Canberra Business Chamber

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18 April 2017

The Commissioner
ICRC
PO Box 161
Civic Square ACT 2608

Dear Commissioner

Please find attached a joint submission to the ICRC on Icon Water's proposed Water and Sewerage Capital Contributions Scheme

The group who are signatories to this submission, led by the Canberra Business Chamber, understand the Icon Water proposal to the ICRC has changed since our submission was prepared in March, in response to Icon Water's initial proposal provided for public consultation earlier this year.

The revisions to the Icon Water from the initial proposal i.e. from a multiple precinct landscape, attracting different charges to 4 separate precincts, to a one precinct model with a universal charge on all new developments is an improvement to the original proposal however, the proposed charge still remains highly questionable and therefore our submission calling for a 12 month review of the charges as well as the opportunity to explore alternative models remains relevant.

The group welcomes the two year transitional arrangements featured in the revised proposal which was not part of the initial proposal.

In brief, the group calls on the ICRC to delay the implementation of the changes to allow for a fuller examination of all elements of the proposal and consider alternatives to this capital contributions scheme.

We would welcome the opportunity to discuss any element of our submission further. Please do not hesitate to contact me for further information or assistance.

Yours sincerely

Robyn Hendry
CEO, Canberra Business Chamber

ABN 33 600 390 538

T 02 6247 4199
F 02 6257 4421

Canberra Business Chamber
CBR Region Business House
216 Northbourne Ave
Braddon ACT 2612
PO Box 6308 O'Connor ACT 2602

info@canberrabusiness.com
www.canberrabusiness.com

SUBMISSION

Icon Water's proposed Water and Sewerage Capital Contributions Scheme

March 2017

Executive Summary

The proposed changes to the water and sewerage infrastructure charging regime ('the new charging policy') represent the most significant change to infrastructure charges in the ACT since the introduction of the Lease Variation Charge (in 2011), and the most significant policy change in Icon Water's history.

It is the combined view of the community and industry organisations that have made this submission that the changes proposed should not proceed in their current form without further consultation and time to conduct detailed investigations into alternative infrastructure charging methods and their implications.

There are six key issues covered in this submission:

- The information provided by Icon Water supporting the new charging policy (comprising a 23 page promotion booklet and two industry consultation sessions), and the consultation conducted over the Christmas closure period, is vastly inadequate for community and industry stakeholders to fully understand the implications of the proposed changes.
- Despite requests by industry groups during the consultation period, insufficient information has been provided to adequately assess the quantum of the proposed charges, the planned sequencing and cost of planned infrastructure, the history of charges under the current charging regime, and the implications of the new policy on community and industry stakeholders.
- Based on a review of the limited information provided during the consultation period, the new charging policy runs counter to a number of ACT Government policies, in particular the planned urban renewal along the Northbourne light rail corridor, and would be detrimental to the densification and renewal needed to make the case for light rail Stage 2 to Woden. More time is required to resolve these policy conflicts.
- The proposed commencement date of 1 July 2017 does not allow a sufficient transition period for industry to adjust to the new charging policy and will detrimentally impact projects currently in the pre-development application or development application assessment period.
- There is universal concern about the quantum of the new charges, as follows:
  - the charges are too high and will negatively impact on housing affordability and the feasibility of many commercial, residential, and community projects across the Territory.
  - the charges are not applied evenly or fairly, geographically, across the Territory, which will lead to market distortion and run counter to other ACT Government policies.
- The charges appear to unfairly apply to different land uses (e.g. the new charges comprise a larger portion of the total development costs for a commercial project in comparison to a residential project). The new charging policy unfairly levies the cost of necessary infrastructure upgrades on new development (rather than new development and existing users), while all users (new and existing) will benefit from the infrastructure upgrades.

It is the combined view of the community and industry organisations that have made this submission that the issues identified above can be adequately and fairly resolved if more information is provided and time invested in working with community, industry and ACT Government stakeholders to review the new charging policy before it is implemented.

It is important to note that industry and community groups are not saying we should not pay anything. However, the time has come for a simplified, transparent structure for fees, taxes, charges and levies, as we are at a critical point in the city's transformation.

Given the substantial impact the new charges will have on the ACT community, investors and local industry, we recommend that the introduction of the new charges be delayed 12 months to allow sufficient time for a detailed investigation of alternative infrastructure charging methods be conducted.

Recommendations

1. That Icon Water do not submit the new charging policy in its current, or modified form, to the ICRC.
2. That ACT Government investigate alternative infrastructure charging regimes (including water and sewerage, and ACT Government infrastructure), together with community, industry and ACT Government stakeholders. This should include a review over the next 12 months, with a view to introducing an agreed infrastructure charge policy for Icon Water and ACT Government infrastructure commencing on 1 July 2018.

Background & Context

Canberra – a changing city

The ACT's population is forecast to reach 500,000 by 2033. Canberra is expected to continue population ageing during this time, with those aged 65 and over increasing from 11% of the population in 2012 to 22.5% in 2062.

In the next four years alone, Canberra will see a 6% increase in population, with those aged 65 to 84 years projected to increase by 16%, while those aged 85 years and over projected to increase by 12%. Those aged 20 to 34 years will represent the largest proportion of the ACT's population in 2020.

Changes in population, demographic and housing preferences, are driving densification in our city. According to the 2011 National Census, more Canberrans are choosing to live in townhouses or apartments than the national average.

There is a need for housing choice in our growing city. Often described as the 'missing middle', Canberrans need more options—whatever their needs. Whether they are a first home buyer, low income resident, second or third home buyers, renters and students through to rightsizers—those making their final purchase so they age in place—diversity in the market is now more important than ever. Industry and community groups stand ready to meet the need.

Between 2011 and 2016, the median dwelling price in the ACT increased 14% from $477,000 to $545,000; incomes rose 6% over the same period.

Most importantly, we are all striving to help Canberra reach its full potential to be a small, but smart and inclusive city. Our aspirations are aligned—we all want to build a great place to live, work, study and play. To build a city we can all be proud of.

Announcements by the ACT Government to re-focus the Land Development Agency on Greenfields and housing affordability, with a dedicated City Urban Renewal Authority, are welcomed.

Key policy challenges

Those working to build housing for Canberrans face a slew of charges that push up costs for homeowners and renters. These include rates, a Lease Variation Charge, electricity, waste, as well as water and sewerage charges.

At the same time, we are all trying to work out how to tackle housing affordability head on.

The rental market is at its limits—with the ACT among the most expensive in the country. Research conducted by the ACT Council of Social Service and ACT Shelter indicates Canberra households spend $63 per week more on housing than the national average.

Rising housing prices lead directly to higher market rents—further impacting on lack of affordable rental options for Canberra's key workers. Rents have risen 89% in the 15 years while the consumer price index rose 54% in the same period, further exacerbating housing affordability for low and moderate income households.

The proposed water and sewerage charge adds to policy inconsistencies in government portfolios and runs counter to housing affordability measures. Each additional cost to the production of housing directly increases financial stress and exclusion, placing further demands on community providers of crisis and homelessness services.

Importantly, the proposed charge appears to work directly against ensuring social and economic inclusion through the provision of affordable housing in areas where the government is targeting revitalisation and renewals (such as Woden). House prices that lock people out of the market impact on our region in many ways. Housing stress and homelessness will rise in line with any decrease in affordability.

A serious associated problem is our ability to attract people to live and work, particularly in service jobs such as health and education, in the ACT. It can also prove a disincentive to development and result in the loss of a subsequent boost to jobs and the economy.

It is becoming harder to retain local workers in low wage industries (which are the fastest growing part of the labour market in the ACT economy). Across the whole of the ACT, according to the 2016 Housing and Homelessness Policy Consortia research *Snapshot: Housing stress and its effects*, 13% of people experience housing stress as measured by the 30/40 rule. The 30/40 rule states that households in the bottom two income quintiles should not spend more than 30% of their income on housing because that would leave inadequate income to cover other essential costs of living. However, using this same rule, 22% of non-government workers, 28% of workers in the education and training sector, 30% of casual and temporary part-time workers spend over 30% on housing; 33% of accommodation and food services workers and 43% of retail trade workers experience housing stress. Some of these households reported spending over 60% of their income on housing.

Something has to change. Each of the organisations which have contributed to this submission are committed to working with the ACT Government to ensure the ACT has an acceptable supply of affordable and appropriate housing.

The proposed scheme

Overview

Icon Water are proposing to introduce a new capital contribution funding arrangement for water and sewerage infrastructure commencing from 1 July 2017.

The current charging regime for water and sewerage infrastructure has created a 'Russian roulette' regime for developers. Currently, developers pay no charge if existing water and sewerage capacity exists in the local infrastructure; however, if their development tips infrastructure past this point, they pay the full cost of an upgrade. This can increase costs substantially for a single development and create a huge barrier to brownfields development.

The new charging regime only applies to 'brownfield' areas, and specifically applies a charge to four areas: Woden ($3,000 per EP), Fyshwick ($1,500 per EP), Civic and North Canberra ($1,800 per EP), and Belconnen ($1,400).

Under the proposal, a freestanding house represents 3.6 Equivalent Population (EP), a semi-detached row and terrace house equals 2.5 EP, and an apartment, unit or flat is viewed as 2.0 EP.

This would result in each new townhouse attracting a charge of $7,500 in Woden or $3,500 in Belconnen.

The new charges are proposed to come into effect from 1 July 2017, subject to ICRC approval.

We note that the timing of consideration by the ICRC rests with Icon. This is a process which is being undertaken separately to the water pricing review. In effect, ICRC will consider Icon's proposal when it is provided to them—which removes the urgency for this to happen before giving full consideration of its impact on the community.

Consultation to date

Icon Water first approached industry associations with a limited circulation discussion paper in December 2016, with formal release in late January. Submissions were originally due by 17 February 2017, however, following urging by industry groups, this date was extended to 17 March 2017.

Signatories to this document are disappointed with the consultation undertaken in respect of this proposal. We are concerned with the length of the consultation period and that it occurred over the Christmas break—during a known industry shut down period—which has limited the ability to undertake a thorough analysis of the impacts and help shape a scheme which works.

Insufficient supporting information has been provided to allow industry to fully assess the proposal—despite our repeated requests. For example, no information has been provided to show the 20 year forward plan of infrastructure upgrades, which substantiate the need for new charges; the proposed cost of this infrastructure; or a proposed sequencing plan for infrastructure upgrades.

We acknowledge the following proposed changes to the scheme communicated by Icon during the consultation period:

- Original Proposal (four precincts, Transition issues: DA approval after March 2017, commence 1 July, Impact on 'about to lodge' developments, i.e. retrospective application)
- Modified Proposal (DA Lodgement after 1 July 2017; extended transition, single precinct)

It remains unclear, however, what proposal will be provided to the ICRC by Icon.

Assessment of proposed scheme

Quantum and impact

Industry and business groups broadly support reviewing the current charging regime and the timing of this discussion. But there remains universal concern about the quantum of the charge, transition, its application against residential versus commercial developments and unintended consequences on existing policies.

This new charging regime will also result in yet another infrastructure charging model for the ACT—a charge per EP (for water and sewerage) and a Lease Variation Charge (for ACT Government infrastructure). Many in the sector see the LVC as essentially 'buying the right to develop' and therefore do not believe there should be additional infrastructure charges.

Furthermore, because multiple agencies only look to administering 'their' charge—no one is looking at how a simplified charging regime would place everyone in a much better position. Issues, such as timing of multiple charges at different stages of a project's life, all impact on the ability to estimate potential charges and fees, which often increase or are recast as projects develop—creating further uncertainty, which makes it harder and harder for investments to stack up.

Transition from existing arrangements to a new scheme must be carefully handled to provide developers with certainty and clarity. Developers must be able to factor the new charges into the purchase price of land and it is important that the charges are not resulting in something akin to a retrospective application.

Impact on urban renewal, affordability and other government policies

The Icon Water proposal runs counter to a number of ACT Government policies. For example, new charges are proposed in areas where the ACT Government is actively encouraging urban renewal, including the city and Northbourne corridor, Woden town centre and Belconnen town centre. We believe that if accepted by the ICRC in its current form, the scheme will threaten the viability of major ACT Government projects, policies and priorities, as previously outlined.

We question why a broader, more equitable charge is not being considered. For example, a reduced charge shared across a broader area, or that would see the cost of infrastructure upgrades equally distributed through rates or water pricing.

At a time when all governments are considering how to deliver on housing affordability, the ACT is looking to implement a charge that will be directly passed on to the community. While this proposal focuses on developers paying for infrastructure upgrades, these costs will be passed on. The reality will be that purchasers, including first home buyers, will be asked to fund 70% of water and sewerage infrastructure charges in our city.

There is particular concern about the adverse impact the proposed arrangements will have on Woden town centre when revitalisation is needed, government is delivering more employment opportunities in this precinct, and it will be connected to the city in the proposed Stage 2 of light rail. We need our town centres to be the vibrant hubs of our community—connected, renewed and providing opportunity for diverse communities to thrive in.

Development of affordable housing along transport corridors is especially important in the ACT. In 2016 ACTCOSS released research in the *ACT Cost of Living Report: Transport* showing that transport expenditure in the ACT is the second highest of all the capital cities in Australia, and at 15.1% of weekly spending are only slightly less than spending on food (15.5%). Ensuring provision of affordable housing in locations with good access to public transport and active travel options will enable lower income households to reduce their spending on transport, further enabling spending in other parts of the economy that the ACT Government seeks to grow (such as retail, hospitality and education services). It is critical that the fees and charges imposed in urban renewal sites don't compromise the ability of community and private sector developers to increase the supply of affordable housing in major transport corridors or town centres.

Case Studies

Case Study 1

A new office building in the City

Comparison between commercial and residential development charges

A mid-range 15,000sqm office building in Civic (accommodating 1 person 10sqm) would generate a tax of:

1,500sqm / 10 x 0.3 x $1,800 = $810,000

If a residential development was constructed on the same footprint it could accommodate 125 apartments. This would generate a tax of:

125 apartments x 2.0 x $1,800 = $450,000

(approximately half that of the office development).

Given the significant difference in charges for the office versus the apartment development, and that the office component has a significantly lower load on the water and sewer than residential use, there will clearly be unintended consequences because of the multipliers.

The difference in water charges are so significant that the property market would be distorted. The impact of the new charges would run counter to government policies that seek to encourage office development in Civic.

In this example, building construction cost would be approximately $3,000 per sqm or $45million, meaning that the proposed charge would be 1.8% of construction cost (in the office example). This is significantly higher than the 0.3%-0.8% range quoted in the information paper (page 18 of Icon Water's Discussion Paper).

Case Study 2

A new mixed used building on the Northbourne corridor

Government owned land

A mixed use project comprising 236 apartments, 2,700sqm of commercial space (accommodating 1 person per 10sqm) and 140 hotel rooms built in the Northbourne corridor would generate a tax of:

236 apartments x 2.0 x $1,800	= $849,600
2,700sqm / 10 x 0.3 x $1,800	= $145,800
140 rooms x 0.5 x $1,800	= $126,000
Total	**= $995,400**

If this land was taken to market and with all other valuation assumptions being equal (e.g. planning requirements, market demand and other commercial factors), the additional Icon Water charge of approximately $1million would be deducted from the land value, directly impacting ACT Government revenue.

A similar impact on land values would translate across all land sold by ACT Government along this important urban renewal corridor.

The additional charge could not be absorbed by developers, or projects along the corridor would become unviable.

The additional charge would not be passed on to end purchasers because apartment purchase prices would exceed their market value. This would have an added impact of worsening housing affordability.

Case Study 3

A townhouse development in Woden and Canberra's South

The development of a new 2-bedroom residential townhouse in the Woden town centre would generate a tax of:

1 townhouse x 2.0 x $3,000 = $6,000 per townhouse

A townhouse of the same area, building quality, and sale price would incur no tax if built in nearby Coombs or Tuggeranong.

In the Woden example, the new charge would apply in addition to infrastructure costs already funded by developers, which would not be incurred in other precincts.

These additional costs are too significant to be recovered from the unit purchasers and would likely lead to projects becoming unviable and not proceeding. The new charges represent a higher proportion of total residential project costs for projects targeting the affordable segment of the market, impacting low income earners, first home buyers and community housing providers greater than developers of luxury apartment projects.

Case Study 4

Community Suburban Housing project – Belconnen

Direct sale process—based on independent land valuation

The financial outcome of the application of such a charge is aligned with previous case studies—inequity of application, property market distortions, and worsening housing affordability.

However, to providers of community housing in Canberra this is a major blow. That is because such development projects are based around increasing affordable housing RENTAL supply.

Community housing provider (CHP) development projects have a delicate balance between sales (if any) and retentions for financial viability of a development and ongoing sustainability of their rental stock.

Submission: the impact of these contribution charges has a greater effect on CHPs.

- CHPs cannot pass on additional cost to either purchasers (exceed/distort market) or eligible renters.
- Impacts on CHPs' ability to provide diversity in location and design across Canberra. The precincts showing charges are those areas that have significant hospitality, retail, and blue

collar worker employment opportunities. These employees on low and moderate incomes already struggle with finding suitable and affordable housing close to their employment.

- Directly takes away from capital available either by reducing dwellings produced or considerably slowing down the speed at which new housing is delivered. Currently demand exceeds supply.
- The proposed charge is counter to any government policies and the missions of many community groups that seek to promote social and economic inclusion, and equity in opportunities for all Canberrans.

Is there a better way?

Our organisations agree there are alternative water and sewerage capital contribution arrangements that would better underpin infrastructure development and costs while supporting ongoing growth and development in our city.

These alternatives need to be more fully explored before any one approach is adopted, but demonstrate there are feasible alternatives to the Icon proposal, such as:

1. Apply proposed charges equally across all brownfield areas. This would mean development in any precinct would attract an equal charge. The quantum of this charge must be agreed by industry and should be comparable to similar charges in other jurisdictions.
2. Apply proposed charges equally across all new development and all existing properties via an increase in water rates. Icon have indicated this would increase all water rates by approximately 5%.
3. That the 'multiplier' should be based on bedrooms—not a typology of housing. For example, if every bedroom equals '1', then the entry level to the market is far less affected, and those who can afford to pay do so. A one-bedroom unit buyer then pays just the precinct charge. Under this scheme, an owner of a new five-bedroom family home in Forrest would pay the precinct charge times five. As the proposal stands now, a one-bedroom buyer in Woden will face charges of $6,000 and a new five-bedroom home in Forrest will have no charge.
4. The multipliers being used between commercial office and residential developments are skewed. The office component has a significantly lower load on the water and sewer than residential use, and there is clearly a problem with the multipliers. More work needs to be done to ensure that there is not an unintended consequence on future development and investment decisions.
5. A broader review of infrastructure charges for all development in order to create a single charge levied for lease variation, infrastructure upgrades and community benefit should be explored. Investigating a broad, simplified and transparent infrastructure charge, by looking to how other jurisdictions support infrastructure is needed and may provide a win-win. We have the opportunity to learn from others and implement a ‘best practice’ model here.

Conclusions

The Icon Water proposal runs counter to a number of ACT Government policies and should be reconsidered so water and sewerage capital contributions support priorities rather than create additional hurdles to them being achieved.

With the transformation of Canberra at a critical juncture, we have the opportunity to set infrastructure charging policies for both Icon water and sewage infrastructure and ACT Government infrastructure that will underpin growth over the next several decades. The formation of these policies should not be rushed as the financial and economic consequences of poorly conceived policy will impact on our region for decades to come.

There is broad industry support to review the existing sewerage and water infrastructure charging regime and implement a more equitable capital contributions policy.

We do not support the capital contribution charges as currently proposed as they will make housing less affordable for many Canberrans, especially for community housing providers, and first home buyers, and hinder desired urban renewal.

Peak business and industry bodies seek to work constructively with Icon and the ACT Government to develop an agreed policy on infrastructure charging which will benefit the ACT financially and economically. It is vital to get this framework right and therefore its development should not be rushed.

We believe a review of water and sewerage charges should be undertaken in conjunction with a broader examination of Lease Variation Charges and ACT Government economic and planning policy, to ensure urban and infrastructure planning is integrated and supported by a single, transparent charging regime.

Our organisations propose we work with Icon and the ACT Government over the next 12 months to investigate alternate models. Implementation of any new charging regimes must be delayed until this review is completed, findings modelled, and outcomes agreed by all stakeholders.

References

ACTCOSS and ACT Shelter, *Housing & Homelessness Policy Consortia Reports - Projects 2 & 3*, 2016: www.actcoss.org.au/publications/advocacy-publications/housing-homelessness-policy-consortia-reports-projects-2-3

ACTCOSS, *ACT Cost of Living Report: Transport*, 2016: www.actcoss.org.au/publications/advocacy-publications/act-cost-living-report-transport-2016

Arrangements in other jurisdictions

Queensland Infrastructure charge:
www.dilgp.qld.gov.au/resources-ilgp/forms-templates-checklists/infrastructure-charges.html

South Australia Open Space Levy:
www.sa.gov.au/__data/assets/pdf_file/0009/10143/Land_division_guide_for_applicants.pdf

Contributors

- Ms Robyn Hendry, CEO, Canberra Business Chamber
- Michael Hopkins, Deputy Executive Director, Master Builders ACT
- Ms Adina Cirson, Executive Director, Property Council of Australia, ACT Division
- Susan Helyar, Director, ACTCOSS
- Kim Sinclair, CEO, CHC Affordable Housing
- Greg Cummins, Australian Property Institute ACT
- Andrew Stewart, Real Estate Institute ACT