WATER SERVICES
ASSOCIATION OF AUSTRALIA

Queensland Construction Inquiry

WSAA submission to Queensland Productivity Commission inquiry into Construction Productivity

1.0 Introduction

The Water Services Association of Australia (WSAA) is the peak body representing the water sector. Our members provide water and wastewater services to over 24 million customers in Australia and New Zealand and many of Australia's largest industrial and commercial enterprises.

We welcome the opportunity to provide a brief submission to the Queensland Productivity Commission's interim report into Productivity in the construction industry.

We want to make three points on issues raised in the Interim Report to assist the Commission in its deliberations on this important work:

1. Water utilities across Australia and Queensland are working with constructors and the supply chain to improve procurement across the industry.
2. Water utilities are investing record amounts to meet governments' housing and productivity objectives. To minimise the impact on customer bills it is critical that developers meet their fair share of costs through infrastructure contributions
3. Streamlined approval processes for government owned water utilities would improve efficiency and productivity.

2.0 Water utilities are working with constructors to improve procurement

WSAA would like to highlight to the Commission the steps water utilities are exploring within the procurement phase of infrastructure projects to increase the efficiency of project delivery, boosting productivity within the construction sector.

The current economic environment has created unprecedented competition for commercial partners to deliver projects, with the water sector directly competing with other sectors for resources. In addition, water utilities are under cost delivery pressure to meet community expectations particularly regarding affordability, whilst addressing climate change and aging infrastructure

In 2022, Water Services Association of Australia (WSAA) formed a working group of senior leaders from water businesses, consultants and suppliers to determine how the sector could effectively respond to these challenges to our procurement practices. The group identified that a strong foundation to good procurement practices is the NSW 10-point commitment to the construction sector. Based on discussions with a number of stakeholders the working group identified the following four key areas for enhancing water sector procurement practices for infrastructure:

- Optimised risk allocation
- Effective collaborative procurement
- Standardised agreements
- Reducing bid costs.

The four point plan is available here (WSAA Water Infrastructure Delivery Procurement 4 Point Plan). WSAA intends to build on this plan in collaboration with the sector.

3.0 The role of infrastructure contributions

WSAA notes recommendation 6 in the Interim Report.

The Queensland Government should commission an independent review of the infrastructure charging regime to ensure it provides:

- *an efficient level of funding to support the necessary infrastructure to support development*
- *price signals that ensure that future development considers the efficient use and provision of infrastructure assets. The review should consult widely, including with local governments and industry stakeholders.*

Providing water infrastructure for housing and population growth is one the major driver of capital expenditure for water utilities across Australia. Queensland water utilities are no exception.

Funding infrastructure to provide new houses is a significant challenge across Australia. The costs of water and wastewater infrastructure in greenfield areas are significantly higher than for existing networks. Because water charges are set on a common basis across a utility's whole area of operations, water and wastewater bills to households in greenfield areas do not cover the costs of provision. In this context infrastructure contributions from developers are vital to enable utilities to provide services without a significant impact on the bills of existing customers and to remain financially viable. Well designed charges can also provide signals on the most cost-effective locations for development.

For example, recognising how important they are as a funding source infrastructure contributions have been reintroduced into Sydney. They are set according to a method set by the Independent Pricing and Regulatory Tribunal. Combined water and wastewater charges of $20,000 a lot a common in new areas from July 2026, but they range up to $26,000.

In the context of efficiency and productivity WSAA would like to emphasise that well designed developer contributions do not affect housing supply or the price of houses. They are absorbed earlier in the value chain, as they capture part of the increase in land value, when land is rezoned to higher value uses.

The economics of infrastructure contributions are well established and were accepted by the NSW Commission in its review of infrastructure contributions. Attachment 1 sets out in details why developer contributions do not affect house prices.

4.0 Streamline approval process to improve efficiency

Water utility operations require access to their assets on public and private land.

From the perspective of the water industry, requiring government owned essential service providers to navigate the same complex approvals processes as the private sector may add cost without delivering clear benefit. Utilities such as water, electricity and transport already operate under strong statutory obligations and Ministerial oversight, and their role is to provide inputs that enable wider development. Subjecting them to duplicative planning, land access, environmental and vegetation approvals can divert resources from efficient project delivery. Where inefficiencies affect utilities that underpin construction, this may contribute to higher development costs and place further pressure on housing affordability. QPC should explore options for streamlining approval pathways for these entities while maintaining appropriate accountability.

Contact

WSAA welcomes the opportunity to discuss this submission further.

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Attachment 1 Developer charges and housing affordability

While developer charges are payable by the developer, they do not generally get passed onto the prices paid by homebuyers. In this way they do not affect housing affordability. This conclusion is well supported by economic research and is explained in this attachment.

Governments have been increasingly looking at forms of value capture to fund infrastructure. Developer charges are an attractive funding source because, if well-designed, they recover the additional costs of servicing new growth through a form of value capture. Moreover, they may reduce the additional costs through incentivising developers to develop lower cost sites.

Who pays developer charges?

A fundamental point is that while developer charges are payable by the developer, they do not necessarily impact on the prices paid by homebuyers. Zoning rules constrain the quantity of land available for development. When agricultural land is rezoned for houses, industrial land is rezoned for residential, or residential land rezoned for higher levels of density, its value will increase significantly. This leads to a windfall gain or profit which will be shared in some combination by landowners and developers. Developer charges remove part of that profit to fund infrastructure. Knowing that they will pay a developer charge, developers will pay less for rezoned land than they would if there were no developer charges; and this may offset the developer charge. In this way developer charges capture part of the increase in land value when land is rezoned to higher value residential uses. But as long as some windfall profit remains, there is still a strong incentive for development to occur to meet demand for new housing.

This important conclusion that developer charges do not exacerbate pressure on housing prices or affordability is well supported in the economic literature. The rationale is set out in Abelson 1999, but also more recently in the Henry tax review. As Ableson said:

> "If, as seems generally plausible in Australian cities, demand is elastic and supply is inelastic, the main incidence [of developer charges] will be borne in lower raw land prices."

More recent Australian empirical research by Murray (2018) found no evidence that developer charges increase the price of new dwellings.

This does not mean that Governments do not have to be mindful of the level of the total imposts initially levied on developers. If these total imposts exceeded the value uplift in raw land then developers could not afford to pay more than the value of the land in its existing use. If too high, developer charges will constrain the supply of viable development land. Any formula needs to take this practical factor into account.

The economics explained

The impact of developer charges depends on the nature of the market; in a simple competitive market, the relative elasticities determine the burden of the charges. However more complicated models, incorporating structural features of the Australian housing market, may easily lead to results that may perhaps be considered counterintuitive. Australia specific research indicates that the incidence likely falls on developers and landowners rather than home buyers (Abelson (1999), Ruming, Gurran & Randolph (2011), Davidoff & Leigh (2013) and Murray (2018)). The most reliable Australian evidence is consistent with this view with little credible evidence to the contrary.

The basic principles behind this can be seen the figures below. The price of residential land depends on demand for housing and the supply of land zoned for residential use (Figure 1). Where land is rezoned for development, owners of raw land will receive a value uplift (Figure 2). Developer charges recover part of this value uplift to fund the cost of water and sewerage services provided. They do not affect the price to home buyers per lot (Figure 3).

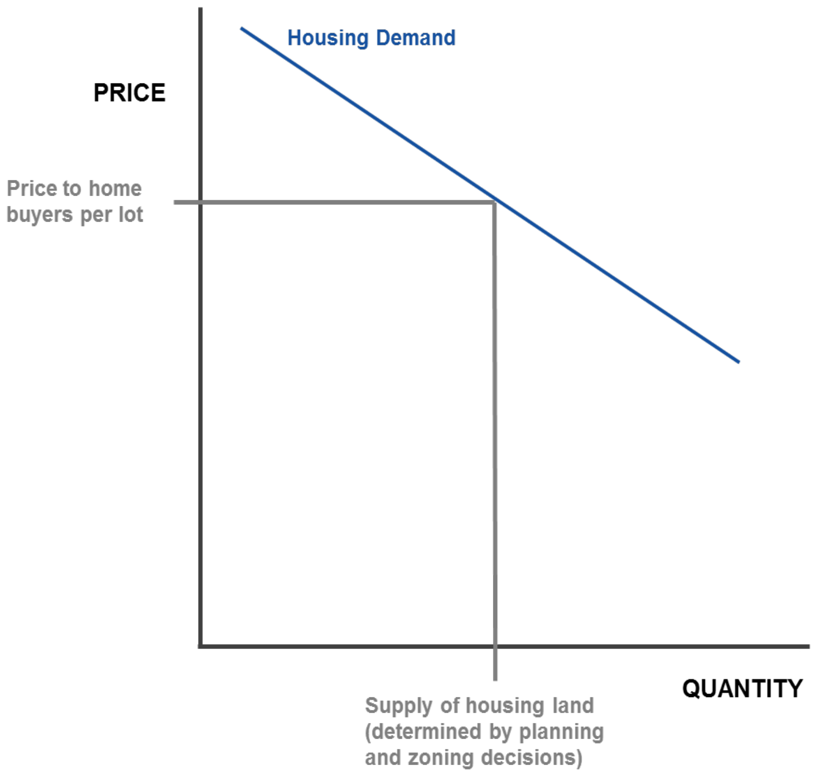

Figure 1 *- Supply and demand for housing*

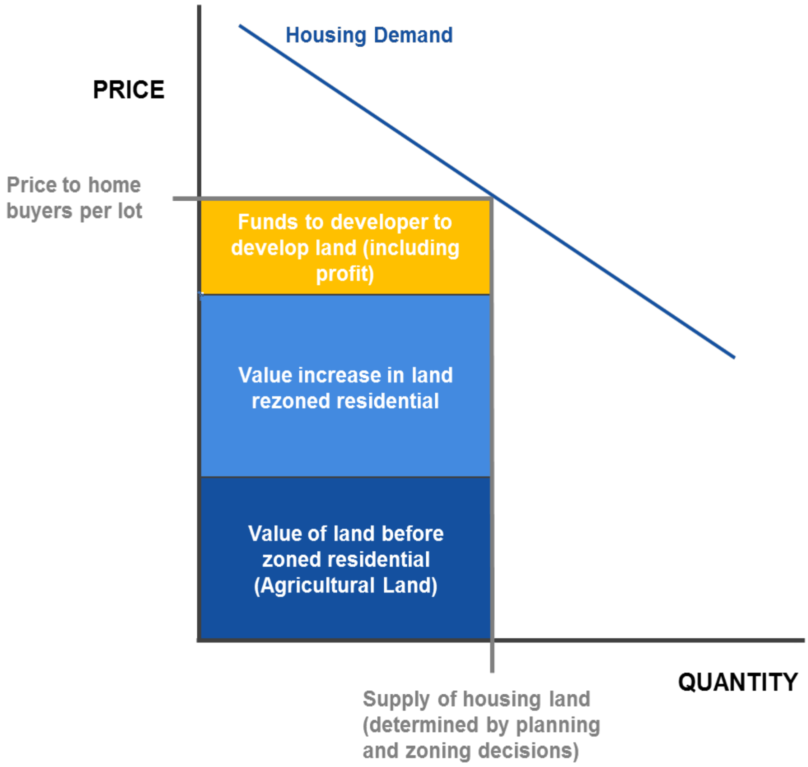

Figure 2 *- Value uplift with rezoned land*

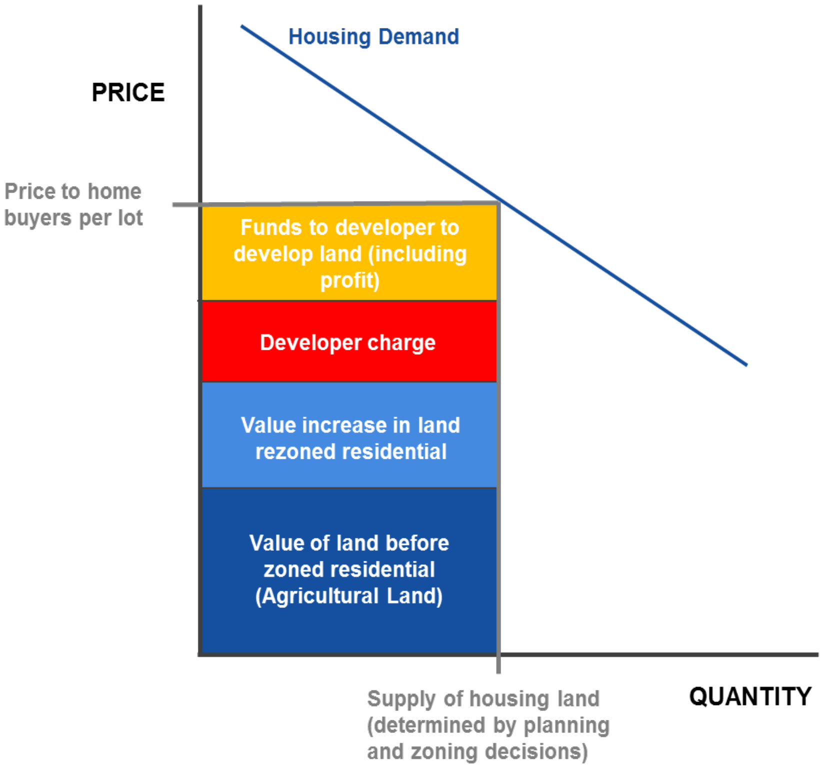

Figure 3 *- Impact of developer charges*