

Discussion Paper



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2007 Revised Infrastructure Levies

Introduction

UDIA NSW congratulates the NSW Government on the revised infrastructure levies for Sydney's Growth Centres. The proposed levy reductions when implemented should assist in improving housing affordability and stimulating residential development in Western Sydney. The implications of the announcement for the remainder of the State though are indeterminate at present due to a paucity of relevant information.

UDIA NSW has reviewed the available material issued by Government, limited to the Premier's media release, the Department of Planning Circular and the industry briefing prepared by NSW Treasury. There is currently insufficient information available to the industry particularly with regard to transitional provisions. Some members have advised that they may begin withdrawing development applications to avoid being prejudiced by the existing levy structure.

UDIA NSW therefore requests that the NSW Government engage with our members to refine the proposal and provide clarification for the development industry. UDIA NSW understands that Treasury, Department of Planning and the Growth Centres Commission are currently preparing guidelines.

UDIA NSW would therefore like to offer its views on a number of matters and highlight a number of areas where we believe further elaboration is required. The principal points of interest arising from the recent announcement include:

- i. the timing of proposed payments of the Special Infrastructure Contribution (SIC);
- ii. the need for a revised SIC Practice Note to provide greater clarity on the recent announcements;
- iii. the application of levies on brownfields and regional development; and
- iv. clarification on the future operation of section 94; and
- v. a transparent and exhaustive discussion of alternatives.

1. *Timing of Payment*

UDIA NSW is particularly concerned by the proposal outlined by NSW Treasury which would seek a 25% upfront payment of the State Infrastructure Contribution (SIC) when englobed land is purchased by a developer or when a landowner acting as a developer receives a development approval. Such a proposal:

- requires significant contributions to be made before the demand for infrastructure exists;
- would cause significant cashflow problems for landowners and developers; and
- would discourage coordinated planning through consolidated development applications, in favour of sporadic smaller development applications with associated higher administrative costs.

UDIA NSW strongly opposes the 25% upfront payment of contributions. All payments should be made when linen plans are released and relate only to that stage of the development covered by the subject linen plan. There is inadequate rationale for forward payment to the Government. Payment at lodgement of the linen plan allows sufficient time for infrastructure to be delivered coincident with the arrival of new residents.

2. SIC Practice Note

The SIC Practice Note was issued in 2006 as a guide to the implementation and administration of the SIC. It provides a framework for how the levy will be administered and the infrastructure works to which it will be applied. The Practice Note is a best practice model for transparent accounting.

However, UDIA NSW believes that the recent announcement provides an opportunity to significantly expand on the SIC Practice Note to:

- address a range of administrative and technical questions which have arisen during the precinct planning processes for the first growth centre precincts;
- document key infrastructure projects attributable to individual precincts; and
- provide a clearer definition of some infrastructure projects.

UDIA NSW has offered its support to the Government on application of the SIC, believing that in the absence of other more equitable funding solutions being employed, a limited application of a levy may be the only way of getting essential infrastructure in place. This support was provided on the condition that there is a high degree of transparency with levy contributions and works. Accordingly, UDIA NSW would welcome the opportunity to provide detailed input into the revised SIC Practice Note.

UDIA NSW is also committed to replacing the levy with Commonwealth funding generated by the hypothecation of the GST to infrastructure associated with the land releases that produce the opportunity for the revenue to be earned. This issue is discussed further in point five.

3. Statewide Levies

UDIA NSW would welcome a clearer statement of the Government's position in relation to the application of levies on brownfields and regional development. The Premier announced that "the new levies framework would be progressively applied throughout the state – including brownfield areas – based on local and regional assessments of core infrastructure needs."

Negotiating levies on a project basis would incur significant delays. UDIA NSW's experience is that competing government agencies typically overstate costs and apply onerous conditions resulting in protracted negotiations, increased costs and further impediments to supply.

UDIA NSW is opposed to the progressive application of levies across the state in the absence of an agreed independent and transparent governance structure similar to the Growth Centres Commission. This agency would identify infrastructure requirements, coordinate agencies and collect and expend monies in a timely manner.

4. Section 94

UDIA NSW welcomes the Government's efforts to reform section 94 and reduce charges. Section 94 charges have consistently increased in recent years to the point where charges have reached levels which compromise project viability.

It is critical that contribution plan provisions be codified, consistent and reasonable. One area of particular concern arising from the recent announcement is the treatment of riparian corridors. While UDIA NSW welcomes this issue being explored, simply removing the corridors from section 94 without providing an alternative funding framework is likely to lead to a situation where riparian corridors are not established or maintained, and small landowners (in particular) are not adequately compensated for their land being classified as a corridor. Furthermore, UDIA NSW believes that mechanisms such as community title are not necessarily suited to this purpose.

UDIA NSW recommends that the Department of Water and Energy be adequately funded to acquire land for riparian purposes and that it should fundamentally review how it manages riparian issues in urban areas. The current approach reserves excessive areas of land demanding costly capital works to stabilise and maintain.

5. Alternatives

UDIA NSW contends that a transparent and exhaustive discussion of alternatives is required. It is understood that the Department of Planning has engaged economic consultants to examine infrastructure financing options. The Director General of the Department of Planning at our last meeting discouraged UDIA NSW in undertaking its own research on this topic as we were assured that the Government's work would be comprehensive and publicly available. It is therefore disconcerting that a determination has been made in the absence of a discussion of alternatives.

UDIA NSW has consistently maintained that levies are an inappropriate infrastructure financing tool for urban renewal. Urban renewal by definition occurs in areas where the built fabric has reached the end of its economic life.

Levies would require the developer to accept excessive risk, contribute monies up front in the hope that the amenity is subsequently improved by government. A forward investment is required by government to lift the amenity and create an inviting locale for private investment and prospective homebuyers. Levies remain a significant disincentive to development.

With respect to greenfield areas on Sydney's fringe and the regions, UDIA NSW recently updated a discussion paper which advocates that the hypothecation of GST, entitled "A Better Way.". Returning the GST revenue to facilitate the activity which generates the tax is a transparent and equitable method of financing infrastructure

UDIA NSW believes that this idea has substantial merit and would be a key way of addressing fiscal funding imbalances which disadvantage NSW in the federal funding framework. Hypothecation of GST revenue from a new development would be a far more efficient, fair and transparent way of addressing infrastructure funding challenges.

UDIA NSW requests that Treasury and the Department of Planning reveal the infrastructure financing alternatives for discussion prior to finalising the levy proposal. The development industry facilitates the delivery of new homes and is therefore uniquely qualified to offer advice on this subject.

Conclusion

In conclusion, UDIA NSW welcomes the recent announcements in relation to the SIC and section 94 as they apply to Sydney Growth Centres. Nevertheless, UDIA NSW is concerned with regard to the lack of information presently available particularly with respect to transitional provisions and the impact on brownfield areas and regional development. It is vital that these changes send the correct signals to the private sector to instil investment confidence in the NSW market

UDIA NSW believes there are a number of issues where input from UDIA NSW can assist Government as it formalises the implementation frameworks for these initiatives. We would therefore welcome the opportunity to assist the NSW Government in refining the proposal and discussing alternative infrastructure financing options.

Finally, UDIA NSW requests that the NSW Government host a briefing for the industry participants similar in scale to the Planning Reform Workshop at the Australian Technology Park. Alternatively, UDIA NSW would be pleased to host a luncheon to disseminate information to its members.