Response to the Inquiry into the impact of the State Government's decision to change the Urban Growth Boundary.

Called by the Outer Suburban Interface Services and Development Committee of the Victorian Parliament.

Government of Victoria

October 2009

Background

On 2 December 2008, in the *Melbourne @ 5 million* policy statement, the Victorian Government announced its intention to expand Melbourne's Urban Growth Boundary and to implement the Growth Areas Infrastructure Contribution (the "GAIC"). The Government also announced a consultation process in relation to the investigation areas identified for consideration for inclusion within the Urban Growth Boundary (the "UGB"). The Government stated that its intention was to bring a bill in relation to the GAIC before Parliament in 2009.

In June 2009, the Government "*Delivering Melbourne's Newest Sustainable Communities*" package of initiatives included the proposed changes to the urban growth boundary. The Government also commenced a further public consultation process in relation to the draft boundary which was open for submissions until 17 July 2009.

The Growth Areas Authority (the "GAA") has maintained GAIC information sheets on its website, and the Government has been preparing a draft bill for Parliament's consideration. As a result of the two consultation processes, the Government has been able to receive community feedback in relation to the UGB and GAIC initiatives. This feedback has informed some of the refinements to the GAIC that the Government has been able to announce since the 2 December 2008 launch.

Response to the Terms of Reference

Responses to specific points are:

a) "The likely quantum of collections by Government"

In the 2009/10 State Budget update the Government set out its expectation for the revenue from GAIC:
2009/10 $84.7m
2010/11 $51.3m
2011/12 $46.8m
2012/13 $46.8m

This amounts to a total of $229.6m over the four year period. The total quantum of the GAIC is subject to a number of variables. These include the total amount of land subject to the GAIC (for example, the amount of additional land brought within the UGB, and the proportion of the land zoned for urban development), and the point in time at which the GAIC is actually paid (as it is intended that the GAIC would be indexed).

b) "Mechanisms to ensure that the contributions are directed to only the intended purposes"

Melbourne @ 5 million clearly indicated that the purposes to which the GAIC will be directed would be for the provision of state infrastructure and to oversee development in the growth areas of Melbourne. The policy states that the GAIC revenue will be utilised in the following way:

- 50% will be allocated to partially offset the costs of important state infrastructure projects in the growth areas; and

- 50% will be paid into a new Growth Areas Development Fund. It was also indicated that some of this revenue would go towards the costs of the Growth Areas Authority.

Both of these funds will be used will be for state infrastructure works within the growth areas. Modelled on the successful Regional Infrastructure Development Fund, the Growth Areas Development Fund will provide financial assistance for capital works in the growth areas. The criteria for the application of funds will be finalised in consultation with local governments with a focus on projects supporting economic and community infrastructure in the growth areas.

The GAIC legislation will include comprehensive reporting requirements in relation to the collection and expenditure of the contributions received, and its allocation across the growth areas.

c) "The likely impact on the housing and development industries"

In 2004, the Australian Government Productivity Commission undertook a review of first home ownership, which included a detailed review of factors affecting housing affordability. The *First Home Ownership* report concluded that the main causes of reduced housing affordability in Australia are:

- Surges in demand for housing, to which supply is incapable of responding in the short term.
- An increase in the availability of finance and reductions in interest rates which enable households to finance much larger housing loans.
- Constraints on the supply of land at the urban fringe.
- Regulatory processes that could work better to facilitate a more responsive housing market.

The Victorian Government is seeking, through an integrated range of initiatives, including regulatory reform, to improve supply side efficiency of housing markets, and thus price and affordability outcomes. Initiatives are set out in the recent policies, including A *plan for Melbourne's Growth Areas*, *Melbourne @ 5 million* and *Delivering Melbourne's newest sustainable communities,* to achieve these outcomes through:

- Designating sufficient undeveloped land for future residential use to meet in excess of 15 to 20 years' projected demand;
- Enabling growth that would not otherwise occur due to delays in infrastructure investment;
- Reducing the regulatory burden associated with land and housing markets by streamlining growth area planning;
- Providing a contribution towards the cost of state infrastructure by the introduction of the GAIC;
- Bringing forward the provision of infrastructure to ensure required infrastructure is delivered in advance of community need; and
- Investing in high-level planning and the provision of state infrastructure to ensure a reasonably predictable supply of developable land, thereby reducing developer risk.

In relation to the effects of infrastructure charges on housing affordability, the Productivity Commission Report observes that:

- Where infrastructure has previously been provided to households below cost, the value of that subsidy will have been partly, or largely, capitalised into the price of housing land.
- Upfront charges for infrastructure should not in principle reduce affordability relative to equivalents over time. Most categories of charges are both justified and desirable on efficiency/equity grounds.
- There is a strong case for users of infrastructure services paying for costs attributable to them as it represents the true costs of supply and ensures that demand is not excessive and resources are not wasted.
- Housing affordability should not be significantly affected by greater reliance on upfront charging as opposed to charging over time.

It is considered that the housing and development industries in Melbourne will be able to adapt to and incorporate the introduction of the Growth Areas Infrastructure Contribution relatively easily.

d) "Any unintended consequences including the impact on all land holders and purchasers to be impacted"

Every effort has been made to reduce unintended consequences in the proposal however, for those people in the unlikely situation that this may occur, it has been announced that there is to be a Hardship Relief Board to consider individual financial concerns that may arise.

e) "Any displacement or replacement of government spending likely to result from the increased collections"

The principle of the GAIC is to provide additional funds for much needed state infrastructure, rather than to reduce the normal funding allocation by the Government. In other words, the GAIC funding will supplement the existing allocation of Government funds.

f) "Any alternative options including any used in other jurisdictions"

Other States in Australia and other countries use a variety of mechanisms for funding state infrastructure.

For example, in New South Wales there is a Special Infrastructure Contribution for the Sydney growth centres. While it was first introduced a rate of $300,000 per hectare, it is currently charged at a rate of $173,500 per hectare.