1 September 2023

Attention: Scott Chapman
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
Sydney NSW 1240

RE: REVIEW OF BLACKTOWN CITY COUNCIL'S CONTRIBUTIONS PLAN NO 24 - SCHOFIELDS PRECINCT (2022)

Dear Scott,

The Urban Development Institute of Australia NSW (UDIA) is the state's leading development industry body, representing more than 450 member companies and agencies across the public and private sector. We invest in evidence-based research to inform our advocacy to Government, which enables our members to create liveable, affordable, and connected smart cities.

The UDIA welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal (IPART) as part of the review into Blacktown City Council's (Council) Schofields Precinct Section 7.11 Development Contributions Plan (CP24).

We are pleased to see that significant steps are being taken to progress the delivery of new infrastructure and service developments in the Schofields precinct. Blacktown Council plays an important role providing housing in Western Sydney, and they must ensure that infrastructure is planned, funded and delivered to support both the development industry and new and emerging communities.

Against this backdrop, it is also critical that consideration is given to the cumulative impact of development contributions, levies, and taxes that are pervading our industry and importantly new home buyers given the housing supply and affordability crisis. Modelling from UDIA has shown the introduction of the Housing & Productivity Contributions Regime, re- introduction by Sydney Water of Development Servicing Plans, and increased BASIX requirements will collectively add around $110,000 to the cost of a new detached greenfield home. This is before any local contributions are levied. UDIA urges IPART to consider this wider economic context in its determination and we have made a number of recommendations that we feel will help moderate the effect of accumulation of new charges.

In order to better improve on the proposed Contributions Plan, UDIA recommends:

1. **Council should clearly outline the distribution of contributions on land across the Schofields precinct and develop and publish a methodology for the adoption of LVI in Contributions Plans.**
2. **Council prioritises its final review of the Draft CP and subsequently works closely with landholders in the Schofields precinct to prepare an appropriate nexus-based Contributions Plan, with finalisation planned for the end of 2023.**

3. **Council prepare adequate Works in Kind (WiK) offsets for developers/landowners, to ensure the total required contributions are not unnecessarily high increased significantly.**
4. **Adjust the timing of contributions payments to make them payable at the issuing of an Occupation Certificate.**

The current economic and cost environment:

The UDIA remains supportive of comprehensive contributions reform to create a simpler, more transparent and more equitable system in NSW, where productivity gains can offset costs. However, industry is currently being asked to accept multiple new and increased contributions, each resulting in increased costs and with no regard to the cumulative impact on development feasibility and no clear evidence that productivity will be improved.

Concurrently and during worsening economic conditions, industry is facing the reintroduction of DSPs, the Housing and Productivity Contributions Bill (H&PC) charges, changes to the National Construction Code, through increased BASIX requirements and increased local infrastructure contributions. Collectively these measures will add around $110,000 to the cost of a new detached greenfield home. The cumulative impact of these multiple additional changes will destroy development feasibilities, which are already precariously low, and place significant stress on the ability of the NSW Government to meet its revised National Housing Accord target of 75,600 new, well-located homes per annum over the next 5 years. Figure 1 highlights this for the cost of a new apartment and greenfield lots in NSW, which are especially significant in context of our conservative average assumptions of current local contributions.

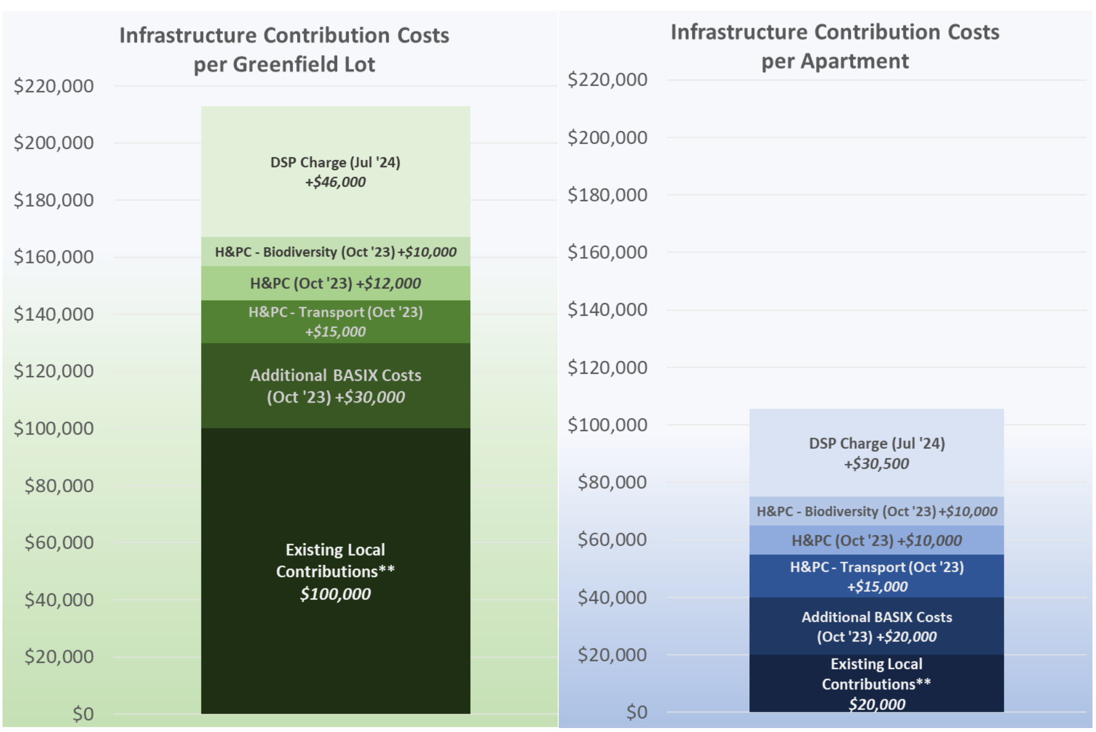

Figure 1: Cumulative Impact of Existing and Proposed Contributions in NSW, by Typology.
Source: UDIA NSW, Homeworld, Rider Levett Bucknall

Oxford Economics forecasts reveal that housing supply is expected to drop as low as 36,000 homes per annum over 2023 – 2025 in NSW (see Figure 2). Should this persist, NSW will face a shortfall of close to 200,000 homes against NSW's National Accord targets. NSW will require an uptick of 60% on our current annual new completions, and for this to be sustained for 5 consecutive years.

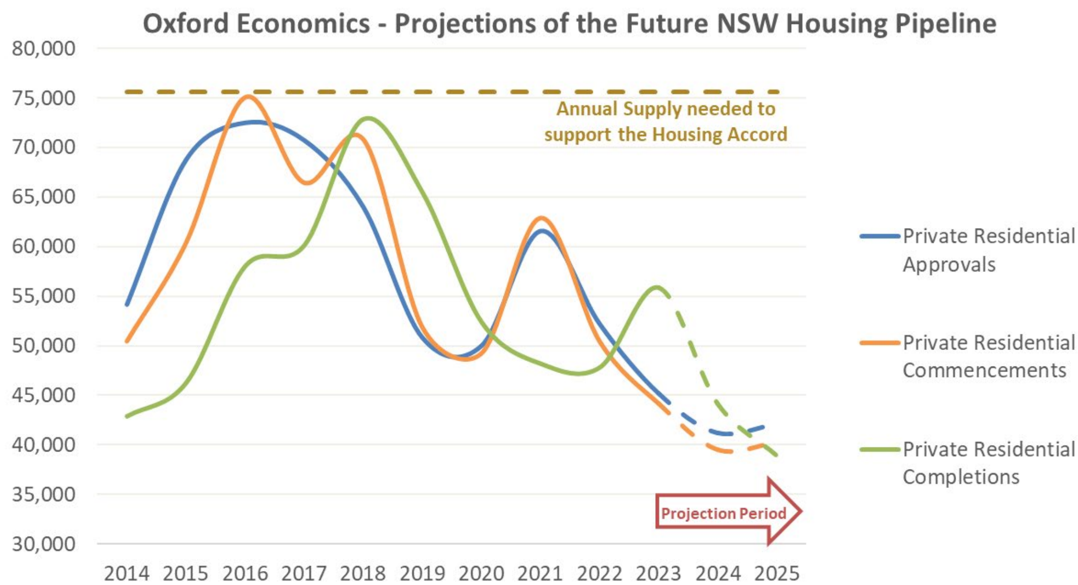

Figure 2: Projections of the Future NSW Housing Pipeline
Source: Oxford Economics; ABS; UDIA NSW

Further, delivering new housing supply in the current environment requires developers to contend with the largest building cost increases since the 1980's, a shortage of staff, and the fastest interest rate hikes in Australia's history. Adding more upfront costs to development at this time, and without any commitment to improved productivity outcomes, will be disastrous for development and housing supply as well as the economic and social well-being of our communities.

1. **Blacktown Contributions Plan Proposal:**

Blacktown City Council is seeking to levy development contributions above the previous $30,000 cap per lot/dwelling for greenfield development. It has revised its Contributions Plan No. 24 – Schofields Precinct (2022) (CP24 (2022) for the third time. Under the current CP24 proposal, developer contributions could escalate to as high as $131,000 per lot, which represents an increase of $101,000 on the previous cap for greenfield development sites in the Schofields precinct.

Several UDIA member's projects, currently under planning review by Council, had initial feasibility assessments which included s7.11 contributions of between $50,000 - $60,000 per lot. These have now had to be re-costed at around $85,000 per lot under the proposed contributions plan (a 70% increase). The outcome of this is a significant impact on project viability and means developers are unable continue with these projects in the Precinct. Increased costs cannot be passed on to home purchasers who are already struggling due to Sydney's high land price and escalating interest rates. Development feasibilities can only account for limited cost increases before the development becomes unviable.

Council is proposing to use a land value index to reflect the change in the value of the land for which it needs to deliver community infrastructure. In its' IPART application, Council cites the EP&A Regulation clause 32(b)(ii) (now clause 215(5)(b), with minor amendments which allows Council to update the contributions rates by index figures in adopted contributions plans.

Blacktown have typically indexed land to CPI when calculating contributions and this has long been recognised as a poor approach which does not accurately reflect the significant increases in land values. Most other Growth Centre Councils have adopted the Land Value Index (LVI) approach since 2010. Whilst the approach reduces the shortfall for Council, it does transfer risk to developers via a higher price per lot rate. UDIA accept the transition to LVI as a more appropriate index however there is a concern that members who have entered into Planning Agreements may be further exposed, holding a credit with a reduced value which was previously based on CPI.

UDIA supports IPART draft recommendation 5 promoting the use of LVI only in situations where it can be applied to land yet to be acquired. The UDIA also agrees with the IPART principal which outlines that Council should have a methodology published for adoption of LVI. Most other Sydney Council's engage valuers themselves to calculate precinct specific LVIs. UDIA therefore broadly supports splitting the Contributions Plans across acquired land and from land yet to be acquired for indexation purposes.

The IPART report did however fail to clearly outline the distribution of contributions on land across the Precinct. It should be clearer that any remaining development within the Schofields Precinct should not be used to subsidise any shortfall in land acquisition costs borne by the historic use of CPI for indexation purposes. This would unduly place an additional development cost burden on remaining fragmented land and any remaining stages of major developments already planned or under construction in the Precinct.

***Recommendation*: Council should clearly outline the distribution of contributions on land across the Schofields precinct and develop and publish a methodology for the adoption of LVI in Contributions Plans.**

2. Comparison of CP24 2018 and 2022 Contributions Rates

In most areas, contribution plans are set to a maximum of 1% of land value. The Draft CP exhibited charges, when compared with the Council's contributions rates in the previous plan amount to an increase in charges of between 18% - 32% on the previous plan costs. The adoption of this revised Plan will effectively segment the Schofields Precinct into multiple zones, with areas yet to be developed subject to the highest local contribution charges ever seen in NSW. While industry was expecting an increased rate given the breadth of new infrastructure required across the precinct, charges at this level will hinder project viability and jeopardise the capacity of the industry to deliver projects in the precinct.

Council should consider a more equitable approach, which does not disincentivise local infrastructure delivery, and has a funding pathway with a nexus attached, which also utilises a works in kind program wherever possible.

***Recommendation:* Council prioritises its final review of the Draft CP and subsequently works closely with landholders in the Schofields precinct to prepare an appropriate nexus-based Contributions Plan, with finalisation planned for the end of 2023.**

3. **Works-in-Kind (WiK)**

UDIA are strong advocates for a reset to the WiK framework that would support tradeable credits across stakeholders. This would ensure contributions are not 'locked up' in areas where they may not be utilised for extended periods of time and capitalises on unlocking development where it is needed.

As a guarantee for the delivery of local infrastructure, WiK can reap large benefits for the efficiency of industry and activating the pipeline of development ready land. Finding frameworks to deliver planned infrastructure in a timely manner is consistent with the main issues our members contend is constraining a development ready pipeline in NSW.

Recommendation: **The UDIA strongly urges Blacktown Council to include a Works in Kind provision as part of any changes to their current proposed Contributions Plan for the Schofields Precinct.**

4. **Timing of Payment**

It is critical that charges do not jeopardise the viability of precinct development. As a result, UDIA would recommend that one way to fend off perverse impacts of the high contributions rate being proposed, is to defer the timing of payment to the issuing of a Occupation Certificate, where the capacity to pay for developers is far stronger. We encourage Council to review the potential for this further, especially given the current headwinds facing the development industry of high building cost price escalation and consecutive cash rate hikes over the last 15 months. We must explore ways to maximise and incentivise development in this tight market.

***Recommendation*: Adjust the timing of contributions payment by deferring it to the issuing of Occupation Certificate.**

Conclusion

Industry is currently in a position where any introduction of increased developer contributions must maximise certainty for infrastructure delivery and clearly demonstrate productivity gains. We appreciate that Council has prepared a robust and well-considered contributions plan, but we note some key improvements could be made. The recommendations outlined above in our submission if implemented by Council would deliver greater certainty.

The UDIA welcome the opportunity to collaborate with Council as they look to roll out a Contributions Plan that is fair and reasonable for all stakeholders in the Schofields Precinct.

Please reach out to Charles Kekovich at ckekovich@udiansw.com.au or call via 0409 776 588 if you would like to discuss these matters further.

Kind regards,

Steve Mann
Chief Executive Officer
UDIA NSW