

4<sup>th</sup> October 2023

Essential Services Commission of South Australia  
GPO Box 2605  
Adelaide SA, 5001

By email: [reviews@escosa.sa.gov.au](mailto:reviews@escosa.sa.gov.au)

## **Property Council Submission – SA Water’s regulatory business proposal 2024–28**

The Property Council welcomes the opportunity to provide a submission to ESCOSA regarding SA Water’s regulatory business proposal 2024-28.

The Property Council of Australia is the leading advocate for Australia’s largest industry – property.

Our industry represents 13% of Australia’s GDP and employs 1.4 million Australians. Property Council member organisations are investors, owners, developers, builders and managers of real estate across all major asset classes including commercial, office, residential, industrial, hotels and more.

Our members have a direct interest in the legislation, regulation and operational matters that govern essential service provision to built-form assets across South Australia including water.

Property Council is one of the standing members of the Peak Bodies Engagement Forum stakeholder body that was consulted on the development of SA Water’s regulatory business proposal. The feedback given to the stakeholder forum via the Property Council was that the consultation process was well run, and communication was transparent throughout.

Notwithstanding the process, there are significant concerns about the capacity for SA Water to service the growth ambitions of South Australia given the State Government is aiming to supply large numbers of new homes in greenfield areas that are not currently provisioned for in terms of water and sewerage infrastructure. There is a lack of clarity about how the required growth infrastructure will be funded to achieve these greenfield developments.

With the construction industry recovering from a profitless boom, there is a real concern that in the absence of a clear funding mechanism underwritten by the State to provision for water infrastructure, developers will be lumped with the responsibility. This will likely result in an impasse where developers simply cannot deliver on the housing ambitions of the State.

We thank the Commission for consideration of our submission and welcome any further discussion.



**Bruce Djite**

SA Executive Director, Property Council of Australia

## Background

In August 2023, SA Water submitted their regulatory business proposal to ESCOSA.

Property Council is one of the standing members of the stakeholder body that was consulted on the development of the regulatory business proposal. The feedback given to the stakeholder forum via the Property Council was that the consultation process was well run, and communication was transparent throughout. However, as outline in the introduction there are serious concerns.

## Cost of living versus growth

SA Water have outlined that cost-of-living concerns have been an informative principle driving their proposal, balancing the need to maintain essential water services that customers expect, while keeping bills as low as possible, given the current economic environment.

The proposal would see a proposed increase to the average metropolitan residential customer's combined water and sewerage bill of 3.5 per cent, plus Consumer Price Index (CPI), per year starting from 1 July 2024. This is estimated to impact a metropolitan residential customer's annual bill, with typical water use and average property value, by around \$41 without inflation, or around \$71 where inflation of 2.5 per cent is assumed.

SA Water has informed the Property Council that the proposed bill increase for each year of the regulatory period will be to assist funding a proposed investment of \$462 million in water services and \$245 million in wastewater services, as well as \$596 million in operational expenditure.

## An unfunded growth agenda? An urgent need for clarity.

SA Water has stated that it is forecasting 30,000 new customers by 2027-28 and is increasing the percentage of its capital expenditure budget to enable growth from 10 per cent of capex (in RD 20) to 22 per cent of capex (in RD 24). In 22-23 dollars, it has stated that it has allocated \$365m to water network growth in northern metropolitan Adelaide.

The Property Council is conscious of the difficulties of the recent operating environment SA Water has faced. These have included the aftershock of the pandemic, supply chain disruptions, cost escalations, the recent floods and of course the need to plan for growth.

Notwithstanding these difficulties, there are significant concerns about the capacity for SA Water to service the growth ambitions of South Australia given the action being taken by the State Government to supply large numbers of new homes in greenfield areas that are not currently provisioned for in terms of water and sewerage infrastructure.

It would appear to members of the Property Council that SA Water is severely constrained either in its legislative or financial capacity to fund growth infrastructure and our members seek clarity as soon as possible as to how growth will be funded in the context of significant land release projects.

There appears to be an unresolved conflict between the needs of SA Water to balance rapid growth infrastructure requirements with the need to protect customers from the inflationary impacts of rapid increases in bills.

The South Australian Government recently announced the largest land release in the State's history as part of its response to the current housing supply crisis. Significantly these land releases are 'greenfield'.

The sites identified for rezoning for residential use are set to deliver at least 23,700 homes in the following locations:

- Hackham - 2000 homes
- Sellicks Beach -1700 homes
- Dry Creek - 10,000 homes
- Concordia - 10,000 homes

Importantly in February the State Government also established the Housing Infrastructure Planning and Development Unit to work across government agencies, councils and utilities to ensure the right infrastructure and services – such as transport, health and education – is in place to support this significant pipeline of housing development. Ms Elinor Walker has been appointed to head this unit reporting directly to the Chief Executive of the Department for Trade and Investment and work in conjunction with the Department's Planning and Land Use Services Division.

According to the PlanSA website:

*"The SA Government Rezoning will not occur for the remaining land until infrastructure needs are well understood, concept planning is complete, and funding has been confirmed."*

Again, our members are highly concerned that there is no clarity from SA Water or the South Australian Government as to how trunk water infrastructure for these growth areas are to be financially provisioned.

ESCOSA guidance papers for SAWRD24 clearly sets out under the section titled "Valid Reasons for Expenditure" the need for SA Water to:

*"Expand its network to meet increasing demand, either within its current distribution area or as directed by Government or permitted by legislation."*

With the construction industry still in a precarious position and yet to recover from the recent profitless boom, there is a real concern that in the absence of a clear funding mechanism underwritten by the State to provision for water infrastructure, developers will be approached by Government to fund the underlying civil infrastructure for their housing policy vision and lumped with the responsibility. This will result in an impasse where developers simply cannot deliver on the housing ambitions of the State and exacerbate the housing crisis.

In addition, if developers are required to underwrite basic water infrastructure, the costs will need to be recovered by increasing house prices, further adding to the current significant issue of housing affordability.

The Property Council seeks clarity urgently on this issue. Without clarity and a funding solution there is no viable housing growth agenda for South Australia.

### **A longer regulatory period is required to adequately meet the growth ambitions of South Australia**

Given the housing growth ambition of the State, The Property Council would suggest that SA Water's four-year regulatory determination, which sets the maximum revenue that SA Water can earn from its customers over the next four years is not fit for purpose.

It is recommended that SA Water adopts a more agile model that can respond to rapid and sudden growth demand rather than incremental development.