The imposition of taxes by Melbourne Water as a means of subsidizing Victorian State government activities.

Summary

In 2004 the Victorian Labor government outlined a policy to transfer government responsibilities for catchment management to Melbourne Water. This is despite the fact that the government has responsibility for river health under COAG National Water Initiative agreements (and that this is regarded as “public good” activity under these agreements). To implement this policy in 2005 the area of the “metropolis” of Melbourne as defined in the MMBW Act was extended by an Order in Council to include large areas of rural shires (such as the Macedon Ranges) and as a result tax-like charges were imposed on 160,000 Victorian rural landowners in 2008.

The ESC approved these “waterway charges” even though its authority only extends to the setting of “metropolitan drainage services”, and these landowners (by the ESC’s own admission) do not receive any drainage services. As this author discovered, there was no cost-effective avenue by which to dispute these charges. Advice was received from VCAT and the ACCC that Melbourne Water is exempt from the provisions of the Fair Trade Act and the Trade Practices Act.

VCAT found that landowners were liable for charge for services of general community benefit, contrary to findings of the High Court in cases such as Air Caledonie International v Commonwealth(1988) 165 CLR 462. The subsidization of local government activities, such as Melbourne Water’s provision of a storm water grant to a local council for the installation of 2 concrete strips in a library carpark (which was no where near a waterway), and the subsidization of the DSE “waterwatch” program (a volunteer water quality monitoring program for the benefit of aquatic life) were found to be (direct?) “waterway services” for which all landowners in Melbourne Waters “waterways district” were liable for charge. This was despite the fact that Melbourne Water had itself received government grants for storm water projects and “waterwatch” activities.

This case study highlights the ease with which urban water authorities can be used as “cash cows” to fund government activities, relying on the coercive monopolies that water authorities maintain. Recommendations are made for increased customer protection and improved independent regulation of State water authorities.

Background

When the Bracks Labor Government came to power in Victoria in 1999, it included amongst its promises the pledge that it would abolish the catchment management charges imposed by Catchment Management Authorities. Minister Garbutt (Minister for Environment and Conservation) in introducing the second reading of the Water (waterway management tariffs) Bill stated:
Catchment management authorities were formally established in 1998, when the Water Act 1989 and the Catchment and Land Protection Act 1994 were amended to combine the roles of existing catchment and land protection boards and waterway management authorities. Catchment and land protection boards were regionally based advisory bodies that made recommendations on land management issues such as erosion control and weed management.

Waterway management authorities were authorities established under part 10 of the Water Act and provided services such as building and management of levee banks and the management of drainage schemes.

Catchment management authorities were able to draw on the powers available under the Water Act to set rates across their respective catchment regions, which were defined to be their waterway management districts. As a result, all but two catchment management authorities chose to set a charge applying to all rateable properties within their regions -- effectively a completely new tax imposed on Victorians outside the metropolitan area.

This government recognises the importance of healthy catchments to both the environmental and economic wellbeing of the state.

In recent weeks salinity and other problems associated with the degradation of catchments have again been identified as being the major land use issue facing governments and landowners in Australia. In Victoria we are facing every year the problem of algal blooms in the Gippsland Lakes system because of land management issues in the catchments which feed the system. We are all aware of the plight of the Snowy system, with flows diverted to other uses which, in their time, were seen to override completely the competing use of environmental flows for the river system. We know now that questions of catchment health are more complex and more difficult to resolve than anyone dreamed earlier in this century.

It is because this government is committed to healthy catchments and waterways in Victoria that it believes the catchment management levy must be abolished. Funding for catchment health should be provided from whole-of-government funds, not from levies imposed on local communities.

It is the responsibility of government to set the strategic direction for catchment management in Victoria, recognising also that some of the issues of catchment management must be resolved in cooperation with other states.

The government will work in partnership with local communities in promoting and managing the benefits of catchment health. It recognises that there are issues on which the best advice will be drawn from local communities and that they need to have involvement in the decisions that will affect them. However, the work of local communities needs to be clearly connected to wider statewide strategies and funding priorities.

The work of waterway management bodies in providing drainage and waterway services to local communities is recognised by the government and the continuation of this work is provided for in the bill before the house.

However, the government is committed to ensuring that only those services which can be demonstrated to be of specific local benefit will be funded through tariffs set in this way. The bill ensures that a tariff may only be set in respect of properties to which a direct service is provided.

I can advise the house that using my powers as minister administering the Water Act I have advised catchment management authorities of my intention to issue a direction that they are to suspend the proposed catchment management levy for the current financial year. The government has undertaken to provide funding to support the continued work of the authorities and discussions are taking place with each authority to determine its works priorities for the remainder of the financial year.

In appearing before the Public Accounts and Estimates Committee during the last Parliament, the then minister advised that the catchment management levy contributed only around 10 per cent of the total amount spent on catchment management services, with the remainder being provided through the Department of Natural Resources and Environment and from commonwealth funding through the National Heritage Trust. The reason advanced for the levy by the then minister was that, although the
contribution was small, it 'gave the community some ownership of those programs'. This government does not believe it is necessary to impose a tax in order to confer community ownership.

Ownership comes from genuine consultation and understanding and this government is committed to ensuring that that takes place. The bill also provides power for revenue already collected from this year's assessments to be refunded, in order to ensure that the benefits of the government's decision apply across the state.

The government has made a commitment to further consider the role and accountabilities of catchment management authorities. I will be consulting at a later date on how best the requirements of catchment management health can be met by partnership between government and local communities. As a tangible financial symbol of the government's desire to fulfil its commitments to the people of Victoria, I have pleasure in introducing this measure to remove the catchment management levy.

The Port Phillip and Western Port Catchment Management Authority was the responsible authority for the Melbourne metropolitan area and adjoining rural areas.

In discussing the Bill in the Legislative Assembly the Hon Candy Broad stated:

A question was asked about whether legislation is necessary, and the same issue was raised when the bill was debated in the other place. The government has made it very plain that it considers it is appropriate to legislate because the bill includes powers to tax. Considering the previous government's experience in endeavouring to set up catchment management authorities (CMAs) through administrative action and subsequently being required to pass retrospective legislation to resolve matters that could not be resolved administratively, one would think the opposition would appreciate why it is preferable to proceed via legislation rather than administrative arrangement.

The ministerial directive was intended to place CMAs on notice that the government intended to proceed in accordance with its stated election policies in this area.

It was never intended that that should be seen as a substitute for legislation. That is why the government has introduced the bill and why it believes it is the preferable way to deal with the implementation of that important election commitment.

I am advised that the clause is necessary because it amends the Water Act to effectively remove the capacity of CMAs to set levies. It is necessary to go to the act to make sense of the amendments. For example, subclause (1) refers to section 144(1)(d) of the Water Act, which deals with the declaration of serviced properties and provides for authorities to declare by notice that land is to be serviced land for the purposes of the act where the authority provides the services one would expect to satisfy the requirement, such as water supply, sewerage and irrigation.

Adding to that the requirement that the authority provide regional drainage or floodplain management services that are of direct benefit to the land -- a matter the committee will deal with later -- means the CMAs are not able by notice to set a levy solely because it relates to land within an area even though no services are provided. The advice to the government is that that is a perfectly appropriate way to deal with implementation of the policy of preventing CMAs setting charges such as the current levy simply because land is within their districts.

Clause 3(2) amends section 144(2)(a) of the Water Act and deletes the exception in the case of land within the authority's waterway management district. Again, it goes to the issue of simply putting a levy in place by notice purely because land is within a district.

Clause 3(3) amends section 144(4)(c) of the principal act, which also deals with notice and provides that the notice must:
generally identify the properties to which the services are available, or which are within the waterway management district, ...

The provision is to be extended to cover services through the insertion in clause 3(3), which reads:

and which are directly benefited by regional drainage or floodplain management services provided by the Authority.

In combination the amendments will remove the capacity of CMAs to set charges for properties within their districts for which they do not provide services.

Some issues raised about funding arrangements arise in relation to subsequent clauses, but I am happy to deal with them now.

**Hon. C. C. BROAD (Minister for Energy and Resources)** -- The government is not seeking to change the districts. The government has no intention of changing the arrangements for CMAs because of its strongly stated support of the important work they undertake. As I have indicated, the clause is to remove the capacity of CMAs to put levies in place across the entire district, including properties for which they provide no services. The government has no need or desire to change the districts CMAs are responsible for.

**Hon. C. C. BROAD (Minister for Energy and Resources)** -- As the opposition is aware, CMAs receive funding which is greatly in excess of what they were raising under the levy. The government has given undertakings that the funding arrangements will continue, in addition to replacing the funds raised under the levy.

In 2004 the Victorian Government released its policy document “Our Water Our Future” (Appendix 1). It flagged several major projects (such as the N-S pipeline and the desalination plant). It also stated that it would make Melbourne Water responsible for catchment management.

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**Policy**

Local government (together with Melbourne Water in Melbourne) will continue to be responsible for managing drainage assets and ensuring that the quality of stormwater meets river health objectives and satisfies broad community aesthetic and amenity values.

Catchment management authorities (and Melbourne Water in Melbourne) will continue to be responsible for assessing the quality and quantity impacts of stormwater on river health at the regional level.

Water authorities will be responsible for developing stormwater as an alternative source of supply.
One of the “key features” of this policy was stated as being:

- properties within the previously unserviced areas will not become automatically liable to pay a drainage rate. Local needs will be assessed and flexible charging arrangements will be developed to reflect levels of service and to take better account of urban and rural differences; and

**Implementation of the policy**

1) **Declaration of the “Metropolis” by Order in Council under the MMBW Act**

In 2005 without notice or consultation Melbourne Water sought to implement the government policy via an Order in Council under s3 of the MMBW Act. Section 3 of the MMBW Act defined the area of the “metropolis”. This section of the Act had been predominantly superseded by the Water Industry Act (1994) that divested Melbourne Water of responsibilities and establishing the 3 metropolitan water authorities. In 1994/5 Melbourne Water had also lost responsibility for the management of metropolitan creeks and waterways (that had previously been vested in the MMBW/Melbourne Water), with this responsibility being given to Melbourne Parks and Waterways, and subsequently Parks Victoria (under the Parks Victoria Act). Melbourne Water’s area of responsibility was defined in the Water Industry Act (s175) as the “metropolitan area” (the same area for which Parks Victoria is responsible for waterway conservation under s7 of the Parks Victoria Act, and s153 of the Water Act). The area of “metropolis” under the MMBW Act was largely irrelevant.

The MMBW/Melbourne Water had never in its 100 year history been responsible for catchment management. It had begrudgingly extracted from parliament limited responsibility for some of its catchment areas (in the East of the state) – known as
“watershed areas” but at no stage had it had specific “whole of catchment management” responsibilities under the MMBW Act. It had previously exerted authority over waterways land in the metropolitan area through this land being “vested” in the authority. This was removed in 1994/5 when it was divested of this land (ownership returning to the State). Despite this, it was claimed that Melbourne Water had gained “whole of catchment responsibilities” by this Order in Council and had now replaced the Port Phillip and Western Port Catchment management Authority (the designated authority under the Catchment and Land Protection Act) as the regional catchment authority. Landowners in Melbourne Water’s “extended” area were not informed that Melbourne Water was now supposedly responsible for “Catchment Management” (and in fact, the DSE website continues to record the PPWCMA as the regional catchment authority, with Southern Rural Water having responsibilities for diversions and associated waterway management in rural areas).

In order to facilitate the designation of the “metropolis” by reference to an unpublished map (which would have been otherwise contrary to s32 of Interpretation of Legislation Act 1984) the government appears to have amended the MMBW and Water Acts by the Environment and Water (miscellaneous amendments) Act 2005. In passing the relevant section of the Bill, the declaration of the metropolis was not alluded to, despite the fact that it was already underway.

The declaration of the “metropolis” by Order in Council of 18 November 2005 is attached at Appendix 2. It should be noted that the map of the “metropolis” was not published as part of the Order, nor were any waterways listed in the Order (only drains were mentioned). Furthermore it is interested to note that this order only referred to an extended area, and did not outline the “existing” area of responsibility (i.e., the area of the existing “metropolis”). Sometime between 2005 and 2006 the map was altered to include an area which supposedly represented the “existing” metropolis. It is unclear how this delineation occurred (as it does not appear to have been published in the government gazette), and the area also appears to bear no relationship to the actual area of the “metropolis” as declared over the preceding 115 years (see appendix 3).

2) Incorporation of the map of the “metropolis” into the Water Act

The unpublished (and almost secretive) map of the metropolis was then incorporated into the Water Act by the Water (governance) Act 2006. As mentioned above, in the interim the map had “morphed” into a map of Melbourne Water’s entire area of responsibility. This was then designated as Melbourne Water’s “waterways management area” (despite the PPWCMA still having legislative authority for whole of catchment management in these areas). The map of the “metropolis” was never presented to Parliament and it was again was not published. Additional sections were also added to the Water Act, including s 144A which defined “serviced properties” applicable to Melbourne Water’s waterways management district:

Water Act 1989 - SECT 144A

Serviced property, Melbourne Water Corporation

1 Dingle and Rasmussen in Vital Connections; Melbourne and its Board of Works (McPhee Gribble; 1991)
144A. Serviced property, Melbourne Water Corporation

For the purposes of any function of Melbourne Water Corporation under Part 10, serviced property is any land in the waterway management district of Melbourne Water Corporation—

(a) that is rateable land within the meaning of the Local Government Act 1989; or

(b) that is, by the operation of section 258(4), deemed to be rateable for the purposes of section 258(1).

Thus it appears that Melbourne Water had become a de facto catchment management authority, overriding the provision of several Acts of Parliament by nothing more than an Order in Council (as it is claimed that the powers were derived from the Order in Council which were only maintained by transition into the Water Act). It also appears the Government had simultaneously engineered its way around the prohibition on CMAs imposing catchment management taxes.

The waterways activities under the Water Act also appear to have “morphed” from specific levy management and regional drainage services to unspecified, general services.

3. The role of the Essential Services Commission

It appeared that Melbourne Water, the de facto catchment management authority could now impose taxes. However, unlike Catchment Management Authorities, Melbourne Water was part of the regulated water industry as defined in the Water Industry Act. As such its fees and charges were controlled by an independent regulator - the Essential Services Commission. The Essential Services Commission operated under the Water Industry Regulatory Order 2004 (Appendix 4), while Melbourne Water was required to operate under a Statement of Obligations issued under the Water Industry Act in 2004 (with which it was required to comply).

The Water Industry Regulatory Order specified the services for which the ESC had the power to fix prices. Amongst the “prescribed services” are “metropolitan drainage services”. These are defined as functions exerted under Part X of the MMBW Act (which was repealed in 2007). As the Water Industry Regulatory Order was issued in 2004, prior to Melbourne Water having any responsibility for “whole of catchment management” it is apparent that “metropolitan drainage services” could not include services related to whole of catchment management. “Waterways management” were specific services related to the management of levy banks and regional drainage schemes (such as in the Koo Wee Rup swamp) under the provisions of the Water Act.

In late 2007 Melbourne Water submitted a “Water Plan” to the ESC. It appears that this plan was submitted in November 2007, after the prescribed submission date of October\(^2\) specified in Melbourne Water’s Statement of Obligations. Melbourne Water

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\(^2\) In June 2008 (a week before the ESC handed down its final decision) the Minister, Tim Holding amended the Statement of Obligations and retrospectively changed the prescribed date of submission of the Water plan from October to December 2007. The name of the plan was also changed from “Water Plan” to “Waterways Water Plan”.
then subsequently submitted a “Waterways Water Plan” around December 2007 which was considered by the Essential Services Commission.

In June 2008 the Essential Services Commission handed down its decision on Melbourne Water’s “Waterways Water Plan” that included the imposition of a flat charge on 160,000 landowners outside the Urban Growth Boundary in Melbourne Waters “extended area” who receive no drainage services from Melbourne Water (and were not located in any designated “flood protection” area). It was claimed this was a “waterways charge”, forming part of the “metropolitan drainage service”. The ESC in an email to me of 9 December 2008 stated that:

- The extract from Melbourne Water’s 2008 water plan that you referred to in your emails refers to two groups of customers. The first group were customers (47,000 customers) outside the urban growth boundary that had previously been categorised as residential/non-residential metropolitan drainage customers. In its water plan, Melbourne Water proposed to reclassify these customers as rural customers, which meant that they would have a lower charge ($45 decrease, on average). The reasoning behind this proposal was that these customers received waterways services but not drainage services, and should not pay as much as customers inside the urban growth boundary, who receive both services. The second group of customers (3,200 customers) were customers that had previously received waterways services but had never been charged for them. In its water plan, Melbourne Water proposed that these customers be charged the rural charge for the waterways service they receive. The Commission approved both of these proposals in the 2008 water price review as being consistent with the WIRO. These tariff changes do not amount to a cross subsidy in favour of metropolitan customers at the expense of rural customers. Instead, the tariff changes remove previous cross subsidies.

- Rural customers receive Melbourne Water’s waterways service but no drainage services. The waterways service differs from other water services (water and sewerage) in that it is not supplied directly to customers’ properties. In this regard, the waterways service is similar to many ‘public good’ services provided by local councils, which are paid by ratepayers even though the services may not be supplied directly to their properties. Rural customers do not receive metropolitan drainage services and do not pay drainage charges.

Thus the ESC contrary to its powers under the Water Industry Regulatory Order 2004 levied a tax on 160,000 rural Victorians. As most of these landowners were not aware that they were in Melbourne Water’s area of responsibility, nor liable for charge, they were denied their legitimate right to object to the imposition of the charges via the ESC process.

In Mid 2008 Melbourne Water sent a letter to landowners in the “extended” areas advising them that they would be receiving a bill from their local water authority for waterways services. There was no indication under which section of which Act these charges were to be imposed, nor that there was any right of appeal.

**4. Avenues of Appeal to the imposition of a tax by Melbourne Water.**

This author sought to contest the imposition of the charge and appealed to the Energy and Water Ombudsman Victoria (EWOV), the ESC, Consumer Affairs, Ombudsman Victoria, ACCC, the Civil (Small Claims) tribunal of VCAT, and the Planning and Environment List of VCAT.
EWOV advised that this matter was outside their jurisdiction. The ESC took no action. Consumer Affairs Victoria took no action. Ombudsman Victoria stated that this was a matter for EWOV. The ACCC advised that Melbourne Water had crown immunity from the provisions of the Trade Practices Act. The Civil List of VCAT refused the application on the grounds that it related to a fee for a service that was not received. The Planning and Environment list of VCAT did not register the application for many months and then only did so subsequent to an objection to the non-registration being lodged with the Chief Justice of the Supreme Court of Victoria.

5. VCAT

VCAT found that landowners were liable for charge. This decision was made in accordance with Air Services Australia v Canadian Airlines International Ltd (2000) 202 CLR 133. This was despite the fact that in Air Services whether a direct service was provided was never in dispute. This High Court case was determined on the basis of costing information on the amount of revenue raised, cost of services provided and the mechanism by which fees were set and distributed. VCAT did not have any costing information before it on Melbourne Water’s waterways charge on which it could make a decision in accordance with Air Services. This author also pointed out the clear advice provided by Melbourne Water and the ESC, that landowners did not receive any direct services from Melbourne Water.

The VCAT decision stated:

32. This list of services is general in nature. However, Melbourne Water also referred me to its reporting of specific services provided on a municipality-by-municipality basis through a document and website report entitled “Waterways local update”. The update for Macedon Ranges Shire for 2008/09 details specific works and services undertaken in specific waterways and locations by way of managing waterways, managing environmental flows, managing water quality, flood management, community involvement etc. Amongst the many projects and services set out in that update, examples include the following:

- weed control and revegetation in the Jacksons Creek waterway between Dixon Field Recreation Reserve and Sankey Reserve, Gisborne.

- working with Western Water and Southern Rural Water to upgrade water quality monitoring in Jacksons Creek to understand the impacts of reduced stream flows in drought, and working with these agencies and ‘Waterwatch’ participants to prepare an emergency contingency plan for this waterway.

- laying linear strips of paving in the Romsey Library car park to absorb fluids and thus remove stormwater pollutants entering the local waterway.

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3 Tab 31 in Melbourne Water’s supplementary folder of documents. These are also set out in Ms Joseph’s supplementary submission at pp 13-16. Macedon Ranges Shire is the municipality in which Ms Joseph’s land is situated.
On the basis of this material, I am satisfied that Melbourne Water provides waterway services in its district, that are funded by the waterways charge, and which satisfy the definition of ‘tariff’ in s 257 of the Water Act 1989. As I have indicated, the definition of ‘tariff’ does not require that those works or services must be particular services provided by the Authority directly ‘to the land’, such as a water supply service. It is not a matter for the Tribunal to review the appropriateness of the charge or the appropriateness of particular works and services. It is sufficient for the purposes of this review proceeding that Melbourne Water establishes a nexus between the fee imposed and the works or services provided across the district for the benefit of property owners and occupiers in the district. I am satisfied that such a nexus exists here.

Melbourne Water referred me to a later decision of the High Court in *Airservices Australia v Canadian Airlines International Ltd* that discussed and qualified the decision in *Air Caledonie* that Ms Joseph relies upon. The ‘discernible relationship’ between the amount of the charge and the value of the service that the Court had found important in *Air Caledonie* was held not to be determinative in the latter case. The *Airservices Australia* decision suggests that a charge may not be a tax in certain circumstances, including where the charge is not imposed to raise revenue for the State, where the funds are received and retained by an agency to meet the cost of works and services across a range of users pursuant to its statutory functions, where those services are part of an activity that needs to be highly integrated across users, and where the fee has a material and ascertainable relationship with those services. In such circumstances, the Court held that there was no warrant for concluding that the charge amounted to taxation on the ground that the charge exceeded the value to particular users of particular services.

Although Ms Joseph referred to the *Airservices Australia* decision in her supplementary submission, she did not really address this key issue, and maintained her primary reliance on the decision in *Air Caledonie*.

By reference to the *Airservices Australia* decision, Melbourne Water argued that the fact that the waterways charge here is not fixed by reference to the particular benefit or value that each individual property receives does not necessarily alter its characterisation as a fee-for-service. I agree. It should also be emphasised that, whilst the principles in cases such as *Air Caledonie* or *Airservices Australia* may be helpful, each case turns on its own facts, and the particular fee or charge in question and the legislative scheme under which it is levied or imposed.

It is therefore clear that the charge is for services of general community benefit.

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4  (1999) 202 CLR 133, 169-170 & 177-9 (High Ct) per Gleeson CJ and Kirby J. See also at 284-7 per Gummow J.
A tax has been defined in *Air Caledonie International* and other High Court cases as a fee imposed by a public authority for a public purpose that is compulsory and enforceable by law and not a fee for services rendered. This appears to be the nature of the waterways charge. A tariff under s 257 of the Water Act is defined as:

tariff means a scale of charges by reference to which a fee is imposed by an Authority on the owner or occupier of a property for works or services provided by that Authority.

This author’s argument in accordance with *Air Caledonie International* and other High Court cases is that the “waterways” charge is a tax and not a “fee for a service provided”. The government’s own words in introducing the Water (waterways management tariff) Bill in 1999 would also point to this charge being a “tax”.

It was also put to VCAT that the imposition of the charge by an Order in Council under s3 of the MMBW Act and the imposition of the fee as a “metropolitan drainage service” by the ESC were “beyond power”, an argument VCAT did not accept.

VCAT’s decision in this matter is attached at Appendix 4.

The only other avenue of appeal for consumers is the Supreme Court of Victoria, which is prohibitively expensive.

### 6. Conclusions

This case highlights the ease with which State Governments can use water authorities as “cash cows” for raising additional government revenue (or cost shifting). Despite numerous legislative contradictions, the charge was imposed via nothing more than an Order in Council and the imposition of a new “waterways” tax was never put to Parliament. The case also demonstrates considerable obstacles that are presented to consumers in contesting charges such as these. The case highlights the failure of State-based “independent” regulation and dispute resolution processes.

### 7. Recommendations

That the productivity commission recommends:

1. That the Commonwealth assumes responsibility for independent regulation of State Water Authorities, including pricing.

2. That the Commonwealth provides centralized and independent dispute resolution service for consumers in regards to water charges.

3. That the legislation be made clear to include water authorities, such as Melbourne Water, under the provisions of the Trade Practices Act/ Fair Trade Act.