The Implications of Amendments to Queensland's Infrastructure Charging Regime under the Integrated Planning Act 1997

Final

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Executive Summary

The Queensland development industry, led by peak industry representative bodies the UDIA, PCA, HIA, REIQ and QMBA, has been running a determined campaign for the past two years regarding the impact of government's taxes and charges on house prices and housing affordability in Queensland. More recently, the campaign has focused on the impact of infrastructure charges, with the development industry arguing the charges are excessive and are being levied on an inappropriate basis.

The arguments asserted by the Queensland development industry are unproven, evidenced by the following findings of this study:

- **Media searches of official company announcements and reports by** leading **residential property developers** active in the Queensland market **have not identified any specific references to these issues**, suggesting the **industry's campaign may not be representative of its key constituents**;

- **The research prepared by Matusik Property Insights and Urbis JHD** which underpins the Queensland development industry's arguments is also **is in dispute**, particularly the research's **independence, accuracy** and the definitions and inclusions of certain types of charges;

- **Queensland's major listed property developers have maintained** a significant **return on investment of 20%** and **doubled their market capitalisation** over the past four years during Queensland's property boom, **yet at the same time arguing about infrastructure charges and housing affordability issues**;

- A **recent Productivity Commission Inquiry** into First Home Ownership in Australia **concluded**: **"*while infrastructure charges, like other costs of bringing housing to the market, have increased over time, they cannot explain the surge in house prices since the mid-1990s*."** Additionally, the Matusik Property Insights research estimates **infrastructure charges account for just 3.8% of the total final cost of a new detached house and land package in Queensland**;

- Therefore, this raises the **question** that **even if there was a reduction in the level of infrastructure charging** by Queensland Local Government, **would there actually be a reduction in house prices?** Research by the Productivity Commission suggests **infrastructure charges cannot explain the recent surge in house prices and it is clear there have been fundamental changes to the market's price point perceptions and expectations regarding house prices for new homes**. Taken with the **recent performance of the development industry**, it therefore **almost certain that a reduction in charges will significantly increase the development industry's profit and return on investment rather than lower house prices**;

- The arguments regarding increases in government charges by the development industry make no reference to the **introduction of the GST and its account for 40% of aggregate government charges and a significant proportion of the reported increase**. Nor does the research clearly attention the **increases in housing construction costs of more than 30% in the past five years**;

- The **introduction of *Queensland's Integrated Planning Act 1997* (IPA)** and associated infrastructure charging regime has **significantly improved** the **transparency, consistency, coordination, integration and efficiency** in the way Councils plan and charge for development infrastructure in Queensland. The IPA has helped **overcome many of the concerns and difficulties with the previous legislation**, including **providing** methodologies and regimes for the appropriate calculation of **equitable levying of developer charges**, reduced litigation, and improved certainty for developers regarding infrastructure charges;

- The **Queensland development industry's view** that inappropriate charges are being imposed on individual developments when they should be spread more widely

is at odds with the fundamental principles underpinning Queensland's IPA, and its enforcement by Queensland Local Government. The move to the IPA's more accountable and transparent user-pays charging methodology allows a far more equitable and efficient allocation of resources in the long-term, and more certainty to developers regarding the infrastructure charges they will face for new developments;

- Overall, the **IPA is considered the most workable solution** with regard to infrastructure charges for both government and the development industry, and is **considered superior to planning arrangements in other States and Territories**, particularly NSW where the Section 94 contributions have been founded on a number of ambiguous and difficult to implement principles, resulting in substantial litigation activity;

- **Upfront developer charges employed under the Queensland IPA do not impact net housing affordability**. In the case of a change from payment over time to payment upfront, the increase in the cost of serviced land or new homes to reflect a "prepayment" for infrastructure should, in principle, lead to a matching reduction in ongoing housing costs. **Households would be no worse off over time**;

- If the argument for increased public sector borrowing to fund infrastructure costs due to lower public borrowing costs were taken to its logical extreme, governments would borrow on behalf of the community for all major assets. However, **local government faces borrowing constraints** and the **well documented cost recovery and debt repayment problems that have characterised various major government-funded investments** are a further caution on the extensive use of this financing approach for infrastructure;

- A **comparison of the costs and benefits of possible amendments** to Queensland's infrastructure charging regime **indicates no proposal improves on the existing IPA system**. Some of the amendments are unworkable, others have proved less than successful in other states and territories, and changes to the timing of financing (upfront versus over time) negatively impacts local government and has not net impact for housing affordability; and

- A worked example of the **possible financial implications of reducing upfront infrastructure charges by 50%** indicates **significant negative impacts for Queensland local government finances and ultimately ratepayers** through increased general rates. **As an example, if infrastructure charges were halved on broadacre lots in Ipswich City**, then **Council revenue** would have **decreased by $25.3 million in 2005, increasing the average annual general rate by $477**. This increase in rates would be payable by both existing and new residents.

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1. Introduction

1.1 Background

House prices across Australia have risen significantly in the past 3-5 years. Queensland, in particular, has recorded some of the most significant and sustained growth in house prices. The Queensland development industry, led by peak industry representative bodies, has been running a determined campaign for the past two years regarding the impact of government's taxes and charges on house prices and housing affordability in Queensland. More recently, the campaign has focused on the impact of infrastructure charges, with the development industry arguing the charges are excessive and are being levied on an inappropriate basis.

1.2 Purpose of Study

This study, entitled *The Implications of Amendments to Queensland's Infrastructure Charging Regime Under the Integrated Planning Act (IPA) 1997*, has been prepared to independently review Queensland's current infrastructure charging regime through a comparative assessment with the regimes of other States and Territories and through an analysis of the financial implications of possible amendments to the regime on local government, the development industry and housing affordability.

1.3 Report Structure

Chapter 1 – Introduction: Overview of the project's background and the purpose of this study, including the report structure.

Chapter 2 – Development Industry Concerns Regarding Infrastructure Charging: Overview of the development industry's concerns regarding Queensland's infrastructure charging regime.

Chapter 3 – The Impact of Infrastructure Charges on the Performance of the Development Industry: Analysis of the impact of infrastructure charges on the bottom-line of developers.

Chapter 4 – The Impact of Infrastructure Charges on House Prices and Housing Affordability: Analysis of the impact of infrastructure charges on housing prices and affordability, and the implications of amendments to the regime on these factors.

Chapter 5 – A Review of Infrastructure Charging Regimes: Introduction to infrastructure charging regimes, a detailed description of how Queensland's regime operates and why it has been developed this way, a comparative analysis of Queensland's regime versus that of other States and Territories, and a discussion of the desirable principles and practices in formulating infrastructure charging regimes.

Chapter 6 – The Implications of Amendments to Queensland's Infrastructure Charging Regime: Potential amendments to the infrastructure charging regime and costs/benefits of each option for Local Government, the development industry and housing affordability, including a case study example and some empirical analysis for some major metropolitan Local Governments in Queensland.

Chapter 7 – Conclusions: Summary of the appropriateness of Queensland's infrastructure charges regime in light of the development industry's concerns.

1.4 Abbreviations

HIA – Housing Industry Australia
LGAQ – Local Government Association of Queensland
PCA – Property Council of Australia
QMBA – Queensland Master Builders Association

REIQ – Real Estate Institute of Queensland
UDIA – Urban Development Institute of Australia

1.5 Disclaimer

Whilst all care and diligence have been exercised in the preparation of this report, the AEC Group Limited does not warrant the accuracy of the information contained within and accepts no liability for any loss or damage that may be suffered as a result of reliance on this information, whether or not there has been any error, omission or negligence on the part of the AEC Group Limited or their employees.

2. The Development Industry's Concerns Regarding Infrastructure Charging

2.1 An Overview of the Campaign and Key Concerns

The Queensland development industry, led by peak industry representative bodies the UDIA, PCA, HIA, REIQ and QMBA, has been running a determined campaign for the past two years regarding the impact of government's taxes and charges on house prices and housing affordability in Queensland. More recently, the campaign has focused on the impact of infrastructure charges, with the development industry arguing the charges are excessive and are being levied on an inappropriate basis.

While there has been a concerted campaign on these issues by the development industry's representative bodies, it should be noted that media searches of official company announcements and reports by leading residential property developers active in the Queensland market have not identified any specific references to these issues.

The development industry's assertions are based on the findings of an Urbis JHD report into residential development costs across Australia. The research reports that aggregate government charges, including infrastructure charges, transfer duties, GST and other compliance costs, accounted for 22.5% of the typical cost of a new detached house and land package in Queensland in 2005, a rise from 6.9% in 2000. This study highlights issues and ambiguities regarding the accuracy of the Urbis JHD research and its findings.

With regard to the structure of Queensland's infrastructure charges regime, the Queensland's development industry has most recently stated (with regard mainly to hard infrastructure such as roads, pipes, drains land for parks etc), "*…Priority Infrastructure Plans must reflect the fact that new infrastructure is often used by the whole community, not just those residents in new developments. The cost should therefore be spread across the community – through rates – and across generations, via borrowings*." This view, however, is at odds with the principles underpinning Queensland's *Integrated Planning Act 1997* (IPA), which is considered to have a far sounder basis than arrangements in other states and territories, and the implementation of the policy by Local Government.

The development industry's recommendations with regard to infrastructure charges are summarised by the UDIA in its *Housing Affordability Restoration Plan* for Queensland which calls for a comprehensive review by the Queensland Government into the practice and process of infrastructure charging for new development, paying specific attention to variations in charges that occur between Local Governments. Further, the UDIA argues this review should consider aspects of intergenerational equity in respect of the imposition of taxes and charges on the existing and future generations of home owners. The UDIA has also called for an immediate moratorium to be implemented through the State on increases in infrastructure charges for two years until the infrastructure charging review is concluded and anomalies and inequities addressed.

2.2 Key Findings of Research Prepared to Support the Campaign

The research underpinning the development industry's campaign regarding the impact of infrastructure charges and government taxes on housing prices and affordability was prepared by URBIS JHD in its *Residential Development Costs Benchmarking Study* and by Matusik Property Insights in its *An industry inquiry into affordable home ownership in Queensland.*

The key finding of the Matusik research was that in Queensland aggregate government charges, including infrastructure charges, transfer duties, GST and other compliance costs, accounted for 22.5% of the typical cost of a new detached house and land package in Queensland in 2005, a rise from 6.9% in 2000. In terms of infrastructure charges specifically, the UDIA's research estimates these charges for the average new detached house and land package in Queensland at $14,409, or 3.8% of the estimated final housing cost of $383,990.

The UDIA's Inquiry, leaning on the findings of the Matusik Property Insights research, concluded:

> *"With the combined effects of increases to the cost of vacant land and escalating taxes and charges on building a home, the purchase price of a new house or apartment is rapidly spiralling out of reach of the average-income family.*
>
> *…If current trends are not urgently addressed, most single-income families and many dual-income families will be priced out of the market completely by 2010."*

The UDIA's Inquiry reports that this situation could impact the competitiveness of Queensland as a place to live and reduce Queensland Gross State Product by up to $280 million, in turn costing Queensland 1,800 full-time jobs.

2.3 Critique of the Research Supporting the Campaign

Overall, the UDIA's Inquiry, the Matusik Property Insights and Urbis JHD research and the Queensland development industry's campaign asserts that the increase in land and housing prices in Queensland, and the subsequent pressure on housing affordability, relates largely to inadequate government land planning policy and excessive taxes and infrastructure charges. However, this argument clearly ignores the fundamentals of the housing market and what drives house price increases. In particular, the development industry's arguments are rejected by a number of the central findings of the Productivity Commission's *Inquiry into First Home Ownership* (2004). The Inquiry was undertaken in response to a request by the Hon. Peter Costello, Treasurer, regarding first home ownership trends in Australia.

Some of the key findings of the Inquiry were:

- Recent price increases have been mainly due to the surge in demand in established areas, and therefore improvements to land release policies or planning approvals processes could not have greatly alleviated them;
- Increased taxes such as the GST and stamp duty have played only a minor direct role in recent house price growth, although it is noted government needs to consider how best to reduce its reliance on stamp duties;
- **While infrastructure charges, like other costs of bringing housing to the market, have increased over time, they cannot explain the surge in house prices since the mid-1990s;**
- Much of the increase in housing prices during the recent boom can be explained by 'market fundamentals', especially cheaper and more available housing finance and higher incomes. If sustained, these changes will have brought about a structural shift up in prices; and
- While recent interest rate rises and further price increases in some markets may lead to further declines in affordability in the short term, a more subdued housing market and continued income growth should in due course make it easier for prospective home buyers to enter the market.

It is also noted in the Matusik Property Insights research that the GST accounted for 40% of the estimated aggregate government charges for the average new house and land package in Queensland. This therefore accounts for a significant proportion of the reported increase in aggregate government charges. Additionally, the research provides little review of the impacts of increased construction costs, which have lifted by more than 30% (or $40,000) in Queensland according to the ABS between 2000 and 2005.

A scrutiny of media announcements and official reports to market made by major residential property developers active in the Queensland market also does not reveal any specific grievances with government's land planning policy or charges. This suggests the industry's campaign may not be representative of its key constituents.

In addition to the above, there are also a number of ambiguous results reported in the UDIA's research, including those fundamental to its arguments regarding the contribution of government taxes and charges to increased housing prices. For example, consider the review of the calculations set out in **Table 2.1** below. The reported percentage shares of the total final cost of house and land (as presented in **Figure 2.1**) do not equate, when translated into dollar amounts, to the reported percentage growth over the 5-year period i.e. the figures and analysis does not add up.

For example, consider the following:

- The industry research reports 31.3% of the final cost in 2005 is accounted for by land, which equates to $119,997. It is then reported that the land price component has increased by 85% in the 5-year period. This would mean that the land price component was $64,863 in 2000. The research reports that land accounted for 42.3% of the final cost in 2000, which would indicate the total final cost of the house and land in 2000 was $153,000.

- At the same time, the industry research reports 22.5% of the final house and land cost in 2005 is accounted for by government charges, which equates to $86,313. It is then reported that the government charges component has increased by 405% in the 5-year period. This would mean that the government charges component was $17,092 in 2000. The research then reports that the government charges accounted for 6.9% of the final cost in 2000, which would indicate the total final house and land cost in 2000 was $247,000. This contradicts the figure in the first dot point above.

Further clarification regarding the above analysis is required from the UDIA.

While the accuracy of the research underpinning the development industry's position is in question, it also indicates in its current form that house construction and purchase costs have increased at a much faster rate than raw land costs, and it is this component that accounts for almost 50% of the final house and land cost. The ABS reports that house construction prices in Queensland increased by more than 30% between 2000 and 2005.

Table 2.1: Review of Development Industry Research Calculations

Cost Component	2005 (% of total)	2005 ($)	5 year growth (%)	2000 (% of total)	2000 ($)
Land	R 31.3%	D $119,997	R +85%	R 42.3%	D $64,863
House	R 46.3%	D $177,787	D 47%-149%	R 48.9%	D $71,386-$121,029
Government charges	R 22.5%	D $86,313	R +405%	R 6.9%	D $17,092
Total	**100.0%**	**$383,990**	**D 55.0%-250.4%**	**D 98.1%**	**D $153,000 -$247,000**

Note: R – reported, D – derived
Source: Matusik Property Insights, AEC*group*

3. The Impact of Infrastructure Charges on the Performance of the Development Industry

3.1 The Financial Performance of Major Developers

An analysis has also been completed into the financials of Queensland listed property companies with residential development projects in Queensland to uncover whether their financial performance, particularly return on investment, is being eroded by the claimed issues with government infrastructure charges.

The development industry's position is that the current returns are commensurate with their development risk profiles and their capacity to absorb the extra costs has been limited. In a recent PCA report *Reasons to be fearful: Government taxes, charges and compliance costs and their impact on housing affordability*, it is reported:

> *"The economic return that developers require for delivering new housing has been consistent for many decades and reflects the risks associated with this activity. There has also been limited ability for developers to absorb these extra costs and accordingly, the additional taxes and compliance costs imposed on developers is effectively passed on to consumers."*[1]

Analysis of financial performance below indicates that return on investment across Queensland's five major listed property companies active in residential development (as a core business) has remained steady at around 20%, although the market capitalisation of these companies has almost doubled due to the larger revenue base from the higher land and house prices (see **Table 3.1**). These strong financial results have also been recorded by other major property developers active in the Queensland housing market but listed elsewhere in Australia.

Table 3.1: Aggregated Financial Performance of Five Queensland Listed Property Companies with Residential Property Development as a Core Business

Indicator	2003	2004	2005
Net profit after tax ($m)	$77.7	$119.9	$152.4
Total equity / market capitalisation ($m)	$572.4	$732.3	$1,010.5
Average return on equity (%)	20.5%	20.9%	19.4%

Source: Annual and Financial Reports of Five Listed Property Companies in Queensland

3.2 Market Communications by Major Developers

While there has been a concerted campaign on these issues by the development industry's representative bodies, it should be noted that media searches of official company announcements and reports by leading residential property developers active in the Queensland market have not identified any specific references to these issues. This suggests the industry's campaign may not be representative of its key constituents.

[1] Property Council of Australia (2006) p. 2

4. The Impact of Infrastructure Charges on House Prices and Housing Affordability

4.1 Contribution of Infrastructure Charges to Housing Prices

The Productivity Commission's *Inquiry into First Home Ownership* (2004) represents the most comprehensive, independent and authoritative review of the factors impacting housing prices and affordability pressures, including whether infrastructure charges were contributing to issue and considered excessive.

The outcomes of the Inquiry are quite clear in that infrastructure charges cannot explain the surge in house prices and the housing affordability issues in Queensland, and even if there was a change in Queensland's upfront charging regime or the shifting of the infrastructure costs to the wider community, housing affordability is unlikely to be significantly affected.

With regard to the issue of infrastructure costs and housing prices, the Inquiry found:

> *"While infrastructure charges, like other costs of bringing housing to the market, have increased over time, they cannot explain the surge in house prices since the mid-1990s."*[2]

With regard to infrastructure charges and housing affordability, the Inquiry reported:

> *"The claimed cost savings and improvements in affordability from reducing reliance on developer charges for infrastructure appeared overstated:*
>
> - *Most categories of charges are both justified and desirable on efficiency/equity grounds.*
> - *Housing affordability should not be significantly affected by greater reliance on upfront charging as opposed to charging over time.*
> - *Developer charges for those items of social or economic infrastructure that provide benefits in common areas across the wider community have generally been relatively small – though such infrastructure should desirably be funded out of general revenue sources.*
>
> *Even if the cost of providing infrastructure to new developments were shifted onto the wider community, housing affordability might not be greatly enhanced."*[3]

The Matusik Property Insights Research prepared for the Queensland development industry estimates GST as accounting for 40% of the final cost of a new detached house and land package in Queensland. This indicates the introduction of the GST has been the main driver of the reported increase in the aggregate level of government charges. However, this fact receives little attention in the UDIA's research and campaign.

The development industry's research also fails to properly note the 30% (or $40,000) increase in the average construction cost of a new home between 2000 and 2005, as determined from ABS house construction indexes.

4.2 Upfront Infrastructure Charges and Housing Affordability

The rationale for these conclusions is clear. In the case of a change from payment over time to payment upfront, the increase in the cost of serviced land or new homes to reflect a "prepayment" for infrastructure should, in principle, lead to a matching reduction in ongoing housing costs. That is, while a move to charging upfront will require

[2] Productivity Commission (2004) p. 155
[3] Productivity Commission (2004) p. 155

households to pay higher purchase prices and mortgages, ongoing utility charges and Council rates will be lower than otherwise. Households would be no worse off over time.

The Productivity Commission also concludes that any "over-recovery" of the capital costs of major infrastructure from developments subject to upfront developer charges will not necessarily increase proportionately the prices of the serviced land and the houses affected. As this would amount to a tax on those developments, much of its impact on house prices may be offset by falls in the value on the undeveloped land.

4.3 Possible Impact of Reduced Infrastructure Charges

The Matusik Property Insights research indicates infrastructure charges only account for a minor 3.8% of the final estimated cost of a new detached house and land package in Queensland. Coupled with the findings of the Productivity Commission's Inquiry, this raises the question that even if there was a reduction in the level of infrastructure charging by Queensland Local Government, would there actually be a reduction in house prices? Given infrastructure charges have been found not to explain house price increases, and given there have now been fundamental changes to price point perceptions and expectations by the market and home buyers, clearly the most likely scenario is that a reduction in infrastructure charges would merely result in reduced development costs for the developer. With the same market prices and sales rates, this would result in significant increases to developer profit and return on investment. Therefore, the likely winner from any reduction in infrastructure charges is the development industry – not prospective home owners.

5. A Review of Infrastructure Charging Regimes

5.1 Introduction to Infrastructure Charges

There are two main types of infrastructure for which developers can incur charges:

- Economic infrastructure which provides services such as water, sewerage, drainage, electricity, gas, telecommunications, public transport and roads; and
- Social (or community) infrastructure which provides a range of community and recreational services e.g. libraries, community centres, sports grounds and parks.

Economic infrastructure can be further categorised into "major" infrastructure generally servicing a number of subdivisions and "basic" infrastructure providing services mainly to a particular subdivision. Major infrastructure is generally, but not always, external to a development, while basic infrastructure is located on-site within a development.

Government and private utilities are normally responsible for providing major economic infrastructure services. The Council or utility may construct the infrastructure concerned, or alternatively it may be provided by the developer, who must hand it back as a "contributed" asset. With the exception of main roads departments and public transport authorities, government utilities are now expected to operate commercially and recover their costs. Basic infrastructure, on the other hand, is generally constructed by the developer and handed over to the relevant authority as a contributed asset.

Social infrastructure is often provided outside the area of development. It is sometimes provided by the developer directly, but more often through payments to the local Council. If it is to be provided within a development, the developer can be required to donate the land needed for it (for example, for a park).

5.2 The Infrastructure Challenge for Government

All Australian governments face two key challenges with regard to the provision of economic and social infrastructure, particularly in high growth areas:

- How to meet increasing demand for new and upgraded infrastructure; and
- How to pay for the needed infrastructure.

The challenges are most pronounced at the State and Local Government levels. State Governments commonly establish the principles to guide infrastructure charges regimes, while Local Governments administer and implement the policies at the local level. As this analysis will demonstrate, the principles underpinning infrastructure charges regimes are fairly similar across Australia's states and territories, although the actual level of the charges and the implementation models vary.

5.3 Queensland's Infrastructure Charging Regime

5.3.1 Summary of Pre-IPA Infrastructure Charging Regime

The Queensland Government adopted the *Integrated Planning Act 1997* (IPA) in March 1998. Prior to this, development planning in Queensland was controlled under the *Local Government Act 1993* and the *Local Government (Planning and Environment) Act 1990* (now repealed). There were many difficulties with the design and implementation of this system. For example, at any one time many different agencies could be involved in the assessment of a development application and the process was based upon adherence to a strict set of planning parameters rather than consideration for the final outcome. Some of the key criticisms leveled at the pre-IPA system were:

- The failure of the repealed *Planning and Environment Act* to deal explicitly with other types of infrastructure e.g. roads, which led to costly and unpredictable litigation;

- The cost of infrastructure was not necessarily shared equitably between all users in a catchment because contributions could only be obtained in respect of assessable development;

- Council often did not recover the full-cost of providing and maintaining infrastructure;

- Inconsistent application of contribution requirements for different types of infrastructure; and

- Little incentive to consider alternative and more efficient infrastructure funding mechanisms.

5.3.2 The Benefits of Introducing the IPA in 1998

The introduction of the IPA legislation in 1998 has improved the transparency, consistency, coordination, integration and efficiency in the way Councils plan and charge for development infrastructure in Queensland. The IPA has helped government and the development industry overcome many of the concerns with the previous legislation, including providing methodologies and regimes for the appropriate calculation and levying of developer charges for social infrastructure. Overall, the move to the IPA's more accountable and transparent user-pays charging methodology allows a far more equitable and efficient allocation of resources in the long-term.

5.3.3 The IPA and the Infrastructure Charges Regime

The IPA establishes the following set of principles for determining infrastructure charges:

- Charges are limited to infrastructure that provides direct, private benefits to the users of that infrastructure;
- Charges are limited to basic and essential services;
- Charges are based on plans for the supply of the infrastructure;
- Charges are based on reasonable service standards; and
- Costs must be equally apportioned between all users of the infrastructure.

The IPA makes clear that the principle of "user pays" should drive the allocation of costs between new and existing users ensuring that those who benefit from any new infrastructure carry the costs of providing that infrastructure.

5.3.4 Local Government and Implementing the Infrastructure Charges Regime

With IPA providing the framework for infrastructure charges, Local Governments then have responsibility for the implementation of land use and infrastructure charging policies. This is achieved through the application of three hierarchical plans:

- Planning Schemes;
- Priority Infrastructure Plans (PIP); and
- Infrastructure Charging Schedules (ICS).

The PIP outlines where growth is expected to occur, the nature and scale of this growth, and the plans and desired service standards for the trunk (bulk) infrastructure necessary to service this growth. Once the PIP is in place, Councils then prepare the ICS setting out the charges for water management (e.g. water supply, sewerage and drainage), transport infrastructure (e.g. roads, traffic control devices and cycle ways) and local community purposes (e.g. public recreation land and land for community purposes).

The ICS is a fundamental aspect of the PIP providing local governments with a means of obtaining funding from developers and giving developers certainty regarding the infrastructure charges that they will face for a development. The ICS must set out:

- The costs of the infrastructure that developers are being charged for;
- When new infrastructure is likely to be provided;
- The number of existing and new users of any infrastructure;
- How the cost will be divided between new and existing users; and
- The charges that various users will be required to pay.

5.3.5 The IPA's Definition of Development Infrastructure

The IPA establishes the definition of development infrastructure and the appropriate charging mechanism that can be used to fund its installation as:

"…the land or works, or both land and works, for water cycle infrastructure (including water supply, sewerage, drainage, water quality), transport infrastructure and local community infrastructure, predominantly servicing the local area."

Any infrastructure that meets this definition can be included under Council's PIP and charged for in the ICS. The IPA separates development infrastructure into two elements:

- Trunk infrastructure – infrastructure needed to deliver services essential for safe and healthy communities. It usually forms part of a network and serves whole communities/catchments rather than providing connections to individual users; and

- Non-trunk infrastructure – the connections between individual properties and trunk infrastructure.

The IPA definition of trunk infrastructure is simply that it is the infrastructure contained within the PIP, meaning local governments are provided with flexibility as to what they define as trunk infrastructure. For example, a park could be included as trunk infrastructure if it can be shown that it is part of a network of parks provided for civic amenity. Infrastructure charges can only be levied for trunk infrastructure. Any infrastructure, which a local government wishes to define as trunk infrastructure, must be identified as part of the trunk infrastructure network outlined in the PIP.

Non-trunk infrastructure describes infrastructure that provides benefits to a limited number of users, providing direct connections to trunk infrastructure. The IPA allows conditioning, as opposed to charging, for non-trunk infrastructure and if a condition is imposed it may only be for networks internal to premises, connecting the premises to external infrastructure networks and protecting or maintaining the safety or efficiency of the infrastructure network of which the non-trunk infrastructure is a component.

5.3.6 Principles Guiding the Calculation of Infrastructure Charges

The IPA clearly indicates infrastructure charges must be based on an open and fair methodology that can be easily understood by a non-expert and provides consistency.

When determining developer charges, the following principles apply:

- The costs of supplying development infrastructure to non-paying users must not be transferred to other users via infrastructure charges;

- If a local government decides not to recover the full costs of infrastructure the balance must be identified in the ICS;

- If certain lots are exempted from infrastructure charges this must also be identified in the ICS;

- If the local government is not able to recover costs from external users the charge must be reduced by the amount attributable to those users; and

- If a decision is made to exempt or subsidise a particular lot or use the amount of the exemption or subsidy must be recorded as a payment by the local government.

5.3.7 Allocating Infrastructure Costs Between Users

The IPA establishes a "user pays" model as the key principle in the application of infrastructure charges with costs shared between users based on their usage of the infrastructure in question. However, whilst there is little debate about this objective, its strict application would be prohibitively expensive. To overcome this local governments are advised to identify segments of users, known as catchments, with each charged different rates based on the estimated benefit each receives.

The charges guidance distinguishes between open and closed networks. In an open network there will be some external users from outside the catchment e.g. roads and community facilities. These external users must be taken into account when determining infrastructure charges as it is unfair for new users to subsidise the infrastructure for others. Closed networks are those that are only available to a particular catchment e.g. connection to a water main or sewerage network. In this circumstance the guidance is clear that only users within the catchment are liable for the infrastructure costs.

Another important aspect of the charging guidance is that infrastructure charges must not result in the same premises paying for the same infrastructure twice – so called "double dipping". Infrastructure charges must also take into account any grants and subsidies received by local government. If grants or subsidies becomes available after the costs have been recovered this should be regarded as a community windfall as refunding the charges already levied would incur considerable administrative costs.

5.3.8 Summary Relative to the Development Industry's Concerns

There is little doubt the introduction of the IPA legislation in 1998 has improved the transparency, consistency, coordination, integration and efficiency of the way Councils plan and charge for development infrastructure in Queensland. IPA has helped government and the development industry overcome many of the concerns with the previous legislation, including providing methodologies and regimes for the appropriate calculation and levying of developer charges for social infrastructure. The new system has also resulted in less litigation.

The move to the IPA's more accountable and transparent user-pays charging methodology has allowed a far more equitable and efficient allocation of resources in the long-term. With regard to the development industry's concerns regarding the equitable distribution of costs, the new IPA system is founded on improved principles which address these issues. In particular, the new system has provided prescriptive guidance and methodologies to Local Government in the equitable distribution of costs using the closed and open network approaches outlined above.

5.4 Other State and Territory Infrastructure Charging Regimes

While the principles guiding infrastructure charging regimes across Australia's States and Territories are fairly consistent, the implementation models are varied. **Table 3.1** provides a direct comparison of the key principles and implementation models for infrastructure charging in other States and Territories.

The regime that has attracted the most attention is the NSW system which is outlined in Section 94 of the NSW *Environmental Planning and Assessment Act 1979*. The Act empowers local Councils to levy developers to improve infrastructure services where a development increases the demand for such services, and Councils implement this by making the granting of a development consent conditional upon the developer contributing land free of cost, making a monetary donation, or both.

Section 94 charges can be levied for both economic and social infrastructure. For example, this could include roads, traffic management, drainage, recreation facilities and town centres. The principles which guide the policy include:

1. Nexus between the expected types of development in the area and the demand for additional public facilities created by those developments;

2. Reasonableness in terms of the manner of provision, amount of contribution and timing of provision. The courts have suggested that three to five years is a reasonable time to hold contributions;

3. Recoupment of costs for facilities already provided in anticipation of future development; and

4. Assessment of a contribution having regard to any previous contributions (monetary and land dedication).

The first and third principles are fundamentally different to the Queensland system and have proved difficult to implement and measure consistently, which has resulted in substantial litigation activity.

In NSW, the issues surrounding Section 94 levies has been exacerbated by additional levies and charges, such as a public transport levy, and there are fears such levies will be introduced more widely.

Queensland does not have this situation, and the introduction of the IPA has created a more consistent, integrated and measurable approach to infrastructure charging, reduced litigation and improved the certainty for developers with regard to infrastructure charges.

The Northern Territory system is somewhat similar to the NSW model. South Australia and Tasmania are currently reviewing their infrastructure charging regimes following intense scrutiny and increased problems with implementation. Victoria has moved to a fairly prescriptive approach for new developments in different areas. The Western Australian system is fairly similar to Queensland's IPA system.

Table 3.1: Overview of the Application of Developer Charges in Other States and Territories

State	Legislation	Overview
NSW	*Environmental Planning and Assessment Act 1979*	Section 94 of the Act allows Councils to levy contributions on developers for improved infrastructure services required as a result of increases to demand for such services from new developments. This may be for the provision of new facilities in a new area, or for the expansion of existing facilities to meet the service needs generated by further development. Section 94 contributions can be levied for both economic and social infrastructure. Councils are required to prepare a Development Contribution Plan (DCP) before any developer contribution can be levied. The DCP aims to make the application of developer charges accountable by establishing policies that deal with all aspects of the contribution including assessment, collection, administration and spending. The DCP must establish: • A clear link between the types of development in an area and the demand for additional public facilities; • Reasonableness with regard to the manner of provision, the amount of contribution and the timing of provision; • A fair method of recovering the costs of facilities that were provided in anticipation of future development; and • An assessment of a contribution having regard to any previous contributions. Councils implement the policy by making the granting of a development consent conditional upon the developer contributing land free of cost, making a monetary contribution, or both.

State	Legislation	Overview
Northern Territory	*NT Planning Act 2005*	In the Northern Territory, service authorities prepare a contribution plan, which is then made available for public consultation before it is adopted. The contribution plan must firstly include: • A description of the infrastructure required in the policy area covered; • The sequence in which the required works are to occur; and • An estimate and method of calculating the costs of infrastructure. Secondly, the contribution plan must include a formula for calculating the level of developer contributions with regard to: • The intensity of the development; • The anticipated increased usage of the proposed infrastructure as a consequence of a development; and • Other factors specified in the development plan. Additional requirements of the contribution plan include: • The service authority must use the contribution within a reasonable time for the purpose of infrastructure; and • The expenditure must take place within the policy area in which the land is situated.
South Australia	*Development Act 1993*	The Local Government Association of South Australia is undertaking a review of the current system of developer charges. The project will review the strengths and weaknesses of the approaches that have been adopted by the other States and Territories and then use this information to analyse possible a new approaches. Potential options will be assessed to gauge the likely impact that any changes might have on interested parties including the development industry, Councils, consumers and the State Government.
Tasmania	*Land Use planning and Approvals Act 1993* *Resource Planning and Development Commission Act 1997*	The Local Government Association of Tasmania (LGAT) is considering undertaking a review of its developer charging approach. This is in response to concerns about the application of the existing process. The LGAT minutes from its General Management Committee 19th October 2005 noted: *'The matter of developer charges has been of concern to councils and developers a like over a long period. The consistency of application, relativities between councils and the seeming lack of transparency are among the issues that have been raised.'* LGAT agreed that a practical and easily implementable system was required and that this should be developed following consultation with councils.

State	Legislation	Overview
Victoria	*Planning and Environment Act 2004*	In Victoria, although the principal of developer charges is well established, different approaches have been adopted in different areas with some contributions totalling $600/lot in some areas and up to $10,000/lot in others. In an attempt to overcome these issues the State Government has launched a new approach to developer contributions in growth areas. Revised Development Contribution Plans (DCPs) will coordinate the provision of state and local infrastructure and the level of developer contributions. The DCPs aim to promote a system for calculating infrastructure charges that is transparent, accountable and fair. DCPs aim to make the system of determining developer contributions simpler providing greater certainty about the level, type and timing of any contributions. DCPs will also allow greater flexibility in the provision of infrastructure so that developers can meet any requirements with 'in kind' provision or direct payments. DCPs establish a cost per hectare for different development zones in growth areas: • 25% of the value of public transport, environmental facilities and state supported community infrastructure on land already within the urban growth boundary zoned for urban development but not yet sub divided ($40,000/45,000 per Ha); • 40% of the value of such infrastructure on land within the urban growth boundary but not yet zoned for urban development ($60,000-$65,000 per Ha); • 50% of the value of such infrastructure on land brought within the urban growth boundary in 2005 ($75,000 – $80,000 per Ha); and • These contributions are in addition to contributions for roads of around $55,000 - $60,000 per Ha.
Western Australia	*Town Planning and Development Act 1928 (as amended)*	In Western Australia, local governments can only require developer contributions where expressly provided for in town planning schemes which have been recommended by the Commission and approved by the Minister. The Act establishes the following principles to be used in determining the validity of developer contributions: • The subject of the subdivision must create or contribute to the need for particular infrastructure or facility for which the contribution is being sought; • The contribution must be fair and reasonable and reflect the true costs of the infrastructure or facility; • The contribution should be fairly apportioned between multiple landowners proportional to the share of the need created by each landowner's subdivision; • The financial contribution must be spent within a reasonable period of time; and • There should be accountability on the manner in which contributions are determined and expended.

Sources: NSW Department of Infrastructure Planning and Natural Resources Development Contributions Practice Note July 2005, Northern Territory Planning Act 2005, Victoria A Plan for Melbourne's Growth Areas 2005, WA Planning Bulletin No. 18 Developer Contributions for Infrastructure 1997, Tasmania Land Use planning and Approvals Act 1993, Tasmania Resource Planning and Development Commission Act 1997, South Australian Development Act 1993.

5.5 A Summary Review of Infrastructure Charging Principles and Practices

5.5.1 Principles and Practices of Infrastructure Charging

The Productivity Commission's *Inquiry into First Home Ownership (2004)* involved a detailed review of the principles and practices of infrastructure charging regimes in Australia. The reason for this was in response to similar issues being wagered by Queensland's development industry, including:

- Charges inappropriately imposed on individual developments, when they should be spread more widely;
- Charges or standards of infrastructure provision that are excessive for their given purpose, sometimes because of "gold plating" to minimise future maintenance costs for Councils;
- Residents of developments effectively paying twice for some items through both upfront charges and rates or ongoing charges (double charging);
- Funds not being spent on the designated purpose; and
- Lack of scope for, or excessive costs in, appealing against particular charges or requirements.

The Productivity Commission reports that, in principle, there is a strong case on both the fairness and efficiency grounds for the user or beneficiary of a good or service to pay for what they receive. A charge on users, if it reflects the true costs of supply, ensures that demand is not excessive and resources are not wasted. This is the founding principle of the Queensland IPA.

Most infrastructure is "lumpy", with high capital costs and relatively low running costs. Hence a critical policy issue is how best to apportion the fixed costs of infrastructure provision across users or beneficiaries so that charges fully recover costs and encourage a spatial pattern of housing development that reflects underlying costs.

5.5.2 Allocating Infrastructure Costs Among Users

The Queensland development industry contends that infrastructure charges are inappropriately imposed on individual developments when they should be spread more widely, reflecting the situation that infrastructure is often used by the whole community, not just those residents in new developments. The issue is of particular significance for social infrastructure which benefits a wide group across the community.

In general, the appropriate allocation of capital costs hinges on the extent to which a given piece of infrastructure provides services to those in a particular location or development, rather than across the community. For "communal" items of infrastructure benefiting a wide group across the community, some form of mechanism for allocating costs across dispersed beneficiaries is required. The Queensland IPA provides a process for this equitable distribution of costs, including the closed and open network analysis.

It should also be noted that where there is an existing asset, the existing user community is effectively paying for the provision of that infrastructure because a component of rates and charges should recover the consumption of the asset via a depreciation component.

5.5.3 Allocating Infrastructure Costs Over Time

Queensland's IPA has in place an upfront infrastructure charging regime. In general, the infrastructure charging regimes across Australia have moved further toward increased upfront developer charges, particularly for social infrastructure. This is opposed to a

system whereby costs are recovered over time. The Productivity Commission's Inquiry concludes that if charges for infrastructure services are commensurate with the value of the service provided and are properly allocated, it should not in principle make any difference to affordability whether those charges are levied upfront or over time. Either way, the home owner will effectively pay for the services over time: through either higher purchase costs, higher charges, rates or taxes.

However, the distribution of benefits across users, and hence the way in which costs should be allocated, may impact on the timing of charges. For example, where the benefits are widely distributed across the community, cost recovery through Council rates and/or regular payments for utility services may deliver more efficient and equitable outcomes than seeking to recover some costs through upfront charges.

However, the key advantage of upfront charges or developer contributions for major shared infrastructure is that they can potentially accommodate "out of sequence" development – where land is not developed contiguously along networks of major infrastructure. Out of sequence development can help to overcome constraints that adversely affect the responsiveness of housing supply, such as fragmented land holdings, thereby reducing price pressures arising from an increase in demand. If developers bear the holding costs of infrastructure that has been provided ahead of schedule, utilities should be indifferent about meeting the infrastructure requirements of this type of development.

5.5.4 Public Debt Financing and Infrastructure Costs

The development industry has argue debt financing of capital costs should play a larger role generally in financing infrastructure costs, with repayments funded by the whole community through taxes or rates. However, for this to operate efficiently, there would need to be adequate disciplines for cost recovery and debt repayment over the life of the assets. The case for debt financing should not, however, hinge on the public sector's lower borrowing costs, as suggested by previous analysis by the Allen Consulting Group.

If the argument that the public sector's lower borrowing costs were taken to its logical extreme, governments would borrow on behalf of the community for all major assets. The Productivity Commission cites well documented cost recovery and debt repayment problems that have characterised various major government-funded investments and that necessitate further caution on the extensive use of this financing approach.

5.5.5 Intergenerational Equity and Infrastructure Costs

The Queensland development industry has also argued that upfront developer contributions for infrastructure represent an inequitable distribution of these costs between generations. However, this argument ignores the fundamental principle that if a house and land package comprises infrastructure charges now, it should intrinsically have this charge incorporated into its future sales price over the useful lifetime of the infrastructure asset and that maintenance costs are levied with explicit regard for cost recovery in the calculation of periodic charges and rates (consistent with the relevant Full Cost Pricing principles).

6. The Implications of Amendments to Queensland's Infrastructure Charging Regime

6.1 Description of Possible Amendments

Based on the examples from other States and Territories, previous infrastructure charging legislation in Queensland and general economic and financing theory, this section considers possible amendments to Queensland's infrastructure charging regime. The following sections consider the implications (using a cost/benefit framework) of the amendments for local government, the development industry and housing affordability.

Table 6.1: Description of Possible Amendments to Queensland's Infrastructure Charging Regime

Possible Amendment	Description
Amendments to what infrastructure charges apply to:	
Expansion to Non-Core Social Infrastructure	Under this approach, trunk infrastructure charges would be expanded to include 'non-core' social infrastructure, such as libraries, community centres, sports and recreational facilities, etc.
Additional Public Facilities Created by New Developments	Under this approach, infrastructure charges would be expanded to cover additional public facilities (both core and non-core) created by the new developments, similar to the Section 94 contributions in NSW.
Facilities Already Provided in Anticipation of Future Development	Under this approach, infrastructure charges could be levied to recoup the costs for infrastructure that was provided in anticipation of future development, similar to the Section 94 contributions in NSW.
Amendments to how the infrastructure charge is calculated:	
Reduced True Cost Funding Ratio	Under this approach, the percentage of the true cost on which infrastructure charges are calculated is reduced from 100% to some other smaller percentage.
Amendments to how the infrastructure is financed:	
Public Private Partnerships	This approach involves local government letting contracts to the private sector for the provision of infrastructure services. The private sector secures the necessary finance and arranges for the works to be carried out either by themselves or by a sub-contractor. Following the completion of the works the public sector has the option to buy back the assets over an agreed period.
Toll Charging Systems and Debt Financing	Under this approach, infrastructure is financed by the public sector either from reserves or borrowing and repayments are made from revenue raised by levying tolls.
Increased General Rates	Under this approach, infrastructure charges are financed from general rates rather than from upfront developer contributions or additional public sector borrowing. This would be akin to applying developer charges to a reduced percentage of the true cost of the infrastructure.
Amendments to what infrastructure is provided:	
Reduction in Services and Standards	Under this approach, the actual services and standards of infrastructure being provided would be reviewed, with consideration for whether there is a true need for, or over delivery of, infrastructure services.

Source: AEC*group*

6.2 A Case Study Example

To further explain the workings of each of the possible amendments described above, and to provide for both quantitative and qualitative assessments of the costs and benefits of each of the amendments, an empirical case study has been developed.

The case study sets out the following situation:

- Assume the development is a master planned community with:
    - 2,000 new homes
    - Anticipated population of 5,000 persons
    - Average house sales price of $300,000
    - Infrastructure investment outlined in **Table 6.2**; and
- Assume the development has the following regional setting:
    - Coastal Local Government Area
    - Population of 50,000 people
    - 25,000 rateable properties
    - Average general rate is $750
    - Council general rates revenue is $18.75 million.

It is assumed the total core economic infrastructure is costed at $40 million and the non core social infrastructure costed at $5 million.

Table 6.2: Assumed Infrastructure Investment for the New Master Planned Community

Infrastructure Type	Unit Cost per Dwelling	Total Cost	Anticipated Usage Breakdown	
			Residents Inside Catchment	Residents Outside Catchment
Core Economic Infrastructure				
Roadworks	$8,000	$16,000,000		
Stormwater	$4,000	$8,000,000		
Sewerage	$3,000	$6,000,000		
Electricity	$2,000	$4,000,000		
Water Reticulation	$3,000	$6,000,000		
Sub-total	**$20,000**	**$40,000,000**		
Non-Core Social Infrastructure				
Community Centre		$3,000,000	50%	50%
Sports Grounds		$1,500,000	50%	50%
Park		$500,000	50%	50%
Sub-total		**$5,000,000**		

Source: AEC*group*

Outside of the new masterplanned development in the existing urban areas of the Local Government, there are the following existing facilities:

- Main library and network of 2 smaller libraries ($10 million investment);
- Cultural centre and precinct ($15 million investment);
- Multipurpose indoor pool ($5 million); and
- Open parks and spaces ($5 million investment).

Council anticipates the following $2 million of new development to cater for the 10% increase in the Local Government Area's population:

- Upgrades to the library's capacity ($500,000);
- Upgrades to cultural facilities ($1 million); and
- Upgrades to sporting facilities ($500,000).

6.3 Application of Possible Amendments

An explanation for the application of the possible amendments to the case study example is provided in **Table 6.3**.

Table 6.3: Application of Possible Amendments to Infrastructure Charging for the Case Study

Possible Amendment	Application of the Amendment
Amendments to what infrastructure charges apply to:	
Expansion to Non-Core Social Infrastructure	Under this approach, trunk infrastructure charges would be expanded to include 'non-core' social infrastructure, such as libraries, community centres, sports and recreational facilities etc. *Therefore, instead of only the core economic infrastructure attracting charges, the infrastructure charges would also apply to the non-core social infrastructure such as the library, community centre, sports ground and park. Therefore, the total amount of infrastructure investment that the charges are being calculated on increases from $40 million to $45 million.*
Additional Public Facilities Created by New Developments	Under this approach, infrastructure charges would be expanded to cover additional public facilities (both core and non-core) created by the new developments, similar to the Section 94 contributions in NSW. *Therefore, the infrastructure charging would be expanded to include the anticipated new investment in public facilities created from the new development, which is estimated at $2 million. Total infrastructure charges $42 million.*
Facilities Already Provided in Anticipation of Future Development	Under this approach, infrastructure charges could be levied to recoup the costs for infrastructure that was provided in anticipation of future development, similar to the Section 94 contributions in NSW. *Therefore, the infrastructure charges would also apply to the existing public infrastructure in the Local Government Area estimated at $30 million and recouping costs on this investment.*
Amendments to how the infrastructure charge is calculated:	
Reduced True Cost Funding Ratio	Under this approach, the percentage of the true cost on which infrastructure charges are calculated is reduced from 100% to some other smaller percentage. *Therefore, instead of the infrastructure charges being calculated on the total $40 million of core economic infrastructure, the charges would instead be calculated on a reduced percentage. If this percentage was 50%, then the charges would be calculated on $20 million. The shortfall in revenue would be funded by increases to general rates or increased borrowing by Council.*
Amendments to how the infrastructure is financed:	
Public Private Partnerships	This approach, also known as Private Financing Initiatives, involves local government letting contracts to the private sector for the provision of infrastructure services. The private sector secures the necessary finance and arranges for the works to be carried out either by themselves or by a sub-contractor. Following the completion of the works the public sector has the option to buy back the assets over an agreed period. *Therefore, the developer would finance the development of the infrastructure upfront and Council would purchase this infrastructure back from the developer over time.*
Toll Charging Systems and Debt	Under this approach, infrastructure is financed by the public sector

Possible Amendment	Application of the Amendment
Financing	either from reserves or borrowing and repayments are made from revenue raised by levying tolls. *Therefore, for the road works for example, Council may pay up to $16 million for the new roads, and then based on anticipated usage, charge a toll for using the roads.*
Increased General Rates	Under this approach, infrastructure charges are financed from general rates rather than from upfront developer contributions or additional public sector borrowing. This would be akin to applying developer charges to a reduced percentage of the true cost of the infrastructure. *Therefore, Council would instead finance the $40 million in core economic infrastructure through revenue raised by increased general rates across all ratepayers.*
Amendments to what infrastructure is provided:	
Reduction in Services and Standards	Under this approach, the actual services and standards of infrastructure being provided would be reviewed, with consideration for whether there is a true need for, or over delivery of, infrastructure services. *Therefore, Council and the developer would reconsider whether each dwelling requires the essential infrastructure services to the standard being proposed and whether the non-core social infrastructure is required to ensure amenity and service access.*

Source: AEC*group*

6.4 Cost-Benefit Analysis of Possible Amendments

The costs and benefits of the various possible amendments to Queensland's infrastructure charging regime are identified and discussed in **Table 6.4**. In summary, no proposal represents an improvement to the existing IPA system based on the cost-benefit analysis. Some of the amendments are unworkable, others have proved less than successful in other states and territories, and changes to the timing of financing (upfront versus over time) negatively impacts local government and has not net impact for housing affordability.

Table 6.4: Implications of Possible Amendments to Infrastructure Charging for the Case Study

Possible Amendment	Benefits	Costs	Conclusions
Amendments to what infrastructure charges apply to:			
Expansion to Non-Core Social Infrastructure	• Additional Local Government revenue from developer charges to spend on social infrastructure • Possible net improvements in the level and amenity of social infrastructure services for the community • Improved ability for local government to recover costs of social infrastructure investment	• Increased infrastructure charges passed to home buyers on top of charges for economic infrastructure • The approach can be difficult to implement and accurately measure and forecast usage • There could be issues around how and when local government spends the additional revenue	• Overall, this approach has been opposed in NSW and is likely to meet significant resistance in QLD
Additional Public Facilities Created by New Developments	• Additional Local Government revenue from developer charges to spend on new and upgraded public infrastructure • Possible net improvements in the level and amenity of services for the community • Improved ability for local government to recover costs of investment on new infrastructure	• Likely increases to infrastructure charges passed to home buyers, with questions about the equitable distribution of costs between users • Developers have strongly opposed the principle upon which the approach is based in NSW • If developers cannot pass on costs, return on investment could be compromised • The principle suggests new home owners should pay for upgraded infrastructure above that paid by existing residents • The additional infrastructure and public facilities created by the new development is difficult to measure • The principle can be difficult to implement, resulting in substantial litigation, as per the NSW case • There could be issues around how and when local government spends the additional revenue	• Overall, the principle behind the approach is debateable and its measurement and enforcement have proven unworkable in NSW.

Possible Amendment	Benefits	Costs	Conclusions
Facilities Already Provided in Anticipation of Future Development	• Additional Local Government revenue from developer charges to spend on upgrading public infrastructure • Improvements to Council's cost-recovery on previous infrastructure investment and financing costs • Improved ability for local government to recover costs of investment on new infrastructure	• Likely increases to infrastructure charges passed to home buyers, with questions about the equitable distribution of costs between users and those purchasing new homes versus established homes • Developers have strongly opposed the principle upon which the approach is based in NSW • The principle suggests new home owners should pay retrospectively for infrastructure regardless of how long other residents have been using it • The calculations to estimate the recoupment of costs are not clear cut and applicable to all situations • There are questions about whether there is "double dipping" by Local Government in its rates revenue • The principle can be difficult to implement, resulting in substantial litigation, as per the NSW case • There could be issues around how and when government spends the additional revenue	• Overall, the principle behind the approach is debateable and its measurement and enforcement have proven unworkable in NSW.
Amendments to how the infrastructure charge is calculated:			
Reduced True Cost Funding Ratio	• The developer and new home owners pay less infrastructure charges, and housing affordability improves	• The shortfall in charges is simply shifted to existing ratepayers, which then impacts their liveability and creates community acceptance issues • Developers may still charge the market rate for property and pocket the difference in the charges • There are dangers for Council in a cost recovery sense	• The approach is akin to increasing general rates and the financing requirement by Local Government, with potential negative impacts for cost recovery by Councils
Amendments to how the infrastructure is financed:			

Possible Amendment	Benefits	Costs	Conclusions
Public Private Partnerships	• No requirement for a large public outlay for Local Government • Local Government's repayment costs are allocated over the useful lifetime of the assets • Many of the project risks are transferred from Local Government to the private sector • Private sector developers can access economic and operating efficiencies that are not available to government	• Repayments are made from general rates, meaning cross subsidies will exist between users • PPPs can become expensive – in some cases the rate of return payable is agreed when the contract is let and any change in interest rates would impact on the true costs of the project • Local Government has less control over the infrastructure • The partnership requires careful planning and design to ensure that services can be integrated both over time and across contract boundaries • There can be issues with public disapproval, especially if the private sector partners are seen to be making "excessive" profits • There are contract management costs associated with policing the agreement and ensuring the work is to the agreed standard and completed to schedule and budget. These costs can escalate quickly in the event of a dispute.	• Overall, PPPs are in theory a sound strategy for developing and managing new infrastructure traditionally provided by the public sector. However, the approach is still in its emerging stage in Australia and the administration arrangements can be complex and onerous.
Toll Charging Systems and Debt Financing	• Toll charging systems are a true user pays model of financing • Future revenue streams can be modelled with a reasonable degree of accuracy based on forecasts of anticipated user numbers • Tolls are easily understood by the community and send clear pricing signals about the costs of providing new infrastructure	• Toll charging systems are only appropriate for certain types of infrastructure such as roads • There are significant administration and management costs associated with toll collection which are not incurred under other funding approaches • Tolls can potentially exclude low income groups • Local Governments have borrowing constraints and there are examples of where financing has gone wrong • There is the danger that cost recovery will not be achieved	• Overall, while tolls represent a true user pays system, tolls are only suitable for certain types of infrastructure

Possible Amendment	Benefits	Costs	Conclusions
Increased General Rates	• The process is more simple to administer and does not involve large additional costs as the collection and management processes are already well established • Local Governments would have a greater flexibility over how the additional revenue is spent	• There will be large cross subsidies between user groups • There would merely be a transfer of cost from new residents to existing residents that may not be entirely equitable • Some potential consumers may be less attracted to certain newly developing local government areas becoming known for higher general rates to fund large-scale infrastructure proposals • Increasing general rates does not provide consumers with pricing signals about the true costs of providing services as they are not directly linked to certain infrastructure • Negative consumer sentiment from increased rates to fund new developments	• Overall, this system results in questions about the equitable distribution of infrastructure costs, merely results in a transfer of costs between residents groups, and can impact the Council area long-term as an affordable place to live
Amendments to what infrastructure is provided:			
Reduction in Services and Standards	• Consumers are supplied with non-discretionary infrastructure leaving them free to choose the additional services they wish to access and how they wish to finance these • Existing ratepayers/developers are only required to fund non-discretionary infrastructure • Local government would have a lower initial cost outlay • There would be less potential for "gold plating" of assets	• If not provided by the public sector, some types of infrastructure are unlikely to be provided by another source due to their unattractiveness as a commercial proposition • Lower income groups may be excluded from accessing alternative infrastructure provided by the private sector e.g. toll roads • Some infrastructure is very expensive or impossible to augment after initial construction • The public has come to expect a certain level o infrastructure services and amenity and may be reluctant to see any reduction	• Overall, this approach is unworkable as residents have come to expect a certain level of amenity and service and the private sector will not provide commercially unviable infrastructure

Source: AEC*group*

6.5 Worked Examples for Reduced True Cost Funding Ratio

Urbis JHD in its *Residential Development Cost Benchmarking Study* estimated the infrastructure charges for a typical broadacre lot for four Queensland Local Government Areas (Gold Coast City, Ipswich City, Redland Shire and Maroochy Shire) and for a typical medium density unit in Brisbane City and Gold Coast City.

While the independence and accuracy of aspects of the Urbis JHD research is in dispute, the figures have been used to provide a quantitative analysis of the implication of a reduction in the true cost funding ratio to 50% (see **Table 6.5**). This effectively means that Council receives 50% of the estimated infrastructure charges as opposed to the current situation of 100%.

The estimated implications for broadacre land and medium density approvals of this situation are:

- Gold Coast City Council (broadacre land and medium density only):
  - Reduced Council revenue and deficit of $50.9 million
  - Increase to the average general rate of $158
- Ipswich City Council (broadacre land only):
  - Reduced Council revenue and deficit of $25.3 million
  - Increase to the average general rate of $477
- Redland Shire Council (broadacre land only):
  - Reduced Council revenue and deficit of $7.0 million
  - Increase to the average general rate of $131
- Maroochy Shire Council (broadacre land only):
  - Reduced Council revenue and deficit of $13.3 million
  - Increase to the average general rate of $203
- Brisbane City Council (medium density only):
  - Reduced Council revenue and deficit of $15.1 million
  - Increase to the average general rate of $40

Table 6.5: Implications of a Reduced True Cost Funding Ratio to 50%, 2005

Local Government	Estimated Infrastructure Charges (Avg/lot)[a]	Estimated Lots/Units Approved[b]	Estimated Funding Shortfall ($m)	Impact on Avg General Rate per Total Rateable Property
Broadacre Land Only (per lot)				
Gold Coast City	$15,250	4,585	$35.0	+$158
Ipswich City	$15,000	3,379	$25.3	+$477
Redland Shire	$14,250	986	$7.0	+$131
Maroochy Shire	$13,500	1,969	$13.3	+$203
Medium Density Only (per unit)				
Brisbane City	$6,250	4,840	$15.1	+$40
Gold Coast	$10,400	3,051	$15.9	+$72

Note: Rates are not apportioned equally between different rateable properties, however this analysis calculates an average for all rateable properties
Source: (a) Urbis JHD (b) DLGP, AEC*group*

These examples confirm the substantial negative impact of reduced upfront infrastructure charges on Local Government finances and ultimately ratepayers.

6.6 Summary of Implications for Key Stakeholder Groups

6.6.1 Implications for Local Government

The costs and benefits of the various amendments to the infrastructure charging regime are laid out in Table 6.4. Any reduction in the level of upfront infrastructure charges paid by the development industry could jeopardise the cost recovery ability and fiscal position of Council and the future public services and amenity of the area.

The previous legislation before IPA did not guarantee this outcome. The current approach under IPA is the most workable and does not involve the litigious and administrative issues faced in NSW with regard to retrospective and future infrastructure funding.

In terms of changes to financing arrangements, the Productivity Commission refers to a number of examples of where increased Local Government financing has come unstuck.

6.6.2 Implications for the Development Industry

Queensland's development industry has been running a campaign regarding the level and policy of the infrastructure charges regime for the past few years. However, while the industry claims infrastructure charges have been excessive, the major listed property developers in Queensland have doubled their market capitalisation and maintained return on investment of 20%. Therefore, the situation has, if anything, boosted their financial performance and investor returns.

The reason for the development industry's campaign is clear. With no established causal link between infrastructure charges and the recent surge in house prices, and the fundamental changes that have occurred in the market's perceptions and expectations regarding the prices of new homes, any reduction in infrastructure charges is almost certainly going to result in significant increases to the development industry's profit rather than benefit prospective home owners.

6.6.3 Implications for Housing and Living Affordability

The analysis presented in this report has clearly demonstrated that infrastructure charges have not accounted for the significant rise in house prices in Queensland and Australia since the mid 1990s, and therefore any reduction in infrastructure charges will have little impact on prices. The real winner would be the development industry through increased profits and return on investment.

The results of the Productivity Commission's Inquiry have also clearly stated that upfront charging versus charging over time should have no net impact on housing affordability and the positions of households. It has also been argued that intergenerational equity is assured due to the intrinsic infrastructure charges incorporated into future house sales prices and rates calculations (for maintenance)

However, where the possible amendments to the infrastructure charging regime do have a potential impact is on living affordability for existing ratepayers. If, for example, there is a reduction in the true cost of funding to 50% for new trunk infrastructure, then there will be upward impact on the rates paid by existing residents. This essentially means that if new residents don't pay for the infrastructure charges, then existing residents are required to pick up the funding shortfall to ensure a revenue neutral position for Local Government. The costs and benefits to residents of increases in general rates are described in Table 6.4.

7. Conclusions

The Queensland development industry, led by peak industry representative bodies the UDIA, PCA, HIA, REIQ and QMBA, has been running a determined campaign for the past two years regarding the impact of government's taxes and charges on house prices and housing affordability in Queensland. More recently, the campaign has focused on the impact of infrastructure charges, with the development industry arguing the charges are excessive and are being levied on an inappropriate basis.

While there has been a concerted campaign on these issues by the development industry's representative bodies, it should be noted that media searches of official company announcements and reports by leading residential property developers active in the Queensland market have not identified any specific references to these issues. This suggests the industry's campaign may not be representative of its key constituents.

The research prepared by Matusik Property Insights and Urbis JHD which underpins the Queensland development industry's arguments is also is in dispute, particularly calculations regarding the percentage shares of final house and land costs and the percentage growth in land costs and government charges. The figures do not add up and provide further question marks over the development industry's assertions.

Even so, it is noted in the Matusik Property Insights research that the GST accounted for 40% of the estimated aggregate government charges for the average new house and land package in Queensland. This therefore accounts for a significant proportion of the reported increase in aggregate government charges. Additionally, new house construction costs increased by more than 30% between 2000 and 2005 (based on ABS data), equating to an estimated $40,000 increase.

It is also noted that during the property boom over the past four years – the period when housing affordability pressures have been most acute – the development industry's key players in Queensland (based on five listed property companies in Queensland with residential development as a core business) have recorded significant financial growth, including a doubling in market capitalisation and an average return on investment of 20%. These results confirm developers have not absorbed any of the cost increases and have continued to pass them directly to end users to maintain their economic returns and increase their net profit on what is a much larger revenue base due to the higher prices.

The development industry's assertions that infrastructure charges levied by Local Government in Queensland are a major contributing factor in higher house prices and housing affordability clearly ignores the fundamentals of the housing market and what drives house price increases. In particular, the development industry's arguments are rejected by a number of the central findings of the Productivity Commission's *Inquiry into First Home Ownership* (2004), including the finding that "*while infrastructure charges, like other costs of bringing housing to the market, have increased over time, they cannot explain the surge in house prices since the mid-1990s*." Rather, the Inquiry finds factors such as cheaper and more available housing finance and higher incomes have resulted in a structural upward shift in prices. The Inquiry also finds that changes in the regime from upfront charging to recovery over time will not impact housing prices and affordability.

Therefore, with no established causal link between infrastructure charges and the recent surge in house prices, and the fundamental changes that have occurred in the market's perceptions and expectations regarding the prices of new homes, any reduction in infrastructure charges is almost certainly going to result in significant increases to the development industry's profit rather than benefit prospective home owners.

The introduction of Queensland's IPA legislation in 1998 and associated infrastructure charging regime has significantly improved the transparency, consistency, coordination, integration and efficiency in the way Councils plan and charge for development infrastructure in Queensland. IPA has helped government and the development industry overcome many of the concerns and difficulties with the previous legislation, including providing methodologies and regimes for the appropriate calculation, the equitable

levying of developer charges for infrastructure, reduced litigation, and improved certainty for developers regarding infrastructure charges.

The Queensland development industry's view that inappropriate charges are being imposed on individual developments when they should be spread more widely is at odds with the fundamental principles underpinning Queensland's IPA, and its enforcement by Queensland Local Government. Overall, the IPA is considered the most workable solution with regard to infrastructure charges for both government and the development industry, and is considered superior to planning arrangements in other states and territories, particularly NSW where thee Section 94 contributions have been founded on a number of ambiguous and difficult to implement principles. Overall, the move to the IPA's more accountable and transparent user-pays charging methodology allows a far more equitable and efficient allocation of resources in the long-term, and more certainty to developers regarding the infrastructure charges they will face for new developments.

The upfront developer charges mechanism employed under the Queensland IPA does not impact net housing affordability. In the case of a change from payment over time to payment upfront, the increase in the cost of serviced land or new homes to reflect a "prepayment" for infrastructure should, in principle, lead to a matching reduction in ongoing housing costs. That is, while a move to charging upfront will require households to take larger mortgages, ongoing utility charges and council rates will be lower than otherwise. Households would be no worse off over time. The Productivity Commission also concludes that any "over-recovery" of the capital costs of major infrastructure from developments subject to upfront developer charges will not necessarily increase proportionately the prices of the serviced land and the houses affected.

If the argument for increased public sector borrowing to fund infrastructure costs due to lower public borrowing costs were taken to its logical extreme, governments would borrow on behalf of the community for all major assets. The well documented cost recovery and debt repayment problems that have characterised various major government-funded investments are a further caution on the extensive use of this financing approach.

The Queensland development industry has also argued that upfront developer contributions for infrastructure represent an inequitable distribution of these costs between generations. However, this argument ignores the fundamental principle that if a house and land package comprises infrastructure charges now, it should intrinsically have this charge incorporated into its future sales price over the useful lifetime of the infrastructure asset and that maintenance costs are levied with explicit regard for cost recovery in the calculation of periodic charges and rates (consistent with the relevant Full Cost Pricing principles).

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