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17 December 2020

Ms Sarah Lees, Director Southern Region
Department of Planning, Industry and Environment
Wollongong Regional Office
PO Box 5475
Wollongong NSW 2520

Dear Ms Lees,

Draft Illawarra Shoalhaven Special Infrastructure Contribution

Introduction

This letter has been prepared in response to the public consultation draft of the *Environmental Planning and Assessment (Special Infrastructure Contribution – Illawarra Shoalhaven) Determination 2020* (draft SIC), released for comment on 2 November 2020.

We note that the draft SIC is proposed to help fund the delivery of infrastructure in the Nowra Bomaderry and West Lake Illawarra Growth Areas, and that the draft SIC provides for contributions of over \$121 million from new residential development. The draft SIC will help fund State and regional infrastructure including roads and intersection upgrades, public open spaces and schools.

Housing Industry Introduction

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the housing industry. As the voice of the industry, HIA represents a membership of 60,000 across Australia, with our members involved in delivering more than 170,000 new homes each year through the construction of new housing estates, detached homes, low & medium-density housing developments and apartment buildings.

HIA members comprise a diverse mix of companies, including volume builders building thousands of new homes a year through to small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

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.

HIA's Policy Position on Infrastructure Contributions

HIA's overarching policy position on development contributions is that governments have a responsibility to implement programs ensuring infrastructure investment costs are shared equitably across the whole community

The equitable sharing of infrastructure costs however, is not the case in NSW, with development contributions for the housing industry now so high that they are impacting the rate of building and the affordability of new homes for buyers. Direct, upfront levies to fund infrastructure are passed on to the end consumer (the home buyer) and have a significant impact on housing affordability.

In 2018 HIA commissioned the Centre for International Economics (CIE) to investigate the magnitude of statutory taxes and regulatory costs in building new houses and apartments across Australian cities. The research found that in Sydney, nearly 50 percent of the cost of a new house and land package is incurred through red tape, taxes and charges. HIA is aware of cases in Sydney's growth areas of combined state and local infrastructure contributions being upwards of \$90,000 per lot. This amount impacts both housing affordability for buyers and the feasibility of projects for builders.

As a general principle, HIA believes that the housing industry and new homebuyers should only pay for infrastructure which has a direct nexus with the homes they build and buy. This is the infrastructure that is development specific providing essential access corridors and services that underpin the delivery of that land to market– infrastructure without which the development could not proceed. Examples of this type 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 larger and more expensive items of State and regional infrastructure, such as schools, hospitals and regional open space that support the orderly operation of our cities and regions, costs should be shared between new residents and the existing community. This is a position which is consistent with that cited by the NSW Productivity Commission in the August 2020 *Green Paper*, as follows:

Infrastructure contributions can ensure developers are charged appropriately for the additional demand their projects place on the community. At the same time, if we are to improve living standards, we must maintain adequate housing supply to accommodate a growing population. This means infrastructure contributions cannot place an undue burden on new development, at least in cases where service improvements are more appropriately paid for by users and the wider community.

The impact of development contributions on housing affordability is addressed in HIA's November 2019 submission to the NSW Productivity Commission's *Kickstarting the Productivity Conversation* report. A copy of HIA's submission is available [here](#).

Specific Comments on draft Illawarra Shoalhaven SIC

HIA is aware that significant work has been undertaken this year on measures to review and improve the NSW Infrastructure Contributions System.

In April, the NSW Government announced a two-tier review of the State's Infrastructure Contributions System and whilst stakeholder consultation has been undertaken, there are no firm outcomes at the time of writing this letter.

The first tier of the review process was a holistic review of infrastructure funding in NSW by the NSW Productivity Commissioner to determine whether the system *"meets the objectives of certainty and efficiency, while delivering public infrastructure to support development."* The Commissioner's Final Report was delivered to the Minister for Planning and Public Spaces on 24 November 2020 with the Minister's response is expected in early 2021.

The Final Report comments that SICs have been applied inconsistently and unpredictably across the State, leading to investor uncertainty. In response, the Productivity Commissioner is recommending broad-based regional contributions, in place of SICs. For the Illawarra Shoalhaven region, the recommendation (subject to no substantial impacts on feasibility) is for \$10,000 per dwelling for houses (detached, semi-detached, townhouses) and \$8,000 per dwelling for all other residential accommodation. The recommendation is for all new SIC proposals to *be folded into the new arrangements*.

Arguably, it is therefore too soon for the Government to progress the draft SIC for the Illawarra Shoalhaven Region, as the Minister is yet to deliver a response on the Productivity Commissioner's Final Report.

The second tier of the Government's infrastructure contributions review was to identify and make improvements to the infrastructure contributions system that could be implemented in the short term. This included draft guidelines to set out the purpose and objectives of SICs and the method for determining a new SIC. We understand that all of the proposed changes are still under consideration by the Government and may now be impacted by the Productivity Commissioner's recommendations.

As both the Productivity Commissioner's and NSW Government's review work are looking at the current SIC process, any outcomes could impact the recommended approach towards assessing the Illawarra Shoalhaven draft SIC.

Conclusion

Over recent years, charges applied to the NSW housing industry through infrastructure contributions schemes have become increasingly significant. The increase is partially due to the large range and high quality of facilities being requested by authorities and in some cases a conscious decision to shift the majority of upfront infrastructure costs onto new development. The levies can now be so high that they are impacting orderly and affordable residential development from occurring, and significantly adding to the upfront costs of new homes - potentially rendering some projects unviable.

As a general principle, it is HIA's position that the housing industry should only be required to pay for infrastructure which is project specific, or infrastructure that provides essential access and services provision. This is considered by HIA to be the core requirements for housing development and includes local roads, stormwater drainage, and land for neighbourhood open space. However, in many cases the levies are charged without the establishment of a nexus between the infrastructure item being funded and the community who will benefit from its use. Levies of this kind are being raised as a primary funding source for community, social and regional infrastructure, despite the benefits from that infrastructure being enjoyed by the wider community.

HIA is supportive of the significant work that has been undertaken this year to review and improve the NSW Infrastructure Contributions System. This includes the holistic review of infrastructure funding in NSW by the NSW Productivity Commissioner, as well as the Government's own review to identify short-term fixes to the infrastructure contributions system, including developing guidelines for the drafting of SICs. However,

As there are no firm outcomes from the Government on the two-tier infrastructure review process, it is arguably too early to progress the draft SIC for the Illawarra Shoalhaven Region. This is particularly apparent as the Productivity Commissioner's Final Report is recommending a different method to collecting State and regional infrastructure contributions, in place of SICs.

We understand that there may be further stakeholder consultation on the Productivity Commissioner's recommendations in the New Year.

[Redacted signature area]

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

A handwritten signature in purple ink, appearing to read 'David Bare', is positioned above the printed name.

David Bare
Executive Director NSW