20 May 2024

Ms Carmel Donnelly
Chair, NSW Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Mamre Road Stormwater Scheme Review

Dear Ms Donnelly,

As the Regional Stormwater Authority for the Mamre Road Precinct (and Aerotropolis Initial Precincts) Sydney Water supports the IPART review into the costs and cost allocation of stormwater drainage in the Mamre Road Precinct.

IPART has been requested to consider various matters regarding the Mamre Road Regional Stormwater scheme within the terms of reference provided by Government. This letter outlines our response to the Issue Paper released on 23 April 2024 and summarises our position on the efficacy of the investment and its cost-effective delivery. We have been working with the IPART Secretariat in recent weeks to provide detailed information to support the review. This submission aims to highlight context and issues that, in our view, are critical for stakeholders to consider when reviewing the proposed regional stormwater scheme.

Context and timing

The regional integrated stormwater management scheme proposed for Mamre Road and the Aerotropolis will be delivered in the context of rapid urban expansion to support the new Western Sydney International Airport and a growing residential population. This new development hub was identified as the 'Western Parkland City' by the NSW Government in its 2018 Metropolitan Strategy. – 'A Metropolis of Three Cities'.

Legislation governing Water Authorities and the Mamre Road Precinct stormwater and waterways

When Sydney Water acts as a Water Authority, we must comply with various pieces of legislation to ensure we conduct our role in an efficient and socially and environmentally responsible manner. The NSW Government appointed Sydney Water as the trunk drainage authority for stormwater (Regional Stormwater Authority) in the Western Sydney Aerotropolis, including the Mamre Road Precinct in March 2022. This means Sydney Water is responsible for delivering, managing and maintaining the regional stormwater trunk infrastructure as well as our drinking water, wastewater and recycled water networks and delivering these services in a cost-effective way to maximise the benefit to the communities we service.

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As the Regional Stormwater Authority or Water Management Authority[1] for Mamre Road Precinct, we are required to ensure the large volumes of stormwater / urban run-off generated as a result of urban development in the precinct does not damage the sensitive waterways of Wianamatta South Creek catchment. We must ensure development connecting to our trunk drainage scheme does not result in a breach of the stormwater management targets (quantity/flow and quality) in the short term and in the future, once all development has connected. The targets for the creek, and stormwater controls which will meet these targets are defined in:

- Chapter 1 of the Technical guidance for achieving Wianamatta-South Creek stormwater management targets (nsw.gov.au) and
- Chapter 2 of the Mamre Road Precinct Development Control Plan | Planning Portal - Department of Planning and Environment (nsw.gov.au).

As outlined below, Sydney Water has progressively honed the design of the regional scheme to meet these waterway health requirements at least cost/acceptable risk.

Collaborative scheme design process ensures cost-effective and prudent service

The development of the Mamre Road Stormwater Scheme began over six years ago when Infrastructure NSW undertook a 'South Creek Sector Review' in 2018. The resulting Strategic Options business case explored various water servicing options for the Aerotropolis to most efficiently achieve the Government's vision, including regional versus locally managed stormwater solutions. The outcomes of the business case showed that a regional, integrated stormwater management approach was the most cost-effective, providing up to six billion dollars in economic benefits to the community.

Building on this extensive modelling and planning, Sydney Water found that an integrated stormwater and recycled water network was the most cost-effective way to meet the stormwater requirements of the precinct. The scheme has been designed within the framework of relevant planning documents including the State Environmental Planning Policy (Western Sydney Aerotropolis) 2020 and State Environmental Planning Policy (Industry and Employment) 2021

Sydney Water has more recently undertaken extensive consultation process to support the development of the scheme. Stakeholders consulted in this process included NSW Treasury, (then) Department of Planning and Environment, the Mamre Road Landowners Group (MLOG), the Urban Development Institute of Australia (UDIA), Penrith City Council and other impacted developers and landowners. This enabled input into the efficiency measure outlined below:

The efficiency of the scheme design has been progressively improved in a number of ways:

1) **Integrated precinct approach:** The design leverages from the economies of scale provided by regional stormwater infrastructure. A regional scheme has significant cost advantages over decentralised solutions[2] and significantly minimises the amount of private stormwater infrastructure required, freeing up land for housing and other developments which would otherwise be required for infrastructure. This is outlined in Review of water

[1] The DCP defines Water Management Authority as the stormwater drainage manager.
[2] Sydney Water (2020) Mamre Road Precinct Flood, Riparian Corridor and Integrated Water Cycle Management Strategy

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sensitive urban design strategies for Wianamatta–South Creek (nsw.gov.au) section 7.2 and further refined by Sydney Water's scheme design activities.

2) **Design optimisation:** We have streamlined the scheme configuration to minimise the size of stormwater basins, reduce the length of stormwater trunk drainage channels, reduce the land take required for the infrastructure and ensure the infrastructure is located in constrained land as far as practicable to minimise land costs and maximise developable footprint. The optimisation generated a thirty percent reduction in the cost of the scheme.
3) **Cost estimation:** The costs for the scheme have been built up using Sydney Water's standard Risk Based Cost Estimation approach. This work was undertaken by an external expert cost estimator using benchmarks for each infrastructure element.
4) **Investment timing:** Development across the precinct will occur over the next 5 to 10 years. Delivery of infrastructure has been phased to align with the best available intelligence from industry and planning authorities. This information is reflected in the draft Development Servicing Plan, which has been subject to ongoing discussions with the local landowners group, the development industry representatives and the planning authorities, and more recently updated and shared with IPART.

Additional Government policy benefits delivered by the scheme

Due to the innovative and efficient nature of the design, the scheme also delivers a number of key secondary objectives, which arise without the need for additional investment beyond that required to deliver the mandatory waterway health objectives. These include those contained in:

- NSW Government vision for the Western Parkland City as defined in 'Metropolis of Three Cities' and the Western City District Plan - Greater Sydney Region Plan, March 2018 (updated June 2018) (nsw.gov.au)
- The Greater Sydney Water Strategy (GSWS) that highlights the need to optimise the use of recycled water and stormwater to create a resilient and sustainable city. - Greater Sydney Water Strategy (nsw.gov.au).

Environmental, economic and social benefit of a regional scheme

The primary purpose of the design is to meet the waterway health objectives set by NSW Government for the precinct which aims to protect the sensitive waterways and ecosystems of the Wianamatta South Creek catchment. A regional scheme means that one organisation, Sydney Water, is accountable and responsible for the performance and ongoing maintenance and management of the system in perpetuity. Under alternative on-lot servicing scenarios it is likely this responsibility would be distributed across many developers, landowners and tenants which carries significant risks to ongoing service provision, the achievement of the desired outcomes and the co-ordination and sustainability of ongoing maintenance of the stormwater systems.

The scheme seeks to maximises the amount of developable area in the precinct and therefore the productivity, economic and employment benefits that arise. For example, we have located stormwater infrastructure on undevelopable land wherever possible which is either flood affected and/or subject to other environmental constraints. In this way, the design minimises costs associated with both land acquisition and opportunity costs from the loss of developable land. This approach frees up 15-30% of industrial zoned land within the precinct which would otherwise be required for on-lot stormwater related infrastructure.

Land values are a significant driver of the costs of the scheme because they affect not only the cost to purchase the land but also the ongoing land tax payable. Land tax is an additional cost to

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the ownership of land for the regional stormwater scheme and unlike local government in NSW and similar entities in other jurisdictions in Australia, Sydney Water is not exempt from land tax. Alternative funding models relating to land tax could help to reduce the overall costs of the scheme, although Sydney Water considers that any solution should be capable of being applied in other locations where relevant.

The critical demand for industrial land in Sydney and the NSW Governments growth priorities for Western Sydney.

The timely delivery of stormwater services to the precinct is a critical enabling factor for development to be realised in the Mamre Road Precinct. Sydney Water considers timely decision making and approvals on the path forward for the precinct are key. To ensure that finalisation of the Scheme does not delay development, Sydney Water has worked with the NSW Government to establish a bonding process to allow for the early issue of section 73 compliance certificates. Further, we expect to publish a Developer Delivered Works Policy this month to create certainty of delivery pathways for the scheme.

Sydney Water's Final Business Case will be submitted to Infrastructure NSW for assurance in June 2024. This will allow the assurance process to proceed concurrently with IPART's review. Sydney Water is keen to work with IPART to provide certainty to the development industry by aligning the exhibition requirements for the Scheme Development Servicing Plan (DSP) with the current review of the scheme where appropriate.

Sydney Water has participated in an ongoing dialogue with the UDIA and MLOG. The purpose of this dialogue has been to identify all avenues for ensuring that the scheme is as effective, efficient and affordable as possible whilst meeting the Waterway Health Targets and the Government's vision for the Western Parkland City. As a part of this engagement, the MLOG engaged Atlas Economics to undertake economic analysis in partnership with the (then) Department of Planning and Environment. This produced a feasibility analysis for the infrastructure contribution rate based on the limitations of current landowners. This investigation indicated a wide range of values dependent on lot size and purchase price, the currently proposed infrastructure contribution is within the upper bound of this range.

Comparative costs of providing stormwater drainage schemes.

In considering the costs of the proposed Mamre Road Stormwater Scheme, it is also important to note the associated economic, environmental and liveability benefits of the Scheme beyond a business-as-usual stormwater management approach.

While it is difficult to directly compare the costs across schemes that may have different requirements, the costs for Mamre Road are within the range of costs of other recent stormwater management schemes in similar greenfield developments across the Greater Sydney area that have been provided by local councils and funded through local contribution plans. This was identified by Infrastructure and Development Consultants in 2023 (report has been provided to IPART) as engaged by the (then) Department of Planning and Environment.

This finding is noteworthy because these recently delivered council schemes are not required to meet the same stringent environmental / waterway health objectives required for the Wianamatta South Creek catchment, do not include costs associated with land tax, exclude the ongoing operating and maintenance costs of the system (which we must include when following IPARTs DSP methodology), and do not include the provision of an integrated recycled water distribution

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network and service. These schemes also do not offer the same benefits in terms of climate resilience, urban greening and cooling or resilient water supply.

Sydney Water has engaged broadly with stakeholders to optimise the scheme with two separate working groups. A Technical Working Group was formed September 2023 with the (then) Department of Planning and Environment, including Water and Planning groups and their consultants, and a separate Working Group was created in October 2023 in partnership with the UDIA and representative of MLOG. Both these groups were given significant visibility of the design and costing of the scheme. The feedback we received during this process contributed to Sydney Water's design optimisation process and directly helped to generate thirty percent efficiency reductions in the cost of the scheme.

Sydney Water supports the well-accepted pricing principles as set out by the National Water Initiative and regularly articulated by IPART. In particular, that it is preferable to seek funding from impactors before funds are sought from beneficiaries or the wider community. Applied to these circumstances, developers would be the primary source of funding for growth infrastructure. The proposed approach aligns and complies with IPART's 2018 Infrastructure Contribution Determination and the NSW Government exemptions from the zero-developer charge policy and phase-in of ordinary developer contributions for recycled water and stormwater respectively. Sydney Water plans to publicly exhibit the Mamre Road IWCM Development Servicing Plan in late 2024 so it can be registered with IPART in time for charges to commence in early 2025.

The effect and impacts of land tax and any other relevant taxation (eg. income tax) on the efficient costs of providing stormwater drainage services within the Mamre Road Precinct and options available.

It is noted that similar schemes provided by local councils are not subject to land tax. Although the design of the scheme has been optimised to ensure infrastructure is removed from productive, more costly land where possible, there is a still a significant financial impact on the project due to the ongoing obligation to pay tax on the land required for regional stormwater infrastructure. As land tax is an ongoing expense, it impacts the magnitude of the Infrastructure Contribution borne by developers and the ongoing customer charges. At this stage we estimate the impact of land tax is approximately $140 million ($nominal) over the next ten years.

Sydney Water has consulted extensively since its appointment at Regional Stormwater Authority with a large amount of material published on https://www.sydneywatertalk.com.au/aerostormwater. If any clarification or supporting information regarding this submission is needed, please contact [redacted].

Yours sincerely,

[redacted]

Roch Cheroux
Managing Director

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