29 March 2018

The Hon. Anthony Roberts MP
Minister for Planning
GPO Box 5341
SYDNEY NSW 2001

Dear Minister,

HUNTER REGION SPECIAL INFRASTRUCTURE CONTRIBUTION -
INDUSTRY REFERENCE GROUP FEEDBACK

The Hunter Region Development Industry has had substantial ongoing engagement with the Department of Planning and Environment (DPE) since the release of the Special Infrastructure Contribution (SIC) Discussion Paper in October 2016. Our engagement has been extensive and has involved participation in stakeholder workshops, attendance at briefings, documentation review, preparation of submissions and responses in an effort to ensure DPE formulates a fair, reasonable and well-administered SIC which has the capacity to unlock multiple development fronts in the Hunter Region.

On review of the Hunter SIC Proposed Approach paper (the Paper) it appears that our respective contributions and the concerns we have expressed have been overlooked. This brings into question the significant investments of time dedicated to this process by committees and members of the Urban Development Institute of Australia (UDIA), Property Council Australia (PCA), Planning Institute of Australia (PIA) and Hunter Business Chamber (HBC) who each recognise the critical nature of adopting a SIC which does not discourage development or negatively impact affordability.

To ensure that the key issues related to the Paper are asserted and acknowledged, UDIA, PCA, PIA and HBC have come together to provide this additional submission highlighting the following issues on which this Industry Reference Group (IRG) unanimously agree.

The Industry Reference Group urges DPE to urgently address the following issues prior to issuing a final SIC determination:

1. **The Paper Lacks Transparency and Accountability**

   Members of the IRG understand and respect the principles behind the SIC. However, the IRG do not agree the Paper accurately or reasonably reflects an outcome consistent with the principles due mainly to the flawed list of infrastructure described in table 2 of the Paper.

   The road infrastructure projects do not appear to specifically support housing and industrial land delivery. There are also items within the schedule that are currently at capacity and represent existing constraints across the network arising from current demand. These works should largely be included in the annual state road budget. Inclusion of these works in the SIC delivery schedule creates an excessive cost base inflating the SIC rate unnecessarily.

It is extremely important that the infrastructure schedule shows clear nexus and apportionment to population growth and new development. Clearly any new development has a significantly different level of influence across the infrastructure hierarchy and the list currently lacks information that allows objective assessment to conclude that the Paper has got it right.

We urge DPE to rectify the schedule prior to preparing a draft determination. This Industry Reference Group would be pleased to continue its engagement in this process. We have outlined recommendations below on how a robust, accurate and more relevant schedule can be compiled.

2. The Special Infrastructure Contribution Rate is Too High

This Industry Reference Group has advocated strongly and consistently for a reduction in the currently adopted Draft 2011 SIC contribution rate on the basis that the rate (nominally $6,500 to $8,500 per residential lot and $33,000 per ha Industrial NDA) is not sustainable in the Hunter region and its sub-markets. Lack of sustainability under the currently adopted Draft 2011 SIC contribution rate is demonstrated by the historical inability to consistently convert zoned land into saleable lots at a rate commensurate with the targets set by the Hunter Regional Plan 2036.

The increase in SIC levy rate to $10,664 per residential lot and $38,232 per ha industrial NDA in the Paper will detrimentally impact existing and future development feasibility. The resulting effect will be constriction of supply with the capacity to push land values beyond serviceable finance limits with regard to median income for the region.

Industry feedback suggests that the proposed rate is well above what is currently being negotiated in VPAs. This indicates that the proposed infrastructure schedule is inappropriate.

The factors driving the excessive SIC rates are a cost base which is too high and a revenue base which is too narrow. The Industry Reference Group requests to be consulted around any proposals to address these inputs.

The Industry Reference Group recommends the following supporting initiatives to supplement the SIC implementation:

3. Implement a Governance Framework to Ensure Infrastructure is Delivered

To ensure that infrastructure in the SIC delivery schedule is delivered we recommend that a governance framework led by the Department of Premier and Cabinet (DPC) is established.

Importantly, the infrastructure delivery must also be aligned to NSW Treasury's 4-year forward budget estimates and agency 10-year Total Asset Management (TAM) plans to ensure that the NSW Government's portion of the delivery capital is available.

4. Implement Precinct-Based Infrastructure Plans (as per Sydney Growth Precincts)

We support the Proposed Approach Paper's introductory statement acknowledging that "infrastructure investment across the region will help to create new jobs, housing, and services such as new schools, roads, health and emergency services". The proposed approach does not address the requirement to deliver enabling infrastructure upon which individual developments may rely.

The cost of providing these infrastructure works is often borne by a single developer but can catalyse development for a much wider catchment. If the SIC is administered well, it has the capacity to achieve the goal of new jobs and housing through identification and delivery/funding of enabling infrastructure to support development.

To ensure that an infrastructure levy that is fair, reasonable, proportional and that has an identified nexus is achieved, the Hunter SIC could be administered as a regional + precinct levy, similar to the concept behind Section 7.12 and 7.11 (formerly Section 94A and 94) plans at the local level.

Table 2 of the Proposed Approach Paper provides the proposed list of infrastructure for the Lower Hunter catchment under five categories:

- Roads: $231.8 million
- Emergency Services: $0.8 million
- Education: $71.4 million
- Health: $21.7 million
- Planning and delivery costs: $4.9 million

To reiterate our points 1 and 2 above, this Industry Reference Group maintains that the current list of infrastructure is inappropriate and should be revised. When a more relevant list is agreed upon, we propose that the list could be administered as follows.

A relatively low rate regional component could be evenly levied across all the Hunter Region sub-catchments. Regardless of its location, all new development increases demand for Emergency Services, Education and Health, as well as placing increased pressure on regional roads. The regional component could include:

- Health
- Education
- Emergency services
- Planning and delivery costs
- Regional arterial roads (roads that have clear nexus to development)

Separately, the precinct component would identify those infrastructure works (primarily roads) which are critical to enabling that specific precinct to deliver lots to the market. The result is a more equitable distribution of costs so that some precincts are not excessively subsidising infrastructure-hungry precincts.

The most comprehensive and transparent way to create the precinct-based infrastructure schedules is through the implementation of a robust Urban Development Program (UDP) in conjunction with the Greater Newcastle Metropolitan Plan and Hunter Regional Plan 2036.

The UDP should be linked to a Hunter Integrated Infrastructure Plan (HIIP) providing a strong tool for Government to monitor supply, identify blockages and prioritise infrastructure investment. The SIC Precinct component should be used as a vehicle to administer the infrastructure investment through a seed funding arrangement.

5. **Implement a $100 Million Hunter Infrastructure Loan Scheme**

Collectively we support the UDIA's long-standing recommendation for an enabling infrastructure seed fund and/or loan scheme to support adequate housing supply. We call on the NSW Government to allocate $100 million to establish a fund for delivering enabling infrastructure, including roads and intersections, to unlock Hunter region housing.

This fund could be accessed by developers, councils or other service providers to pay the up-front costs of delivering enabling infrastructure associated with new housing. The developer would repay its loan at completion of sales.

A major blockage in the delivery of adequate housing supply is the up-front "peak debt" of building roads, water, sewer and power infrastructure. Seed funding of enabling infrastructure (with payback) would bring housing to the Hunter market faster and at a more affordable price through a positive impact on the feasibility of development projects related to peak debt.

We conclude that a Special Infrastructure Contribution could be used to facilitate funding of lead-in RMS and council road infrastructure to unlock stalled development. This would create a broader catchment of feasible development with the ultimate outcome of providing stability to the property market and regional economy through unlocking housing supply.

The government would retain the ability to further prioritise housing delivery in strategic locations through the Housing Acceleration Fund or other government initiatives. It is important to note that our requested approach is the same as that employed in the Growth Precincts in Sydney and the Victoria Infrastructure Contributions Plans.

6. **Match Timing of Payment to Actual Demand at Occupation**

Given that the demand on infrastructure does not arise until the completed development is occupied, we believe that the payment of the SIC should not be triggered until as late in the development process as possible. Early payments must be financed, adding to the overall cost of delivery, impacting on project feasibility and housing supply.

To assist feasibility and create alignment of payment time and infrastructure use, the SIC payment should be made at the settlement of the lot sales. This matches the approach to the collection of other outstanding obligations at the time of settlement, e.g., council rates, and matches the incoming policy on the collection of GST. Any risk to the Government is negated by the fact that settlement may not proceed unless the SIC payment is made.

7. **Promote Development of Employment Land to Grow Jobs**

The Employment land levy of $38,232 per ha net developable area (NDA) applied uniformly across the three SIC areas (Lower Hunter, Upper Hunter and Mid Coast) could act as a major inhibitor to economic development and have significant negative impact on the economic diversification efforts of the NSW Government and local communities. The SIC rate must be substantially reduced for employment land and applied based on precinct specific infrastructure requirements as outlined at Point 4 for each service area.

Part 3 of the SIC Paper outlines that new subdivision roads are to be included in the calculation of net developable area (NDA) for employment land. We note that internal road area will not create need for State infrastructure and the additional SIC attributed to inclusion of road area will also negatively impact development feasibility and diversification efforts. We propose that internal road area is excluded from the NDA calculation as is the case with many existing

Hunter VPAs and the Sydney Growth Precinct Policy.

8. **Formalise the Industry Reference Group to Support Implementation Efforts**

   This submission should not detract from the detail provided within the individual submissions made by UDIA, PCA, PIA and HBC. The intent of this integrated submission is not to remove the individual submissions from consideration but rather to demonstrate the critical nature of the key SIC approach paper issues through representing the clear and unanimous alignment of feedback across the Hunter Region development community.

   We recommend formalising the Industry Reference Group to leverage the extensive expertise and collective on-the-ground knowledge on an ongoing basis to support implementation of the SIC, UDP and precinct infrastructure plans.

CONCLUSION

The critical keystone of this submission is the unanimous recognition that the Hunter SIC proposed infrastructure delivery schedule must be revisited in concurrence with the following planning tools to create a transparent and robust framework for prioritisation and funding of enabling infrastructure to unlock housing supply:

- Hunter Regional Plan 2036
- Greater Newcastle Metropolitan Plan 2036
- Urban Development Program
- Hunter Infrastructure Implementation Plan

We recognise the considerable work being undertaken by DPE to establish these new planning tools and we urge DPE to ensure that they are regionally relevant and collectively fit-for-purpose before proceeding to a SIC determination. This industry Reference Group would be pleased to continue our engagement to assist in this outcome through quarterly meetings and ongoing technical input to the UDP.

Please feel free to call on any of us for further discussion, or contact UDIA NSW Hunter Regional Manager Elizabeth York on 0434 914 901 or eyork@udiansw.com.au to arrange follow up.

Yours Faithfully,

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