HOUSING INDUSTRY ASSOCIATION

Submission to the
New South Wales Government

Greater Macarthur
Proposed Special Infrastructure Contribution

22 January 2019

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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 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 sets 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.

The association 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. INTRODUCTION

The comments in this submission are provided in response to the proposed special Infrastructure contribution (SIC) for Greater Macarthur growth area, released by the Department of Planning and Environment in December 2018.

The funds collected through implementation of the Greater Macarthur SIC will assist the delivery and upgrading of infrastructure across the Greater Macarthur growth area. The SIC is estimated to provide $1.58 billion over the next 30 years.

The paper outlines the SIC will streamline the planning process by removing the need for individual voluntary planning agreements to be negotiated in the Greater Macarthur growth area and provide certainty for business.

HIA objects to the proposed special infrastructure contribution scheme (SIC) for the Macarthur growth area as it considers this charge represents an unfair tax on new housing. This is because the trigger point for the charge is likely to be a new development application and will therefore primarily apply to developers and homebuyers in the region, despite the shared benefit that will be derived by the infrastructure being proposed for funding through the levy.

HIA also opposes the nature of the infrastructure being proposed under the SIC which represent a broad range of community and regional infrastructure items that do not have a direct nexus with the expected residential subdivisions from where the funds would be collected. These broader community and regional infrastructure items should continue to be funded using measures other than development contributions.

The proposal outlines that the growth area has been divided into Greater Macarthur North, Central and South, with a SIC rate of $39,710 for Greater Macarthur North, $43,985 for Greater Macarthur Central and, $43,432 for Greater Macarthur South. The SIC rate is per additional dwelling and will be payable for all additional dwellings built within the contribution area, seemingly regardless of whether the development is Greenfield or Infill.

As a result of this levy developer costs will rise and housing affordability will be negatively impacted. New homebuyers will pay the SIC through higher land costs. In addition to pushing up the cost of land for new housing, it will also potentially have the effect of slowing land release as many developers, stretched to the limit already, will have their land potentially rendered unviable for development in the short term. This is because the market place may not be able to bear the higher land costs that will be required to cover the cost of the SIC – particularly in the short term.

The proposal presents the SIC as something the developer pays for, but fails to recognise the fact that these charges will ultimately be passed onto the Homebuyer.

Notwithstanding HIA’s policy position regarding government fees, levies and charges on infrastructure the comment and feedback provided throughout this submission is done so to encourage ongoing dialogue with government on behalf of the residential construction industry as represented by HIA.

2. HIA'S POLICY POSITION ON DEVELOPMENT CONTRIBUTIONS

As a general principle, developers and homebuyers should only be required to pay for the infrastructure which is development specific or infrastructure which provides essential access and service provision - without which the development could not proceed. This is considered by HIA to be core requirements for housing development and should be provided in a timely manner to facilitate affordable development.

Development specific infrastructure items within the boundaries of the development site should be provided by the developer as part of the cost of development. Examples of this kind of infrastructure are local roads, local storm water drainage, land for local open space and direct costs of connecting to water, sewerage and power supplies.

For other items of infrastructure - community and regional infrastructure including associated with new development and such as that proposed by the SIC, that is accessible to the wider community - other broader sources of funding should be investigated and utilised.

These types of items, as proposed in the Discussion Paper are ancillary to the direct provision of housing and an increased population and should be funded by another means – state taxes, rates and so forth. Examples of community infrastructure include headworks for water, sewerage and power supplies, community facilities such as schools, libraries & child care centres, district and regional improvements such as parks, open space and capital repairs, public transport capital improvements and district and regional road improvements.

With *development specific infrastructure* a nexus is established with the services necessary for the provision of the allotment or building and could realistically be expected to be funded by the developer.

Whereas *community social and regional infrastructure* establishes a nexus with the needs of the broader population who will occupy the area over a longer period. The majority of infrastructure proposed by the Greater Macarthur SIC falls into the second category. They are facilities from which the entire community will benefit and as such, should not be just funded by new development - they should attract broader government funding through either broad based state taxes - such as stamp duty and land tax or local rates charges or a combination of both. Further means should be sought yet this is not articulated in the discussion paper. There are no plans in the paper for example of a "special rate levy" or other broad based taxes so this charge appears to be aimed at development and new home buyers in the Greater Macarthur region.

Only as a means of last resort should governments have the option to impose an upfront levy for the provision of such broad based community facilities. In the interests of housing affordability and fairness, HIA believes that where levies are imposed, they should always adhere to the principles of need and accountability whilst being transparent, justified and subject to scrutiny.

3. APPORTIONING INFRASTRUCTURE COSTS

The application of the SIC represents a significant burden on new development in the Greater Macarthur area - so the first issue is that apportionment of the charge on developers and new homebuyers is essentially inequitable.

The map in the proposal shows all areas to be captured by the SIC. This is misleading as the SIC will only be levied on new development. Not all areas on the map will contribute – only new residential development within these areas will. There is no mention in the document for any proposed apportionment of the levy across the whole community. To capture existing home owners the only avenues are special rates (via council – a model SA has just introduced) or a state tax of some type for Hunter residents. This is not proposed.

The application of the SIC appears also appears to be targeted at *all* new residential development sites not just growth precincts or areas undergoing renewal. Again the map shows the 'whole region' being captured. This is an unfair apportionment of a levy for the facilities outlined in the proposal. Whereas the whole community will benefit from these facilities and services – not just those in the growth areas from which the funds will be collected.

New residential development is already subject to local development contributions charged under either part 7.11 or 7.12 of the *Environmental Planning and Assessment Act 1979*. The SIC represents an additional charge to local contributions already charged by Councils. In essence a "*double dip*" on new housing for infrastructure which is used by the much broader community.

Viable alternative funding methods or fair apportionment of costs to the whole community do not appear to have been investigated.

The process leading up to the point where government proposes a special Infrastructure contribution (SIC) for Greater Macarthur growth area appears to lack transparency particularly in terms of economic and regulatory impact

4. GREATER MACARTHUR SIC RATES

The proposal outlines that the growth area has been divided into three charge areas, Greater Macarthur North, Central and South. A SIC rate is proposed of $39,710 for Greater Macarthur North, $43,985 for Greater Macarthur Central and, $43,432 for Greater Macarthur South. The SIC rate is per additional dwelling and will be payable for all additional dwellings built within the contribution area.

The EPS feasibility study allows for an assumed section 7.11 (formerly Section 94) contribution of $20,000 per developed residential lot. Section 7.11 contributions are often much higher than $20,000 because the caps on section 7.11 contributions began to be lifted in 2017.

Using the best-case-scenario of a $20,000 Section 7.11 contribution, under the proposed SIC a new home buyer in the Greater Macarthur growth area may be paying at least $59,710 in infrastructure charges alone.

The imposition of such a significant levy on new homebuyers, largely to pay for infrastructure that will benefit the broader community, and does not have a direct nexus with the residential development, is inequitable and erodes housing affordability.

5. PAYMENT PROCESSES

Given the SIC process is a revenue recovery process and the delivery of infrastructure is not dependent upon the collection of the SIC, consideration should be given to allowing developers to pay the SIC at settlement of sale of land/residential developments. Developers should be allowed under strict conditions to defer the payment of SIC until completion of the development. If there was a mechanism for a deferred payment the developer can avoid the need to borrow funds to pay the SIC, which would help housing affordability by reducing the up front costs incurred in the development process.

It is essential that is some degree of flexibility built into the payment arrangements to provide developers with opportunities to reduce costs and pass those savings onto the home buyer.

6. CONCLUSION

HIA is opposed to the introduction of the SIC in the Greater Macarthur growth area but acknowledges that the SIC is intended to replace the current VPA process.

The major infrastructure types to be funded by the SIC are road and transport project (roads and bridges) as well as funding to be allocated to health, education and emergency services facilities. The works list for the proposed SIC does include many projects that will deliver benefits to the broader community and as such should be funded by the State Government using other revenue sources.

HIA's view is that this proposal represents an unfair tax on new housing. Imposition of the approximately $40,000 charge on all lots/dwellings in a residential subdivision will have an impact on housing affordability in the region.