

**Submission to the Outer Suburban/Interface  
Services and Development Committee on the;**

**'Inquiry into the impact of the State  
Governments decision to change the Urban  
Growth Boundary'**

**CITY OF CASEY  
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# EXECUTIVE SUMMARY

The City of Casey has been the fastest growing city in Victoria over the last five years. It currently has a population of approximately 240,000 (or 73,000 households). The Victorian Government 'Victoria in the Future' (VIF) projections estimate that Casey could reach 370,000 by 2026. Just over half of this growth has been proposed to occur in the south east of the city in the area of Clyde North, Clyde and Botanic Ridge.

Casey is also part of a highly productive agricultural region, graced by a range of elements that support this productivity. These include favourable climatic conditions, topography, fertile soils, supportive transport and recycled water infrastructure and closeness to markets. These supporting circumstances are reflected by the existence of a diverse range of agricultural industries, different to other outer suburban Melbourne agricultural areas which may only have one or two dominant sectors. Council believes Casey as part of this wider region will play an increasingly vital role as a food producing region and one of Australia's most fertile and valuable agriculture areas.

Casey has had a long association with the farming community and like all interface Council's has had a challenging time in trying to balance the need to cater for Melbourne's housing demands and the impacts of this growth on the city and in particular the rural communities and the industries that reside in them.

Underpinning these 'coal face' issues that Casey faces on an almost daily basis is a complicated set of micro and macro economic factors driven by a housing industry that now forms a very important role in facilitating population led economic growth in Victoria.

It is this growth and the economics of when and who should pay for the infrastructure required to compliment it, which is at the core of this enquiry. In introducing the development contribution known as the Growth Area Infrastructure Charge (GAIC) Casey submits that the State Government must carefully balance the GAIC legislation so that it allows those people who wish to continue living on and farming their land to do so with no unnecessary implications and for those people who do not, are able to move forward with a reasonable and appropriate amount of economic security and certainty.

Casey submits that a good way to ensure that this occurs is for the land owners whom intend to develop, and actually generate profit from the development of their land for urban purposes, pay the charge at the time of their development approval.

It is for this reason that the City of Casey resolved at its Council meeting on the 15 September 2009 to support the position that the growth area infrastructure charge should be levied at the point when development approval is granted rather than levied on current landholders.

This submission will address the terms of reference in sequential order whilst providing examples were appropriate to each term.

# 1) The likely quantum of the collections by Government

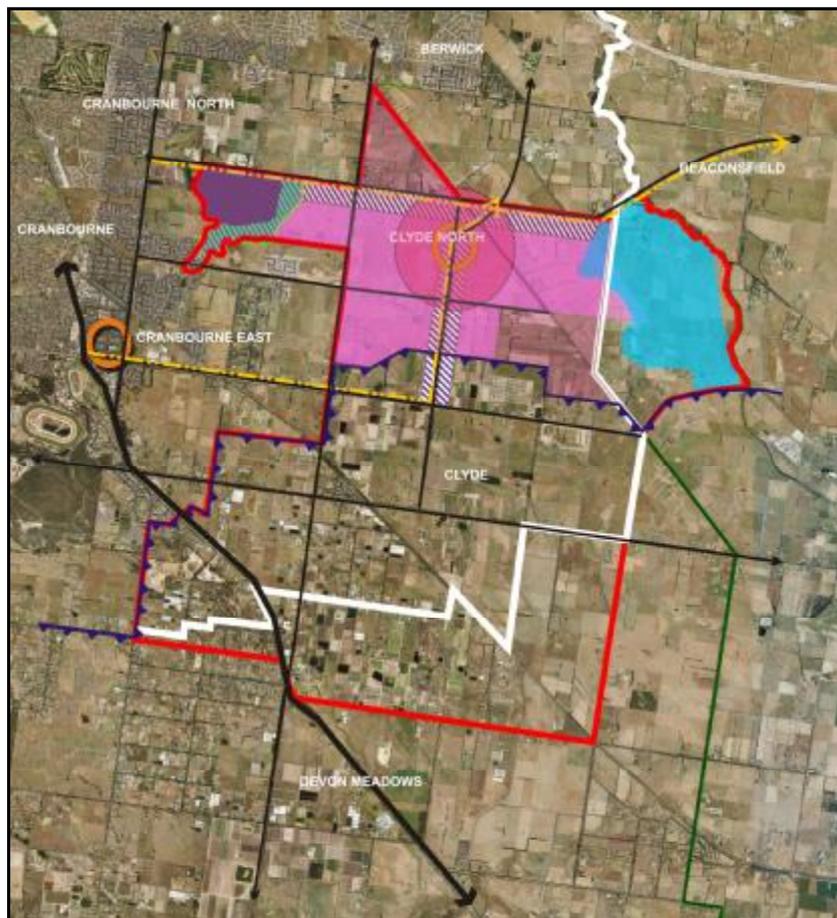
## (a) The future growth potential of the City of Casey

To estimate the quantum of money to be collected through the introduction of the GAIC, it is important to understand Casey's growth potential based on the current review of the Urban Growth Boundary (UGB) and the differing views of the Council and the State Government.

In December 2008 the State Government identified an area of 5,500ha to be investigated for urban expansion, setting a minimum target of 2,900ha to cater for an additional 18,000 dwellings or 54,000 people based on the VIF projections. The proposed Urban Growth Boundary (UGB) released for consultation in June 2009 arrived upon a land area of 3,000ha comprising 2,400ha of residential land and 600ha employment land.

Casey's alternative sought to reduce the proposed UGB by 1,730ha comprising of both residential and employment land. In short this amounted to just over half the area identified by the State Government for inclusion in the UGB. Figure 1 below sets out Casey's alternative in the context of the State Governments current position.

Figure 1 Casey's Preferred Option for the proposed UGB



### Legend

-  Investigation Area (5,500ha)
-  Proposed Urban Growth Boundary (3,000ha)

Casey's preferred Option (1,730ha)

Casey recently made a detailed submission to this committee on the inquiry into the sustainable development of agriculture in outer suburban Melbourne. The submission detailed the proposed changes to the UGB, advocating for a more contained and compact extension of the UGB into Clyde (represented in pink on Figure 1), to protect our important agricultural land and its related industries to the south.

It was submitted that Casey's preferred option, along with a small 100ha parcel to the west of the city called Brompton Lodge, was a sensible extension to the UGB. It focused growth around existing infrastructure and was to be developed at a density necessary to still meet dwelling targets set by the State Government.

As the committee will be aware the GAIC has a two tier structure for collection of the contribution. Those brought into new proposed UGB would pay a financial contribution of \$95,000 and those brought into the UGB in 2005 would pay a contribution of \$80,000. The likely quantum of collections has been estimated below.

**(b) Land brought into the proposed UGB = \$95,000 per ha**

In the current proposed UGB at 3,000ha @ \$95,000 a hectare means the estimated quantum to be collected by the State Government in Casey is **\$228,000,000**. Based on the State Governments housing targets of 18,000 dwellings for this 3,000ha this amounts to a contribution of approximately \$16,000 for every dwelling built in Casey. No doubt this cost will be passed onto the home buyer a matter that will be discussed further on in this submission.

Casey's preferred development scenario is 1,730 ha and @ \$95,000 a hectare the estimated quantum to be collected would be **\$155,700,000**. As explained above Casey has committed to meet the housing target of the State Government. Therefore facilitating the development of 18,000 dwellings on only 1,730 ha of land the contribution per dwelling would be \$8,650 per dwelling. This would reduce by almost half, the likely increase in the cost to the home buyer.

Clearly adopting Casey's preferred option and increased densities would not only assist the State Governments desire to provide more affordable housing, but also reduce considerably its forward investment in infrastructure. Casey's believes its preferred alternative is a sensible and responsible one and this view has been advocated not only to this committee, but also to the State Government and the GAA and most recently in a delegation to the Minister for Planning the Hon. Justin Madden.

**(c) Land brought into the UGB in 2005 = \$80,000 per ha**

The land brought into the UGB in 2005 amounted to 2,722ha. @ \$80,000 a hectare this amounts to an estimated quantum to be collected by the State Government of **\$217,760,000**.

**(d) Total likely quantum of collections by Government**

Therefore based on the above assumptions and estimates the potential revenue for the State Government in Casey by introducing the GAIC is **\$445,760,000** if the State Government was to adopt the proposed UGB. If Casey's preferred option were adopted,

the potential revenue would be **\$373,460,000**. It is noted that the GAA estimates that this will only provide 10-20% of the cost of providing infrastructure and services.

## **2) Mechanisms to ensure that the contributions are directed only to their intended purposes**

### **(a) The Casey experience**

Casey has been managing development infrastructure charges since the early 1990's in the form of Development Contribution Plans (DCP's). We have 13 DCP's active at the moment four of which are currently under review via planning scheme amendment processes. A further two DCP's are being developed in conjunction with Precinct Structure Plans for Cranbourne East and Clyde North.

Casey understands that these DCP's will not be affected when the GAIC is introduced. However two of these DCP's, Clyde North and Cranbourne North Part 2 will incur a GAIC of \$80,000 a hectare. It is noted that these plans that are also collecting for specific state infrastructure being road and intersection widening and construction for Vic Roads. Casey has had no direction from the GAA on how this aspect will be handled when the GAIC is introduced.

However we understand that this year the State Government via the Growth Areas Authority is scheduled to commence a review of the DCP system, proposing the introduction of a flat rate for local DCP infrastructure to be administered by the respective local governments. This 'off the shelf' charge is called the Growth Area Community Infrastructure Charge or GACIC.

The current DCP legislation requires Council to collect payments either at the time of issuing a statement of compliance for subdivision (via a planning permit condition) or in the instance of a community infrastructure levy, paid by the owner of a house prior to a certificate of occupancy being issued.

These payments are made by the hectare or by the dwelling, and go towards a list of predetermined infrastructure items that are costed and scheduled for delivery in the DCP. Overtime as development rolls out each item should be allocated its share of the money collected from development.

Casey has found that managing the DCP system is challenging and resource intensive. The complexity involved in scoping, costing, and choosing the correct indexation mechanism to address construction and land escalation costs, couple with the unpredictability of the markets both locally and globally create a substantial amount of potential for 'slippage' or funding shortfalls. Detailed accounting, monitoring and auditing mechanisms are crucial to maintain an appropriate level of transparency and accountability.

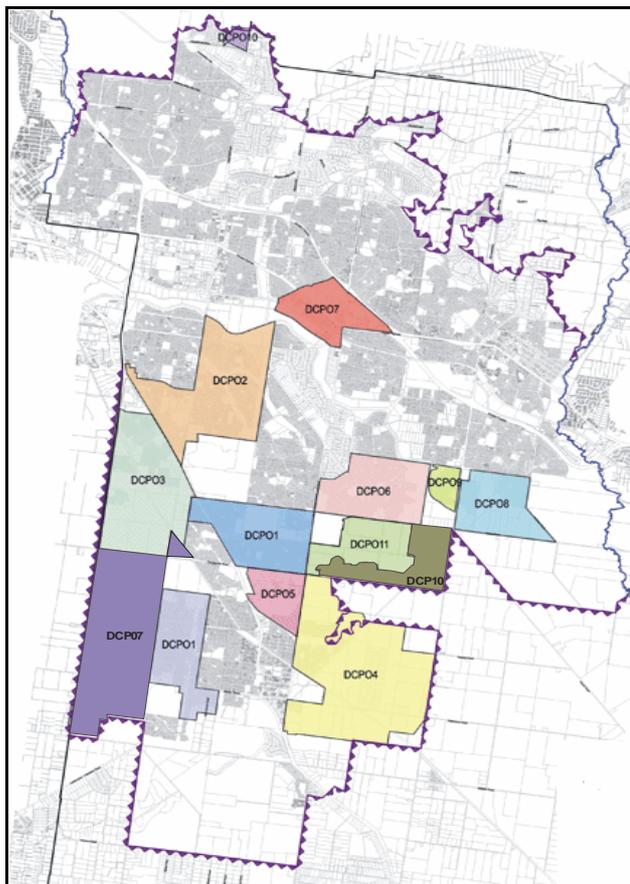
In addition to this the DCP legislation through the Planning and Environment Act requires you to consider the need and nexus of the infrastructure item proposed to be introduced in a DCP, based on the principle of 'user pays'. If the item is deemed to have an 'external' usage component whereby the existing community will also be deriving a benefit from the infrastructure, then the local government of the area must use general revenue to carry some of the cost and liability. This is referred to as 'external

apportionment' and results in some infrastructure items being only partly funded by new development.

In addition the legislation also requires you to commit to a delivery date or trigger. This is problematic if the forecast development rates do not transpire due to unfavourable economic conditions, resulting in the DCP being faced with a funding shortfall at the forecast delivery date.

To illustrate this complexity Figure 2 shows the mosaic of DCP's that are currently being managed in the city.

Figure 2. Map of Casey's DCP's



Each DCP area has a specific list of pre-determined infrastructure items that are to be delivered at certain times with money collected from development within that area. All of these infrastructure items have undergone public scrutiny through a planning scheme amendment process and the 'need and nexus' of each item been reviewed by an independent planning panel.

The GAA have indicated the GAIC money will contribute to approximately 10-20% of the cost of providing infrastructure and services in growth areas. It is also states that the GAIC will be used in two ways. 50% will be allocated to partly offset the costs of important infrastructure projects in growth areas and 50% will be paid into a new growth area development fund that will be allocated and provide financial assistance for capital works in growth areas as well as funding the GAA.

Casey believes that the above approach without a disciplined project identification, assessment and qualifying system coupled with a robust and transparent accounting and audit process, would lend itself to conjecture and criticism by contributors to the fund and the local governments trying to access the funds.

In producing a mechanism to charge for infrastructure such as the GAIC, Casey submits the following for the committee to consider.

- Collection areas should be defined to specific growth corridors such as the Casey-Cardinia growth corridor and the money collected should be spent in this corridor.
- Projects should be identified and prioritised by agreement with local government and the respective delivery agency (such as Vic Roads) prior to any of the collecting funds are spent.
- The decision of prioritising the items and spending of funds should be made considering 'net community benefit' outcomes by government agencies who represent the interests of the end users 'the public' and not the interests of the developers who might gain benefit and advantage from the provision of the infrastructure.
- A transparent accounting and audit system should be established to track the flow of money in and out for each specific growth corridor and the priority projects identified for that corridor.

### **3) The likely impact on the housing and development industries**

#### **(a) Flow-on effect to the price of housing in Melbourne's growth areas**

It is likely that the cost incurred by the housing and development industry from the GAIC will be passed onto residential purchasers. This likelihood has been mentioned by several peak bodies including the Property Council of Australia.

Casey continues to experience the highest prices for residential lots in the growth areas of Melbourne. In the December quarter 2008 there was a \$50,000 range between the median prices of the 6 growth areas. Casey recorded the highest median price (\$170,000) and Melton recorded the lowest (\$120,000). Casey has recorded the highest median vacant lot price since December 2006.

With this level of sustained demand in Casey, increased competition encouraged by the first home owner grants, record low interest rates, unprecedented population growth and an ongoing shortage of housing, passing the GAIC cost onto the purchaser is even more likely.

This is an emerging issue for Council as housing affordability on the back of substantial housing debt ratio levels (Australia is second behind the UK of all the OECD countries) and mortgage stress is of particularly impacting Casey residents.

#### **(b) Development 'roadblocks' may occur**

It is not uncommon that in growth areas small land holdings occupied by a retired farmer or lifestyle resident hampers the effective co-ordination of land being developed for urban purposes.

While the GAIC targets land owners that will experience an increase in their land value as a result of its inclusion in the UGB, small landowners may now be more reluctant to sell because the GAIC will limit the financial windfall from the 'uplift'. In some circumstances landowners may simply be unable to sell and move to avoid incurring financial disadvantage. This could present a 'roadblock' to development and effect orderly and proper planning outcomes.

#### **4) Any unintended consequences including the impact on all landholders and purchasers to be impacted.**

##### **(a) Impact on smaller landholders**

As described above it is more likely the smaller land holdings may find it difficult. In these 'exceptional circumstances' we understand that the State Government will be setting up a hardship relief board to consider these situations.

The community based group 'Taxed Out Inc.' presented to Council several weeks ago and brought with them local residents who fell into these exceptional circumstances category that arguably requires an immediate hearing from this hardship relief board.

However this board may take some times to be formed and to process the numerous concerns that have been expressed over the GAIC. In the interim landowners in this situation will be left in limbo.

##### **(b) Further consideration to the difference in land values in each corridor**

As described earlier in this submission Casey's land within the UGB is worth a premium. The reasons for this are many but it is mainly due to a lack of supply and the demand or desirability of the corridor with first home buyers.

While the median residential lots value differs by approximately \$50,000 between Casey and Melton, this differentiation in price also occurs at a per hectare basis.

The State Government needs to recognise this difference and that \$95,000 a hectare contribution in Casey will not go as far as \$95,000 a hectare in Melton if it is to be used to purchase land. It is interesting that land brought into the UGB in 2005 has a lesser levy than that brought in through the proposed UGB. In Casey's experience land valuations tend to indicate that land closer to existing urban development and therefore existing infrastructure that can be easily tapped into and so reducing development costs, would be more valuable than land further out.

**5) Any displacement or replacement of Government spending likely to result from the increased collections.**

**(a) State Government funding**

Infrastructure 'gaps' are common in growth area communities and any additional funding sources to close this gap would be welcomed, however this should not be at the expense of existing funding opportunities.

In setting up the GAIC it should be recognised that a significant lack of infrastructure is already present in growth areas. Current funding processes to the State Government pitch growth area Council against inner metropolitan Councils for funding. What needs to be recognised and declared as part of its introduction is that it is complimentary and in addition to existing State Government funding.

Casey cannot support the view that the GAIC replaces the potential for growth area Councils to qualify for other State Government funding opportunities.

**6) Any alternative options, including any used in other jurisdictions.**

**(a) Alternative Options**

While not perfect Development Contribution Plans are in use throughout the world in varying forms but generally focus a localised and targeted developer funded responses to the identified needs of the local development area. Due to the complexities of land development the needs and therefore cost will change from area to area.

As an example industrial land in Dandenong South (City of Greater Dandenong) west of the Western Port Highway required developer contributions of \$170,000 a hectare. A few kilometres south, on the eastern side of Western Port Highway in Cranbourne West in the City of Casey developer contributions were \$ 130,000 a hectare. The primary reason for this was due to highly constrained land in Dandenong required additional infrastructure investment.

Whilst the GAIC provides a simpler and higher level tax on top of and complimenting these local contributions they cannot be relied upon as the sole funding source for certain items due to the local variances that occur in land development.

## **7) City of Casey recommendations to the Committee**

The City of Casey makes the following recommendations to the committee.

- The committee support Casey's position that the growth area infrastructure charge should be levied at the point when development approval is granted rather than levied on current landholders.
- The committee support Casey's preferred option to expand the UGB as it will reduce the impacts of GAIC on housing affordability and reduce the investment in infrastructure of the State Government.
- Collection areas for the GAIC should be defined to specific growth corridors such as the Casey-Cardinia growth corridor and the money collected should be spent in this corridor.
- Projects should be identified and prioritised by agreement with local government and the respective delivery agency (such as Vic Roads) prior to any of the collecting funds are spent.
- The decision of prioritising the items and spending of funds should be made considering 'net community benefit' outcomes by government agencies who represent the interests of the end users 'the public' and not the interests of the developers who might gain benefit and advantage from the provision of the infrastructure.
- A transparent accounting and audit system should be established to track the flow of money in and out for each specific growth corridor and the priority projects identified for that corridor.
- The committee recommend the State Government immediately set up a 'Hardship Relief Board' to consider cases of 'exceptional circumstances' that have arisen since the introduction and public consultation commenced on the GAIC to determine immediate hardship exemptions for impacted landholders prior to the legislation being considered by parliament.
- The Committee recommend the State Government considers the effects of adopting 'flat rates' for the GAIC when considering the differing land values in each growth corridor and how these values might impact on the State and Local Government ability to purchase land for growth area infrastructure.
- The Committee support Casey's view that the GAIC should not replace or limit the potential for growth area Councils to qualify for other State Government funding opportunities.