

7 May 2024

ESC Consultation Team
Essential Services Commission
via email: reception@esc.vic.gov.au

Dear ESC Consultation Team,

The Urban Development Institute of Australia, Victoria (UDIA Victoria) welcomes the opportunity to respond to the Essential Service Commission's (ESC) draft decision for *Greater Western Water's (GWW) Price Review, 2024*.

GWW's proposed approach recognises the potentially considerable impact changes to the current mechanism will have on growth area development, and an awareness of the significant cost pressures already facing the industry. We acknowledge GWW's efforts to balance their expenditure demands with the cost impacts of New Customer Contributions (NCCs).

About UDIA Victoria

The Urban Development Institute of Australia, Victoria (UDIA Victoria) is a not-for-profit research, advocacy and educational organisation supported by a membership of land use and property development entities, across the private sector and Victoria's public service.

UDIA Victoria is a signatory to the State Government's Affordability Partnership, whose focus is on meeting the objectives of Victoria's Housing Statement: building 800,000 new homes by 2034 – 80,000 homes per year, over the next decade.

UDIA Victoria is focused on establishing the right policy and regulatory settings to enable the development industry to continue building diverse, high-quality and sustainable housing during unprecedented population growth.

We apply a rigorous, research and evidence-based approach to developing policy advice for decision-makers, at all levels of government. Our detailed research has informed this submission.

Industry context

The urban development industry is facing long list of challenges: record material cost escalation; skilled labour shortages; interminable planning delays; a depressed consumer market; and global economic volatility.

We have already seen these factors result in numerous development projects rendered unviable and the high-profile collapse of more than one thousand industry participants¹.

UDIA Victoria appreciates the fundamental principle of a cost-reflective mechanism. However, we strongly encourage decision-makers to consider changes to the existing mechanism in the context of these challenges.

(Schlesinger, 2024)¹

Draft decision

We note that the ESC draft decision recommends a reduction in revenue that GWW proposes to generate over the next four years, as detailed below:

“Our draft decision is to approve a revenue requirement of \$3,439 million for Greater Western Water over a four-year period starting 1 July 2024 (Chapter 4). This figure is \$44.0 million or 1.3 per cent lower than proposed by Greater Western Water, mainly reflecting our proposed adjustments to Greater Western Water’s controllable operating expenditure benchmarks.”²

UDIA Victoria is concerned that potential capping (or a reduction in Revenue for GWW) are as follows:

1. Does capping (or a reduction) in revenue mean that GWW will be less able to deliver capital works projects that are required in the growth areas?

Developers are already finding that GWW is behind in rolling out required infrastructure to growth areas, resulting in the undesirable outcomes of developers having to pay for redundant temporary works.

Temporary works will ultimately add additional costs to develop land and can result in the need for sewer education, which is problematic for the water company and the wider community. Temporary works and sewer education adds to the cost of development, which is ultimately passed on to home purchasers, exacerbating housing affordability.

Should the \$44 million reduction create an impact to GWW’s service capex we would request further consultation as delays to operations will necessitate the industry to incur additional costs in the interim including but not exclusive to additional holding costs and/or the installation of temporary works.

2. Does capping (or a reduction) in revenue mean that GWW will need to increase the NCCs that were previously advised?

While UDIA Victoria has previously not refuted GWW’s proposed increases to the NCC, the development industry could not support additional increases without further consultation.

The ESC’s previously held position recognises that there is a significant risk of price shock associated with incremental increases beyond 10 per cent per annum³. UDIA maintains that the two charge areas (former CWW area and former WW charge areas) should not be combined as part of this price review.

We also note a standard charging rate provides inherent certainty to those organisations operating within the region. It provides the opportunity to forward plan their associated infrastructure costs to develop within the GWW catchment.

We request that ESC supports ongoing GWW engagement with the industry to reach a mutually beneficial outcome that avoids price shocks within the confines of the Commission’s pricing positions with adequate transitional periods to safeguard future home creation within the region.

² (Essential Services Commission, 2024)

³ (Essential Services Commission, 2021)

Consistency with other providers

GWW's proposal to expedite cost recovery by implementing a 5 per cent increase year-on-year, overall aligns with measures undertaken by other providers post review (Yarra Valley Water and South East Water's proposed price paths for 2023-28 regulatory period). We welcome consistency in this regard.

UDIA Victoria remains concerned about the potential impact on project feasibility, resulting from increased charges, including increases to NCCs. Especially where they constitute a departure from adopted standards.

Transitional arrangements

The implementation of a cost-reflective mechanism, without suitable transitional provisions, risks impacting the deliverability of development in growth areas and will drive up the cost of housing during a major housing crisis. We urge the ESC to consider appropriate transitional arrangements.

Further Consultation

We are thankful for the opportunity to engage further with this process and thank both the ESC and GWW for their ongoing engagement.

If you would like to discuss any of the matters raised in this submission, please don't hesitate to contact me at [REDACTED] or UDIA Victoria's Director of Policy, [REDACTED] at [REDACTED]

Regards,

[REDACTED]

UDIA Victoria

References:

Essential Services Commission. (2021). *2023 water price review: Guidance paper*. Melbourne: Essential Services Commission.

Essential Services Commission. (2024). *Greater Western Water Draft decision*. Melbourne: Essential Services Commission.

Schlesinger, L. (2024, April 2). *'Tsunami' of headwinds faces builders as collapses surge by a third*. Retrieved from Australian Financial Review: <https://www.afr.com/property/commercial/tsunami-of-headwinds-faces-builders-as-collapses-surge-by-a-third-20240402-p5fgpm>