

8 April 2009

Mr Klaus Kerzinger,
Acting General Manager and Civic Services
Bankstown City Council
P O Box 8
Bankstown NSW 1885

By email: martin.beveridge@bankstown.nsw.gov.au

Dear Mr Kerzinger

Re: Draft Bankstown Council Section 94A Levy Contributions Plan

The Urban Taskforce is a non-profit organisation representing Australia's most prominent property developers and equity financiers. We provide a forum for people involved in the development and planning of the urban environment to engage in constructive dialogue with both government and the community.

1. Planning Context

Reduced home affordability in Australia is a function of strong demand and limited supply.¹ To make housing more affordable, we need to get more homes built and onto the market. Similarly a shortage of zoned retail land has heavily distorted that section of our economy in NSW. Little or no development activity means no urban renewal, which, if allowed to continue, will mean local areas will go into decline. There will be a high social and economic cost if this approach is to continue.

Unfortunately, unless significant initiatives are put in place so that there are improvements on the cost of land development, housing and retail premises prices will continue to escalate.

In addition to the above, we find ourselves in the grips of a global financial crisis. The Commonwealth and State Governments are putting great effort into "stimulating" our economy. It is in this delicate economic climate that Bankstown Council is now considering the introduction of **a new three per cent tax on development and a new one per cent levy on commercial development outside the central business district**. Council must be mindful of the impact that increases in developer contributions will have on development activity and affordability.

If Council is really concerned with supporting its local economy and encouraging urban renewal, then it must look closely at the cumulative total of developer fees and charges, not just the proposed section 94A contribution in isolation. Council must recognise that if it makes development too expensive, developers will simply look for an alternative market. This may seem attractive to the anti-development lobby, but without an appreciable increase in redevelopment, housing affordability will continue to be a challenge and local economic growth will be severely restricted.

2. Home buyers and other end-users of developed land bear the costs of levies

Those within the community and Council who argue for increases in development levies are mistaken if they believe that the developer ultimately bears the costs of new or increased developer charges. It is the land buyer, homebuyer or lessee of premises who must ultimately pay. This is because modern capital is mobile. It flows to wherever it gets the best return. A local developer will not be able to secure equity for a development unless the rate of return that is available for investments of a similar risk profile in other local government areas (or other states or countries) can be offered.

¹ Commonwealth of Australia (2008) A good house is hard to find: Housing affordability in Australia, June 2008.

In order to ensure that a market rate of return is achieved, a developer will either reduce the amount of money paid for the undeveloped land/redevelopment site, or increase the price paid by the ultimate buyer of the developed property. However, often the buyer cannot afford an increase in land price due to a new or increased levy because there is a ceiling on the price that buyers are able to pay, i.e. their borrowing capacity (if residential) or the income stream they anticipate from their business (if they're retail/commercial). The maximum amount that buyers are able to borrow is based on their income and interest rates. Without increases in income or sustained long-term reductions in interest rates, buyers are unable to pay more for new homes or business premises. As a result, any project, which cannot be delivered at a price buyers currently can afford, simply doesn't get built.

3. **A one per cent levy on commercial development and a three per cent levy on CBD development is punitive**

The Urban Taskforce has made numerous submissions to Government on the importance of ensuring development fees and charges are reasonable. In this regard, we strongly argue for an element of market reality when determining development charges, particularly when preparing a section 94A contributions plan.

We are of the belief that this approach has not been adopted when preparing the Bankstown Development Contributions Plan. Based on the material exhibited, it seems that Council has focused on the likely financial implications of the levy on Council's coffers and not the added burden an additional tax on development may have on project feasibility. This is of particular concern in cases when **there was no requirement for a contribution under the current section 94 plan.**

For instance, Bankstown residential neighbourhoods are "established" urban areas. Therefore, residential development is primarily the result of a redevelopment of an existing dwelling. Under the current section 94 plan, if an existing dwelling house within the CBD of Bankstown was redeveloped, no section 94 contribution is required as a credit is given for the existing dwelling. However, under the proposed section 94A plan a contribution of \$6,400 (3 per cent levy) will be required. Contribution rates for attached dual occupancy in the CBD are even more alarming. Under the current section 94 plan, a contribution of \$6,165 is collected for a dual occupancy development. However, under the proposed section 94A plan (according to the council's figures) a contribution of approximately \$20,000 (3 per cent levy) will be expected.² Attached dual occupancy is a moderate scale development, often pursued by average "mums and dads" who wish to make better use of their home. Attached dual occupancy is also an attractive way for first family members and/or home buyers to attain home ownership. **The imposition of such an exorbitant charge (\$20,000) will certainly damage prospects for dual occupancy of redevelopment and further stifle urban renewal.**

To make matters worse, we understand that existing section 94 contributions do not apply to the majority of commercial and industrial development. Employment generating developments of this type should be highly sought after by local governments including Bankstown. However, under the proposed section 94A plan, **a moderate 1,200m² commercial development would likely require a contribution of \$30,000 (1 per cent levy) or even as high as \$60,000 for the same development within the central business district** (where a proposed 3 per cent levy would apply).

The Urban Taskforce must express grave concern with the imposition of 3 per cent tax on project costs. This exorbitant charge, when added to the high acquisition cost of undeveloped land and/or development sites, and the numerous other charges will make Bankstown less attractive as an investment destination.

There is no doubt that there is an argument for a *reasonable* contribution from developers and it is argued that **a reasonable contribution has been set by legislation at no more than 1 per cent of the development cost.** Seeking approval from the Minister for Planning, to exceed this upper limit in these difficult times is reckless and shows no regard for market realities.

² Council Officers' Report to the Development Committee held on 16 December 2008.

In times of recession, what government, including Council should be doing is looking at ways to stimulate development, not opportunities to increase tax on development. Opportunities to reduce charges should be examined. **Reducing infrastructure charges will increase supply of developed land coming onto the market.** An increase in supply must result in an overall reduction in cost.³

4. There is no justification of new and higher levies

In any event, the Urban Taskforce is concerned with the lack of information provided in the exhibited draft contributions plan. Maps showing where works are to occur have not been finalised and the indicative works schedules are little more than wish lists with dollars assigned. Council cannot in all honesty expect the community to accept significant project estimates without any detail to justify the cost. Loosely worded generalisations are not sufficient. Council must exhibit summary details of improvements upon which cost estimates were developed. Without appropriate project specification and justification Council is not being transparent and the community is unable to hold Council accountable for project quality or delivery.

The Urban Taskforce is not alone in expressing concerns with local council cost shifting. Evidence and submissions presented to the Senate Select Committee on Housing Affordability in Australia support our concerns. For example, evidence has been put on the record that infrastructure costs are being transferred to the users of new development; local authorities may have a tendency to "gold-plate" excessively expensive infrastructure. In his evidence to the Committee, Professor Troy stated that "we are very generous about what we do with road supplies.....one of the reasons that we do this is that now we have the developer paying for it...."⁴

In summary:

- We oppose the imposition of a levy of 3 per cent in the Bankstown central business district (or any levy that exceeds the legislated maximum of 1 per cent).
- We oppose the imposition of 1 per cent levy on commercial/retail/industrial development outside of the central business district, given that this job-creating development has not traditionally been subject to levies in Bankstown.
- Insufficient information is provided in the draft plan to provide any reasonable justification for new or higher charges.

The Urban Taskforce implores Council to carefully consider the contents of this correspondence and apply an element of market reality when developing a section 94A contribution plan. Furthermore, Council must place on exhibition at least a completed draft plan that includes summary project details with sufficient information to justify project costs stated in its draft plan. Thank you for providing us with the opportunity to offer our comments and should you require any further clarification of the content of this correspondence, please feel free to contact me.

Yours sincerely

Urban Taskforce Australia



Aaron Gadiel
Chief Executive Officer

³ BIS Shrapnel (2008) *Is there a housing crisis?* Summary of talk by Frank Gelber at the Melbourne Institute and the Australian 2008 Economic & Social Outlook Conference, 'New Agenda for Prosperity' 27 March 2008.

⁴ Commonwealth of Australia (2008) *A good house is hard to find: Housing affordability in Australia*, June 2008. pp. 110