Infrastructure Contributions Reform: Context & Directions – May 2020

1.0 New Housing Production and the Development Industry

The production of new homes and urban growth to accommodate our growing population base requires a range of supporting infrastructure. This growth enabling infrastructure comes at a cost.

The development industry is not opposed to paying its fair share, and UDIA recognises the development industry receives benefits from the growth that occurs across the State, which reflects compensation for the substantial risk that comes alongside undertaking property development projects

The Greater Sydney Commission has set a target of 36,250 dwellings each year until 2036 to meet underlying demand expectations and address a historic undersupply of dwellings accumulated through the 2004-2012 period. This new urban growth to be delivered across the Greater Sydney region comes at the cost of delivering new and upgraded infrastructure.

Given the government has chosen to embrace and progress growth across the metropolitan region, the delivery of which falls to the private development industry, the government must then also adequately support the infrastructure costs that comes with growth alongside the new homebuyers who are already facing huge challenges in Sydney which has the third least affordable housing prices in the world.

1.1 Impact of Contributions on wholesale land

The Federal Productivity Commission and Henry Review into Taxation has suggested that where supply of land for housing is restricted, developer charges are most likely to reduce economic rent captured by owners of undeveloped land.

In an ordinary economic model based on rational agents it might be considered that uplift from rezoning would be sufficient. Land vendors do not have incentives to sell and have been accustomed to increasing prices due to restrictions in developable areas creating supply shortages.

Vendors in the market are acting as partial monopolists restricting supply to secure prices and returns that are above what would be achieved in a competitive market. This is enabled by planning and zoning restrictions and further accelerated by the government's approach to 'out of sequence development'. The full cost recovery for 'out of sequence development' provides even greater power for the incumbent landowner to extract unearned value from a rezoning as it makes going outside of pre-determined growth areas prohibitively expensive.

1.2 Allocative/Social Efficiency in development:

It is suggested infrastructure charges provide price signals so that development would occur where it is most efficient. However, development is subject to a range of forces that prevent the industry to consider cost signals in determining where to develop, most significantly growth area designations and zonings determined by the Government.

The development industry is therefore forced to develop in the locations where government has permitted the industry to develop. The preference for the priority precincts and existing North and South West Growth Centres is because government chose to direct growth to those areas.

2.0 Principles of Reform

There has been a lot of previous good work undertaken in reviewing infrastructure funding reform principles. UDIA NSW believes that the infrastructure reform agenda outlined within the 2013 White Paper – A New Planning System for NSW was sensible and fair, and the principles should guide the direction of the current reform process:

- **Simple and Predictable** – the contribution system should be as easy to understand and administer as possible. Everyone should have a reasonable expectation of the future amount and timing of payment of infrastructure contributions.
- **Transparency and accountability** – everyone should be able to track the need for infrastructure, revenue collected from contributions and expenditure on infrastructure. Responsible parties should be accountable for the timely provision of infrastructure.
- **Beneficiary pays** – parties should only pay for infrastructure that they will benefit form. When benefits are shared between groups, the distribution of costs should reflect this.
- **Avoidable costs** – developers should not be charged for infrastructure that is not required for new development. There must be a nexus and proportionality between development and infrastructure need.
- **Cost reflectivity** – contributions should reflect the efficient cost of providing infrastructure. It should demonstrate that the provision of infrastructure in some areas is more expensive than others, and the developer's contribution should reflect at least some of that cost.
- **Affordability** – the contribution system should not inhibit the supply of housing.
- **Contestability** – the private sector should be invited to compete for delivery of works where it is likely to add value. Developers should be allowed to contribute to the cost of infrastructure through flexible means including 'works in kind' in lieu of a direct contribution payment.

UDIA believes that there are two elements required to ensure an efficient infrastructure contributions system:

A. **Clear allocation of funding responsibilities –** This will provide simplicity and predictability and should help ensure an affordable beneficiary pays regime.

B. **Infrastructure provision prioritisation determined by an integrated Urban Development Program (UDP) (details below)–** This will provide the certainty and the transparency for infrastructure to be delivered while informing nexus, proportionality and maintaining accountability.

3.0 Certainty and Transparency for Communities, local government, and developers

Certainty and Transparency refers to both the rate of contributions and the certainty that the infrastructure gets delivered.

When a developer seeks to acquire a site, it is appropriate that the contribution rate is known at the time of acquisition - such that it can be incorporated into a feasibility analysis and investment decisions can be made with as much information as possible. Therefore, the scope of items needs to be clear and consistent.

A robust Urban Development Program (UDP) which transparently maps out forward estimates of future supply can ensure that the enabling infrastructure is delivered in an efficient and sequenced manner. A UDP which is updated in a timely fashion, and is appropriately informed by government and industry intelligence, provides servicing agencies with clear development triggers for infrastructure investment, coordination, and delivery.

When adopting a new infrastructure funding regime, there needs to be transitional arrangements that will help support certainty for the development industry.

3.1 Value Capture

UDIA supports the concept of 'value capture' where it accelerates government investment for major infrastructure that increases capacity; only captures value when or where it is generated; allows value to be realised; and captures value prior to the time it is realised.

We understand the Productivity Commission has identified that linking infrastructure projects to value will help prioritise projects that can unlock greater value. We agree with that position and believe a Tax Increment Financing (TIF) type structure would be effective in supporting the delivery of major infrastructure projects.

3.2 Managing Contribution Costs

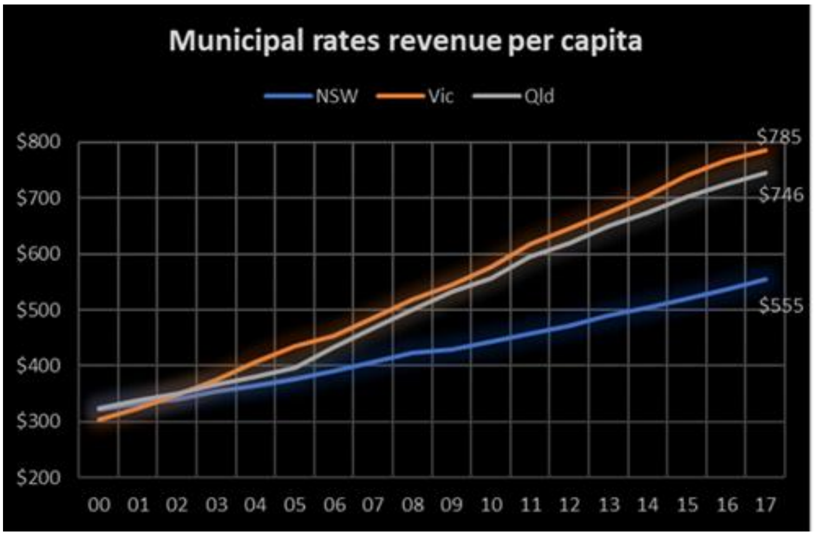
Land is the major cost driver in the contributions system. It makes up approximately half the cost of contributions in NSW. UDIA believes that land is a community asset that appreciates in value overtime and can be repurposed across a range of different uses. We note the 2013 White Paper reforms suggested taking land out of local contributions and spreading it across a broader cohort to help manage the cost of contributions.

The IPART Review process could help manage contribution costs at a given level, by providing independent scrutiny. However, UDIA does have concerns about the level of expertise of IPART in completing these costs review. The incentive to avoid a time-consuming review and the essential works list limitations, places downward pressure on contributions.

Standardised and benchmarked costs for infrastructure items with common scopes will help provide transparency and maintain predictable and certain costs, while preventing 'gold plating'. However, when this has been done in the past the benchmarks sought to find the median cost of infrastructure instead of the efficient cost. This meant that the benchmarks were too high to be generally applied. This process would also help provide a basis for costs that are included within voluntary planning agreements.

3.3 The relationship with local government funding and service provision

In NSW there has been significant barriers to efficient local government funding and service provisions because of rate pegging. Rate pegging has led to increased reliance on upfront infrastructure contributions, particularly for services that would not normally be considered development related infrastructure. In comparison to the other Eastern seaboard States NSW collects approximately 25%-30% less municipal rates per capita.



GLN Planning 2018

We support either removing the rate peg or amending rate peg to enable council general revenue to increase as its population grows to help support efficient local government funding and enable additional works to be completed.

In some areas, it might be advantageous for the bulk of the cost to be paid through a special rate variation, which was envisaged in 2010 as an alternative to the Local Infrastructure growth Scheme to fund the gap created by the cap on contributions. This would spread the cost of infrastructure across the life of the plan to homebuyers. It was not taken up by Councils previously, who preferred to access LIGS support instead of directly charging residents.

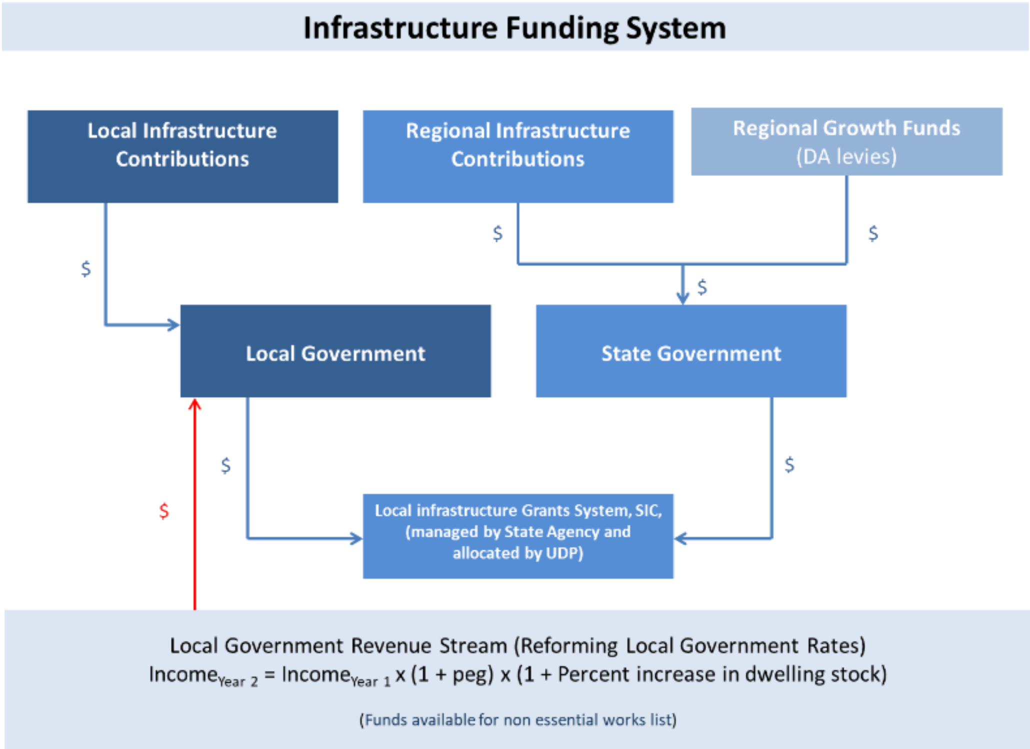
3.4 Regional Growth Funds

UDIA NSW has developed a Regional Growth Fund Model, which has been a long-standing infrastructure funding recommendation since 2012. This approach would see land taken out of infrastructure contributions and instead spread across a broader cohort.

We believe that the NSW Government should establish Regional Growth Funds (RGF) that fund strategic land acquisition for councils and the state government, as recommended in the 2013 White Paper.

This would be funded through a new RGF contribution, which would be a levy on all DAs valued above $100,000, which recent PwC estimates the rate would be between 0.64%-3.63% of the DA value depending on the Greater Sydney Commission district. Land is a community benefit as it appreciates in value, and is the major cost driver, this would allow land to be delivered early and contributions to focus on works.

An overview of the model is on the next page:



4.0 Summary

1. Growth is a choice that government has made to support the economy, and we need to deliver 36,250 homes each year in NSW.

2. With restrictions on developable land in NSW there are limits to the downward pressure on initial landowners and allocative efficiency that can be achieved.

3. The Principles of the 2013 White Paper should be adopted as part of this review; simple and predictable; transparency and accountability; beneficiary pays; avoidable costs; cost reflectivity; affordability; and contestability.

4. Certainty and Transparency are delivered through an Urban Development Program.

5. Value capture should be limited to major transformative transport infrastructure, such as Metro.

6. Contribution costs are primarily driven by land and these could be separated and managed through a regional growth fund approach.

7. Works costs could be better managed through a benchmarking process.

8. Council rate pegging needs to be amended so councils are not upfronting costs onto development.