



Australian Government



National Housing Finance
and Investment Corporation

DEVELOPER CONTRIBUTIONS: HOW SHOULD WE PAY FOR NEW LOCAL INFRASTRUCTURE?

August 2021

INTRODUCTION

Good quality local infrastructure contributes to people's wellbeing, increases the liveability of our local neighbourhoods and cities, and helps facilitate the necessary flow of new housing supply for a growing population. Poorly planned cities and inadequate local infrastructure can impede new housing supply and exacerbate affordability problems. Sub-standard local infrastructure can also sow the seeds of community discontent over more development, because people fear new housing will mean increased traffic congestion and eroding amenity in their local neighbourhoods.

Developer contributions offer councils and state governments another avenue, beyond rates, to fund local infrastructure. Developer contributions are payments made by developers towards costs associated with essential infrastructure, such as water and drainage, so new homes are habitable and connected to existing transport hubs. These contributions are often considered as part of a suite of broader (value capture) regulations that help determine who pays for what in the development process.

Although developer contributions may (in theory) help ensure developers factor in and contribute to the cost of new infrastructure around housing developments, these contributions are typically complex to estimate and costly to administer. If developer contributions are unpredictable, poorly scoped or administered inefficiently, they have the potential to impede new housing supply and unnecessarily increase the cost of new housing.

It is therefore of concern that the application, scope and administration of developer contributions is a relatively opaque area of public policy, with little detailed and comparable information available in most states and territories regarding their use.

This report compares developer contribution policies across states and territories, including looking at the scope, costs, timeliness and transparency of these policies across different jurisdictions. It also explores the views of key stakeholders – industry, local government and state planning authorities – who raise a number of issues that require new consideration.

Given developer contributions are an increasingly significant component of new housing construction costs, further research is warranted to assess the unintended impacts of high and poorly functioning developer contribution systems and their implications for new home buyers.

EXECUTIVE SUMMARY

- Over recent decades, increasing expectations of good quality local amenity combined with rapid population growth have left local governments struggling to keep up with the demand for public infrastructure and services. This has led to increased use of developer contributions, shifting the cost burden of local infrastructure from state governments and local councils to end users.
- Developer contributions are meant to operate like a user-pays model of delivering new local infrastructure because (in theory) the levies paid by developers help deliver housing-essential infrastructure that is valued and paid for by the new home buyer. In practice, “nexus” developer contribution charges (that is, charges that pay for new essential infrastructure directly tied to new housing) are complex and difficult to calculate.
- There is no publicly available aggregated data on developer contributions across most states and territories. This makes it difficult to assess how developer contributions have increased over time and how they differ across jurisdictions, impeding proper policy evaluation. Some states, like NSW, require modest standardised reporting, which is due to be enhanced with recently agreed reforms. Others, like SA and Tasmania, have minimal public reporting requirements.
- Developer contributions have broadened in scope, from funding basic essential infrastructure (e.g. water and drainage) where there is a clearer nexus to new housing, to broader social infrastructure (e.g. community and recreation centres). In states like NSW, VIC and QLD, developer contributions now help to fund the costs of new schools and hospitals – areas traditionally funded by state budgets.
- Of the Sydney Councils analysed by NHFIC, on average nearly two-thirds and up to 88% of all funds raised by developer contributions between 2017 and 2020 were earmarked for social infrastructure, with around one-third, on average, earmarked for essential infrastructure with a stronger nexus to new housing developments.
- Funding a much wider array of social infrastructure through developer contributions deliver broader community benefits but confer fewer clear, direct and immediate private benefits to new home buyers. This means developer contributions increasingly act like a tax on new housing, which can impede new housing supply and reduce housing affordability for buyers and renters.
- When it comes to implementation, one of the greatest criticisms from industry stakeholders is that developer contributions can be highly variable and unpredictable. This can increase unanticipated costs for developers throughout the development process, which affects margins and can impede new housing supply.



- Indicative case studies sourced by NHFIC show that developer contributions can amount to between: \$25,000 to \$85,000 per dwelling in NSW; \$37,000 to \$77,000 per dwelling in VIC; and \$29,000 to \$42,000 per dwelling in QLD. This means developer contributions can typically amount to around 8% to 11% of total construction costs, making it a substantial contribution to the cost of building a new home.
- An aversion to debt and municipal rate caps, particularly in NSW and VIC, constrain local governments' ability to fund good-quality local infrastructure. This puts more pressure on the developer contribution system to raise revenue. Artificial funding constraints and debt aversion can raise the cost of delivering new local infrastructure as councils forgo borrowing at relatively low rates.
- Much of the initial basic essential infrastructure required for new housing developments can be used by future developers in the area, which means developers often can't capture the full benefits of their investments. Improved policy coordination and optimising risk/cost sharing arrangements between councils and developers is likely to help increase new housing supply.

HISTORY

Developers contributing to the cost of public infrastructure is a more recent practice. Prior to the 1950s, developers did not pay for infrastructure or for the services accompanying housing development. Instead, local authorities were responsible for covering the costs of service provision using general tax revenue.¹ However, the fast pace of subdivision in the 1950s combined with rapid population growth and expectations of rising living standards meant that local authorities were unable to keep up with the demand for public infrastructure and services. The need arose for developers to contribute to the provision of infrastructure as a condition of development approval. This meant authorities moved away from more traditional models of funding infrastructure through general taxation or rates, to user pays models like developer contributions where the costs of infrastructure are shifted to end users.

For example, in NSW, the system of developer contributions was formalised in 1979, when the Environmental Planning and Assessment Act was passed. Section 94 of the Act allowed councils to levy development contributions. Since then, incremental reforms have: expanded the type of contributions that could be levied²; enabled new ways of collecting contributions³; and introduced a contributions cap in the context of the GFC, which was later phased out.

However, some of these changes have introduced inefficiencies to the system, many of which are outlined in this paper. In 2020, these inefficiencies were recognised by the NSW Productivity Commissioner in a review⁴ that recommended moving to a more efficient and transparent system.

¹ <https://www.parliament.nsw.gov.au/researchpapers/Documents/history-of-development-contributions-under-the-n/FINAL%20development%20contributions.pdf>

² Includes levies to support affordable housing development in the area and Special Infrastructure Contributions (SIC) to help with the costs of providing regional infrastructure.

³ Includes voluntary planning agreements that formally recognised the use of negotiation to collect contributions and fixed development consent levies calculated as a percentage of the cost of development.

⁴ <https://www.productivity.nsw.gov.au/sites/default/files/2020-07/Issues%20Paper%20Combined%20Final.pdf>

ECONOMICS OF DEVELOPER CONTRIBUTIONS

What are developer contributions?

Developer contributions – otherwise known as infrastructure charges – are levies charged by councils and state governments to help pay for local infrastructure associated with new housing. These targeted instruments are used to pay for local infrastructure like water, drainage, footpaths, parks and other community facilities that accompany new housing developments.

A developer contribution is intended to operate as a targeted user charge because the people that pay for the infrastructure directly benefit from it when they purchase new homes. In this sense, they are distinguishable from betterment taxes, which are used to extract value from a set of identified beneficiaries surrounding new developments – particularly when planning decisions are made. That said, developer contributions are often considered part of the broader suite of regulations that help determine who pays for what in the development process.

The economic rationale often used for developer contributions is that they ensure developers factor in the full suite of housing related infrastructure costs when deciding where to build new homes...

The economic rationale behind developer contributions – as opposed to funding infrastructure through other methods like general taxation – **is it ensures developers factor in the suite of infrastructure costs associated with new developments.** In theory, this helps to encourage housing being built in optimal locations at least cost to the community⁵. If developer contributions reflect the real cost of essential infrastructure, they will encourage developers to make efficient development decisions and provide an efficient amount and distribution of new housing development.

But developer contributions only act as an incentive to invest in optimal locations for new housing when the infrastructure has a strong nexus to the actual housing development (e.g. utilities, local roads and footpaths). For goods and services that don't have a strong nexus to a particular housing development, funding these goods via developer contributions will be unlikely help to deliver more efficient housing development.

In practice, **nexus-based developer contributions are complex and difficult to calculate** because they rely on a number of difficult assumptions about the future. The charge can be affected by assumed growth rates, poorly created servicing strategies and difficulties appropriately apportioning costs between developers, states and local councils.

⁵ <https://www.pc.gov.au/inquiries/completed/infrastructure/report/infrastructure-volume1.pdf> (page 169)

If new local infrastructure fails to deliver benefits to home buyers, and if they are large enough to impede new housing supply, they can unnecessarily increase prices and/or rents...

The legal obligation of developer contributions is on the developer, who pays the upfront contribution if a housing development is to be approved for development. But the cost of developer contributions can lie with landowners, developers or home buyers, depending on a range of factors. For example, the nature of the new local infrastructure can change the effect of developer contributions. If the infrastructure has a:

- **Strong nexus** to new housing and delivers clear (marginal) value to the buyer equal to the amount of the developer contribution, developers will likely seek to pass these costs on to home buyers when market conditions allow. This is consistent with a user pays model of delivery, which ensures that those who benefit from new local infrastructure (i.e. home buyers) pay for it. But this **user-pays approach** relies on the local infrastructure providing direct, immediate and tangible value to the buyer, otherwise the buyer will be less willing to pay for it.
- **Weak nexus** to new housing, then developer contributions provide zero or little identifiable marginal benefit to the potential buyers. This will likely reduce buyers' willingness to pay for the houses by the amount of the developer contribution. In this instance, the **developer contribution acts like a tax**. If known in advance, the developer is likely to seek to cost shift the value of developer contributions backwards to the owner of the land.

When developers bid for a parcel of land, they typically calculate the residual value of the land based on the estimated revenue achievable from sales, less the range of costs, taxes and charges (including developer contributions) incurred while delivering housing, plus a profit margin.⁶ Developers therefore run the risk that authorities may change the developer contribution regime post purchase, which could potentially make their project unfeasible.

Also, if developer contributions are unpredictable, too large or are not delivered efficiently, they can impede new supply by causing land values to fall below their opportunity cost (or next best use). In this case, developer contributions can indirectly increase prices for home buyers (and renters). For example, some studies show that variable and uncertain planning-related costs could reduce the ability for smaller housing developers to remain competitive.⁷ Some studies do show that developer contributions are passed on in the form of higher house prices⁸.

⁶ Abelson 2018, An Analysis of Value Capture Arrangements

⁷ Ruming, K., Gurrin, N. and Randolph, B. 2011, Housing Affordability and Development Contributions: New Perspectives from Industry and Local Government in New South Wales, Victoria and Queensland

⁸ Bryant, L 2015, Who really pays for infrastructure?

The increasing use of developer contributions to fund local and broader infrastructure around Australia over recent decades has equity implications...

Traditionally, state and local governments used general taxation and rates revenue to fund infrastructure. But these budgets are increasingly constrained and stretched, putting pressure on governments to find other ways to fund new infrastructure that meets community expectations. Nowadays, developer contributions mean new homebuyers are shouldering more of these costs relative to previous generations, who purchased when the costs were much more broadly shared amongst taxpayers and ratepayers. **In this sense, the increasing use of developer contributions to fund local infrastructure reduces intergenerational equity.**

Developer contributions and development costs

Given the application and scope of developer contribution systems differ across states and territories, NHFIC has sourced 13 case studies to provide indicative development-related costs imposed on new greenfield housing developments. These case studies allow us to compare how various developer contributions stack up for various projects across different states (Figure 1) and what proportional contribution they make to the cost of overall construction (Figure 2).

On average, developer contributions represent around 10% of total development costs. They are generally higher in NSW, reaching up to \$85,000 per dwelling for certain greenfield developments. Developer contributions in NSW are similar to other states as a proportion of the total development cost stack (8-11%). Land costs in VIC and QLD are similar in proportion to developer contributions, but in NSW they are usually the highest charge that developers face. **Developer contributions are more material than other well-known government taxes and charges like stamp duty.**

Figure 1: Greenfield Developer Contributions (Thousands of dollars per lot)

Region ^(a)	Indicative cost ^(b)	Range
NSW	58	25 - 85
VIC	52	37 - 77
QLD ⁹	32	29 - 42

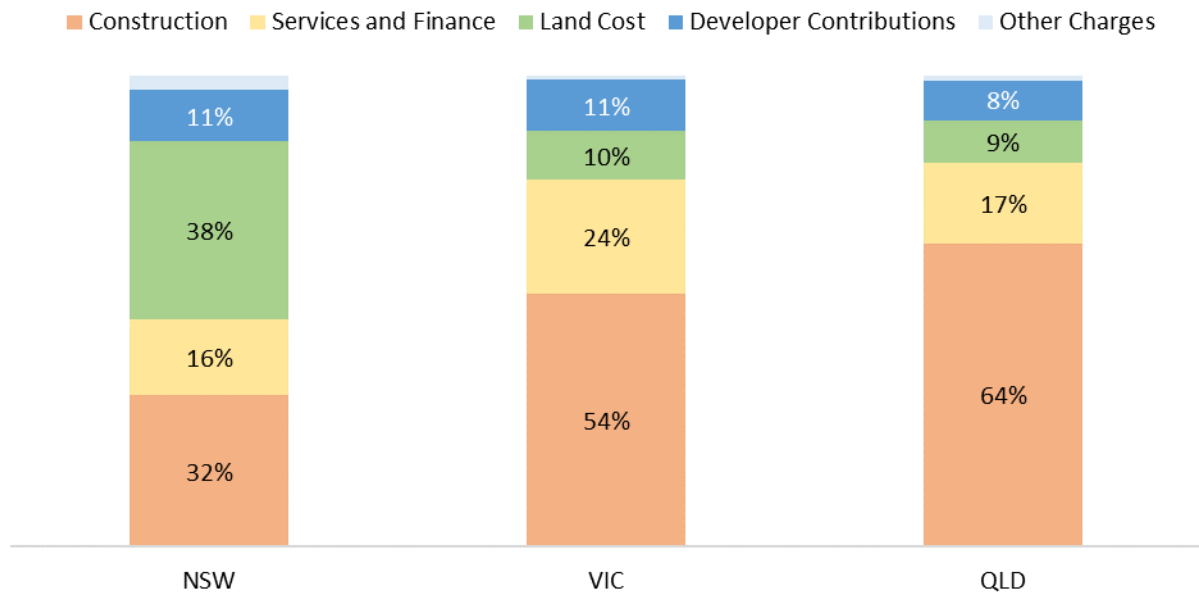
(a) Selected regions are Western Sydney, North-western Sydney, Northern Melbourne, South-eastern Melbourne, Western Brisbane, Southern Brisbane, Gold Coast.

(b) Median cost of developer contributions rounded to the nearest thousand

Source: NHFIC, Macroplan, developers

⁹ The only places in QLD where the charge can exceed \$31k per lot are in Priority Development Areas (PDAs) which are administered by a state government body. Of QLD's ~30 PDAs, the charge is markedly greater than the \$31k cap in Ripley Valley, Flagstone and Yarrabilba.

Figure 2 – Greenfield Development Cost Stack¹⁰



Source: NHFIC, Macroplan, developers

Developer contributions policy

Developer contributions are used by all states and territories, and in comparable countries like the UK and US, but they differ in scope and number. NSW, VIC and QLD have the most extensive developer contribution systems, each covering both strong-nexus infrastructure, like utilities, and broader social infrastructure, such as contributions to schools and hospitals. Whereas the NT has a far narrower scope for developer contributions (Figure 3).

In NSW, contributions can be levied as a rate per lot based on additional infrastructure demand (section 7.11 contributions), or as a fixed levy charged as a percentage of the estimated development cost (section 7.12 levies). This is particularly useful for infill development as it can be difficult to establish and apportion the increase in demand for public infrastructure. In VIC, contributions charged are based on hectare size. To help deliver state infrastructure, NSW, VIC, QLD and SA impose additional or different charges for locations identified as growth areas. VIC, QLD and WA all have caps on certain charges.

In the UK, US and NZ, developer contributions also fund provision of local and community infrastructure. In the UK, collected contributions must be spent within the time limit and any monies not spent are then returned to the developer. Government can also allocate a portion of the charge for infrastructure maintenance in the local area. See Figure 2 in the Appendix for further details.

¹⁰ Land costs are reflective of purchase cost which may differ significantly from current land valuations. GST is excluded.

Figure 3 - Developer contributions across states and territories

	NSW	VIC	QLD	WA	SA	TAS	NT
Local essential Infrastructure							
Roads, transport	✓	✓	✓	✓	✓	✓	✓
Drainage	✓	✓	✓	✓	✓	✓	✓
Water	✓	✓	✓	✓	✓	✓	✓
Sewerage	✓	✓	✓	✓	✓	✓	✓
Electricity, telecommunications	✓	✓	✗	✓	✓	✓	✓
Local social infrastructure							
Open space	✓	✓	✓	✓	✓	✓	✗
Parks	✓	✓	✓	✓	✓	✓	✗
Community/recreation facilities ^(a)	✓	✓	✓	✓	✓ ^(e)	✓	✗
Environmental conservation	✓	✓	✗	✗	✗	✓	✗
Social/affordable housing	✓	✓	✗	✗	✗	✗	✗
State or regional infrastructure							
State roads	✓ ^(b)	✓ ^(c)	✓ ^(d)	✓	✓	✓	✓
Public transport	✓ ^(b)	✓ ^(c)	✓ ^(d)	✗	✓ ^(e)	✗	✗
Regional open space	✓ ^(b)	✓ ^(c)	✓	✓	✓	✗	✗
Schools	✓ ^(b)	✓ ^(c)	✓ ^(d)	✓	✓ ^(e)	✗	✗
Health facilities	✓ ^(b)	✓ ^(c)	✓ ^(d)	✗	✓ ^(e)	✗	✗

(a) Community/recreation facilities includes libraries, child care centres, community centres and sports grounds.

(b) Collected by the NSW government through Special Infrastructure Contributions, which are paid by developers in special contributions areas such as Western Sydney Growth Centres (determined in 2011), Warnervale Town Centre (determined in 2008), Wyong Employment Zone (determined in 2008), Gosford Town Centre (determined in 2018), St Leonards-Crows Nest (determined in 2020), and Bayside West (determined in 2020).

(c) The Growth Areas Infrastructure Contribution was established in 2010 and helps fund State infrastructure in Melbourne's growth areas.

(d) Only in Priority Development Areas administered by Economic Queensland in accordance with the Economic Development Act 2012.

(e) These prescribed infrastructures are covered under a general scheme that requires the State Planning Commission to undertake consultation and provide advice to the Planning Minister at the scheme approval stage. The Planning Minister must have 100% landowner support to approve a contribution for prescribed infrastructure.

Source: The CIE for the NSW Productivity Commission 2020, Evaluation of developer contributions reform in NSW, and various state and local planning authority websites.

KEY ISSUES

This Section draws from NHFIC's extensive consultation with residential developers, peak industry bodies, local council associations and state planning authorities to understand their differing perspectives on a range of developer contribution issues. It highlights what stakeholders see as working well in the developer contribution process and what elements pose more challenges.

Consultation results

Key issues raised by stakeholders

Industry

- Many industry participants do not support the current developer contribution regimes that fund the provision of community, social and regional infrastructure.
- Industry requires transparency and certainty to make informed and timely investment decisions. The unpredictability of developer contributions is typically seen as the worst aspects of current systems.
- The infrastructure planning process considerably lags the rezoning process, ultimately resulting in costs being very difficult to anticipate and often unnecessarily inflated.
- A lack of transparency and accountability for infrastructure investment leads industry to question whether the contributed funds are being used for the agreed infrastructure projects in a timely, proper and efficient fashion.
- Developer contributions are costly to administer.

Local councils (Local Government Associations)

- Local councils find it difficult to produce the necessary infrastructure to meet the demand and expectations of its constituents while also balancing their budgets.
- Restrictions on local councils in raising the appropriate investment funds, such as municipal rate caps and developer contribution caps, reduce fiscal flexibility and are a key contributor to infrastructure delivery timelines being pushed out.

State planning authorities

- State planning authorities believe a developer-led infrastructure planning regime, with input from local authorities, may be a more efficient and cost-effective approach.
- Debt-funding to deliver necessary infrastructure in a timely manner is a good mechanism, however, local councils typically lack the expertise and resources to make use of this process.

Figure 4 – Similarities/differences of opinion¹¹

	Industry	Local Councils	Planning Authorities
The use of developer contributions to fund basic local essential infrastructure such as water, sewerage and drainage costs. (Industry participants see this as normal costs of development.)	✓ ✓	✓ ✓	✓ ✓
The use of developer contributions to fund broader community social and regional infrastructure	✘	✓ ✓	✓ ✓
A more consistent conceptual developer contribution framework, which reduces unpredictability, albeit with some degree of flexibility to tailor to local conditions.	✓	✓ ✓	✓ ✓
Mutually beneficial works-in-kind arrangements.	✓	✓	✓
A developer-led infrastructure planning process would be more efficient. (Councils are opposed to giving up their autonomy.)	✓ ✓	✘	✓ ✓

✓ ✓ Strong support ✓ Partial support

Five areas for consideration

The stakeholder consultations, along with desk research of relevant papers and policy submissions, highlighted five key areas where clarification, changes or improvement could enhance developer contributions:

1. **Scope** – what type of infrastructure is considered appropriate for developer contributions to fund.
2. **Transparency** – as to when and where collected developer contributed funds are being invested, particularly around growth corridors where demand for the infrastructure may not be apparent from the onset.
3. **Timeliness** – the time taken between the initial developer contribution agreement and when the contributions are collected can be extremely lengthy, exacerbating delivery costs and requiring additional resources from both industry and local authorities.
4. **Funding constraints** – local authorities are generally required to invest large sums of money in infrastructure without access to appropriate and timely funding mechanisms and are often restricted in how they can raise revenue.
5. **Efficient design and delivery** – to ensure the end product is up to community standards and maintainable, without creating exorbitant upfront funding or ongoing costs.

¹¹ These views are not necessarily representative of all stakeholders in each group.

Scope

Poorly scoped and costed developer contributions can act as a tax on new housing development....

Local infrastructure

Consultations suggest that industry supports a more narrowly confined definition of local infrastructure with a stronger nexus to the development. If the scope of developer charges doesn't have a clear nexus to the new housing development or costs aren't apportioned appropriately between the beneficiaries of the local infrastructure, developer contributions ultimately can act like a tax and discourage development.¹²

When home buyers directly benefit from local essential infrastructure, the benefits are largely exclusive to the home buyer, with few or no benefits passed onto the broader local community. These types of essential infrastructure therefore suit the scope of developer contributions.

Social infrastructure

Conversely, local councils and state governments see a broader array of local infrastructure such as recreation facilities, and even schools and hospitals, as necessary to meet growing community expectations. They consider this broader social infrastructure to be important to help foster community acceptance of more development and deliver benefits to the broader resident population.

Expenditure on social infrastructure has greater spill over benefits for the broader local community (Figure 5). According to the Productivity Commission, when new local infrastructure provides broad-based benefits to the wider community, government funding from a broad-based revenue source is likely to be more appropriate than developer contributions.¹³

Revenue sources could be council rates for local social infrastructure and state revenue for state infrastructure, although some of these revenue raising options are constrained (see section below on council funding constraints).

Some industry representatives also point out that some developer contributions (particularly Section 94s in NSW) are increasingly requiring much more public open space which can adversely affect project economics. **Understanding the potential unintended consequences of requiring more public open space in developer contributions and how this affects housing supply would be desirable.**

¹² Treasury, Henry Review page 424

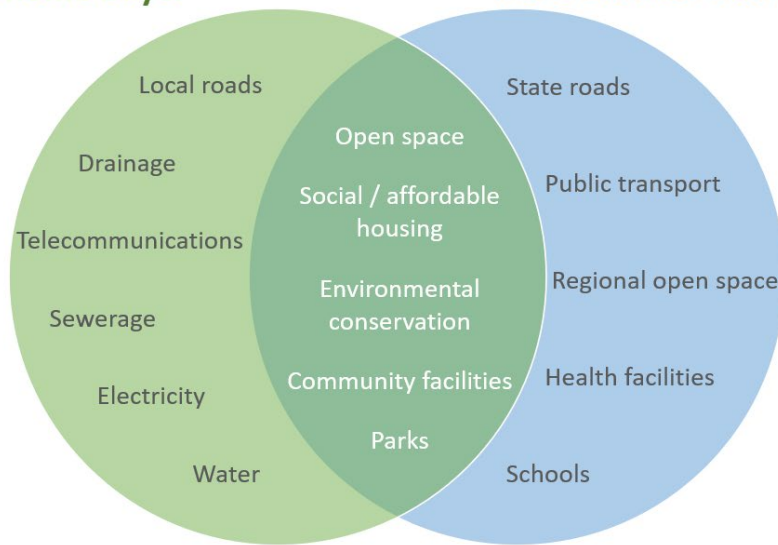
¹³ <https://www.pc.gov.au/inquiries/completed/infrastructure/report/infrastructure-volume1.pdf> (172)



Figure 5 – Beneficiaries of Infrastructure

More direct home buyer benefits

More broader resident population benefits



Transparency

Policy transparency builds investor confidence for project development and public trust in infrastructure funding delivery arrangements...

Once the developer contributions have been collected, local authorities are typically under no obligation to provide further information to developers on where and when the funds have been invested. The lack of transparency fuels a long-held industry belief that local councils are hoarding developer contribution funds and failing to invest in infrastructure appropriately.

Different jurisdictions have different reporting requirements, and it is often unclear where the funds are collected from and what they are being spent on....

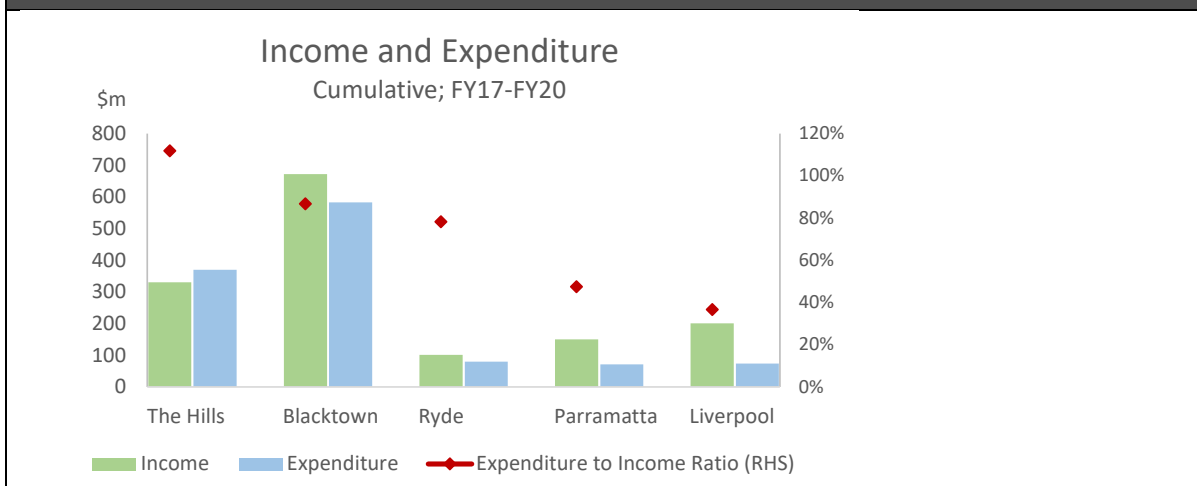
Figure 6 – State Reporting Requirements

NSW	<p>Councils have a relatively higher level of reporting than other jurisdictions as part of their financial statements. Reporting:</p> <ul style="list-style-type: none"> Covers how much developer contributions are collected and spent by infrastructure type Is grouped by contributions covered under plans and those covered under negotiations
QLD	<p>Councils have a quarterly updated developer contributions register which reports:</p> <ul style="list-style-type: none"> How much developer contributions were levied on development approvals, updated monthly On the financials of essential infrastructure delivery <p>Developer contributions are reported on a consolidated basis in council financial statements, with no detailed breakdown as to which infrastructure type the income is collected for and spent on.</p>
VIC	<p>Councils report developer contributions on a consolidated basis in council financial statements, with no detailed breakdown as to which infrastructure type the income is collected for and spent on.</p>
WA	<p>Councils prepare an annual status report that provides an overview of progress of delivery of infrastructure. The status report includes:</p> <ul style="list-style-type: none"> Timing and estimated percentage of delivery of an infrastructure item against that stated in the plan The financial position of the plan including received and expended amounts; and A summary of the review of estimated costs including any changes in funding and any relevant indexation.
NT	<p>Councils report the balance of contributions to be used to fund certain infrastructure in their financial statements.</p>
SA, TAS	<p>No readily available information on developer contributions collected or spent.</p>

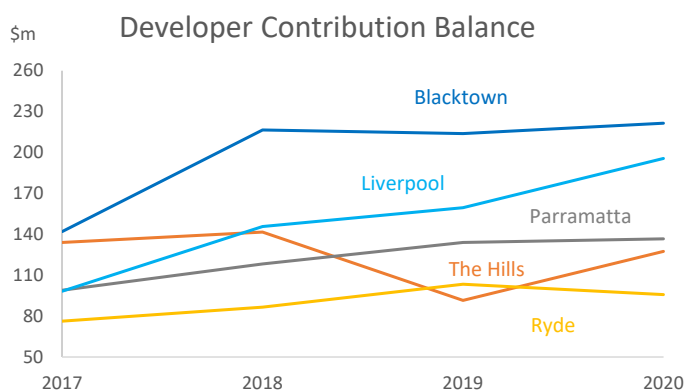
Some states are taking steps to improve the transparency of developer contributions, for instance, requiring development contributions plans to contain planned expenditure schedules. Although **transparency of developer contributions remains limited across most states**.

NHFIC analysis (Figure 7) shows trends in income and expenditure relating to developer contributions for a select group of five councils across Sydney. This analysis was not replicated for councils in other states due to a lack of standardised reporting or limited publicly available data.¹⁴

Figure 7 – Sydney Council Developer Contributions



The above chart shows income and expenditure relating to developer contributions. Apart from The Hills Shire council, most councils collected more developer contributions than they have spent over the past four financial years. Blacktown collected the most contributions in total, but also had a high expenditure to income ratio.



Councils have had a growing balance of contributions over the last four financial years. This is particularly the case for Liverpool and Parramatta. Some industry stakeholders estimate the total balance of unspent developer contributions across the Sydney Megaregion¹⁵ is now \$3 billion, a 50% increase from four years ago.¹⁶ This accumulation of funds from developer contributions implies councils are either unable to easily use

¹⁴ Because councils in states other than NSW do not explicitly report contributions revenue and expenditure by infrastructure type in their financial statements, comparing annual changes in gross carrying value of infrastructure assets with annual developer charges revenue can be a proxy to assessing the timeliness of council infrastructure investments.

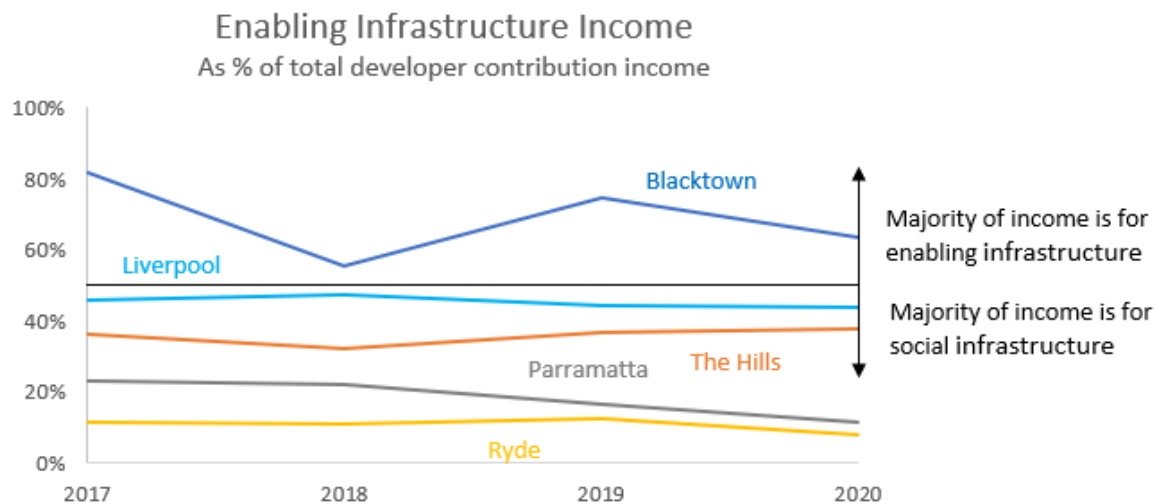
¹⁵ The Sydney Megaregion includes the Sydney, Illawara, and Hunter regions.

¹⁶ UDIA 2021 https://mcusercontent.com/0d7b93e96aba1aa67d77dc21e/files/b98eb9d6-ec03-49f1-89ac-2f4bbf8b76e3/Council_Infrastructure_Funding_Performance_Monitor_Sydney_Megaregion_FY20.01.pdf



contributions to fund infrastructure in a timely fashion or are delaying spending until the balance can fund larger projects.

Parramatta, Ryde and Liverpool were some of the 16 councils identified by the Planning Minister as having significant funds. In May 2020, these councils were directed to prepare work plans detailing how their balances will be invested over the next 18 months.¹⁷ They were also permitted to pool funds across contribution plans, allowing them to bring forward planned projects where all the funds may not yet have been received.



Developer contribution funds are increasingly being used for social infrastructure, as opposed to local essential infrastructure. For all councils analysed, 63% of funds on average over the last four financial years were raised for social infrastructure as opposed to essential infrastructure, with some as high as 88%. Blacktown was the only council in the sample that collected more contributions for essential infrastructure relative to social infrastructure.

¹⁷ <https://www.planning.nsw.gov.au/-/media/Files/DPE/Directions/environmental-planning-and-assessment-local-infrastructure-contributions-information-direction-2020.pdf?la=en>

Timeliness of infrastructure delivery

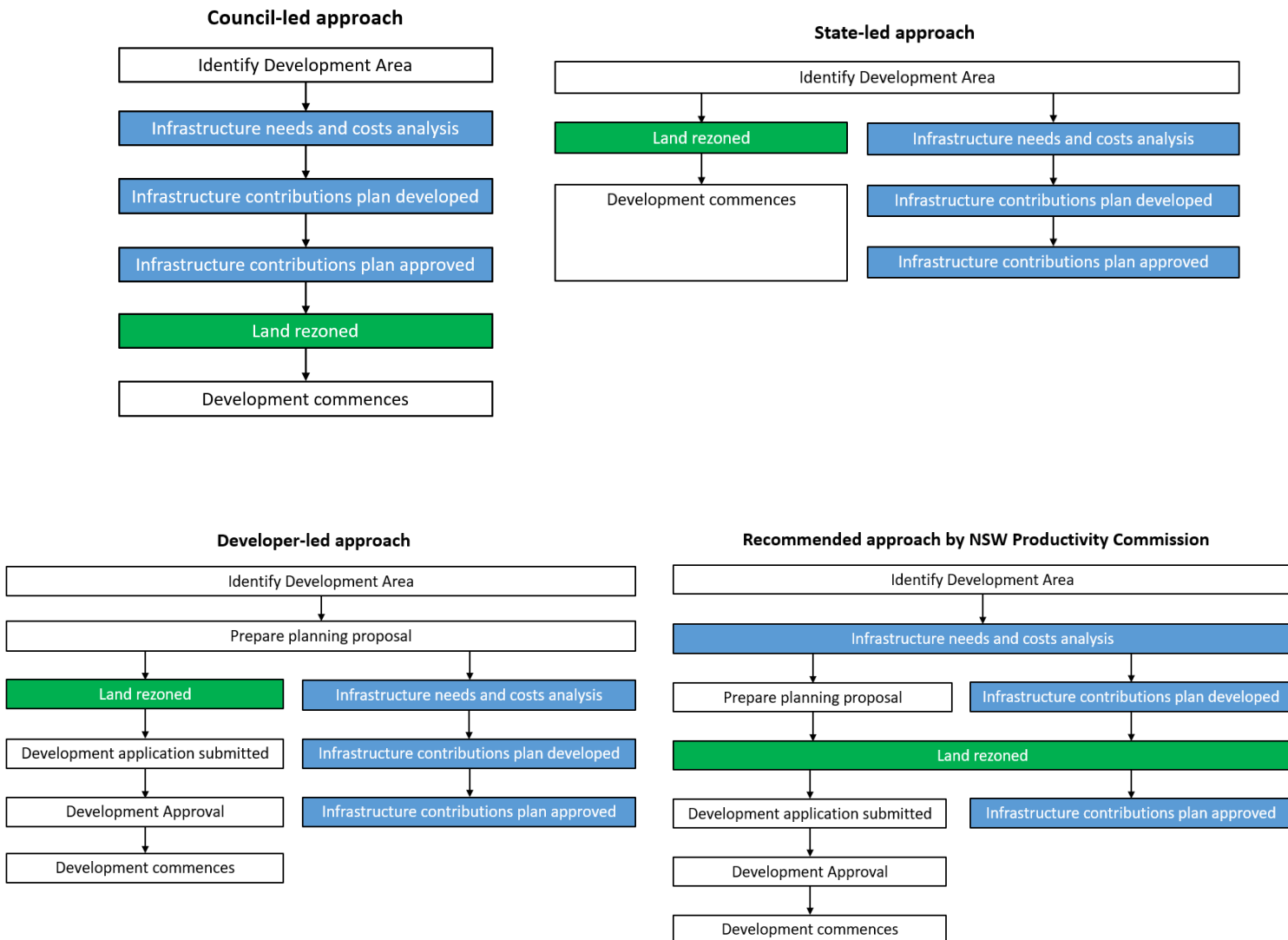
A common critique of the developer contributions system is that the infrastructure planning process begins much later after the land is rezoned for residential use and that costs are difficult to anticipate and often unnecessarily inflated...

Currently, in most states and territories, developer contributions are finalised some time after the land has been acquired. This can introduce unnecessary delays and increase holding costs of development. The contribution amount may also change before final payment, for instance, from inflation in construction costs. The time between the initial contribution agreement and final payment varies from project to project, however industry representatives from our broader consultations indicates it can take up to five to seven years.

Figure 8 outlines the three types of development processes:

- **State-led:** Developer contributions or works in kind are only determined after an area is identified for development and rezoned, which could mean a delay of up to 24 months. As a result, some developments can occur before a contributions arrangement is in place.
- **Council-led:** Councils determine areas for development, assess infrastructure requirements and then rezone the land. The developer contributions plan is in place prior to rezoning.
- **Developer-led:** Developers identify a development area and submit a planning proposal to have the area rezoned. After rezoning, the developer contributions plan is developed and approved along with development approval.

Figure 8 – Types of Development Processes



Assessing what infrastructure is required and finalising developer contributions plans before rezoning would improve investor certainty...

The developer can then factor in infrastructure needs and costs when determining development feasibility, and the resulting certainty would encourage more efficient planning and investment. Developing the contributions plan before rezoning is reflected in a council-led development approach. The recent NSW Productivity Commission’s developer contributions review also proposes a similar development approach, with the contributions plan exhibited alongside the planning proposal before rezoning and the contributions plan then approved before development approval is given. One state planning authority view was that **a developer-led infrastructure planning regime, with necessary input from local and state planning authorities, would be a more efficient and cost-effective approach.**

While local infrastructure plans can be heavily dependent on broader state planning initiatives, councils should still be proactive...

Inefficient forward planning results in an extra cost to the council and reduced profit margins for the developer. The state government may plan to build a main road, but some stakeholders suggested councils could take the initiative to build the road in their area instead of waiting for the state to do so. However, councils have noted that since councils are not the consent authority for state significant development, they have little control over and cannot rely on the inclusion of developer contributions as a condition of consent for these proposals.¹⁸ Due to a lack of forward planning, local planning authorities are also often forced to purchase back land that had already been acquired by developers. One residential developer provided an example in NSW where five lots earmarked for sale were acquired by the local council to provide stormwater drainage.

A more collaborative approach between state and local planning authorities and developers in building out the initial planning initiatives could expedite the process...

A more collaborative approach would also reduce the level of resources required by both local authorities and developers later in the process, particularly around acquiring land critical to infrastructure.

Local councils are also broadly in support of a more consistent conceptual developer contribution framework, which could provide more certainty to investment decision-makers, albeit with some degree of flexibility to tailor to local conditions.

According to local council associations and state planning authorities, it can take up to 15 to 20 years for the intended infrastructure to be fully delivered in a standard urban residential area¹⁹ – well after the contributions are collected from the developers. This could explain the growing contribution balances of councils as spending lags income collected, as shown in Figure 7.

Despite the final developer contribution plans being in place at the time of payment, some local councils are not willing to invest in significant infrastructure until a certain number of residents have physically moved into the area and are demanding that infrastructure...

The parameters around what constitutes demonstrated demand for infrastructure are unclear, which is why local authorities tend to delay making capital investments. Councils often cannot demonstrate a real need for the infrastructure they have included in their plans, so they struggle to have projects funded. Their challenge is to provide adequate social infrastructure when the population mass needed to justify the presence of the infrastructure has not yet moved in.

¹⁸ Local Government NSW 2021, Submission on Parliamentary inquiry into the Environmental Planning and Assessment Amendment (Infrastructure Contributions) Bill

¹⁹ <https://www.governmentnews.com.au/councils-accused-of-hoarding-infrastructure-contributions/> (LGNSW quote)

Rapid population growth has been challenging councils' capacity to provide services and infrastructure to their communities...

The misalignment between new housing supply, population growth and infrastructure delivery results in urban inefficiency. Greenfield areas in major Australian cities see high growth in housing and population. However, their residents' accessibility to social infrastructure services is lower than the metropolitan region and significantly lower than well-developed inner-city areas.²⁰ In 2016, a \$50 billion backlog in health and transport infrastructure in these fast-growing outer suburbs was identified, compared with neighbouring middle-ring suburban LGAs.²¹ The issue with this lag in infrastructure provision is that potential residents decide whether to move in based on the current state and quality of infrastructure provision.

Strategic planning and efficient infrastructure provision are also important because population growth can lead to increased road congestion and crowding. Australian capital cities have seen their road network performance worsen over recent years due to population growth.²² The challenge is around managing density and offsetting this density in a timely manner with high-quality public infrastructure essential for social cohesion.

Industry bodies noted that some councils have made significant investments in infrastructure with the expectation that demand would follow shortly thereafter, rather than requiring initial demonstrated demand. For example, industry noted successful processes undertaken in growth corridor areas falling under the Logan and Ipswich city councils in QLD.

Significant upfront investment may risk councils being selective over which infrastructure needs are serviced from their limited resources. A better approach would be for councils to limit the amount of infrastructure they are willing to fund themselves to the infrastructure that only they can deliver in a timely and cost-effective fashion. That way, capital risk is transferred to the developer who is able to better manage the rest of the delivery.

²⁰ Sarkar, S., Moylan, E., Wu, H., Shrivastava, R., Levinson, D. and Gurran, N. (2021) New housing supply, population growth and access to social infrastructure, AHURI Final Report No. 356, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/356>, doi:10.18408/ahuri73233.

²¹ <https://alga.asn.au/wp-content/uploads/Local-Government-and-Population-Management-1.pdf>

²² <https://www.infrastructureaustralia.gov.au/sites/default/files/2019-08/Urban%20Transport%20Crowding%20and%20Congestion.pdf>

Local government funding constraints

If local governments are constrained in their options when it comes to raising revenue, this may result in poorer quality infrastructure or put more pressure on the developer contributions system ...

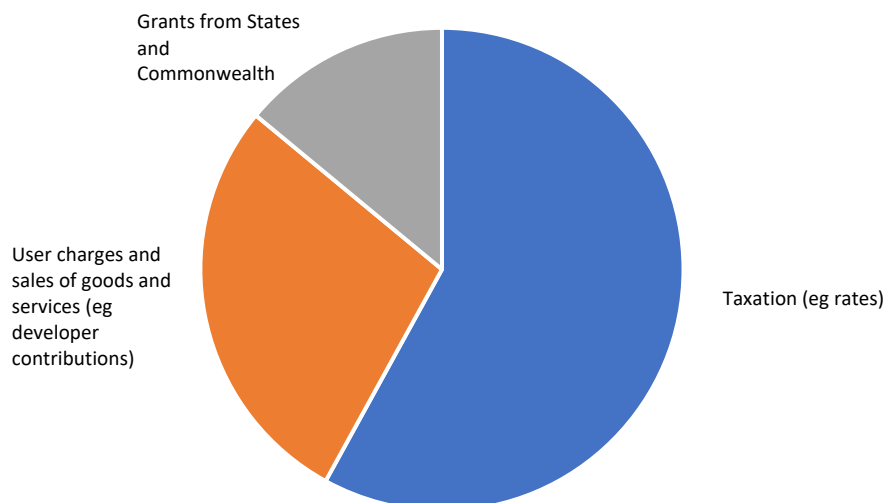
Local councils have multiple avenues to fund the upfront costs of infrastructure, including:

- Borrowing the money and paying it back over time
- Raising municipal rates
- Raising money through other charges, such as developer contributions

Taxes (mainly rates) make up the largest revenue source for councils at around 58% of annual revenue, with charges (28%) and grants (14%) making up the rest²³ (Figure 9).

Local authorities noted that restrictions in raising the appropriate investment funds are a key contributor to longer infrastructure delivery timelines. In many cases, large social infrastructure projects are funded through a mix of developer contributions and other council income. As Figure 7 shows, for many councils, the majority of contributions are collected for social infrastructure instead of essential infrastructure. If local councils are impeded financially by municipal rate caps, or by caps on the amount they can raise through developer contributions, infrastructure delivery timelines are inevitably pushed out.

Figure 9 – Council Revenue Sources



²³ Local Government Association of Australia website

Local governments tend to raise the majority of their revenue through municipal rates. But councils in some states are subject to rate pegging, which restricts the amount by which they can increase rates each year. **The Australian Local Government Association considers that NSW's rate peg is a key reason for councils not having enough money to provide their rapidly growing communities with new infrastructure**²⁴. As the NSW Productivity Commissioner noted, the share of infrastructure costs levied on development has been increasing, fuelled in part by rate pegging that constrains local councils' funding options²⁵. This places a burden on new home buyers, rather than existing ratepayers who are also benefitting from the social infrastructure. The pressure on councils not to increase general rates (from both a state authority and community level) forces them to rely on other funding sources or wait until an adequate amount of income has been accumulated over time.

Local councils could borrow the funds and deliver local infrastructure in a timelier fashion. But local governments in Australia tend to have an aversion to using debt. Local councils generally lack large-scale financial capabilities and may fail to understand the value of well-positioned debt.²⁶ Some stakeholders indicated that key performance indicators placed on local councils would mean debt is perceived negatively.

Aversion to debt and artificial funding constraints can raise the cost of local infrastructure benefits because councils may be able to borrow at relatively low rates. In NSW, the state TCorp offers loan facilities to local councils at competitive rates. Councils in all states could also use the National Housing Infrastructure Fund (NHIF) to finance infrastructure projects. The NHIF offers concessional loans, grants and equity finance to help support critical housing essential infrastructure, which can include new or upgraded infrastructure for essential services and site remediation works. Alternatively, councils with larger borrowing requirements could achieve savings, compared with conventional bank debt, by issuing a public bond into the Australian market.²⁷ This has been done in VIC, where 30 local councils launched a \$200 million bond in 2014, allowing them to benefit from their strong credit profiles to replace some of their traditional (more expensive) bank borrowings with cheaper debt capital markets funding.²⁸ But the success of some more well developed municipal bond markets overseas (such as the United States) is likely due in part because of state and federal tax exemptions, which increases the ability of councils to raise larger amounts of finance²⁹.

In some states, local councils also face developer contribution caps, which may (or may not) allow for the true cost of local infrastructure to be reflected in developer contributions.

²⁴ <https://alga.asn.au/rate-peg-hindering-councils-ability-to-build-new-infrastructure/>

²⁵ Review of Developer contributions, NSW Productivity Commissioner, 2020, page 47

²⁶ https://www.uts.edu.au/sites/default/files/ACELG_Role-Use-of-Debt.pdf (21)

²⁷ <https://www.aph.gov.au/DocumentStore.ashx?id=0d188b87-f7b0-4366-9f32-7a5ffac83f2e&subId=410360>

²⁸ <https://www.smh.com.au/business/councils-pioneer-200-million-bond-20141106-11i0bm.html>

²⁹ *Infrastructure Financing Solutions for Australia's Capital cities*, Ernst & Young report for Council of Capital City Lord Mayors, 2013 (36)



Constraints put on local governments – whether rate caps or caps on developer contributions – reduce the councils’ fiscal flexibility, resulting in sub-optimal amounts of local infrastructure for new housing supply.

Efficient design and delivery

Developers perceive there is a lack of cost-efficiency in local councils’ investment in local infrastructure....

Industry stakeholders often refer to “gold-plating”, which is where councils spend funds on features that enhance the aesthetics rather than the actual function of the infrastructure. One of the drivers behind gold-plating is that councils tend to include more infrastructure in their planned schedules than they can actually deliver in practice, so they can ensure they are covered for all outcomes regardless of whether they deliver the infrastructure they identified.

Local councils disagree, arguing there is a lack of evidence to support the gold-plating claim. They also argue that state governments have made no serious attempts to assess community expectations of what is considered as “basic and essential” infrastructure (which councils think is much broader than just services like water and sewerage).

In addition, several stakeholders pointed out that **developer contributions only pay for the upfront capital costs of local infrastructure and cannot be used for the ongoing maintenance and replacement of infrastructure**. Given the restrictions on other revenue raising avenues (as discussed above), local councils pay a premium for higher quality infrastructure upfront to reduce the risk of ongoing maintenance charges. For example, instead of investing in a low-cost gravel bike path, councils may elect to build reinforced concrete bike paths to ensure a lower likelihood of extreme weather damaging the path over time. This demonstrates the issues confronted by local councils around the ongoing maintenance costs or long-term replacement of an asset and how this should be funded.

The design and determination of developer contributions also has implications for what type of housing is built...

Jurisdictions typically can choose to apply developer contributions at the dwelling/lot level or broader area level (such as a hectare). When fees are imposed per dwelling/lot, more expensive and larger development is typically favoured because the fee becomes a smaller proportion of the total cost.³⁰ Developer contributions determined on a per hectare basis instead do not encourage/discourage one form of development over another. Setting fees at the area level appears to be the simplest formula for recognising impact without discouraging density or modest housing, while also providing predictability of costs at the time of land acquisition.³¹

However, this fee model does not take into account the fact that developers generally do not use 100% of the land they purchase. The portion of land developed into housing differs for each project, with some land reserved for other purposes like open space or simply unable to be used at all. Developers factor this into the purchase price paid for the land.³² Therefore, a rate linked to the purchase price could be a feasible alternative to determine the contribution rate.

Developers are also willing to assist in improving the cost-efficiency by delivering the infrastructure themselves...

Broad feedback from industry and local council representatives suggests both parties generally support works-in-kind arrangements³³. **That said, local authorities emphasise that they have neither the resources nor the expertise to conduct negotiations on an ongoing basis.** They argue they have no effective guidelines in terms of how in-kind arrangements should be accounted for in the overall developer contributions amount payable. Councils also point out that, with works-in-kind arrangements, developers could provide infrastructure that is cheap initially but costly to maintain, which means rate payers will end up paying for it in the long-term. Instead, councils propose a more standardised approach to valuing works, offsetting contributions payable and setting ongoing liability periods for delivered infrastructure. One of the accepted recommendations from the NSW Productivity Commission review is to develop a practice note to develop a steadier approach to this issue³⁴.

Poor coordination in optimising risk/cost sharing arrangements between council and developers can impede new housing developments...

³⁰ https://www.ahuri.edu.au/_data/assets/pdf_file/0018/2097/AHURI_Final_Report_No140_Counting-the-costs-planning-requirements,-infrastructure-contributions,-and-residential-development-in-Australia.pdf (page 55)

³¹ https://www.ahuri.edu.au/_data/assets/pdf_file/0018/2097/AHURI_Final_Report_No140_Counting-the-costs-planning-requirements,-infrastructure-contributions,-and-residential-development-in-Australia.pdf (page 95)

³² Developers generally work backwards from their desired profit margin and set the purchase price accordingly before they purchase land.

³³ UDIA NSW Policy – Dec 2020 – Works-in-Kind Agreements

³⁴ <https://www.planning.nsw.gov.au/-/media/Files/DPE/Other/NSW-Government-response-productivity-commission-review-2021-03.pdf?la=en> (Item 6.2)



Given their expertise, developers are likely to be better placed at managing the delivery of required infrastructure. However, if infrastructure is shared, developers often can't capture the full benefits of their investments, which can impede new housing supply. If these risks and costs are better shared among councils and developers, this would address concerns over cost of infrastructure and accountability during infrastructure planning and delivery.

This is one area where governments can play a role in coordinating efficient infrastructure delivery. For example, a local council may facilitate an arrangement where a developer pays for the upfront capital costs of essential infrastructure but are then refunded a portion as other developers build new housing and get some of the benefits of the original investment.

APPENDIX

Figure 1a and 1b shows the development cost breakdown of the case studies analysed in the report in dollar terms and percentage terms respectively.

Figure 1a: Greenfield Development Costs (\$)

	NSW 1	NSW 2	NSW 3	NSW 4	NSW 5	NSW 6	VIC 1	VIC 2	VIC 3	QLD 1	QLD 2	QLD 3	QLD 4
Total costs ^{(a)(b)}	579,000	892,000	464,000	429,000	460,000	366,000	509,000	449,000	544,000	409,000	399,000	424,000	365,000
<i>Of which:</i>													
Land Cost ^(c)	22,000	280,000	255,486	205,335	230,159	138,462	38,250	45,000	71,000	35,000	33,000	46,956	30,690
Construction	350,000	425,000	66,071	62,338	101,801	123,642	248,370	250,000	306,000	249,325	249,325	270,598	257,367
Services and Finance	159,000	76,500	65,889	65,443	59,999	67,902	143,333	108,000	113,900	88,000	85,000	54,498	45,510
Developer Contributions	25,000	85,000	63,000	85,000	52,000	25,000	76,664	37,000	52,000	35,000	29,300	41,579	29,300
Other Govt Charges	22,500	25,500	13,612	11,154	15,975	10,675	2,260	8,500	1,000	2,000	2,000	10,213	2,000

(a) GST is excluded and total costs are rounded to the nearest thousand.

(b) Source: Macroplan, NHFIC, developers

(c) Land values are all based on purchase cost, and not necessarily reflective of current fair valuation of land.

Figure 1b: Greenfield Development Costs (%)

	NSW 1	NSW 2	NSW 3	NSW 4	NSW 5	NSW 6	VIC 1	VIC 2	VIC 3	QLD 1	QLD 2	QLD 3	QLD 4
Total costs	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<i>Of which:</i>													
Land Cost	4%	31%	55%	48%	50%	38%	8%	10%	13%	9%	8%	11%	8%
Construction	60%	48%	14%	15%	22%	34%	49%	56%	56%	61%	62%	64%	71%
Services and Finance	27%	9%	14%	15%	13%	19%	28%	24%	21%	22%	21%	13%	12%
Developer Contributions	4%	10%	14%	20%	11%	7%	15%	8%	10%	9%	7%	10%	8%
Other Govt Charges	4%	3%	3%	3%	3%	3%	0.4%	2%	0.2%	0%	1%	2%	1%

Source: NHFIC calculations based on Macroplan and NHFIC case studies

Figure 2 – Domestic and International Comparison

Australian states' and territories' policy

Jurisdiction	Legislation	Types of contributions	Description
NSW	Environmental Planning and Assessment Act 1979	<p>Section 7.11 contributions and Section 7.12 fixed levies fund local infrastructure. IPART assesses plans that propose over \$30,000 per greenfield lot and \$20,000 per infill lot.</p> <p>Special infrastructure contributions (SICs) fund broader types of infrastructure like major roads, regional open space, land for schools and hospitals in priority growth areas in the State.</p> <p>Section 7.4 planning agreements are used to fund infrastructure relating to affordable housing or environmental conservation.³⁵</p> <p>Voluntary planning agreements (VPAs) allow developers and councils to negotiate the provision of funds or works for infrastructure and are typically negotiated at the rezoning stage. Contributions can be made through dedication of land; monetary contributions; or construction of infrastructure.</p>	<p>Section 7.11 contributions are a rate per dwelling or square metre based on additional demand created on infrastructure. 7.12 fixed levies are charged as a percentage of the estimated cost of development, usually around 1% but some councils charge higher.</p> <p>SIC rates vary based on the share of infrastructure used by the development. The levy charged is based on 50% of the anticipated costs. SIC rates can range from approx. \$10,000 per dwelling to more than \$50,000 per dwelling, depending on location.³⁶</p> <p>The Local Infrastructure Growth Scheme is a State Government funding initiative that bridges the gap between the maximum contribution councils can collect and the reasonable costs of delivering the required local infrastructure.</p> <p>Planning agreements are negotiated and do not need to be directly related to the proposed development.</p>
VIC	Planning and Environment Act 1987	<p>The Growth Areas Infrastructure Contribution is a one-off contribution that helps deliver state infrastructure in Melbourne's new fringe suburbs.</p> <p>Development Contributions Plans help seven councils in defined growth areas to deliver local infrastructure. This includes voluntary agreements that councils and developers enter on a project-by-project basis.</p> <p>Community infrastructure levies fund projects involving the construction of community buildings or facilities.</p>	<p>In a metro greenfield growth area, the standard levy for residential development is \$216,564 for FY2021-22.³⁷</p> <p>The Growth Areas Developer contribution rates for the 2021-22 financial year are \$100,020 per hectare for type A land, \$118,810 per hectare for types B1, B2 and C land.³⁸</p> <p>The Community Infrastructure Levy liability is capped at \$1,225 for FY2022.³⁹</p>

³⁵ Developer levies for affordable housing were announced in 2017 but have yet to be rolled out across most council areas. In recent years, no council added to state environmental planning policy for affordable housing (SEPP 70) has started levying developers for affordable housing contributions. Source: <https://www.domain.com.au/news/developer-contributions-to-affordable-housing-slow-to-be-mandated-across-sydney-councils-1041364/>

³⁶ Property Council of Australia 2020, *Review of Developer contributions in NSW – Submission to the NSW Productivity Commission*, 13 August.

³⁷ <https://www.planning.vic.gov.au/policy-and-strategy/infrastructure-contributions>

³⁸ <https://www.sro.vic.gov.au/growth-areas-infrastructure-contribution>

³⁹ https://www.planning.vic.gov.au/__data/assets/pdf_file/0021/102981/Understanding_Development_Contributions.pdf



QLD	<p>Planning Act 2016</p> <p>Economic Development Act 2012</p>	<p>Where a development is located within a Priority Development Area, developers pay contributions to Economic Development Queensland in accordance with the Economic Development Act 2012.</p> <p>Where a development is located outside a Priority Development Area, developers pay contributions to the relevant local government in accordance with the Planning Act 2016.</p> <p>In both cases, contributions are put towards the provision of essential infrastructure, and developers may be required to provide essential infrastructure in lieu of paying a contribution.</p> <p>Developers are responsible for funding and providing non-essential infrastructure within a development or infrastructure that connects a development to essential infrastructure.</p>	<p>The cap for developer contributions under the Planning Act 2016 is \$21,590.50 for one or two-bedroom dwellings and \$30,226.70 for dwellings with three or more bedrooms.⁴⁰</p> <p>Councils will typically only apply the cap to development that occurs within the Priority Infrastructure Area identified in their planning scheme. This is the area that the council anticipates will develop over the next 10-15 years. Where a development is located outside the PIA, the developer and council will typically negotiate the level of contributions payable through an infrastructure agreement.</p> <p>There is no cap for developer contributions levied under the Economic Development Act 2012.</p> <p>If essential infrastructure provided has a greater value than the levied charge, a developer is entitled to a refund of the additional amount.</p>
WA	<p>Planning and Development Act 2005</p>	<p>Most of the infrastructure related to development is paid for or provided directly by the developer.</p> <p>Any contributions beyond standard requirements can only be levied if they have been identified in a Development Contributions Plan, or through negotiations with the developer.</p>	<p>Development infrastructure costs vary depending on requirements and location. In Perth, they average at around \$15,000 per dwelling for greenfield development.⁴¹</p> <p>The community developer contributions levy is capped at \$2,500 per dwelling for local infrastructure. Where district/regional infrastructure is proposed, the cap increases to \$3,500 per dwelling.⁴²</p>
SA	<p>Planning, Development and Infrastructure Act 2016</p>	<p>The Basic Infrastructure Scheme provides essential community infrastructure in rezoned and existing infill areas identified as designated growth areas.</p> <p>General Infrastructure Schemes provide broader social infrastructure to facilitate significant development or urban renewal. General Infrastructure Schemes may also be used as leverage to attract additional funding sources, such as Commonwealth funding.</p> <p>Land Management & Infrastructure Agreements with individual landowners cover the costs of significant infrastructure works needed to make the land suitable.</p>	<p>Developer contributions for greenfield housing are around \$6,000 per dwelling on average.⁴³</p> <p>An independent scheme coordinator prepares and administers schemes and determines the distribution of charges between stakeholders.</p> <p>The Basic Infrastructure Scheme is a one-off charge on the land within designated growth area.</p> <p>The General Infrastructure Scheme involves contributions paid over a period of time to create opportunities for finance and help avoid price hikes that impact housing affordability.</p>

⁴⁰ <https://www.udiaql.com.au/state-government-infrastructure-charges-cap-and-sara-fee-increases-2/>

⁴¹ Acil Allen Consulting 2018, *Taxes and charges on new housing*, Report prepared for the Residential Development Council, June.

⁴² <https://www.dplh.wa.gov.au/getmedia/874e9c0e-43cb-4e74-b8fc-2d7c1176222c/draft-SPP-3-6-Guidelines-July-2019>

⁴³ Acil Allen Consulting 2018, *Taxes and charges on new housing*, Report prepared for the Residential Development Council, June.



TAS	Land Use Planning and Approvals Act 1993	<p>Developer charges are levied on a per lot basis and can fund infrastructure for the benefit of the community.</p> <p>Includes “works internal”, which refers to internal infrastructure built at the developer’s cost and then gifted to the authority, and “works external” where a development requires stand-alone assets (e.g. a pump station) to be installed at the developer’s cost.</p>	Australia’s lowest developer contributions are in Tasmania, at around \$5,000 per lot. ⁴⁴
NT	NT Planning Act 1993	Contribution plans include stormwater contribution plans and car parking contribution plans.	Contribution rates are expressed as a rate per square metre. They differ depending on location. For instance, Darwin CBD stormwater contribution plans and car parking contribution plans are categorised into different policy areas.
<u>International policy</u>			
UK	Planning Act 2008	<p>The Community Infrastructure Levy (CIL) and s106 (planning agreements) funds infrastructure like open spaces, community and recreational facilities, education and medical infrastructure, roads and transport.</p> <p>The Neighbourhood Portion of the CIL is 15% or 25% of the CIL contributions collected and can be spent on provision or maintenance of infrastructure in the local area.</p> <p>Other rates can be set depending on the use of the development (e.g. social housing) or its size. Any of these rates must be supported by robust evidence on viability.</p>	<p>The CIL applies to any development that creates net additional floor space of 100 sqm or more (this limit does not apply to new houses or flats).⁴⁵ The amount payable is calculated as additional gross internal area x rate for development type (pounds/sqm).</p> <p>From December 2020, local authorities must publish an infrastructure funding statement identifying their infrastructure needs and total cost of service provision, anticipated developer contributions and how this funding will be spent.</p> <p>There are no time limits on spending the CIL, but the spend of s106 contributions are usually time restricted with any monies no longer needed or unspent then returned to the developer.⁴⁶ The Neighbourhood Portion also has time limits on spending.</p>
NZ	Local Government Act 2002	Contributions are implemented through a development contributions policy contained in a Long-Term Plan. They can be used to fund local and community infrastructure.	<p>Negotiated development agreements can be used.⁴⁷</p> <p>Calculated by multiplying the household unit of demand by the standard rates for each service type (stormwater, wastewater, transport). One household unit of</p>

⁴⁴ Acil Allen Consulting 2018, *Taxes and charges on new housing*, Report prepared for the Residential Development Council, June.

⁴⁵ <https://www.gov.uk/guidance/community-infrastructure-levy#calculating-the-levy-liability>

⁴⁶ https://www.local.gov.uk/sites/default/files/documents/Start%20with%20the%20Spend%20in%20Mind_Best%20Practice%20Guide%20on%20Developer%20Contributions%20%28February%202020%29.pdf

⁴⁷ [http://www.dia.govt.nz/vwluResources/Local%20Government%20Development%20Contributions%20Review%20Discussion%20Paper/\\$file/Development_Contributions_Discussion_Paper_Jan2013.doc](http://www.dia.govt.nz/vwluResources/Local%20Government%20Development%20Contributions%20Review%20Discussion%20Paper/$file/Development_Contributions_Discussion_Paper_Jan2013.doc)



Amendment Act 2014		demand applies for each residential development with more than one bedroom or 42sqm of floor area in non-residential development. ⁴⁸ Depending on the catchment areas, FY2020 rates vary between \$1,401 and \$28,625 per household unit of demand. In some cases, credits apply if there is an existing dwelling that is being demolished or rebuilt, or if changing from a 1-bedroom dwelling to a multiple room dwelling.
US ⁴⁹	Various Impact fees are one-off fees charged by local governments for public infrastructure like libraries, recreation facilities or water supply. Local governments must first adopt a comprehensive plan that includes capital improvements, which must be updated annually. Linkage fees are levied in some states (including Massachusetts, New Jersey, California) to fund construction of affordable housing developments. ⁵⁰	California's impact fees are one of the highest in the country. They are around \$22,000 per apartment in the Bay Area, ⁵¹ and can be as much as \$50,000 per single-family lot unit. ⁵² Sometimes, proposed developments are eligible for impact fee credits. When a developer constructs improvements or contributes land or money to the local government for the category in which the fee is being charged, the amount of the credit is the present value of their contribution or land. ⁵³ In Florida, impact fees for affordable housing are waived to incentivise the production of affordable housing. ⁵⁴

Note: the ACT does not levy developer contributions. Instead, the state funds infrastructure by charging 75% of the market price for new property rights granted through rezoning. Developers can also be asked to provide infrastructure as a condition of the initial release of land under a Crown Lease, with the cost of that infrastructure offset against the amount paid to government for the lease.

⁴⁸ <https://wellington.govt.nz/property-rates-and-building/development-contributions>

⁴⁹ US counties can fund themselves by issuing debt into a municipal bond market, so they are relatively less reliant upon developer contributions. Land tax is a widely used method of taxing property.

⁵⁰ <https://inclusionaryhousing.org/designing-a-policy/program-structure/linkage-fee-programs/#:~:text=They%20are%20called%20linkage%20fees,the%20production%20of%20affordable%20housing.&text=In%20some%20states%2C%20communities%20can,to%20pay%20for%20affordable%20housing.>

⁵¹ <https://www.latimes.com/opinion/story/2020-02-28/la-ed-development-fees-state-bills>

⁵² <https://www.hcd.ca.gov/policy-research/plans-reports/docs/impact-fee-study.pdf>

⁵³ <https://www.mondaq.com/unitedstates/construction-planning/797260/impact-fees-what-are-those>

⁵⁴ https://www.floridahousing.org/docs/default-source/aboutflorida/august2017/october2017/TAB_3.pdf

Figure 3 lists what items from the councils' financial statements (FY2017-20) were included as social and essential infrastructure. Total contributions also include contributions not under plans and voluntary planning agreements.

Figure 3 – Council Infrastructure

Blacktown

Essential

Drainage
Roads
Traffic facilities
Parking
Overbridges

Social (Other)

Open space
Community facilities
Tree planting
E2 conservation
Other

The Hills Shire

Essential

Drainage
Roads
Traffic facilities

Social (Other)

Open space
Community facilities
Other

Parramatta

Essential

Traffic and parking
Traffic and transport
Car park enhancements
Access and transport
Drainage, water quality and laneway infrastructure
Roads and shared paths
Transport facilities Capital – Former Hills
Stormwater management – Former Hills
Roads and natural paths – Former Hills
Drainage and Water quality – Former Hills, Former Hornsby
Ermington traffic and pedestrian
Roads – Former Hornsby
Accessibility and traffic – Former Auburn
Traffic management - HBW, Carter Street
Active transport - Carter Street

Social (Other)

Open space
Community facilities
Councils OnLine
Public domain projects
River foreshore park
Arts and cultural facility
Recreation facilities
Historic buildings
Community facilities
Natural environment
Open space and recreation
Open space and recreation – Former Hills
Public domain
Parramatta Square
Open space land – Former Hills
Open space capital – Former Hills

Open space – Former Hornsby, HBW, Carter Street
 Plan administration – Former Hills, Former Hornsby,
 Former Auburn, HBW, Carter Street
 Community facilities – Former Hills, Former Hornsby,
 Former Auburn, HBW, Carter Street, former Holroyd
 Public domain – Former Hills, Former Hornsby, Former
 Auburn
 Natural environment – Former Hills
 Sporting fields – former Holroyd
 District recreation – Carter Street
 Parks and recreation – Former Holroyd
 Other – Former Hornsby

Ryde

Essential

Roads, traffic, carparks & cycleways
 Stormwater management

Social (Other)

Community & culture
 Open space & public domain
 Administration

Liverpool

Essential

Drainage
 Parking
 Roads & Traffic facilities

Social (Other)

Local Open Space
 Embellishment of Local Open Space
 Community Facilities (Local)
 Community Facilities (District)
 Tree Planting Other
 Professional & Legal Fees (Other)
 Administration Fees
 Implementation
 Other – Moorebank Intermodal

Figure 4 – Sydney Council Developer Contributions Performance Breakdown

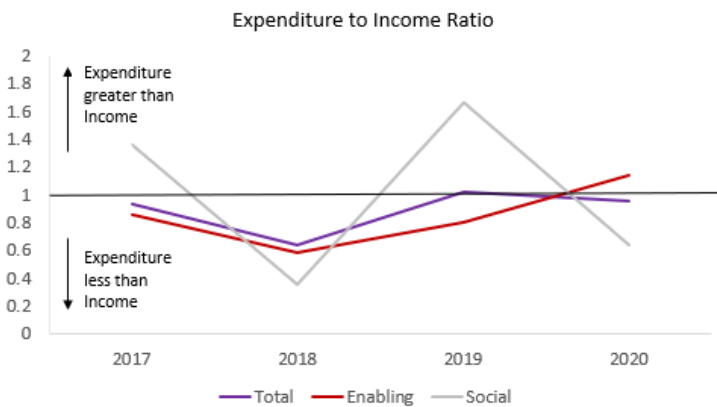
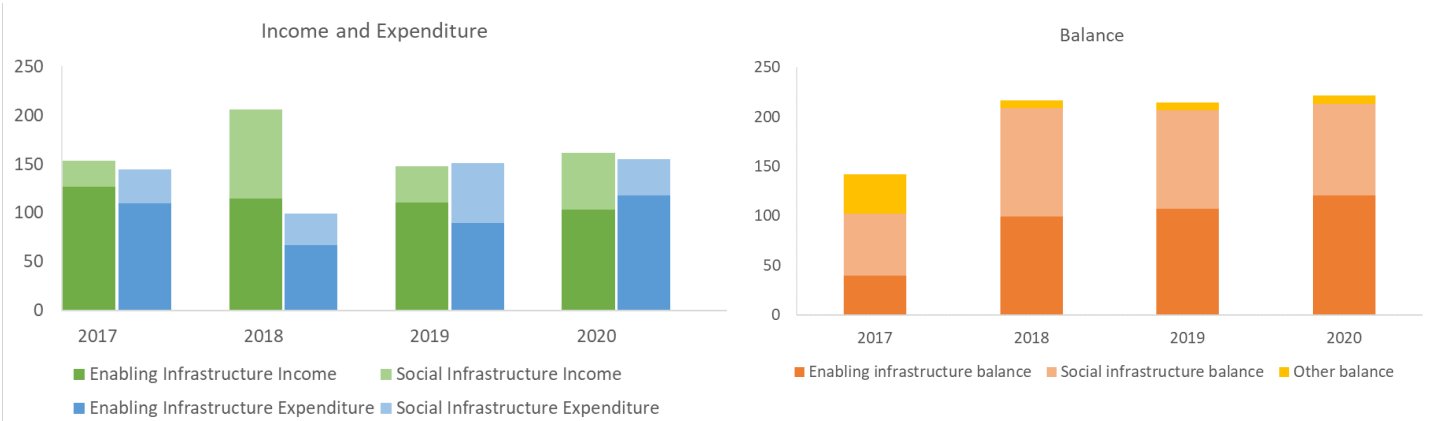
Blacktown

Income: 672m

Expenditure: 582m

Net Difference: 90m

FY20 Balance: 221m



Blacktown’s total expenditure to income ratio shows expenditure generally matches income in each year.

Blacktown’s expenditure on essential infrastructure has risen in recent years and continues to make up a larger proportion of spending compared to social infrastructure.

Essential infrastructure income has been consistent. However, because it has mostly been higher than expenditure, the balance has slightly increased.

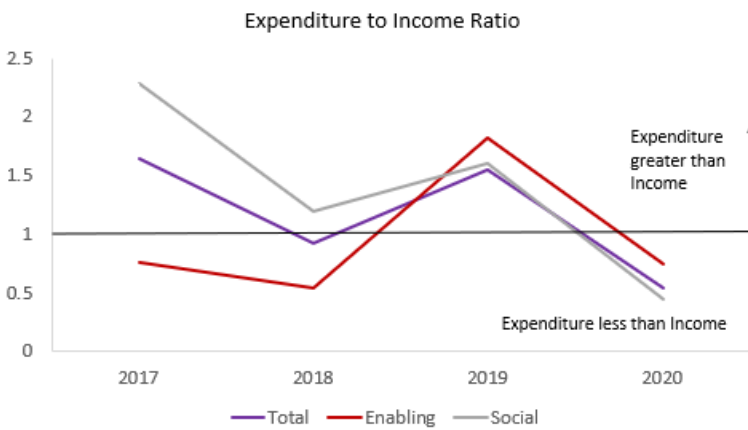
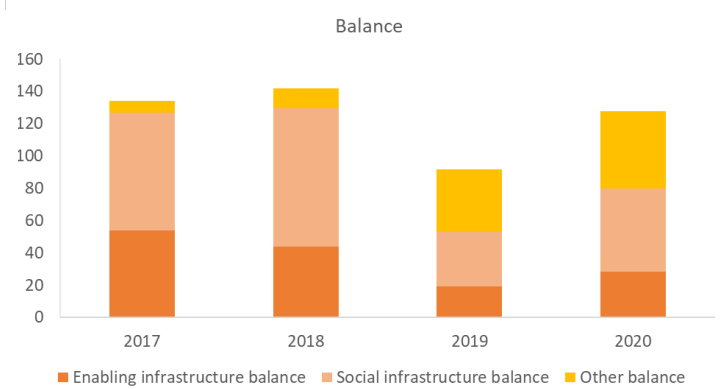
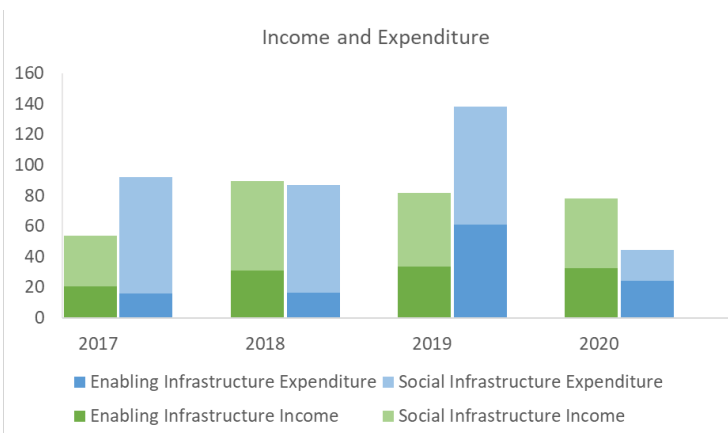
The Hills Shire

Income: 330m

Expenditure: 369m

Net Difference: -39m

FY20 Balance: 128m



Expenditure has mostly been high relative to income apart from FY20, although FY20 followed high expenditure on both social and essential infrastructure in FY19.

Most expenditure in recent years has been for social infrastructure.

The overall balance has reduced since FY17/18. However, the balance increased in FY20 compared to FY19, driven mostly by social infrastructure.

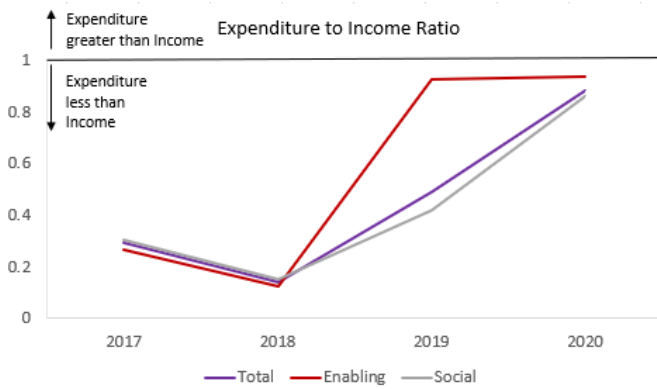
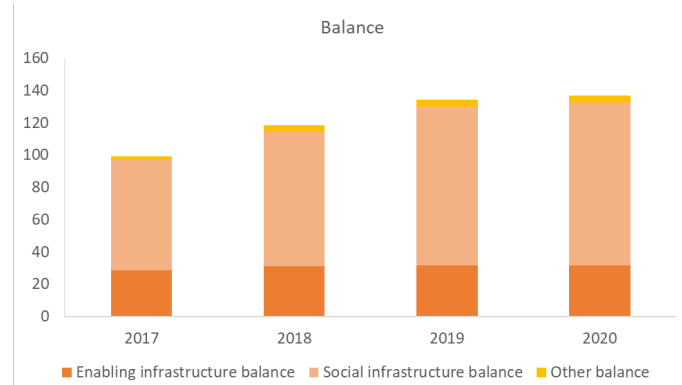
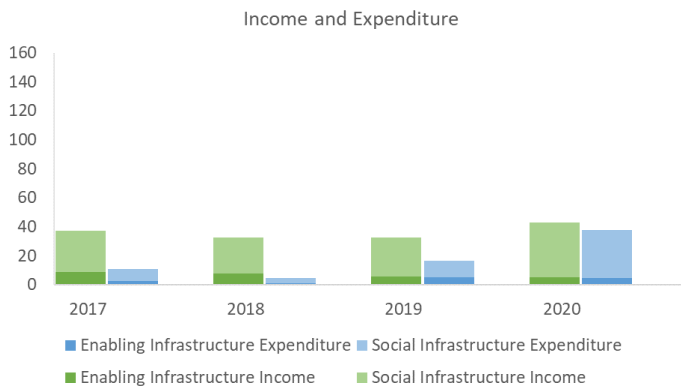
Parramatta

Income: 150m

Expenditure: 71m

Net Difference: 79m

FY20 Balance: 137m



Expenditure has been increasing but remains lower than income collected.

Most income and expenditure are for social infrastructure.

The balance for essential infrastructure has been consistent while the balance for social infrastructure has increased.

Ryde

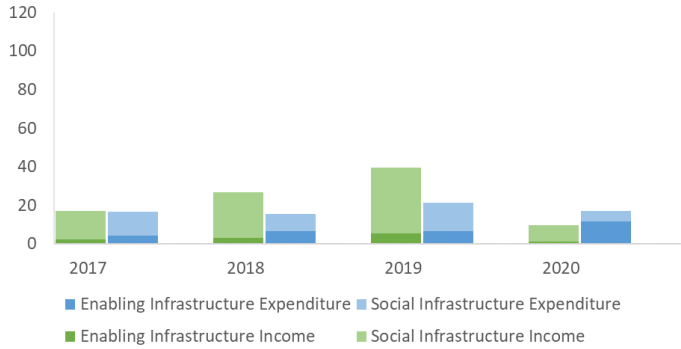
Income: 101m

Expenditure: 79m

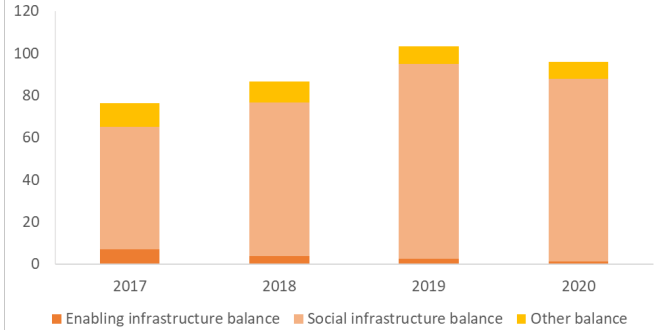
Net Difference: 22m

FY20 Balance: 96m

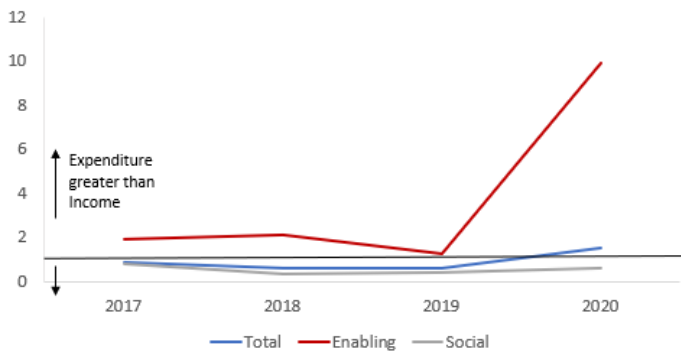
Income and Expenditure



Balance



Expenditure to Income Ratio



Expenditure on essential infrastructure (indicated with darker shading) has grown over time and exceeds income collected for essential infrastructure in each year.

Except for 2020, expenditure on social infrastructure is higher than for essential infrastructure, but lower compared with income collected for social infrastructure.

This has resulted in relatively high balances for social infrastructure.

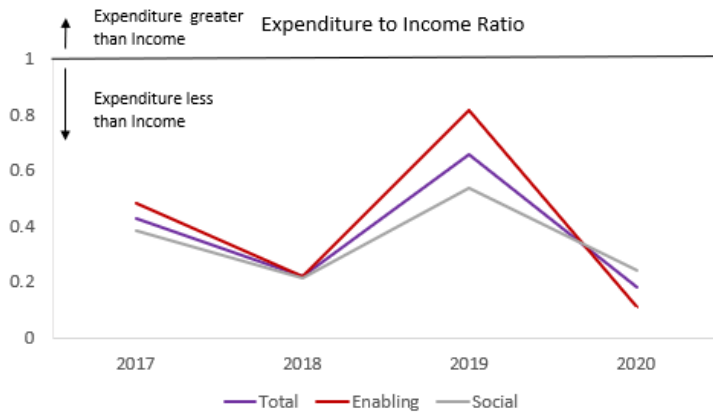
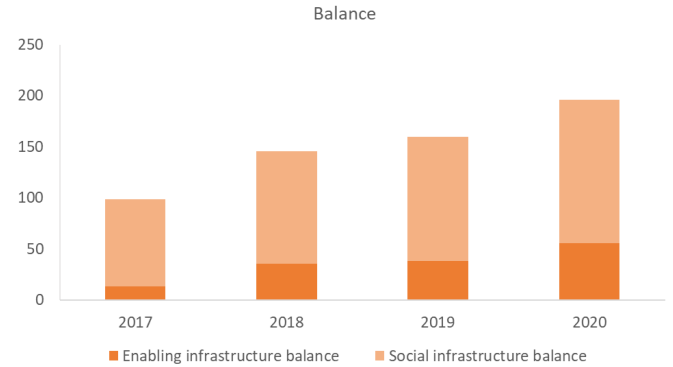
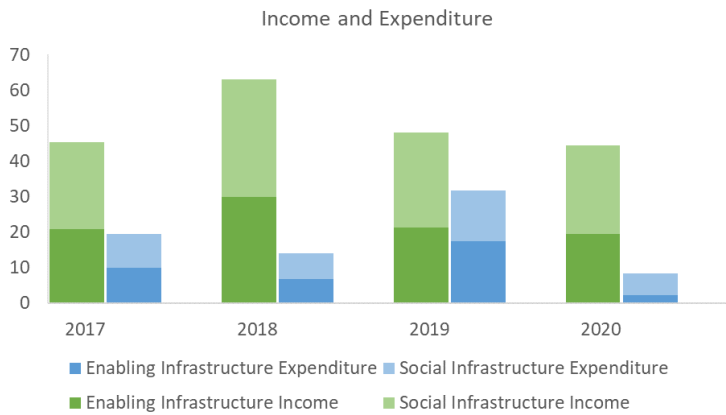
Liverpool

Income: 200m

Expenditure: 73m

Net Difference: 127m

FY20 Balance: 196m



Income for both essential and social infrastructure has greatly exceeded expenditure in recent years.

Income and expenditure have generally been evenly divided between essential and social infrastructure. However, in FY20, expenditure relative to income declined steeply for essential infrastructure.

Total balances have risen, particularly for social infrastructure.