



Master Builders Association of Victoria

Submission - Development Contributions

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A FAIRER DEVELOPMENT CONTRIBUTIONS SYSTEM

Development contributions designed to help supply new communities with infrastructure should be made through a fair, consistent and transparent process across Victoria.

While many councils use these contributions to provide services to new communities, there are some councils that refuse to account for how funds received are used to supply local infrastructure, despite being paid for initially by builders and ultimately by local homebuyers. This can lead to excessive, unjustified council charges flowing through to house prices in new developments, impacting on homebuyers in these regions, many already struggling with housing affordability issues.

A decline in real estate value and real wages growth has seen modest improvements made for housing affordability in Victoria. The ratio of the median pre-tax family income to average loan repayment in June 2012 was 3.1. That is, the average family income is three times the size of the average loan repayment – or one third of the family income is required for servicing a mortgage. This is an improvement from a ration of 2.7 at the end of 2010, but is still below the 10-year trend ratio of 3.2. It's also significantly worse than at the turn of the millennium, which was at 4.1, highlighting that further action to address affordability through structural policy changes is required.



Source: Adelaide Bank/REIA, Housing Affordability Reports

A lack of consistency and transparency in the calculation of these contributions across municipal boundaries means there are no guarantees that the eventual residents of these new communities will have access to the infrastructure and services they and their builders have paid for.

There should be a consistent, standardised method for calculating development contributions across all municipalities, including a reporting mechanism that ensures councils are answerable to residents in new developments.

Without clear statewide guidelines, significant variances will continue to take place across councils and reduce the attractiveness of Victoria as a place to invest in both residential and commercial developments. There is, at present, a high level of inconsistency across the state for the charging of development contributions. The Urban Enterprise report *DCP Levy Analysis* demonstrates for example, that DCP levy amounts by category per hectare for community facilities (Table 5) can vary from \$7,033 in Tarneit West to \$52,280 in Epping North East LSP. Similarly, the change in average levy amounts over time per hectare for open space (Table 6) has increased from \$24,588 in 2008-11 to \$29,190 in 2011.

The current system does little to incentivise high-charging councils from changing their actions. Creating a statewide system will hopefully lead to these councils finding new, innovative and more affordable ways to deliver infrastructure funded by DCPs.

Reforming Victoria's development contributions framework is an issue Master Builders highlighted as requiring reform in our 2012-13 State Budget Submission. We welcome the action being taken by the Minister for Planning and the Standard Development Contributions Advisory Committee to cut red tape, improve accountability, enhance transparency and reduce delays in our planning system by providing greater certainty and timely completion of Development Contribution Plans (DCPs).

Reforming the DCP framework has the capacity to boost the availability of affordable housing stock and land supply to help more Victorians fulfil the great Australian dream of owning their own home.

Tim Salathiel
Policy and Communications Manager

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OVERVIEW OF MASTER BUILDERS ASSOCIATION OF VICTORIA

The Master Builders Association of Victoria (“Master Builders”) is the peak body representing employers in Victoria’s building and construction industry. Our membership consists of more than 9500 builders, subcontractors, manufacturers/suppliers and students. More than 50 per cent of our professional members are small businesses with an annual turnover of \$2 million or less.

Master Builders provides a range of services to members. Many of these would be cost prohibitive if not offered by a not-for-profit group that supports builders, particularly those in small businesses, including:

- Legal advice on matters such as preparing domestic building contracts and resolving building disputes;
- OHS advice, including delivering the Small Business OHS Consultancy Program in partnership with WorkSafe;
- Advice on the interpretation of building legislation and the technical provisions of the National Construction Code;
- Training services including Diploma, Certificate level and short courses designed to meet the needs of the various sectors within the industry;
- ALink, our go to support and advisory centre offering a range of services including placements, Industrial Relations and OHS advice for apprentices, apprenticeship service providers and those seeking a career in the building and construction industry to help reduce the attrition rate of apprentices and to raise the profile of the industry as a provider of rewarding career pathways;
- Our award-winning Virtual Office cloud-based system providing members access to services including e-contracts, e-permits and monitoring of CPD points;
- Assisting members in preparing applications to become registered builders.

Given our close contact with building businesses, from large to small, on day-to-day regulatory and business concerns, Master Builders is uniquely placed to comment on the issues raised in *A new Victorian Local Development Contribution System* position paper.

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SUMMARY OF RECOMMENDATIONS

- Recommendation 1 Master Builders recommends that the proposed community and open space facility categories be combined.
- Recommendation 2 Master Builders recommends that works in kind be determined under the proposed model by an agreement between authorities and developers.
- Recommendation 3 Master Builders recommends that -
- a) levies be collected as close to project completion as possible;
 - b) where subdivision is involved, payment of levies should be a requirement for the issue of a Statement of Compliance; and
 - c) where the permit is for development, payment of levies should be required prior to the Certificate of Occupancy being issued.
- Recommendation 4 Master Builders calls for greater clarification around the circumstances levies collected which are not expended can be used on other types of infrastructure to benefit the area.
- Recommendation 5 Master Builders supports standard levies for community and open space facilities and recommends that -
- a) the DCP capture the need for all required facilities to be created; and
 - b) any pooled charges be set against an agreed facilities priority list.
- Recommendation 6 Master Builders supports a variable transport infrastructure levy and recommends that -
- a) a panel hear recommendations that define the transport requirements prior to finalising a strategy document;
 - b) a mechanism is available to ensure infrastructure built on the border of the DCP area is fully funded; and
 - c) that authorities are held accountable to comply with the decisions adopted in the DCP.
- Recommendation 7 Master Builders recommends that variable drainage infrastructure be determined under drainage catchment mapping, rather than using the proposed levies.
- Recommendation 8 Master Builders does not support the variable public land contribution.

- Recommendation 9 Master Builders recommends -
- a) that where land is required for the first carriageway for items 43, 44 & 45 in Attachment 2 it is a DCP matter, but for future lanes it is beyond the scope of the DCP; and
 - b) that item 55 in Attachment 2 is the responsibility of VicRoads.
- Recommendation 10 Master Builders recommends all facilities in Attachment 3 be clearly defined and costed.
- Recommendation 11 Master Builders recommends that costs for connector roads in Attachment 4 that abut another development site be shared equitably.
- Recommendation 12 Master Builders recommends that –
- a) councils be required to annually disclose DCP funds received for each development and outline how these funds have been reinvested into the provision of local community infrastructure;
 - b) steps are taken to ensure appropriate local infrastructure is provided for through DCPs;
 - c) the new framework does not seek to punish builders and developers where the provision of infrastructure is deferred for reasons beyond their control; and
 - d) an appeals process be built into the new framework to ensure councils with vexatious infrastructure requests can be challenged.

DEFINITIONS – SECTION 3

Section 3 of the Position Paper sets out the overall structure and intended benefits of the proposed system, defining the following five infrastructure categories and development settings:

Infrastructure categories

- *Community facilities*
- *Open space facilities*
- *Transport infrastructure*
- *Drainage infrastructure*
- *Public land*

Development settings

- *Growth areas*
- *Regional settlements*
- *Rural settlements*
- *Established areas (urban infill)*
- *Strategic redevelopment sites*

Master Builders broadly supports the definitions of the infrastructure categories and development settings which cover reasonably all uses. However, given their similarities we recommend the community and recreation categories be combined to simplify this further. Careful consideration should also be given in defining the limitations on each category.

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| Recommendation 1: | Master Builders recommends that the proposed community and open space facility categories be combined. |
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OPERATIONAL FEATURES – SECTION 4

Section 4 of the Position Paper describes some of the operational features of the proposed model.

Works in kind

Master Builders believes works in kind can provide a valuable tool in addressing housing affordability, while ensuring new communities have access to quality community facilities. The reforms should, however, provide the opportunity for authorities and developers to reach agreement on works in kind, rather than authorities having the power to compel developers to use in kind agreements. Further information would also be required as to how in kind agreements should be valued.

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| Recommendation 2: | Master Builders recommends that works in kind be determined under the proposed model by an agreement between authorities and developers. |
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Collection of levies

When applying and collecting the levies, fees should be collected as close to project completion as possible. Where subdivision is involved, it should be a requirement for the issue of a Statement of Compliance.

In cases where the permit is for development, payment should be required prior to the Certificate of Occupancy being issued by a Building Surveyor, preventing the Works Completion Form being used without payment of the DCP.

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| Recommendation 3: | Master Builders recommends that - a) levies be collected as close to project completion as possible; b) where subdivision is involved, payment of levies should be a requirement for the issue of a Statement of Compliance; and c) where the permit is for development, payment of levies should be required prior to the Certificate of Occupancy being issued. |
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Unspent levies

Where the levies collected are not expended, Master Builders would like to see greater clarification around what circumstances the Minister would permit the money be spent on other types of infrastructure to benefit the area.

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| Recommendation 4 | Master Builders calls for greater clarification around the circumstances levies collected which are not expended can be used on other types of infrastructure to benefit the area. |
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PROPOSED LEVIES – SECTION 5

Section 5 of the Position Paper explains how the following proposed levies would be set with the aim of being fair, appropriate and implementable.

Fixed community and open space infrastructure construction

Master Builders believes that it is reasonable to be able to fix, for each land use, category standard fees for community and open space facilities.

In determining these rates, the DCP must capture the need for all required facilities to be created in circumstances where there are typically no existing services such as in a Growth area.

The incremental change due to this should be funded by the fact that the development itself will create a new rate base part and should be used to make any incremental adjustment to area services. Typically the land value of a Growth area is significantly lower than that of infill sites due to their proximity to existing amenities.

Furthermore, the ability for council to pool the community and open space facility charges needs to be set against an agreed facilities priority list.

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| Recommendation 5: | Master Builders supports standard levies for community and open space facilities and recommends that – a) the DCP capture the need for all required facilities to be created; and b) any pooled charges be set against an agreed facilities priority list. |
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Variable transport infrastructure

Master Builders agrees that due to individual site considerations it would not be possible to set fixed rates for transport for land categories.

However, we recommend that a panel hear recommendations relating to finalising a strategy document that would define the transport requirements, including a mechanism on how they will be fully funded to prevent situations where a DCP only covers partial funding of an intersection that is on the border of the DCP area and that authorities be held accountable in complying with the decisions adopted in the final DCP, to prevent a change in scope.

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| Recommendation 6: | Master Builders supports a variable transport infrastructure levy and recommends that - a) a panel hear recommendations that define the transport requirements prior to finalising a strategy document; b) a mechanism is available to ensure infrastructure built on the border of the DCP area is fully funded; and c) that authorities are held accountable to comply with the decisions adopted in the DCP. |
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Variable drainage infrastructure

Master Builders believe that the inclusion of drainage schemes in the proposed levies would be a retrograde step, as the introduction of additional elements could increase overall contributions and create a considerable cost disadvantage once the \$900 fixed community charge is unhinged from the construction of the dwelling.

We recommend this element be captured under drainage catchment mapping rather than a DCP, as a DCP area may not match the catchment area, so individual catchment authorities need to determine catchment needs in consultation with DPCD to ensure it is aligned with future land use planning and charges set for the catchments to meet these needs.

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| Recommendation 7: | Master Builders recommends that variable drainage infrastructure be determined under drainage catchment mapping, rather than using the proposed levies. |
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Variable public land contribution

Attachment 5 of the position paper requires the assessment of appropriate specialists to determine the levels of service to be provided for each land use.

Based on approximately 15 lots per hectare, the land use for these facilities would represent around 11 per cent of the developable site, which Master Builders agrees is reasonable.

However, we are concerned with the cost of this public land requirement being shifted onto the development area as a charge over time. The more a cost is localised, the greater the impost on housing affordability.

There was a charge of \$900 levied on building permits to cover the land and development cost for local community facilities. This was an efficient way to collect the charge as it carried no finance cost to project development. By moving these costs into the DCP structure they will now be financed by projects and will pay more for the same outcome.

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| Recommendation 8: | Master Builders does not support the variable public land contribution. |
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ATTACHMENTS

Attachment 2 - Transport Infrastructure

Master Builders recommends that items 43, 44 & 45 – Arterial Road, Council (minimum 4 lanes – Land and Construction) and Arterial Road, Council (Future VicRoads – Land), where land is required for the first carriageway this is a DCP matter, but where it is for future lanes this is beyond the scope of the DCP.

We also believe item 55 - Intersection, Council Arterial/VicRoad Arterial is the responsibility of VicRoads.

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| Recommendation 9: | Master Builders recommends - a) that where land is required for the first carriageway for items 43, 44 & 45 in Attachment 2 it is a DCP matter, but for future lanes it is beyond the scope of the DCP; and b) that item 55 in Attachment 2 is the responsibility of VicRoads. |
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Attachment 3 – Basic and Essential Infrastructure

Master Builders believes all basic and essential infrastructure facilities in Attachment 3 need to be clearly defined and costed to prevent disputes between authorities and developers about the detailed design.

Where an authority does not endorse plans to allow works to proceed in accordance with the DCP design in a timely manner, there needs to be the ability for the case to be heard at a Friday VCAT hearing.

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| Recommendation 10: | Master Builders recommends all facilities in Attachment 3 be clearly defined and costed. |
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Attachment 4 - Connector Roads

Master Builders is concerned that where connector roads traverse or abut another development site, one development may be required to pay for the road when others gain the benefit at no cost. This cost needs to be shared in an equitable manner.

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| Recommendation 11: | Master Builders recommends that costs for connector roads outlined in Attachment 4 that abut another development site be shared equitably. |
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FINAL COMMENTS

Master Builders believes the purpose of the reforms should be to encourage the consistent provision of quality infrastructure in new communities or as part of new commercial developments. Should a reformed system seek to only provide the most expensive infrastructure for new communities, housing affordability will continue to preclude many Victorian families from the opportunity of owning their own property.

Reporting on the delivery of infrastructure provided for through DCPs is fundamentally required to ensure it is provided for local residents and that developers can see that funds provided have been used for their purpose in a timely and appropriate manner, supported in recommendation 4 of the Victorian Auditor-General's Report in 2009 - *'Councils should clearly report on the collection and use of development contributions revenue in their annual reports, as well as report on the associated infrastructure delivered against that planned.'*

Care must also be taken to ensure infrastructure does not get deferred, as we do not want un-costed or under-costed items leading to additional financial impositions on developers to the detriment of housing affordability.

Most importantly, the system needs to have an appeals process built into it. Without this, councils could demand whatever items they feel appropriate under their strategy plan without a test of appropriateness.

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| Recommendation 12: | Master Builders recommends that – <ul style="list-style-type: none">a) councils be required to annually disclose DCP funds received for each development and outline how these funds have been reinvested into the provision of local community infrastructure;b) steps are taken to ensure appropriate local infrastructure is provided for through DCPs;c) the new framework does not seek to punish builders and developers where the provision of infrastructure is deferred for reasons beyond their control; andd) an appeals process be built into the new framework to ensure councils with vexatious infrastructure requests can be challenged. |
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