7 December 2011

Mrs Jan Kronberg, MLC, Chair
Mr Nathan Bunt, Executive Officer
Outer Suburban/Interface Services and Development Committee
Parliament of Victoria
Parliament House, Spring Street
East Melbourne, VIC 3002

re: Infrastructure and Business Development in Outer Suburban Melbourne

Dear Mrs Kronberg

UDIA welcomes the opportunity to make a submission to the Outer Suburban/Interface Services and Development Committee’s Inquiry on Growing the Suburbs: Infrastructure and Business Development in Outer Suburban Melbourne.

Our submission generally reiterates the comments we made to the Underwood Review of the Planning System in Victoria.

UDIA considers that there is a fundamental disconnect between land use planning and infrastructure planning and provision. We are also concerned about the way infrastructure is funded in the Growth Areas, where developer contributions place a particularly unfair burden on new home buyers (when they are passed on) and exacerbate the current housing affordability problem in outer Melbourne. We call on governments to explore alternative funding mechanisms to provide infrastructure early.

We would welcome meeting with you and your Committee to discuss our submission further. Please feel free to call me on 9832 9600 or email me at tony@udiac.com.au.

Yours sincerely

Tony De Domenico
Executive Director
UDIA (VIC)

SUBMISSION TO THE OUTER SUBURBAN/INTERFACE SERVICES AND DEVELOPMENT COMMITTEE

Infrastructure and Business Development in Outer Suburban Melbourne

DECEMBER 2011
Introduction

UDIA made a submission to the Underwood Review of the Planning System in August 2011.

In our submission, we highlighted what we consider to be the major issues with infrastructure provision and planning in Victoria.

In particular, we raised issues of developer contributions and the high burden these place on new home owners when these are passed on, the opportunity to use alternative funding mechanisms to provide infrastructure early and the disconnect between land use planning and infrastructure planning and provision.

In this submission we reaffirm our positions on infrastructure, and urge the Outer Suburban/Interface Services and Development Committee to carefully consider the recommendations made by UDIA to the Underwood Review, which are contained in this submission.

Disconnect Between Land Use Planning And Infrastructure Provision

Most people are looking to live somewhere where they have an acceptable level of amenity: access to comfortable, affordable housing, access to work, access to recreation and leisure activities, and access to shops.

Appropriate infrastructure will drive demand for areas identified for growth. People want to be connected and have public transport and transport corridors.

For growth to be sustainable, people need jobs, transport, infrastructure and a mix of housing. These fundamentals are the same for regional or urban development.

State governments are responsible for ensuring that infrastructure investment keeps pace with local needs. This suggests that there is a need for state governments, and the Commonwealth government, to find ways to ensure that our infrastructure deficit is rectified and not allowed to fall behind again. There is a major need for governments to focus on infrastructure investment in order to keep pace with population growth. In Victoria, however, as was said in the previous section, the burden is placed on new home buyers, with rising and unsustainable levies, which decrease housing affordability, used as a method of funding infrastructure that is needed by, and used by, the whole community.

The development industry is in a key position to assist the Government to develop and deliver a blue-print to help achieve viable infrastructure.

Critical issues for consideration include:
• prioritising infrastructure spending, but with a view that infrastructure be built in advance, supporting objectives for growth and development of Melbourne as well as the regional cities and towns.

• ensuring new primary infrastructure is available in growth areas in advance of development. Local, state and Commonwealth governments should identify projects and place a time horizon on them. Investors in new estates and home buyers within those estates would then have a clear understanding of when and what infrastructure would be coming to their neighbourhood. Infrastructure Australia should have criteria for funding that are measurable and provide the impetus once the funding is approved.

• an increase in intensity of land use in established areas will require governments to upgrade existing infrastructure. Sewer systems and transport systems within the inner cities are beginning to age significantly. The potential burden higher intensity land use may have on existing infrastructure including public transport, roads and the water systems, can pose a significant constraint to appropriate development and regeneration projects being undertaken, and can underpin opposition to necessary development approvals being obtained.

The fundamental issue in all of the above considerations is the timely development of policy and significantly the timely delivery of infrastructure.

Presently and in the past, policy has been slow to reflect what is actually happening on “the ground”. Equally, the delivery of infrastructure has often come at a stage when residents have already been introduced into new areas resulting in inadequate infrastructure, particularly transport infrastructure. This problem needs to be addressed by appropriate forward planning and forward funding of infrastructure so that people do not have to experience the inconvenience and delays in the delivery of infrastructure that they require in order to sustain a reasonable standard of living.

The infrastructure authorities, such as the water companies and VicRoads, need to be more engaged in the development process. In the area of water, the current Essential Services Commission (ESC) determination is difficult to work with and lacks logic (UDIA is engaged separately with the ESC on the 2013 determination). Better co-ordination of all aspects of public infrastructure would ensure that it is on the ground at a time commensurate with development, or before development beings.

VicRoads has told UDIA in the past that they still have ‘growth area’ projects on their books in Templestowe – a backlog totalling more than $30 billion. While this may be true, responsibility also needs to be taken for this backlog, and a better way of managing the growing needs of a growing population needs to be found.

**RECOMMENDATIONS**

• Prioritise infrastructure spending with a view that infrastructure be built in advance.
• Ensure new primary infrastructure is available in growth areas in advance of development by identifying projects and placing a time horizon on them.
• Increase the engagement of the infrastructure authorities (such as the water companies, VicRoads, etc) in the development so that they can deploy infrastructure commensurate with development.
**Infrastructure Funding**

*Developer Contributions*

Developer Contribution Plans (DCPs) are a major cause of delays in the planning system. UDIA supports the Minister’s current DCP review process.

UDIA generally supports the Growth Area Authority’s model on developer contributions reform. We consider that there should be three components: roads/transport (which would be variable depending on the nature of the development area), land, and a fixed component based on a basket of items. The DCP should continue to have a nexus with the development.

We consider that councils should not be able to demand further contributions above and beyond the DCP through Section 173 agreements.

One of the major criticisms with “developer contributions” is that, by their very nature, they provide funding after development has occurred. It is therefore very difficult in a levy-based system to build infrastructure early, because the funding can only lag development, often by a very long time.

**Alternative Methods of Financing Infrastructure: Infrastructure Bonds and Tax Increment Financing**

Too much burden is placed on new home buyers by state and local government. A large proportion of the price of a house and land package, or of a new apartment, is levies to state and local government and utilities and authorities. This is putting housing out of the reach of first home buyers, making it harder to build more homes, and forcing the price of existing homes and rents up. There are alternative ways to fund worthy infrastructure investments sooner. Those investments that increase the productive capacity of the economy, including reducing congestion and pollution, and that stack up over a sufficient long-run cost-benefit analysis should be built for the benefit of the citizens of today and tomorrow.

The easiest answer is for state governments and the Commonwealth to use what really are strong balance sheets to borrow money to invest in infrastructure that will expand our productive capacity for the future. But this on-balance sheet borrowing may be a little too hard for governments to defend against oppositions insistent that they take on no debt.

Alternatively, in addition to its current role in identifying, prioritising and advising government on infrastructure projects, Infrastructure Australia could be given responsibility for issuing Infrastructure Bonds. These could be issued for a local area or for a project, and raise money to ensure that projects are built in a timely way.

There may be another viable way to debt-finance infrastructure projects that have a well-defined catchment: tax increment financing (TIF). Used in 49 states in the USA, TIF takes advantage of the property value uplift that occurs when new infrastructure that acts as a catalyst for urban renewal is built. TIF uses the future gains in taxes to finance current improvements.

Essentially TIF works by defining a “TIF district”, issuing bonds for the infrastructure projects in the area, then using the increased tax revenue (the “tax increment”) that comes about as property prices go up as a result of, say, a rail extension or new station being built, to pay the bond back over
time. The difference between the tax that is collected and the lower tax that would have been collected without the infrastructure is used to pay the bond that is issued to pay for the infrastructure.

As an alternative infrastructure funding method, TIF would lessen the need for governments to rely on new home buyers to fund infrastructure, would bring about big infrastructure projects in local areas sooner and would lock governments into their commitments. The Commonwealth would need to change the tax laws to make TIF viable in Australia.

**RECOMMENDATIONS**

- UDIA supports the Minister’s current DCP review process.
- Over the long term, a new way of funding infrastructure early needs to be found. UDIA considers that the state government should fully investigate models for infrastructure funding such as the Tax Increment Financing model that works in the United States of America.

**The UDIA (Vic)**

The Urban Development Institute of Australia (Victoria) is an independent association of over 350 organisations directly involved in the production, financing and marketing of all facets of property development. UDIA (Vic) operates as a private company limited by guarantee and was incorporated in 1975. It operates a full time secretariat and the affairs of the Institute are administered by a Board of Directors elected annually by Members of the Institute. Many local governments are members of UDIA.

In addition the UDIA is:

- A forum for discussion of industry problems and objectives
- An active political lobbyist for industry causes and goals
- An active collator and disseminator of information and data relating to urban development
- A monitor of Government and Public Authority activities which affect urban development and the viability of the industry.