

**Submission
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LAND RELEASE AND HOUSING SUPPLY IN NEW SOUTH WALES

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Executive Summary

Sydney is currently experiencing unprecedented growth. The population is expected to increase from 4.7 million to 6 million over the next 20 years. In order to better support this future growth in our population, a more integrated approach with an alignment of land use and infrastructure is required to ensure we meet the needs of a productive, sustainable and liveable city.

Housing affordability is an important issue that is being experienced across many large successful cities. The challenge for Sydney Water is to meet the servicing requirements on multiple development fronts, to best facilitate housing supply, while keeping prices low. Whilst interest rates and other financial impacts are seen as the driver for rising house prices, market factors such as Sydney's desirability as a global city and citizens' preferences to live close to the CBD taking advantage of its amenity and accessibility to higher paying jobs, are also driving prices upward.

Community expectations on the quality of the local environment are also growing. As the city looks for smaller, innovative housing products, Sydneysiders are moving from the 'backyard' to the 'frontyard' seeking more from their public open spaces and waterways to better their quality of life. Communities expect more from water in the urban landscape, not only as an essential service, but to play an active role in providing cool, green urban spaces for communities to enjoy.

Sydney Water's contribution to critical infrastructure provision and servicing is integral to the timely delivery of housing for a growing city. Sydney Water's actions underpin the lifestyle of Sydney by providing essential services for existing and growing communities for drinking water, wastewater, and in some areas recycled water and stormwater management. We have reached a critical point where it is imperative to embed water management within urban planning and design to deliver more attractive and affordable places. Water management is also a fundamental contributor and enabler of Sydney's future economic productivity, prosperity and social equity.

As the provider of essential infrastructure, Sydney Water can add value through greater involvement in strategic planning of land use, and integrating it with best practice urban water management.

Sydney Water's current contribution

Sydney Water continues to work closely with the development industry to plan and deliver infrastructure to service a growing city. Over the past five years, proposed dwellings have risen each year, from 23,902 in 2012/13 to 47,665 in 2016/17. To keep pace with this growth we have introduced a number of improvements to our processes to drive more efficient, faster servicing and to provide more information to our customers to inform their development timeframes.

Over recent years, Sydney Water has played a more active role to:

- deliver strategies to manage water in a city landscape in an integrated way that provides resilience to climate change, responds to our community's liveability needs for open spaces and improves waterway health
- undertake a range of water recycling schemes of different size and nature

- provide sources of renewable energy to power our operations and provide excess to the grid, and
- encourage the use of our operational land for recreation, including the green grid.

In addition to these process and service changes, we have shared our Growth Servicing Plans with the industry, as an input to with investment decisions for timely housing delivery. This year, we are improving the Plan to provide clearer information with a vision to increase the frequency of publishing the plan through an interactive and real-time geographic information system.

We collaborate with our business partners to deliver competitive development services that drive prices down in delivering local infrastructure for new developments. We understand the importance of affordability not only upfront in the cost of housing, but in household bills over the long-term.

Servicing of greenfield areas accounts for over 80% of our growth investment while providing only 15% of current dwelling completions. To mitigate the affordability impacts to our broader customer base, we've adopted a number of strategies including:

- better targeting areas where development demand clearly exists
- maximising use of existing assets in servicing new growth
- broadening deployment of innovative servicing strategies and delivery models, including increased use of interim infrastructure and decentralised wastewater servicing to take advantage of lower lifecycle costs and defer capital expenditure
- improved funding principles to boost the overall financial viability of accelerated development, ensuring that water servicing is not holding development back, through an appropriate risk sharing between developers and the community.

Opportunities to improve

Sydney Water has considered a number of opportunities to improve current processes on how land, housing and infrastructure are delivered across the state now, and what changes to processes, funding and approvals could be made to better integrate delivery and improve performance in the future. These include:

- Better collaboration between land use agencies and utilities in decisions on land release and housing supply.
- Providing utilities 'a seat at the table' in the decision-making process.
- Supporting a future water masterplan that aligns to the Regional Plan for Greater Sydney
- Funding models for development that drive costs down without compromising outcomes.
- Improving the coordination of the disposal of government owned land.

Each of these opportunities is outlined in further detail below:

Better collaboration between land use agencies and utilities in decisions on land release and housing supply

A more collaborative approach will ensure better alignment of infrastructure services to changing development needs and a better understanding of the costs and benefits to drive the best outcomes for new and existing communities (amenity, liveability, accessibility).

In its recent publication 'Directions for a Greater Sydney', the Greater Sydney Commission (GSC) identified a shortfall in the 725,000 additional dwellings needed, with current government programs only able to provide 294,000 dwellings by 2036. A step change to processes is needed to deliver the shortfall in housing supported by a well-coordinated, agile and appropriately funded infrastructure planning and delivery program.

The current steps for land release proceed through the gateway process, the priority growth areas and precincts that are identified by the Department of Planning and Environment and/or the GSC. Under the current process, Sydney Water is consulted by the Department in its preparation of the Land Use and Strategic Infrastructure Plan for each priority growth area following its release.

Sydney Water is working with the newly created Office of Housing Coordinator responsible for housing supply, however new approaches will be required that are more agile and integrated to meet this challenge, such as the GSC's Growth Infrastructure Compact. Focused on the Greater Parramatta and Olympic Peninsula (GPOP) corridor, this work is designed to provide a more integrated approach understanding the land use outcomes (ie housing supply, connectivity, access to jobs and open space) with the infrastructure planning and delivery needed to support these outcomes. Supported by a cross-government committee, the GSC is able to provide development scenarios, work with agencies to understand the costs for development and potential blockages, to assist in prioritising those precincts that deliver on the agreed vision. Sydney Water is working closely with the Commission in its development of this 'place based' concept and has seen early benefits for its planning and to raise and address issues that may impact on the cost and timing of new housing in the precinct.

There is an opportunity for improved engagement with between planners and infrastructure providers to drive better solutions, reducing the delays in downstream service delivery. Earlier engagement can assist Sydney Water to secure the necessary funding through its IPART price determination process and the financial / environmental approvals needed to accelerate delivery of services. We support any steps that will facilitate this improved, earlier engagement.

Providing utilities 'a seat at the table' in the decision-making process

At present, water, energy, waste and telecommunications are not directly part of government's decision-making processes and therefore don't have the opportunity to partner with Government in developing solutions to improve housing affordability and making Sydney more attractive and liveable. Utilities need to be engaged early and effectively in government decision making on land releases to ensure we can manage the service needs as well as the environmental and amenity impacts, with measured solutions that meet our community needs in terms of lifestyle and cost. This could include inviting Sydney Water/utilities to sit on Senior Officers Groups, and the Greater Sydney Commission's Infrastructure Delivery Committee. It is noted that Sydney Water is part of the Department of Planning and Environment's Urban Development Committee for the Illawarra and has worked collaboratively with the Department and industry stakeholders to ensure timely and efficient servicing of growth areas in the Illawarra Region.

Supporting a future water masterplan that aligns to the Regional Plan for Greater Sydney

A masterplan will enable water to play its part in underpinning the economic outcomes for the three cities. The integration of the proposed Future Transport Strategy and the Greater Sydney Regional Plan' has been an outstanding success, providing a process that delivers better outcomes for communities through housing supply in the right locations, supported by transport solutions.

There is a significant opportunity to extend this concept to the enabling infrastructure including water services, energy, waste and telecommunications. Too often these services are seen as the ‘end’ of the process rather than as part of the strategy and planning process, as a delivery partner.

A city’s relationships with climate affects the management of water for essential services and the role water plays in the landscape to reduce heat island affect and manage flood events to ensure the safety and well-being of our communities. Fit for purpose local and networked solutions need to be included in the urban design process to assure we deliver the appropriate infrastructure for each place, precinct, district and city.

Long-term strategies for water will be needed to accommodate the forecast 40% increase in population not only for the essential services it provides in potable water and wastewater management, but in the economic benefits that ensue. In its report prepared for Sydney Water in 2016, Deloitte Access Economics identified the Deep Ocean Outfall program delivered by Sydney Water 25 years ago has provided \$2 billion of social value to Sydney residents attributed to the improved coastal beach water quality. This is a tangible example of how wastewater services, for example, can provide for substantial community benefits and value creation. (<https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economic-social-value-improved-water-quality-sydneys-coastal-beaches-140716.pdf>)

In terms of essential services, the 2017 Metropolitan Water Plan identified the need for long-term augmentation of the City’s water supply within the next 10 years. Sydney Water’s own analysis has also identified the need for investment in major wastewater infrastructure to service Sydney’s population growth over the next 20 years.

The vision for Sydney needs to be supported by a long-term water masterplan that:

- assures water security, managing resilience to climatic variability and change caused by droughts and flooding,
- manages waste streams in a way that produces renewables through resource and energy recovery,
- effectively manages the health of our iconic and local waterways and catchments, and
- supports urban cooling and provision of green space in an affordable, sustainable way.

Further, current governance of the water cycle in Sydney is fragmented, leading to suboptimal outcomes including ineffective arrangements to manage water in an urban environment, and delays in delivering the servicing solutions needed to support land release programs. In Western Sydney, significant investment will be required in managing water in the landscape yet governance for stormwater and wastewater is dispersed across state and local government without clear performance objectives in place to manage the urban form and waterway health.

Funding models for development that drive costs down without compromising outcomes

The cost of development is paid for through mortgages, taxes/rates, utility pricing and tolls. A broad assessment the cost of capital and how these costs are distributed across the development process is needed to ensure costs are reduced rather than simply shifted to another part of the development supply chain.

Currently there are multiple funding mechanisms in place to support the delivery of infrastructure and services for growth. These mechanisms include capital funding from NSW State Budgets, State

Infrastructure Contributions, IPART approved pricing for water services, council rates and section 94 capital programs, federally managed pricing determinations for energy and telecommunications, and additional charges through voluntary contributions from developers to councils and private service providers.

This is a complex web of fees and charges that can add significant costs to land and housing development. The costs are recovered as taxes or rate increases, with additional house costs covered by mortgages, or levies such as tolls. Added to the complexity is the possibility of value capture or sharing in which the 'uplift' of value from the rezoning of land is directed to other parties including service providers.

An investigation of the distribution of these costs across the supply chain is recommended to ensure the outcome of efficiency is achieved. Without this holistic approach and an understanding of the interdependencies there is a risk of cost shifting across the supply chain, often leaving the burden to the homeowner through additional land/development costs.

In our recent submission to the Productivity Commission's review of progress against the National Water Initiative, we noted that more work is needed to understand the role competition can play in the urban water sector, and define clear objectives for urban water markets and competition frameworks. Competition should be seen as a means to improve industry efficiency, where it can support the long-term interests of consumers, not an end in itself. Sydney Water clearly advocated during IPART's recent review of wholesale prices, that the customers of public utilities should not subsidise inefficient private entry to the market.

Regarding pricing, much progress has been made to date, and Sydney Water's customers are enjoying a bill reduction of \$100 per year during the price path 2016-2020. Further opportunity still exists to refine and improve pricing frameworks, including:

- how can pricing better recognise externalities in service provision – how can we complement the historic focus on 'least cost pricing' with recognition that water utilities can offer significant value add to the community through their water servicing approaches?
- would there be potential benefit in reintroducing developer charges, which were largely set to zero in 2008, as part of a broader exploration of value capture? Re-introducing developer charges could shift the allocation of some costs of growth servicing back to mortgages, which needs to be considered, but it would send price signals to the market on the costs and risks associated with developments in a particular region, encouraging sensible choices about where to service and when – developers would invest in lower cost to serve areas first. It may also create a more level playing field between incumbents and private utilities, encouraging new entry where a private utility can service a new development more cheaply than the incumbent.

Sydney Water's submission to the Productivity Commission can be found at :

<http://www.pc.gov.au/inquiries/current/water-reform#draft>.

Improving the coordination of the disposal of government owned land

Currently core agencies and state owned corporations are delivering efficiencies in the management of their land and property portfolio, however a more strategic approach is needed to secure land for future infrastructure needs in a cost-effective manner.

There is an opportunity to look strategically at the existing land/asset requirements across agencies to identify future needs in locations where infrastructure services (such as schools and open space)

will be required to support increased housing. Under existing processes surplus land assets are often sold or repurposed based on existing agency needs, sometimes leading to suboptimal outcomes. Linking planning processes to government and state owned corporation property management processes could identify opportunities to identify whether land is required for other government or infrastructure purposes, including biodiversity offsets to drive cost effective solutions.

In addition, small sites that are identified as surplus to operating needs are often subject to long and expensive rezoning processes, often to adopt the adjoining land's zoning. A better, more coordinated approach is needed to ensure our customers and community get the best outcome for land assets. This could reduce the cost of delivering services for agencies, by optimising land for much needed infrastructure as well as providing land for housing and other urban uses.

Conclusion

Addressing affordability through improved housing supply and land release will require a step change to current processes to deliver the size and quality of development that will ensure Sydney's economic future. Sydney Water is supportive of the Government's efforts and supports early collaboration with utilities, together with appropriate funding to ensure sustainable services to future communities. Sydney Water will continue to work collaboratively with other agencies and business partners and is keen to overlay a complementary role in the decision-making process.

Sydney Water has identified and presented a number of opportunities required to ensure we meet the needs of a productive, sustainable and liveable city.

As the provider of essential infrastructure, Sydney Water can add value through greater involvement in strategic planning of land use, and integrating it with best practice urban water management.