Development Contributions Options Study
Fishermans Bend Urban Renewal Area
PLACES VICTORIA
DECEMBER 2012
FINAL DRAFT VERSION 1.4
DRAFT
Summary

Introduction and Study Area Context
Urban Enterprise was engaged by Places Victoria to prepare a study of options for collecting interim and longer term development contributions for the Fishermans Bend Urban Renewal Area (FBURA). The majority of the FBURA was rezoned in July 2012 to the Capital City Zone (CCZ). The replacement of these zones with the Capital City Zone represents a major change in the type and scale of development that is permitted in the FBURA. The CCZ allows for medium to high residential densities and a range of residential, commercial, industrial, recreational, business and leisure uses within a mixed use environment. The collection of development contributions is made possible in the Planning Scheme through the application of the Development Contributions Plan Overlay (DCPO).

The Net Developable Area of the FBURA is estimated at 144ha. Four development scenarios have been prepared by Places Victoria to inform planning for the FBURA. The development scenarios range from 5,000 dwellings and 50,000m² of commercial floor space (Incremental Growth Scenario (O)) to 60,000 dwellings and 850,000m² of commercial floor space (High Growth Scenario (C)). Places Victoria anticipates that the development timeframe for the FBURA will be in the order of 40 years, with development expected to commence in 2013 and approach full development by 2051.

Development Contributions Review
The existing Development Contributions framework is currently under review. The Minister for Planning has appointed an Advisory Committee to inform the review. The Department of Planning and Community Development’s (DPDC) position paper on the development contributions review, titled A New Victorian Local Development Contributions System - A Preferred Way Forward (2012), foreshadows the introduction of standard development contributions levies, and suggests that once the standard levies are introduced it will not be possible to prepare a full cost appointment DCP.

However, it is difficult to apply a standard levy to infill development such as the FBURA, due largely to the following factors:
- The definition of ‘infill development’ could include a wide range of development settings, including minor infill, major transformational development, precinct-based infill development and others;
- The relationship between development contributions and other charging mechanisms, such as public open space contributions, is less clear in infill development areas;
- The indicative standard levy amount included in the Indicative Standard Levies for Development Contributions (May 2012) report and 25% ‘infill rate’ was set with reference to the municipal-wide Development Contributions Plans prepared for Darebin City and Bayside City Councils. These DCPs essentially responded to incremental, municipal-scale growth rather than a major, transformational precedent such as the FBURA.

Infrastructure Requirements
A range of infrastructure items have been identified as required to support projected development in the FBURA, including community facilities, passive and active open space, light rail infrastructure, road upgrades, education and health facilities and utility upgrades.

The total estimated infrastructure cost at the FBURA is estimated at more than $1 billion for the high growth scenario. The estimated infrastructure costs that are likely to be subject to development contributions are shown in the Table below.

<table>
<thead>
<tr>
<th>Scenarios of Costs</th>
<th>Scenario D</th>
<th>Scenario A</th>
<th>Scenario B</th>
<th>Scenario C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community and Active Open Space</td>
<td>$17,306,267</td>
<td>$17,708,196</td>
<td>$41,936,431</td>
<td>$43,936,848</td>
</tr>
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<td>$0</td>
<td>$20,500,000</td>
<td>$43,936,848</td>
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<td>Transport Costs</td>
<td>$85,903,000</td>
<td>$61,500,000</td>
<td>$305,000,000</td>
<td>$305,000,000</td>
</tr>
<tr>
<td>Revital and Interventions</td>
<td>$9,409,806</td>
<td>$11,179,841</td>
<td>$4,218,452</td>
<td>$126,367,738</td>
</tr>
<tr>
<td>Project Planning and DCP Preparation</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Total Infrastructure Cost</td>
<td>$127,216,032</td>
<td>$118,980,807</td>
<td>$460,317,079</td>
<td>$739,536,382</td>
</tr>
</tbody>
</table>

Indicative Levies
Based on the preliminary infrastructure costs identified above, under a full cost appointment DCP, infrastructure charges would range from $9,090 to $12,585 per residential dwelling for residential development, and from $6,076 to $7,730 per equivalent dwelling for commercial development. These charges relate to the development and community infrastructure items only, and do not include contributions to land acquisition for public open space.

Places Victoria has estimated that contributions to public open space at the FBURA would likely range between $3,000 and $4,000 per demand unit, or allocation of equivalent land by the development proponent. It is assumed open space contributions will be collected under clause 52.01 of the relevant Planning Scheme, or via the Subdivision Act.

Under a full cost appointment approach, total development contributions at the FBURA would therefore likely range from $12,000 to $18,000 per dwelling for residential development, and $16,000 to $21,000 per equivalent commercial demand unit.

Intermediate Development Contributions Options
Further work is required to finalise a full cost appointment DCP for the FBURA in accordance with Part 3B of the Planning and Environment Act 1987 and the 2010 Development Contributions Guidelines. Places Victoria estimate that the required work will be completed over the next six months, including finalisation of infrastructure requirements and cost estimates, infrastructure catchment areas and development projections.

Until the required work is complete, any development contributions at the FBURA would likely be levied by negotiation, under section 173 of the Planning and Environment Act 1987.

When deciding a fair and reasonable intermediate development contributions approach, four primary options are available:
- adopt the infrastructure charges established by the full cost appointment approach outlined above;
- apply the Standard Levy for Greenfield Areas, calculated as part of the current review of the Development Contributions System;
- apply a proportion of the Standard Levy for Greenfield Areas, calculated as part of the current review of the Development Contributions System; or
- apply the Standard Levy for Strategic Development Sites (proposed to be developed as part of the current review of the Development Contributions System but not yet available).
Under a Standard Levy approach, it is considered that the development conditions of the FBURA relate more closely to a green-field setting that the infill setting contemplated in the standard levies. The 25% infill standard levy ($3,200 per dwelling) would cover less than 35% of the infrastructure costs under all four scenarios, resulting in a significant funding burden for the collection agency for basic infrastructure.

Due to these factors, it is recommended that a rate of not less than 75% of the standard green-field levy be applied as an interim approach to collecting development contributions in the FBURA. Places Victoria has estimated that the maximum rate should not exceed $15,000 per dwelling, based on development feasibility testing at the FBURA. A rate within this range will ensure that development contributions could account for an equitable proportion of funds required to deliver the infrastructure required in the area, without placing unreasonable cost pressure on development or reducing the attractiveness of the FBURA as a key development location for Victoria.

**POTENTIAL LONGER TERM APPROACHES**

It is considered that appropriate longer term options for levying infrastructure charges at the FBURA could include:

- Development contributions levied under a full cost apportionment DCP; or
- Application of standard development charge (such as an IRC or Standard Levy); or
- Application of an annual land charge (such as a betterment levy); or
- A combination of a standard development contributions charge and an ongoing land charge.

The existing development contributions system has been in place for more than a decade, and has formed the basis of the large majority of development contributions levied in Victoria over this time. A full cost apportionment DCP is currently considered as a primary option for the FBURA. However, given that the Minister has foreshadowed a move to standard levies, the use of a standard levy may be preferable.

Under a Standard Levy approach, the introduction of an IRC similar to the Dandenong levy could be a preferred mechanism, rather than relying on the standard charge for infill development which would not likely set an appropriate rate for the FBURA.

However, there are also advantages in recouping infrastructure costs via an on-going land based charge, such as a betterment levy. Under an ongoing land based charge:

- Costs are borne by a range of parties, including developers, land owners and end users;
- Costs are spread over a longer time period; and
- Costs are better known as development progresses and the levy can be adjusted accordingly.

It is considered that the most effective way of collecting funds through an ongoing land based charge would be to utilise the Urban Renewal Authority Act (2003). The Land Tax Act (2005) may also be an option.

The Urban Renewal Authority Act (2003) allows for the collection of three types of charges:

1. Infrastructure Recovery Charge (payable on development value);
2. General Charge; and
3. General Development Charge (levied when a property is developed).

An ongoing charge such as a betterment levy could be applied as an annual General Charge to be collected based on the value of all land within the FBURA.

The Land Tax Act (2005) includes land tax rates and exemptions for various land uses, including principal place of residence, and land use for other purposes, including primary production, sporting, recreational and cultural land, charities and health services, accommodation, and public, government and municipal land.

Given that Land Tax is collected annually and can apply to all land, an option may exist to amend the Land Tax Act to designate urban renewal areas generally (or the FBURA specifically) as subject to a special land tax rate based on land value.

Under this approach, the distribution of costs will ensure that the funding and financing burden does not rest with one party, thus minimising the risk of market failure to deliver infrastructure based on funds collected from development contributions.

Whilst a land based charge such as a betterment levy is not recommended as a stand-alone approach, it may be used in conjunction with a development contributions levy or IRC to collect funds over the 40 year development timeframe. Accordingly, a combination of a Standard Levy such as an IRC and a land based charge such as a betterment levy could form the preferred long term infrastructure funding model for the FBURA.

**RECOMMENDATIONS AND NEXT STEPS**

The following recommendations are made in order to progress the selection of a preferred development contributions framework for the FBURA.

1. As a matter of priority, consider and finalise the administration issues identified in this report, including:
   - Determining the collection agency;
   - Determining the development agency; and
   - Finalising the conditions for works in land.

2. Adopt an interim development contributions framework, which includes the following key components:
   - Collect development contributions from all development, including those for which the Minister for Planning is not the Responsible Authority;
   - Adopt the ‘equivalent dwelling’ demand unit shown in this report, with standard equivalence ratios applied to commercial and retail development; and
   - Apply a levy equivalent to not less than 75% of the standard green-field levy, with a maximum rate of $15,000 per residential dwelling equivalent or demand unit to development in the FBURA to cover community, active open space, roads and light rail infrastructure.

3. To progress the interim framework to a final framework:
   - Address the key information gaps identified in this report, including:
     - Roads infrastructure assessment, including roads, intersections, trails and streetscape improvements;
     - Land required for DCP infrastructure and estimates of the value of the land;
     - Assessment of which parcels are vacant, which are under-utilised or have low value improvements, and which are occupied by high value improvements and/or high value businesses;
     - Sales transactions evidence for vacant land within the precinct, pre- and post rezoning;
   - Further refine and narrow the development projections and scenarios to inform the final development contributions framework;
   - Undertake an assessment of the financial outcomes of applying a combined betterment levy and IRC;
• Finalise the details and mechanisms by which a combined betterment levy and IRC would be implemented.

It is considered that the recommended levy range would not unreasonably impact on development feasibility, especially when compared with the contributions currently payable in Melbourne’s growth areas. Whilst the development industry is currently experiencing tightening conditions, it is expected that strong land value uplift in the FBURA will ensure that the area will experience land use transition and associated infrastructure and amenity improvements.

It is essential that key infrastructure projects, particularly light rail and streetscape improvements, are provided early in the development timeframe. This will require State Government funding to activate the FBURA as an attractive area for development and drive the desired land use transition.

2. INTRODUCTION

Urban Enterprise was engaged by Places Victoria to prepare a study of options for collecting interim and longer term development contributions for the Fishermans Bend Urban Renewal Area (FBURA).

The project is to provide advice on an interim development contributions approach for the FBURA. The approach taken includes the following steps, which form the major sections of this report:

• Understand the study area (FBURA), including existing use, ownership and improvements to the land, land budget including encumbrances, and development projections;

• Understand the statutory context of the study area and the development contributions system, including current zones and overlays;

• Explore development contributions options, including those allowed under the Planning and Environment Act (1987) and typical arrangements in Victorian, Australian and international case studies for urban renewal locations;

• Examine the land values within the study area and comparable inner Melbourne suburbs to ascertain the potential value uplift due to rezoning to the Capital City Zone;

• Identify the indicative infrastructure requirements for the FBURA, including infrastructure types and indicative cost estimates;

• Calculate indicative development contributions amounts based on the range of collection mechanisms explored; and

• Outline considerations for implementation, including collection of levies, delivery of infrastructure, development applications, indexing and review.
3. **STUDY AREA**

3.1. **LOCATION**

The study area is the Fishermans Bend Urban Renewal Area (FBURA), which is within the suburbs of Port Melbourne and South Melbourne. The FBURA is generally bounded by:

- Todd Road to the west;
- The Westgate Freeway and Lorimer Street to the north;
- Williamstown Road to the south; and
- City Road to the east.

The FBURA was re-zoned to the CCZ in July 2012 from a combination of the Industrial 1 Zone and the Business 3 Zone.

Figure 1 shows the location of the Fishermans Bend Urban Renewal Area and the various precincts in relation to the surrounding suburbs and the Melbourne CBD. The four precincts within the FBURA are:

- Lorimer Precinct (shown in red);
- Montague Precinct (shown in blue);
- Wirraway Precinct (shown in light blue); and
- Sandridge Precinct (shown in yellow).

**FIGURE 1 STUDY AREA MAP**

3.2. **LAND BUDGET**

The study area covers approximately 248 ha of land. Currently, the land is predominantly used for industrial and related purposes. Table 1 shows the total area, Gross Developable Area (GDA) and Net Developable Area (NDA) for each precinct within the Study Area. This land budget is used as the basis for calculating development contributions in this report.

Key information gaps for this project are detail on the level of site occupancy/vacancy, the level of utilisation of the sites, the standard and value of improvements, and the value and level of entitlement of the businesses within the FBURA. If available, this information would inform the likelihood and timing of redevelopment within the study area.

**TABLE 1 LAND BUDGET**

<table>
<thead>
<tr>
<th>Precinct</th>
<th>Total Area</th>
<th>Gross Developable Area (GDA)</th>
<th>Net Developable Area (NDA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wirraway Precinct</td>
<td>93.21</td>
<td>76.17</td>
<td>58.17</td>
</tr>
<tr>
<td>Sandridge Precinct</td>
<td>86.61</td>
<td>71.69</td>
<td>56.58</td>
</tr>
<tr>
<td>Montague Precinct</td>
<td>43.32</td>
<td>31.17</td>
<td>24.24</td>
</tr>
<tr>
<td>Lorimer Precinct</td>
<td>27.16</td>
<td>25.24</td>
<td>25.24</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>248.19</strong></td>
<td><strong>204.86</strong></td>
<td><strong>180.18</strong></td>
</tr>
</tbody>
</table>

Source: GHD, 20 September 2012.

3.3. **DEVELOPMENT SCENARIOS**

Four development scenarios have been prepared by Places Victoria to inform planning for the FBURA, as shown in Table 2. These development scenarios are used as the basis for calculating development contributions in this report, and include residential dwellings, commercial floor space and retained industrial land.

The incremental development scenario (Scenario 0) assumes that there will be no State government financial contribution to the area and provides no additional public transport, road connections or open space. This is the baseline scenario.

The other three scenarios apply different development projections based on varying development densities within the range of the likely employment and population capacity of the FBURA.

All four scenarios assume that 20% of developable land will be retained for industrial purposes, with the remaining 80% to be redeveloped for commercial and residential purposes.

Based on the information currently available, there is an inability to reliably forecast rates of development, types of development and land use, scale of development and the location of development.
### TABLE 2 DEVELOPMENT SCENARIOS

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Residential Buildings</th>
<th>Retail/Leisure</th>
<th>Non-residential commercial development</th>
<th>Commercial development ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A – Incremental</td>
<td>5,000</td>
<td>10,000</td>
<td>40,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Scenario B – Medium</td>
<td>10,000</td>
<td>20,000</td>
<td>80,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Scenario C – High</td>
<td>15,000</td>
<td>30,000</td>
<td>120,000</td>
<td>150,000</td>
</tr>
</tbody>
</table>

Source: Places Victoria, 2012

### 3.4 DEVELOPMENT TIMEFRAME

Places Victoria anticipates that the development timeframe for the FBURA will be in the order of 40 years, with development expected to commence in 2013 and approach full development by 2051.

### 4. STATUTORY CONTEXT

#### 4.1 DEVELOPMENT CONTRIBUTIONS FRAMEWORK

Under the current planning system development contributions can be collected by a Collection Agency to provide infrastructure that has a nexus with development, in accordance with the Planning and Environment Act (1987), the State Planning Policy Framework (SPPF), Ministerial Directions (from the Minister for Planning) and the Development Contributions Guidelines (2007).

Development contributions are generally levied by one of the following mechanisms:

- A Development Contributions Plan (DCP);
- Planning Permit conditions; or
- A voluntary agreement under Section 173 of the Planning and Environment Act (1987).

**Planning and Environment Act (1987)**

Part 3B of the Planning and Environment Act 1987 outlines the statutory provisions relating to development contributions. In summary, Part 3B provides for the inclusion of a DCP in the Planning Scheme, and the provision to impose a Development Infrastructure Levy or a Community Infrastructure Levy.

The Act specifies the contents required for a DCP and the responsibilities of the various agencies, including the responsible authority, collecting agency, development agency and local councils.

**Minister’s Directions**

The Minister's Direction dated 19 May 2003 outlines what may be funded with a development contribution levy, such as roads, intersections, trails, public transport, drainage works, public open space improvements, community facilities (maternal child health centres and kindergartens) and land acquisition.

The direction does not include a definition for Community Infrastructure.

A second Minister’s Direction (dated 25 January 2012) exempts non-government schools from paying development contributions, including both the development infrastructure levy and the community infrastructure levy, as part of a DCP.

**Development Contributions Guidelines**

The Victorian State Government published a set of documents which make up the Development Contributions Guidelines (2007). These documents provide guidance as to how DCPs are to be prepared and administered including the matters that DCPs are to consider.

Whilst these Guidelines hold no statutory weight, they are often referred to in Panel Hearings and negotiations regarding development contributions, and constitute the most detailed government document available relating to development contributions.

### 4.2 DEVELOPMENT CONTRIBUTIONS REVIEW

The Development Contributions framework as described above is currently under review. The Minister for Planning has appointed an Advisory Committee to inform the review. A Standard Development Contributions Advisory Committee has been established, which is due to recommend a new framework by December 2012 and set standard levies for the new system by May 2013.
The Department of Planning and Community Development’s (DPoCD) position paper on the development contributions review, titled ‘A New Victorian Local Development Contributions System - A Preferred Way Forward’ (2012), suggests that once the standard levies are introduced it will not be possible to prepare a full cost apportionment DCP.

Urban Enterprise prepared two reports to inform the current review, titled DCP Levy Analysis (August 2011) and Indicative Standard Levies for Development Contributions (May 2012). These reports are now publicly available and have been provided to the Standard Development Contributions Advisory Committee.

The Indicative Standard Levies for Development Contributions (May 2012) report is of relevance to the FBURA, as it models existing and exhibited DCP costs to arrive at average costs per category of infrastructure. The infill contribution rate is set at 25% of the Greenfield rate. For the fixed charge model, the calculated levy for infill development is $3,200 per dwelling.

It should be noted that the reports do not purport to set the charges, merely to provide a modelling methodology to inform the process of setting a charge. This is part of the work of the Advisory Committee.

It is difficult to apply a standard levy to infill development, due largely to the following factors:

- The definition of “infill development” could include a wide range of development settings, including minor infill, major/transformational development, incremental development, precinct-based infill development and others.
- The relationship between development contributions and other charging mechanisms, such as public open space contributions, is less clear in infill development areas.
- The indicative standard levy amount included in the Indicative Standard Levies for Development Contributions (May 2012) report and 25% ‘infill rate’ was set with reference to the municipal-wide Development Contributions Plans prepared for Dandenong City and Bayside City Councils. These DCPs essentially responded to incremental, municipal-wide growth rather than a major, transformational precinct such as the FBURA.

Inner city urban renewal areas such as the FBURA generally require significant infrastructure investment due to the limited capacity of existing infrastructure in these areas. The infrastructure cost savings for inner city urban renewal areas are likely to be much less than the savings associated with incremental infill development. It is considered that inner city urban renewal areas would experience only marginal levels of infrastructure efficiencies compared with greenfield development, generally limited to access to existing passive open space and the opportunity to augment existing facilities rather than build new. The development contributions method and rate developed for the FBURA could therefore be seen as a test case for this type of inner city urban renewal, and could be used to inform the current Advisory Committee’s work.

4.3. FISHERMANS BEND STATUTORY CONTEXT

4.3.1. ZONING

The majority of the FBURA was rezoned in July 2012 to the Capital City Zone (CCZ). The land not included in the CCZ remained as Public Park and Recreation Zone (PPRZ) and Public Use Zone (PUZ, PUZ2 and PUZ3).

Prior to the rezoning to the CCZ, the FBURA was zoned Industrial 1 and Business 3. The Industrial 1 Zone provided for manufacturing industry, the storage and distribution of goods, and associated uses. The Business 3 Zone provided for integrated development of offices and manufacturing industries and associated commercial and industrial use. The replacement of these zones with the Capital City Zone represents a major change in the type and scale of development that is permitted in the FBURA. The CCZ allows for medium to high residential densities and a range of residential, commercial, industrial, recreational, business and leisure uses within a mixed use environment.

The Sandringham, Winchelsea and Montague Precincts of the FBURA are within the City of Port Phillip, and the Lorimer Precinct is within the City of Melbourne. The City of Port Phillip Precincts are covered by Schedule 1 to the CCZ and the Lorimer Precinct is covered by Schedule 4, however the two schedules are identical.

Figure 2 shows the current zoning of the study area.

FIGURE 2 STUDY AREA ZONES

Source: Planning Maps Online, accessed September 2015

4.3.2. RESPONSIBLE AUTHORITIES

The Responsible Authority for development within the FBURA varies depending on the Precinct in which the development is located and the scale of the development as follows:

- **The Minister for Planning** is the Responsible Authority for planning permit applications which are located within the Montague, Sandringham and Winchelsea Precincts and meet one or more of the following criteria:
  - Development with a building height of four storeys or greater;
  - Use and/or development for 60 or more dwellings;
  - Use and/or development with a gross floor area exceeding 10,000 square metres; or
  - Use and/or development where any part of the land is owned by a public authority and/or municipal council and the estimated cost of development is more than $10 million.

- **The City of Port Phillip** is the Responsible Authority for developments in the Montague, Sandringham and Winchelsea Precinct which do not meet the criteria above;

- **The Minister for Planning** is the Responsible Authority for developments which are located within the Lorimer Precinct and have a gross floor area exceeding 25,000 square metres; and

- **The City of Melbourne** is the Responsible Authority for developments in the Lorimer Precinct of less than 25,000 square metres.

The above criteria were sourced from Clause 61.01 of the Melbourne Planning Scheme and Clause 61.01 of the Port Phillip Planning Scheme.
4.3.3. DEVELOPMENT CONTRIBUTIONS
The collection of development contributions is made possible in the Planning Scheme through the application of the Development Contributions Plan Overlay (DCPO).

The relevant schedules to the DCPO, Schedule 1 to the DCPO in the Melbourne Planning Scheme and Schedule 2 to the DCPO in the Port Phillip Planning Scheme, cover the entire FBURA and state that “the preparation and incorporation of a development contributions plan is required”. The schedule also states that “any use or development of land where the Minister for Planning is not the responsible authority is excluded from a development contributions plan.”

4.4. PUBLIC OPEN SPACE
It has been assumed for the purposes of this report that Public Open Space contributions will be dealt with under Clause 52.01 of the Planning Scheme.

It should be noted that the standard levy amounts to not include public open space contributions usually dealt with under Clause 52.01.

4.5. IMPLICATIONS OF STATUTORY CONTEXT
The Statutory Context provides various challenges to the collection of development contributions from development within the FBURA.

The fact that there are currently 3 responsible authorities acting within the FBURA presents a major challenge to the administration of a future DCP. It would be impractical for development contributions to be collected by any more than one Responsible Authority. The Schedule to the DCPO as it is presently worded would only apply development contributions to development within the Minister is the Responsible Authority. However, smaller developments will nonetheless generate significant cumulative demand for local infrastructure and services. Consequently, excluding smaller developments from development contributions may:

- Be inequitable, given that these developments would benefit from infrastructure provided without contributing to the funding of that infrastructure; and/or
- Result in the under-provision of local infrastructure and services, particularly in the early stages of development, and particularly for community infrastructure which relies heavily on incremental residential contributions.

As a starting point, the selection of the most appropriate collecting agency should be considered before commencing the collection of development contributions. This issue is explored further in Section 6 - Administration.

5. INFRASTRUCTURE REQUIREMENTS

5.1. INTRODUCTION
A range of infrastructure will be required to support development in the FBURA. This will include local works, precinct works and higher order infrastructure. This section outlines the infrastructure typically funded through development contributions, infrastructure typically funded by other sources, and the infrastructure items identified in background studies as required to support development in the FBURA.

5.2. INFRASTRUCTURE FUNDING SOURCES
The full range of infrastructure required to support development in the FBURA will require a combination of funding sources, including developer provided, shared infrastructure (developer and government contributions) and government funded.

Appendix A shows the infrastructure funding matrix included in A New Victorian Local Development Contributions System - A Preferred Way Forward (July 2012), the Department of Planning and Community Development’s Position Paper on the preferred framework on the new development contributions system.

The matrix shows that not all infrastructure required to support development is funded through development contributions, rather a range of public and private funding sources are required, including:

- Direct delivery by development proponents (generally including local infrastructure such as passive open space, local playgrounds, local drainage, connector and local roads and intersections and internal shared paths);
- Development contributions by developers and Council (generally including community infrastructure, active open space, arterial roads and intersections and associated land acquisition); and
- State Government agencies, such as VicRoads and Melbourne Water (generally including major arterials and freeways, major intersections and major drainage paths).

Utility infrastructure such as power, water, gas and sewerage is funded by developer charges paid directly to utility service providers.

In addition to the development works identified above and in Appendix A, State Government funding will also be required for other facilities, such as schools and emergency services. These facilities have been excluded from this report.

Whilst less common, Federal Government funding can also be an important funding source for major infrastructure works.

5.3. DEVELOPMENT AND COMMUNITY INFRASTRUCTURE ITEMS

5.3.1. OVERVIEW
A range of infrastructure will need to be delivered to support residential and commercial development within the FBURA. Items generally funded by development contributions and similar mechanisms are typically described as either ‘development infrastructure’ or ‘community infrastructure’.

The following reports outline the indicative range of development and community infrastructure items required for the FBURA that generally fall under the categories of development infrastructure and community infrastructure:
Fishermans Bend Preliminary Community Infrastructure Needs Assessment, ASR Research (19 September 2012) - this report provides indicative community infrastructure requirements for the various scenarios and estimated costs;

Fishermans Bend Development Area Light Rail Concept Designs, AECOM (10 November 2011) - this report provides details on route options and costs for the extension of light rail infrastructure to service the FBURA.

A range of other infrastructure and supporting documents were also supplied to Urban Enterprise, which are not included in this report but provided valuable development context.

At the time of writing, no detail was available regarding the other types of development infrastructure which is typically funded by development contributions, such as roads, intersections, shared paths and land acquisition required for development and community infrastructure provision.

In order to provide reliable, informed and complete advice in respect of development contributions for the FBURA, it will be critical to understand the range of infrastructure that will be needed to support the redevelopment. It is likely that the detailed investigations relating to these matters will take considerable time and that infrastructure requirements will evolve in line with the scale, rate and nature of development.

The infrastructure items and costs identified in the background reports are shown in the following sections.

### 5.3.2. Community and Active Open Space Infrastructure

The community and active open space infrastructure required to support development (across the various development scenarios) is summarised in Table 3.

The indicative cost of community and active open space infrastructure required ranges between $17.3m (Scenario 0) and $93.4m (Scenario C). It should be noted that these costs appear to exclude land acquisition.

#### Table 3: Community and Active Open Space Infrastructure

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Open Space - Basic improvements including earthworks &amp; establishment</td>
<td>hectares</td>
<td>11</td>
</tr>
<tr>
<td>Construction of 2 Australian Rules Football / Cricket ovals</td>
<td>ovals</td>
<td>2</td>
</tr>
<tr>
<td>Construction of 3 Soccer Fields</td>
<td>fields</td>
<td>3</td>
</tr>
<tr>
<td>Sporting Pavilion</td>
<td>pavilions</td>
<td>1</td>
</tr>
<tr>
<td>Tennis Courts</td>
<td>courts</td>
<td>0</td>
</tr>
<tr>
<td>Tennis Facilities</td>
<td>pavilions</td>
<td>1</td>
</tr>
<tr>
<td>Indoor recreation courts / facilities (Medium Facilities)</td>
<td>facilities</td>
<td>1</td>
</tr>
<tr>
<td>Indoor recreation courts / facilities (Large Facilities)</td>
<td>facilities</td>
<td>0</td>
</tr>
<tr>
<td>Multipurpose community centres (40-100 people)</td>
<td>facilities</td>
<td>1</td>
</tr>
<tr>
<td>Multipurpose community centres (general, festival community usage)</td>
<td>facilities</td>
<td>1</td>
</tr>
<tr>
<td>Libraries</td>
<td>square metres</td>
<td>0</td>
</tr>
<tr>
<td>Regional Community Youth Activity Node</td>
<td>nodes</td>
<td>1</td>
</tr>
<tr>
<td>Total Estimated Cost</td>
<td></td>
<td>$13,996,697</td>
</tr>
</tbody>
</table>

Source: ASR Research, 2012

### 5.3.3. Light Rail Infrastructure

The light rail infrastructure required to support development is summarised in Table 4. The indicative cost of light rail infrastructure required ranges between $85m and $685m, depending on the development scenario.

The higher costs associated with Scenarios B and C are understood to be the result of the scale of development in these scenarios triggering a dedicated light rail route, including a Yarra River bridge crossing.

An allowance has been made for a level of external cost apportionment for a portion of the light rail infrastructure that is required to support development as projected in Scenario C. It has been assumed that $200m of the light rail infrastructure cost would be apportioned to surrounding areas which would gain direct benefit from the infrastructure required.

#### Table 4: Light Rail Infrastructure Costs

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Scenarios 0</th>
<th>Scenarios A</th>
<th>Scenarios B</th>
<th>Scenarios C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure Cost</td>
<td>$85,000,000</td>
<td>$85,000,000</td>
<td>$85,000,000</td>
<td>$485,000,000</td>
</tr>
<tr>
<td>Source: AECOM, 2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 5.3.4. Road Infrastructure

No information is currently available on road infrastructure required to support development in the FBURA. Road infrastructure is a crucial component of any development contribution assessment, and would generally include items such as:

- New and upgraded upgrades;
- New and upgraded intersections;
- Shared paths;
- Streetscape improvements and;
- Any land acquisition required to deliver these infrastructure items.

The absence of detail regarding road infrastructure is a major information gap for this advice. However, as stated previously, the investigation relating to road infrastructure requirements is likely to be ongoing for some time.

In order to estimate the likely infrastructure costs for the FBURA, Urban Enterprise has applied the standard infill levy rate for road infrastructure of $1,692 per dwelling to the development scenarios as shown in Table 5.

The cost of road infrastructure under this projection would range between $9.9m and $126m. This is an indicative estimate only and would need to be informed by detailed infrastructure needs assessment and cost planning for inclusion in a detailed development contributions method.

#### Table 5: Road Infrastructure

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Demand Units</th>
<th>Road Infrastructure Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenarios 0</td>
<td>857</td>
<td>$1,692,865</td>
</tr>
<tr>
<td>Scenarios A</td>
<td>4,384</td>
<td>$1,689,326</td>
</tr>
<tr>
<td>Scenarios B</td>
<td>5,426</td>
<td>$1,634,517</td>
</tr>
<tr>
<td>Scenarios C</td>
<td>14,167</td>
<td>$126,167,708</td>
</tr>
</tbody>
</table>

Source: Urban Enterprise, 2012

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**Development Contributions Options Study**

Fishermans Bend Urban Renewal Area

**Volume 3**

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5.4. INFRASTRUCTURE SUMMARY

Table 6 provides a summary of the infrastructure costs by category and by development scenario. The estimated infrastructure costs range from $117.2m (Scenario 0) to $749.5m (Scenario C).

<table>
<thead>
<tr>
<th>Summary of Costs</th>
<th>Scenario A</th>
<th>Scenario B</th>
<th>Scenario C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuity and Active Open Space</td>
<td>$17,330,067</td>
<td>$17,730,094</td>
<td>$18,530,681</td>
</tr>
<tr>
<td>Land Acquisition</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transport Costs</td>
<td>$85,000,000</td>
<td>$85,000,000</td>
<td>$85,000,000</td>
</tr>
<tr>
<td>Roads and Intersections</td>
<td>$9,938,445</td>
<td>$10,170,464</td>
<td>$10,210,042</td>
</tr>
<tr>
<td>Total Infrastructure Cost</td>
<td>$117,216,632</td>
<td>$118,088,017</td>
<td>$118,324,902</td>
</tr>
</tbody>
</table>


6. COLLECTION MECHANISMS AND METHODS

6.1. INTRODUCTION

There is a range of methods that could be used to collect contributions towards infrastructure required to support development within the FBURA. Options could include:

- A Development Contributions Plan (cost apportionment method) - the current regime;
- Applying a standard development contributions charge either under the Urban Renewal Authority Act (2003) or under the proposed new standard development contributions regime;
- Alternative methods, including applying special rates and charges, infrastructure recovery charge, betterment levy or bond regime.

These options are discussed in detail in this section, including how each mechanism operates, case studies and considerations for application to the FBURA.

6.2. DEVELOPMENT CONTRIBUTIONS PLAN

The most common mechanism to collect contributions towards infrastructure in Victoria is through development contributions. The collection of development contributions through a development contributions plan (DCP) is allowed for in Victoria under the Planning and Environment Act (1987) as described in Section 3.

Levies included in DCPS are generally calculated based on the cost apportionment method. Under this method, the cost of all infrastructure items required to support development is apportioned based on the demand generated for those items by the development, expressed in terms of ‘demand units’. Examples of typical demand units used to calculate infrastructure levies are dwellings, net developable hectares of land or square metres of commercial floor space.

Whilst the use of DCPS is commonplace in Victoria at present, the current review of the development contributions system is aimed at restructuring the system to implement a standard development contributions charge. Nevertheless, as most common infrastructure funding system currently in use, a full cost apportionment DCP should be considered as a key option for the FBURA.

6.3. STANDARD DEVELOPMENT CONTRIBUTIONS CHARGE

The current review of the Development Contributions system has recommended that standard development contributions charges or levies replace the existing cost apportionment DCP approach.

The standard development contribution levies and framework are currently being developed. The standard levies would apply a different rate to various development settings and would only cover basic infrastructure that has been included in the majority of Development Contributions Plans in recent years.

Given the pending changes to the development contributions system, applying a standard levy to the FBURA could be a useful way of adding to the work already undertaken to inform the review. The use of a standard development contributions charge is considered a key option for the FBURA.

6.4. ALTERNATIVE FUNDING MECHANISMS

In addition to the current and proposed future development contributions regime outline above, a number of alternative mechanisms are used in Australia and other countries to fund infrastructure to support urban renewal, such as:
● Special rates and charges;
● Government debt / bonds;
● Infrastructure recovery charges; and
● Betterment levies.

This section provides a selective overview of different funding methods used to deliver urban renewal infrastructure both overseas and in Australia. Case studies are provided to illustrate the applicability of these methods to major urban renewal or urban infrastructure projects.

6.4.1. SPECIAL RATES AND CHARGES

Under the Local Government Act, Councils may levy special rates or special charges. These differ from normal Council rates as they relate specifically to areas which will directly benefit from particular infrastructure or service improvements.

Special rates and charges can only be applied where it can be demonstrated that a certain area will experience a benefit over and above the benefit that will be experienced in other areas.

Special rates and charges could be used as a funding mechanism for local infrastructure in the FBURA, given that there will be a significant benefit to the landowners in the FBURA generated by the infrastructure upgrades that will take place to support development in that area. However, special rates and charges are calculated and administered by local councils. This would complicate the use of special rates and charges for the FBURA, given that the study area crosses a municipal boundary and the bulky complexity of the administration of such a scheme.

6.4.2. INFRASTRUCTURE RECOVERY CHARGE

Under the Urban Renewal Authority Act (2003), an Infrastructure Recovery Charge can be levied in designated Urban Renewal Areas (including the FBURA). The Act specifies that this charge cannot exceed 10% of the value of a development (the sum of construction cost and land value).

REVITALISING CENTRAL DANDENONG

The Infrastructure Recovery Charge (IRC) has been used in the Revitalising Central Dandenong urban renewal project to recover the initial costs of infrastructure on the project. The Victorian Government is investing $290 million in Revitalising Central Dandenong, the largest urban renewal project in the state since Melbourne Docklands. The initiative is a partnership between the Victorian Government through Places Victoria, and the City of Greater Dandenong.

This project would not be possible without recovery of a portion of the investment through the IRC. Since 2006, all new commercial scale developments within the Revitalising Central Dandenong declared area have been required to pay the IRC of 5% of the development value. For developments other than subdivisions, development value is the sum of the site value at the time of development based on the unimproved site value listed on the most recent municipal rates notice, and the cost of the building work for the development.

Land with single or double occupancy, renovations to single houses and developments such as a house extension, a carpent, a granny flat or a dual occupancy are exempt from the charge. This means that typical homeowners do not pay the IRC. The charge is aimed at commercial scale development, such as building three or more dwellings on a lot and three or more lot subdivisions.

GAIC

The Growth Areas Infrastructure Contribution (GAIC) is another example of an infrastructure recovery charge. It came into effect in 2010 and applies to land that was included in Melbourne’s Urban Growth Boundary (UGB) at certain points in time.

The GAIC is collected by the State Revenue Office and is made possible through the introduction of the GAIC Legislation into the Planning and Environment Act (1987) in 2010. The GAIC is payable on the value of greenfield land in Melbourne’s designated growth areas land once sold or developed.

6.4.3. BETTERMENT LEVIES

A betterment levy is a tax that the state collects on a plot of land that its actions have in some way made ‘better’. For instance, if building roads, public transport or airports with public money leads to an appreciation in land prices in the vicinity of these projects, then landowners may enjoy a windfall gain. Betterment levies seek to impose a one-off tax or charge on the uplift in land values, typically taking 30% to 60% of the gain in land value attributable to infrastructure projects.

Under modern conditions, betterment levies have proved difficult to administer. Attempts to identify with precision, parcel by parcel, the gains in land value resulting from public works projects have proved both ambitious and contentious. The tax rates are too high to impose fairly unless accuracy in measuring the value uplift can be assured. Betterment levies in the United States, however, have been successful in delivering localised infrastructure, such as water and sewerage utilities, where the benefit to landowners is more clearly defined.

CASE STUDY BOGOTA, COLOMBIA

Betterment levies have been used as a means to fund public infrastructure across Latin America. Colombia has long used a form of betterment levy (contribuciones por mejoras) to finance public works. Reliance on the scheme declined sharply in the 1980s and 1990s, as gains in land value due to infrastructure projects were difficult to estimate. The process involved high administrative costs and led to local disputes.

However, Bogota has simplified its approach and converted the betterment levy into a general infrastructure tax more loosely associated with gains in land value. Rather than estimate parcel by parcel the gains in land value due to individual investment projects, Bogota has packaged its street and bridge improvement program into a citywide bundle of public works projects, all financed in part through a citywide betterment fee that is broadly differentiated by benefit zone and other factors. Therefore Bogota has been able to revive this mechanism as an effective infrastructure financing tool. The approach is being replicated throughout Colombia.

CASE STUDY - ACT LEASE VARIATION CHARGE (LVC)

In the Australian Capital Territory (ACT), a form of betterment tax is attributed to lease variations. In the ACT, residents and businesses over lease through a unique system known as ‘leasehold’. Strictly speaking, ACT residents do not own their land under the ACT Crown Lease System, rather, it is usually leased from the Crown on a 99-year term. For the most part, the system is similar to frehold regimes that operate in other Australian states, with the same basic land rights. However, there are some significant differences, such as when the Government leases land it receives a payment based on the conditions of the lease at that time.

When the conditions of a lease are varied in such a way that the value of the lease increases, these variations attract the Lease Variation Charge (LVC). The intention of this charge is to increase revenue to the ACT Government in line with the increase in the lease value.

---

1 In ‘betterment levy’ a good idea? Editorial-Opinion-The Economic Times, p.1
2 Unlocking Land Values to Finance Infrastructure, George E. Peterson, August 2008
3 Unlocking Land Values to Finance Infrastructure, George E. Peterson, August 2008, p.2
4 Unlocking Land Values to Finance Infrastructure, George E. Peterson, August 2008, p.3
5 The ACT Lease Variation Charge, Allen Consulting Group, May 2012, p.1
Examples of where the LVC might apply include:

- Subdivisions or consolidations of a residential block; redevelopment of unused and rundown buildings for commercial or residential purposes;
- Urban regeneration projects;
- Variations in the lease purpose to permit additional/alternative uses;
- Variations in development rights and obligations to extend (for example) gross floor area to accommodate future growth;
- Consolidates two or more blocks of land into a single block of land; and/or
- Variations in other requirements stipulated in the lease, for example, car parking.

The LVC commenced on 1 July 2011 under the Planning and Development (Lease Variation Changes) Amendment Act 2011. After four years the ACT Government intends to apply the LVC to capture 75 per cent of any increase in value from a lease variation. The LVC is in addition to increases in land tax and stamp duties that will apply at the time of sale of the property.

**Betterment in the US - Assessment Districts**

A type of betterment levy is used extensively across the United States in areas known as Assessment Districts, or sometimes referred to as a Special Assessment Districts (SAD), Benefit Assessment Districts (BAD) or Local Improvement Districts (LID). It is an area within which a special tax is applied to properties that will benefit from public investment. Assessment districts are most commonly used to fund the development of sewer, water, utilities or streets, but can also be used to fund services such as police, fire protection or transit. A key characteristic of assessment districts is that they typically require at least a majority vote of affected property owners in order to be implemented.

The major limitation on special assessments is that they can be used only to finance facilities that provide local benefits, they cannot be used to finance facilities that provide general, community-wide benefits. This makes the implementation of special assessments for specific purposes much more complex as well as more legally difficult to institute than general-purpose taxes.

The amount of the assessment or levy must be directly related to the cost of the improvement, and the expected benefit to the property owner. Property owners who are liable for the assessment levy pay higher taxes for the period of the special assessment. In some cases, a property owner may opt to pre-pay the assessment, rather than pay it over time.

**Case Study: East Point, Georgia**

The City of East Point, Georgia created the $22 million Camp Creek Tax Allocation Fund (TAD) in 2001 to extend infrastructure into an area that had not been previously developed, due to difficult topography. These improvements sparked the development of the Camp Creek Trade Centre (a business park), Camp Creek Market Place (a 123,000m² regional shopping centre) and 1,400 housing units in the area in 5 years. The additional tax revenue from those developments is generating the income stream to repay the TIF bonds that funded the initial improvements.

The East Point Corridors TAD is a $98 million TIF that is expected to generate $164 million in appreciation of existing properties and $191 million in new development over 25 years, providing the additional tax revenue needed to retire the TIF bonds. Public infrastructure funded by the TAD includes:

- New parks, open spaces and pathways and trails;
- Roadway improvements and sidewalk and pedestrian friendly streetscape improvements;
- Land assemblages and site preparation for private commercial and residential development;
- Construction of new public facilities, including a community recreation centre; and
- Improvements to the area’s basic water, sewer and transportation infrastructure.

This TIF has been so successful that, in 2006, the City created its second TIF district - the East Point Corridors TAD, to encourage private investment in the City’s major corridors and Central Business District.

6.4.4. Tax Increment Financing

Tax Increment Financing (TIF) is a funding mechanism that has been used extensively in the United States over the past 50 years. It is also now being used in the UK to facilitate development, urban renewal and regeneration projects. In simple terms, TIF is a mechanism by which tax revenue can be derived from an increase in property value within a prescribed development area, known as a ‘TIF District’ in the US or an ‘Accelerated Development Zone’ (ADZ) in the UK.

**TIF in the US**

TIF in the US gives jurisdiction to local government to receive tax revenues from a TIF District and use the incremental revenues to fund infrastructure and renewal projects that led to or contributed to the property appreciation. TIF is active in 49 states across the US and is used to fund a range of infrastructure, although its legislation and use varies from state to state.

Generally, under the TIF system, local government prescribes a TIF area and produces a ‘TIF Development Plan’, which outlines the infrastructure and development needs of a district and provides cost estimates for the works. Government then issues bonds to fund upfront urban renewal and infrastructure costs within the prescribed area, to improve its amenity and attractiveness for development. As the area develops, and property values and tax revenues rise, additional tax revenue (above the pre-TIF tax base) is used to service and repay the tax bonds. When the initial debt is repaid, the TIF ceases to exist.

**Case Study: East Point, Georgia**

The City of East Point, Georgia created the $22 million Camp Creek Tax Allocation Fund (TAD) in 2001 to extend infrastructure into an area that had not been previously developed, due to difficult topography. These improvements sparked the development of the Camp Creek Trade Centre (a business park), Camp Creek Market Place (a 123,000m² regional shopping centre) and 1,400 housing units in the area in 5 years. The additional tax revenue from those developments is generating the income stream to repay the TIF bonds that funded the initial improvements.

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1 http://www.transportationfinance.org/funding_financing/funding/local_funding/valueCapture/special_assessment_districts.aspx

2 Capturing the Value of Transit, for US Department of Transportation, Centre for Transit Oriented Development, November 2008, p.20-21

3 Tax Increment Financing to Fund Infrastructure in Australia, for the Property Council of Australia, Prior Indicator Case Studies, April 2008, p.30

4 Tax Increment Financing to Fund Infrastructure in Australia, for the Property Council of Australia, Prior Indicator Case Studies, April 2008, p.40
TIF in the UK

Similar to the US, the UK TIF model is based on reinvesting a proportion of future rates from an area, designated as an Accelerated Development Zone, back into infrastructure and related development. It applies where the sources of funding available for a scheme to deliver economic growth and renewal cannot cover the cost of infrastructure required by the scheme. Often these will be regeneration projects, and although UK TIF could be used more widely, it is not suitable for all schemes.11

A lead agency, such as a local authority, private sector partner or some combination, raises money upfront to pay for infrastructure on the basis that the increased business rate revenues generated by the scheme can be used to repay that initial public investment.

CASE STUDY – NEWCASTLE GATESHEAD ADZ

The aim of the Newcastle-Gateshead ADZ is to unlock growth across the urban core, returning the area to its pre-recession economic trajectory. The ADZ covers four key sites which offer significant growth potential over the next 25 years: Science Central, offering opportunities for businesses to co-locate with Newcastle University; Stephenson Quarter and Central Station area, primed to become a major new office district; East Pilgrim Street, an under-utilised area adjacent to the city centre’s main business and retail district; and Gateshead Quays and Baltic Business Quarter, a significant new mixed-use development.

These sites currently face a number of obstacles which inhibit development including viability gaps, constraints in public and private sector finance and the requirement for significant upfront enabling infrastructure investment including site preparation, demolitions, energy and utilities infrastructure, and highway improvements.

Infrastructure investment totalling £32m has been identified, which is to be financed through TIF. This will lever £80m of private sector investment and unlock significant development. It is expected to generate incremental annual business rates of up to £21m, and £320m in total by 2038. Borrowings to fund the infrastructure are expected to be repaid by 2031. The ADZ is also forecast to generate 13,000 jobs.12

6.4.6 DEVELOPMENT IMPACT FEES

Impact Fees are the mechanism used to levy development contributions in the United States. Principles established in case law and legislation require that a ‘dual nexus test’ be established between charges and the development. In particular, it must be shown that both:

- The new development will cause and impact on the community.
- The impact fees must be used to mitigate that impact, and no more.

The range of eligible facilities and services is typically much wider than in Australia. They may include, fire, police and school services for example.

CASE STUDY – SAN FRANCISCO, CALIFORNIA

The City and County of San Francisco introduced a Transit Impact Development Fee (TIDF) in 1981 to offset the increased capital and operating costs of providing additional service to the downtown area. At the time it was introduced, the TIDF was $5 per gross square foot of new office development, subsequently the fee was expanded to include a broader range of commercial uses, and to apply to development citywide. Fees range from $8 to $10 per square foot, depending on land use. TIDF revenue averages about $10 million annually, and has been used almost entirely for operating costs, rather than capital improvements.13

6.4.6 COMMUNITY INFRASTRUCTURE LEVY

The Community Infrastructure Levy (CIL) is a planning charge which came into force in the UK on 6 April 2010 as an alternative to Section 106 agreements, which are similar to Section 173 agreements in Australia. Under CIL, developers may be liable for a charge under the CIL where the local planning authority has chosen to set a charge in its area. Local authorities are empowered, but not required, to levy on most types of new development and the proceeds of the levy provide local and sub-regional infrastructure to support the development of an area, in line with local authorities’ development plans. This can include new schools, hospitals, roads and transport schemes, as well as libraries, parks and leisure centres.

Local Authorities must prepare a charging schedule, which is subject to an independent examination, and sets out what the charge per dwelling for residential development, or per square metre for all other development over 100sqm. The charge only applies to new buildings or extensions to buildings where floorspace is increased.

CASE STUDY – GREATER LONDON

On 29 February 2012, the Mayor of London agreed on the Greater London CIL charging schedule. The levy will apply to developments consented on or after 1 April 2012, and is collected by London boroughs once development commences. The Levy is charged on most developments in London at the following rates:

- Zone 1 boroughs - £50 per square metre
- Zone 2 boroughs - £35 per square metre
- Zone 3 boroughs - £20 per square metre

The levy is intended to raise £330 million towards the delivery of Crossrail, a major rail infrastructure project that is essential to growing London’s economy. It is estimated that every London borough, not just those on the Crossrail route, will see annual benefits ranging from £15 million to £115 million.

6.5 SUMMARY OF COLLECTION OPTIONS

It is considered that the most appropriate options for infrastructure funding in the FBURA are:

- A full cost apportionment DCP, or
- A standard development contributions charge (such as an IRC); or
- An ongoing land charge (such as a betterment levy); or
- A combination of a standard development contributions levy (e.g. IRC) and an ongoing land charge (e.g. betterment levy).

The existing development contributions system has been in place for more than a decade, and has formed the basis of the large majority of development contributions levied in Victoria over this time. A full cost apportionment DCP could be considered as an option for the FBURA. However, preparing a full cost apportionment DCP for the FBURA could be problematic, due to:

- The uncertainty relating to development scale, timing, location and type;
- The uncertainty regarding infrastructure requirements and costs;
- The current review of the development contributions framework.

Given that the Minister has foreshadowed a move to standard levies, the use of a standard levy may be preferable. An IRC similar to the Dandenong levy could be the preferred mechanism for the long term, rather than relying on a standard charge for infill development that may introduced that may not be set at an appropriate rate for the FBURA.
However, there are advantages in recouping infrastructure costs over the development period, i.e. 40 year timeframe. Under an ongoing land charge such as a betterment betterment levy:

- Costs are borne by a range of parties, including developers, land owners and end users;
- Costs are spread over a longer time period; and
- Costs are better known as development progresses and the levy can be adjusted accordingly.

The distribution of costs will ensure that the funding and financing burden does not rest with one party, thus minimising the risk of market failure to deliver infrastructure based on funds collected from development contributions. The most practical and equitable way of distributing costs over a longer time period and over more parties than is the case with a development contributions approach is through the introduction of a betterment levy. As detailed in Section 5.4.3, there are many examples of the successful implementation of betterment levies to fund infrastructure required to support urban renewal development.

Whilst a betterment levy is not recommended as a stand-alone approach, it may be used in conjunction with a development contributions levy or IRC to collect funds over the 40 year development timeframe. Accordingly, a combination of an IRC and a betterment levy could form the preferred long term infrastructure funding model for the FBURA.

In order to assess the likely rates and income from these mechanisms, details on the indicative levies and collection amounts are included in the following section.

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### 7. Indicative Levies

#### 7.1. OVERVIEW

This section includes calculations of the likely income generated from the three options considered most appropriate for funding infrastructure in the FBURA, namely a full cost apportionment DCP, a standard development contributions charge, or a betterment levy.

#### 7.2. DEVELOPMENT CONTRIBUTIONS PLAN (COST APPORTIONMENT)

The cost apportionment method was applied to the infrastructure costs and demand units to calculate an indicative community infrastructure levy range and an indicative development contribution levy range.

The levies shown are expressed in terms of ‘equivalent dwellings’. Standard equivalence ratios were applied to the retail and commercial floorspace projections to calculate the number of dwellings equivalent to floorspace projections based on demand generation. The Standard Equivalence Ratios are included in the Development Contributions Guidelines (2010).

Table 7 shows the number of demand units (equivalent dwellings) in the FBURA, based on the development projections shown in Section 2. This assumes that 20% of all commercial floorspace will be retail, with the remaining 80% non-retail commercial floorspace.

<table>
<thead>
<tr>
<th>TABLE 7</th>
<th>DEMAND UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scenario B</td>
</tr>
<tr>
<td>Dwellings</td>
<td>5,000</td>
</tr>
<tr>
<td>Retail</td>
<td>526</td>
</tr>
<tr>
<td>Commercial</td>
<td>331</td>
</tr>
<tr>
<td>Total Demand units</td>
<td>5,857</td>
</tr>
</tbody>
</table>


Assuming that only residential development contributes to Community and active open space infrastructure, Table 8 shows the indicative levies per demand unit. Given the broad ranges in infrastructure costs and development scenarios, the possible levies calculated using the cost apportionment approach also vary greatly.

Table 8 also shows a betterment levy per net developable hectare. Given that there is no information available relating to the breakdown of developable area across residential and non-residential land uses, this levy relates simply to total infrastructure cost divided by the number of Net Developable Hectares in the FBURA (144ha).

Table 8 also shows the indicative levies expressed in terms of Net Developable Area.
7.2.1. FINANCE COSTS

The levies and funds shown in this section previously are expressed in nominal dollars. However, it is expected that infrastructure investment will outcome income received from development contributions. This will result in a financing cost in order to deliver infrastructure when the DCP is in negative cash flow (i.e. cumulative infrastructure costs exceed cumulative development contributions received). This relationship is shown in Figure 3.

7.3. STANDARD LEVIES

As discussed in Section 3, the State Government is currently reviewing the Development Contributions system in Victoria, in order to devise a range of standard levies for various development contexts. This section provides estimates of the funds that would be available for infrastructure based on the development scenarios for the FBURA.

The standard levies for metropolitan green-field and infill development settings taken from the Indicative Standard Levies for Local Development Contributions report (Urban Enterprise, 2012) are shown in Table 10. The infill levy was discounted to 25% of the green-field levy.

A rate for commercial development in an infill setting was also derived, which assumes that commercial development would only contribute towards roads and intersections. Residential development would contribute to all infrastructure categories.

Table 9 shows the likely finance costs based on these assumptions for the four development scenarios. The finance costs of infrastructure provision are estimated to range between $12.1m (Scenario 0) and $77.8m (Scenario C).

Table 8 shows the indicative levies based on the four development scenarios. The finance costs of infrastructure provision are estimated to range between $12.1m (Scenario 0) and $77.8m (Scenario C).
**Table 11: Standard Infill Levy Scenarios**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Projected Residential Levy Collection</th>
<th>Projected Commercial Levy Collection</th>
<th>Total Collection</th>
<th>Surplus / Deficit Required Infrastructure Cost</th>
<th>% of Costs Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A</td>
<td>$16,080,000</td>
<td>$48,000,000</td>
<td>$34,080,000</td>
<td>$9,400,000</td>
<td>15%</td>
</tr>
<tr>
<td>Scenario B</td>
<td>$15,400,864</td>
<td>$47,699,696</td>
<td>$33,100,560</td>
<td>-$10,699,934</td>
<td>14%</td>
</tr>
<tr>
<td>Scenario C</td>
<td>$14,489,652</td>
<td>$47,489,652</td>
<td>$31,979,304</td>
<td>-$11,989,934</td>
<td>13%</td>
</tr>
</tbody>
</table>

*50% Standard Levy ($8,400 per residential demand unit, $4,200 per commercial demand unit)*

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Projected Residential Levy Collection</th>
<th>Projected Commercial Levy Collection</th>
<th>Total Collection</th>
<th>Surplus / Deficit Required Infrastructure Cost</th>
<th>% of Costs Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A</td>
<td>$12,080,000</td>
<td>$36,000,000</td>
<td>$48,080,000</td>
<td>$2,200,000</td>
<td>20%</td>
</tr>
<tr>
<td>Scenario B</td>
<td>$11,600,864</td>
<td>$35,699,696</td>
<td>$47,300,560</td>
<td>-$1,399,934</td>
<td>19%</td>
</tr>
<tr>
<td>Scenario C</td>
<td>$10,489,652</td>
<td>$35,489,652</td>
<td>$45,979,304</td>
<td>-$4,419,652</td>
<td>18%</td>
</tr>
</tbody>
</table>

*25% Standard Levy ($4,200 per residential demand unit, $2,100 per commercial demand unit)*

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Projected Residential Levy Collection</th>
<th>Projected Commercial Levy Collection</th>
<th>Total Collection</th>
<th>Surplus / Deficit Required Infrastructure Cost</th>
<th>% of Costs Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A</td>
<td>$9,080,000</td>
<td>$24,000,000</td>
<td>$33,080,000</td>
<td>$3,400,000</td>
<td>12%</td>
</tr>
<tr>
<td>Scenario B</td>
<td>$8,400,864</td>
<td>$23,699,696</td>
<td>$32,100,560</td>
<td>-$1,599,934</td>
<td>11%</td>
</tr>
<tr>
<td>Scenario C</td>
<td>$7,489,652</td>
<td>$23,489,652</td>
<td>$31,979,304</td>
<td>-$1,419,652</td>
<td>10%</td>
</tr>
</tbody>
</table>

*75% Standard Levy ($6,600 per residential demand unit, $3,300 per commercial demand unit)*

Source: Urban Enterprise, 2012

**Standard Levy Findings**

It is considered that the development conditions of the FBURA relate more closely to a green-field setting that the infill setting contemplated in the standard levies. Further, the 25% infill standard levy would cover less than 35% of the infrastructure costs under all four scenarios. This would result in a significant funding burden for the collection agency for basix/infrastructure.

Due to these factors, it is recommended that a rate of 75% of the standard green-field levy is applied as an interim approach to collecting development contributions in the FBURA. This will ensure that development contributions could account for the majority of funds required to deliver the infrastructure required in the area, without placing unreasonable cost pressure on development or reducing the attractiveness of the FBURA as a key development location for Victoria.

In considering the IRC as the collection mechanism, assessment of the percentage of funds to be captured based on the above modelling would be required.

**Comparing the Standard Levy and Cost Apportionment Approaches**

Table 12 shows the results of the cost apportionment and 75% standard levy approaches.

**Table 12: Comparison of Cost Apportionment and Standard Levy Approach**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Per Dwelling Levy for Residential Development</th>
<th>Per Dwelling Levy for Commercial Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A</td>
<td>$16,080 per dwelling</td>
<td>$32,160 per dwelling</td>
</tr>
<tr>
<td>Scenario B</td>
<td>$15,400 per dwelling</td>
<td>$31,520 per dwelling</td>
</tr>
<tr>
<td>Scenario C</td>
<td>$14,489 per dwelling</td>
<td>$31,000 per dwelling</td>
</tr>
</tbody>
</table>

**7.4 Ongoing Land Charge (E.G. Betterment Levy)**

The recent rezoning of the FBURA to the Capital City Zone (CCZ) will result in a significant uplift in land values for the area, given that the CCZ allows higher value land uses (residential and commercial) and higher density development than the previous Industrial 1 Zone and Buidlings 3 Zone. There is the opportunity to capture a portion of this value uplift through the introduction of a Betterment Levy.

Quantifying the land value uplift is complex and generally requires analysis of a large sample of pre- and post-rezoning sales transactions. Given that the FBURA was only recently rezoned (July 2012) and only a small number of property transactions have occurred in the area, it is difficult at this stage to quantify the current and potential value uplift. However, there has been a significant amount of commentary and speculation regarding the impact of the rezoning on values.

The Age quoted Jones Lang LaSalle directors in September 2012 as expecting a sale rate of $1,150 per square metre for a 1.4ha warehouse in Graham Street. It is understood that Places Victoria has recently engaged MacroPlan to prepare an assessment of the real estate market in the FBURA, this project is currently underway. MacroPlan have held initial discussions with key real estate agents, who provided the following insights regarding land values:

- *Land values in the Lorimer Precinct, which includes predominantly light industrial land uses, are currently around $800-$1,000 per m²*. This rate is reported to have increased by approximately 16-20% per annum during the past 2 to 3 years.

Source: Urban Enterprise, 2012
• Values in the Montague Precinct are significantly higher than the other FIBURA precincts. Land use in this Precinct is a mix of industrial, storage and strata commercial, with values currently at approximately $3,000-$3,300 per m². Values have increased sharply recently and reported rates reflect listed values and some recent sales evidence;
• Sandridge - Industrial/Mix - Approx $800-$1,000/m²;
• Winaway - Heavy Industrial/Mix - Approx $800/m²

It is understood that MacroPlan is obtaining access to sales transactions to inform their report - details of these transactions will be forwarded to Urban Enterprise to inform this report when available. This information was not available at the time of writing.

A selection of recently sold properties in the FIBURA is shown in Table 13. Sales rates varied from between $625 and $2,392 per m². Interestingly, the first sale since rezoning was the lowest price per square metre ($625).

Land values accessed by Urban Enterprise have predominantly related to improved sites, with limited information available regarding sales of vacant land.

Vacant land sales evidence is the key input to the consideration of the potential value uplift of an area - this is a key information gap for this project.

### Table 13 Recently Sold Properties

<table>
<thead>
<tr>
<th>Location</th>
<th>Sale Price</th>
<th>Floor Area</th>
<th>Site Area (hect)</th>
<th>Capital (original value per m²)</th>
<th>Date of Sale</th>
<th>Improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Central Boulevard (location in proximity to the study area)</td>
<td>$1,750,000</td>
<td>840m²</td>
<td>1,500m²</td>
<td>$1,750</td>
<td>September 10, 2012</td>
<td>Modern Office space with wholesale facilities</td>
</tr>
<tr>
<td>200 Turner Street (30 April 2013)</td>
<td>$820,000</td>
<td>860m²</td>
<td>1,610m²</td>
<td>$910</td>
<td>20 April 2012</td>
<td>Modern Office space with wholesale facilities</td>
</tr>
<tr>
<td>200 Turner Street (1 September 2012)</td>
<td>$800,000</td>
<td>417m²</td>
<td>865m²</td>
<td>$1,079</td>
<td>3 September 2012</td>
<td>Modern Office space with wholesale facilities</td>
</tr>
<tr>
<td>14 Woodcraft Street (July 25 2012)</td>
<td>$1,050,000</td>
<td>300m²</td>
<td>2,000m²</td>
<td>$1,050</td>
<td>July 25, 2012</td>
<td>Established large scale manufacturing facilities</td>
</tr>
<tr>
<td>686 Lover Street</td>
<td>$1,800,000</td>
<td>27.83m²</td>
<td>2.5 Iowa</td>
<td>$1,800</td>
<td>5 level office building and high tech offices/warehousing units</td>
<td></td>
</tr>
</tbody>
</table>


### Timing

Value uplift for major urban renewal areas is generally borne out over a medium to long term timeframe.

Land value uplift will generally occur in stages, indicatively:

- Small uplift following rezoning reflecting greater development potential but residual uncertainty regarding development feasibility and timelines;
- Moderate uplift once infrastructure investment is made, particularly public transport and streetscape improvements;
- Further uplift once land use transformation takes place; and
- Long term uplift to reflect the complete development/transformation of the area.

It is understood that MacroPlan is investigating land value uplift in comparable Melbourne urban renewal projects (i.e. Docklands and Southbank) to analyse the longer term value uplift in these areas. This information will be a valuable input to the assessment of applying a betterment levy to the FIBURA.

### Comparable Development Sites

Values in other inner Melbourne former industrial areas, particularly those in the City of Yarra such as Collingwood and Fitzroy, can provide a useful indication of the potential sales rates for development sites in the FIBURA once development progresses.

Recent work undertaken on behalf of landowners and developers in these suburbs by Urban Enterprise has shown that typical sales rates for development sites range from between $2,100 and $3,800 per square metre.

### Likely Value Uplift

It is considered likely that the land values in the FIBURA will increase to at least $2,500 per square metre. This applies to vacant land, under-utilised properties and those properties with low value improvements. This represents significant value uplift from a pre-rezoning level of approximately $800 per square metre, to a post-rezoning and post-infrastructure level of approximately $2,500 per square metre.

When the value uplift of $1,850 per square metre is applied to 80% of the Net Developable Area, assuming 20% will remain industrial, the total value uplift of the FIBURA is estimated to be $2.55bn.

### Table 14 Indicative Value Uplift

<table>
<thead>
<tr>
<th>Value</th>
<th>Total Value uplift</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,850</td>
<td>$2,480,000,000</td>
</tr>
</tbody>
</table>

Source: Urban Enterprise

Properties with medium to high value improvements or with established or high value businesses, such as is prevalent in the Montague Precinct, would expect higher sales rates. However, these property types are considered unlikely to be redeveloped within the development timeframe, especially given the high property values estimated for the Montague Precinct at over $3,000 per square metre.

### Application of a Betterment Levy

It is considered that the most effective way of collecting funds through a betterment levy in the context of the FIBURA would be to utilise the Urban Renewal Authority Act (2003). The Land Tax Act (2005) may also be an option.

The Urban Renewal Authority Act (2003) allows for the collection of three types of charges:

1. Infrastructure Recovery Charge (payable on development value);
2. General Charge; and
3. General Development Charge (levied when a property is developed).

A betterment levy could be applied as an annual General Charge to be collected based on the value of all land within the FIBURA.
The Land Tax Act (2005) includes land tax rates and exemptions for various land uses, including principal place of residence, and land use for other purposes, including primary production, sporting, recreational and cultural land, charities and health services, accommodation, and public, government and municipal land.

Given that Land Tax is collected annually and can apply to all land, an option may exist to amend the Land Tax Act to designate urban renewal areas generally (or the FBURA specifically) as subject to a special land tax rate based on land value.

7.5. COMBINED INFRASTRUCTURE CHARGE AND BETTERMENT LEVY

This section provides a high level analysis of the funds that could be collected under a hybrid approach, combining an IRC (once-off development charge) and a betterment levy (annual land tax).

It should be noted that these analyses do not include an allowance for financing costs. It has been assumed that the financing costs of providing infrastructure early in the development timeframe would be borne by the State Government.

Table 15 shows the funds to be collected under the 75% standard levy, and the indicative split between an IRC (25% of standard levy) and a betterment levy (equivalent to the remaining 50% of the standard levy).

<table>
<thead>
<tr>
<th>TABLE 15</th>
<th>COMBINED IRC AND BETTERMENT LEVY – INDICATIVE SPLIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario</td>
<td>Scenario A</td>
</tr>
<tr>
<td>Residential Standard Levy per dwelling (25%)</td>
<td>$6,555</td>
</tr>
<tr>
<td>Commercial Standard Levy per equivalent dwelling (25%)</td>
<td>$5,462</td>
</tr>
<tr>
<td>Funds Collected under standard levy (25%)</td>
<td>$117,216,532</td>
</tr>
<tr>
<td>Betterment Levy per hectare per annum</td>
<td>$16,665</td>
</tr>
<tr>
<td>Funds to be collected under betterment levy (equivalent to 50% of the standard levy</td>
<td>$39,072,177</td>
</tr>
<tr>
<td>Total funds to be collected</td>
<td>$158,888,057</td>
</tr>
<tr>
<td>Total Infrastructure Costs</td>
<td>$158,888,057</td>
</tr>
<tr>
<td>% of costs collected</td>
<td>85%</td>
</tr>
</tbody>
</table>

Source: Urban Enterprise, 2012

Table 16 shows the funds to be collected in order to recover all infrastructure costs (excluding finance costs).

<table>
<thead>
<tr>
<th>TABLE 16</th>
<th>COMBINED IRC AND BETTERMENT LEVY – FULL COST RECOVERY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario</td>
<td>Scenario A</td>
</tr>
<tr>
<td>Residential Standard Levy per dwelling</td>
<td>$6,555</td>
</tr>
<tr>
<td>Commercial Standard Levy per equivalent dwelling</td>
<td>$5,462</td>
</tr>
<tr>
<td>Funds to be collected under standard levy / IRC (100%)</td>
<td>$18,972,177</td>
</tr>
<tr>
<td>Betterment levy per hectare per annum</td>
<td>$16,665</td>
</tr>
<tr>
<td>Funds to be collected under betterment levy (66.6%)</td>
<td>$78,144,355</td>
</tr>
<tr>
<td>Total funds to be collected</td>
<td>$156,200,557</td>
</tr>
<tr>
<td>Total Infrastructure Costs</td>
<td>$156,200,557</td>
</tr>
<tr>
<td>% of costs collected</td>
<td>88%</td>
</tr>
</tbody>
</table>

Source: Urban Enterprise, 2012
8. ADMINISTRATION

8.1. OVERVIEW
A number of administrative issues need to be considered and resolved prior to the adoption of a development contributions framework for the FBURA. These include:

- Determining the collection agency;
- Determining the development agency;
- Confirming conditions for Works in-kind;
- Confirming indexation settings;
- Review provisions.

8.2. COLLECTION AGENCY
Any development contributions imposed on the FBURA will require a designated collection agency to which the funds are to be paid. The current development contributions system as outlined in the Planning and Environment Act (1987) states that a DCP must “specify the Minister, public authority or municipal council to whom or to which the community infrastructure levy or development infrastructure levy is payable (the collecting agency).” If a DCP applies, the Responsible Authority “must include a condition in the permit that the Applicant pay the levy to the relevant collecting agency or enter into an agreement with the relevant collecting agency to pay the amount of the levy within a time specified in the agreement.”

In the FBURA, the Minister for Planning is the Responsible Authority for large developments (as detailed in Section 3.3.2 of this report), and the Cities of Melbourne and Port Philip are the Responsible Authorities for smaller developments within their municipalities. The current Development Contributions Plan Overlay (DCPO) for the FBURA states that “any use or development of land where the Minister for Planning is not the responsible authority is excluded from a development contributions plan.”

Under the current statutory settings, the most appropriate Collection Agency for development contributions in the FBURA appears to be the Minister for Planning, so it would be impractical to include more than one Collecting Agency, and the Minister is the Responsible Authority for all development currently subject to development contributions.

8.3. DEVELOPMENT AGENCY
The current DCP system also requires the designation of a Development Agency. The Planning and Environment Act (1987) states that a DCP must “specify any Minister, public authority or municipal council that is to be responsible for the provision of the works, services or facilities for which the community infrastructure levy or development infrastructure levy or part of that levy is payable under this Part (the development agency).”

The most appropriate Development Agency should be identified as a matter of priority. Options for the Development Agency could include the Minister for Planning or Places Victoria.

8.4. WORKS IN KIND
Under the current DCP system, development contributions can be offset through the provision of works in-kind. These generally include construction of roads, intersections, open space works and some buildings, and the provision of land for these items.

In the case of the FBURA, the works in-kind arrangements need to be formalised, including the responsible parties and approach to the following general steps in the process:

- Negotiating works that can be provided in-kind and the timing of provision;
- Developing and executing agreements to formalise the arrangements for works in-kind with specific developers;
- Monitoring the development of works provided in-kind to ensure that they are fit for purpose and in line with executed agreements;
- Auditing works provided in-kind to ensure that the works are fit for purpose and meet the agreed infrastructure standards;
- Allocating credits for works provided in-kind.

Under a typical DCP, this process would be co-ordinated within the local Council, drawing on the various areas of expertise across the organisation (such as Strategic Planning, Statutory Planning, Engineering, Open Space and Community).

8.5. INDEXATION
There are a number of ongoing administrative tasks that are to be undertaken by the Collecting Agency, including annual indexation of infrastructure costs, land values, levies and credits for works provided in-kind.

This is a significant task for which responsibility should be allocated prior to establishing the development contributions approach for the FBURA.

8.6. REVIEW AND MONITORING
The interim framework should be monitored closely to ascertain the contributions income in relation to the infrastructure costs.

The ultimate development contributions framework should be prepared with short review periods specified to ensure that the approach and levies can be modified to reflect the rate of development, infrastructure costs, split between residential, commercial and retail development, etc.

8.7. RISKS
Introducing a development contributions mechanism at this point in time contains a number of inherent risks. The major risks include the following:

- The most significant risk is that there is insufficient detail regarding the infrastructure required to support development and the associated costs. Many costs are not fully known, tested or validated. This means that any calculations of potential levies and contributions income are likely to have a high margin of error and cannot be relied on to inform a full cost apportionment DCP;
- The high variation in development projections (between the incremental and high growth scenarios) and the long development timeframe of 40 years present the risk that if development proceeds at a slower rate than expected, not all development contributions required to deliver key infrastructure items will be collected within the development timeframe. This will increase the financing cost;
- The interim levy or approach could vary significantly from the long term levy or approach. This could result in disputes or appeals from land owners and developers if there is significant variation between the levies charged across the two timeframes. Also, if the approach is varied beyond minor alterations, this could expose the Government to the risk of challenges from developers and land owners.
• Setting the levy too high could negatively impact on the feasibility of development in the FBURA and reduce the likelihood that real land use transformation and urban renewal is achieved. Conversely, setting the levy too low could result in an under collection of funds and a substantial cost to Government. The potential impacts on development are discussed in the following section.

9. IMPLICATIONS FOR DEVELOPMENT

9.1. DEVELOPMENT FEASIBILITY

It is possible that an unreasonably high development contributions levy could negatively impact on development feasibility. Typically, development contributions are only a small component of overall development costs and as such do not generally have a major bearing on development feasibility. However in the case of the FBURA, significant infrastructure investment is required to support development. The apportionment of these costs wholly to developers could result in some projects becoming unviable, and in a negative perception within the development industry of the FBURA as a development location.

Contributing to the pressure on the development industry at present are a range of other factors, including:

- Relatively low demand for housing and floorspace in the current market;
- Tight bank lending criteria for development projects, such as high pre-sale minimums; and
- Reducing profit margins.

However, development in the FBURA will be supported by a range of key infrastructure improvements, including light rail, which will generate a significant uplift in land value and facilitate land use transformation, access and amenity improvements and facilitate residential and commercial development.

With a combined IRC and betterment levy, the impact on development feasibility is significantly reduced. At a proposed level of between $3,000 and $4,200 per dwelling (residential development) and between $1,600 and $3,200 per equivalent dwelling (commercial development), the IRC is unlikely to have a material impact on development feasibility. However a detailed analysis of financial outcomes should be undertaken.

9.2. TIMING OF INFRASTRUCTURE DELIVERY

It is crucial that key infrastructure items are provided early in the development timeframe. This will allow land values to increase in the short term, improve development feasibility, and attract developers, buyers and tenants to the area.

The early provision of infrastructure will only be possible through up-front State Government investment. As is usually the case, infrastructure investment required is expected to outpace income received from development contributions.

9.3. GREENFIELD COMPARISONS

Greenfield development in Melbourne’s growth areas is subject to significant development contributions costs. For example, a developer in the Toolern PSIP area (Melton City Council) is required to pay both:

- A development contribution to Melton City Council based on the Toolern DCP; and
- A contribution to the State Government (State Revenue Office) based on the Growth Areas Infrastructure Contribution (GAIC).

Table 17 shows the likely contributions payable by a developer in the Officer Precinct Structure Plan area (Cardinia Shire), compared with the indicative standard levy considered in this report.
9.4. FINDINGS

It is considered that the 75% standard levy of $9,600 per dwelling would not unreasonably impact on development feasibility, especially when compared with the contributions currently payable in Melbourne’s growth areas. Whilst the development industry is currently experiencing tightening conditions, it is expected that strong land value uplift in the FBURA will ensure that the area will experience land use transition and associated infrastructure and amenity improvements.

It is essential that key infrastructure projects, particularly light rail and streetscape improvements, are provided early in the development timeframe. This will require State Government funding to activate the FBURA as an attractive area for development and drive the desired land use transition.

### TABLE 17  GREENFIELD CONTRIBUTIONS COMPARED WITH INDICATIVE FBURA LEVIES

<table>
<thead>
<tr>
<th></th>
<th>OFFICE-DCP</th>
<th>FBURA 75% standard levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy payable</td>
<td>$277,549 per ha (31.5%) plus $9,600 per dwelling (0.2%)</td>
<td></td>
</tr>
<tr>
<td>Levy (per dwelling)*</td>
<td>$19,469</td>
<td>$9,600</td>
</tr>
<tr>
<td>GAC (per ha)</td>
<td>$64,964</td>
<td>N/A</td>
</tr>
<tr>
<td>GAC (per dwelling)*</td>
<td>$5,063</td>
<td>N/A</td>
</tr>
<tr>
<td>Total contribution (per dwelling)</td>
<td>$24,567</td>
<td>$9,600</td>
</tr>
</tbody>
</table>

*Assumes 15 dwellings per hectare

10. RECOMMENDATIONS AND NEXT STEPS

The following recommendations are made in order to progress the selection of a preferred development contributions framework for the FBURA.

4. As a matter of priority, consider and finalise the administration issues identified in this report, including:
   - Determining the collection agency;
   - Determining the development agency; and
   - Finalising the conditions for works in-kind.

5. Adopt an interim development contributions framework, which includes the following key components:
   - Collect development contributions from all development, including those for which the Minister for Planning is not the Responsible Authority;
   - Adopt the ‘equivalent dwelling’ demand unit shown in this report, with standard equivalence ratios applied to commercial and retail development; and
   - Apply a standard levy of 75% of the standard greenfield rate (as determined by the Advisory Committee) to development in the FBURA to cover community, active open space, roads and light rail infrastructure;

6. To progress the interim framework to a final framework:
   - Address the key information gaps identified in this report, including:
     - Roads infrastructure assessment, including roads, intersections, trails and streetscape improvements;
     - Land required for DCP infrastructure (if any) and estimates of the value of the land;
     - Assessment of which parcels are vacant, which are under-utilised or have low value improvements, and which are occupied by high value improvements and/or high value businesses;
     - Sales transactions evidence for vacant land within the precinct, pre- and post rezoning;
   - Further refine and narrow the development projections and scenarios to inform the final development contributing framework;
   - Undertake an assessment of the financial outcomes of applying a combined betterment levy and IRC;
   - Finalise the details and mechanisms by which a combined betterment levy and IRC would be implemented.
APPENDIX A INFRASTRUCTURE FUNDING MATRIX

<table>
<thead>
<tr>
<th>Community/Key Facilities</th>
<th>Direct</th>
<th>Local</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Level 1 Multi-Purpose Community Centre - Land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Level 1 Multi-Purpose Community Centre - Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Level 2 Community Centre - Land (in Level 1 Centre)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Level 2 Community Centre - Construction</td>
<td></td>
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<tr>
<td>5 Level 3 Specialised Community Centre - Land (in Level 1 Centre)</td>
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<tr>
<td>6 Level 3 Specialised Community Centre - Construction</td>
<td></td>
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</tr>
<tr>
<td>7 Civic centre - multi-office - Land</td>
<td></td>
<td></td>
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<tr>
<td>8 Civic centre - multi-office - Construction</td>
<td></td>
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<tr>
<td>9 Civic centre - branch-office - Land</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>10 Civic centre - branch-office - Construction</td>
<td></td>
<td></td>
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<tr>
<td>11 Municipal Library - Land</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>12 Municipal Library - Construction</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>13 Regional Arts Centre - Land</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>14 Regional Arts Centre - Construction</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>15 Early childhood (pre-school) - Land (incl. in Community Centre)</td>
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</tr>
<tr>
<td>16 Early childhood (pre-school) - Construction</td>
<td></td>
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</tr>
<tr>
<td>17 Conservation Reserve (Small Scale) - Land</td>
<td></td>
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<tr>
<td>18 Conservation Reserve (Small Scale) - Construction</td>
<td></td>
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</tr>
<tr>
<td>19 Local and District Passive Parks (includes Linear Parks, multipurpose Community Gardens) - Land</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>20 Local Passive Park Construction (Earthworks, Drainage, Trees, Fences, Paths, Lighting, Seats, Bollards and Fencing)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>21 District Passive Park Construction (major features)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>22 Town Square or Village Green in NAC or MAC - Land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23 Town Square / Village Green in NAC or MAC - Construction</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>24 Estate Features (Walls, Artworks, Building Elements, Additional Paving, Custom Furniture) including parks which are not ‘credited’</td>
<td></td>
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</tr>
<tr>
<td>25 Landscaping and Significant Advanced Trees</td>
<td></td>
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<tr>
<td>26 Playground, Local, District or Regional - Land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 Playground, Local or Regional - Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Playground, District or Regional - Construction</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>29 Indoor Recreation Centre - Land (May be included in State Secondary College site)</td>
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<tr>
<td>30 Indoor Recreation Centre - Construction</td>
<td></td>
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<tr>
<td>31 Land required for Major Regional Sports / Aquatic Centre (including Gymnasium)</td>
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<tr>
<td>32 Major Sports / Aquatic Centre (including Gymnasium) - Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33 Land required for Local/District active recreation facilities</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Active Recreation, Parks &amp; Open Spaces</th>
<th>Direct</th>
<th>Local</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>34 Construction of local/district active recreation facility</td>
<td></td>
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<tr>
<td>35 Construction of pavilion to support recreation facilities</td>
<td></td>
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<tr>
<td>36 Artificial Lake (with no drainage facility)</td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transport Infrastructure</th>
<th>Direct</th>
<th>Local</th>
<th>Other</th>
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</thead>
<tbody>
<tr>
<td>37 Local Estate Drainage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38 Major Drainage Path / Channel - Land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39 Major Drainage Path / Channel - Construction</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Road Infrastructure</th>
<th>Direct</th>
<th>Local</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 Path - Off-Road Bike Path (Shared Trail Within or Abutting Development Sites)</td>
<td></td>
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</tr>
<tr>
<td>41 Regional Bike and Pedestrian Trail (Missing Links)</td>
<td></td>
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<tr>
<td>42 Connector Road, Access/Local Roads (Land and Construction)</td>
<td></td>
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<tr>
<td>43 Arterial Road, Council (mix. 1 lanes) - Land</td>
<td></td>
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<tr>
<td>44 Arterial Road, Council (mix. 4 lanes) - Construction</td>
<td></td>
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<tr>
<td>45 Arterial Road, Council (Future VicRoads) - Land</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>46 Arterial Road, Council (Future VicRoads) - 1st Cartway/Construction</td>
<td></td>
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<tr>
<td>47 Arterial Road, Council (Future VicRoads) - 2nd Cartway/Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>48 Arterial Road, VicRoads - Land</td>
<td></td>
<td></td>
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<tr>
<td>49 Arterial Road, VicRoads - construction</td>
<td></td>
<td></td>
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<tr>
<td>50 Arterial Road Landscaping (Within or Abutting Development Sites)</td>
<td></td>
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<tr>
<td>51 Intersection, Connector/Local Road to connector/local road</td>
<td></td>
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<tr>
<td>52 Intersection, Connector/Local Road to VicRoads Arterial fixed (uncontrolled treatment)</td>
<td></td>
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<tr>
<td>53 Intersection, Connector/Local Road to VicRoads Arterial road (controlled i.e. signalised intersection or roundabout)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>54 Intersection, Council Arterial / VicRoads Arterial</td>
<td></td>
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<tr>
<td>55 Intersection, Council Arterial / VicRoads Arterial</td>
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<tr>
<td>56 Intersection, VicRoads Arterial to VicRoads Arterial</td>
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<tr>
<td>57 Local Road, Treating Fragmented Properties</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>58 Local Road - Landscaping (Within or Abutting Development Sites)</td>
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<tr>
<td>59 Local Road - New or Upgrade (Street, Upgrade, Realignment etc)</td>
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</tbody>
</table>

* Includes: Combination of Preschool, Multi-Purpose Community Rooms, Business Accelerator, Adult Education, Occasional Care, 3-Year Preschool, Youth Space / Facility, Arts / Cultural Facility.
** Includes: Combination of Neighbourhood House, Preschool, Maternal Child Health, Multi-Purpose Community Rooms, Business Accelerator, Adult Education, Occasional Care, 3-Year Preschool, Youth Space / Facility, Arts / Cultural Facility.
*** Includes: Combination of Neighbourhood House, Preschool, Maternal Child Health, Multi-Purpose Community Rooms, Business Accelerator, Adult Education, Occasional Care, 3-Year Preschool, Youth Space / Facility, Arts / Cultural Facility, Adult Day Care Facility, Delivered Multi-Facility, Library / Community Learning Centre, Performing Arts Space.
**** Includes: football, soccer, cricket, rugby, tennis, netball, basketball, bowls, boice, baseball/softball etc.
***** Only in Metropolitan Melbourne.

Funds able to be included in special charge scheme
- Primary Funding Source
- Secondary Funding Source