

Infrastructure charging policy position

Master Builders Queensland strongly believes that charging for trunk infrastructure (water, sewerage, stormwater, transport, parks and recreation) should not adversely impact on housing affordability.

In the long term, the entire community benefits from investing in infrastructure. On that basis, the cost of providing trunk infrastructure needs to be shared equally between industry and the community.

Key policy imperatives

- **Affordability** – A number of Queensland’s metropolitan housing markets are severely unaffordable by national and global standards¹.
- **Equity** – Investing in infrastructure benefits current residents as well as future generations.
- **Certainty** – Industry, as well as government, need certainty in managing their operations. Local government needs to provide industry with a clear basis for calculating infrastructure charges applicable to new development.
- **Transparency** – Industry and the community need to be confident that local governments’ infrastructure plans correctly identify the nature, scale and cost of the infrastructure required to accommodate projected growth in that area.

Master Builders’ five point plan

1. The cost of funding trunk infrastructure for new development within a local government’s urban footprint should be equally shared between government and industry. Equal sharing of the cost recognises the significant indirect economic impact that results from urban development.
2. By collecting charges through the rate base, the whole community (including homeowners, renters and investors) will contribute to the cost of trunk infrastructure provided for their use. The sharing of costs will **reduce the capital cost of housing**.
3. Local governments’ **lower cost of capital** (compared to the borrowing rates of individual

home buyers) means that over time a statewide saving of approximately \$100 million per annum will be passed onto the community.

4. Before setting infrastructure charges local governments should assess the **economic impact** on the local economy and the effect on housing affordability. Transitional arrangements should be provided in circumstances where the outcome would have an adverse affect on housing affordability.
5. The Queensland Competition Authority should provide **regulatory oversight** of infrastructure charging to ensure consistency across local governments in meeting service standards in a cost effective manner. The Queensland Government needs to provide a suitable, low cost mechanism for dealing with disputes about infrastructure charges.

Policy outcomes

Equal sharing

- Equal sharing of trunk infrastructure costs between local government and industry recognises the benefit to the community from the provision of trunk infrastructure and the related indirect economic impacts.
- Where development occurs within a local government’s defined urban footprint consistent with local and regional planning strategies, the cost of trunk infrastructure needs to be shared equally between the community and industry.
- This approach would assist in meeting broader government policy objectives by reducing the up front capital cost of new housing, making it more accessible to lower income households that are constrained by lenders’ loan to valuation ratios².
- Where development occurs outside of the urban footprint (or out of sequence), in most circumstances, all trunk infrastructure costs should be met directly by industry.

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Reducing the capital cost of housing

- Collecting local governments' share of trunk infrastructure charges through the ratepayer base recognises the community benefits from both the infrastructure itself and the indirect economic impacts, such as jobs, that follow.
- Funding through the ratepayer base also overcomes intergenerational inequality that would arise if the full cost of trunk infrastructure was met only by new home buyers. By sharing the cost, those in existing houses and investors who have benefitted from low infrastructure costs in the past will contribute as well as the buyers of new houses.
- Importantly it also results in a reduced capital cost for new homes, leading to increased affordability: a greater number of people will be able to access housing finance. Ultimately the householder will pay the full cost of trunk infrastructure, however moving some of the burden into the rate base helps improve affordability at the point of purchasing a home. This will be significant for the lower end, first home buyers where the cost of a typical house and land package in Queensland is in the range of \$350,000 to \$400,000³.
- In most cases, the cost of infrastructure for new homes will not be fully reflected in market valuations. If infrastructure charges continue to rise significantly, markets may not be able to adjust appropriately. This will diminish the ability for consumers to secure finance, which in turn will result in a deferral in demand for new homes.

Lowering the cost of capital

- Local governments are able to access interest rates for debt at levels considerably lower than individual homebuyers. Assuming local

governments' share of infrastructure charges is \$15,000 for each new home and their cost of capital is 1% below bank mortgage rates, then over time, \$100 million per annum can be saved Queensland-wide⁴.

- There is also a strong case for state and federal government financial support in funding trunk infrastructure, including reallocating GST revenue raised from building and construction.

Economic impact

- Trunk infrastructure charges (however collected) impact on affordability and the demand for housing. Prior to setting these charges, local governments should be required to prepare an economic impact assessment that addresses the impact on the local economy and the impact on housing affordability. This will assist local governments in meeting local and regional planning and social policy objectives while improving accountability.
- In circumstances where proposed trunk infrastructure charges have an adverse affect on housing affordability, the increased costs should be phased in over time.

Regulatory oversight

- The Queensland Competition Authority (QCA) should ensure that best practice creates a benchmark for trunk infrastructure charging in Queensland. The QCA should also ensure that trunk infrastructure is fit for purpose in meeting service level standards (no 'gold-plating'); and trunk infrastructure is paid for only once (no 'double-dipping').
- The new Building and Development Dispute Resolution Committee should provide a cost effective avenue for reviewing infrastructure charges proposed for a particular development.

¹An internationally recognised measure of housing affordability is the ratio of median house price to median household income (the 'median multiple') for which affordable is considered to be a ratio of three or less. The *5th Annual Demographia International Housing Affordability Survey* identifies the Sunshine Coast as the least affordable global location surveyed with a median multiple of 9.6 and also includes the Gold Coast and Bundaberg in the top ten unaffordable locations.

²The recently released *5th Annual Demographia International Housing Affordability Survey* indicates that there are no affordable major metropolitan housing markets in Queensland – Sunshine Coast is Australia's most unaffordable market (with a median multiple of 9.3). Other severely unaffordable Queensland markets include the Gold Coast with a median multiple of 8.7, Bundaberg (7.2), Brisbane (6.3), Rockhampton (5.9), Mackay (5.8), Townsville (5.7) and Toowoomba (5.1). Nationally, the median multiple is 6.0, well above levels of a decade ago. In terms of other Australian capitals: Sydney (8.3), Adelaide (7.1), Melbourne (7.1), Darwin (5.9) and Canberra (5.1).

³Assuming a \$30,000 average trunk infrastructure charge (with \$15,000 included in the developer's cost and \$15,000 paid by the local government but collected from ratepayers) paying \$15,000 through the ratepayer base would reduce the up-front capital cost by about 4%.

⁴This estimate considers the statewide savings that result if \$15,000 of trunk infrastructure charges is collected through the ratepayer base at local governments' cost of capital rather than the homeowners'. Assuming local governments have a weighted average cost of capital that is 1% lower than retail bank mortgage rates and assuming a 25 year mortgage, the saving to a homeowner would be approximately \$100 per annum. Spread across the forecast one million new homes required in Queensland in the next 25 years, this would mean, over time, a total saving to the Queensland economy of \$100 million per annum.