Water and Sewerage Capital Contribution Code

Kevin Cox
[redacted]
ACT 2913
20th October 2017

The Commission in its draft submission says

> *The Commission is satisfied that the proposed Capital Contributions represents a more equitable and transparent charging regime than the current arrangement. Additionally, the Commission is satisfied that the proposed contributions are broadly aligned with other jurisdictions, and that charging developments within the precinct a contribution towards network augmentation for increased demand is reasonable.*

This submission to the ICRC asserts that the Capital Contributions Code is economically inefficient, stifles innovation, is inequitable and is unfair on purchasers of new properties. Just because other jurisdictions use a similar approach does not make it the best system for the ACT.

The following outlines a way to increase economic efficiency, encourage innovation and be equitable to both new and existing customers. For each $100,000,000 in investment, it will save the Canberra Community around $6,000,000 a year for the life of any new infrastructure or $180,000,000 given an infrastructure life of 30 years. The longer the infrastructure lasts the greater the savings.

This submission recommends that all Capital Contributions, and not just this new imposition, be replaced with funding paid for with Icon Water Discounts.

Currently, a developer pays for new water infrastructure within a development. The developer builds the cost of the infrastructure into the price of the development. Buyers typically borrow money to purchase a property in the development. In effect, the current arrangement for developer provided water infrastructure has the same effect as stamp duty on the cost of a new dwelling. On the one hand, the ACT government is phasing out stamp duties because they are economically inefficient while on the other hand, they are extending the equivalent of a stamp duty through extending the "gifting" of infrastructure to Icon Water by extending the scope of the Capital Contribution Code.

Instead of gifting the infrastructure the ACT government can buy the infrastructure paid for by the developers with discounts on Icon Water invoices to the occupants of new dwellings.

Let us say that the cost of water infrastructure is $1,000 for a dwelling. When the developer sells the property, it could come with $2,000 inflation adjusted worth of discounts spread over 10 years. At the end of ten years, Icon Water will have purchased the infrastructure. The buyer of the property instead of paying $1,000 up front on which they would be paying interest receives an annuity discount of $200 per year for 10 years.

Developers will be encouraged to innovate and to put in water saving infrastructures such as recycling and smart metering. Icon Water still gets 80% of the income from water consumption for the first 10 years then 100% for later years. For the community, the savings are the cost of interest to a customer (estimated at 6%) for the life of the infrastructure. Once the discount stops, the discount goes to the community through Icon Water. Icon Water does not have to immediately pay for the infrastructure. The capital cost is more than paid for from the extra sales and Icon Water will still make a handsome profit on water discounted by 20%.

It does not impact existing Icon Water customers. It gives a benefit to new dwelling owners that they did not previously have and it provides an incentive for developers to invest in water saving and recycling systems. Importantly it will be seen as “fair” by all Icon Water customers. The developers could seek funds directly from existing customers or they could fund it themselves and offer the discount as an incentive to home buyers.

The system would be easy to implement as it is a book-keeping change and need not change developer arrangements or Icon Water Billing or Icon Water existing contracts with customers. It is an add-on to the existing system not a replacement of, or change to the existing system. Icon Water need not be involved with the development and operation of the system other than to pay the discount when requested.

The transaction fees on payments with discounts would cover the development and operational costs. It could take effect on 1st January 2018.