



INFRASTRUCTURE LEVIES – QUESTIONS AND ANSWERS

December 2008

OVERVIEW

The NSW Government, with Treasury as the lead agency, has undertaken a review of infrastructure levies, in consultation with stakeholders. An objective of the review was to ensure that levies are consistent with the Government's plans to boost housing supply and affordability as well as support business and provide a stimulus to the construction industry.

The major highlights are:

- the cessation of development charges imposed by Sydney Water and Hunter Water
- the refinement of the types of State infrastructure recovered through a contribution and a temporary reduction in the State infrastructure contribution to 30 June 2011
- the deferral of payment of State infrastructure contributions to the point of sale of a new residential lot
- the evaluation of all existing local government contribution plans that would, if applied to a particular development, result in a contribution exceeding \$20,000 per residential dwelling
- setting a threshold of \$20,000 above which contributions for individual residential dwellings may not be imposed except with the approval of the Minister for Planning.

INTRODUCTION OF THE CHANGES

Q When do these changes come into effect?

A The changes to water levies have already commenced with a direction by the NSW Treasurer to Hunter and Sydney Water.

The changes to State infrastructure contributions apply immediately in relation to the calculation of new levies and the review of existing levies.

State infrastructure contributions for the growth centres, Wyong Employment Zone, Warnervale Town Centre and the Interim Transport Levies will be revised during January 2009 with revised Ministerial Directions and determinations expected by 1 February 2009.

The limitation of levies under **new** local government contributions plans to the \$20,000 threshold (unless the council has obtained the approval of the Minister) will apply from when the Minister for Planning issues a direction to Councils (anticipated to be mid/late January 2009).

The limitation of levies under **existing** local government contributions plans to the \$20,000 threshold (unless the council has obtained the approval of the Minister) will apply from 30 April 2009 onwards and will be based on a direction issued by the Minister for Planning (anticipated to be in early 2009).

STATE INFRASTRUCTURE CONTRIBUTIONS

Q How does this affect the growth centres?

A At present, a State Infrastructure Contributions system is in place in the north-west and south-west growth centres. As a result of the Government's decision the contribution are likely to be adjusted as shown in the table below.

2008	Feb 2009 – Jun 2011	Jul 2011 onwards
\$23,000 per lot (approx)	\$11,000 per lot (approx)	\$17,000 per lot (approx)

The reductions are achieved by:

- reducing the scope of works to remove the rail infrastructure and bus subsidy component – a permanent change
- increasing the Government's share of the contribution from 25% of the cost of the infrastructure to 50% of the cost of the infrastructure – this is a temporary change for two years (until June 2011) to stimulate residential development.

Note: the values of the contributions are determined on a per hectare basis and may vary from one development to another.

Q State infrastructure contribution – how will the scope of works be reduced?

A The current State contribution framework includes recovery of train, road, bus subsidies, land for education, health and emergency service facilities, conservation and planning delivery. A recommendation of the review is that the type of works included in the State infrastructure levies be refined. The Government will exclude rail infrastructure and the funding of bus services from all State levies because these provide a benefit to the broader community and therefore require more broad-based funding.

Q State infrastructure contribution – how will the State reduce the contribution between February 2009 and June 2011?

A Under the current State contribution framework the dollar value of the contribution is based on an estimate of the cost of the proposed infrastructure directly related to the relevant development. This amount is then split between the developer (75%) and the Government (25%). In order to stimulate residential development, the Government will temporarily increase its component of the contribution from 25% to 50%. This will see a consequential reduction in the developer's component of the contribution. In order to achieve the reduction developers will need to ensure that the construction of new residential lots is completed before June 2011 and that

they have obtained a subdivision certificate (linen or strata) or they have paid their levy beforehand.

Q How does this affect the Interim Transport Levy and other existing State Levies?

A The interim transport levy was introduced in 2002 and applies to land releases at Elderslie, Spring Farm, Balmoral Rd and Second Ponds Creek. These levies will be amended and as a result decreased at the same time as the State contributions in the growth centres. The Interim Transport Levy will be set at the same price as the growth centres contributions.

Q How does this affect the precinct acceleration program in the growth centres?

A The underlying principle of the precinct acceleration protocol remains unchanged. It is proposed that a developer will still be required to construct all the necessary infrastructure needed to service a precinct at their own cost. However, instead of receiving a refund from the Government for infrastructure that benefits other development areas, the developer receive an infrastructure contribution credit for the State levy as financial compensation for the works it has provided.

Q Why move the payment of the State contribution to the point of sale?

A The development industry has told the NSW Government that the payment of the contribution, before the realisation of sales revenue, has had a negative impact on project cashflows. Moving the payment to the point of sale will have a positive impact on project cashflows by deferral of payment of the contribution to when sales revenue is received.

Q How will the deferral of payment work?

A In relation to residential subdivisions a possible mechanism for deferral of the levy is the placing of a restrictive covenant on title which prevents the transfer of the lot until the levy is paid. For non-residential development payment will also be deferred to the first occupation certificate for the construction of buildings on the land. Further details on this system will be provided soon.

Q What happens if a developer has already paid a State Infrastructure charge?

A The changes to State infrastructure contributions will only apply to all payments made after the revised State levies directions come into effect by 1 February 2009. There will be no rebate for levies already paid, unless these levies have been provided as works-in-kind.

Q What happens if a developer has already entered an agreement for State infrastructure but hasn't paid?

A Where a developer has a voluntary planning agreement with the NSW Government, they will be able to renegotiate the terms of that agreement to reflect these reforms.

Q Do the reduced contributions apply to development on employment as well as residential land?

A Yes. The contribution for one hectare of employment land in the Growth Centres, as an example, will fall from \$150,000 to \$112,500. The levy will further reduce to around \$68,800 per hectare until June 2011 as a result of increasing the State's contribution towards infrastructure.

OPERATION OF THE \$20,000 THRESHOLD FOR LOCAL INFRASTRUCTURE CONTRIBUTIONS

Q How will the \$20,000 threshold work for new local contributions?

A In January 2009 a direction will be issued to all councils that effectively requires new contributions plans to only authorise contributions for individual residential dwellings to a maximum of \$20,000. A contribution of more than \$20,000 will require evaluation by a panel and the approval of the Minister for Planning following a detailed evaluation of the plan.

Q What happens to contributions under existing local contributions plans that are more than \$20,000?

A Councils with existing contribution plans that would, if applied to a particular development, result in a contribution of more than \$20,000 for a single dwelling will be required to seek approval from the Minister for Planning. In seeking such approval, councils will be required to submit their contributions plans to the Department of Planning for evaluation. A contribution of more than \$20,000 will require assessment by a panel and the approval of the Minister for Planning following the detailed evaluation of the relevant contributions plan(s).

Q How will the Government evaluate new and existing contributions plans?

A panel comprising representatives from the Department of Planning, NSW Treasury and the Department of Local Government and other infrastructure planning experts will be established to evaluate contributions plans. The evaluation of council plans will use the 'key considerations for contributions' (see section 116D of the new Part 5B to the EP&A Act which has been passed by NSW Parliament but is yet to commence) to focus on the infrastructure needs of new development, how the infrastructure fits within an overall asset management strategy for the council, the cost estimates for the infrastructure and implications for affordability of development.

INTRODUCTION OF THE LEVIES COMPONENTS OF THE PLANNING REFORMS

Q What happens to the new development contributions provisions (eg the commencement of the new Part 5B of the EP&A Act)?

A The Government will continue to implement the reforms to the legislative process for contributions. Any directions issued prior to the commencement of the new Part 5B provisions will be reviewed as part of the implementation of the new contributions provisions.

Q When will there be more detail on the introduction of the new development contributions provisions?

A Now that the levy review has been finalised, administrative details on the new legislative provisions will be made available as early as possible in 2009.

OTHER LOCAL CONTRIBUTIONS ISSUES

Q Will the deferral of payment to point of sale apply to local levies?

A No. Many councils have the facility to defer payment and more will be encouraged to adopt that practice as the State Government provides a suitable security mechanism linked to the title of the land.

Q Will councils be able to continue with s94A levies?

A Yes. Under the new development contributions arrangements under Part 5B of the EP&A Act (yet to commence) these will be known as indirect levies and will be subject to affordability considerations.

Q Can councils continue to negotiate voluntary planning agreements (VPA).

A Yes, although the Government will keep a watching brief on agreements to ensure that councils respect the \$20,000 maximum per lot threshold.

Q Can councils continue to levy commercial development?

A Yes, but once again this will be subject to meeting the reasonableness and affordability considerations of the new contributions provisions (once commenced).

WATER INFRASTRUCTURE LEVIES

Q What does this mean for Sydney Water and Hunter Water customers?

A The reforms will see a reduction in developer charges, which will now be recouped through user charges (except for recycled water levies). As the Department of Planning does not oversee legislation regarding water charges, please contact Sydney and Hunter Water for further details.

Q Do the changes to water infrastructure levies apply to other water supply/sewerage authorities such as councils in regional areas?

A No. These authorities continue to set developer levies for water and sewer consistent with the IPART guidelines.