



## DIRECTOR SHIRE SERVICES REPORT

11th April 2006

<b>DSS8</b>	<b>DEVELOPER CHARGES</b>
<b>FILE: 556</b>	<b>AMB {Folio No. *}</b>

### SUMMARY:

Reporting the cost implications (cross subsidy) to sewer rates for phased-in sewerage Developer Charges in Kempsey.



### DESCRIPTION:

Council's resolution (2006.24) of 14th February 2006 requested assessment of the economic impact should Developer Charges be phased-in. [Appendix D](#) contains the previous report and minutes DSS16 of 14.2.06. The assessment has focussed on the impact upon sewer rates should Developer Charges in Kempsey township be phased-in. This report presents the cost impacts (cross-subsidy) for two phase-in options and these options are listed below.

- **Slow phase-in**  
Increase sewerage Developer Charges uniformly from \$0 to \$6,300 over three (3) years. Developer Charges in all other areas are increased to \$6,300 for the 2006 / 07 financial year.
- **Quick phase-in**  
Increase the sewer Developer Charges from \$0 to \$4,500 in the first year (2006 / 07) increasing to the full \$6,300 in the third year of staging. Developer Charges in all other areas are increased to \$6,300 for the 2006 / 07 financial year.

In addition, an option containing a sensitivity case was assessed to simulate a possible market reaction to an initial period with 'lower' Developer Charges for sewerage in Kempsey. This sensitivity analysis assumes developers in Kempsey Township will take advantage of the lower Developer Charges and develop earlier. This sensitivity case assumes three years worth of development takes place before increases are levied.

**Table 1: Summary of sewerage Developer Charges**

2005/06\$		3-yr phase-in permissible under DEUS Guidelines				Ongoing
		Year 0	Year 1	Year 2	Year 3	
		2005/06	2006/07	2007/08	2008/09	
Slow phase-in	Kempsey Township	0	2,100	4,200	6,300	6,300
	Whole Shire	4,645	6,300	6,300	6,300	6,300
Quick phase-in	Kempsey	0	4,500	5,500	6,300	6,300
	Whole Shire	4,645	6,300	6,300	6,300	6,300
Sensitivity	Kempsey	0	4,500	5,500	6,300	6,300
	Whole Shire	4,645	6,300	6,300	6,300	6,300

The financial model developed as part of the Macleay Water Strategic Business Plans was utilised in the assessment of the phase-in options. Remodelling of the base case financial plan within this financial model was completed to determine the cross-subsidy between sewerage Developer Charges and sewer rates.

The level of cross-subsidy resulting from the different phase-in options is summarised in Table 2.

**Table 2: Level of Cross-subsidy**

(2005/06\$)	Slow phase-in	Quick phase-in	Sensitivity
Medium term TRB increase (\$/yr)	\$5	\$5	\$10
Value of subsidy provided to developers as a result of phase-in (30yr NPV @ 7%)	\$254,000	\$254,000	\$533,000

The cross-subsidy from annual bills to developers as a result of the phase-in process results is an increase in the typical residential bill (TRB). If this cross-subsidy is spread over 30 years to create a smooth pricing path, it would result in a \$5 increase in TRB. The net present value (NPV) of the cross-subsidy to developers is greatest if the price signal results in a change in the pattern of development (i.e. developers rush to have development applications approved during the lower charge periods). The shift in pattern of development is not possible to predict and the financial outcomes may be more significant (i.e. a greater cross-subsidy and hence a higher typical residential bill) than the modelled sensitivity.

Although there appears to be little cross-subsidy difference between the slow and quick phase-in options, this is not the case. The difference between the slow and quick phase-in options is the

risk of exposure to changed development patterns in Kempsey Township as modelled in the sensitivity option. The likelihood of such exposure is real in Kempsey Township and hence the slow phase-in option is not recommended.

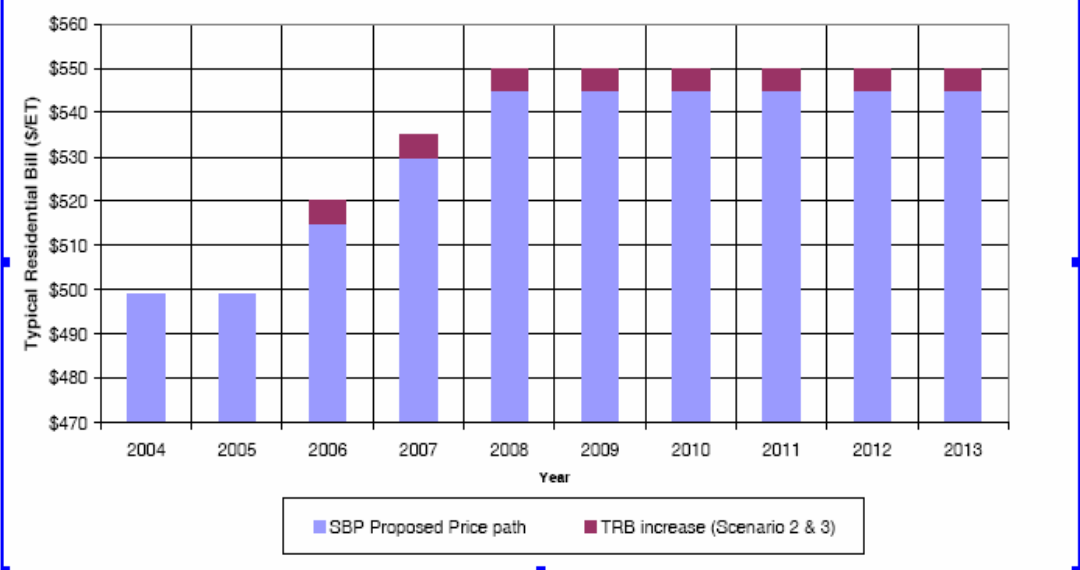
The medium term price path set in the current Macleay Water Strategic Business Plan (SBP) showed that the sewerage TRB needed to increase progressively over the next three years. The increase shown in Table 2 would be in addition to the SBP price path. This is illustrated in Figure 1 where the SBP proposed price path and the impact of the adoption of either the Slow or Quick phase-in options are illustrated graphically. The necessary rise in TRB under both of these scenarios assumes the rate of development is not influenced by the period of lower charges. If the market reaction is significant (either in that development occurs early, or once the higher charges are in place, development is deferred), the bills will need to increase further.

Offering a phase-in for sewerage Developer Charges within Kempsey Township effectively buffers the development industry with Kempsey township from financial sustainability price signals. The intention of Developer Charges calculated as per the DEUS Guidelines is to create a price signal to clearly illustrate an area's development viability in terms of financial sustainability. The DEUS Guidelines also intend that the cost of that development to the community be transparent by not hiding cross-subsidies.

Given the cross-subsidy calculated, the risk exposure posed by a phase-in and Council's current economic circumstances the phase-in of sewerage Developer Charges in Kempsey Township is not recommended. It is therefore recommended that Council adopt the proposed full Developer Charges with no phase-in-period. However, Council may consider that the promotion of housing development within Kempsey Township is worthwhile to the community and the cross-subsidy is justified.

Figure 1: TRBs proposed price path and increase due to phase-in of Developer Charges

**Figure 1: TRBs proposed price path and increase due to staging of DCs**



**REPORT IMPLICATIONS:**

- **Environmental**

*There are no environmental implications arising from this report.*

- **Social**

*The resulting cross-subsidy from the phasing-in of sewerage Developer Charges in Kempsey Township would be borne by residential and non-residential sewerage customers across the whole Shire.*

- **Economic (Financial)**

*The buffering of development within the Kempsey Township from financial sustainability price signals comes at a cost. This cost, a cross-subsidy, has been enumerated within this report.*

- **Policy or Statutory**

*The process of documenting and calculating Development Servicing Plans and Developer Charges must adhere to statutory DEUS Guidelines. These Guidelines also stipulate the calculation of and maximum timeframes for the phasing-in of Developer Charges. These Guidelines also require that any cross-subsidies are reported to the community.*

- **Acting Director's Review**

*In order to avoid the need for existing ratepayers to subsidise new development, Council is urged to support the*

*implementation of Developer Charges without any phase-in period.*

**RECOMMENDATION:**

- 1 That Council adopts the Macleay Water Development Servicing Plans for water and sewer, subject to the alteration of the commencement dates within the documents**
- 2 That the full Developer Charges within the DSPs commence as of July 1, 2006 with no phase-in-period.**
- 3 That the Macleay Water Development Servicing Plans be sent to DEUS for registration.**

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**A P Vermeulen**  
**Acting DIRECTOR SHIRE SERVICES**