

28 May 2018

2018 Water Price Review
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000
Sent via email: water@esc.vic.gov.au

To Whom it May Concern,

UDIA Victoria Submission: ESC 2018 Price Review – Western Water Draft Decision

The Victorian Division of the Urban Development Institute of Australia (UDIA Victoria) welcomes the opportunity to provide feedback to the Essential Services Commission (ESC) on the draft decision regarding the Western Water price submission for the 2018-2020 period.

UDIA Victoria has two key concerns:

1. The proposed price increases relating to New Customer Contributions (NCCs) are over three times the price of the neighbouring water corporation City West Water; and
2. Western Water's lot production forecasts and capital works program have been significantly underestimated, which will likely result in insufficient scheduling and budget for the region.

We ask that you consider these matters and request necessary amendments prior to the release of the ESC's final decision.

Unreasonable price increase for NCCs

The proposed 36.7% increase for NCCs over a two-year period, resulting in fees that are 327% higher than its adjacent water corporation City West Water, is unreasonable given it shares several of the same challenges Western Water has referred to as justification for the quantum of their charges.

It is imperative that comparable water businesses across Victoria present similar standard charges for NCCs, so as to encourage a more equitable payment structure across municipalities.

In the case of Western Water, their price water submission is clearly at odds with State Government policy intentions to make homes more affordable and accessible. The proposed NCCs as they stand, will put upward pressure on the price of new housing supply and deter development and growth in one of the fastest growing regions of Victoria; a region that has a responsibility to do its part in accommodating the growing population and to ease price pressures along with its neighbouring regions.

We commend Gippsland Water, which has shown exceptional leadership and integrity by recognising that increasing their NCC prices, "may well be detrimental to fostering new development opportunities in the local economy..."¹ and have therefore chosen not to seek an increase through the 2018 ESC Price Water

¹ Gippsland 2018 Water Price Submission, page 64

Review process. Gippsland Water has demonstrated a sound understanding of the ways in which development costs for infrastructure and services contribute to the price of new housing.

UDIA urges the ESC to assess the Western Water price submission in this context, recognising the different settings, vulnerabilities, price sensitivities and the ability of various markets to accommodate additional charges and development settings. Failure to do so will cause severe unintended consequences that undermine housing affordability policy objectives.

While we acknowledge that Western Water faces slightly different operational circumstances to the other water businesses, and that pricing estimates and NCCs will vary across water corporations depending on several factors, we submit that it is imperative that Western Water's NCCs remain within the realm of what other comparable water companies are charging for the sake of accountability, equitability and housing affordability.

Inaccurate lot production and capital works forecasts

UDIA Victoria is concerned that Western Water has significantly underestimated their lot production forecasts and capital works program, which will likely result in insufficient scheduling and budget for the region.

We acknowledge the ESC has responded to this concern in its draft decision, specifying that the Western Water method to forecast the number of new lots is consistent with the ESC guidance requirements and the latest Victoria in Future (VIF) data forecasts.² However, it is imperative to note that the latest VIF data was released in 2016, with the Government opting not to release an update in 2017 due to the Census release. This in itself indicates the VIF 2016 data is out-of-date. Further, it has been confirmed that the VIF 2016 forecasts have been significantly underestimated when compared with actual Australian Bureau of Statistics figures. For example, according to VIF 2016, Victoria's estimated resident population was forecast to grow in 2017 and 2018 by approximately 1.8% per annum or approximately 108,000 persons per year.³ The actual growth recorded by the ABS in the year to September 2017 was 2.4%, representing a population increase of approximately 147,400 persons per annum.⁴ This evidence confirms that VIF 2016 forecasts are clearly not a reliable indicator of population growth.

In this context, UDIA Victoria urges the ESC to place greater consideration on what actual on-ground activity is telling us about current and anticipated activity.

In section 15 of the Western Water submission, we strongly disagree with the presented figures on current or anticipated activity. For example, in table 24 Western Water has forecasted a total of 2,294 proposed NCC lots in 2017/18. This figure is dangerously conservative considering that according to the City of Melton, 3,062 lots were created in 2017 in Melton alone. Considering Western Water's region also includes key growth corridors such as Bacchus Marsh and Sunbury; and will see the effects of the approval of precinct structure plans (PSPs) in Plumpton and Kororoit, with additional PSPs in Sunbury said to be not far off; UDIA Victoria sees a clear need for the ESC to undertake a rigorous assessment of the forecasts

² 2018 Essential Services Commission Western Water draft decision, page 27

³ UDIA Residential Development Index – August 2017, page 14

⁴ ABS September 2017 key figures,
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/3101.0Main+Features1Sep%202017?OpenDocument>

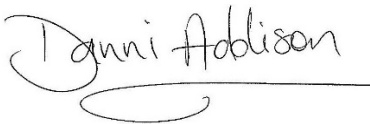
presented by Western Water. Failing to do so would likely result in serious scheduling and budgetary discrepancies for capital works within the region.

As the peak industry body for Victoria's urban development industry, UDIA recommends the ESC consider the above points and subsequently direct Western Water to reduce their NCCs so they more closely align with comparable water companies, and to re-assess their lot production and capital works forecasts considering on-ground evidence that demonstrates significant flaws in the forecasts.

Thank you for your ongoing engagement with UDIA Victoria on behalf of the urban development industry. We look forward to our continued collaboration and eagerly await your response to above mentioned issues.

If you wish to discuss any part of this letter further, please contact Hyatt Nidam, Advocacy and Communications Manager at [REDACTED] or on 03 9832 9600.

Yours sincerely,



Danni Addison
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