INFORMATION SHEET

THE INFLUENCE OF IMPACT FEES IN AUSTRALIA

Key Points:

- ***Australia's equivalent of "Impact Fees" are known as "Development Levies";***
- ***Development levies are increasingly being relied on by authorities to fund new urban infrastructure;***
- ***Development levies are covering much more than basic infrastructure items;***
- ***The proliferation of development levies is on the rise and is affecting housing affordability.***

1. Introduction

As a consequence of Australia's fast paced population growth, governments have turned their attention to alternative ways of funding infrastructure required to support new housing development. Whilst the growth is considered to be positive - providing a much needed and continuing stimulus for the housing industry, there are a number of creeping taxes, fees and levies on development that continue to hamper industry's best efforts to meet housing demand.

In an effort to keep debt levels low and budgets in surplus, authorities have turned their attention to levying developers through Impact Fees or *Development Levies* as they are known in Australia. They are fast becoming the preferred choice for governments to raise additional revenue to fund the infrastructure and facilities that usually accompany housing development.

2. What are development levies?

Development levies refer to the charges applied to residential development, and in some cases to commercial and industrial developments, to cover some items of physical infrastructure required to support new development.

Typically levies are applied to developments by both local and state authorities at the land development stage.

Development levies are usually collected to cover items that are central to the creation of a new community such as local roads, drainage, utilities provision, sewerage and local parks.

But in recent time development levies have increased substantially and authorities are using them as a tool to raise more revenue for housing infrastructure, in an effort to ensure services are available early in the life of a development. There is a tendency for authorities to apply the levies to fund a broader range of social and community facilities in a new development. Typical examples of these include schools, libraries, child care centres, together with regional improvements such as parks, open space, swimming pools and district and regional road improvements.

Development levies in Australia take a variety of forms including a straight monetary payment such as a structured fee or a levy to the authority and this is generally made on a "per hectare" or "per allotment" basis, depending on its location and the authority.

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Development levies can also apply through the dedication of land for recreation or other community purposes or even an “affordable housing” quota – an arrangement which would see the developer provide a minimum number of social housing units as part of an overall development.

In addition, development levies can take the form of “works in kind” where a developer provides specific works in lieu of paying a levy to an authority up front.

Authorities, whilst increasing the levies, also appear to be reducing the nexus between the collection of levies and items for which the contributions have been sought. In breaking this nexus they have opened the door for government to increasingly use housing and development as a revenue raiser to generate upfront finance for infrastructure and community facilities.

3. How are Development Levies Applied in Australia?

Development levies in Australia are generally introduced through town planning legislation and laws. Whilst most state and local authorities have the ability through these mechanisms to apply levies, some states and regions (by choice) are not as reliant on them as others. So in reality no two states are operating under similar systems.

Development levies are usually specified and charged on either a “per hectare”, “per net developable hectare” or even on an individual allotment basis – depending on the legislative requirements in place.

There are levies charged by state governments and levies charged by local governments – so in a given jurisdiction a developer can be liable to pay both sets of “development levies” – which are usually set up to cover separate infrastructure matters.

In the state of New South Wales, there has been a long standing issue with the high and growing levies, and Victoria and Queensland have recently followed this lead. The government buy-in to infrastructure in some states (eg South Australia and Western Australia) is still high and developer contributions reasonably low. Infrastructure costs in these states are predominantly still shared across the whole community via general taxation revenue.

An independent study conducted for HIA in 2011 by the Centre for International Economics (CIE) reported that new housing areas on the fringe of Sydney in NSW face total infrastructure contributions of $37,300 per allotment on average in NSW. In addition, there sometimes are other charges that apply for specific purposes (eg to fund a recycling plant). As part of this research the CIE found that outside of NSW, total infrastructure charges range from just over $3000 per dwelling in South Australia to $27,000 per dwelling in Queensland.

State legislation recently enacted in outer areas of the capital city of Victoria, Melbourne, will see a large increase in state development levies there. A new levy of $95,000 per hectare will apply to new growth areas and will be used to contribute to the funding of major transport infrastructure (amongst other things). Local levies are also in place across most Melbourne growth or fringe suburbs to cover other local items of infrastructure. Yet ironically, outside of the capital, in regional Victoria, few if any local authorities apply a local development levy as it may act as a deterrent to much needed growth in the region.

In addition to state and local levies, the Australian housing industry can be at the mercy of broader legislative measures from the Federal Government. In late 2011 for example, legislation for the installation of a faster broadband network was passed and as part of this developers are required to contribute to the physical trenching requirements and installation requirements, which could represent a further contribution of up to $2500 per allotment.

In any way they are applied, the general trend shows that the application and amount of development levies are on the increase. Authorities are levying for both basic items in a subdivision and broad community infrastructure from which the whole community is expected to benefit; the latter would have reasonably been covered by general taxation measures in the past.

4. Advantages and Disadvantages of Development Levies in Australia

Housing development for a growing population once seen as a shared partnership between government and the residential building industry is no longer treated as such by authorities in Australia. Where infrastructure investment is required for new development, it has increasingly been raised through the imposition of development levies rather than the traditional way of government borrowings or general rate levies.

Developers can see no advantage in this process as the levies inevitably pass on to new homebuyers, who are shouldering the cost of some major items of infrastructure – many of which benefit the entire community not just their own subdivision. State charges have steadily increased over the last 10 years to fund a growing range of services provided also previously by government. These costs are largely hidden from the consumer but in effect erode affordability and limit the capacity for first home buyers in particular to purchase a new home.

Whilst there may be some advantages for governments implementing a “user pays” system, which invariably ensures very high quality housing subdivision and development, this method of raising revenue for infrastructure is viewed by industry as a measure which is fast eroding housing affordability. No other industry in Australia suffers more from cost-shifting than home-building.

HIA’s view is that development levies should only be applied for local physical infrastructure that is needed at the time of a development and directly serving that development, such as local roads, drainage, sewerage and local parks. Also that the levies should have some basic principles to them such as an established need for a facility, nexus, reasonableness, equity and accountability and be set against an overriding objective of maintaining housing affordability.

5. Conclusion

As populations and households continue to grow, so does the demand for land and housing and governments desires to implement facilities required for new residents.

More broadly, cost-shifting and under-investment in infrastructure produces second-best policy. Substantial private costs are incurred while more significant opportunities requiring public investment are forgone. Governments should recognise the economic and social returns from more efficient provision of infrastructure. Australia’s development levies are the hidden taxes on home owners, applied with little transparency or accountability.

Overall, governments need to have a look at what they are financing (or rather what they are not financing) in new housing areas. Increasing developer contributions are hurting the home buying public. Governments must re-engage in infrastructure funding through borrowings or general rate levies which are a highly efficient means of financing long-lived and much needed housing infrastructure items.