

INVESTING IN GROWTH INFRASTRUCTURE FOR THE LOWER HUNTER

SUBMISSIONS TO CONSULTATION PAPER



VERSION: 1.0



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1 PURPOSE

This document summarises the submissions received in response to Hunter Water's consultation paper; *Investing in Growth Infrastructure in the Lower Hunter* and outlines our position on a number of key matters that were raised during consultation.

2 CONSULTATION PROCESS

On 31 May 2017, Hunter Water released a consultation paper inviting feedback from external stakeholders on our proposed new approach to the delivery and funding of water and wastewater infrastructure that supports new urban growth.

The consultation paper described a proposed package of initiatives to support urban growth, incorporating:

- An annual *Growth Plan* detailing our planning process, forward capital works programme and growth maps showing the likely location and timing of new development across our Area of Operations.
- A *Funding and Delivery of Growth Infrastructure Policy* detailing funding categories for growth-related assets, including a new category of works where we would (subject to certain criteria) enter into a commercial agreement to repay infrastructure costs when development milestones are met. This document is now the *Funding and Delivery of Growth Infrastructure Standard* (funding standard).
- *Procurement Guidelines for Developer Delivered Infrastructure* (procurement guidelines) setting out minimum requirements for developers to demonstrate 'value for money' before we would repay infrastructure costs under a commercial agreement.

The consultation period ended on 30 June 2017. During the consultation period, several stakeholders met with us to share their views, discuss key matters and inform their submissions. Two late submissions were received during the first week of July and were subsequently considered.

In total, written submissions were received from the following six stakeholder organisations:

- Johnson Property Group (JPG)
- ADWJohnson Pty Limited (ADWJ)
- Winten Property Group (Winten)
- Newcastle Airport Pty Limited (NAPL)
- Cessnock City Council (CCC)
- Urban Development Institute of Australia (UDIA)

These six submissions have been reviewed and considered internally by our growth infrastructure working group. The feedback that was received was also considered at both the Executive and Board level. We have had ongoing discussions and meetings with a variety of stakeholders.

Several stakeholders requested the opportunity to provide input to our growth mapping and the detail of the growth maps that appear in our *Growth Plan*. On 5 September 2017, in response to these requests, we published draft growth maps on our website and invited stakeholders to provide comments. We received thirteen submissions to this second round of consultation.



The feedback received through our consultation process is described below and has been used to inform the final iteration of the *Funding Standard*, *Growth Plan* and *Procurement Guidelines*.

3 OVERALL FEEDBACK

The submissions received demonstrated that stakeholders were overwhelmingly supportive of the proposed changes to Hunter Water's approach to the delivery and funding of growth infrastructure.

The majority of comments focused on the potential benefits the funding policy would deliver. The process surrounding the development of our growth mapping information was a key matter of interest to developers and prompted us to undertake further consultation.

3.1 Stakeholders welcomed the review of Hunter Water's funding approach

In several submissions, stakeholders specifically stated their positivity about the direction and efforts of Hunter Water in deciding to undertake a review of its approach to the delivery and funding of growth infrastructure.

For example:

"UDIA NSW commends Hunter Water for undertaking this substantial policy review. The new growth funding model will play a significant role in the timely delivery of more affordable housing in the Hunter." (UDIA)

3.2 Stakeholders appreciated Hunter Water's consultation process

All received submissions indicated that stakeholders were appreciative of the opportunity to engage with Hunter Water in the consultation process. For example:

"I am particularly impressed with the new and more consultative approach from Hunter Water." (CCC)

3.3 Developers indicated the policy is likely to 'unlock' development

All of the stakeholders indicated that the proposed changes were likely to encourage new development and growth in the Lower Hunter. For example:

"... new model that intends to remove a significant road block that has stymied new residential development in the Hunter Region for many, many years. It also brings HWC back to the table in terms of being truly considered as a service provider of choice for new development." (JPG)

"The proposed policy change has the potential to drive coordinated development in the region and unlock thousands of lots that are currently stalled due to the cost of providing enabling infrastructure". (ADWJ)

"We see this as an excellent initiative that could potentially assist with addressing funding roadblocks for new development. We can also see the process achieving a more equitable balance in funding responsibility for water and wastewater infrastructure associated with larger release areas which could also be considered regional infrastructure." (Winten)

"The proposed model will provide certainty to developers on the cost recovery of infrastructure they build." (CCC)

Difficulty in obtaining finance was identified as a key factor in the feasibility of development in the Lower Hunter. The new policy is expected to positively impact on cash-flows and improve finance certainty for Developers and in some instances unlock areas where development was previously



unfeasible. ADWJ and UDIA suggested that Hunter Water's proposed approach would have the following positive effects:

- *Limiting 'peak debt' quantum;*
- *Reducing 'peak debt' payback period; and*
- *Providing greater certainty for lending institutions and as such, positively impacting the ability to service peak debt.*

Developers were positive about the impact our approach would have on limiting peak debt and improving financing certainty, and the beneficial effect this would have for new developments:

"Category 2a funding would provide improvement to revenue and [development] feasibility related to finance certainty. The select developments within Category 1 [Regional Assets] would have a revenue benefit as well as a direct cash-flow benefit reducing peak debt" (UDIA)

"We note that the cost of enabling infrastructure is 'front loaded' and occurs early in development projects creating a cashflow 'peak debt' ... the proposed funding policy will assist in alleviating peak debt and ultimately unlock land supply." (ADW Johnson)

"We consider peak debt to be a key financial driver of feasibility in the Hunter due to the significant hurdles in obtaining project finance since the GFC. UDIA NSW appreciates Hunter Water's understanding of this critical aspect of development." (UDIA)

3.4 Holistic approach to development and coordination of regional planning

Stakeholders recognised the benefits of taking a holistic approach to growth planning, including the right-sizing and configuration of assets:

"A central component of the Funding and Delivery of Growth Infrastructure Policy is the requirement for a lead developer to provide the right sized asset with the capacity to service not only the lead development, but also potential nearby or adjoining development. This holistic approach of considering surrounding developments when determining the infrastructure requirements for development is supported." (Cessnock City Council)

Improved coordination of planning decisions between organisations was viewed positively. For example:

"We believe that using Hunter Water's GIS mapping and infrastructure/connection data as a backbone of the Regional Plan is to be commended and will provide the much needed coordination of planning decisions for the region." (ADWJ)

"Council is supportive of the development of a Growth Plan detailing the forward capital works programme of Hunter Water. It is hoped that this will provide developers and Council with certainty on the timing of works". (CCC)

3.5 Potential for broader benefits

The UDIA described the following broader benefits that could result from Hunter Water's proposed approach:

"The reduction in development costs ultimately flows through to the end user, the home owner, but also increases overall land supply by allowing developers to bring sites to the



market earlier. This in turn reduces price pressure in the market for established homes, and also brings forward Stamp Duty revenues to the NSW government, along with a general increase in economic activity". (UDIA)

4 KEY ISSUES

Hunter Water's *Funding Standard* and *Growth Plan* will address a number of concerns and questions raised by stakeholders.

4.1 Criteria for classifying assets as a Regional Asset

The criteria we use to determine if an asset will be funded under *Category 1: Regional Asset* is described in the funding standard. ADWJ and Winten both requested that we provide additional detail and clarity on the criteria used to determine if an asset is a Regional Asset.

ADWJ suggested that using an "objective criteria" to make this determination would strengthen the funding policy.

Winten proposed several factors that should be taken into account in determining if an asset is a Regional Asset:

- Size of the catchment and associated infrastructure, irrespective of whether it is intended to serve a single development, multiple developments, and may or may not include spare capacity for future growth;
- Infrastructure that is significant enough to be designed to service catchments beyond the 10 year time frame;
- Number of developers and sites involved; and
- Infrastructure be delivered in two or more stages.

Our position

We currently assess whether infrastructure is funded and delivered as a Regional Asset on a 'case-by-case' basis. The criteria used to make this decision consists of general principles, and relies on in-house analysis, judgement and stakeholder input to make appropriate planning decisions.

We acknowledge the benefits to stakeholders of improved clarity and transparency in applying the funding criteria to Regional Assets. To address this issue, we have added detail to the description of this criteria and process in the *Funding Standard* and *Growth Plan*.

We consider that relying on a fixed, 'objective criteria' to determine if an asset is a Regional Asset (and funded up-front by us) may lead to inefficient planning decisions – by including or excluding infrastructure from the Regional Asset category based on prescriptive thresholds.

To ensure funding of infrastructure is appropriate from a total community perspective and having regard to IPART's prudence test, it is considered vital that we maintain flexibility in our planning and funding decisions for Regional Assets (and furthermore, whether or not to enter into Developer Delivered Infrastructure Contribution Deeds for infrastructure eligible under funding Category 2a or 2b).

4.2 Growth maps

The growth maps in Hunter Water's *Growth Plan* will provide indicative timing of development areas (i.e., 0-5 years, 5-10 years, 10+ years), and these will be used to determine the appropriate



funding category for Developer Delivered Infrastructure (i.e., funding Category 2a, 2b, and 2c). The growth maps will be updated annually.

Several stakeholders expressed interest in ongoing engagement and consultation with us to input into our growth mapping and the detail of the growth maps. Winten suggested developers should be able to make a submission to us for consideration of each development in the growth maps.

Submissions by Winten and ADWJ requested further clarity on the process and criteria used. Winten commented that without a clear process, there is potential for areas to be incorrectly mapped, or for categorisations to be subjective and contentious. They suggested a scorecard approach be used, taking into account key development milestones, such as DA approval and progress on servicing strategies. Winten also suggested to include the estimated yield, density and number of lots of forecast development in the growth plan.

Our position

We have consulted with councils, regional planning bodies, and developers to obtain the best available planning data and determine the detail of the growth maps. We undertook a second round of consultation focused on the detail of the growth maps and incorporated this feedback into the maps. This consultation and coordination is intended to be ongoing and reflected in our annual updates to our growth maps and the *Growth Plan*.

We consider that due to the frequency of review (annually) and timing of the development process, any contention or inaccuracy of the growth maps is mitigated. If an issue is identified, the growth maps can be updated within a maximum of 12 months, resolving the issue without unduly holding up the development process.

In the *Growth Plan*, we have improved the clarity and description of our growth mapping process that we use to determine the location and timing of a particular development site. This includes the factors that are considered, and the sources of information used.

We do not consider it appropriate to use a fixed scorecard approach. Assessing each development on a case-by-case basis, engaging with stakeholders and exercising best judgement is considered a better method for determining the appropriate timing category for a development. Applying fixed scorecard rules may not take into account site-specific factors.

We are always willing to engage with developers and stakeholders to discuss the planning details associated with any prospective development.

4.3 Financing costs

When developers fund infrastructure up-front, they incur financing costs. JPG has indicated that this financing cost is high (8% to 15% per annum). Under our proposed funding model, developers will incur this interest expense while waiting for lots to be connected, and subsequently payments to be received from Hunter Water. JPG considers that the agreed repayment amount should include repayment of these financing costs by Hunter Water.

Our position

Our capital expenditure on new growth is recovered via charges spread over a broad customer base. We do not consider that it is reasonable for the broader customer base to bear the financing costs that a developer incurs when funding growth infrastructure.

Our proposed changes to the funding model for growth infrastructure will significantly benefit developers through eventual repayment of the value of the asset. It is considered reasonable for developers to bear financing costs in the initial phase.



4.4 Connection of other developments

JPG provided the view that the lead developer assumes the risk to finance the infrastructure, and given this:

“... then it is unfair if other developers are permitted to freely connect into that infrastructure.”
(JPG)

The basis for this claim is that the infrastructure funded by the lead developer will unlock developments for other developers who will subsequently be able to compete with the lead developer for land sales (potentially at a lower sale price due to their reduced financial risk). JPG considers that:

“... if other developers are freely and immediately able to connect into infrastructure financed by the lead developer then this position severely disadvantages the lead developer.” (JPG)

Our position

The aim of the new approach to funding growth infrastructure is to support and encourage new development and growth. If new connection infrastructure funded by a lead developer stimulates connections from other nearby developments, this is considered beneficial and a sign that the initiative is working well.

We consider that it may be anti-competitive to seek to restrict competition and prevent subsequent developers from connecting to infrastructure, in order to benefit the lead developer.

We have subsequently addressed this issue by stating in the funding standard that:

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. (Hunter Water)

4.5 Transitional arrangements

Winten commented on the proposed transitional arrangements of the new policy for considering projects that have entered the design phase but not the construction phase. They consider it fair for the policy to exclude historical design and investigation costs but still cover the construction cost of the infrastructure asset.

Our position

We are open to the possibility of entering into a Developer Delivered Infrastructure Contribution Deed for infrastructure that has already been designed, if the developer can demonstrate that the design and construction was procured in a manner that is consistent with the *Procurement Guidelines*. This will be considered on a case-by-case basis.

4.6 Development processes

JPG noted several examples of Hunter Water’s development process impacting the certainty and timing of connection, such as:

- Delays in issuing Notice of Requirements;
- Late changes in original advice/requirements (e.g. servicing strategy);



- Issues relating to terms of Instruments of Agreement; and
- Delays in signing 88B Instruments to enable registration of land.

JPG requested that:

“Hunter Water further review its processes to ensure delays are not encountered by developers in these instances.” (JPG)

Our position

Hunter Water recognises these issues and is working to improve its administrative performance and broader service offering to developers. For example, Hunter Water has already updated their s.50 certificate processes, and replaced the Instruments of Agreement with new Developer Works Deeds, in order to enable the development community to lead the asset creation process with fewer roadblocks.

5 CONCLUSION

On 19 January 2018, we intend to release the full suite of documents and related forms on our website and begin to accept applications from developers to enter into a Developer Delivered Infrastructure Contribution Deed for the funding and delivery of growth infrastructure.

Any questions about the funding of growth infrastructure can be directed to our Development Planning and Relations team by contacting fundingofgrowth@hunterwater.com.au or (02) 4979 9564.

6 RELATED DOCUMENTS

To access information relating to Developer Works and Funding of Growth, go to ‘A New Delivery Model for Developer Works’ on Hunter Water’s website.

- Manual – Funding and Delivery of Growth Infrastructure
- Corporate Standard – Funding and Delivery of Growth Infrastructure
- Corporate Standard – Routine Major Works – Developers and Accredited Suppliers
- Corporate Standard – Complex Works – Developers and Accredited Suppliers
- Procedure – Funding and Delivery of Growth Infrastructure
- Developer Delivered Infrastructure Contribution Deed

Developer Works Deeds:

- Developer Works Deed – Routine Major Works
- Developer Works Deed – Complex Works



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

Version	Name of author	Summary of changes	Approval date	Approved by	Periodic review
1.0	Chris Barker	Original release	19 Jan 2018	Executive Manager Customer Strategy and Retail	Review after first year, then every two years