File Ref: [redacted]

5 August 2020

NSW Productivity Commission
ICReview@productivity.nsw.gov.au

Dear Sir/Madam

RE: Infrastructure Contributions Review

Thank you for the opportunity to comment on the Productivity Commission's Review of the NSW Development Contributions system. It is agreed that the system needs significant reform to provide a more sustainable infrastructure funding model. The Discussion Paper addresses the four principles for a reformed contribution system: efficiency, equity, certainty, and simplicity. These principles and the goals outlined are supported.

For Council, the key issue is how to adequately fund infrastructure that enhances the liveability of neighbourhoods. Community expectations continue to change and grow, yet funding is more constrained than it was in the past. The Greater Sydney Commission District Plans and Local Strategic Planning Statements all require councils to make 'great places' for people to live, work and recreate. This entails initiatives such as:

- improving tree canopy and making greener places;
- facilitating active transport;
- activating town centres;
- improving the public domain;
- meeting greater and more varied open space needs;
- being environmentally sustainable;
- creating green grid links;
- addressing environmental hazards;
- protecting bushland, biodiversity, and landscapes; and
- creating culturally rich, socially connected and healthy communities.

Many of these initiatives require infrastructure that is not detailed in these high level plans, nor are funding mechanisms identified. There is no growing source of revenue through which to fund these aspirational levels of community amenity. Development contributions should be sufficient in monetary terms, and allow sufficient flexibility in application, to fund the investment needed to improve the liveability of neighbourhoods if the goal of creating 'great places' is going to be realised.

Rate pegging has effectively limited Councils' ability to grow their rate base in line with population growth. Rate pegging also does not recognise the changing needs of a growing and changing population. Infrastructure construction costs continue to rise and yet there are very limited ways in which Council can source alternate funds.

It is considered that 'value capture' is one viable way to share the benefits of land value uplift generated by planning decisions with the community. Currently the property owner and the developer receive a significant financial windfall benefit from rezoning as councils work to achieve housing targets set by the NSW Government. The broader community bears the impact of increased density, often in the form of increased traffic/parking issues and congested open space, with no significant offset benefit.

A move toward a value capture system was initiated 50 years ago with the enactment of the Land Development Management Contribution Act 1970 (NSW). This legislation was never gazetted to commence, though may be a starting point for implementing value capture in New South Wales.

The community has historically been opposed to change when it does not come with investment in the public domain, and does not improve the amenity of residents in the wider area. Value capture represents an opportunity to deliver positive change for the wider community as part of urban growth, and to fund the very welcome new focus on making 'great places' that is reflected in the District Plan and LSPS framework.

Rezoning of land automatically increases the land value and any property to be acquired for infrastructure or open space is automatically more expensive. Even being identified for future growth creates speculation and drives up land values. Rather than sharing in value uplift, Councils can be disadvantaged by having to pay more for land required for community infrastructure.

The current situation of value escape encourages housing price bubbles and unnecessarily high project build costs, as developers compete for builders and trades in an attempt to capitalise on the short period of speculative increase in each property market cycle. This "feast or famine" approach to development is a major factor in the housing affordability issue. For many years the Reserve Bank of Australia has commented on the unhealthy economic consequences of a housing price bubble. Refer to the publication, via the following URL:

https://www.rba.gov.au/publications/confs/2011/yates.html

Ideally the development approval pipeline should encourage a reasonable supply of development, particularly housing, during all phases of the property market cycle. Transparent value capture at the initial rezoning can assist in smoothing out the peaks on the supply side.

An alternative to using the term value capture, is to seek support for a Local Infrastructure Contribution – paralleling State Infrastructure Contributions. This funding is needed for 'catch up' infrastructure and embellishment in neighbourhoods undergoing rapid change, essentially place making infrastructure and urban amenities improvement. Any contribution would be paid when zoning is changed to increase yield. This could be deferred until the first sale after the rezoning to ensure the cost becomes part of the cost of development.

Another option is for a contribution to be captured as part of an ongoing levy (for a period prior to development), separate to rates. Any system needs a reasonably long lead time so that it can slowly feed into decisions to purchase land for development. A staged approach would help the market adjust to the change.

Recent proposals to increase the contribution amounts do not assist the majority of Councils because higher contributions are limited to employment criteria and provision of essential facilities. In practice substantial suburban job growth is difficult to achieve. The restriction to essential facilities does not recognise the diverse needs of a community and facilitates only basic infrastructure provision.

Development contributions have less impact on housing affordability than the development industry asserts and should not be curbed due to industry pressure. The Commission's own publication indicates contributions are a very minor element in overall project build cost. Contributions are not passed on to homebuyers as the price of housing is set by the balance of supply and demand in the market. Because of this driver, if contributions are reduced either landowners ask more for their land or developers profit increases.

This happened in Sydney in early 2010's when contributions were capped, and asking prices for englobo land increased. Despite contributions falling in real terms in the 2010's decade, the price of land doubled. A similar result occurred with first home buyers' grants. Increasing the supply of money to compete for the same real estate boosts demand for the limited supply and process rise.

The needs of the community are extensive, and it is nuanced infrastructure that enhances liveability and creates 'great places.' Development contributions are presently the primary funding source for new capital investment to meet the changing and growing needs of local communities. Costs are increasing, yet the current system has not changed to reflect these increasing costs, and in some aspects has become more restrictive over time.

In any change there needs to be transparency so that the development industry understand its obligations and the community has confidence that development will be supported by necessary community infrastructure. The means of calculating, collecting and spending contributions should be robust and visible.

Much of the discussion paper covers the issues previously raised by Council in its submission to the NSW Department of Planning, Industry and Environment on proposed reforms to the current system. This is attached for your information.

Council would welcome the opportunity to participate in further Stakeholder roundtables. If you require further information please contact [redacted]

Please note this is a draft submission, yet to be endorsed by Council. An endorsed submission will be forwarded to you following Council's consideration.

Yours sincerely,

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