

WYNDHAM CITY COUNCIL'S
SUBMISSION TO PRODUCTIVITY COMMISSION
RE: FIRST HOME OWNERSHIP

Council has noted the recommendations of the Draft Report on First Home Ownership and is supportive of the directions recommended as they relate to local government.

Council believes there are further opportunities to support first home ownership for people on low incomes, as these people need support at government level to enter into home ownership. Options worthy of consideration include:

- subsidising interest rates for low income home owners subject to a means test;
- creating a partnership between low income purchasers and government for the purchase of property with the government recouping its portion of equity in the property at the time of its sale or when that equity is purchased;
- shared ownership scheme where the low income home owner purchases a percentage of equity in the house with the balance of equity owned by the government and a proportional rental paid.

As Council has not been directly involved in home ownerships schemes it is suggested the Commission obtain information from authorities which have practised such schemes as to their effectiveness and their experiences. Council sees its role in relation to such schemes as raising the issues for further assessment and development.

Council is also very interested in the findings of the Commission on processes for levying infrastructure charges, as Council's dependency on this mechanism for funding major infrastructure generated by high growth rates is becoming increasingly obvious because of State Government funding limitations and pressures on Council's budgets.

Council is also able to offer the benefit of practical experience with the development application processes and infrastructure charge schemes.

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Council views infrastructure charge schemes as an equitable and efficient mechanism for funding off-site infrastructure required to meet the needs of greenfield development. Developers directly meet the costs of most on-site infrastructure and no reason is seen to vary from the "user pay" approach in relation to other infrastructure required to ensure an appropriate standard of servicing to new homes.

The conclusion that, while infrastructure charges have increased over time they cannot explain the price surge since the mid-1990's, needs to be placed in perspective. Development contributions have increased in Wyndham in recent years in monetary terms, but as the percentage of the cost of vacant lots, current infrastructure charges have reduced.

The Commission's finding that the processes for levying infrastructure charges could potentially be improved, parallel factors which led to Wyndham City Council and other local governments encouraging the State Government to review the Victorian legislation in the late 1990's. The Review of the Development Contributions System prepared by Mark Spiller of SGS Economics and Planning Pty Ltd under direction of a steering committee with representatives from local government, the housing development sector, the land development sector, Planning Panels Victoria and the Department of Infrastructure addressed the perceived deficiencies of the Victorian legislation. This report was submitted to the Minister for Planning in April 2002. While the Minister has not released the report publicly, it is believed that there would be benefit in the Commission having access to that report and particularly the sections dealing with the principles governing infrastructure charges, the preparation of infrastructure charge plans, the application of off-the-shelf charge schemes, the collection of infrastructure charges and mechanisms for addressing impact mitigation conditions.

Council's submission addresses the specific issues listed by the Commission in the summary of key points in the section on infrastructure charges and the associated issues listed above.

Transparency In Regard To The Basis Of Infrastructure Charges

While the Victorian approach has incorporated strict tests of need, nexus to contributors, equity between contributors and accountability for contributions, there are some underlying principles which could be adopted as an expansion of the established tests. Suggested principles are:

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- *Infrastructure costs should be apportioned according to projected share of beneficial usage to both existing and future development.*

When assessing the projected share, consideration should be given to existing and future development and the likely usage of each item of infrastructure. For instance, if the scenario at the time of completion of the development is that traffic on a particular road will be made up of 60% with journeys originating or concluding at the development and 40% from other sources, only 60% of the cost of that road could reasonably be considered to relate to the Infrastructure Charge Scheme.

- *Collection of infrastructure charges implies a binding obligation on the authorised body to construct the facilities in the stipulated timeframe.*

This principle is likely to discourage any organisation seeking infrastructure charges for facilities where the percentage of total cost which can be recovered through infrastructure charges is small. Not only would the organisation be faced with generating a limited portion of the funds required for the project, it would establish a binding obligation to deliver on the requirements regardless of other budgetary needs or changing circumstances.

- *Infrastructure charges should be limited to items which are or which meet current community expectations of what is required for the community's health, well-being or safety and will be used by or benefit a broad cross-section of the community.*

This principle is largely self explanatory and limits infrastructure charge items to those which are seen by the community to be essential, rather than discretionary. For example, it would seem self explanatory that a drainage system is required for the health and safety of the community to avoid flooding, while it would be difficult to establish that an ice-skating rink or art gallery is essential for the well-being of the community.

- *Infrastructure Charges should be confined to capital costs.*

This principle reflects the review that rates should be the major funding source for maintaining infrastructure in accordance with asset

management principles. The development costs would include project design, supervision of construction and infrastructure contribution plan preparation costs, but not periodic major maintenance or any allowance for subsequent reconstruction.

Requirement That Charges Are Justified On A Whole-Of-Life Cost Basis

This requirement is supported as the basis for determining the best value approach to the provision of infrastructure. It also provides an appropriate framework for debate about appropriate design standards, and reflects broad community benefits.

Increased Accountability for How Money Raised with Charges is Spent

It is envisaged that the authorised body initiating the infrastructure charge plans would be required to maintain transparency of the management of the scheme, report periodically on progress with its implementation and proposed future activities, and that the scheme would be subject to independent audit. In practise, there should also be a mechanism for contributing parties, whether as developers or the purchasers of lots created through the development scheme, being able to take action in the event of a failure by the authorised body to fulfil any of its obligations.

Avoiding Scope for "Double-Dipping"

Council recognises the importance of ensuring that "double dipping" does not occur by differential rating, etc. It is anticipated that any such concerns would be addressed by ensuring appropriate transparency of schemes through the mechanisms described previously, and the auditing and reporting responsibilities.

Allowing Appeals On Infrastructure Charge Scheme.

In practise, it is envisaged that infrastructure charge schemes would be created through the Planning Scheme Amendment processes which are subject to public scrutiny, assessment by an independent panel if any objection is received, and ultimately decision by the responsible State Planning Minister.

Such a process would create a scenario where there is transparency and equity in relation to the establishment and content of the infrastructure charge schemes and their application. This approach also provides a mechanism whereby developers and parties likely to be required to contribute to the scheme can make submissions on any aspect of the scheme including the appropriateness of the adopted standards, the suitability of the items of infrastructure, the ratio of usage generated compared to other usage, and any other matters considered relevant.

The Application of Off-The-Shelf Rates

While the current application of infrastructure charge schemes by Wyndham and other growth councils is primarily directed to growth areas where substantial new infrastructure demands are created, it is recognised that there may be circumstances where an authorised body may seek to achieve a portion of the benefits of an infrastructure charge scheme without the complexity or cost of undertaking a fully apportioned assessment.

The concept of off-the-shelf charge schemes in which the charges are discounted to an extent to ensure confidence that the applied charge would be less than would result from a fully apportioned one, offers a way forward which is efficient from a development point of view, equitable from the viewpoint of contributors, and maintains all other checks and balances pertaining to infrastructure charge schemes.

Impact Mitigation Conditions

Out of sequence development creates particular challenges for developers and responsible bodies alike. In the majority of scenarios the additional cost of servicing out of sequence development limits its viability, but there may be circumstances where out of sequence development is still financially viable to a developer and consistent with the medium to long term planning of the local authorities. The concept of Special Infrastructure Charge Plan arrangements in such circumstances would create a mechanism whereby the additional costs are appropriately financed so that the implication is not the transfers of the financial burden to ratepayers. In the latter circumstance, the likelihood of responsible authorities supporting out of sequence development would be very limited.

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Appropriate impact mitigation conditions would require the developer to: fund 100% of works, services and facilities which are over and above that which would normally be experienced by the planning authorities.

Summary

Council supports the directions of the Draft Report on First Home Ownership and has identified two aspects on which Council believes further development would be beneficial.

The first relates to mechanisms to assist people on low incomes to become home owners. In many cases the challenge is achieving the initial level of equity needed, but the long term benefits are significant. Council has raised some approaches which it believes are worthy of further consideration and development.

The second issue which Council believes should be developed further is that of infrastructure charge schemes. At a time when state government and local government budgets limit the capacity to finance off-side infrastructure necessitated by the substantial growth of greenfield areas, equitable and efficient funding mechanisms are needed. The Commission rightly recognises the expectations of the community. These expectations, which would lead to considerable dissatisfaction and frustration if not provided. In practise, the unavailability of appropriate mechanisms for funding off-side infrastructure would substantially reduce the likelihood of local government supporting the rezoning of land for future residential purposes.

Wyndham Council's experience has been that the problems with such a scenario are well recognised by major developers with the result that funding agreements are made in principle prior to rezoning applications being assessed.

The development of transparent and accountable infrastructure charges schemes through the Planning Scheme Amendment process is seen to be consistent with the interests of the land development sector, the community and governments.