DEVELOPMENT CONTRIBUTIONS IN MELBOURNE’S GROWTH AREAS
WHY CONTRIBUTIONS ARE ESCALATING
DEVELOPMENT CONTRIBUTIONS IN MELBOURNE’S GROWTH AREAS
WHY CONTRIBUTIONS ARE ESCALATING

Prepared for:
Property Council Of Australia,
Victoria Division
March 2011

www.urbanenterprise.com.au

© Copyright, Urban Enterprise Pty Ltd, March 2011.

This work is copyright. Apart from any use as permitted under Copyright Act 1963, no part may be reproduced without written permission of Urban Enterprise Pty Ltd. In particular, the methodologies and concepts outlined by Urban Enterprise in this submission are not be used without written permission of Urban Enterprise Pty Ltd.
CONTENTS

1. FORWARD 5
2. KEY FINDINGS 5
3. INTRODUCTION 9
4. DCPS BEFORE THE DEVELOPMENT CONTRIBUTIONS GUIDELINES (2003) 10
5. DCP INDEXATION MECHANISMS 10
6. DCPs APPROVED SINCE 2004 12
7. FACTORS INFLUENCING THE LEVY AMOUNT 14
8. VARIATION IN INFRASTRUCTURE COSTS BY CATEGORY 20
9. CONSERVATION LAND 25
10. DCP FINANCING ALLOWANCES 25
11. THE EFFECT OF VARIATIONS IN SIZE AND DENSITY OF DCP AREAS 27
THE FIRSTHAND EXPERIENCES OF DEVELOPERS AND OTHER STAKEHOLDERS OPERATING WITHIN MELBOURNE’S GROWTH AREAS IS THAT THE EVOLUTION OF DCPS TO THEIR CURRENT FORM HAS BEEN SO UNPRECEDENTED; THAT THEY ARE NOW OUT OF CONTROL. ...
1. FORWARD

In the second half 2010, the Property Council of Australia commissioned Urban Enterprise to undertake an in-depth analysis of the current state of Development Contribution Plans (DCPs) in Melbourne’s growth areas. The Property Council’s aim was to establish an evidence-based understanding of the current state of DCPs and the impact of DCPs on housing affordability issues across Victoria.

From this evidence-base, the Property Council aimed to formulate a greater understanding of whether or not DCPs were consistent with the principles set out in the Development Contributions Guidelines (2003) of Justification, Transparency, Nexus and Accountability.

The report, Development Contributions in Melbourne’s Growth Areas - Why Contributions are Escalating demonstrates that current DCPs are struggling to stand this test of principles. The level of detail in current DCPs has the effect of delaying the approvals process. This is clearly a contributing factor to the delays encountered in the approval of Precinct Structure Plans (PSPs) through the necessity for involved panel hearings and other resolution mechanisms.

There has also been scope-creep in the form of additional facilities and services funded, increased construction standards, and a shift in the extent of cost recovery that has contributed to significantly increased costs associated with DCPs. Current DCPs do not correctly reflect the accurate distribution of responsibility between developers, growth area councils, Victorian Government agencies and other stakeholders and this must be reformed.

The firsthand experiences of developers and other stakeholders operating within Melbourne’s growth areas is that the evolution of DCPs to their current form has been so unprecedented; that they are now out of control. The report demonstrates that DCPs are spiralling upwards and this trend must be urgently addressed by the Victorian Government in collaboration with growth area councils.

The impact of continuing cost increases in DCPs, as well the ever expanding scope of DCPs, is a significant contributor to the erosion of housing affordability which has contributed so strongly to Melbourne’s economic advantage.

The findings of the report have led the Property Council to formulate two key recommendations:

1. The current approach to DCPs must immediately be reformed to institute a fixed charge across all of the growth areas.
2. There must be a rigorous review of DCPs addressing scope and standards of provision in close consultation with industry.

The Property Council of Australia will work closely with the Victorian Government and industry to ensure that these recommendations are given serious consideration and initiate vital reform within DCPs in Melbourne’s growth areas. Without DCP reform, Victoria is going to face further impediments to the resolution of housing affordability issues both in Melbourne’s growth areas and across the entire state.

Jennifer Cunich
Executive Director
Property Council of Australia, Victoria Division

2. KEY FINDINGS

THE USE OF DCPs BY GROWTH AREA COUNCILS IS INCREASING

- Since the Development Contributions Guidelines (2003) were prepared there have been DCPs released by six growth area municipalities in Melbourne. These include DCPs released by Cardinia, Melton, Hume and Wyndham who had not prepared a significant growth area DCP before this time.
- Since 2003, there have been 13 DCPs approved and these DCPs are far more detailed than their earlier counterparts.
DCP LEVIES HAVE INCREASED SIGNIFICANTLY IN RECENT YEARS

- The average Development Infrastructure Levy amount for DCPs approved in 2010 was just over $175,000 per hectare, compared with $107,000 per hectare in 2004 (at 2010 values). This does not include the Community Infrastructure Levy which is capped at $900 per dwelling and is paid by homeowners.
- Between 2004 and 2010 the average Development Infrastructure Levy in approved DCPs increased by more than $12,200 per hectare each year. This represents real growth in levies, after accounting for construction and land cost inflation.
- The average Development Infrastructure Levy in approved DCPs has increased by 8.53% year on year in real terms.
- The highest Development Infrastructure Levy amount for an approved DCP is $199,101 per hectare (for the Cranbourne West DCP, 2010).
- The highest Development Infrastructure Levy for an approved DCP (the Cranbourne West DCP) is easily surpassed by two DCPs which are yet to be approved but for which Planning Panels Victoria has prepared reports, namely Clyde North (Casey) and Truganina South (Wyndham). Both of these exhibited DCPs have Development Contribution Levy amounts higher than any of the currently approved DCPs. The exhibited Clyde North DCP proposes a Development Infrastructure Levy of $256,369 per hectare and the exhibited Truganina South DCP proposes a Development Infrastructure Levy of $234,796 per hectare.
- The proposed levy in these two exhibited DCPs is 18%-28% higher again than the Cranbourne West DCP. This indicates that Development Contribution Levies are increasing at a rapid and substantial rate.
- A current indicator of this rate of increase is the comparison of the levy for the Cranbourne East DCP (approved in 2010) with that proposed for Clyde North (exhibited in 2010), both in the City of Casey. The proposed Clyde North levy is 54% higher than the levy in the approved Cranbourne East DCP.

WHY HAVE DCP LEVIES INCREASED?

DCP levies have increased substantially due to a range of factors including:

- Increasing land values in growth areas.
- Increasing council requirements for land especially land for Active Open Space.
- Rising construction costs due to more detailed costing of infrastructure including the introduction of contingency amounts on most items as well as the demand for higher standards of infrastructure provision from both local government and Victorian Government agencies.
- Increasing requirements for conservation land and conservation offsets.
- Use of more reliable indexation methods which better adjust levy amounts for price inflation.
- Rising costs associated with preparation of PSPs and DCPs.
MORE RELIABLE INDEXATION MECHANISMS ARE BEING USED
• DCPs typically moved away from using the Consumer Price Index (CPI) as a mechanism for the indexation of costs for works and land after 2003 in favour of more specific and accurate indexation mechanisms.
• Since 2003, DCPs have typically used the Building Price Index published by Rawlinsons or the Producer Price Index for Construction published by the ABS for the indexation of works. DCPs typically now use periodic market valuations to adjust the cost of land items.
• Wyndham is the only council to have used CPI as an indexation method for its DCPs since 2003, although the currently exhibited Truganina South DCP proposes the use of the more accurate indexation methods common across all other councils.

THE COST OF LAND REQUIRED BY DCPS IS RISING
• There has been a clear upward trend in the average cost of land required for infrastructure uses since 2004.
• Trends suggest that the cost of land is a key factor causing a substantial increase in DCP levies over time, accounting for more than $60,000 per hectare of the average levy.

LAND FOR OPEN SPACE IS THE MOST COSTLY LAND ITEM
• Of all land required to be provided in accordance with DCPs, land for open space is the most significant contributor to DCP levies with an average of almost $40,000 per hectare across all DCPs.
• Trends show that there has been significant growth in the cost of land required for active open space since 2004.
• On the face of it, land required for passive open space in approved DCPs has declined since 2004. However, this is due to changes in the way passive open space contributions are to be made. Current practice is to require the provision of passive open space land through the use of Clause 52.01 of the Victorian Planning Scheme and the provision of active open space land through the DCP. Therefore, when taking the two mechanisms together, the extent of land required for open space has increased since 2004.
• Other requirements for land include land required for roads ($10,500 per hectare on average), land for community facilities ($5,000 per hectare) and land for public transport ($1,000 per hectare). The cost of land for both roads and community facilities has trended upwards since 2004.

CONSTRUCTION COSTS ARE RISING
• Since 2004, there has been real growth in the cost of works and improvements, especially for roads, traffic management and open space items.
• Of the levy amounts allocated to the costs of works and improvements across all DCPs, roads (26.5%) and open space (25.9%) are the most significant contributors to the levy amount, followed by traffic management (20.1%) and community facilities (19.2%).

NEW TRENDS EMERGING IN YET TO BE APPROVED DCPs
• In the proposed Clyde North and Truganina South DCPs, new trends that are emerging that will contribute to increasing levies include the substantial cost of conservation areas and offsets required for the Golden Sun Moth (GSM) and other habitat, as well as contributions to the arterial road network through the provision of land for arterial roads and construction of initial carriageways and intersections.
DEVELOPMENT CONTRIBUTIONS IN MELBOURNE’S GROWTH AREAS
WHY CONTRIBUTIONS ARE ESCALATING

...IN TOTAL, THE REPORT ANALYSES 24 RESIDENTIAL-BASED DCPS ACROSS MELBOURNE’S GROWTH AREA MUNICIPALITIES....
3. INTRODUCTION

Development Contributions in Melbourne’s Growth Areas – Why Contributions are Escalating has been prepared for the Property Council of Australia, Victoria Division, and analyses the rising cost of levies relating to the DCPs of Melbourne’s six growth area councils, namely Casey, Cardinia, Hume, Melton, Whittlesea and Wyndham.

In total, the report analyses 24 residential-based DCPs across Melbourne’s Growth Area municipalities.

The analysis includes reference to the formative DCP documents prepared by the Casey and Whittlesea Councils between 1997 and 2003. These earlier DCPs have been shown to be less sophisticated than those prepared after the introduction of the Development Contributions Guidelines (2003) which were published by the Department of Sustainability and Environment following the Review of the Development Contributions System released in 2001.

The Development Contributions Guidelines formed the basis for more detailed DCPs being prepared and approved in recent years. In the years since 2003, levies collected under approved DCPs have increased substantially as indicated by the trend in Figure 2 below.

FIGURE 1. SUBJECT MUNICIPALITIES

FIGURE 2. DEVELOPMENT INFRASTRUCTURE LEVY PER HECTARE 1997-2010

Source: Compiled by Urban Enterprise, Data Period 1997 – 2010. Includes data for multiple catchments within a DCP such as Mernda and Cardinia Road.
In addition to the Development Infrastructure Levy which is the focus of this report, a Community Infrastructure Levy is also payable under each of the DCPs reviewed. Community infrastructure includes infrastructure of a social or community nature.

No land acquisition can be funded by a Community Infrastructure Levy.

The Community Infrastructure Levy is currently capped at $900 per dwelling. The levies identified in this report do not include the Community Infrastructure Levy.

This report focuses on the increase in the Development Infrastructure Levy amounts of DCPs approved after 2003. However, some data relating to DCPs approved prior to 2003 is also included to provide a context to the trends identified since 2004.


Before 2004, DCPs were very different to those which exist today, lacking the detail and sophistication required to accurately fund infrastructure and deal with inflation risk over time.

Many of these initial DCPs have proven to be under-funded. Many projects were shown to be under-costed with no allowance for cost contingencies, while often the specification of what was to be provided was inadequate.

The funding shortfalls in these early DCPs, was exacerbated by the use of the CPI as the means of indexing the cost of land and works to be funded by DCPs. It has been shown that the CPI has failed to match the rapid inflation in building prices and land values that has occurred in the past 15 years.

The Development Contributions Guidelines were released by the Victorian Government in 2003 following the Review of the Development Contributions System in 2001. These documents provided greater guidance to councils in respect of preparing DCPs.

5. DCP INDEXATION MECHANISMS

DCPs allow for the risk of price inflation to be offset by the use of periodic indexation of costs based upon a specified indexation mechanism.

Earlier DCPs tended to use the CPI as the indexation mechanism, which failed to keep pace with the inflation in construction costs and land values.

Recent DCPs have made use of more appropriate indexation methods to adjust costs upwards in line with actual inflation pressures on building costs and land values over time.

Table 1 identifies each of the DCPs approved in the growth areas since 1997, along with the indexation mechanism used by each DCP for both work items and land items, as well as the average annual level of price inflation that has occurred using the indexes applied.

Table 1 confirms the trend away from the CPI as a mechanism for indexation. Nearly all councils have adopted the use of either the Rawlinson’s Building Price Index or the ABS Producer Price Index for General Construction as a more accurate measure of indexing the cost of works since 2004. Similarly, nearly all councils have moved away from using the CPI as a means for indexing the value of land, instead adopting the use of a periodic market valuation to adjust land values. The revaluation method generally either specifies the use of a homogeneous DCP-wide valuation or the more complex process of revaluing each DCP land item separately.
**TABLE 1. DCP INDEXATION MECHANISMS 1997 TO 2010**

<table>
<thead>
<tr>
<th>Year</th>
<th>Municipality</th>
<th>DCP Name</th>
<th>Indexation Mechanism for Works</th>
<th>Indexation Mechanism for Land</th>
<th>Ave Inflation p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>Casey</td>
<td>Narre Warren South</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>4%</td>
</tr>
<tr>
<td>1998</td>
<td>Casey</td>
<td>Berwick South</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>3%</td>
</tr>
<tr>
<td>1998</td>
<td>Casey</td>
<td>Ti Tree Creek</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>3%</td>
</tr>
<tr>
<td>1999</td>
<td>Casey</td>
<td>Cranbourne</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>4%</td>
</tr>
<tr>
<td>1999</td>
<td>Casey</td>
<td>LSP3 : Cranbourne East</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>5%</td>
</tr>
<tr>
<td>1999</td>
<td>Casey</td>
<td>LSP6 : Cranbourne East</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>5%</td>
</tr>
<tr>
<td>2002</td>
<td>Whittlesea</td>
<td>Epping North DCP</td>
<td>Consumer Price Index</td>
<td>All Melbourne % Change</td>
<td>18%</td>
</tr>
<tr>
<td>2002</td>
<td>Whittlesea</td>
<td>Harvest Home LSP</td>
<td>Consumer Price Index</td>
<td>All Melbourne % Change</td>
<td>16%</td>
</tr>
<tr>
<td>2003</td>
<td>Casey</td>
<td>LSP1 : Lyndhurst</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>3%</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 2A</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>3%</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 2B</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>3%</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 3</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>2%</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 4</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>2%</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 5</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>2%</td>
</tr>
<tr>
<td>2007</td>
<td>Casey</td>
<td>Cranbourne North</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>33%</td>
</tr>
<tr>
<td>2007</td>
<td>Whittlesea</td>
<td>Aurora (Vic Urban)</td>
<td>Rawlinson's BPI</td>
<td>Consumer Price Index</td>
<td>5%</td>
</tr>
<tr>
<td>2007</td>
<td>Wyndham</td>
<td>Westmeadows Lane &amp; Marquands Rd</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>3%</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 1</td>
<td>Producer Price Index</td>
<td>Market Valuation</td>
<td>1%</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 2</td>
<td>Producer Price Index</td>
<td>Market Valuation</td>
<td>0%</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 3</td>
<td>Producer Price Index</td>
<td>Market Valuation</td>
<td>0%</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 5</td>
<td>Producer Price Index</td>
<td>Market Valuation</td>
<td>0%</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 6</td>
<td>Producer Price Index</td>
<td>Market Valuation</td>
<td>0%</td>
</tr>
<tr>
<td>2008</td>
<td>Whittlesea</td>
<td>Epping North East LSP</td>
<td>Rawlinson's BPI</td>
<td>Consumer Price Index</td>
<td>1%</td>
</tr>
<tr>
<td>2008</td>
<td>Wyndham</td>
<td>Tarneit West</td>
<td>Consumer Price Index</td>
<td>Consumer Price Index</td>
<td>4%</td>
</tr>
<tr>
<td>2010</td>
<td>Casey</td>
<td>Cranbourne West Area 2</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>Casey</td>
<td>Cranbourne West Area 3</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Taylors Hill West</td>
<td>Producer Price Index</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Melton North</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Toolern Area 1</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Toolern Area 2</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Toolern Area 3</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>Hume</td>
<td>Craigieburn R2 Precinct</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010*</td>
<td>Casey</td>
<td>Clyde North</td>
<td>Rawlinson's BPI</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
<tr>
<td>2010*</td>
<td>Wyndham</td>
<td>Truganina South</td>
<td>Producer Price Index</td>
<td>Market Valuation</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Not yet approved, information taken from exhibited version.

Source: Compiled by Urban Enterprise, Data Period 1997 - 2010
The exception to this trend away from indexation using the CPI is Wyndham City Council, who chose to proceed with the use of the CPI for DCPs approved in 2007 and 2008, however the currently exhibited Truganina South DCP proposes the use of the more accurate indexation methods common across all other councils.

While the average annual rate of inflation for most DCPs is usually between 1% to 5% there are examples such as Epping North, Harvest Home and Cranbourne North where levies have inflated significantly due to major upward revaluations of land values.

Figure 3 shows the levy change for each DCP from the year of approval to 2010, based upon the indexation mechanism included in the DCP. It can be seen that the DCPs approved more recently tend to have a steeper indexation effect than the older DCPs. This reflects the more reliable indexation of costs, especially for the land acquisition component of these DCPs.

An exception to this trend is the Cardinia Road Precinct DCP where the indexed levy has been relatively steady over the two years since its approval. This is due to some 2010 land valuations being lower than the original 2008 values.

6. DCPs Approved Since 2004

This report focuses on the DCPs approved since 2004, following the publication of the Development Contribution Guidelines in 2003. The 24 DCPs approved since 2004 are listed in Table 2, along with the area the DCP applies to (in terms of net developable hectares) and the per hectare levy amount that applies to the DCP area.
...IT CAN BE SEEN THAT THE DCPS APPROVED MORE RECENTLY TEND TO HAVE A STEEPER INDEXATION EFFECT THAN THE OLDER DCPS. ...

<table>
<thead>
<tr>
<th>Year</th>
<th>Municipality</th>
<th>DCP Name</th>
<th>Net Developable Hectares</th>
<th>DIL Levy Amount per Hectare (Indexed to $2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 2A</td>
<td>251</td>
<td>$95,386</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 2B</td>
<td>313</td>
<td>$102,802</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 3</td>
<td>256</td>
<td>$109,714</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 4</td>
<td>302</td>
<td>$117,434</td>
</tr>
<tr>
<td>2004</td>
<td>Whittlesea</td>
<td>Mernda Precinct 5</td>
<td>133</td>
<td>$112,611</td>
</tr>
<tr>
<td>2007</td>
<td>Casey</td>
<td>Cranbourne North</td>
<td>235</td>
<td>$92,141</td>
</tr>
<tr>
<td>2007</td>
<td>Whittlesea</td>
<td>Aurora (Vic Urban)</td>
<td>428</td>
<td>$137,058</td>
</tr>
<tr>
<td>2007</td>
<td>Wyndham</td>
<td>Westmeadows Lane &amp; Marquands Rd</td>
<td>169</td>
<td>$84,581</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 1</td>
<td>195</td>
<td>$165,777</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 2</td>
<td>82</td>
<td>$130,635</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 3</td>
<td>46</td>
<td>$157,591</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 5</td>
<td>99</td>
<td>$194,841</td>
</tr>
<tr>
<td>2008</td>
<td>Cardinia</td>
<td>Cardinia Road Precinct Cell 6</td>
<td>115</td>
<td>$186,859</td>
</tr>
<tr>
<td>2008</td>
<td>Whittlesea</td>
<td>Epping North East LSP</td>
<td>350</td>
<td>$152,149</td>
</tr>
<tr>
<td>2008</td>
<td>Wyndham</td>
<td>Tarneit West</td>
<td>86</td>
<td>$97,831</td>
</tr>
<tr>
<td>2010</td>
<td>Casey</td>
<td>Cranbourne West Area 2</td>
<td>89</td>
<td>$199,101</td>
</tr>
<tr>
<td>2010</td>
<td>Casey</td>
<td>Cranbourne West Area 3</td>
<td>165</td>
<td>$187,109</td>
</tr>
<tr>
<td>2010</td>
<td>Casey</td>
<td>Cranbourne East</td>
<td>434</td>
<td>$166,428</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Taylors Hill West</td>
<td>156</td>
<td>$189,362</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Melton North</td>
<td>89</td>
<td>$141,868</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Toolern Area 1</td>
<td>312</td>
<td>$146,775</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Toolern Area 2</td>
<td>805</td>
<td>$148,578</td>
</tr>
<tr>
<td>2010</td>
<td>Melton</td>
<td>Toolern Area 3</td>
<td>73</td>
<td>$149,058</td>
</tr>
<tr>
<td>2010</td>
<td>Hume</td>
<td>Craigieburn R2 Precinct</td>
<td>361</td>
<td>$114,131</td>
</tr>
<tr>
<td>2010*</td>
<td>Casey</td>
<td>Clyde North</td>
<td>328</td>
<td>$256,369</td>
</tr>
<tr>
<td>2010*</td>
<td>Wyndham</td>
<td>Truganina South</td>
<td>168</td>
<td>$234,796</td>
</tr>
</tbody>
</table>

*Not yet approved, information taken from exhibited version.

Source: Compiled by Urban Enterprise, Data Period 1997 – 2010
7. FACTORS INFLUENCING THE LEVY AMOUNT

Figure 4 shows the DCP levy amounts payable per hectare for DCPs approved since 2004. The graph indicates a clear upward trend in the amount payable per hectare for these DCPs. The graph also indicates some variability in levy amounts between municipalities.

The average levy amount for DCPs approved in 2010 was just over $175,000 per hectare, compared with $107,000 per hectare in 2004 (in 2010 values). This represents real growth in levies, after accounting for construction and land cost inflation.

Between 2004 and 2010 the average levy in approved DCPs increased at an annual rate of over $12,200 per hectare representing real growth of 8.53% year on year.

Factors contributing to this trend of levies increasing substantially over time include the impact of the:
- increasing cost of land;
- rising costs for particular infrastructure categories;
- rising costs associated with open space provision;
- costs associated with conservation areas; and
- costs associated with providing arterial roads and intersections.

Source: Compiled by Urban Enterprise, Data Period 2004 – 2010
RISSING COST OF LAND ACQUISITION
A key driver of increasing levies as well as the variations in levies between growth area councils is the cost of land to be acquired under a DCP. Figure 5 indicates the growth trend in the average cost of land between 1998 and 2010.

The average land cost grew by nearly $57,000 per annum between 1997 and 2004, representing a year on year growth rate of 7.75%. This growth rate is similar to the rate of growth in DCP levies suggesting that there is a strong correlation between rising levy amounts and the rising cost of land.

The graph also indicates strong regional variation in land costs. Municipalities in the south-eastern growth area (Casey and Cardinia) exhibit the highest average land costs and these costs are significantly higher than those for the western and northern growth areas (Wyndham, Melton, Hume and Whittlesea).

FIGURE 5. AVERAGE PER HECTARE LAND COST BY YEAR

Source: Compiled by Urban Enterprise, Data Period 1997 - 2010
DEVELOPMENT CONTRIBUTIONS IN MELBOURNE’S GROWTH AREAS

WHY CONTRIBUTIONS ARE ESCALATING

IMPACT OF RISING LAND COSTS ON DCP LEVIES

Figure 6 shows the impact that land acquisition costs have had on DCP levies since 2004. The graph shows a linear relationship with DCP levy amounts generally increasing as the average land cost for the DCP area increases.

The highest land costs is in the City of Casey with the Clyde North DCP (exhibited version 2010) including an average land cost of $1.83 million per hectare, followed by the Cranbourne West DCP ($1.45 million per hectare) and the Cranbourne East DCP ($1.53 million per hectare). These DCPs have relatively high levies. The Cardinia Road DCP (Cardinia, 2008) and Taylors Hill West DCP (Melton, 2010) follow this trend with relatively high levy amounts and high land costs. The City of Wyndham has the lowest average land costs, but also has some of the lowest levies of those DCPs adopted after 2004. The Cranbourne North DCP (Casey, 2007) also has a low per hectare land cost and a relatively low levy amount. The exception to the general trend is the exhibited DCP for Truganina South (Wyndham) which has a relatively low per hectare land cost but a relatively high per hectare levy amount. It should be noted that this DCP has very high costs for roads and traffic management and is affected by the large area of land that has been designated for conservation, to protect the GSM habitat.

FIGURE 6 LEVY TO AVERAGE LAND COST PER HECTARE

Source: Compiled by Urban Enterprise, Data Period 2004 - 2010
LAND COST BY PROPOSED USE

Figure 7 shows the average land cost component of the levy for each municipality by proposed use of that land (such as for roads, open space and community facilities).

The graph indicates that land for open space is by far the greatest land cost contributor to the DCP levy, with an average of nearly $40,000 per hectare being collected across all DCPs. This is followed by roads ($11,000 per hectare on average) and community facilities ($5,000 per hectare on average).

The Cities of Whittlesea and Casey require an average contribution of between $55,000 and $60,000 per hectare for land for open space, while Melton and Wyndham require the lowest average land contribution per hectare for open space ($24,000 and $10,500 respectively). While the Melton DCPs have lower than average contributions for land for open space, Melton has the greatest average contribution for land for roads, traffic management and community facilities. Wyndham generally has a very low average land cost component in its DCPs.
CHANGE IN LAND PROVISION BY CATEGORY OVER TIME

Land For Open Space

Figure 8 below shows the changes in the levy amount for land for open space over time, with the distinction made between land for active open space and land for passive open space. The trend shows that land for active open space as a component of DCP levies is increasing, while land for passive open space as a component of DCP levies is decreasing. This trend is the result of passive open space now being required to be provided in accordance with Section 52.01 of the Victorian Planning Scheme rather than as part of the DCP, while the cost of active open space has increased as a result of the increase in amounts of active open space required and the overall growth in land values over time as identified earlier.

**Source:** Compiled by Urban Enterprise, Data Period 2004 - 2010
The Cranbourne West DCP has the highest levy for active open space land of all DCPs at $93,600 per hectare, followed by Clyde North (Casey, exhibited 2010) with over $72,000 per hectare. The average levy for active open space land increased by almost $6,500 per annum between 2004 and 2010.

Land For Roads And Community Facilities

Figure 9 shows the changes in the levy amount for land for roads and land for community facilities. The graph shows a significant upwards trend over time in the levy amount required for land for both roads and community facilities in line with the growth in land values identified earlier in this report. The average levy for community facilities land increased by more than $1,100 per year between 2004 and 2010 while the levy for roads land increased by nearly $1,000 per year over the same period.
8. VARIATION IN INFRASTRUCTURE COSTS BY CATEGORY

The core purpose of DCPs is to fund the construction of new infrastructure to support the new community. The cost of infrastructure is therefore the other main influence on DCP levy amounts other than land values.

The Development Contributions Guidelines (2003) and the Minister’s Direction provide guidance as to which infrastructure may be provided under a DCP and have meant that most DCPs provide for similar types of infrastructure.

Of all the DCPs approved in 2010, an average of $87,500 per hectare of the total levy was required for the construction of development infrastructure. Of this amount, roads and traffic management infrastructure accounted for nearly $50,000 per hectare while open space facilities and community facilities accounted for approximately $30,000 per hectare and $15,000 per hectare respectively.

Figure 10 shows that there are generally similar breakdowns between the proportions of the development contribution levies generated by each infrastructure type across the growth area councils, with some localised variations occurring for various reasons.

Improvements to open space and road construction generally make up the highest proportion of the levy with an average allocation of 26.5% and 25.9% respectively across all DCPs, followed by traffic management (20.1%) and community facilities (19.2%).

The costs associated with trail networks, public transport and plan preparation generally have a low impact on the total levy amount.

CHANGE IN INFRASTRUCTURE COSTS OVER TIME

Figure 11 shows the growth in infrastructure costs in the open space, roads / traffic management and community facilities categories over time. The cost of land acquisition for infrastructure is excluded from these amounts.
The graph indicates clear upwards growth in levies for roads, traffic management and open space. Between 2004 and 2010 the levy amount allocated towards the construction of roads increased by an average of nearly $5,000 per hectare per annum, while the amount allocated to the construction of open space improvements increased by nearly $3,500 per hectare per annum.

While there has been small growth in the cost of improvements for community facilities, this amount has remained reasonably constant over time. This growth trend may be attributed to factors such as the more accurate costing of infrastructure items, increasing project contingency amounts, price inflation and councils requiring higher standards in the quality of infrastructure being provided.

**OPEN SPACE COSTS**

Open space is generally the most expensive infrastructure item due to the requirement for acquisition of large parcels of land as well as the construction of active recreation facilities.

On average, the proportion of the levy for open space infrastructure accounts for more than 50% of the total levy amount across DCPs in the Casey, Hume and Whittlesea municipalities, while it is also the highest category of costs in the Cardinia Road DCP. Melton and Wyndham are the only municipalities where open space is not the greatest contributing infrastructure category to the total DCP amounts, which is due to a comparatively higher expenditure on road infrastructure items.

The Cranbourne West DCP (Casey, 2010) has the highest open space costs accounting for over $138,000 per hectare of the total levy amount for Areas 2 and 3. The Cranbourne West DCP also has the highest per hectare levy of the recently approved DCPs (Area 2 $199,101 and Area 3 $187,109).

**PASSIVE AND ACTIVE OPEN SPACE**

While there is some consistency in the inclusion of open space as a whole across the growth area councils, there is significant variation in the breakdown between active and passive open space between the councils.

---

**FIGURE 11  DCP LEVY AMOUNT BY INFRASTRUCTURE CATEGORY (EXCLUDING LAND) 2004 - 2010**

Source: Compiled by Urban Enterprise, Data Period 2004 - 2010
As indicated in Figure 12 the Cardinia and Whittlesea DCPs have a high proportion of the levy funding passive open space improvements. Conversely, the Casey, Hume and Melton DCPs have only a very small amount of the levy funding passive open space improvements, but have a high proportion of the levy funding active open space infrastructure such as sporting facilities.

ROADS AND TRAFFIC MANAGEMENT COSTS

Roads and traffic management items are generally the second most expensive infrastructure category in shaping the total levy amount. The amount generated for roads and traffic management varies significantly from one DCP to another.

This variation is generally due to discrepancies in the number and length of roads and traffic management items included in each DCP area and the type of roads being constructed.

Figure 13 shows that the majority of the levy for road items is for arterial or sub arterial roads, with collector roads generating a much lower proportion of total levy costs.

It should be noted that the average levy for Melton DCPs includes a significantly greater land acquisition component for roads than any other municipality, in particular in the Toolern DCP area where nearly $50,000 per hectare of the total levy is to fund land acquisition for roads.

Of approved DCPs, the Taylors Hill West DCP (Melton, 2010) has the highest levy for roads and traffic management items accounting for $102,000 per hectare of the total levy. The Taylors Hill West DCP has one of the highest levies of recently approved DCPs at $189,362.

Both of the exhibited DCPs that are yet to be approved have very high levy amounts for roads and traffic management items with over $101,000 per hectare in Clyde North (Casey) and $115,000 per hectare in Truganina South (Wyndham). The Truganina South DCP includes road crossing costs required for the GSM habitat conservation area.

Source: Compiled by Urban Enterprise, Data Period 2004 - 2010
COMMUNITY FACILITIES COSTS

The cost of community facilities as a proportion of the total DCP levy has been generally steady since 2004, ranging from $15,000 to $30,000 per hectare.

The Epping North East DCP (Whittlesea, 2008) has the highest levy for community facilities at $61,800 per hectare. This figure is inflated by the requirement for $7.5 million of land for two community activity centres.

OTHER INFRASTRUCTURE CATEGORY COSTS

Trail Networks

Shared trail networks (pedestrian and cycling) have been included in over 70% of DCPs approved since 2004. The overall per hectare cost is relatively low when compared with other infrastructure categories, accounting for an average of 3.2% of total levy costs. The Cardinia Road DCP has the highest per hectare trail network cost (ranging from $3,000 to $23,000 per hectare) due to an extensive trail network being funded by the DCP which includes provision for expensive culverts and bridges.

Public Transport

Public transport costs have been included in 62% of DCPs approved since 2004. Typically these projects include acquisition of land or construction of shelters for bus or train facilities and have typically added up to $5,000 per hectare to the overall levy.

Plan Preparation

Plan preparation costs are increasingly being included in DCP levy. All but one of the DCPs adopted in 2010 included plan preparation costs.

State Roads Contribution

The Cardinia Road DCP includes a levy for “State” road items, ranging from $4,000 to $23,000 per hectare. Cardinia Shire Council collects these levies for works to be provided by VicRoads. Removing this amount would reduce the levy amounts within the Cardinia Road DCP by up to 15%.

FIGURE 13 BREAKDOWN OF ROAD TYPES WITHIN DCP LEVY INCLUDING LAND AND WORKS

Source: Compiled by Urban Enterprise, Data Period 2004 - 2010
...THE TRUGANINA SOUTH DCP (WYNDHAM) IS AFFECTED BY A REQUIREMENT TO SET ASIDE 38.01 HECTARES OF LAND FOR GOLDEN SUN MOTH HABITAT WHICH HAS THE EFFECT OF DECREASING THE NET DEVELOPABLE LAND BY 18.75%. ...
9. CONSERVATION LAND

Both of the exhibited DCP documents examined in this study (Clyde North and Truganina South) propose large areas of land to be set aside for conservation purposes, in addition to the land required for passive and active open space. These requirements for conservation areas have the dual effect of reducing the area that could otherwise be developed and reducing the Net Developable Area (NDA) of these DCPs, which in turn increases the per hectare levy amount payable.

For example, the Truganina South DCP (Wyndham) is affected by a requirement to set aside 38.01 hectares of land for Golden Sun Moth habitat which has the effect of decreasing the NDA by 18.75%. The reduced amount of NDA has the effect of increasing the levy amount payable by approximately $45,000 per hectare.

The Clyde North DCP (Casey) is affected by large areas of encumbered land associated with the Cardinia Creek waterways and drainage systems. These encumbered land areas total 69.33 hectares of land, which is in addition to the requirement for 33.34 hectares of developable land for open space.

10. DCP FINANCING ALLOWANCES

The Development Contributions Guidelines (2003) allow for the inclusion of a projected financing cost to be accounted for under a DCP. The Cranbourne North (Casey, 2007) and Cardinia Road Precinct (Cardinia, 2008) DCPs include allowances for projected financing costs. While this financing cost allowance varies depending on the predicted timing of infrastructure and projected rate of development that applies to each DCP area, the financing cost is estimated to add 10% to 20% to the levy.
DEVELOPMENT CONTRIBUTIONS IN MELBOURNE’S GROWTH AREAS
WHY CONTRIBUTIONS ARE ESCALATING

FIGURE 15 LEVY PER HECTARE VS RESIDENTIAL DENSITY

Source: Compiled by Urban Enterprise, Data Period 2004 – 2010
11. THE EFFECT OF VARIATIONS IN SIZE AND DENSITY OF DCP AREAS

ECONOMIES OF SCALE

Figure 14 indicates that there may be some economies of scale to be gained from DCPs that apply to physically larger PSP areas. The DCP levy amount generally decreases as the PSP area increases in size. This suggests that some cost-efficiencies may be possible through sharing significant infrastructure such as roads, parks and community centres across a larger population catchment. Figure 14 indicates that nearly all of the higher levy amounts have occurred where the PSP area is less than 200 hectares.

RESIDENTIAL DENSITY

Figure 15 shows the relationship between the projected residential density of each DCP area and the DCP levy. The graph indicates a positive trend where the levy amount within each growth area council generally increases with the residential density of each DCP area. This is due to the extra population created by higher densities requiring a greater level of infrastructure investment.

Cardinia Road DCP Cell 1 is one exception to this trend with a relatively high levy given its low density when compared with the other Cells in the Cardinia Road DCP. This is due to other factors including the comparatively large area and steep topography of the Cell area which required the inclusion of a number of roads and intersections as well as improvements to open space that were not required in other Cells of the Cardinia Road DCP.

Whilst per hectare levies are higher in higher density areas, the graph in Figure 16 indicates that on an equivalent “per dwelling basis”, the levies payable are likely to be comparatively lower than in lower density areas.

Source: Compiled by Urban Enterprise, Data Period 2004 - 2010
DEVELOPMENT CONTRIBUTIONS IN MELBOURNE’S GROWTH AREAS
WHY CONTRIBUTIONS ARE ESCALATING