

18 August 2020

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Mr Michael Brennan
Chair
Productivity Commission
Locked Bag 2, Collins St East
MELBOURNE VIC 8003

Dear Mr Brennan

Re: National Water Reform

Thank you for the opportunity to provide commentary on the Commission's recent report: *Integrated Urban Water Management — Why a good idea seems hard to implement*.

Overview

The Victorian Planning Authority (VPA) is a Victorian Government statutory authority charged with planning for the growth of designated precincts across the State. The Authority reports to the Minister for Planning and has accountability to the Ministers for Transport Infrastructure, Suburban Rail Loop and Business Precincts.

The VPA works closely with councils and local communities, other government agencies (including water and drainage authorities), landowners and developers to plan for urban growth in designated precincts in inner and middle ring Melbourne, greenfield growth areas and regional cities.

The VPA deploys the State's planning system as created by the *Planning and Environment Act 1987* – chiefly structure plans that are given effect by means of planning scheme amendments that include infrastructure charging provisions. The Authority also has a role in streamlining post-plan approvals, and in advising Government on the coordination of State infrastructure to serve growth areas.

The Authority is committed to the continual improvement of planning outcomes, and in this context Integrated Water Management (IWM) has long been a focus of the VPA's efforts. The Authority welcomes the release of the Commission's recent report: *Integrated Urban Water Management — Why a good idea seems hard to implement* and has first-hand experience of many of the barriers to IWM delivery that have been identified by the Commission.

Our over-riding observation is that the machinery required to achieve IWM is dispersed and not well coordinated. From the VPA's perspective, the planning system in Victoria can deliver some aspects of a strategic IWM regime, but is limited in its impact. Supporting policy, governance and funding arrangements are required in order to be confident of achieving the full range of IWM outcomes.

For our part, the VPA has updated its guidance on embedding IWM principles in its draft Precinct Structure Plan (PSP) Guidelines that will soon be out on consultation, and we are an enthusiastic participants in the Victorian IWM forums process established by the Minister for Water in Victoria.

We see the Commission's water reform process as a key opportunity to build momentum around other changes that will enable the integrated deployment of a range of statutory and other interventions to better deliver IWM outcomes.

Challenges to Achieving IWM in Victoria

In responding to the Commission's *National Water Reform Issues Paper* of May 2020, I would like to make the following observations regarding integrated water management in Victorian urban areas:

1. There are a wide range of bodies in Victoria with a potential role or stake in the IWM space¹, however there is no single entity with responsibility for coordinating and ensuring delivery.

As a land use planning agency, the VPA has influence over how developers use land, subject to approval by the Minister for Planning. The VPA engages with the many other bodies to seek guidance on the planning, delivery, funding and operation of IWM as input into our land use planning. However the VPA is not resourced or empowered to take responsibility for delivering IWM in our growth areas.

2. There is strong Victorian policy underpinning IWM and there is also excellent goodwill among the many bodies involved.

This is demonstrated by the strong support for the IWM Forums that have clearly articulated seven strategic outcomes for IWM, including environmental, amenity, community knowledge & local values, health and wellbeing and economic outcomes.

3. The various bodies involved often have quite different perspectives on what IWM means and how best to deliver it.

Key entities operate according to the obligations set for them by their enabling legislation and decision-makers. This necessarily diverse operating environment limits the ability to deliver integrated outcomes. For instance, supplying third pipe with treated stormwater may be a desirable IWM outcome from a waterway health perspective, but it may in turn require the sewerage authority to fund major new infrastructure to transfer larger flows for treatment remotely or to discharge more treated sewage into receiving waters – decisions and costs that are made according to frameworks that do not always place a high priority on IWM outcomes.

4. Despite strong policy being in place in support of IWM, detailed solutions at the sub-catchment or precinct level are not yet in place to allow developers to contribute towards delivery.

The development of catchment-scale plans is underway but it will take time before these can guide even more detailed planning needed at the sub-catchment or precinct scales.

5. Without sub-catchment or precinct scale plans:

- a. the VPA cannot incorporate clear IWM land requirements in our structure plans, as they are not known;
- b. the VPA cannot require developers to provide clear IWM solutions as they are not known (the planning system can realistically only be used to implement policy and direction, not create it);
- c. developers are unable to meaningfully contribute to broader IWM beyond limited solutions controlled by the physical and financial constraints of the individual development parcel and the continued use of BAU solutions at the broader scale.

This lack of sub-catchment or precinct scale IWM plans limits available IWM opportunities to those that can be delivered at a very local (development by development) scale, with the result being limited, and potentially highly inefficient, IWM outcomes.

6. Funding is also a significant issue affecting this, with the siloed funding responsibilities and varying budget capacities and processes making coordinated contributions to a shared outcome difficult.

¹ Department of Environment Land Water and Planning, local government, retail water businesses, Melbourne Water, rural water commissions, catchment management authorities, Victorian Planning Authority (VPA), Department of Health and Human Services, Environment Protection Authority, Victorian Environmental Water Holder, Essential Services Commission, private developers, residents & businesses, local community, environmental and advocacy groups, Aboriginal communities

For the water businesses this is accentuated by the independent economic regulation model, which has constrained the overall funding available for innovative outcomes and the flexibility needed to pursue integrated solutions. For instance, while a desirable and cost-effective IWM solution may be best delivered by the major drainage authority funding infrastructure that will ultimately be owned by a council, this is treated as an operating expense as there is no asset added to waterway manager's asset base. The economic regulation model may instead incentivise them to deliver what may be an inferior solution but one that allows them to fund assets that will remain on their books and receive a return on investment.

7. Beyond the lack of sub-catchment or precinct scale plans, existing funding and delivery processes for greenfield residential development are not set up to support IWM.

While many developers are supportive of IWM, current approaches do not readily allow them to equitably contribute towards an overall solution at a sub-catchment or precinct level, even if one exists.

For example, Melbourne Water uses Development Services Scheme to collect developer contributions to collaboratively fund major drainage works in greenfields. This approach was collaboratively formulated with the development industry about 15 years ago. However, it does not currently have the ability to fund the more extensive works that might be required to support IWM outcomes, for instance stormwater capture and reuse (e.g. storage, treatment, transfer infrastructure).

Similarly, Infrastructure Contributions Plans (ICPs) in greenfields growth areas, which are designed to fund council infrastructure, do not currently permit the collection of specific funds for IWM outcomes.

8. Related issues that need addressed as part of a holistic consideration of funding, are “who pays”, when do they pay and the related question of how is up-front investment to be funded.
 - a. As John Thwaites articulated at the recent PC *Greening our Cities* webinar, uncontrolled greenfields development can be expected to have an impact on waterway health, primarily through altered stream flows. The “impactor pays” approach would suggest development should fund preventative measures. However, all Victorians, especially those living downstream, will benefit from maintaining waterway health and this, together with potential affordability impacts, suggests a contribution from the broader community (either directly from the budget or through water charges or rates) may be more appropriate.
 - b. On the other hand, urban amenity, health and heat island benefits would primarily accrue directly to the new community. However, these will be smaller benefits (WSAA² suggested about \$94 per year) and may have compensatory avoided costs for the health system. Requiring a new homebuyer to fund the infrastructure to deliver these and other ongoing benefits up-front via a larger mortgage, may undesirably affect housing affordability. Options such as “postage stamp” water pricing or council charges to support additional investment may be appropriate.
 - c. Of course, while the benefits may accrue over many years, the infrastructure is probably needed at the time of development, so if works are not financed directly by developers (either because it is not appropriate or would unduly impact affordability), a mechanism to provide up-front funding and manage cost recovery over time is also needed.

Summary

In summary, despite strong collaborative effort and good will, the VPA believes there is a need for a clearer governance framework and secure funding to ensure delivery of strong IWM outcomes. This needs to be supplemented by sub-catchment or precinct scale IWM plans and IWM-focussed funding (and financing) arrangements.

² *Blue + green = liveability: The Value of Water to Liveable Communities*, WSAA, 2019

Until these elements are in place, it will not be possible to rely on land use planning to give effect to IWM in growth areas.

If you wish to explore these issues further please contact myself or Rachel Dapiran, Executive Director, Planning, Infrastructure and Planning

Yours sincerely

STUART MOSELEY
CHIEF EXECUTIVE OFFICER