

4 May 2021

Marcus Crudden
Executive Director
Price Monitoring and Regulation
Essential Services Commission

By email: water@esc.vic.gov.au

Dear Marcus

Submission to the Melbourne Water Price Review 2021

The Urban Development Industry of Australia, Victoria Division (UDIA Victoria) welcomes the opportunity to provide a submission to the Essential Services Commission (ESC) as part of the consultation regarding the Melbourne Water waterways and drainage pricing submission.

UDIA Victoria is a non-profit advocacy, research and educational organisation supported by a membership of land use and property development organisations, across the private sector and Victoria's public service. We are committed to working with both industry and Government to deliver housing, infrastructure and liveable communities for all Victorians.

UDIA Victoria was invited to participate in the Melbourne Water customer council price review during 2019 and 2020. Whilst we welcomed the opportunity to participate, member feedback indicates that the process lacked clarity. Our feedback regarding the Melbourne Water waterways and drainage pricing submission to the ESC is outlined below.

Melbourne Water Waterways and Drainage Pricing Submission

UDIA Victoria was invited to participate in the Melbourne Water customer council price review during 2019 and 2020. We provide the following feedback:

- During the consultation process, our representative advised that UDIA Victoria did not support the proposed five per cent increase to the waterways and drainage pricing submission.
- Whilst we recognise an increase may be necessary, we consider that the basis for a five per cent increase was unclear, despite further details being sought by our representative at the time.
- We acknowledge the ESC has endorsed the development services schemes (DSS) approach and the manner in which developer charges are calculated, and this is why the price review did not relate to DSSs in Melbourne's growth areas. However, we consider there should be consultation between Melbourne Water and industry when the developer charges are calculated for a DSS on the basis that DSSs play an essential role in servicing land designated for urban purposes with the required drainage infrastructure.

Development Services Schemes in Growth Areas

The UDIA Victoria member experience with the Melbourne Water customer council points to broader issues with regard to pricing. These are outlined below:

- DSSs are fully funded service by the development industry (including assets, administration and MW resourcing).
- Greater transparency is required regarding the design of drainage services schemes, the associated pricing of the drainage schemes, and the implementation of the drainage schemes. Industry is especially interested in how Melbourne Water calculates the per hectare charges for the hydraulic and water treatment aspects given they fully fund it.
- Further to the point above, greater engagement with the development sector is required in the design, pricing and delivery of drainage services schemes.
- Melbourne Water should be involved at the earliest stages of the PSP design process to ensure any issues specific to that PSP are identified early. The lack of involvement and resources at the early stages negatively impacts on the PSP delivery with regard to ICP costs and drainage asset locations.
- To avoid unnecessary planning permit and construction delays in growth areas, Melbourne Water should be encouraged by the ESC to use its powers under the Water Act to acquire land in circumstances where drainage assets are identified in a DSS or PSP.
- Greater consistency amongst Melbourne Water business units has resulted in a reduction of service levels and the delayed activation of DSS assets to meet demand in growth areas.

Industry Experience with Melbourne Water at the Project Level

UDIA Victoria and its members have welcomed the significant increase in the engagement with Melbourne Water over the past few years. However, despite the positive developments on broader engagement activities, UDIA Victoria members continue to report ongoing challenges and frustrations when dealing with Melbourne Water at the project level. These ‘pain-points’ are having impacts on the forward delivery of serviced residential land and the economic recovery in Victoria.

Overall, we suggest these are the result of three core issues:

- Resourcing in the Development Services Division:
 - Insufficient “depth” in designated teams to manage the increasing workload;
 - Lack of suitably qualified and experienced officers to manage complex projects;
- The quality of decision making and lack of accountability resulting in protracted and inconsistent determinations and requests; and
- Lack of transparency about how, where and when DSS funds are being spent.

Given the DSS charge is fully developer funded and intended to support the delivery of DSSs, there is a sense in the industry that funds are not being allocated for their intended use leading to the shortage in resources. Without greater transparency, we are unable to determine if the issue is the allocation of funds for the intended purpose or a lack of funds being collected by the schemes. We also note the ESC has no oversight of the DSS collection or disbursement processes.

Current Market Context of Melbourne's Greenfield Development Sector

The greenfield development sector operating in Melbourne's growth areas is currently experiencing very strong demand. This is due to a range of factors, including state and federal stimulus measures such as the HomeBuilder grant, the 50% waiver on stamp duty, and the JobKeeper program.

In 2020, the Melbourne greenfield market recorded an 83% increase in annual lot sales reaching 15,030 lot sales and an average of 1,857 sales per month, a level not achieved since the peak of the current cycle in mid-2017.

The December 2020 quarter was especially strong, with developers releasing 5,230 lots, up 53% from the pre-COVID impacted March Quarter, and the highest lot release quantum since the September 2017. This data indicates the coming 12 to 24 months will be incredibly busy delivering titled lots to market, therefore any delays in rolling out DSSs will have an even greater impact.

Recommendations

In the context of the very strong market conditions outlined above, we make the following recommendations:

1. The five per cent increase to the waterways and drainage charge is unsubstantiated and should not be supported until evidence is provided to justify the extent of the increase.
2. Improve the transparency of how the DSS charge is determined, especially how Melbourne Water calculates the per hectare charges for the hydraulic and water treatment aspects.
3. Improve the transparency of how the DSS charge is allocated and disbursed.
4. Increase resourcing – in terms of staff and skills – in the Melbourne Water Development Services team.
5. Annual reporting of DSS performance, and revenue received and disbursed, to provide greater transparency.

We thank you for the opportunity to provide this detailed feedback, and we look forward to discussing the matters raised in this letter. Please contact Dr Caroline Speed, UDIA Victoria Policy and Research Director by emailing caroline@udiavic.com.au to arrange a suitable time to do so.

Yours sincerely



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