



INFRASTRUCTURE CONTRIBUTIONS REFORM IN NSW – WHERE TO NOW?



KEYNOTE SPEAKERS:

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NSW Treasury

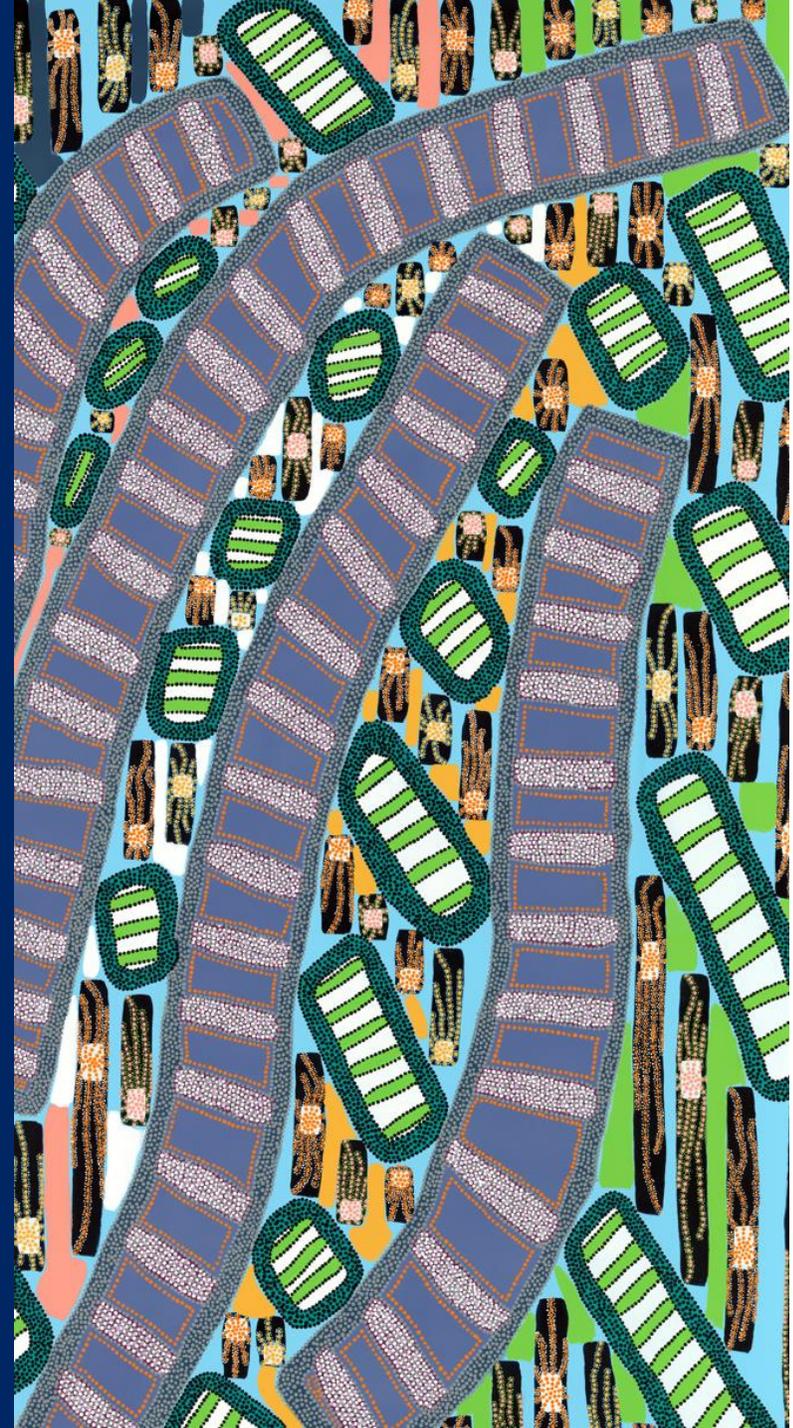
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Infrastructure Contributions Reform

Urbis and Maddocks Panel Discussion

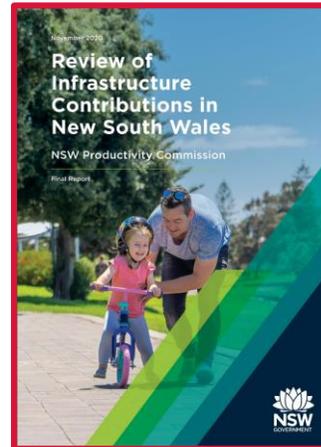
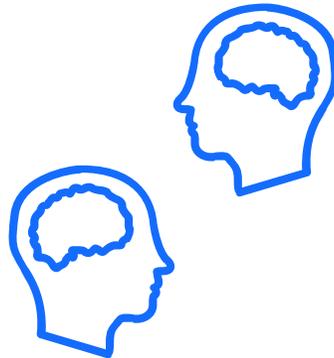
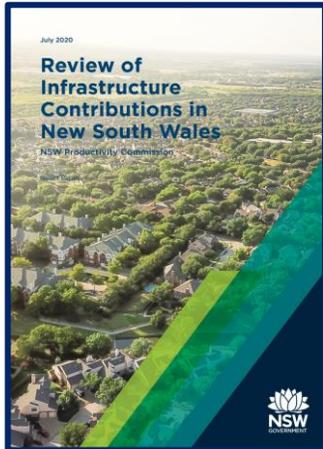
NSW Productivity Commission

27 July 2022



NSW Productivity Commissioner's Review

Final Report delivered in November 2020



87 written submissions

- industry,
- NSW Government agencies
- local government
- community groups

29 recommendations for an efficient system based on sound principles to deliver

- improved services and public spaces
- more housing and business space
- lower costs for industry

All recommendations were accepted by the NSW Government in March 2021

Issues in infrastructure contributions

The system is inefficient, lacks transparency, is complex, inequitable and unpredictable



● Used for *de facto* value capture

Allows for recovery of non-development costs

Lack of transparency feeds perceptions of a corrupted system

'Voluntary' but often the only option available

● Time and resource intensive

Allow for recovery of non-development costs

Incentives to avoid future costs through gold-plating

Misalignment of payments/expenditures.

● Fixed rate (1 per cent of construction costs) is too low to be useful

● *Ad hoc* and patchwork application

Lack of transparency and consistency

Collects little revenue (< \$100 million per year)

● Is this the right mechanism for funding affordable housing?

Principles for an efficient contributions system

Certain	Cost reflective	Transparent	Consistent	Simple
<ul style="list-style-type: none">Contributions plans developed in parallel with strategic planning and re-zoning processA direct land contribution to insulate local government from property riskSimple and certain charges for regional infrastructure contributions and section 7.12 levies	<ul style="list-style-type: none">Section 7.11 contributions based on benchmark costs and the essential works listCharge for new water connections in Sydney, Illawarra, and Hunter regionsBiodiversity contributions with area-specific charges.	<ul style="list-style-type: none">Digital tool to signal charges and report on revenue and expendituresExpenditure of State infrastructure contributions to be aligned with the budget process with priorities to be informed by DPE and Infrastructure NSW.	<ul style="list-style-type: none">Adopt consistent guidelines for exemptions and works-in-kind agreements.Restrict planning agreements toeither out-of-sequence developmentor direct delivery of infrastructure.Broad based RIC framework	<ul style="list-style-type: none">Higher section 7.12 levies, charged per dwelling and per m2 of business spaceAdopt standard infrastructure costs and local contributions templates.Provide simple, clear, and up-to-date guidance.Transition to digital tools.

A principles-based infrastructure contributions system

Local infrastructure

Rates	Direct land contribution	Section 7.11	Section 7.12
<ul style="list-style-type: none">• General costs• Enabled by rate peg reform	<ul style="list-style-type: none">• Landowner charge• Cost reflective	<ul style="list-style-type: none">• Developer charge• Cost reflective	<ul style="list-style-type: none">• Developer charge• Simple and certain

State infrastructure

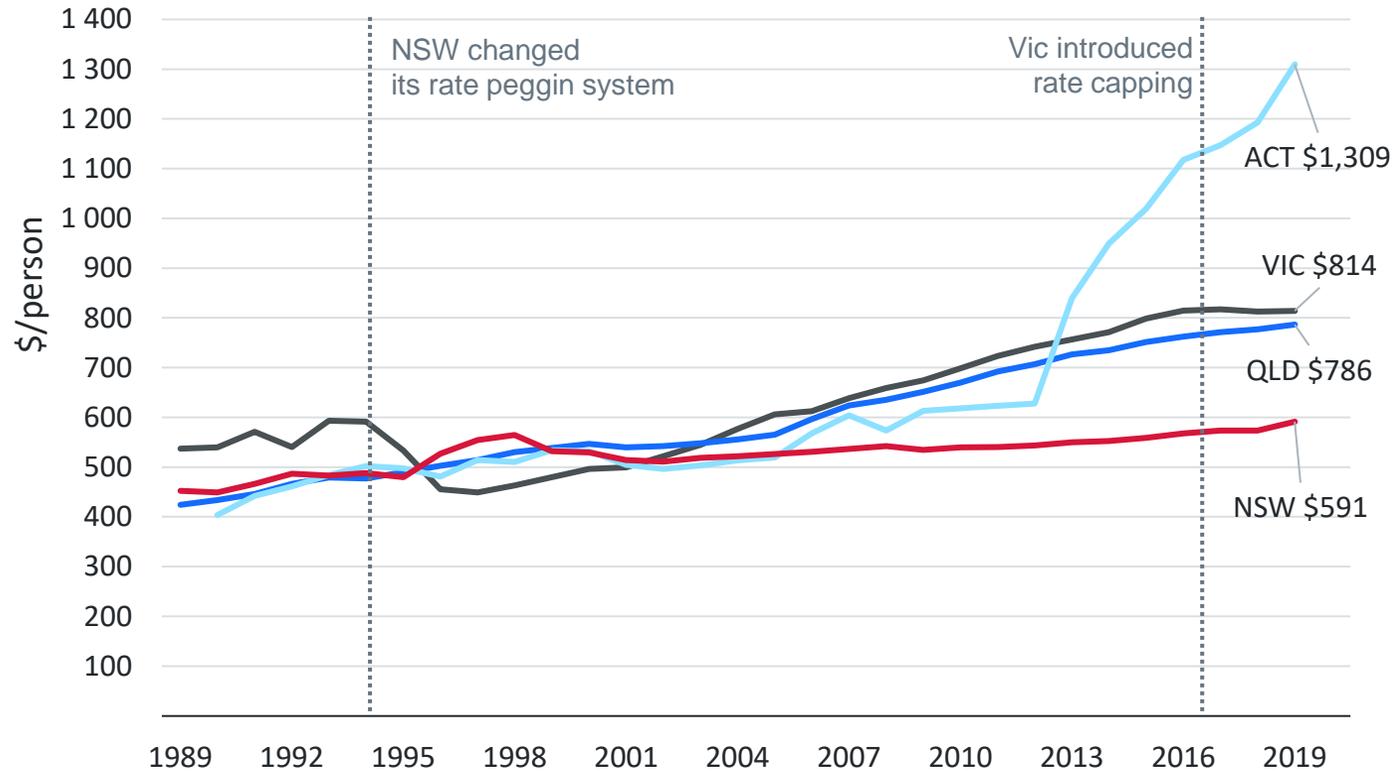
State capital expenditure	Base regional contributions	Transport contributions	Biodiversity contributions	Water charges
<ul style="list-style-type: none">• Taxation, borrowings• Grants• Own-source revenue	<ul style="list-style-type: none">• Beneficiary and impactor pays• Broad-based low-rate	<ul style="list-style-type: none">• Beneficiary pays• Major transport capital cost recovery	<ul style="list-style-type: none">• Impactor pays• Site specific	<ul style="list-style-type: none">• Developer charge• Cost reflective

Progress on implementation

A new local government rate peg applies as of 1 July 2022



Council general revenue



The peg now compensates councils for:

- *both* inflation of input **prices**
- *and* **volumes** and **quantities** of services.

Council's general income should cover **general costs**.

Local contributions should cover **development contingent costs**.

The financial disincentive to accept development is removed.

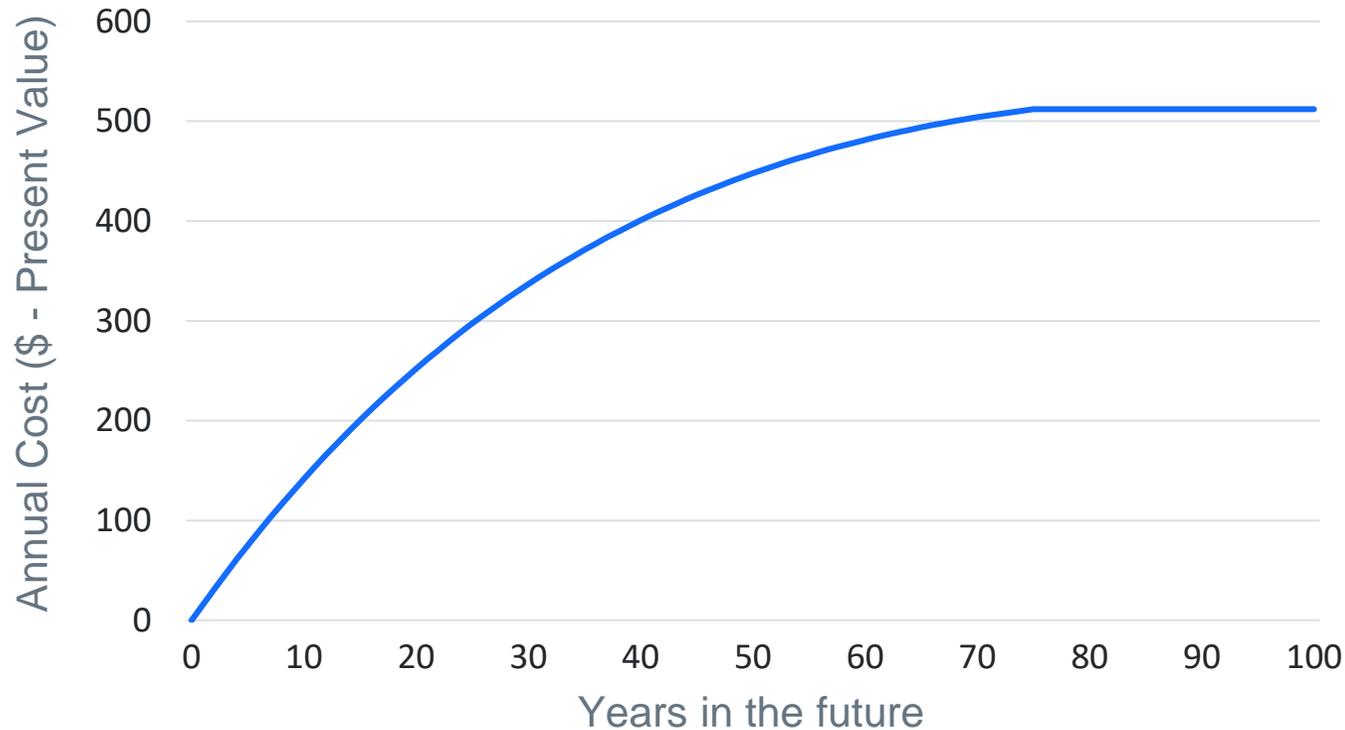
Source: Centre for International Economics (2020) based on Australian Bureau of Statistics' data

Progress on implementation

Developer charges for Sydney Water and Hunter Water to be phased in from 1 July 2023



**Cost to existing customers (Sydney/Hunter Water)
to service new water infrastructure**



Source: Independent Pricing and Regulatory Tribunal analysis

Since 2008, there have been zero developer charges to fund water connections

Metropolitan water customers have borne the cost of development contingent infrastructure, causing:

- **inequity**
- **distorted incentives** about *where* and *where not* to develop
- **misalignment** between industry and SOC activities

Returning to cost reflective water charges will:

- encourage development (in the right places)
- contain customer water bills

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Infrastructure Contributions Reform

Urbis and Maddocks Panel Discussion

27 July 2022

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Why it's important

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NSW needs more homes for everyone.

To build more homes we need roads, drainage and parks.

We also need hospitals and schools in the right places, so everyone has access to the services they need.

We need more infrastructure

- New homes and new communities need more infrastructure – it's as simple as that.
- This infrastructure costs money.
- Developers who benefit contribute to the cost of this infrastructure – that makes sense and it's only fair.
- Infrastructure should be aligned with development – the reforms deliver this

We need an improved infrastructure contributions system

- We know the system we have is too complex.
- It's ad-hoc and inconsistent.
- Businesses want to invest in NSW, but they need more certainty.
- The reform makes NSW a more attractive place to invest by making the system certain, fairer, simpler, efficient and consistent.
- More investment means more land for hospitals, schools and roads. It means a better quality of life for everyone.
- The reform delivers **Productivity, Performance and Probity**

What the Bill will do

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Environmental Planning and Assessment (Infrastructure Contributions) Bill 2021

- June 2021: Bill introduced
- August 2021: Legislative Council committee recommended that the Bill not proceed until detail published
- October 2021: Detailed package exhibited

Provides the framework for a principles-based contribution system



Supports future housing with infrastructure by allowing a fixed rate s7.12 contribution and aligning state and local strategic planning



Supports local government by introducing the land value contribution



Supports industry by allowing deferred payment of contributions at occupation stage to continue



Supports the community by establishing a broad-based low rate contribution in high growth regions, to fund state infrastructure

Pre exhibition – how we’ve listened

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From **1 July to 31 October 2021** we engaged with stakeholders on how to best implement the recommendations:

- ✓ **76** formal stakeholder meetings were held:
 - ✓ **46** involved LGNSW and councils
 - ✓ **33** involved peaks and industry
- ✓ **1111** interactions with stakeholders occurred through meetings and roundtables
- ✓ **149** engagements with stakeholders were undertaken across 14 technical working group meetings
- ✓ **56,846** stakeholders updated through Newsletters, Outlooks and Bulletins (tailored communications for different stakeholder group)

Changes to section 7.11 contributions plans

We will keep the current essential works list settings unchanged for 3 years



Changes to section 7.12 rates – development, and alterations & additions

We will apply the rates knock down/rebuilds, and alterations and additions



Changes to section 7.12 rates by area

We will apply differential rates based on geographical boundaries:

- Eastern Harbour City
- Central River City
- Western Parkland City
- Regional NSW

They will not go backwards



Section 7.12 levies for solar and wind farms

\$2,000 per megawatt of generating capacity for solar and wind farm developments with an increased cap of \$450,000



Different section 7.12 charging units for some residential development

Appropriate charging unit for some residential types, instead of “per dwelling”



Changes to regional contributions

Regional contributions rates for regions outside of Greater Sydney have been adjusted.

- \$8,000/dwelling (houses)
- \$6,000/dwelling (all other residential).

All regional infrastructure contributions will be phased in over 3 years and do not affect local contributions plans



Exhibition package - summary

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Local contributions

- Draft regulations and explanatory paper
- Land value contribution paper and case studies
- Practice note policy paper and modules:
 - Principles of infrastructure contributions
 - Selecting the most appropriate local contribution mechanism
 - What can be funded through section 7.11 and 7.12 local infrastructure contributions
 - Making a section 7.11 contributions plan
 - Making a section 7.12 contributions plan
 - Exhibition
 - Borrowing and forward funding
 - Infrastructure contributions for mining and energy developments

Contributions and land use planning

- Ministerial Directions:
 - Local infrastructure contributions planning proposal
 - Dual and shared use of open space and public facilities
- Draft practice note:
 - Contributions plans and planning proposals

Regional contributions

- Regional Infrastructure Contribution Discussion paper
- Regional Infrastructure Contribution Explanation of Intended Effect
- Regional Infrastructure Contribution Governance and Prioritisation guidelines
- Regional Infrastructure Contribution Infrastructure Delivery Agreements guidelines
- State Planning Agreements guidelines
- Feasibility Analysis

Exhibition process – key engagement

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The exhibition ran from **28 October – 10 December 2021**, however stakeholder meetings continued until 24 December and by exception extensions for submission were granted to some stakeholders.



The department held 7 webinars with councils and 4 briefings with peak bodies, reaching a total of 696 stakeholders.



Council 'technical submissions' were received until 24 December 2021.



Some resident groups were given extensions until 14 January 2022 to provide their submissions.



Over 820 submissions have been received



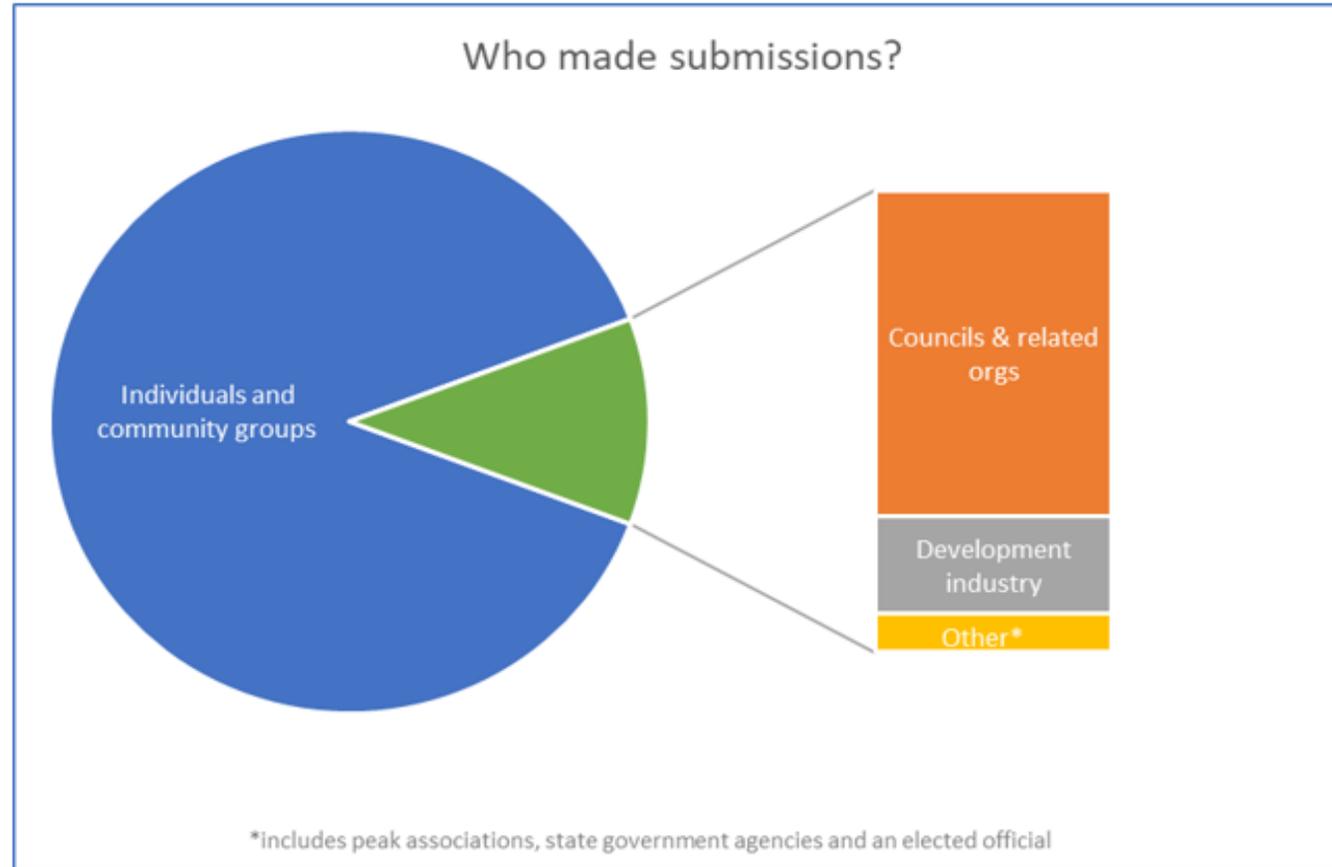
Approximately 90 submissions were from councils



The Department is currently finalising the Exhibition Submissions report

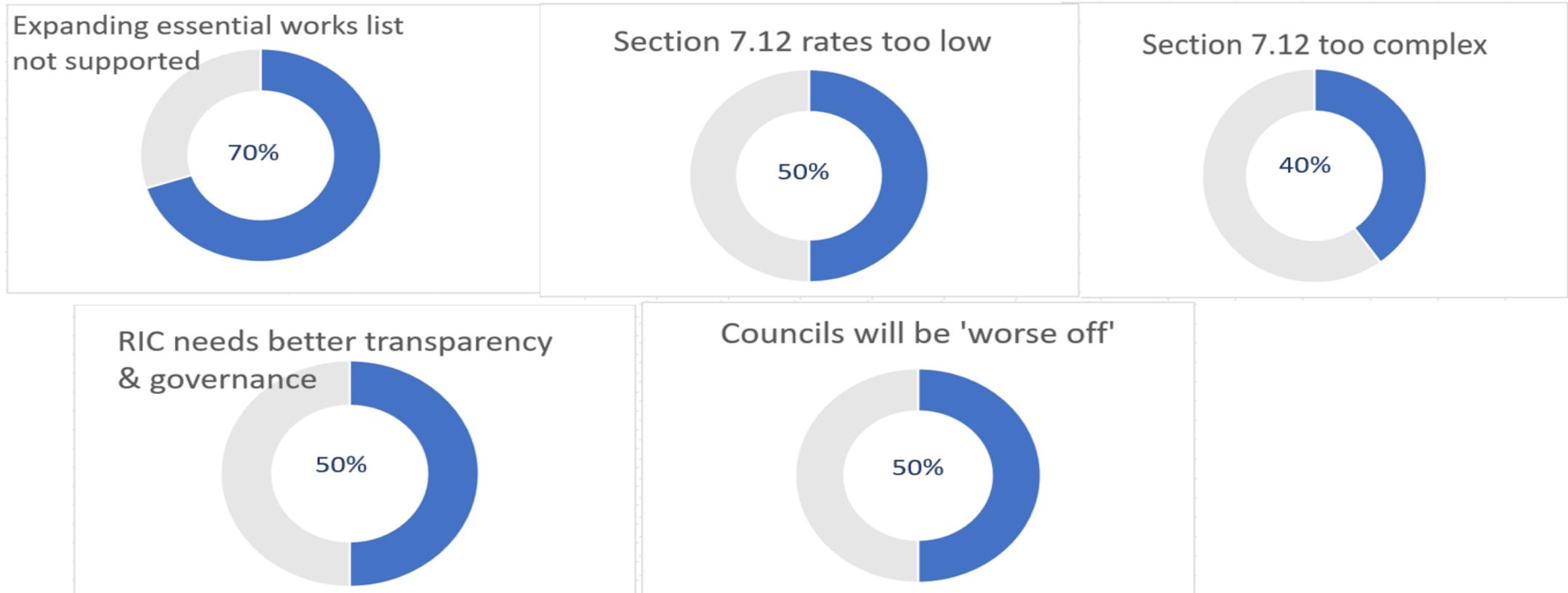
Who made submissions?

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What we've heard from councils

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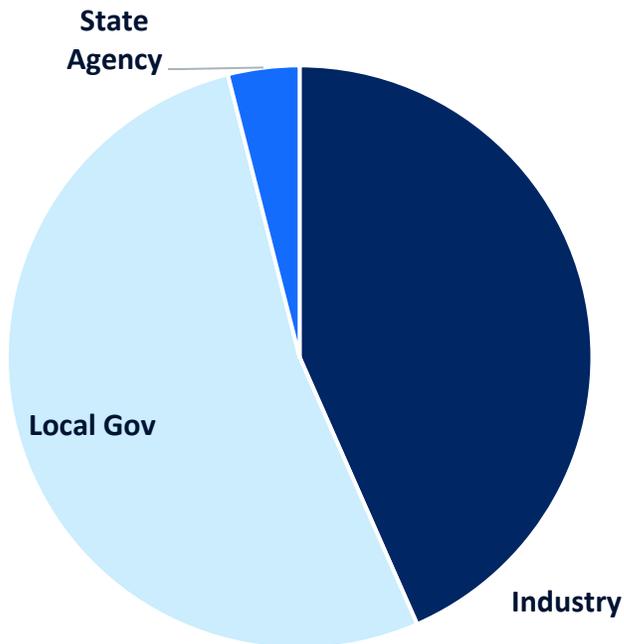


What we've heard on State contributions

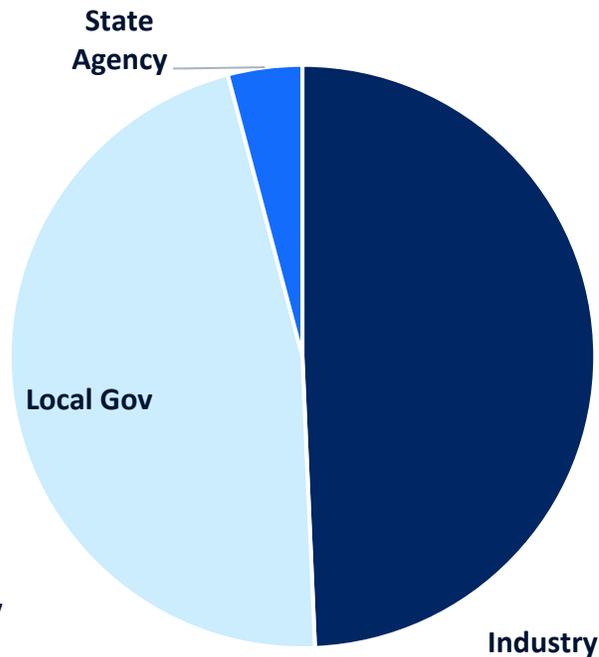
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Overarching idea coming out of submissions: *Robust and transparent infrastructure delivery*

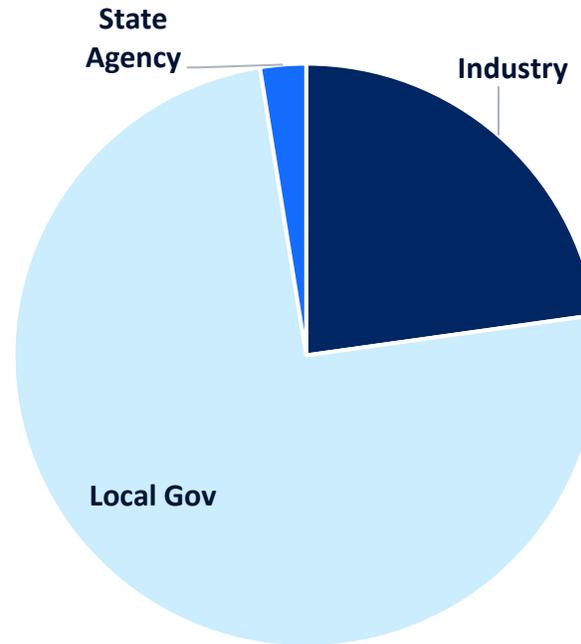
Approach in general



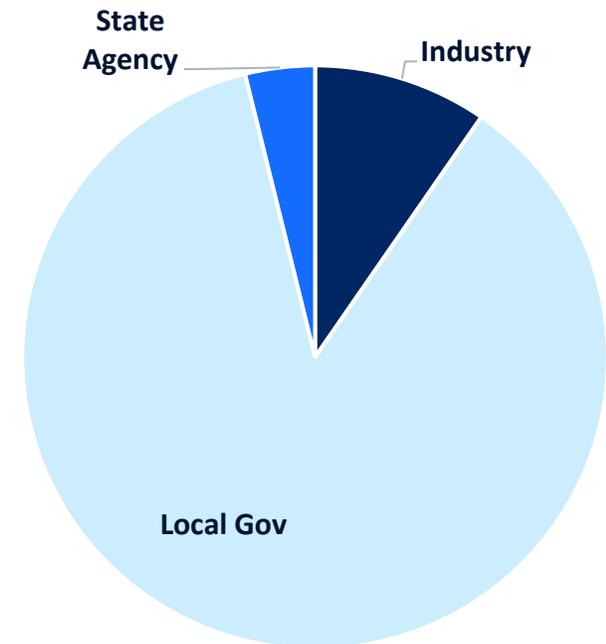
Infrastructure delivery



Governance and accountability



Nexus



Key concerns

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Essential Works List:



7.12 rates:



7.12 application:

ISSUE	Will some councils be worse off assuming essential works list for section 7.11 plans applies from Day 1?	Will some councils be financially worse off due to changes to 7.12 rates?	Will some councils be financially worse off if they were to use a s7.12 plan for their entire LGA?
FACT	The essential works list will not apply from Day 1 – we’ve committed to revisit in 3 years. This means there will be no financial losses for councils with s7.11 plans	No we have committed to no councils being worse off. We have committed to maintaining current arrangements for higher rates.	Councils are not required to move to s7.12 plans for their entire LGA and can choose the right contributions plan for their community.

Key concerns

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Regional Infrastructure Contributions:



Regional Infrastructure Contributions:



Land Value Contributions:

ISSUE	<p>Will the 'regional infrastructure contribution' be spent in parts of the region that don't benefit the payer?</p>	<p>Will the 'regional infrastructure contribution' will be slush fund for government?</p>	<p>Is the land value contribution a tax on the family home? Will the land value contribution reduce the future sale of home owners land?</p>
FACT	<p>It will only be spent in the region from which it is drawn based on a regularly prepared growth infrastructure needs assessment prepared by the DPE.</p>	<p>State contributions will be supported by a robust governance process to ensure the collection and expenditure of these funds is transparent and clearly reported</p>	<p>No, it is not a tax. It is an optional, alternative mechanism and does not apply to land already rezoned. Councils will be required to decide and consult prior to using this mechanism.</p>

Next steps

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