Charges Framework

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White Paper
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7 Impressions of the new changes to the charges framework

1 – SURPRISED

The process undertaken by the State was very inclusive and transparent. We were being shown the thinking and direction along the way and were able to provide feedback. We were getting somewhere. We didn't all agree, but what the State was showing us, was making sense. That is right up until the end, when they went away, locked the doors and reworked things in secret and seemingly threw away the last few chapters of the book we had all been writing together, writing a new ending which included the new 'fair value' concept. Which I think has surprised everyone, given that the concept or approach was not raised once during the whole 15 month process.

2 - ONE STEP FORWARD - ONE STEP BACKWARD

There is no doubt that the changes to the wider framework, including refunds, cross crediting, offsets, actual not planned values and 'deemed' trunk will be great improvements to the overall system. The new 'fair value' concept and attempting to use funding access to encourage adopt is a concern, because of expected low adoption levels. I can't help but feel that we have yet to truly arrive at a system that will actually work in the longer term, which balances the financial and viability concerns of both developers and local governments. Perhaps Utopia is unattainable, and we should just be happy that we have an agreed system and some certainly for the next few years.

3 - CERTAINTY OR LACK OF IT

The core concept of the approach is fundamentally flawed (or at least it was upon its release, because the concept lacks certainty. Councils 'may' get access to funds, not 'will' get access to funding. There is no guarantee an application for funding will be successful and even if it is successful, those funds may need to be repaid. There is no way that any Council could with the information that they have in front of them at present, can make a commercially informed decision as to whether they will be better or worse off under the full cap pricing (but no state funding) or the fair value pricing (with potential access to state funding).

4 - RUSHED & DELAYED

The final twist in the charges reform, was clearly both rushed and delayed and could be seen to be ill conceived upon first reading. The original plan was to have the framework and proposed cap pricing released for local government use in budgeting in early 2014. Failure to meet this timing, with the draft bill not released until May 2014, means that few (if any) Council's will have had time to consider their position for budgeting before June 30 and as such almost guarantee's no Council will adopt the fair value pricing until the 2015/16 Financial year. It begs the question that if few (if any) Councils will have time to implement before the 1st of July 2014, was it worth rushing to meet this deadline? Surely an option was to just legislate to extend the current approach for a further 12 months?

5 - FAIRNESS

There was a view early in the process, that success would ultimately be achieved, when each half of the process (development & local government) each felt that their situation was equally improved or worsened, with the emphasis on equally. I think the State recognised that this topic is never going to be one that can either be delivered to favour either side. The outcome must be a compromise. I think the current Bill and the uncertainty regarding the fair value adoption, will make it hard to figure out who are the winners and the losers in this whole process. I guess time will tell.

6 - REGIONS FORGOTTEN

Despite the UDIA putting forward compelling arguments to support the introduction of a regional cap rate, this has been ignored within the proposed reforms. This is disappointing, because UDIA research demonstrated that in the regions Infrastructure Charges as a % of the median house or land prices are nearly double the SEQ rates at between 17-19% as opposed to a typical SEQ rate of 9-11%. In addition, the regions that would have otherwise benefits from the 'Royalties to Regions' funding, will now have this tied to adopted the Fair Value pricing. Whilst many may in time determine that they will be better off with access to this funding, given Infrastructure Charges incomes are low, the potential loss of access to that funding in the short term could jeopardise key flood mitigation projects such as flood levees.

7 - SEE YOU ALL AGAIN IN 3 YEARS

Despite the intrinsic differences of those representing the interests of the development industry versus local government and infrastructure providers, the collaborative desire of the group to truly find a workable solution for all parties, should be commended. But I fear that we will be back again in 3 years, and I expect to see the same people all on the bus again, for the next expedition, because until we can nail this, I think we all owe it to the industry to persist.