INVESTING IN GROWTH INFRASTRUCTURE FOR THE LOWER HUNTER CONSULTATION PAPER
MAY 2017
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FOREWORD

Hunter Water’s 2017+3 Strategy outlines six strategic priority areas for the organisation over the next few years and beyond. We have committed to enabling good development in the Lower Hunter as an integral part of the Strategy. Our objectives for the region are to:

- Provide sustainable services for population growth.
- Deliver efficient and innovative services and solutions for new development.
- Work with developers and planning authorities to improve sustainability of new development.
- Improve the amenity of our urban areas.

The NSW Government’s Hunter Regional Plan 2036, released in late 2016, sets out a vision, goals and actions for the region, starting with the development of the Greater Newcastle Metropolitan Plan in 2017. Hunter Water is working collaboratively with the Hunter Development Corporation and the Department of Planning & Environment to help deliver the key planning and infrastructure goals encompassed in these Plans.

As part of our commitment to enabling good development, we are reviewing our overall approach to the delivery and funding of water and wastewater infrastructure that supports urban growth in our area of operations. This Consultation Paper describes a proposed package of initiatives, incorporating:

- An annual Growth Plan detailing Hunter Water’s planning processes and forward capital works programme. The Plan would also include 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 revised funding categories for growth-related assets, including a new category of works where Hunter Water would (subject to certain criteria) enter into a commercial agreement to repay infrastructure costs when development milestones are met.
- Procurement Guidelines for Developer Delivered Infrastructure setting out minimum requirements for developers to demonstrate ‘value for money’ before Hunter Water would repay infrastructure costs under a commercial agreement.

Hunter Water is keenly interested in the views of all interested parties – planners, local councils, developers, designers, customers and the wider community in the Lower Hunter. The Consultation Paper asks questions about specific elements of the proposed policy package. Hunter Water also welcomes feedback on any aspect of our planning, delivery and funding of growth-driven infrastructure.

Hunter Water will review and consider all responses to the Consultation Paper. We will report back to our Board outlining key themes, comments and suggested improvements to the proposed approach. Subject to Board approval, we are aiming to release final policy documents in September 2017.
1 INTRODUCTION

Hunter Water is a State-owned corporation supplying reliable, high quality water and wastewater services to more than half a million people in the Lower Hunter region. The Lower Hunter is the seventh largest urban area and the largest regional economy in Australia. Hunter Water’s area of operations includes the Newcastle, Lake Macquarie, Port Stephens, Maitland, Cessnock and Dungog local government areas, and part of the Singleton local government area.

Hunter Water’s pricing structure is determined by the Independent Pricing and Regulatory Tribunal (IPART); an independent NSW Government agency that sets prices for a range of government services, including metropolitan water utilities.

Hunter Water must demonstrate to IPART that our capital and operating expenditure programmes are both prudent and efficient. This includes capital expenditure on infrastructure required to service new development in our area of operations. IPART allows Hunter Water to recover from customers via tariff pricing the efficient expenditure required to provide services.

The NSW Government’s Hunter Regional Plan 2036, published by the Department of Planning & Environment in October 2016, will guide the NSW Government’s land use planning priorities over the next 20 years. The Plan puts in place a number of actions which should result in more timely and effective infrastructure planning and delivery across the Hunter, and provide detailed information on likely growth areas.

Hunter Water has long-established expertise as a provider of essential services that will help enable the NSW Government’s vision for the region through provision of infrastructure. This means thinking beyond just the assets that Hunter Water owns, and working with government agencies and private investors to enable growth that is affordable and sustainable.

Enabling good development in the Lower Hunter region is a strategic priority for Hunter Water. We are looking at various ways of improving our service offering to developers. Part of this work includes publishing better information on projected growth in our area of operations and planned capital expenditures. We are also proposing changes to the funding arrangements for those assets that connect new developments and provide shared infrastructure in our water and wastewater systems.

This Consultation Paper is structured as follows:

- Regional planning – background and context for the Hunter Regional Plan 2036 and Greater Newcastle Metropolitan Plan (Section 3);
- Hunter Water’s 2017+3 Strategy – focus on enabling good development in the Lower Hunter (Section 4);
- Hunter Water’s Growth Plan – planning processes, capital works programme and growth maps (Section 5);
- Funding and Delivery of Growth Infrastructure Policy – proposed categories for funding and delivery of growth-related assets, including details of the Developer Delivered Infrastructure Agreement model (Section 6 and Appendix A);
- Proposed procurement model – details of Hunter Water’s Procurement Guidelines for Developer Delivered Infrastructure (Section 7 and Appendix B);
- Implementing the package – proposed timing and a discussion of transitional issues (Section 8).
Hunter Water welcomes feedback from all interested parties on any matter within the scope of this Consultation Paper. The Paper contains focus questions throughout to assist with structuring responses. The information obtained through this engagement process will guide Hunter Water’s policies and decision making on the funding and delivery of growth infrastructure.

Feedback should be lodged by 30 June 2017, and may be:

- Emailed to Hunter Water: growth@hunterwater.com.au
- Posted to:
  
  Developer Services  
  Hunter Water Corporation  
  PO Box 5171  
  Hunter Region Mail Centre NSW 2310

Please call Brett Lewis (Manager, Developer Services), (02) 4979 9717, if you have a question about the Consultation Paper or consultation process.
The NSW Government’s Hunter Regional Plan 2036 will guide land use planning decisions over the next 20 years. The Plan emphasises the importance of delivering infrastructure and services that support this growth, align with the NSW Government’s preferred staging of development, and support changing communities. A focus on greater collaboration between the NSW Government and councils on strategic planning and development sequencing should allow infrastructure providers, including Hunter Water, to plan and deliver infrastructure that is well designed, of the right scale and cost effective.

The Hunter Regional Plan 2036 recognises the importance of coordinated planning for the Greater Newcastle area as a key element to the future prosperity of the Hunter Region. The Department of Planning & Environment defines Greater Newcastle as the closely connected urban areas of Cessnock, Lake Macquarie, Maitland, Newcastle, Port Stephens and Singleton local government areas. Greater Newcastle is currently home to around 475,000 people, and the Department expects population to grow to around 600,000 over the next 20 years.

The Hunter Regional Plan 2036 and accompanying Implementation Plan 2016-2018 identify the preparation of the Greater Newcastle Metropolitan Plan as an immediate priority. The Metropolitan Plan will provide a shared vision for Greater Newcastle including a vibrant new metropolitan area, with connected strategic centres, global gateways that maximise exports and tourism, and a centre of excellence for health and education.

This will be the first Metropolitan Plan for the Greater Newcastle Area and will provide a shared long-term strategic vision across local council boundaries. The Department of Planning & Environment has outlined the scope of the Plan as follows:

*The Metropolitan Plan will ensure that homes, jobs and infrastructure are delivered in the right locations, and that the region’s competitive advantages, environmental assets and natural resources are safeguarded and maximised. The Metropolitan Plan will aim to develop the potential of the city and leverage its competitive advantages for the long term growth of the region and the State and national economies.*

The NSW Government has foreshadowed a wide-ranging engagement with stakeholders and the community throughout the development of the Metropolitan Plan. Hunter Water is involved in the preparation of the Plan as partners, along with councils and other infrastructure providers.

Preparation of a draft Greater Newcastle Metropolitan Plan commenced in February 2017. A draft plan is scheduled for public release and community comment before the end of 2017.
3 ENABLING GOOD DEVELOPMENT

Hunter Water’s current Funding of Growth Infrastructure Policy has remained largely unchanged since it was first implemented in 2003. The Policy has worked as originally designed in an era where there was limited coordination of planning activities across the various local government areas in the Lower Hunter.

The release of the NSW Government’s Hunter Regional Plan 2036 and our 2017+3 Strategy provides an opportunity to reconsider Hunter Water’s approach to enabling good development. Our early work in support of this strategic priority involves a review of our growth funding policy and implementing a certification regime for developer assets. Our overall goal is to complement the NSW Government’s vision for the Hunter – to be a leading regional economy in Australia with a vibrant metropolitan city.

Hunter Water will continue to fund those regional assets that form the backbone of our system - bulk water supplies, water and wastewater treatment operations, trunk infrastructure, and key parts of the water distribution and wastewater transport networks.

Hunter Water recognises that our current approach to funding local network assets tends to place an upfront cost on developers. We generally require developers to fund the design and construction of water and wastewater assets that connect new development to Hunter Water’s trunk infrastructure.

The approved servicing strategy for many new developments requires the developer to construct ‘right-sized’ assets that provide capacity for nearby development that may connect in the future. Good infrastructure planning should look at the present value of lifecycle costs and avoid individual developers constructing separate assets to connect new developments in the same local area. A guide to local servicing strategies is provided in Box 1.

Hunter Water’s current funding policy relies on reimbursement payments from developers who make use of assets funded by the lead developer at a later time. The lead developer has no guarantee of a reimbursement payment, as it is subject to decisions by other developers about the location and timing of subsequent development projects. This can make it more difficult for the lead developer to raise the project finance necessary to commence works on a new development.

This Consultation Paper outlines a proposal to provide for the repayment of the costs associated with the delivery of connection assets that provide shared capacity for other developments. The proposal has similarities to the commercial agreement model applied by Sydney Water. The key feature of this model is that the lead developer funds the delivery of right-sized assets and Hunter Water would repay those costs if the developer successfully achieves agreed milestones. The developer would have a ‘bankable’ funding commitment from Hunter Water based on the number of new lots connected within the development.

We consider that this approach provides a good way of balancing the various risks associated with a particular development. Developers are best placed to know whether a particular development is likely to proceed and in what timeframe. The developer remains responsible for building right-sized network assets that can service other likely developments in a local area. Hunter Water would fund those projects that realise their development potential and deliver actual growth in the customer base. Those projects that do not achieve agreed milestones within an agreed timeframe would not qualify for a full repayment of costs.

We are proposing to release an annual Hunter Water Growth Plan as part of a package of initiatives to enable good development. The Growth Plan would show the anticipated timing and location of new development areas across the Lower Hunter (see Section 4). The terms of the repayment of developer costs under the proposed Funding and Delivery of Growth Infrastructure Policy would be linked with the categories outlined in the Growth Plan. Section 6 explains these arrangements in detail, and invites feedback on key aspects of the policy design.
BOX 1: LOCAL SERVICING STRATEGIES

Hunter Water operates an extensive system of network infrastructure for providing water and wastewater services to the community. To plan for growth and the integration of these systems, Hunter Water prepares regional water supply distribution and wastewater transportation servicing strategies. These strategies are generally prepared from the broader regional perspective and identify major works that form the backbone of the system.

To help ensure that Hunter Water is able to provide timely availability of system capacity, a number of regional servicing strategies have been prepared and are updated over time by Hunter Water. Completion of local developer funded strategies and the extension of services must be consistent with the regional strategies undertaken by Hunter Water.

Hunter Water’s regional strategies do not necessarily address servicing issues for specific development lands or pockets of un-serviced land that may be of interest to a developer. In most cases, water and wastewater services can be provided by the extension of mains utilising existing assets such as pump stations and carrier mains. In situations where this is not possible, or not clearly evident, the developer is required to investigate the optimal servicing arrangement for that particular site.

A local servicing strategy may be required in the following circumstances:

- Land remote from existing network infrastructure where the most suitable point of connection needs to be investigated further.
- Large developments with either a high water demand or a sewer loading that requires new or augmented transportation systems, pumping stations and storages.
- Land elevated above the existing water supply boundaries where new infrastructure, like booster stations or local high-level storages, may be required.
- Land with multiple sub-catchments that require a new wastewater pump station to transport flows into an adjoining wastewater system.
- Un-serviced fringe areas where alternative wastewater systems may be required (for example pressure sewer systems).

The results of these investigations are presented by developers as a Local Servicing Strategy Report for review and approval by Hunter Water.

A summary of Hunter Water’s current Funding of Growth Infrastructure Policy is provided in Box 2.

**BOX 2: CURRENT FUNDING OF GROWTH INFRASTRUCTURE POLICY**

Hunter Water’s existing funding of growth infrastructure policy sets out our approach to cost sharing where we require a particular asset to be greater than the minimum size to service a single development. The Policy describes three broad categories and associated criteria that Hunter Water uses to guide decision making on the funding and delivery of growth-related infrastructure under different development scenarios.

**Regional asset**

Hunter Water designs, funds and delivers larger assets that form the backbone of our system. This includes, but is not limited to, key infrastructure like dams, treatment plants, larger reservoirs and larger pump stations that provide capacity to service growth for a broad population.

Regional assets provide longer term flexibility by augmenting existing systems in areas with multiple new developments. Hunter Water would typically plan and design these assets as part of its regional servicing strategies and broader capital works programme.

**Local development area asset**

A local development area asset covers those developments where there is an initial development ready to connect to Hunter Water’s system, as well as other developments in close proximity that are likely to follow in the near term. The approved servicing strategy for the lead development may require larger assets to provide capacity for the other development parcels. In this scenario, Hunter Water would require the initial developer to fully fund the cost of connection assets.

Hunter Water may make provision for the reimbursement of a share of the cost of constructing connection costs if subsequent developments make use of that infrastructure. Hunter Water administers the calculation and payment of reimbursement amounts between developers – from subsequent benefitting parties to the lead developer. Hunter Water’s policy sets a 15-year window for the payment of reimbursements for those assets funded by the lead developer and transferred to Hunter Water.

**Local development area asset with potential to service growth in adjoining areas**

Hunter Water provides funding to developers for incremental upsizing costs in certain circumstances. This may include scenarios where the approved servicing strategy for a development requires assets above minimum size for the lead developer, but where the potential size and number of adjoining development lands is not well known. It could also include scenarios where there is potential development in the broader catchment but not in close proximity to the proposed development. Hunter Water funds the upsizing costs when the developer completes construction and transfers ownership of the asset.

4 GROWTH PLAN

We are proposing to release an annual Hunter Water Growth Plan as part of a package of initiatives to enable good development. Hunter Water’s proposed Growth Plan would provide a central point of information on Hunter Water’s planning processes, capital works programme and growth projections.

The Growth Plan would show how Hunter Water is investing in capital work projects that enable future growth in new connections; both residential customers and growth on employment lands. Providing this detailed information about the timing and location of new infrastructure should assist planning agencies and developers to make better informed planning and investment decisions.

The Growth Plan would identify those local areas where Hunter Water anticipates new development within our area of operations over the following ten-year period. Hunter Water uses this information when planning regional servicing strategies. This informs decisions about upgrade and augmentation works to ensure that Hunter Water is meeting compliance requirements and capable of servicing likely future urban growth.

We would publish the Growth Plan at the same time each year. The Growth Plan would reflect the latest connection growth information and development forecasts ensuring that developers, planners and the broader community can reference up-to-date information.

Hunter Water’s anticipated timing of new residential connections by local government area is shown in Figure 1. The graphic includes current connections, forecast growth in the period 2017 to 2022, and forecast growth in the period 2022 to 2030. Hunter Water currently has 225,108 water connections across our area of operations. The number of connections is projected to increase to 245,360 by 2022, and to 274,782 by 2030.

Figure 1: Projected residential connections by 2030
4.1 Hunter Water’s planning process

Hunter Water’s growth infrastructure planning and prioritisation process includes the following steps:

- Assessing the existing water and wastewater network using hydraulic modelling software to identify any capacity constraints and whether upgrades or further investigation is required.
- Undertaking annual risk reviews of the water and wastewater system to assess compliance against regulatory requirements. Hunter Water may update upgrade strategies and/or decide to invest in infrastructure as a result of this risk review process.
- Undertaking further studies and developing upgrade strategies to ensure that there is capacity to cater for customer growth and meet regulatory requirements. Data from our growth mapping tool feeds into the relevant network hydraulic models to determine the size and timing of regional upgrades required to support urban growth.
- Updating the capital portfolio with works recommended in the various upgrade strategies, and assessing each upgrade programme against business drivers and prioritisation criteria.
- Proposed capital expenditure goes through a gated business case approval process with a project required to pass review gates at defined stages of the project lifecycle.
- Decisions on how the infrastructure fits into Hunter Water’s funding model for growth infrastructure.

Hunter Water plans to spend around $100 million per year on capital works projects over the period to 30 June 2020 (the end of the current price path). Of this total, about $20 million per annum, on average, is associated with capital works driven by forecast growth in the number of connected customers.

The Growth Plan would provide detailed information on all capital expenditures, including those projects designed to support urban growth. This would include a description of recently completed major capital works, projects in the delivery phase and a five-year forecast of works at the project level.

The Growth Plan would detail Hunter Water’s capital portfolio disaggregated by local government area and service type (wastewater treatment, wastewater transport, water treatment, water trunk and water distribution).

4.2 Growth mapping

Hunter Water uses a geographic information system (GIS) growth mapping tool to collate, manage, and analyse growth data from various sources. This includes local councils, the Department of Planning and Environment, Hunter Water’s customer connections database, developer servicing strategies and Section 50 applications. The GIS growth mapping tool is used to provide information on residential and non-residential development for infrastructure planning purposes in individual catchments and networks.

The Growth Plan would use the output of the GIS growth mapping work to provide detailed information on actual and forecast growth, including:

- the historical growth in connected properties and residential dwellings;
- the geographic distribution of new connections in the previous financial year;
- forecast population growth and number of dwellings serviced;
• forecast growth in the number of equivalent tenements for each local government area using the GIS Growth Mapping tool; and

• spatial distribution of the major development areas within Hunter Water’s area of operations using the GIS Growth Mapping tool.

Each annual Growth Plan would contain the latest detailed GIS growth maps for all parts of our area of operations. The growth maps would include colour-coded polygons showing the new development timing under two planning horizons: within five years (yellow-coded areas); and between five and ten years (orange-coded areas). Given the many uncertainties associated with long-term urban development patterns, we have not attempted to identify or map prospective locations beyond ten years.

The following growth map is provided as a sample for illustrative purposes only (see Figure 2). The map shows forecast development areas near Morisset and the surrounding townships. The map also provides details of proposed works, existing connections and forecast development timeframes (yellow and orange polygons).

**Figure 2: Indicative growth map showing development timing (sample only)**
4.3 Hunter Regional Plan 2036

The Hunter Regional Plan 2036 has an emphasis on improving the coordination of planning decisions across Hunter Water’s area of operations. The Department of Planning & Environment’s Implementation Plan 2016-2018 identifies two areas of work from the Hunter Regional Plan that should help inform Hunter Water’s Growth Plan in the next year or two. The Department has committed to establishing and implementing:

- An Urban Development Program to develop data on existing zoned land supply and the servicing status of land available, to monitor dwelling production and take-up rates and coordinate the staged release and rezoning of land.

- An Employment Lands Development Program to develop data on existing and future planned stocks of employment lands.

Future updates of the Growth Plan and GIS growth maps would incorporate all relevant planning tools and data sets that identify growth centres, growth corridors and the sequencing of greenfield developments. This information would also assist with the planning and prioritisation of regional assets that Hunter Water funds directly as part of our broader capital works programme.

QUESTIONS

4.1 Would the proposed content of the Growth Plan provide you with sufficient information to assist with your planning and investment decisions?

4.2 Would a five-year forward programme of Hunter Water’s major capital works, by project, provide you with useful information? In what way?

4.3 What aspects of the Growth Plan do you envisage will be the most useful or beneficial (e.g. connection forecasts, GIS growth maps, details of capital works programme)?

4.4 What other planning and project information should Hunter Water include in the proposed Growth Plan?

4.5 What other information would you like Hunter Water to include in the proposed local GIS growth maps?
5 FUNDING AND DELIVERY OF GROWTH INFRASTRUCTURE POLICY

Hunter Water is proposing a new funding model for growth-related infrastructure. The new approach would establish two categories of projects:

- Regional assets that are planned, designed and funded by Hunter Water (Category 1).

- Infrastructure delivered by the developer where Hunter Water may enter into a Developer Delivered Infrastructure Agreement (DDIA) to repay efficient costs incurred by the developer in constructing and commissioning assets covered by the agreement (Category 2).

Those new developments not eligible for infrastructure funding under Category 1 or Category 2 would be fully funded and delivered by the developer.

As part of this paper, we have provided a proposed Funding and Delivery of Growth Infrastructure Policy (see Appendix A). This is a draft Policy for consultation purposes. The proposed Policy sets out full details regarding the scope of the policy, eligibility, funding categories and repayment arrangements.

The following sections explain the key components of each funding category in the proposed Policy, and invite feedback on a number of specific design and implementation matters.

5.1 Regional assets (Category 1)

Hunter Water is not proposing any change to the way that we evaluate funding for regional assets.

Hunter Water typically funds those assets that form the backbone of our system – water and wastewater treatment facilities, and water and wastewater trunk infrastructure. Regional assets can also include the network connection assets for an area with multiple new developments. These are all assets that provide servicing capacity for potential growth in a geographic region covering a significant customer base.

Hunter Water will continue to apply the following principles to assess whether an investment falls within the regional asset category:

- Works provide longer term operational flexibility in servicing growth.

- High growth potential in a geographic area over a longer time horizon, taking into account land ownership, council zoning and relevant settlement strategy at the time of preparing the servicing strategy.

- There must be sufficient expected growth over a defined period such that there will be a demand for the capacity that Hunter Water will invest in (normally within 10 years).

- Works are augmenting existing system capacity for growth and not servicing a single development.

- The investment will improve service provision to existing customers and ensure that Hunter Water complies with regulatory requirements.
5.2 Developer Delivered Infrastructure Agreement (Category 2)

Hunter Water is considering a funding approach for growth-related infrastructure that would provide for the repayment of efficient costs incurred by the developer in certain circumstances.

Where the entry criteria are satisfied, Hunter Water would enter into a DDIA agreement with a single lead developer for each connection asset and up-sized reticulation asset. The proposed DDIA funding arrangement provides a commitment to repay efficient procurement costs if agreed milestones are met. Hunter Water would not contemplate a multi-party agreement if multiple developments in the same vicinity are commencing at the same time. For administrative reasons, Hunter Water would deal directly with the lead developer who first approached Hunter Water and executed the initial DDIA agreement.

A central component of the proposed approach would require the lead developer to deliver right-sized assets that provide capacity not only for the lead development but also potentially for future adjoining or nearby developments if this is determined to be the most efficient servicing strategy for them.

Hunter Water currently requires the developer to prepare a local servicing strategy for certain assets. The servicing strategy determines the configuration, sizing and location of connection assets and reticulation assets for each new development. Connection assets and reticulation assets can include pipes, pump stations and reservoirs.

- **Connection assets** include the lead-in and lead-out infrastructure primarily outside of a development that connect the new development to Hunter Water’s existing system.
- **Reticulation assets** are assets within the development. In cases where a future adjacent development may make use of reticulation infrastructure, the servicing strategy may require larger than minimum sized reticulation assets.

Hunter Water always requires developers to fund and deliver minimum-sized reticulation assets that have the sole purpose of servicing connected lots within a new development. Those minimum sized reticulation assets may also provide incidental capacity for adjoining development in the future.

The approved servicing strategy for a particular development may require the up-sizing of reticulation assets within the development to service adjoining or nearby development at some point in the future. Effectively, the up-sized reticulation asset within the lead development becomes a right-sized connection asset for an adjacent development that subsequently makes use of the capacity that is available in those assets. Hunter Water would consider DDIA agreement funding for the full cost of those up-sized reticulation assets.

Hunter Water’s proposed funding approach for connection assets and reticulation assets relies upon the forecast timing of new development areas identified in the GIS growth maps contained in the proposed Growth Plan. Hunter Water would consider an agreement with a lead developer if the proposed development is expected within next five years (yellow-coded polygons) or five-to-ten years (orange-coded polygons). Hunter Water would not repay the lead developer’s costs for connection or reticulation assets that directly service a development we assess as proceeding beyond ten years. The funding categories within the DDIA policy are summarised in Table 1.

Hunter Water’s GIS growth maps show the forecast timing of new development across the Lower Hunter. The information that underpins the GIS growth maps plays an important role in Hunter Water’s planning process assisting in determining the areas that require the greatest focus over the next five years. The DDIA agreement is designed to mirror Hunter Water’s broader approach to planning for future urban growth.
### Table 1: Funding categories under Developer Delivered Infrastructure Agreements

<table>
<thead>
<tr>
<th>Agreement feature</th>
<th>Category 2a</th>
<th>Category 2b</th>
<th>Category 2c</th>
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<tr>
<td>Timing of development area on growth map</td>
<td>0 – 5 years</td>
<td>5 – 10 years</td>
<td>10+ years</td>
</tr>
<tr>
<td>Delivery</td>
<td>Developer</td>
<td>Developer</td>
<td>Developer</td>
</tr>
<tr>
<td>Agreement sunset date</td>
<td>10 years</td>
<td>10 years</td>
<td>10 years</td>
</tr>
<tr>
<td>Funding arrangement:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Connection asset</td>
<td>Progress payments until 50% of the development is issued with section 50 certificate. Remaining 50% of connection asset costs paid at this time.</td>
<td>Progress payments until 100% of the development is issued with section 50 certificate.</td>
<td>Marginal upsizing costs paid until 100% of the development is issued with section 50 certificate.</td>
</tr>
<tr>
<td>• Minimum-sized reticulation asset</td>
<td>No repayment</td>
<td>No repayment</td>
<td>No repayment</td>
</tr>
<tr>
<td>• Up-sized reticulation asset</td>
<td>Progress payments until 50% of the development is issued with section 50 certificate. Remaining 50% of connection asset costs paid at this time.</td>
<td>Progress payments until 100% of the development is issued with section 50 certificate.</td>
<td>Progress payments on marginal upsizing costs paid until 100% of the development is issued with section 50 certificate.</td>
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### Category 2a

The DDIA agreement for a development expected within the next five years (Category 2a) would set out the following repayment mechanism:

- Hunter Water would make part payments to the developer, under an agreed formula, until 50% of planned lots within the development are connected to the infrastructure (progress payment).

- At that point, Hunter Water would make a single payment for the remaining infrastructure costs (final payment).

Under this arrangement, the developer would receive repayments for 50% of the estimated cost of works, for both connection assets and up-sized reticulation assets, through part payments. We would pay the remaining balance of efficient costs as a final payment when Hunter Water issues Compliance Certificates for 50% of all connected lots within the development. This payment schedule would be explicitly defined in the DDIA Deed between the parties (see Section 7.3).
**Category 2b**

The DDIA agreement would provide funding for projects shown in the GIS growth maps as five-to-ten years (orange polygons). But Hunter Water would fully fund the efficient cost of agreed connection assets and up-sized reticulation only when the development has connected all planned lots. That is, when Hunter Water would make progress payments up until the time that Hunter Water issues Compliance Certificates for 100% of the connected lots within the development.

This mechanism places more of the up-front cost of financing and delivering assets onto the developer than Category 2a. We consider that this is an appropriate weighting of development risks for developments that are less advanced in the planning and approvals stages.

**Category 2c**

Where a potential development is not shown on the growth maps in the Growth Plan, Hunter Water would not typically enter into a DDIA agreement. These are potential developments beyond 10 years, about which there is considerable planning uncertainty. Where the servicing strategy for such developments required the up-sizing of connection assets or reticulation assets to service future adjacent development, Hunter Water would pay the marginal up-sizing cost only, both calculated using a pro-rata formula. Those costs would be repaid through progress payments up until the development was completed.

5.3 Key issues for feedback

**Cost effectiveness test**

Hunter Water would assess the cost of infrastructure works associated with each new development on a project-by-project basis. As part of our internal review, we would evaluate the cost of right-sized assets for each development on a per connected lot basis. We would do this analysis for each stage of works and the ultimate completion of the entire development. Hunter Water may apply a cap to the repayment amount for those developments where the cost per new customer connected is outside of a typical range.

When preparing an assessment of costs per connected lot, Hunter Water would take into account the number and location of potential developments in close proximity. We would evaluate the likely timing of those developments, the number of additional connected lots, and the likely future use of the shared capacity created by any DDIA-funded assets.

**Staging of infrastructure**

The DDIA policy contemplates circumstances where a large development project may proceed in stages, supported by an investment in connection assets that may also be staged.

Hunter Water may enter into a DDIA agreement to repay the cost of connection assets for a development where the agreement milestones reference the staged completion of connected lots.

The approved servicing strategy for each development would form the basis of the DDIA agreement. Hunter Water would not require the developer to fund and deliver all assets for the ultimate development area if the servicing strategy allowed for staged works to service a smaller parcel of connected lots within the development. The DDIA funding category for staged works would depend on the anticipated timing for that development, set by reference to the Growth Plan.

**DDIA agreement expiry date**

Hunter Water would include a sunset date in all DDIA agreements. We consider that this is good business practice. Hunter Water would not enter into an open-ended agreement where the final payment date is subject to the timing and commercial success of a privately-funded development project.
Hunter Water does not intend that the sunset date would exclude particular developments. Typically, a DDIA period of 10 years would seem sufficient for most prospective agreements, although a longer period may be agreed in certain circumstances. Alternatively, the sunset date could be set on a project-by-project basis based on the size and complexity of individual developments.

Hunter Water would always honour any repayment commitment under the DDIA agreement up until the expiry of that agreement.

**Bundled progress payments**

The progress payments that Hunter Water makes under each of the DDIA categories would be in accordance with an agreed payment schedule that references the number of completed lots within a development. To minimise administrative costs for both parties, we would typically make a progress payment after issuing a number of section 50 Compliance Certificates – for example, a progress payment for every 10 or 20 connected lots.

**QUESTIONS**

5.1 Are there any other principles that Hunter Water should consider when assessing the merits of directly funding a capital investment in regional assets?

5.2 Do you agree with Hunter Water’s DDIA funding categories (2a, 2b, 2c), or are there areas where we could make improvements or refinements? You may want to comment on the proposed part and final payment mechanism, or the proposed timing of new developments in each category.

5.3 How should Hunter Water apply the cost effectiveness test? Apart from looking at typical costs for similar developments, are there other metrics or ways of assessing whether the cost of local assets are within a certain tolerance when looked at on a per lot basis?

5.4 Do you have any concerns or suggested improvements to the proposed staging of infrastructure works?

5.5 What should be the maximum term of a DDIA agreement (i.e. ten years?) Are there better ways of setting an expiry date for each DDIA agreement?

5.6 Do you have any comments or observations about likely administrative issues? For example, should Hunter Water pay progress payments for every 20 completed connections?
6 INFRASTRUCTURE DELIVERY

6.1 Delivery of regional assets

Hunter Water has traditionally taken responsibility for the funding and delivery of regional assets. As part of the work for this review, Hunter Water has prepared *Procurement Guidelines for Developer Delivered Infrastructure* (see Appendix B). These Guidelines are designed to ensure that we only repay the efficient cost of capital works that are delivered by parties other than Hunter Water.

The establishment of these procurement guidelines, and the accompanying processes for ensuring value for money, provide an opportunity for Hunter Water to consider the delivery of regional assets by developers in circumstances where there are benefits for both parties. This option would relate to projects where Hunter Water has prioritised funding in the near term. A developer may be able to bring forward the timing of a particular development by managing the delivery of a committed regional asset.

6.2 Procurement guidelines

Hunter Water must demonstrate to IPART that any expenditure on regulated assets is efficient. Hunter Water is able to recover efficient expenditure through tariff pricing paid by the broader customer base. As part of this efficiency test, IPART engages independent expenditure consultants to review the way that Hunter Water undertakes procurement activities.

Under the proposed DDIA agreements, the lead developer would fund and deliver infrastructure works. The developer is effectively procuring assets on behalf of Hunter Water if there is a later repayment of costs. Hunter Water is diligent in ensuring that procurement activities are competitive, transparent, ethical and deliver value for money. We need to ensure Hunter Water funding of developer-procured works satisfy the same objectives.

Hunter Water’s proposed *Procurement Guidelines for Developer Delivered Infrastructure* set out requirements for developers to follow prior to any repayment of costs. The procurement guidelines are aligned with Hunter Water’s standards, and seek to ensure consistency with the NSW government procurement framework and the NSW Code of Practice for Procurement.

The procurement guidelines describe the procurement process, including the following key stages:

1. **Strategic planning:** the developer should set out a strategic plan setting out the scope, timing and nature of the procurement activity. The plan should be tailored to the complexity, cost and risk of the project. This should also cover project governance (including composition of evaluation panel), documentation requirements, and cost benchmarking.

2. **Tender process:** the developer seeks quotes on a competitive basis. This involves developing a scope of works and providing it to suppliers, together with information to guide them on how their offers will be assessed. The evaluation panel assesses tenders against predetermined evaluation methodology. Before awarding the contract, the developer must consult with Hunter Water to obtain ‘in-principle’ approval to proceed.

3. **Delivery:** the developer must ensure that all deliverables are provided to an acceptable quality, within the specified time, for the agreed price. Developers must consider delivery against the contract management plan, key performance indicators, and approved variations.

4. **Project completion:** the developer submits a project completion report. This documents achievement of all contract requirements and deliverables, outcomes of performance monitoring, relevant certification of completed works, and confirmation that the project was completed for the tendered rate or where savings were realised.
Our draft Procurement Guidelines explain the proposed procurement process in detail (see Appendix B), including information relating to application processes, appeals, alignment with other relevant procurement policies, and the compliance monitoring process.

Hunter Water would repay developer costs in accordance with a DDIA agreement subject to the developer demonstrating how they have achieved and complied with the requirements set out in Procurement Guidelines.

**QUESTIONS**

6.1 Do developers see any advantages in delivering regional assets on behalf of Hunter Water?

6.2 Would the benefits of fast-tracking the timing of a regional asset that supports a particular development outweigh the effort required to manage and coordinate such projects?

6.3 Do developers have comments on the principle based approach outlined in Hunter Water’s Procurement Guidelines for Developer Delivered Infrastructure?

6.4 Do the procurement guidelines provide sufficient detail about the level of information and documentation expected at each of the key stages of a procurement activity?

6.5 Are there improvements or refinements that Hunter Water could make to the proposed procurement approach?
7 IMPLEMENTING THE NEW APPROACH

7.1 Implementation timetable

Hunter Water has prepared this Consultation Paper with the intent of incorporating the feedback that is received into the final package of initiatives and implementing the proposed policy changes. The Board of Hunter Water has asked for a report outlining stakeholder comments and any implementation issues from this consultation process.

Subject to Board approval, we are working on the basis that we would publish final policy documents in September 2017. The new Funding and Delivery of Growth Infrastructure Policy, detailed in section 5, would commence from the date of public release.

7.2 Transitional arrangements

DDIA Agreements for current development projects

We are mindful that any change in policy approach may cause transitional issues for current development projects for which the developer has already lodged an application to connect to Hunter Water’s infrastructure (under section 49 of Hunter Water Act). Hunter Water is proposing transitional arrangements (shown in Figure 2) for current development projects based on the progress of the development at the commencement date for the policy.

Figure 2: Transitional arrangements for current development projects

Hunter Water would consider a DDIA Agreement for any development that had not entered the design phase at the time the new Funding and Delivery of Growth Infrastructure Policy is published.

Where a project has an approved local servicing strategy and is partially complete at the policy commencement date, either in the design or construction phase, Hunter Water’s existing funding and delivery policy framework will apply, unless the lead developer can provide documentation to show that:

1. the design has been procured in accordance with the proposed Procurement Guidelines for Developer Delivered Infrastructure; and
2. the construction works have been procured in accordance with the proposed procurement guidelines.

If requested by the developer and these conditions are met, Hunter Water may agree to enter into a DDIA Agreement with the developer for infrastructure works, where those works meet the criteria set out under the new Funding and Delivery of Growth Infrastructure Policy.
**Reimbursement policy**

Under the revised approach outlined in this paper, Hunter Water is proposing to cease applying the reimbursement mechanism for any developer funded assets created under the new *Funding and Delivery of Growth Infrastructure Policy* (see Figure 2 for transitional arrangements for current development projects). All reimbursement arrangements determined under our current Funding of Growth Infrastructure Policy (also known as the ‘Funding of Assets Greater than Minimum Size to Serve a Single Development Policy’) would continue as per usual.

Hunter Water would still require developers to make reimbursement payments, calculated in accordance with the existing methodology, where a developer has previously funded and delivered local development assets in accordance with the current reimbursement policy. Hunter Water would continue to review all development assessment applications and calculate reimbursement payments for up to 15 years from completion of the asset, in accordance with the ‘Funding of Assets Greater than Minimum Size to Serve a Single Development Policy’.

We invite all interested parties, in responses to this Consultation Paper, to comment on the proposed transitional arrangements, and highlight any implementation issues associated with moving to the proposed funding and delivery model.

**7.3 Developer Delivered Infrastructure Deed**

We are currently preparing a draft legal deed for the proposed DDIA agreement between Hunter Water and the lead developer. It is proposed that the DDIA deed would define:

- The full scope of infrastructure works subject to the DDIA agreement.
- Hunter Water’s payment terms and conditions, including milestone payments.
- Developer’s obligations detailing all relevant tests and completion requirements as well as insurances, consultation, variations and the like.

Hunter Water is progressing all relevant legal and administrative arrangements associated with the proposed policy measures in this Consultation Paper. As part of this work, Hunter Water will consult directly with key groups representing the development sector on the legal drafting of the proposed DDIA deed.

**QUESTIONS**

1. **7.1 Are there practical issues associated with ending the reimbursement policy for new development assets?**

2. **7.2 Do the proposed transitional arrangements mitigate disadvantage to current development projects that could potentially result from the timing of the notional policy commencement date?**
REFERENCES


Funding and Delivery of Growth Infrastructure Policy – Draft for consultation
FUNDING AND DELIVERY OF GROWTH INFRASTRUCTURE POLICY

DRAFT FOR CONSULTATION

MAY 2017
PURPOSE

This *Funding and Delivery of Growth Infrastructure Policy* 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 a new development can provide shared capacity for future developers and future customers to connect to Hunter Water’s system. This Policy is designed to ensure that new network infrastructure is ‘right-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 constructing separate assets to connect new developments in the same local area.

SCOPE

This *Policy* covers funding and delivery categories for drinking water and wastewater connection and reticulation assets that are handed over to Hunter Water to operate and maintain in perpetuity. The policy also covers recycled water network infrastructure that is regulated by IPART.

This *Policy* applies to new residential, commercial and industrial developments where new or augmented infrastructure is required to support urban growth in the Lower Hunter.

This *Policy* does not apply to existing developments that, for historical reasons, are not connected to either water or wastewater infrastructure (‘backlog’ areas).

Connection assets cover the lead-in and lead-out infrastructure outside of a development that is needed to connect a new development to Hunter Water’s existing system, including pipes, pump stations and water storages.

Reticulation assets are the local reticulation assets within a development, including pipes, pumps stations and water storages.

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 timing of new 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)
- Beyond ten years (not colour-coded)

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.

**FUNDING AND DELIVERY CATEGORIES**

Urban growth can occur in areas where there is insufficient infrastructure capacity to service new connections or where there is no existing network infrastructure. Hunter Water recognises that it has a role to play in supporting urban development in line with the NSW Government’s planning objectives. This Policy 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 different assets at different points in the development cycle.

Generally, developers will be required to design and construct water and wastewater mains and associated infrastructure to connect their development to Hunter Water’s system. Hunter Water always requires the developer to fund and deliver minimum-sized water and wastewater reticulation assets that service connected lots within the development. Hunter Water’s design standard would determine asset requirements for minimum sized infrastructure. The new minimum-sized 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).

Where an investment provides local shared capacity, Hunter Water may enter into a commercial agreement with the lead developer (a Developer Delivered Infrastructure Agreement) 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 designed to facilitate urban growth by providing funding for projects that meet agreed development milestones.

**CATEGORY 1: REGIONAL ASSET**

Hunter Water’s annual *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 the following principles when assessing whether a capital investment falls within the regional asset category:

- Works provide longer term operational flexibility in servicing growth.
- 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.
- There must be sufficient expected growth over a defined period such that there will be a demand for the capacity that Hunter Water will invest in (normally within 10 years unless extraordinary circumstances exist).

- Works are augmenting existing systems capacity for growth and not servicing a single development.

- The investment will improve service provision to existing customers and ensure 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 in order to bring forward the commissioning date of new infrastructure. In these circumstances, Hunter Water would repay the efficient costs incurred by the developer in accordance with Hunter Water’s *Procurement Guidelines for Developer Delivered Infrastructure*.

**CATEGORY 2: DEVELOPER DELIVERED INFRASTRUCTURE AGREEMENT**

Hunter Water will consider offering funding in accordance with a Developer Delivered Infrastructure Agreement for a new development depending on how the development aligns with the indicative timing of urban 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 Agreement*. 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 agreement with the lead developer covering connection assets and any upsized reticulation assets.

The developer will be responsible for planning, designing and constructing connection and reticulation assets to Hunter Water’s requirements as detailed in the servicing strategy.

Hunter Water would repay the efficient costs of agreed assets incurred by the developer in accordance with Hunter Water’s *Procurement Guidelines for Developer Delivered Infrastructure*.

Hunter Water may apply a total cap to the repayment amount in any agreement based on the cost of the connection assets per connected lot. Any consideration of a capped payment would take into account adjoining and nearby development that is likely to make use of the system capacity provided by the connection assets delivered by the lead developer.

Each commercial agreement 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. Hunter Water will make all agreed payments that fall due during the term of the agreement, as defined in a *Developer Delivered Infrastructure Deed*. 
**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 up until 50% of the lead development has been issued with a Section 50 Compliance Certificate (progress payment);
- make progress payments that account for 50% of total payments of efficient connection asset costs;
- upon completing 50% of the lead development connections, pay the remaining 50% of the connection asset costs to the lead developer who funded and delivered these assets (final payment).

Where the approved servicing strategy for a development requires the lead developer to up-size reticulation assets within the development (from the minimum size) to service adjoining or nearby development, Hunter Water will repay the full cost of these larger assets as part of the progress and final payments under the *Developer Delivered Infrastructure Agreement*.

**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.

Hunter Water will make 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.

**Category 2c: New development area 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 (not colour-coded), 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.

**Staging of infrastructure construction**

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:

- 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.

In these cases, Hunter Water will repay the developer’s costs for each infrastructure stage as lots are connected. Payment arrangements for staged works will depend on the project category, as determined by the indicative timing of new development shown in the Growth Plan.

**Repayment requirements**

The *Developer Delivered Infrastructure Agreement* will set out the following repayment terms:

- The developer must follow Hunter Water’s Procurement Guidelines for Developer Delivered Infrastructure when procuring assets to ensure that Hunter Water repays reasonable and efficient costs of infrastructure delivery;
- The developer must transfer ownership of infrastructure to Hunter Water once assets have been commissioned and a Compliance Certificate is issued by Hunter Water;
- The developer is responsible for obtaining all regulatory approvals required to deliver the assets; and
- Hunter Water will not fund the developer’s financing costs.
REFERENCES

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 *Procurement Guidelines for Developer Delivered Infrastructure* set out the minimum requirements that developers must demonstrate when seeking repayment of costs under Hunter Water’s *Developer Delivered Infrastructure Agreement Policy*.

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

Hunter Water’s *Land Development Manual* assists developers and landowners to understand our requirements for land development, and navigate the process of obtaining *Section 50 Compliance Certificates* in order to service their land.

GLOSSARY

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Connection asset</td>
<td>An asset primarily outside of the development site that connects the development area to Hunter Water’s existing water and wastewater systems.</td>
</tr>
<tr>
<td>Lead developer</td>
<td>Hunter Water will enter into a single Developer Delivered Infrastructure Agreement with a single lead developer for connection assets that may service multiple developments.</td>
</tr>
<tr>
<td>Minimum-size reticulation asset</td>
<td>An asset within the development site that is the minimum size that complies with Hunter Water’s design standard. A new minimum sized reticulation asset primarily serves that particular development but may provide incidental additional capacity for proximate development in the longer term.</td>
</tr>
<tr>
<td>Right-sized asset</td>
<td>A connection or reticulation asset that has been determined to be the optimal sizing option from a total community perspective.</td>
</tr>
<tr>
<td>New development</td>
<td>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.</td>
</tr>
<tr>
<td>Section 50 Compliance Certificate</td>
<td>A certificate issued under Section 50 of the <em>Hunter Water Act 1991</em>.</td>
</tr>
<tr>
<td>Upsized reticulation asset</td>
<td>An asset within the development site that serves that particular development, but has been purposely ‘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.</td>
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APPENDIX B

Procurement Guidelines for Developer Delivered Infrastructure – Draft for consultation
1 INTRODUCTION

1.1 Objective

The objective of these guidelines is to provide developers (the Developer) that have been approved for repayment of developer costs under Hunter Water’s Funding and Delivery of Growth Infrastructure Policy (the Policy) with a principle based guide to follow when undertaking procurements that relate to the approved Developer Delivered Infrastructure (DDI).

Compliance with the directions set out in this Guide is considered a minimum requirement for repayment of costs in accordance with the Policy.

2 REVIEW OF PROCUREMENT APPROACH

2.1 Application process

As outlined in the Policy, eligibility for repayment of costs relating to category 2 DDI is subject to approval being granted by Hunter Water Corporation (Hunter Water). The approval process involves an assessment of the information relating to the procurement approach to be adopted, which shall be submitted by the Developer with its application form.

The information required to be supplied by the Developer regarding the procurement approach shall include:

- The scope of works
- Timing and location
- Detailed costs estimate
- Capacity, capability and qualifications of the Developer’s personnel who will be undertaking the procurement activities
- An outline of the procurement strategy to be adopted by the Developer in sourcing any assets where repayment from Hunter Water is sought.

2.2 Application outcomes

On completion of the assessment of the Developer’s procurement approach, Hunter Water will advise the Developer whether the Developer has passed, provisionally passed or failed the assessment. A provisional pass is awarded in cases where Hunter Water places conditions on approval, such as the use of Hunter Water templates at certain stages of the procurement cycle, or engagement of third party advisors who will assist the Developer with procurement process management.
2.3 Appeal process

To ensure fairness, and comply with probity principles Hunter Water may review its decisions. The Developer may elect to ask for a review of a decision made, or the imposition of a condition, by Hunter Water under these Guidelines by submitting the request in writing to:

Chairperson of the Procurement Committee
PO Box 5171 HRMC NSW 2310
Email: procurement@hunterwater.com.au

The request shall state a review is sought in accordance with these Guidelines, and include the following information:

- Details of the decision or condition which the Developer would like to be reviewed;
- The reason/s why the Developer considers that the decision is erroneous or the condition should not be imposed; and
- Any other information the Developer thinks is relevant to the review of the decision or imposition of the condition by the Procurement Committee.

The Developer shall comply with any request for further information from the Chairperson of the Procurement Committee (or the Chairperson’s nominated representative).

3 PROCUREMENT PRINCIPLES

3.1 Hunter Water Procurement Principles

Hunter Water’s procurement obligations aim to ensure consistent procurement practices across the organisation, for all expenditure incurred in its operational spend. Its overarching purpose is to deliver excellence in procurement outcomes for Hunter Water’s customers and stakeholders.

In achieving these objectives, Hunter Water is committed to:

- Engaging suppliers who are ethical, and maintain the highest standard of health and safety;
- Ensuring that competitive local business and industry is given a full, fair and reasonable opportunity to participate in the supply chain for DDI; and
- To only deal with suppliers who are appropriately qualified, deliver value for money and aim to promote sustainable practices.

3.2 Alignment with NSW Government Procurement Principles

As described in various NSW government procurement policy documents listed in Attachment A, the policies set out a framework to achieve value for money, whilst being fair, ethical and transparent; and engaging with multiple sectors of the NSW economy.

The following principles are considered essential features of any procurement activity:
• Obtaining value for money
• Promoting competition
• Preventing corruption, through principles of fairness and probity
• Support of policy objectives, by complying with policy guidance on aboriginal participation, sustainability, environmental management and quality assurance.

3.3 Developer Procurement Gateways

In accordance with these principles, Hunter Water expects a high standard of procurement practice from Developers. This is to ensure the expenditures related to DDI align with Hunter Water’s standards, and are consistent with both the NSW government procurement framework and the NSW Code of Practice for Procurement.

As set out in section 4, throughout the Developer’s procurement processes, Hunter Water will undertake due diligence activities to ensure the appropriate standards are maintained.

4 DEVELOPER PROCUREMENT PROCESS

All Developers that have been approved for repayment of Developer costs for DDI must undertake their procurement activity in accordance with the procurement practices and activities outlined in this Guideline. A summary of the relevant process steps is set out in the flow chart at Attachment B.

Where requested by a Developer, samples of tools and templates used by Hunter Water may be provided on request for further guidance on how to approach procurement, including those summarised in Attachment C.

It must be noted that except for the mandated use of the Developer Procurement Checklist described in section 4.4, and any conditions placed on the Developer following assessment of the application, the use of the Hunter Water procurement documents is entirely a matter for consideration by the Developer. In all cases, Hunter Water gives no warranty as to their fitness for the Developer’s purposes.

4.1 Strategic Planning

In order to develop a sound approach to market, the following steps are recommended:

• Create a strategic plan for the procurement activity, setting out the scope, timing and nature of goods, services or works to be supplied.
• Tailor the plan to the complexity, risk and dollar value of the goods, works or services needed.
• Define the project governance, accountability and approach and ensure relevant stakeholders such as an evaluation panel will agree to a code of conduct.
• Consider what documents will be required, for example a written scope of works, contract terms, and an evaluation plan on which to base the assessment of offers. The evaluation plan should be developed prior to engaging the market, and specify the evaluation criteria and methodology for determining which supplier will deliver value for money in compliance with the abovementioned principles.
4.2 Undertaking the Tender Process

Where possible, to enhance competition it is preferred that quotes are sought on a competitive basis, from more than one supplier. As outlined in the strategic plan, engaging the market will involve developing a scope and providing it to suppliers, together with information to guide them on how their offers will be assessed.

The evaluation plan and code of conduct must be agreed by the evaluation panel before the quotes are obtained, to ensure the relevant probity principles are complied with. Evaluation panel members must commit to the probity principles highlighted by the Independent Commission Against Corruption in undertaking their role, including:

- Acting with fairness to all tendering, and ensuring that wherever possible, tenderers are treated in the same way
- Being transparent about the process, and accountable for outcomes
- Upholding confidentiality
- Declaring and managing conflicts of interest
- Ensuring value for money is obtained

Once the scope of work is defined, and the tender document includes details of all qualitative and pricing details the tenderers are to submit, it can be released via a secure transmission to the selected tenderers unless an open market approach is adopted, with a clear time and date by which all responses must be received.

During the tender period, clarifications on scope may be provided to all tenderers if required, with a written record kept of any changes resulting from questions raised by tenderers and any subsequent exchange of information.

After the close of tenders and receipt of responses in a secure location, the evaluation panel will evaluate tenders that were received on time. Such evaluation will be in accordance with the predetermined evaluation methodology that will compare tender responses with the scope tender documents, and keep records of the outcomes and the rationale for recommending whether a contract is to be awarded. Before awarding the contract, the Developer must consult with Hunter Water to obtain ‘in principle’ approval to proceed.

Provided Hunter Water approves the award of a contract, a written contract will be executed in accordance with relevant legal requirements. Hunter Water reserves the right to request the Developer to review any tendered outcome, to ensure compliance with the relevant standards outlined above. Should subsequent review fail to resolve any issues, Hunter Water may direct the
Developer to undertake an additional sourcing activity, if the project is to remain eligibility for repayment.

4.3 Managing the Contract

The final step in making sure value for money will be obtained is to ensure all deliverables are provided to an acceptable quality, within the specified time, for the agreed price. Aspects of contract management relevant to the developer’s procurement will generally entail:

- Development of a robust contract management plan, summarising all contractor obligations and administrative processes that will apply throughout the term of the contract
- Supplier performance management and establishing measurable key performance indicators (KPIs)
- Project management
- Variation approval process (limited to variations directed by Hunter Water, or variations for latent conditions and force majeure only)
- Site inspections (by Hunter Water) in accordance with any instructions as advised by Hunter Water.

4.4 Contract Variations

Hunter Water acknowledges that despite a thorough approach to the scope and timing of contract deliverables, there may be occasions where variations to the scope of a contract are unavoidable and hence the DDIA Agreement includes provisions with respect to variations.

Should a Developer wish to vary a contract that has been approved for repayment, the Developer must consult with Hunter Water, to obtain ‘in principle’ approval to proceed before the variation is agreed.

Repayment of variations to the contract will only be approved by Hunter Water in exceptional circumstances and in all events, must be approved in writing.

4.5 Project Completion

On completion of the relevant stages of the work in the DDI, as described in the Funding and Delivery Policy and the DDI Agreement, Hunter Water will repay the agreed Developer costs, provided the Developer has sufficiently demonstrated compliance with this Guideline.

In order to demonstrate compliance, the Developer is to submit a Project Completion Report, detailing:

- Achievement of all contract requirements, and deliverables
- Outcomes of KPI monitoring of contract suppliers
- Relevant certification of completion pursuant to the DDIA Agreement
- Developer reimbursable costs relevant to the project
- Confirmation that the project was completed for the tendered rate, or otherwise
Savings were achieved during construction, and the correlating reduction in the amount to be repaid.

5 COMPLIANCE MONITORING

Throughout the procurement process, Hunter Water requires the Developer to consult with the Hunter Water representative to ensure that all stages of the sourcing activity are undertaken in accordance with the relevant principles and procedures, and that adequate records are kept.

5.1 Hunter Water’s Roles and Responsibilities

In overseeing the Developer’s procurement, Hunter Water will:

- Keep the Developer informed of any changes to the Guidelines
- Provide clarification in relation to the Guidelines, where requested, noting Developer’s must maintain an adequate level of procurement competency independent of Hunter Water’s assistance
- Review the Developer’s procurement related documents throughout the project, including Strategic Plan, tender evaluation outcomes, Contract Management Plan and Project Completion Report.

5.2 Developer Roles and Responsibilities

In undertaking the procurement, the Developer agrees to:

- Comply with these Guidelines
- Comply with the DDI Agreement
- Comply with all written directions issued to the Developer in relation to the Guidelines
- Nominate a single point of contact to act as the procurement liaison and provide all records for review by Hunter Water
- Ensure sufficient competent resources are engaged in the procurement process
- Ensure all persons engaged to manage the procurement process have the necessary qualifications, skills and experience which are appropriate for a procurement activity of the size and complexity of the DDI works.

5.3 Hunter Water Developer Procurement Checklist

The Developer is to use the Developer Procurement Checklist in order to ensure an ‘at a glance’ summary of the process and stage of each DDI is readily available for the review of Hunter Water. The form of the checklist is to be as provided by Hunter Water on approval of the Developer’s application.

5.4 Issue Escalation and Resolution

Developers are to note that any issues in relation to the application of this Guide will be managed via the requirements set out in the DDI Agreement.
ATTACHMENT A: RELEVANT NSW GOVERNMENT POLICY

**Overarching NSW government policy requirements**

The following policy guidance is available at www.procurepoint.nsw.gov.au:

- Statement on Value for Money
- Statement on Promotion of Competition
- Corruption prevention, fairness and probity
- NSW Procurement Board Construction Directions

**NSW Government Construction Policy Requirements:**

- NSW Government Code of Practice for Procurement
- Work Health and Safety Management Systems and Auditing Guidelines (Edition 5)
- Quality Management Systems Guidelines for Construction
- Environmental Management Systems Guidelines (Edition 3)
- Training Management Guidelines
- Policy on Aboriginal Participation in Construction

**ICAC Guidelines on Procurement**

ATTACHMENT B: PROCESS FLOWCHART

To be finalised.
ATTACHMENT C: HUNTER WATER PROCUREMENT TEMPLATES

Developers may also contact Hunter Water’s nominated representative for further guidance on procurement process.

1. Procurement strategy (or a plan for simple procurement)
2. Code of Conduct: gifts, conflicts, confidentiality
3. Evaluation plan
4. Evaluation tool (e.g. excel based scoring/ weighting/ price model)
5. Evaluation report
6. Contract award checklist
7. Contract management plan