



Draft Special Infrastructure Contributions Guidelines

UDIA NSW Response

June 2020

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ABOUT THE UDIA

Established in 1963, the Urban Development Institute of Australia (UDIA) is the leading industry group representing the property development sector. Our 500 member companies include developers, engineers, consultants, local government, and utilities. Our advocacy is focussed on developing liveable, affordable, and connected cities.

EXECUTIVE SUMMARY

The Urban Development Institute of Australia – NSW (UDIA) welcomes the opportunity to make a submission on the draft Special Infrastructure Contributions Guidelines (the Guidelines). Many of our members operate under existing or draft Special Infrastructure Contributions (SIC) Plans, including both large listed developers and smaller private operators.

We bring a high-level of industry knowledge and experience on development in SIC areas, and have made detailed submission on all the draft SICs in NSW. We welcome the greater certainty to industry that the release of the SIC Guidelines could provide. However, we believe that the infrastructure contributions system in NSW needs fundamental reform. We are engaging closely with the Productivity Commissioner's review to advocate for the broad changes needed to deliver a more efficient, accountable, predictable, transparent and affordable system.

The Guidelines outline the basic aspects of the SIC system, but we believe that more detail is needed on some key areas, and that changes in approach in some areas could also improve the system in the short term.

To this end, the UDIA makes the following recommendations in response to the Guidelines:

- Recommendation 1: Require governance arrangements to be in place before a SIC can be charged, including: a SIC Delivery Plan, an Urban Development Program, , A UDP Committee, annual reporting, and seed funding.
- Recommendation 2: Account for SIC expenditure as the extinguishment of a liability rather than an expense.
- Recommendation 3: Allocate a funding envelope to DPIE to spend over the Forward Estimates period without the need for further Treasury approval.
- Recommendation 4: Provide more guidance on works-in-kind arrangements including locking in costs at the time the agreement is executed and allowing variations up to the contingency.
- Recommendation 5: Provide more guidance on SIC credits, credit trading and refunds including the potential establishment of a tradeable SIC credits, given its demonstrable benefits for forward delivery of infrastructure.
- Recommendation 6: Require SIC payment at subdivision certificate and occupation certificate, not construction certificate.
- Recommendation 7: Exclude major upgrades to existing major infrastructure, and State health facilities, from SIC plans unless clear and transparent nexus can be established.
- Recommendation 8: Clarify that only public school sites are considered SIC items.
- Recommendation 9: Exclude biodiversity conservation from SIC plans as this action is made in the broader interests of the State and its peoples.

- Recommendation 10: Provide more detail on the costing of works in a SIC plan, as well as benchmarking against the cost of similar works in Voluntary Planning Agreements.
- Recommendation 11: Replace individual contingencies per work type with one contingency line item for the whole SIC plan.
- Recommendation 12: Ensure contingency rates are revised as SIC works are designed and delivered.
- Recommendation 13: Adopt the net developable area as the basis for all SIC charges.
- Recommendation 14: Establish a clear and consistent definition of net developable area that excludes public roads and easements, and caps the charge in large lot rural residential areas.
- Recommendation 15: Replace the capacity-to-pay assessment with an upper limit on the SIC charge that is a reasonable percentage of the average lot sale price.

INFRASTRUCTURE CHARGES NEED MAJOR REFORM

UDIA commends NSW Department of Planning, Industry and Environment (DPIE's) efforts to improve the infrastructure contributions system, however it is very clear that structural reform of the infrastructure charging system in NSW is needed. For over two years, UDIA has been advocating for interim and long-term reforms that would ensure infrastructure is delivered at an affordable price. UDIA is closely engaged with the NSW Productivity Commissioner's Infrastructure Contributions Review and we are hopeful this review will lead to the reform that is needed.

Getting infrastructure charging right is of critical importance to the State. UDIA commissioned PwC to undertake a review of the impact of infrastructure contributions, taxes, and charges on the NSW economy. The report found just a 10% reduction in housing supply would result in significant economic impact on the NSW economy, highlighted below.



UDIA also recognises the continuing housing affordability pressure that is felt across the community. In a 1,500-person survey recently conducted by Newgate Research, Sydney residents identified housing affordability as the second most important issue apart from transport. Further, 73% agreed 'Sydney has a housing crisis'.

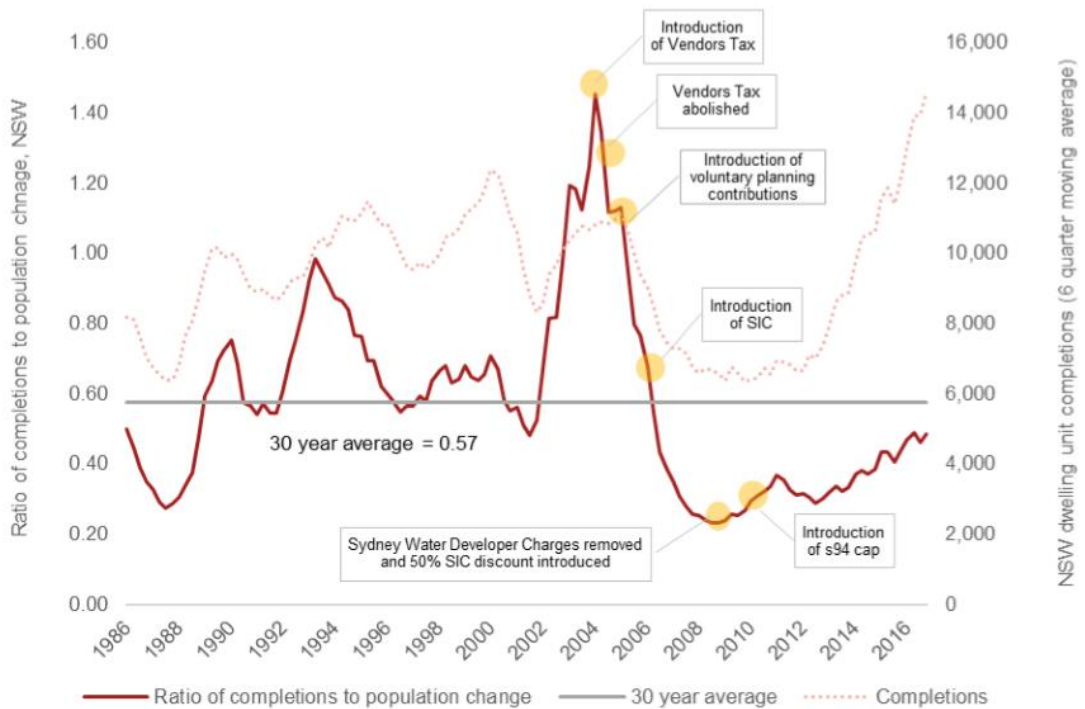
UDIA NSW recognises the importance of aligning infrastructure with growth. We consider infrastructure is fundamental to enabling the development of new and growing communities. Unfortunately, successive governments have failed to provide the necessary infrastructure to support the rejuvenation of existing suburbs in Sydney. As infrastructure has traditionally not been aligned with growth, some in the community have lost faith in the planning system. Where there is not a correlation between infrastructure and growth, for many in the community Sydney becomes 'full' and 'overdeveloped', and it becomes more challenging to build our future city.

It remains critical for the orderly release of serviced residential land and the rejuvenation of new infill areas that planning and infrastructure is aligned. For the past five years Sydney has been the second or third least affordable city in the world to purchase a home according to the Demographia survey. Housing supply has not kept up with demand.

The housing affordability crisis in NSW has been driven by persistent lack of supply for more than a decade. Currently, Sydney has a backlog of 100,000 dwellings and requires 36,250 new dwellings each year over the next 20 years to meet demand and with the backlog Sydney needs 41,250 new homes each year or 825,000 total dwellings by 2036. Sydney has never sustained this amount of annual dwelling supply for an extended period.

PwC's June 2018 report, *Infrastructure Contributions: review of impact of infrastructure taxes and charges on the NSW economy*, has shown that where taxes and charges are introduced at a high level development becomes unfeasible, supply deteriorates and consequently prices rise:

Figure 5 - Ratio of dwelling completions to population change



PwC, June 2018

The NSW Parliamentary Research Service has determined:

...until the supply response catches up to demand, higher house prices are the inevitable outcome. (Housing affordability in NSW, March 2017)

Only by increasing supply can housing affordability be properly addressed. The imposition of additional taxes and charges on development has two clear negative effects. It will:

1. reduce the rate of housing supply; and
2. increase the cost of new homes.

This has flow-on effects on the market. Already, about a quarter of the cost of a new home in the greenfield areas of NSW is made up in cumulative taxes and charges further increasing the cumulative impact of taxes and charges would serve to diminish feasibility and place additional strain on housing supply.

Furthermore, by creating renewed uncertainty, site acquisition cannot occur and there will be inevitable periods of low housing supply. This is particularly problematic as residential greenfield development approvals and delivery occurs over a 7-10 year horizon.

THE CURRENT SIC REGIME IS UNCERTAIN AND UNFAIR

There are currently endorsed SIC plans in operation in only two parts of NSW (in Western Sydney and the Central Coast). There are also at least eight *draft* SICs that have been exhibited by DPIE over the past decade that are yet to be finalised. The draft SIC plans contain highly variable levies on development:

- Bayside West - \$9,000 per additional dwelling/lot.
- Rhodes East - \$21,943 per additional dwelling/lot
- St Leonards and Crows Nest - \$15,100 per additional dwelling/lot
- North West Growth Centre - \$15,426 per additional dwelling/lot
- Greater Macarthur - \$39,710-\$43,985 per additional dwelling/lot
- Wilton - \$59,274 per additional dwelling/lot
- Hunter - \$658-\$9,857 per additional dwelling/lot
- West Lake Illawarra - \$73,219 per hectare of net developable area

DPIE should clarify the timing for finalisation of these SICs as a matter of priority. The draft SICs are creating uncertainty in the industry, which affects investment decisions and the pipeline of housing supply. It is also unreasonable to expect the industry to continue to negotiate Voluntary Planning Agreements in line with unfinished SICs that have been drafts for such a long period of time, increasing costs and time to delivery.

The current SIC regime applies different rules to different parts of NSW. Some areas experiencing growth and creating demand on regional infrastructure are not charged a SIC at all. Some areas receive a 50% subsidy on the SIC from the NSW Government. Other areas are charged a SIC based on the concept that they are developed at no cost to government. It is not clear why these different approaches have been adopted in these areas, and it has created an uneven playing field for the industry across NSW.

UDIA recommends that DPIE consider abandoning the 'no cost to government' approach to infrastructure charging because:

- The term "no cost to government" has never been formally defined and there is no consensus on what it means and implies for development proposals by both levels of Government and proponents.
- These areas are some of the greatest potential contributors to forward housing supply in NSW, including Wilton and Greater Macarthur. As a result, they are not being afforded a level playing field with other areas of NSW in terms of input costs. Housing and land prices are not competitive and the achievement of affordability goals are diminished.
- The 'no cost to government' concept has been poorly applied and is often interpreted incorrectly as meaning zero cost to government for any infrastructure in the area. In fact, the concept relates only to the *acceleration costs* – the difference in costs of delivering the infrastructure now rather than as originally planned. In many cases, there are acceleration benefits, or savings, from the accelerated acquisition of land for infrastructure.

INFRASTRUCTURE FUNDING PRINCIPLES AND TRANSPARENCY

Infrastructure is essential to support NSW's growth, but it is complicated in terms of how it is currently structured, coordinated and funded. The 2012 COAG Housing Supply and Affordability Reform Working Party (HSAR) examined charges imposed on developers and homeowners. It found:

some state and local governments were imposing infrastructure charges on developers (or purchasers in some instances) in a manner that lacked consistency, transparency, and predictability.

The HSAR Working Party recommended infrastructure charges should, at least, be:

- **efficient** – charges should be for infrastructure required for the proposed development or for servicing a major development;
- **transparent and accountable** – charging regimes should be supported by publicly available information on the infrastructure subject to charges, the methodology used to determine charges and the expenditure of funds;
- **predictable** – charges should be in line with published methodologies and charging schedules (with clarity around the circumstances in which charges can be modified after agreement); and
- **equitable** – where the benefits of infrastructure provision are shared between developers (landowners), the infrastructure charges levied on the developer should be no higher than the proportional demand that their development will place on that infrastructure.

Currently it is clear that these principles are not being followed in infrastructure delivery.

The *Commonwealth Inquiry into The Australian Housing Affordability Challenge 2015*, amongst other things, found:

Developer contributions are frequently opaque and unjustified in their application, and there may be no clear connection between the cost of the infrastructure provided and the contribution, to the extent that the contribution may be well in excess of the cost of the infrastructure it is supposed to pay for. Additionally, in many cases developer contributions are used to pay for infrastructure that benefits the wider community (for example trunk roads and utilities infrastructure upgrades). In this case, developers and ultimately new home buyers are being forced to subsidise the rest of the community.

In a 2017 report to the Premier on housing affordability, former RBA Governor, Glenn Stevens questioned if infrastructure could be delivered at a lower cost, asking “is the infrastructure being unnecessarily ‘gold plated?’”.

There are steps that could be taken to improve transparency with the SIC and the SIC process. We recommend as a starting point reporting on the SIC is modelled on Section 7.11 reporting, although we believe there are greater opportunities for transparency, some key steps include:

1. Providing a schedule of works with indicative timing of works or triggers for work requirements
2. Providing a schedule of completed works so industry can understand what work has been completed and what work is upcoming.
3. The costing of infrastructure items separated between land and works.
4. Further detail relating the infrastructure items to demand created by the precinct, to support a beneficiary pays approach.

We believe by releasing this information there would be greater opportunities for industry to work with DPIE to develop innovative and lower cost solutions for infrastructure.

CHANGES ARE NEEDED TO SIC ADMINISTRATION

UDIA believes that the current SIC regime has not been supported by adequate administrative arrangements to ensure it can succeed. There is insufficient collaboration with the industry during the preparation and delivery of a SIC plan. There is insufficient transparency about SIC income and expenditure. The accounting for SIC funds restricts DPIE's ability to spend it in line with demand for infrastructure.

GOVERNANCE

UDIA believes that every SIC must have the following governance in place before it can be charged:

- An Urban Development Program (UDP) for the SIC area – such as those that currently exist in the Illawarra-Shoalhaven and Hunter regions.
- A SIC Delivery Plan which identifies:
 - Each infrastructure item cost, apportionment, and funding sources.
 - An objective trigger for the delivery of the item (e.g. prior to completion of 1000 lots).
- A UDP Committee which meets quarterly, updates the UDP and SIC Delivery Plan annually, and includes industry representatives.
- Annual detailed reporting on SIC income and expenditure to the same level of detail as being proposed for s7.11 plans in the draft amendments to the *Environmental Planning & Assessment Regulation 2000* which are currently also on exhibition.
- Seed funding to allow infrastructure delivery to start from the outset (recouped during the life of the SIC).

RECOMMENDATION 1: REQUIRE GOVERNANCE ARRANGEMENTS TO BE IN PLACE BEFORE A SIC CAN BE CHARGED, INCLUDING: A SIC DELIVERY PLAN, AN URBAN DEVELOPMENT PROGRAM, A UDP COMMITTEE, ANNUAL REPORTING AND SEED FUNDING.

ACCOUNTING

UDIA recommends that changes are made to the way the NSW Government accounts for SIC funds. At present, UDIA understands that SIC expenditure is accounted for as an expense, rather than as the extinguishment of a liability. SIC expenditure therefore needs Treasury approval, which can delay the funding of necessary infrastructure. UDIA would prefer to see a tripartite agreement for each Forward Estimates period being made between Treasury, DPIE and delivery agencies that would allocate SIC funds for DPIE to spend over that period without further approval from Treasury. This allocation could be a percentage of the funds collected in the previous period.

RECOMMENDATION 2: ACCOUNT FOR SIC EXPENDITURE AS THE EXTINGUISHMENT OF A LIABILITY RATHER THAN AN EXPENSE.

RECOMMENDATION 3: ALLOCATE A FUNDING ENVELOPE TO DPIE TO SPEND OVER THE FORWARD ESTIMATES PERIOD WITHOUT THE NEED FOR FURTHER TREASURY APPROVAL.

WORKS-IN-KIND

Works in Kind (WIK) are a key delivery method of SIC infrastructure, and UDIA believes that improvements are needed to the WIK process. Where opportunities exist for developers to deliver infrastructure as 'works in kind' there needs to be certainty around the scope and budget. Very simply, the works scope and budget are to be agreed up front and locked in at the time the agreement is executed.

The risk on the delivery of the agreed works scope from that point on should rest with the developer to manage, without needing to revisit or audit the costs post-delivery. In many cases the developer can deliver these works slightly cheaper than the budget. They can use economies of scale on the larger projects, if undertaken with an accompanying stage of their subdivision works. In this way minor variations can be absorbed by the developer. We would also support allowing variations up to the contingency percentage for given works without the need for a formal project variation process.

These 'works-in-kind' can be used to offset any SIC payments the developer may be required to pay for the delivery of their release. Where the cost of the works exceeds the developer's apportionment or SIC debt, there should be an option for the works to be credited against another project owned by the developer, traded with other developers in the area, or a refund/payment mechanism triggered upon delivery. In this regard there is an opportunity to establish a 'tradeable SIC credit register.' A formal mechanism of this nature will facilitate the early delivery of WIK work where it is practicable, advantageous and viable for a developer to do, and this early delivery is a major benefit to community amenity and well-being.

RECOMMENDATION 4: PROVIDE MORE GUIDANCE ON WORKS-IN-KIND ARRANGEMENTS INCLUDING LOCKING IN COSTS AT THE TIME THE AGREEMENT IS EXECUTED AND ALLOWING VARIATIONS UP TO THE CONTINGENCY.

RECOMMENDATION 5: PROVIDE MORE GUIDANCE ON SIC CREDITS, CREDIT TRADING AND REFUNDS INCLUDING THE POTENTIAL ESTABLISHMENT OF A TRADEABLE SIC CREDIT REGISTER GIVEN ITS DEMONSTRABLE BENEFITS FOR FORWARD DELIVERY OF INFRASTRUCTURE.

TIMING OF PAYMENT

UDIA believes that payment of the SIC should be required at Subdivision Certificate or Occupation Certificate, not at Construction Certificate. Requiring payment at Construction Certificate could mean that the SIC is paid up to four years before the dwelling is completed. To secure payment, a restriction could be placed on the parcel title requiring payment before the Occupation Certificate is issued.

RECOMMENDATION 6: REQUIRE SIC PAYMENT AT SUBDIVISION CERTIFICATE AND OCCUPATION CERTIFICATE, NOT CONSTRUCTION CERTIFICATE.

CHANGES ARE NEEDED TO SIC METHODOLOGY

The methodology for developing each SIC has varied over time and across locations. There are inconsistencies in the definition of key terms, as well as different approaches to designing and costing works, establishing nexus, apportioning costs, and assessing capacity to pay. Overall, there is a lack of transparency about the methodology, which makes it very hard for the industry to properly respond to a proposed SIC.

TYPE OF WORKS

UDIA sees it as a long-established principle and a necessary pre-requisite to any charging regime that there is a clear nexus between the development and infrastructure. Infrastructure that is unrelated to the development should not be included in the SIC.

While it is clear and fair to say that precinct development alone generates the demands for some infrastructure items, such as school sites. Other items such as roads and public transport attract patronage from a much broader area. There should be a greater consideration of the apportionment of these items, similarly with bio-certification the protection of the natural environment is of state-wide significance, so it would be better spread across a broader cohort such as the residents of NSW.

One major concern is the inclusion of major upgrades to State roads that are partially unrelated to the growth within the SIC area. Upgrades to roads like Appin Road, Picton Road, the Hume Highway, Richmond Road and Camden Valley Way have been longstanding requirements for decades and demand for these upgrades has been generated by users from a much broader area.

UDIA also recommends that the list of SIC works in the SIC Guideline clarify that only public (and not private) school sites are included, and what type of health facilities are included. We would be concerned if State health facilities and hospitals were to be included in a regional infrastructure list.

We also extend this concern to biodiversity. Biodiversity conservation is in the broader (in fact State and national) public interest, not just in the interests of new release areas alone. Likewise, new projects and residents in new release areas should not have to shoulder the burden for paying for environmental conservation because of their location. Priority Growth Areas are declared by the NSW Government to accommodate Sydney's growth, which it makes these decisions in the State's interests. Therefore, biodiversity is a State funding responsibility and not a localised "growth area" responsibility.

Where major upgrades are proposed to be included in a SIC, it is vital that all supporting analysis establishing nexus is made publicly available during the preparation of the SIC.

RECOMMENDATION 7: EXCLUDE MAJOR UPGRADES TO EXISTING MAJOR INFRASTRUCTURE, AND STATE HEALTH FACILITIES, FROM SIC PLANS UNLESS CLEAR AND TRANSPARENT NEXUS CAN BE ESTABLISHED.

RECOMMENDATION 8: CLARIFY THAT ONLY PUBLIC SCHOOL SITES ARE CONSIDERED SIC ITEMS.

RECOMMENDATION 9: EXCLUDE BIODIVERSITY CONSERVATION FROM SIC PLANS AS THIS ACTION IS MADE IN THE BROADER INTERESTS OF THE STATE AND ITS PEOPLES.

COST OF WORKS

UDIA has found that the costs in many draft SICs seem to be beyond the industry standard costs of development. They are often much higher than the cost of similar works in VPAs. DPIE has a database of historical Greenfield VPAs and delivered costs, which we believe should guide the costing of SIC works and if applied would put downward pressure on the overall SIC costs.

The cost in the SIC should be the efficient cost of delivering the most efficient solution to an issue, if for a reason unrelated to the development there is a requirement for a higher cost solution, then government should contribute that cost.

We acknowledge that some infrastructure items have not been designed to any level of detail prior to being included in the SIC plan. This highlights the importance of an annual review of each SIC to account for any refined designs for work items and therefore more accurate costings.

RECOMMENDATION 10: PROVIDE MORE DETAIL ON THE COSTING OF WORKS IN A SIC PLAN, AS WELL AS BENCHMARKING AGAINST THE COST OF SIMILAR WORKS IN VOLUNTARY PLANNING AGREEMENTS.

CONTINGENCIES

UDIA believes the proposed contingencies in the SIC Guideline (and those used in current draft SICs) are too high. We do not believe that a 40% contingency for roads or a 30% contingency for open space is reasonable. Many of the items in a SIC can be costed early at a very high degree of accuracy. UDIA recommends that instead of applying contingencies to each type of work, the SIC should include contingency as a separate line item applying to the whole plan. We believe that a contingency of 10% for the whole plan would provide a sufficient level of coverage for risk.

Using the recent draft Wilton SIC as a worked example, we believe this approach could reduce the total cost of the plan from \$771 million to \$617 million, whilst still providing \$56 million in contingency funds. This would reduce the SIC charge per dwelling from \$59,274 to \$47,435 and we are confident can deliver the infrastructure needed.

We believe that the annual review of each SIC plan would also allow contingency requirements to be lowered as projects are delivered that have not required contingency funds.

RECOMMENDATION 11: REPLACE INDIVIDUAL CONTINGENCIES PER WORK TYPE WITH ONE CONTINGENCY LINE ITEM FOR THE WHOLE SIC PLAN.

RECOMMENDATION 12: ENSURE CONTINGENCY RATES ARE REVISED AS SIC WORKS ARE DESIGNED AND DELIVERED.

CHARGE BASIS

UDIA NSW does not believe that a per dwelling rate is an equitable approach because it does not reflect the lower infrastructure impact associated with each medium or high-density dwelling. We consider this will lead to lower residential population in greenfield SIC areas, as townhouses and apartment projects, which are already marginal, will diminish further.

A per dwelling charge in lieu of a net developable area (NDA) as the basis for a SIC charge also disincentivises the industry from innovating with higher densities.

We support the use of net developable area (NDA) as the basis for a SIC charge. However, NDA needs to be clearly defined because it has been applied differently in different SICs over time. NDA should not include public roads or land sterilised by easements such as transmission easements. In large lot rural residential areas, the charge should be capped at the equivalent of the rate for a 1,000m² lot. Otherwise, large lot rural residential areas will be overcharged and disadvantaged. Finally, we do not support a definition of NDA that has been used in the past which defines NDA as any land not used for infrastructure in a s7.11 plan. This leaves the SIC rate open to any future changes to the s7.11 plan and creates uncertainty.

RECOMMENDATION 13: ADOPT THE NET DEVELOPABLE AREA AS THE BASIS FOR ALL SIC CHARGES.

RECOMMENDATION 14: ESTABLISH A CLEAR AND CONSISTENT DEFINITION OF NET DEVELOPABLE AREA THAT EXCLUDE PUBLIC ROADS AND EASEMENTS, AND CAPS THE CHARGE IN LARGE LOT RURAL RESIDENTIAL AREAS.

CAPACITY-TO-PAY

UDIA believes that the use of a capacity-to-pay assessment in determining the SIC charge is problematic and could make development unfeasible. Our experience in reviewing draft SICs has been that this assessment has often been inaccurate because it is based on several flawed assumptions on local contributions, timing of payment, dwelling densities, sales rates, sales prices, and professional fees.

For example, the scenario in some capacity to pay assessments in draft SICs has allowed for 100% of the land to be developed for housing with no allowances for open space, access denied roads, schools, asset protection zones etc. This reduces the land by about 25% in Greater Macarthur, for example and creates corresponding losses. In addition, the assessment often assumes higher dwelling densities for lot sale prices than for development scenarios. For example, the assessment in the draft Greater Macarthur SIC assumed a dwelling density of 18 lots per hectare (which would result in an average lot size of 388m²) but used 450m² (i.e. 15 lots per ha) in adopting a sales price for lots. The sample size for sales is often too small and predicts a sale price higher than the market is currently experiencing.

Capacity to pay is strongly influenced by the time at which a site was acquired, which is difficult to establish in the assessment. Local contributions will also soon be uncapped and it is difficult to predict future rises in this charge and account for them in the capacity to pay assessment.

Given these difficulties, UDIA suggests that DPIE consider a simpler method of ensuring development feasibility, by capping the SIC charge at a reasonable percentage of the average lot sale price in the area (likely somewhere below 5%).

RECOMMENDATION 15: REPLACE THE CAPACITY-TO-PAY ASSESSMENT WITH AN UPPER LIMIT ON THE SIC CHARGE THAT IS A REASONABLE PERCENTAGE OF THE AVERAGE LOT SALE PRICE.

CONCLUSION

UDIA NSW looks forward to working with DPIE in promoting certain and fair contributions for the development industry, and improving the SIC process to promote nexus, transparency, affordability, and housing supply. We believe the recommendations in this submission will improve the SIC system in the short term, while anticipating broader reform to infrastructure charges working with the Productivity Commission in the medium term.

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