UDIA NSW President's Taskforce on Infrastructure Contributions Reform

Policy Issue Paper

Regional infrastructure Contributions

<u>Preamble</u>

The Urban Development Institute of Australia (UDIA) NSW initiated a President's Taskforce on Infrastructure Contributions Reform to lead the industry response to the 29 recommendations contained in the *Review of Infrastructure Contributions in New South Wales* by the NSW Productivity Commissioner.

This taskforce drew in cross sectional expertise from the membership, comprising developers, consultants and local government with experts who are focused on infrastructure planning and development delivery. The Taskforce developed Working Groups, modelled in line with those of Department of Planning, Industry & Environment (DPIE) to advise on the technical aspects of the proposed reform.

Introduction

In his *Review of Infrastructure Contributions in NSW*, the Productivity Commissioner recommended the introduction of Regional Infrastructure Contributions (RICs) at a rate of $12k/dwelling ($10k/apartments) in Greater Sydney, and $10k/dwelling ($8k/dwelling) in the Hunter, Central Coast, and Illawarra regions.

Legislation has recently been introduced to the NSW Parliament that allows for the introduction of RICs through amendment to the *NSW Environmental Planning and Assessment Act 1979*.

Challenge

The are many challenges associated with RICs:

1. Equity – where funds are collected and where they are spent.
2. The definition of what should be funded by RICs, and what should be wholly or partly funded by Government and what should developers contribute to.
3. The governance of RICs, from who collects the contributions, how agency capital programs are aligned to deliver growth assets, and the prioritisation of funding from the RIC.
4. The transparency of the collection of RICs, and the timely delivery of infrastructure funded under RICs.
5. Setting a rate that collects a viable stream of revenue to help Government fund infrastructure required for growth, whilst not impacting housing supply.

Equity

Most of the new infrastructure to accommodate residential development is required in greenfield areas. However, under the model proposed by the Productivity Commissioner, most of the revenue collected will be from the existing urban areas (say 70 percent). This could raise equity issues. However, analysis undertaken by UDIA has shown that higher local infrastructure costs in greenfield areas will show the whole picture is reasonable. It should be noted that the 'postage stamp' model utilised by Sydney Water pricing that funds its' capital program has not faced these issues.

What should be funded in RICs?

The list of infrastructure to be funded by RICs should be driven by the needs identified in the District and Regional Plans and the *NSW State Infrastructure Strategy*. Priority should be given to infrastructure that will facilitate development.

The infrastructure to be funded in the RIC should be predominantly State infrastructure. However, it is recognised that some council funded infrastructure can serve a regional function (district open space and sub-arterial roads), and/or cannot be fully funded by a councils Section 7.11 plans. Any district open space that is funded by a RIC should not be funded by any council Section 7.11 plan.

RICs should only fund infrastructure that enables development. It should not fund social goods, such as affordable housing or biodiversity costs. Both costs are driven by Government policy and deliver a social good that benefits the wider society, and therefore should not be funded by development via a contributions regime. Similarly, no infrastructure funded via service charges (utilities) should be funded by the RIC.

The broad classification of items that should be funded under a RIC are similar to the current Western Sydney Growth Centres SIC and draft Aerotropolis SIC, adapted for the reasoning above including:

- State and regional roads required to facilitate growth, and not funded by Section 7.11 plans
- District open space not funded by Section 7.11 plans
- Land for the following facilities:
  - Community Health facilities
  - Public schools
  - Emergency Services and Justice facilities
- Transport infrastructure (such as interchanges, but not linear infrastructure)

Developers should be incentivised to deliver State and regional infrastructure in a timely manner. This will mean that the full cost of the infrastructure delivered under a Works in Kind (WiK) agreement needs to be offset against the RIC, or the resulting credit paid out or traded in an open market to another developer. Further detail is provided in a separate UDIA NSW Policy Paper on WiK credits.

Governance

The challenges in expenditure from the current SIC account lies in the lack of co-ordination and alignment of DPIE growth related priorities and agency capital program priorities. Should NSW Treasury collect RIC funds (which need to be allocated to a RIC account rather than consolidated revenue), which the Productivity Commissioner has proposed, we need to ensure alignment and leverage by NSW Treasury over agency capital programs to deliver growth related infrastructure.

UDIA also contends that Infrastructure NSW (INSW) be responsible for the prioritisation of expenditure and assurance of business cases. Controls will need to be put in place in the administration of the RIC to ensure that council land and infrastructure funded by the RIC are prioritised for funding in the same manner as state owned infrastructure.

A solid prioritisation process needs to be developed by INSW that can be applied to the Regional Infrastructure List. Quantitative and qualitative metrics will need to be developed that allows accurate assessment and identification of those land acquisitions or infrastructure that should be prioritised for funding, from strategic business cases through to delivery.

The output of the prioritisation process should be the input into the 5 and 10 year infrastructure delivery plans, aligned to the NSW budget cycle and agency Total Asset Management process. The infrastructure delivery plans need to be reviewed annually, and industry must be provided the opportunity to input into these plans to ensure they are robust and meet the needs of the development industry funding much of the infrastructure.

A Sub-Committee of Cabinet with a remit to look at housing supply provides a further opportunity to co-ordinate the delivery of infrastructure that enables the delivery of housing and approve the infrastructure delivery plans.

Under this framework, DPIE will inform the INSW infrastructure priority process through development of a next generation Urban Development Program. This would be based on agency collaboration to establish 'one-source-of truth' of forward residential and employment development supply locations, yields and timings with requisite enabling infrastructure to better inform growth planning and growth servicing across Greater Sydney.

The UDP will allow collaborative visualization in a 3D digital twin of the existing city that enables planners to visualize the necessary infrastructure and decision making required to plan the future city.

Transparency or revenue collection and timely delivery of infrastructure

So that RICs are not seen as another tax, funds collected, the running balance of funds under management, and the plans for expenditure, all need to be published on an annual basis as part of the NSW Government budget. Five-year, 10-year and 20-year plans for expenditure (whether funds are used to fully or partially fund asset delivery and land acquisitions) should all be published on a government website. These should be reviewed on an annual basis.

The imposition of RICs will result in approximately $300 million of revenue collection every year; confidence that these funds are being used to fund growth related infrastructure in a timely way, can only be demonstrated with transparent infrastructure delivery plans. This will be a significant challenge for agencies that have traditionally been less than transparent with their capital programs and have often been unable to spend their already allocated capital budgets.

To ensure the timely delivery of infrastructure, the appropriate governance measures outlined above require implementation. This will ensure that agency capital programs are aligned, and the required infrastructure to accommodate growth is prioritised for expenditure. Agencies will require resourcing to ensure that the funded capital program is delivered in a timely manner.

There is evidence in some agencies and councils that there is not the capacity, or capability to deliver the required infrastructure to service growth in a timely and efficient manner. If developers are to fund a significant portion of growth-related infrastructure, then that infrastructure must be delivered in a reasonable timeframe based on the agreed prioritised infrastructure strategy.

Setting the rate

The reasonableness of the charges proposed by the Productivity Commissioner will depend on the charges from the infrastructure contributions reforms as a package. Work is required on the proposed RIC charges, especially in the regions to ensure that they do not impact housing supply. Government must demonstrate via the exhibition of relevant material prior to the determination of the RIC, how the RIC, together with all other charges applicable in the RIC area, will not impact on housing supply.

Recommendations

The introduction of a RIC provides opportunities for quicker infrastructure delivery to support housing supply. To enable this, our key recommendations are:

1. NSW Government prioritises enabling infrastructure to support housing from accumulated RIC funds.

2. Treasury should hold RIC funds separate from consolidated revenue and annually publish the RICs collected and the balance of RIC funds.

3. INSW to annually publish the 5, 10 and 20 year plans for RIC expenditure.

4. To better inform growth planning and growth servicing across Greater Sydney markets, DPIE should develop a next-generation UDP as a 'one-source-of truth' to inform the INSW infrastructure priority process to properly plan for forward residential and employment development supply locations, yields and timings with requisite enabling infrastructure.

5. INSW must design and run a prioritisation process in consultation with the development industry and informed by a next generation UDP, to determine the infrastructure to be delivered over the 5 ,10 and 20 year infrastructure delivery plans.

6. Cabinet to ensure that agency capital programs and RIC expenditure are aligned to deliver on the 5, 10 and 20 years plans published by INSW.

7. DPIE to assess the cumulative impacts of proposed new contributions on housing supply in Regional NSW.