

CORPORATE  
STANDARD  
FUNDING AND  
DELIVERY OF  
GROWTH  
INFRASTRUCTURE



VERSION: 2.0



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### Amendments since previous version

Section	Changes made
5.2.4	Change to repayment methodology where a Lead Developer holds less than 25% of capacity within an asset
5.2	Update to commentary on cost effectiveness test



## 1. Purpose

This Corporate Standard sets out Hunter Water’s approach to funding capital works that support urban growth in the Lower Hunter.

Hunter Water recognises that capital investment in water and wastewater infrastructure to connect new developments can provide shared capacity for future developers and future customers to connect to Hunter Water’s networks. This Corporate Standard is designed to ensure that new network infrastructure is appropriately sized and configured in a way that represents the most efficient option from a total community perspective. Typically, good infrastructure planning should avoid individual developers duplicating assets to connect new developments in the same local area.

## 2. Scope

This Corporate Standard covers funding and delivery categories for water and wastewater connection and reticulation assets transferred to Hunter Water to operate and maintain in perpetuity. It also covers mandated recycled water network infrastructure regulated by IPART.

This Corporate Standard applies to residential, commercial and industrial developments where new or augmented infrastructure is required to support growth in the Lower Hunter. It does not apply to existing developments that, for historical reasons, are unconnected to either water or wastewater infrastructure.

The infrastructure assets dealt with in this Corporate Standard are:

- connection assets that cover the lead-in and lead-out infrastructure needed to connect a new development to Hunter Water’s existing networks, including pipes, pump stations and water storage facilities, and
- reticulation assets within a development, including pipes, pump stations and water storage facilities that have been upsized to service adjacent future developments.

## 3. Definitions

Term	Definition
Connection asset	An asset primarily outside of the development site that connects the development area to Hunter Water’s existing water and wastewater systems.
Lead developer	Hunter Water will enter into a single <i>Developer Delivered Infrastructure Contribution Deed</i> with a single lead developer for connection assets that may service multiple developments.
Reticulation asset	Any asset that has not been upsized to service future adjacent development/s is fully funded by the Developer.
New development	Any growth, residential, multi-residential, commercial or industrial, that involves new buildings or lots created, or additional on-site business activity, that yields a net increase in water consumed, recycled water consumed or sewer discharged to the Hunter Water network.
Right-sized asset	A connection or reticulation asset that has been determined to be the optimal sizing option from a total community perspective.
Section 50 Compliance Certificate	A certificate issued under Section 50 of the <i>Hunter Water Act 1991</i> .
Upsized reticulation asset	An asset within a development site that has been ‘upsized’ in agreement with Hunter Water to provide some additional capacity to also service future adjacent developments. This can be a pipe, pump station or water storage.

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## 4. Growth Plan

Hunter Water has developed a *Growth Plan* that provides information on the likely timing of residential and non-residential development for infrastructure planning purposes and outlines the anticipated timing of its investment in new network infrastructure to meet regional planning objectives.

The *Growth Plan* includes detailed growth maps showing the likely timeframe for the commencement of new land development in the Lower Hunter. The timing is depicted in the growth maps using a colour-coding system and classified as:

- within five years (yellow-coded area)
- between five and ten years (orange-coded area), and
- beyond ten years (indicated by green outline)

Hunter Water uses these growth maps to help prioritise its own capital works programme. The growth maps also assist Hunter Water in determining the funding and delivery category for infrastructure that is needed to connect a new development to Hunter Water's system.

Hunter Water's *Growth Plan* is based on data on actual development activity from various sources, including the *Hunter Regional Plan 2036*, the NSW Department of Planning and Environment, local councils, Hunter Water's customer connections database, developer servicing strategies and 'section 50' connection applications.

Hunter Water updates and publishes the *Growth Plan* annually using the best available information at that time. Hunter Water may also amend the published *Growth Plan* from time to time where it becomes aware of new or changed circumstances.

## 5. Funding and delivery categories

Urban growth can occur in areas where there is insufficient infrastructure capacity to service new development or where there is no existing network infrastructure. Hunter Water recognises that it has a role to play in supporting growth in line with the NSW Government's planning objectives. This *Standard* sets out the situations in which infrastructure will be fully funded by the developer, fully funded by Hunter Water, or where both parties have a role in funding infrastructure.

Generally, developers will be required to design and construct water and wastewater mains and associated infrastructure to connect their development to Hunter Water's networks. Hunter Water always requires the developer to fund and deliver water and wastewater reticulation assets that service connected lots within their development area. Hunter Water's design standards determine the asset requirements. Reticulation assets may provide some capacity for subsequent developments in the longer term, but there is no obligation on other developers to contribute to infrastructure costs. Any additional capacity is considered to be incidental.

In some cases, Hunter Water will directly fund those assets where there are wider regional benefits as part of our broader capital works programme. These works are driven by a combination of compliance, operational and regional growth objectives (Category 1).

Hunter Water may enter into a commercial agreement with the lead developer (a *Developer Delivered Infrastructure Contribution Deed*) that provides for the repayment of infrastructure costs incurred by the developer in building right-sized assets when delivery milestones are met (Category 2). This mechanism is

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designed to facilitate regional growth by providing funding for projects that meet agreed development milestones.

## 5.1 Category 1: Regional Asset

Hunter Water's *Growth Plan* provides details of growth-related infrastructure projects that Hunter Water plans to fund and deliver in the next five years. The costs associated with these regional assets are recovered through tariff pricing.

Hunter Water funds regional assets where it is in the best interests of the broader community. Typically, this would occur where the asset provides servicing capacity for potential growth in a geographic region serving a broad population.

Hunter Water takes into account a number of funding principles when assessing whether a capital investment falls within the regional asset category:

- The investment provides longer term operational flexibility in servicing growth.
- The investment supports high growth potential in a geographic area over longer time horizon. This assessment will be based on a number of factors including:
  - land ownership
  - council zoning and relevant settlement strategy at the time of preparing the servicing strategy, and
  - the expected growth rate over the next 10 years, normally across multiple developments, to mitigate the risk of underutilised assets.
- The investment augments existing systems capacity for growth across multiple developments. This includes upgrades to water and wastewater treatment plants.
- The investment improves service provision to existing customers and ensures that Hunter Water complies with regulatory requirements.

The regional asset assessment is applied to each individual asset component (ie. pipe or pump station) rather than the total system or strategy.

Hunter Water may agree that a developer is best placed to deliver a regional asset, for example in order to bring forward the commissioning date of new infrastructure. In these circumstances, Hunter Water would fully fund agreed costs incurred by the developer on the completion of works, in accordance with Hunter Water's *Guideline for Funding and Procuring Assets* and a separate agreement between Hunter Water and the developer.

## 5.2 Category 2: Developer Delivered Infrastructure Contribution Deed

Hunter Water will consider offering funding in accordance with a *Developer Delivered Infrastructure Contribution Deed* for a new development depending on how the development aligns with the indicative timing of growth in the Lower Hunter, as shown in growth maps contained in the *Growth Plan*.

Hunter Water must approve the servicing strategy associated with each *Developer Delivered Infrastructure Contribution Deed*. The servicing strategy will ensure that the new connection and reticulation assets are



sized and configured for the new development and any known or likely development that would make use of the new infrastructure.

Where funding is approved, Hunter Water will enter into a single deed with the lead developer covering connection assets and any upsized reticulation assets.

The lead developer will be responsible for planning, designing and constructing connection and reticulation assets to Hunter Water's requirements as detailed in the servicing strategy and one or more *Developer Works Deeds*.

Hunter Water will repay the costs of assets approved under the Standard to the lead developer provided those assets have been delivered in accordance with our Complex Works standard and procured in accordance with our *Guidelines for Funding and Procuring Assets*.

Hunter Water will engage as necessary, a probity auditor to undertake spot checks of developers systems, and a quantity surveyor to undertake project specific assessments of rates and quantities to ensure probity and value for money requirements are being achieved under the Standard.

Hunter Water will apply a cost effectiveness test to each asset type (water and/or sewer). The cost effectiveness test gives consideration to the geographic separation of a development from existing services and limits Hunter Water's exposure to remote (expensive to serve) development. Hunter Water encourages the efficient sequencing of development and incremental extension of associated water and sewer services.

Each *Contribution Deed* will include a sunset date for completing a development and meeting connection milestones. A maximum period of 10 years will apply, unless separately agreed with Hunter Water. Subject to the lead developer's compliance with the *Developer Delivered Infrastructure Contribution Deed*, Hunter Water will make all payments that fall due during the term of that deed.

All payments are subject to the terms of the applicable *Developer Delivered Infrastructure Contribution Deed*, and the lead developer's compliance with the deed.

### **5.2.1 Category 2a: New development area within five years**

If the proposed development land is shown as a new development area in Hunter Water's *Growth Plan* as within five years (yellow-coded areas), Hunter Water will repay the cost of connection assets built by the lead developer in a staged manner so that both parties share the risk of the uptake within the development. Hunter Water will:

- make part payments - on a per lot basis - for the connection asset until 50% of the lead development has been issued with a Section 50 Compliance Certificate (progress payments);
- upon receiving Section 50 Compliance Certificates for 50% of the lead development, pay the remaining 50% of the connection asset (final payment).

Payments will be made to the lead developer who funded and delivered these assets (being the party to the *Developer Delivered Infrastructure Contribution Deed*). Where the approved servicing strategy for a new development requires the lead developer to up-size reticulation assets within the development to service future adjacent developments, Hunter Water will repay the full cost of these larger assets as part of the progress and final payments under the *Developer Delivered Infrastructure Contribution Deed*.



### 5.2.2 Category 2b: New development area between five and ten years

If the proposed development land is shown as a new development area in Hunter Water's *Growth Plan* between five and ten years (orange-coded areas), Hunter Water will repay the cost of connection assets built by the lead developer.

Payment will be made by Hunter Water in the form of progress payments on a per lot basis up until 100% of the lead development has been issued with a Section 50 Compliance Certificate.

Where the approved servicing strategy for a development requires the lead developer to up-size reticulation assets within the development to service adjoining or nearby development, Hunter Water will repay the full cost of these larger assets as part of the progress payments on a per lot basis until 100% of the lead development lots have been issued with section 50 Compliance Certificates.

### 5.2.3 Category 2c: New development beyond ten years

If the proposed development land is not shown as a new development area in Hunter Water's *Growth Plan* as it is beyond ten years (Indicated by green outline), Hunter Water will not repay the costs of connection assets that are the minimum-size required to service the lead development.

Where the approved servicing strategy for a development requires the developer to build up-sized connection assets to cater for future adjoining or nearby developments, Hunter Water will pay the marginal upsizing costs on a per lot basis until 100% of the lead development lots have been issued with section 50 Compliance Certificates.

Where the approved servicing strategy for a development requires the developer to up-size reticulation assets within the development, Hunter Water will make progress payments for the marginal upsizing costs on a per lot basis until 100% of the development lots have been issued with section 50 Compliance Certificates.

Hunter Water will calculate the marginal upsizing cost of any connection asset or reticulation asset using a pro-rata formula based on equivalent tenement estimates of the lead development and adjoining or nearby developments.

### 5.2.4 Where lead developer holds less than 25% of the capacity in an asset

Hunter Water has adjusted the payback mechanism for Category 2a developments where a lead developer holds a minority of lots within the asset. This modification has been implemented to prevent assets being paid out before growth in the asset is realised.

Where the lead developer holds less than 25% of the lots (capacity) within an asset, Hunter Water will make part payments up until 25% of lots connecting to the asset have been issued with a Section 50 Compliance Certificate. This relies on Section 50 Compliance Certificates from stages of development outside of the lead developer's subdivision area.

Once 25% of lots connected to the asset have received Section 50 Compliance Certificates the asset will be fully paid out to the lead developer. Note that no lump sum payment will be made under this scenario.

### 5.2.5 Staging of infrastructure construction and repayment arrangements

The approved servicing strategy for a new development may provide for the staging of infrastructure delivery to defer capital expenditure and better align infrastructure delivery to anticipated growth. The approved servicing strategy will set out:

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- The area to be served by each asset or group of assets within each infrastructure stage.
- The number of lots to be served by individual assets or group of assets within each infrastructure stage.

Hunter Water will negotiate each *Developer Delivered Infrastructure Contribution Deed* by reference to an individual asset or group of assets. The repayment terms will reflect the number of lots serviced by each asset or group of assets at the time of completion.

### 5.2.6 Connection of adjacent developments

Hunter Water recognises that other intermediate developments located between the lead development and the point of connection to Hunter Water's existing assets could connect to the connection assets built by the Lead Developer, prior to the Lead Developer reaching 50% of its connections. Hunter Water may take into account the additional connections from other intermediate developments when determining the repayment schedule in the *Developer Delivered Infrastructure Contribution Deed*.

### 5.2.7 Repayment requirements

The developer will be required to enter into a *Developer Delivered Infrastructure Contribution Deed* and one or more *Developer Works Deeds* for the infrastructure. These deeds will include the following:

- The developer must follow Hunter Water's *Guidelines for Funding and Procuring Assets* to ensure that Hunter Water repays reasonable and efficient costs of infrastructure where the works have been competitively tendered;
- The developer must keep accurate and detailed records and make such records available to Hunter Water upon request; The developer must procure the delivery of the assets in accordance with endorsed designs;
- The developer must comply with particular insurance requirements depending on the nature of the works;
- The developer must transfer ownership of infrastructure to Hunter Water once assets have been commissioned and a Section 50 Compliance Certificate is issued by Hunter Water;
- The developer is responsible for obtaining all regulatory approvals required to deliver the assets;
- Hunter Water will not fund the developer's financing costs;
- Contributions by Hunter Water must be repaid in certain circumstances, such as where the developer is in substantial breach of its obligations.

## 6. Related documents

Hunter Water's *Growth Plan* sets out detailed maps at a sub-regional level showing anticipated development areas and the likely timing of land developments.

Hunter Water's *Guidelines for Funding and Procuring Assets* set out the minimum requirements that developers must demonstrate when seeking repayment of costs under Hunter Water's *Funding and Delivery of Growth Infrastructure Standard*.



Hunter Water's *Developer Delivered Infrastructure Contribution Deed* will set out terms and conditions detailing infrastructure covered by the deed and repayment milestones, along with all other associated rights and obligations for both Hunter Water and the lead developer.

Hunter Water's 'Manual – Delivery of Developer Works' assists developers and landowners to understand the asset creation process and to navigate obtaining a *Section 50 Compliance Certificate* for a development.

## 7. Document control

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**Table 1: Document governance**

Document owner	Mandatory reviewers	Document approver
Group Manager Development Services	Group Manager Development Services, Team Leader Development Planning and Relations	Executive Manager Customer Strategy and Retail

**Table 2: Document version history**

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1.0	Peter Shields	Original release	19 Jan 2018	Executive Manager Customer Strategy and Retail	1 year
2.0	Chris Barker	Section 5.2.1	9 June 2019	Executive Manager Customer Strategy and Retail	1 year

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