

# Wilton Draft SIC

## UDIA NSW Response

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## ABOUT THE UDIA

Established in 1963, the Urban Development Institute of Australia (UDIA NSW) is the oldest industry group representing the property development sector. Our 500 members include developers, engineers, consultants, local government, and utilities. Our advocacy is focussed on developing liveable, connected, and affordable cities.

## EXECUTIVE SUMMARY

The Urban Development Institute of Australia NSW (UDIA) welcomes the opportunity to provide comment on the draft Wilton SIC. We proudly count Wollondilly Shire Council as a UDIA member and regularly engage with council and members in Wilton.

UDIA's Land Development and Infrastructure Committees includes all major developers in Wilton. We bring a high-level of industry knowledge and experience on development in Wilton and unlocking the potential of greenfield growth in Wilton. Our recent Building Blocks report (attached to this submission) identified 15,000 lots that could be catalysed in Wilton from coordinated infrastructure delivery within the next three years.

We welcome the certainty to industry that the release of the draft SIC provides. As the industry body representing the industry, we are able to provide advice at developing stages of plans to foster support, collaboration and best practice.

The transformation of Wilton will create a new 21<sup>st</sup> century town that will be a key strategic driver for Sydney's next generation of growth. With innovative urban development zoning the flexibility Wilton provides will support a new town that moves beyond traditional suburban notions and transform Sydney's peri-urban fringe into a vibrant human centre. Sydney is also experiencing a deep housing affordability crisis, which UDIA believes is one of the most significant social and economic challenges for this generation. Therefore, finding the right balance for infrastructure funding is of critical importance.

UDIA NSW supports user pays models for infrastructure contributions, a 'beneficiary pays' system of 'user pays' promotes fairness by ensuring all those who benefit from infrastructure contribute, instead of the 'impactor pays' approach that places the burden of paying for infrastructure on the user that creates the marginal extra need.

UDIA NSW recommends that a successful SIC in Wilton requires;

1. Adoption of the COAG infrastructure funding approach as it is efficient, transparent, accountable, predictable and equitable.
2. UDIA and Industry provided with information on infrastructure timing and schedule of work streams. Detailed information that shows how the infrastructure proposed links to the demand that the precinct will create. This will give the industry the certainty it needs.
3. Charge the Wilton SIC using a blended approach between a per dwelling and per hectare rate instead of a per dwelling rate. This would better reflect the principles of nexus and support housing diversity across the precinct (details below).
4. Introduce consistent and realistic assumptions for the feasibility testing of the SIC. The current assumptions are inconsistent between precincts for key inputs such as interest rates and rely

upon artificially low section 7.11 charges as we move to an uncapped environment based on current NSW government policy.

5. For Works in Kind agreements the works, scope and budget should be agreed upfront and locked-in at the time the agreement is executed. Changes should be mutually agreed and charged on a per dwelling rate

Getting infrastructure charging right is of critical importance to the state. UDIA commissioned PwC to undertake a review of the impact of infrastructure contributions, taxes and charges on the NSW economy. The report found just a 10% reduction in housing supply would result in significant economic impact on the NSW economy, highlighted below.

Figure 1: Reduction in new housing stock



PwC 2018

UDIA also recognise the continuing housing affordability pressure that is felt across the community. In a 1,500 person survey conducted by Newgate Research Sydney residents identified housing affordability as the second most important issue apart from transport. Further, 73% agreed 'Sydney has a housing crisis'.

UDIA NSW recognises the importance of aligning infrastructure with growth. We consider infrastructure is fundamental to enabling the development of new and growing communities. Unfortunately, successive governments have failed to provide the necessary infrastructure to support the rejuvenation of existing suburbs in Sydney. As infrastructure has traditionally not been aligned with growth, some in the community have lost faith in the planning system. Where there is not a correlation between infrastructure and growth, for many Sydney becomes 'full' and 'overdeveloped' in the mind of the community, and it becomes more challenging to build our future city.

It remains critical for the orderly release of serviced residential land and the rejuvenation of new infill areas that planning and infrastructure is aligned. For the past three years Sydney has been the second least affordable city in the world to purchase a home. Housing supply has not kept up with demand.

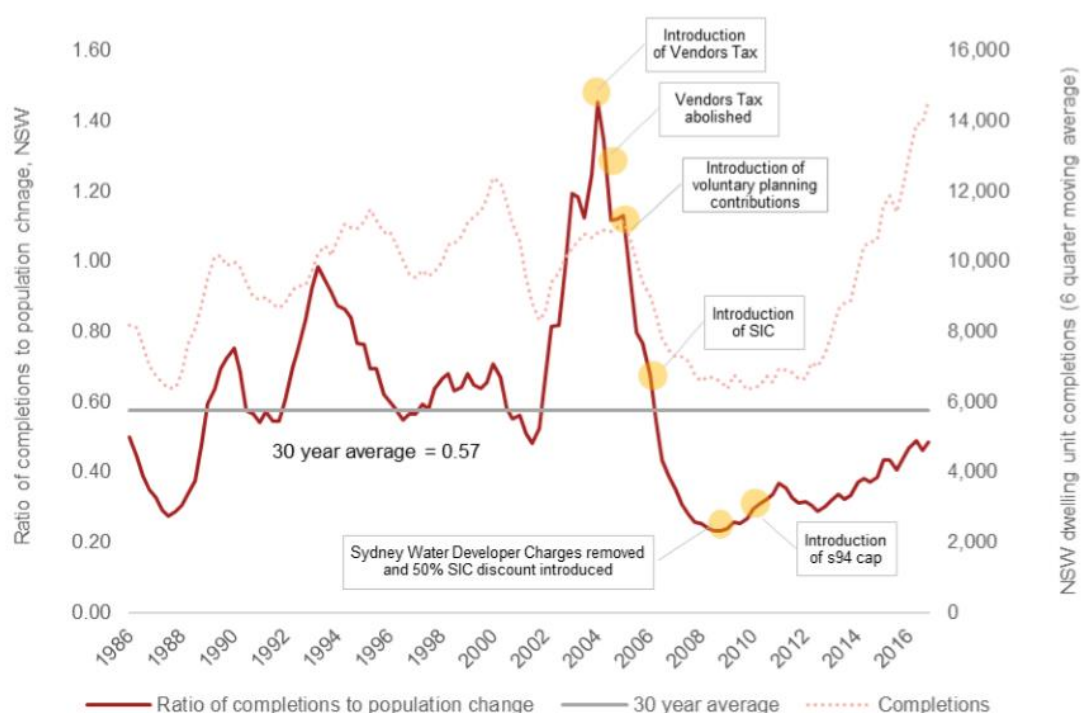
UDIA is keen to work collaboratively with the Department on an alternative approach to infrastructure funding. We have an Infrastructure Funding Taskforce of 20 industry leaders that has developed an approach to infrastructure funding. PwC are costing this alternative model and we would welcome the opportunity to provide a briefing on this approach.

## SUPPLY HAS CAUSED THE HOUSING AFFORDABILITY CRISIS

The housing affordability crisis in NSW has been driven by persistent lack of supply for more than a decade. Currently, NSW has a backlog of 100,000 dwellings and requires 36,250 new dwellings each year over the next 20 years to meet demand. When considering the backlog Sydney needs to deliver 41,250 new homes each year or 825,000 total dwellings. NSW has never sustained this amount of annual dwelling supply.

PwC's June 2018 report, *Infrastructure Contributions: review of impact of infrastructure taxes and charges on the NSW economy*, has shown that where taxes and charges are introduced at a high level development becomes unfeasible, supply deteriorates and consequently prices rise:

**Figure 5 - Ratio of dwelling completions to population change**



PwC, June 2018

Figure 5 (above) clearly establishes a causal relationship between new taxes and declining investment as indicated by completions, and clearly impacts on our ability to deliver the housing supply necessary for housing affordability objectives to be achieved.

The NSW Parliamentary Research Service has determined:

*until the supply response catches up to demand, higher house prices are the inevitable outcome,* Demand, Deposits, Debt: Housing affordability in NSW, March 2017

Only by increasing supply can housing affordability be properly addressed. The imposition of additional taxes and charges on development has two clear negative effects. It will:

1. reduce the rate of housing supply; and
2. increase the cost of new homes.

This has flow on effects onto the market. Already, about a quarter of the cost of a new home in the Greenfield Areas is made up in cumulative taxes and charges further increasing the cumulative impact of taxes and charges would serve to diminish feasibility and place additional strain on housing supply.

Furthermore, by creating renewed uncertainty, site acquisition cannot occur and there will be inevitable periods of low housing supply. Particularly as residential greenfield development occurs over a 7-10 year horizon.

## INFRASTRUCTURE FUNDING PRINCIPLES AND TRANSPARENCY

Infrastructure is essential to support Sydney's growth, but it is complicated in terms of how it is currently structured, coordinated and funded. The 2012 COAG Housing Supply and Affordability Reform Working Party (HASR) examined charges imposed on developers and homeowners. It found:

*some state and local governments were imposing infrastructure charges on developers (or purchasers in some instances) in a manner that lacked consistency, transparency, and predictability.*

The HSAR Working Party recommended infrastructure charges should, at least, be:

- **efficient** – charges should be for infrastructure required for the proposed development or for servicing a major development;
- **transparent and accountable** – charging regimes should be supported by publicly available information on the infrastructure subject to charges, the methodology used to determine charges and the expenditure of funds;
- **predictable** – charges should be in line with published methodologies and charging schedules (with clarity around the circumstances in which charges can be modified after agreement); and
- **equitable** – where the benefits of infrastructure provision are shared between developers (land owners), the infrastructure charges levied on the developer should be no higher than the proportional demand that their development will place on that infrastructure.

Currently it is clear that these principles are not being followed in infrastructure delivery.

The *Commonwealth Inquiry into The Australian Housing Affordability Challenge* 2015, amongst other things, found:

*Developer contributions are frequently opaque and unjustified in their application, and there may be no clear connection between the cost of the infrastructure provided and the contribution, to the extent that the contribution may be well in excess of the cost of the infrastructure it is supposed to pay for. Additionally, in many cases developer contributions are used to pay for infrastructure that benefits the wider community (for example trunk roads and utilities infrastructure upgrades). In this case, developers and ultimately new home buyers are being forced to subsidise the rest of the community.*



In his report to the Premier on housing affordability, former RBA Governor, Glenn Stevens questioned if infrastructure could be delivered at a lower cost, asking “is the infrastructure being unnecessarily ‘gold plated’?”.

UDIA supports the government’s move toward greater transparency in the SIC. We believe the release of the draft SIC along with the feasibility report has provided some greater transparency. However, there are some steps that could be taken to improve transparency with the SIC and the SIC process. We recommend as a starting point reporting on the SIC is modelled on Section 94 reporting, although we believe there is greater opportunities for transparency, some key steps include:

1. Providing a schedule of works with indicative timing of works or triggers for work requirements
2. Providing a schedule of completed works so industry can understand what work has been completed and what work is upcoming.
3. The costing of infrastructure items separated between land and works.
4. Further detail relating the infrastructure items to demand created by the precinct to support a beneficiary pays approach.

We believe by releasing this information there would be greater opportunity for industry to work with the Department of Planning and Environment to develop innovative and lower cost solutions for infrastructure.

## **SIC INPUTS**

UDIA has significant concern about the technical assumptions of the draft SIC. We do not believe there was sufficient work to understand how the need for the infrastructure has been supported by the technical documents.

We do not believe there has been sufficient information provided to adequately confirm the need for a range of the items and their apportionment for the new development.

As an example we do not have sufficient detail on the transport modelling and where the justification for certain roads has been derived.

## **REASONABLE NEXUS**

UDIA sees it as a long-established principle and a necessary pre-requisite to any charging regime that there is a clear nexus between the development and infrastructure. Infrastructure that is unrelated to the development should not be included in the SIC.

While it is clear and fair to say that precinct development alone generates the demands for some infrastructure items, such as school sites. Other items such as roads and public transport attract patronage from a much broader area. There should be a greater consideration of the apportionment of these items, similarly with bio-certification the protection of the natural environment is of state-wide significance so would be better spread across a broader cohort such as the residents of the state.

Specifically, the draft Wilton SIC currently allows for a number of major infrastructure upgrades that are completely unrelated to the Wilton Rezoning. For example, items such as the Picton Road duplication (\$219.5m), Picton/Hume Interchange (\$35.9m), Menangle Road Upgrade (\$36.9m) are long standing upgrade requirements irrespective of the project. The Picton Road alone has had regular fatalities for decades and requires upgrading outside of the SIC.

## **REASONABLE COST**

The costs in the SIC seem to be beyond the industry standard of development. They are higher than the cost in the VPA. The Department has a database of historical greenfield VPAs and delivered costs, which we believe should guide the costing of roads in Wilton, and would put downward pressure on the costs.

The cost in the SIC should be the efficient cost of delivering the most efficient solution to an issue, if for a reason unrelated to the development there is a requirement for a higher cost solution, then government should contribute that cost.

We believe highly conservative estimates have been used followed with a 40% contingency applied, which indicates these are very high-level costs that significantly over-price the cost of the infrastructure.

The draft Wilton SIC includes a number of items that are already covered by existing signed VPAs; but the SIC costing is much higher than the Department's agreed VPA value. As an example, the Wilton North VPA has a section of SP2 road, ramps, and a bridge valued at \$53.9m. However, the Draft SIC includes the same infrastructure items at \$92.7m, which is \$39m more than the Department's agreed value in the SIC.

Government has very recently independently reviewed and verified the aforementioned VPA road costs in particular. Hence, the only logical conclusion is that the cost in the SIC is excessive. In principle, we consider the cost in a VPA and the cost in a SIC should be the same for the same infrastructure item.

We would be pleased to participate in an ongoing discussion about how to establish the efficient costs for the plan.

## **IMPACT ON HOUSING SUPPLY – FEASIBILITY**

UDIA has significant concerns about the feasibility of the SIC on development. The 'affordability' justification appears to be based on a number of flawed assumptions on dwelling density, sales rates, sales prices, and professional fees.

We consider the rate is generally unaffordable, we believe there are a number of issues with the feasibility, we would be pleased to walk you through our concerns with the feasibility in detail at a workshop.



The EPS feasibility study allowed for a \$20k/lot Section 94, which was used as justification for the eventual \$59k/lot SIC. This appears to be making a claim that the market can afford a combined SIC and S94 of \$80k/lot. Section 94 is going to be uncapped and highly unlikely to be \$20k/lot, though the Council are yet to provide comment on Section 94 to our knowledge.

A further example of our concerns is that the EPS study scenario allowed for 100% of the land to be developed for housing with no allowances for open space, access denied roads, schools, asset protection zones etc. These losses are about 30% in Wilton. In addition, it assumes 18 lots per ha which would result in an average lot size of 388m<sup>2</sup> but uses 450m<sup>2</sup> (i.e. 15 lots per ha) in adopting a sales price for lots.

It also ignores the requirement for large upfront SIC and Sydney Water infrastructure funded by landowners

That is, it grossly overstates the yield, ignores timing of funding and overprices the income.

By not considering a proper feasibility this would improperly impact housing supply and cost and add to Sydney's growing housing supply crisis, we consider it is critical the SIC is set at a reasonable level based on the principles of nexus, affordability and efficient costs.

## **A PATHWAY FORWARD**

UDIA seeks to work collaboratively with the Department, landowners, the community and other stakeholders to outline our concerns more fully, we have particular concerns about the lack of information to make an informed decision about many of the cost items.

We consider a workshop between UDIA and the Department would help alleviate some of these concerns and resolve some issues. Following a detailed review of the draft Wilton SIC there should be a re-exhibition that enables the community and industry to understand the key changes before the SIC is finalised.

Most importantly, we believe this needs to include explanation of why items have been removed from the SIC, particularly those for which there is no nexus and explanation to the community that these items are needed regardless of the development, and therefore would be funded through mechanisms other than the SIC.

## **IMPROVED WORKS IN KIND ARRANGEMENTS**

Where opportunities exist for developers to deliver infrastructure as 'works in kind' there needs to be certainty around the scope and budget. Very simply, the works scope and budget are to be agreed up front and locked in at the time the agreement is executed.

The risk on the delivery of the agreed works scope from that point on should rest with the developer to manage, without needing to revisit or audit the costs post-delivery. In many cases the developer can deliver these works slightly cheaper than the budget. They can use economies of scale on the

larger projects, if undertaken with an accompanying stage of their subdivision works. In this way minor variations can be absorbed by the developer.

These 'works in kind' can be used to offset any SIC payments the developer may be required to pay the delivery of their release. Where the cost of the works exceeds the developer's apportionment or SIC debt, there should be an option for the works to be credited against another project owned by the developer, or a refund/payment mechanism triggered upon delivery.

## CONCLUSION

UDIA NSW looks forward to working with the Department in promoting certain and fair contributions for the development industry. UDIA looks forward to working with the Department on improving the Wilton SIC and the broader SIC process to promote housing diversity, nexus, transparency, and housing supply.

Please contact Elliott Hale, General Manager, Policy, Media, and Government Relations, on 02 9262 1214 or [ehale@udiansw.com.au](mailto:ehale@udiansw.com.au) to continue to discuss how we can collaborate on improving the charging framework in Wilton.

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