developer charge for water supply is significant. This indicates that Council has not been recovering the full costs of service provision for new development. The proposed increase in the developer charge for sewerage is less significant.

The proposed developer charges are the maximum that may be levied by Council. Before the proposed charges can be implemented, Council must publicly display the draft DSPs. Copies of the DSPs have been circulated to Councillors prior to the meeting.

Background

The Developer Charges calculation is based on the Net Present Value (NPV) approach in accordance with guidelines issued by DLWC (now the Department of Energy, Utilities and Sustainability (DEUS)). This approach is consistent with the methodology adopted by the Independent Pricing and Regulatory Tribunal (IPART) for the NSW metropolitan water utilities. The fundamental principle of the NPV approach is that the investment in assets for serving a development area is fully recovered from the development. The investment is recovered partly through up-front charges (i.e. developer charges) and partly through annual bills received from the development in the next 30 years.

- i.e. Developer Charge = Capital Charge (cost of providing the assets) – Reduction Amount (cost recovered through annual bills).
- Reduction amount = present value (PV) of the income from annual bills in excess of the cost of operation, maintenance and administration (OMA).

Capital Charge

The capital cost includes the cost of existing and future assets required, or likely to be required, to provide services to a development area. The capital cost per equivalent tenement (ET) is the value of the relevant assets divided by the capacity of these assets (in ETs).

Relevant assets exclude reticulation assets. Capital costs for relevant assets have been drawn from Council's existing asset register and from the Capital Works Programs (CWP) developed for

both water and sewerage as part of the Integrated Water Cycle Management Strategy (IWCMS).

Typically, the capacity of an asset would not be fully utilised until some time after construction of the asset. The Return on Investment (ROI), also known as a holding charge, is based on the cost of early investment, and recovery of the cost over time. An ROI factor has been applied to each of the assets included in the capital charge.

The capital charge is calculated for each service area, which is generally defined as an area served by a separate water supply system or sewerage treatment works. However, to reduce the number of DSPs, the capital charges for Kempsey Shire have been agglomerated.

Reduction Amount

The NPV of Annual Charges method has been adopted for calculation of the Reduction Amount. In the long term, developer charges should cover the capital charge for serving a development area less the net present value of net income from annual charges for the development area. The reduction amount represents the NPV of net income (income less recurrent expenditure) from the development. The 30 year financial plans of both the water supply and sewerage businesses of Kempsey Shire were used to calculate appropriate reduction amounts.

REPORT IMPLICATIONS:

▪ *Environmental*

Income derived from full cost-reflective developer charges will assist in implementing the requirements of new development captured in the capital works program for water and sewer adopted as part of the IWCMS. The IWCMS delivers environmental benefits including:

- *Demand management, reducing water extractions from the environment, through the provision of shower retrofits, public education, and business audits; and,*
- *Improved effluent management to assist in meeting license requirements for sewerage facilities in the Shire.*
- *Provision of high quality, environmentally sustainable services to new development.*

▪ *Social*

The DSPs will ensure the cost of new infrastructure is being paid for equitably as developer charges are calculated on user-pays principles.

Levying charges lower than the proposed full cost recovery charges will mean that provision of services to new development is subsidised by existing customers.

▪ *Economic (Financial)*

The operation of the water supply and sewerage services is funded by two main income streams.

- *Developer charges; and*
- *Annual bills.*

To sustainably provide water and sewerage services into the future, Kempsey must ensure the full-cost of service provision is recovered from those that use the services. The adoption of full-cost reflective developer charges contributes towards the financially sustainable provision of these services.

▪ *Policy or Statutory*

The preparation of DSPs is a requirement of the Department of Energy, Utilities, and Sustainability (DEUS) Best-Practice Management of Water Supply and Sewerage Guidelines. Any NSW Local Water Utility (LWU), which includes Kempsey Shire Council, wishing to pay a dividend from the surplus of its water supply and sewerage businesses, or gain access to NSW government funding, must demonstrate best practice management through compliance with the guidelines.

These DSPs have been prepared in accordance with the Developer Charges Guidelines for Water Supply, Sewerage and Stormwater (December 2002) issued by the Minister for Land and Water Conservation (now Minister for Energy and Utilities), pursuant to section 306 (3) of the Water Management Act 2000.

▪ *Director's Comment*

As advised to Council at the workshop in early May, there was a need to review these charges. Council's consultants have done a comprehensive job on this project and presented Council with workable and substantiated plans. Council is urged to adopt the Recommendation.

RECOMMENDATION:

That the draft Macleay Water Water Supply Services Development Servicing Plan and draft Macleay Water Sewerage Services Development Servicing Plan be put on public exhibition for a period of 30 working days and that relevant parties be notified of the exhibition.

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K J Finnie
DIRECTOR SHIRE SERVICES