30 January 2026

Ms Ismini Karamesinis
Senior Analyst, Price Monitor and Regulation
Essential Services Commission
Level 8, 570 Bourke Street
MELBOURNE VIC 3000

Via email: [redacted]

Dear Ms Karamesinis,

The Urban Development Institute of Australia, Victoria (UDIA Victoria) and the Association of Land Development Engineers (ALDE) welcome the opportunity to provide comment on Melbourne Water's 2026 Price Submission as part of the Essential Services Commission's review.

This submission focuses specifically on Development Services Scheme (DSS) rates, including the presentation of DSS rates as average rates, the scale of scheme-to scheme variance, transparency of DSS cost drivers, impacts on housing supply and affordability, and opportunities to streamline DSS delivery to improve efficiency.

Representation of Scheme Rates as an "Average"

On page 168 of its 2026 Price Submission, Melbourne Water presents DSS rates as average values, calculated across multiple individual schemes. While we acknowledge that averaging may provide a high-level representation for reporting purposes, the industry is concerned that this approach:

- does not explain how the average rate has been derived,
- masks substantial variation between individual schemes, and
- risks understating the cost exposure faced by developments in higher-cost growth areas.

The accompanying scheme review spreadsheet demonstrates that actual scheme rates vary materially from the reported average, with some schemes significantly above (and below) the headline figure. As a result, the use of averages may convey a misleading impression of uniformity that does not reflect the charges experienced by individual developments.

Implications for affordable housing supply and delivery

Proposed increases to DSS rates have direct implications for housing supply and affordability. Melbourne Water has indicated that higher DSS rates will be offset by increased demand and customer growth. However, when development costs rise without corresponding transparency or efficiency gains, these increases are unavoidably passed through, leading to higher lot prices, undermining broader housing affordability objectives. Where increased development costs render new housing unaffordable, demand and customer growth are constrained, limiting any capacity for higher DSS rates to be offset through increased volumes and slowing the delivery of new housing.

In addition to DSS charges, the industry is increasingly bearing significant hidden costs associated with temporary drainage solutions required where timely access to land for permanent drainage infrastructure cannot be secured. These interim arrangements add material costs to development through temporary works, duplicated infrastructure, extended holding costs and delayed lot delivery.

These costs are not reflected in DSS rates but are ultimately embedded in lot prices, directly affecting housing affordability and the speed at which land can be brought to market. Industry experience indicates that, in some areas, the cumulative impact of temporary drainage solutions adds considerably to the cost, when construction, delay and financing are accounted for. Addressing barriers to timely land access for drainage infrastructure represents a significant opportunity to improve delivery efficiency, reduce hidden costs and better align water infrastructure planning with broader housing supply and affordability objectives.

Magnitude of Scheme-to-Scheme Variance

Based on a review of the scheme-level data contained in the scheme review spreadsheet provided alongside the submission, the industry notes that:

- there is significant dispersion in scheme rates,
- the variance between the lowest and highest scheme rates is well beyond what could reasonably be described as marginal or incidental, and
- for developments captured by higher-cost schemes, the effective contribution rate materially exceeds the figure implied by the published average.
- In practical terms, this means that developers – and ultimately new home buyers – are exposed to highly location-dependent and unpredictable charges, despite the submission framing the outcome as broadly uniform.

We accept that development in areas with greater drainage complexity may incur higher costs. However, this presupposes that scheme costs are transparently constructed, demonstrably efficient and clearly attributable to the drainage outcomes required.

We are also concerned that delays in reviewing and updating DSS rates can result in large step-changes when rates are eventually reset, particularly where some development has proceeded under outdated rates. This creates volatility, inequity between developments, and weakens price signals. To avoid this outcome, we recommend that DSS rates incorporate a regular, predetermined escalation mechanism, with rates formally reassessed when underlying infrastructure requirements are reviewed, rather than allowing infrequent updates to drive sudden and material increases.

Where costs vary materially, clear disclosure of cost drivers is required, along with assurance that management fees and overheads are directly applied to land development functions rather than absorbed as general revenue.

Implications of variance for Transparency, Equity and Price Signals

The development industry is concerned that reliance on average scheme rates:

- reduces transparency for developers, landowners and councils attempting to understand future infrastructure costs;
- undermines cost predictability, which is critical for development feasibility, staging and housing supply decisions; and
- results in outcomes that are inequitable across growth areas, where similar forms of development attract materially different charges due solely to scheme boundaries.

Further, reporting on the average scheme rates, or even publishing actual scheme rates does little to address transparency.

- It is unclear which schemes have been subject to a financial review, and/or and engineering review, and how schemes yet to be reviewed should be treated in the interim; and
- It is unclear what management fees are being collected via scheme contributions, and whether those fees are spent on managing schemes.

Greater transparency is also needed regarding the assumptions underpinning DSS costs, including construction costs, land acquisition, financing costs and the administration fees charged by Melbourne Water. Industry continues to experience frustration with the lack of clarity around how DSS costs are derived.

While drainage schemes are intended to recover the cost of providing catchment-wide drainage infrastructure for flow conveyance, retardation and stormwater quality treatment, there is growing concern that scheme scope has expanded to fund broader community outcomes, such as stormwater harvesting and re-use.

In parallel, the application of the Healthy Waterways Strategy and EPA Urban Stormwater Management guidelines is increasingly driving larger land requirements for drainage assets, including expanded wetlands and treatment systems, which materially increases scheme costs. These additional land and delivery costs are ultimately passed through to homebuyers, despite extending beyond the core drainage function that DSS charges are intended to recover.

Further, while Melbourne Water states that DSS are designed to achieve net present value neutrality over their life, the scale of observed variation between scheme raises questions about inter-scheme equity and risk allocation, particularly where development sequencing or demand forecasts differ from assumptions.

Opportunities to streamline DSS

We recommend that Melbourne Water consider whether the current number of DSS is optimal for efficient delivery. While combining active schemes at different stages of completion may be impractical, there are clear opportunities to rationalise schemes that have not yet been implemented.

Where multiple proposed schemes serve a single precinct or closely aligned development area, combining schemes could improve administrative efficiency, reduce duplication of overheads and support more coherent infrastructure planning. For example, within the Officer South Industrial PSP, three separate drainage schemes are proposed, presenting an opportunity to consolidate these into a single scheme to improve efficiency and cost transparency.

Recommendations

The development industry recommends that the ESC:

- Scrutinise the use of averaged DSS rates in the Price Submission, noting that these do not reflect the charges actually faced by many developments.
- Address barriers to timely land access for drainage infrastructure to improve delivery efficiency, reduce hidden costs and support housing affordability.
- Require clearer disclosure of scheme-specific rate ranges, including minimum, maximum and percentile outcomes, to accompany any average figures.
- Incorporate a regular, predetermined increase to DSS rates which is reassessed when infrastructure requirements are reviewed, to avoid large step-changes when rates are eventually reset.
- Consider whether the degree of scheme-to-scheme variance is consistent with the ESC's objectives of transparency, fairness and efficient price signals, particularly in the context of housing affordability and supply.
- Seek further justification from Melbourne Water as to why such large variances are acceptable, and whether alternative approaches to smoothing, rebalancing or risk-sharing across schemes have been adequately considered.
- Consider opportunities to combine schemes where they serve a closely aligned development area to improve efficiency and reduce duplication of overheads.

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The development acknowledges the desire to achieve cost-reflective pricing and recognises the need to fund essential drainage and waterways infrastructure. However, this must be balanced with clarity, predictability and equity in how charges are presented and applied.

In our view, the current reliance on average scheme rates in the submission does not reflect the real and material impacts of DSS on individual developments and warrants closer examination by the Commission.

In the absence of greater transparency, efficiency and predictability in DSS pricing, higher and more volatile charges risk constraining affordable housing supply and delivery, compounded by the 'hidden cost' of temporary drainage solutions.

We would welcome the opportunity to discuss this matter further or provide additional scheme-level analysis to assist the Commission in its review.

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