ACCOMMODATING GROWTH
DELIVERING INFRASTRUCTURE
BUILDING BETTER COMMUNITIES

GROWTH AREA BONDS

NEW SOLUTIONS FOR FUNDING INFRASTRUCTURE

The Voice of Leadership

PROPERTY COUNCIL of Australia

MATCHING INFRASTRUCTURE AND GROWTH

Infrastructure is the lifeblood of our cities. It facilitates economic growth, ensures our cities function smoothly, and helps realise the full promise of our communities.

There is an enormous task involved in providing the infrastructure that will support the inevitable growth of global cities like Sydney. We need to look to new financing solutions that help governments meet the future demand for infrastructure.

Growth Area Bonds meet that challenge. They bridge the divide between infrastructure and land use – and in doing so, will gift us economic growth and sustainable communities.

MEETING THE INFRASTRUCTURE CHALLENGE

Growth is inevitable

NSW and Sydney need to accommodate and encourage growth. In its 2005 Metro Strategy, the Government forecast Sydney would grow by 1.1 million people by 2031.[1] In 2009 these figures were revised and Sydney's population is predicted to increase by 1.7 million people by 2036.[2]

The population growth will need to be serviced with at least 25,000 new dwellings a year, as well as the development of new employment lands, industrial precincts and office accommodation. Sydney needs to find room for 500,000 new jobs.[3]

The associated infrastructure challenge – the mix of new housing, transport capacity and social service facilities – will be immense.

The cost of congestion

Congestion has a real effect. It inhibits the time families can spend together, but carries an economic cost too – estimated to be $12.3 million each and every day for Sydneysiders.[4]

The annual cost of congestion is predicted to more than double – rising from $3.5 billion in 2005 to $7.7 billion by 2020.[5] It will leave Sydney at a competitive disadvantage to every other capital city in Australia.

We need better solutions for financing infrastructure that are explicitly tied to land use decisions if we are going to reverse the current drift towards a choked city.

Levies haven't delivered

We are currently taxing the growth we want. Areas dedicated for new housing or employment are often subject to high taxes and levies that act as a brake on investment.

The mix of levies is inconsistent and contradictory to policy goals – and to date, upfront levies have not delivered infrastructure of sufficient scale, on time and in a coordinated manner.

State and local development levies imposed in NSW include

+ State Infrastructure Contributions in the Sydney Growth Centres
+ Levies on Employment lands in Western Sydney
+ A State Infrastructure Contribution for the Lower Hunter
+ Voluntary Planning Agreements have no cap on costs
+ Utility infrastructure charges
+ Six Cities levies in the CBDs of Wollongong, Parramatta, Gosford, Liverpool, Penrith and Newcastle
+ A levy in Redfern Waterloo
+ North Sydney railway station upgrade levy
+ Section 94 levies
+ Flat percentage levies set as an alternative to section 94 levies
+ Affordable housing levies imposed by a number of councils

A stagnant climate for finance

The Global Financial Crisis revealed a limitation on the current suite of options available to governments for funding essential infrastructure.

As revenues collapsed, the NSW Treasury trimmed capital expenditure under the 10-year State Infrastructure Strategy from $143 billion to $139 billion.[6]

The State's desirable commitment to preservation of the AAA-credit rating led to the cancellation of critical infrastructure projects, including rail links to growth centres.

The market for Public-Private Partnerships has stalled. Other than exploring the use of private finance to facilitate the CBD Metro, no other infrastructure project is currently in the market.[7]

FOOTNOTES

1 NSW Government, The Metropolitan Strategy, December 2005, p3.
2 DOP Media Release, 20 October 2008.
3 NSW Government, The Metropolitan Strategy, December 2005, p7.
4 BTRE Report 2007, Estimating urban traffic and congestion trends for Australian cities.
5 BTRE Report 2007, Estimating urban traffic and congestion trends for Australian cities.
6 Treasurer of NSW, 2008-09 Half Yearly Review.
7 NSW Treasury Working with Government website, (www.wwg.nsw.gov.au/NSW_Projects), 26 October 2009

WHAT ARE THE BARRIERS?

Development levies are inhibiting NSW's ability to deliver the housing, employment and growth it needs.

→ ECONOMICALLY UNFEASIBLE

Levies inevitably have an economic consequence – with significant impact on investment decisions, supply and pricing. Previous analysis shows of six conventional forms of infrastructure funding, debt funding provides the most economic benefit and developer levies the least – with a negative impact on jobs from levies.[8]

→ POLICY INCONSISTENCY

Urban growth objectives are being undercut by development levies. In short, government is heavily taxing the supply of a product it says it wants. Record low housing supply and a failure to deliver on employment lands are the direct consequences.

→ REDUCING AFFORDABILITY

Development levies in some parts of the state increased more than five fold over the past decade – and recent efforts to curb contributions had a marginal impact on that escalation.

→ STIFLING CITY CENTRE REVITALISATION

The decision to increase levies as part of the Six Cities city centre revitalisation program in 2007 made no sense. Levying extra tax was never going to act as a stimulus for investment. The lack of investment in these cities is clear evidence of the case for change.

→ IDLE EMPLOYMENT LANDS

The supply of new industrial land is stalled. An Action Plan has not been advanced by Government as promised, and the high infrastructure contributions are strangling investment and growth.

→ UNRELIABLE INCOME STREAMS

Levy income is reliant on development activity, which by its nature is a volatile and uncertain revenue stream with long time horizons. Yet providing infrastructure to support development means the capital investment is generally needed much earlier.

→ INVESTOR UNCERTAINTY

There is no certainty of cost or process for projects running the gauntlet of a voluntary planning agreement. Investors need to negotiate with multiple agencies, estimated costs are subject to wild increases during the process, and settlement can take up to a year.

FOOTNOTE

8 The Allen Consulting Group, "Funding Urban Public Infrastructure", August 2003.

In August 2009, the NSW Government released over 800 hectares of land at the intersection of the M4 and M7 in Western Sydney to accommodate up to 16,500 workers.

The land release is part of the Metro Strategy target of creating 280,000 new jobs in Western Sydney.

Yet, an infrastructure contribution of $180,000 per hectare was applied.

The tax more than doubles the charge on employment land in nearby growth centres – and fully serviced industrial land in Victoria can be purchased for less than the new tax alone.

The tax will strangle the desired policy outcome of jobs and investment.

NEW SOLUTIONS THAT WORK

A new model called "Growth Area Bonds" will ensure infrastructure and land use planning is coordinated with a view to delivering economic prosperity.

It disciplines government to guarantee the timely and rigorous provision of infrastructure.

The model has been used in the United States for over 50 years and is now widely activated to help cities and communities accelerate growth.

Growth Area Bonds (GABs) can be tailored to suit development needs and governance arrangements here. It is time to apply them in NSW.

A NSW model for Grown Area Bonds would have five fundamental elements:

1. Enabling legislation to set up GAB schemes passed by the Parliament
2. Schemes initiated by a state government agency rather than local government which may not have the necessary expertise
3. Bonds would be issued through NSW Treasury (T-Corp)
4. Tax revenues involved would be land tax and stamp duty but not council rates
5. Schemes would be used to fund infrastructure in both greenfield areas and urban infill areas

The advantages of Growth Area Bonds:

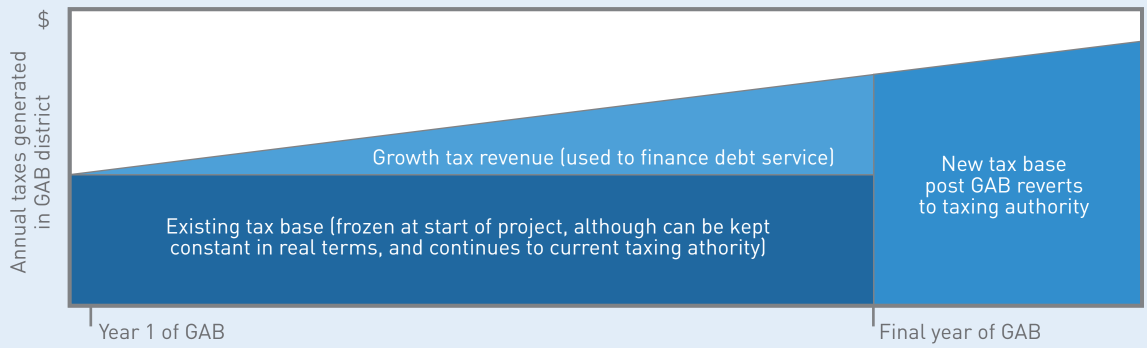
+ A transparent approach to infrastructure selection and provision
+ A sustained commitment to infrastructure provision which is not subject to the vagaries of the electoral cycle
+ The provision of infrastructure is appropriately timed
+ Market testing and added rigour around infrastructure selection to improve efficiency
+ Not a tax or levy – debt repaid through asset revaluation

HOW DO GROWTH AREA BONDS WORK

How Growth Area Bonds work:

- Identify a suitable area (or GAB district) and establish a GAB authority
- Prepare a growth plan for the area outlining its infrastructure needs and estimating the cost
- Calculate the property tax revenues currently derived from the area
- Issue bonds to fund the infrastructure works for the area (bonds can be government-backed or not)
- Repay the bonds from the incremental increase in property taxes (above the revenue previously collected) generated by the new infrastructure and development in the area
- Once the bonds are repaid, all property tax revenue for the area returns to the Government.

Figure 1: The Basic GAB Model



A CASE STUDY

BETTER INFRASTRUCTURE, BETTER COMMUNITIES

The South West Growth Centre is one of the main locations targeted for new growth in Sydney in coming years.

Spread across 17,000ha and three local government areas, it faces huge infrastructure demands with 115,000 new homes and significant jobs to come over the next 25 years.

The Government wants to charge $349,200 per hectare for residential land and $150,000 per hectare for employment land – without the promise the revenue will go to infrastructure.

Growth Area Bonds (GABs) represent a better way to fund the schools, hospitals, public transport and open space that we all want in creating better, stronger communities.

Using a Growth Area Bond modelled by PricewaterhouseCopers[9], we would see:

+ The South West Growth Centre defined as a GAB district
+ The Bond used to help deliver approximately $2.6 billion in state infrastructure[10]
+ The tax subject to the GAB is stamp duty (land tax is excluded given the lack of reliable information)
+ Inflation at 3%, the interest rate for debt at 8% and the rate for income at 6%

Under the model, it is also assumed that:

+ Development and revenue would be slower at first, pick up after the initial phase, and then slow again in the final years of the development term
+ Infrastructure costs will be higher at first before tapering away
+ Debt would be staged given the significant amount of infrastructure

This conservative model sees a Growth Area Bond financing 75% of the $2.6 billion in infrastructure – the same amount funded by state development charges.

It also allows the first phase of debt to be fully repaid in 16 years at the latest, and all debt repaid in 24 years.

It represents a solution that sees the South West Growth Centre realised as a community with its infrastructure provided in full.

FOOTNOTES

9 Tax Increment Financing to fund public urban infrastructure in Australia, PwC, November 2008.

10 $2007-08, as identified in the Growth Centre Commission's 2006 Special Infrastructure Contribution Practice Note.

THE ACTION PLAN FOR FUNDING INFRASTRUCTURE

1 Embrace the national agenda

New solutions for infrastructure financing need to be considered in the context of a new national agenda that demands 30-year infrastructure and land use plans for our capital cities. The new principles articulated by COAG in December 2009 point the way to better planning for infrastructure.

2 State action

Delivering on the new national agenda requires better institutional arrangements. The creation of a Department of Infrastructure, Transport and Planning will give stronger focus to the integration of land use and planning. Similarly, the NSW Transport Blueprint and Sydney Metropolitan Strategy need to be blended into one document – "A Growth Plan for Sydney".

3 Clear identification of areas for growth and renewal

Once the Transport Blueprint and Sydney Metropolitan Strategy are folded into one document, policymakers will be better positioned to clearly identify priority areas for growth.

Priority growth areas can represent a mix of greenfields development tied to new infrastructure links, using expanded transport capacity to drive urban renewal, or activating employment lands.

4 Better infrastructure selection

Restoring rigour and discipline to the selection of infrastructure priorities will improve its delivery. Clear criteria which benchmark projects for cost-benefit analysis and reflect the priorities of COAG will gift us a legacy of timely infrastructure provision.

Importantly, the criteria should be transparent and the results of project assessments and rankings should be published to better inform the public on why particular projects are being advanced ahead of others.

5 Better governance

Recognising the specific task associated with urban renewal, a dedicated implementation body is needed to ensure the required master and statutory planning, site amalgamation, infrastructure planning and delivery and community amenity issues are addressed.

A state level Urban Renewal Commission should be established. It should be responsible for site amalgamation, infrastructure planning and provision, broad master planning and community education.

6 A legislative framework

Enabling legislation would be passed by NSW Parliament to allow for the formation of Growth Area Bond districts, defining the State rather than local councils as the relevant tier of government to initiate the authority for each district.

It could also define the assumptions which would underpin the Bonds, such as the critera for assessing baseline revenue in a GAB district and the taxes which could be used to collect the revenue generated from increased property values.

7 Pilot schemes

Based on areas identified by the NSW Government or Urban Renewal Commission as priority targets for growth, a pilot scheme should be run. A preferred location would be a site that has remained stagnant under the weight of the current mix of levies and charges.

8 Reforming taxes

The Henry Review of Australia's future tax system offers a unique opportunity to transform the tax system by removing complexity and inefficiency, rewarding productivity, and delivering a fair and competitive tax system.

The use of Growth Area Bonds needs to be matched by a commitment from all tiers of government to act swiftly on recommendations arising from the Henry Review that give life to a fairer tax system for investors, commercial property owners and homeowners alike.

9 A pathway to growth

NSW needs to curb the use and size of development levies in the short-term, and chart a clear course to their eventual abolition.

Property Council of Australia Limited
ABN 13008 474 422

Level 1, Property Council of Australia House
11 Barrack Street
Sydney NSW 2000
Telephone: 02 9033 1900
Facsimile: 02 9033 1978
Email: info@propertyoz.com.au
Web: www.propertyoz.com.au

PO Box 61
Wollongong NSW 2520
Telephone: 02 4225 0105
Facsimile: 02 9285 0573

122 Parry Street
Newcastle West NSW 2302
Telephone: 02 4927 1550
Facsimile: 02 4929 7121