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3 May 2019

Ms Sarah Blackwell
Director – Local Infrastructure Contributions
Independent Pricing and Regulatory Tribunal
PO Box K35, Haymarket Post Shop
NSW 1240

localgovernment@ipart.nsw.gov.au

Dear Ms Blackwell,

IPART INFORMATION PAPER – INDEXATION OF CONTRIBUTION RATES

Thank you for your email dated 11 April 2019, inviting Housing Industry Association Ltd (HIA) to respond to the Indexation of Contribution Rates Information Paper.

HIA has reviewed the information paper and a copy of the Association's submission is attached. Additionally, please find attached HIA's policy position - Infrastructure Charges and Levies on Residential Development.

HIA would be pleased to meet with you to further discuss any feedback provided. Please do not hesitate to contact Cathy Towers, Planning Advisor NSW on [redacted] or alternatively [redacted] should you wish to discuss this matter further.

Once again, we thank you for the opportunity to contribute at this stage. HIA is always pleased to provide input and feedback on all matters affecting the housing industry.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

[redacted]

David Bare
Executive Director

HOUSING INDUSTRY ASSOCIATION

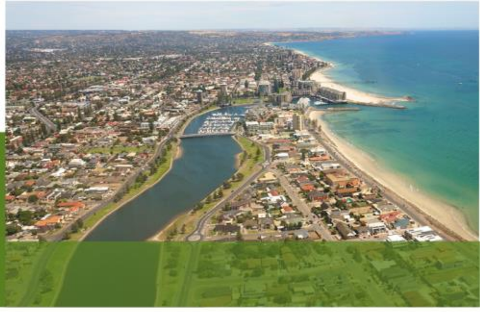
Reforming Building & Planning Laws

Submission to Independent Pricing and Regulatory Tribunal (IPART)

Information paper - Indexation of contributions rates

3 May 2019

HOUSING INDUSTRY ASSOCIATION



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[redacted]

ABOUT THE HOUSING INDUSTRY ASSOCIATION

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry, including new home builders, renovators, trade contractors, land developers, related building professionals, and suppliers and manufacturers of building products.

As the voice of the industry, HIA represents some 40,000 member businesses throughout Australia. The residential building industry includes land development, detached home construction, home renovations, low/medium-density housing, high-rise apartment buildings and building product manufacturing.

HIA members comprise a diversity of residential builders, including the Housing 100 volume builders, small to medium builders and renovators, residential developers, trade contractors, major building product manufacturers and suppliers and consultants to the industry. HIA members construct over 85 per cent of the nation's new building stock.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry. HIA's mission is to:

> *"promote policies and provide services which enhance our members' business practices, products and profitability, consistent with the highest standards of professional and commercial conduct."*

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into the manufacturing, supply, and retail sectors.

The aggregate residential industry contribution to the Australian economy is over $150 billion per annum, with over one million employees in building and construction, tens of thousands of small businesses, and over 200,000 sub-contractors reliant on the industry for their livelihood.

HIA develops and advocates policy on behalf of members to further advance new home building and renovating, enabling members to provide affordable and appropriate housing to the growing Australian population. New policy is generated through a grassroots process that starts with local and regional committees before progressing to the National Policy Congress by which time it has passed through almost 1,000 pairs of hands.

Policy development is supported by an ongoing process of collecting and analysing data, forecasting, and providing industry data and insights for members, the general public and on a contract basis.

HIA operates offices in 23 centres around the nation providing a wide range of advocacy, business support including services and products to members, technical and compliance advice, training services, contracts and stationary, industry awards for excellence, and member-only discounts on goods and services.

1.0 INTRODUCTION

The Housing Industry Association (HIA) welcomes the opportunity to provide comments to the Independent Pricing and Regulatory Tribunal (IPART) on the *Indexation of Contribution Rates Information Paper* (the paper) released on 11 April 2019.

HIA is a leading voice on contribution rates. This is because levies and charges applied to development to cover physical and social infrastructure significantly affect new housing affordability. They are in effect a tax on new homebuyers.

Over the last decade, the charges applied through infrastructure development levy schemes have become increasingly significant. This is partially due to the large range and high quality of facilities being requested by authorities and in many cases a conscious decision to shift the majority of upfront costs onto new developments.

The levies and charges are now so significant that they are impeding orderly and affordable residential development from occurring and significantly adding to the upfront costs of new homes.

HIA is concerned about the impact of any increase in levies and charges imposed on residential development. This is because of the impact of increased levies and charges on housing affordability.

The paper on indexation of contribution rates is therefore of particular interest to HIA as the method used by councils for the indexation of developer contributions has a direct impact on its members.

2.0 HIA'S POSITION ON INFRASTRUCTURE CHARGES AND LEVIES

As a general principle, developers and homebuyers should only be required to pay for infrastructure which is development specific, or infrastructure that provides essential access and service provision. This is considered by HIA to be core requirements for housing development and includes local roads and stormwater drainage, and land for neighbourhood open space. These are essentially the infrastructure items within the boundaries of the development site and are provided by the developer as part of the cost of the development.

If up-front infrastructure levies exist, they should be identified by the relevant authority and be included within a statutory planning instrument. The statutory planning instrument should be prepared at the time of approval of the release of the land for urban development. The manner in which the up-front levies are costed should be transparent and cover capital and implementation costs only. All ongoing and maintenance costs should be recovered by means of an annual rate or charge and not permitted to be part of the levy calculation.

In addition to local contributions to cover physical and social infrastructure, developers are also expected to make contributions for regional infrastructure (Special Infrastructure Contributions), affordable housing, and biodiversity offsets. HIA is concerned that some councils are attempting to develop 'value capture schemes', with little or no regard to the impact these measures have on housing affordability.

3.0 INDEXATION OF CONTRIBUTION RATES

The discussion paper is seeking stakeholder views on how councils should index contribution rates between the adoption of a local infrastructure contribution plan, and the revision of the contributions plan. In particular, IPART is seeking feedback on different approaches to indexing contribution rates to account for changing land costs.

HIA does not support any change to the Consumer Price Index (CPI) method of indexing contribution rates by council. This is because the CPI approach to the indexation of contribution rates provides some degree of certainty for the housing industry. The industry requires certainty in the costs associated with development, before releasing land for new homes. If this level of certainty is compromised then developers will hold onto their land and this will have an impact on land availability and opportunities for the provision of affordable housing.

The CPI is the most commonly used statistic in the calculation of inflation and the housing industry currently uses the CPI to forecast growth in contribution rates. The alternative land value index (LVI) and works value index (WVI) are not supported. Indexing contribution rates through a LVI or WVI would not provide the same level of certainty as land values and works values are prone to market fluctuations. For example, if land is in short supply, land values would increase. Developer contributions would then increase if LVI indexation is applied.

The housing industry is already impacted by the lifting of the caps on developer contributions by the NSW Government from mid-2017.

4.0 QUESTIONS FOR STAKEHOLDERS

HIA has reviewed the three (3) questions presented to stakeholders by IPART and provided response to each question in the table below.

Question	HIA Response
1. In what circumstances should contributions plans adopt an index other than the CPI (All Groups) for Sydney to adjust contribution rates? Is there a need for different approaches in different contexts (e.g. greenfield vs infill or metro vs non metro)?	HIA does not support any changes to the Consumer Price Index (CPI) method of indexing contribution rates by council. This is because the CPI approach to the indexation of contribution rates provides some certainty for the housing industry. The alternative land value index (LVI) and works value index (WVI) are more prone to market fluctuation and are not supported by HIA.
2. What indexes, other than CPI, might be appropriate for adjusting: • Contributions for the cost of works (i.e. construction of transport and stormwater management infrastructure and open space embellishment)? • Contributions for the cost of land required for local infrastructure?	For the reasons outlined above, HIA does not support the use of indexes other than the CPI for the indexation of contribution rates.
3. If a plan adopts a land value index (LVI): • Is it reasonable for councils to construct the LVI using independent land valuations? • Should the LVI be specific to the composition of land in the plan’s catchment area (precinct specific) to the local government area (LGA) or a broader region (e.g. Greater Sydney house prices)?	For the reasons outlined above, HIA does not support the adoption of a land value index for the indexation of contribution rates.

5.0 CONCLUSIONS

Levies and charges applied to development to cover the cost of physical and social infrastructure significantly affect new housing affordability. They are in effect a tax on new homebuyers. HIA is therefore concerned about the impact of any potential increase in levies and charges imposed on residential development.

For the housing industry it is important that contribution rates provide simplicity and certainty regarding the determination of any obligations a developer is to incur for their development.

The purpose of the IPART information paper is to seek stakeholder views on how councils should index contribution rates. However, as clarified in this submission HIA does not support any changes to the existing CPI method of indexing contribution rates by council. This is because the CPI approach to the indexation of contribution rates provides some degree of certainty for the housing industry. The CPI is the most commonly used statistic in the calculation of inflation and the housing industry currently uses the CPI to forecast growth in contribution rates.

The alternative land value index (LVI) and works value index (WVI) will not provide this certainty and therefore are not supported.

HIA appreciates the opportunity to be consulted on this important matter and would be pleased to be further engaged in discussions.

Should you wish to discuss this submission please telephone Cathy Towers, Planning Advisor NSW [redacted]

We look forward to being advised of the outcome of the consultation on the information paper.

HIA

HIA Policy

Infrastructure Charges and Levies on Residential Development

Policy Background

- Levies and charges applied to development to cover physical and social infrastructure significantly affect new housing affordability. They are in effect a tax on new homebuyers.
- Most states and territories, through the planning system, can apply a charge on new residential developments via an infrastructure development contribution scheme of some type.
- Over the last decade, the charges being applied through these infrastructure development levy schemes have become increasingly significant. This is partially due the large range and high quality of facilities being requested by authorities and in many cases a conscious decision to shift the majority of the upfront costs onto new developments.
- The levies are now so significant they are impeding orderly and affordable residential development from occurring and significantly adding to the upfront costs of new homes.
- State governments have recognised the negative impact levies have on residential development and introduced ways to slow increases through either standard development levies or capped development levies. However, there is no clear evidence this approach has lowered the charges payable and improved the final cost of a new home.
- Some councils are attempting their own approach to the levies which can result in more levies and varied amounts being charged.

Policy Issues

- Development charges and levies can encompass two types of infrastructure provision:
  1. *Development specific infrastructure* – being items which are directly attributable to new development, defined as those items that are necessary to create the allotment without which the development could not proceed, for example:
     - local roads;
     - drainage;
     - stormwater;
     - utilities provision;
     - land for local open space; and
     - direct costs of connecting to local water, sewerage and power supplies.
  2. *Community, Social and Regional Infrastructure – being items of broader physical, community and social infrastructure which are ancillary to the direct provision of housing in a new development and support residents outside that development, for example:*
     - headworks for water, sewerage and power supplies which may be part of a specific contributions plan;

  - community facilities such as schools, libraries, child care facilities, medical centres and retail facilities;
  - district and regional improvements such as parks, open space and capital repairs;
  - social improvements such as library books;
  - public transport capital improvements;
  - district and regional road improvements;
  - employment services;
  - subsidised housing; and
  - conservation of natural resources.
- Levies for community, social and regional infrastructure are typically applied by either local and/or state governments through the planning system.
- In many cases the levies are charged without the establishment of a nexus between the infrastructure item and the community who will benefit and use it, without transparency in the collection and without any consideration of the impact on housing affordability.
- Levies of this kind are being viewed as a primary funding source for community, social and regional infrastructure, despite the benefits from that infrastructure being enjoyed by the whole community.
- Whilst development specific infrastructure has a nexus with the allotment or building and directly benefit future home owners community social and regional infrastructure may have limited or no nexus with the population who will occupy the homes in a new development.
- Many items of community, social and regional infrastructure end up in private ownership and are operated on a commercial basis once delivered, such as child care and medical centres. This represents a double charge for new home buyers.
- Every dollar charged in infrastructure contributions adds multiple dollars to the end price of a home as a result of multiple factors including delays in the calculation and setting of the levies, the uncertainty of this process and associated risks, the delays in developments commencing and increased mortgage repayments by the developer and the homebuyer required over time.

HIA's Policy Position on Infrastructure Charges and Levies on Residential Development

1. *Development specific infrastructure* which provides essential access and service provision and without which the development could not proceed are considered to be core requirements for housing development and should be provided in a timely manner to facilitate affordable development. These infrastructure items within the boundaries of the development should be provided by the developer as part of the cost of development.
2. An up-front charge against a new development is the least efficient manner in which infrastructure costs may be recovered.
3. The costs of broader *community, social and regional infrastructure* should be borne by the whole community and funded from general rate revenue, borrowings or alternative funding mechanisms.
4. The imposition of up-front levies on new homebuyers for *community, social and regional infrastructure* is inequitable, discriminatory, inflationary and erodes housing affordability.

5. Where up-front infrastructure levies currently exist for *community, social and regional infrastructure* and until such time as these levies are eradicated in line with dot points 1-4 above:
   - The establishment and calculation should be identified by the authority and be embedded within a statutory planning instrument prepared at the time of approval of land for urban development;
   - Governments should be required to prepare a full cost benefit analysis of the impact of any proposed infrastructure levy on housing affordability prior to any implementation;
   - The manner in which the up-front levies are costed should be transparent and cover capital and implementation costs only. All ongoing and maintenance costs should be recovered by means of an annual rate or charge and not permitted to be part of the levy calculation;
   - Any levies implemented should provide certainty and consistency for future development and home owners about the infrastructure to be delivered, costs to be funded and timing of delivery;
   - Levies should be collected at the latest stage of the development process, just prior to the creation of legal title or prior to occupation;
   - Once adopted levies should not be subject to any change or variation apart from defined cost of living increases or similar indexation to allow for inflation;
   - The amounts collected should be fully disclosed and reported to State Parliament annually and also reported by local councils to their own communities via annual reports.
6. Levies which are applied by Governments for state based items of infrastructure should be:
   - Established and collected in the same manner as those collected by local government as established above; and
   - Expended in the same area from which they were collected.
7. Any funds which have been collected for infrastructure which is not subsequently provided within the planned timeframes should be refunded to the property owner of the development either as soon as the decision is made to eliminate the proposal or at the expiry of the specified time frame.