LGAQ

LOCAL GOVERNMENT ASSOCIATION OF QUEENSLAND

20 October 2017

Housing Policy Unit Manager
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: HousingConsultation@treasury.gov.au

Dear Sir/Madam

LGAQ Submission – National Housing Finance and Investment Corporation Consultation Paper

The LGAQ welcomes the opportunity to comment and provide feedback on the *National Housing Finance and Investment Corporation* Consultation Paper dated September 2107.

The LGAQ highlights the objectives of the Consultation Paper are to seek feedback on:

a) the establishment of the National Housing Finance and Investment Corporation (NHFIC) as part of the Commonwealth Government's 'Comprehensive housing affordability plan for all Australians' announced as part of the 2017-18 Budget;
b) the operation of the National Housing Infrastructure Facility (NHIF); and
c) the operation of the affordable housing bond aggregator.

The LGAQ's response to the questions raised in the Consultation Paper is provided in the attachment to this letter. Overall, the LGAQ has made 13 recommendations which are summarised below:

Recommendation 1: The LGAQ recommends that local government expertise specific to each jurisdiction be strongly considered in appointing the NHFIC Board members.

Recommendation 2: The LGAQ recommends dedicated local government liaison officers for each jurisdiction be recruited for the NHIF.

Recommendation 3: The LGAQ recommends ongoing and early engagement with state-based local government associations as the scoping and implementation of the NHFIC and the NHIF proceeds, to ensure local government interests are accurately captured and addressed.

Recommendation 4: The LGAQ recommends that the scope of eligible projects able to be financed under the NHIF, be broadened to allow for projects already planned (e.g. through an LGIP), and include assistance for local governments to offset inadequate infrastructure charges.

Recommendation 5: To support housing affordability outcomes, the LGAQ recommends the design features of the NHIF:

- consider the lifecycle costs associated with infrastructure provision;
- include financing land for infrastructure to support housing supply; and
- promote projects in the most well-serviced and sustainable locations.

Recommendation 6: The LGAQ supports local government being retained as the primary 'eligible applicant' under the NHIF, with sufficient flexibility to enter a partnership arrangement at council's discretion.

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If the scope of eligible applicants is expanded to include for example community housing providers (CHPs), then consideration should also be given to including the costs of land for affordable housing development and other development feasibility costs (e.g. infrastructure charges, development assessment fees etc.), within the criteria for suitably eligible projects.

Recommendation 7: The LGAQ supports the proposal that NHIF payments to local government will be made through state/territory governments and recommends that the Commonwealth Treasury consult closely with the Queensland Treasury Corporation (QTC) and the LGAQ in further developing the financing terms of the NHIF before these are finalised.

Recommendation 8: The LGAQ recommends that the metrics developed to enable assessment of infrastructure bottlenecks and housing supply and affordability pressures, align with state, regional and local policy documents and planning instruments where appropriate.

Recommendation 9: As a minimum, the LGAQ recommends that the lending component of the NHIF should be consistent with the financing arrangements offered to local governments in Queensland through QTC, or otherwise leverage off this and provide a more attractive financing option to encourage uptake.

Recommendation 10: The LGAQ recommends that the scope of the NHIF be reconsidered to allow local government to have access to funding that will better complement the infrastructure planning and charging framework in Queensland.

Recommendation 11: The LGAQ recommends that the objectives and targets of the NHIF be clearly defined in relation to housing affordability and affordable housing.

Recommendation 12: If it is proposed to include a new definition of affordable housing under the NHIF and incorporate inclusionary zoning measures, the LGAQ recommends consultation with state/territory governments and state-based local government associations, including the Australian Local Government Association.

Recommendation 13: The LGAQ recommends that the investment decisions of the NHIF ensure that the cost burden already on local governments in relation to infrastructure provision is minimised, rather than unintentionally introducing or expanding land taxes and rates/charges.

If you have any questions in relation to the attached feedback or recommendations, please feel free to contact Ms. Crystal Baker, Principal Advisor – Planning & Development directly via crystal_baker@lgaq.asn.au or 0459 864 315.

Yours sincerely

Sarah Buckler
GENERAL MANAGER - ADVOCACY

LOCAL GOVERNMENT ASSOCIATION OF QUEENSLAND

Submission to the Commonwealth Treasury

on the

NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION

Consultation Paper

Local Government Association of Queensland Ltd

20 October 2017

The Local Government Association of Queensland

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association set up solely to serve councils and their individual needs. LGAQ has been advising, supporting and representing local councils since 1896, allowing them to improve their operations and strengthen relationships with their communities. LGAQ does this by connecting councils to people and places that count; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions; and delivering them the means to achieve community, professional and political excellence.

Response to Issues for Consideration

The LGAQ is pleased to contribute to the National Housing Finance and Investment Corporation Consultation Paper process. Below is the LGAQ response and recommendations to the questions contained throughout the key sections of the Consultation Paper

Section 2: The National Housing Finance and Investment Corporation

1. ***Structure*** *– The proposed 'on entity, two functions' structure for the NHFIC, including how the NHIF and bond aggregator functions can be designed to ensure that they are delivered effectively?*
    - The LGAQ does not have any specific comments in relation to the proposed structure of the NHFIC. Comments in relation to the design of the NHIF are provided below.

2. ***Governance*** *– The proposed NHFIC governance structure, including: the role of the independent board; what issues may be reflected in the investment mandate; and the potential role of the Government in decision making?*
    - It is noted that the Government intends to appoint an independent, skills-based Board to govern the NHFIC.
    - Local government expertise on the NHFIC Board will be particularly important to guide and ensure informed investment decisions are made, with a strong understanding of the various challenges that may be faced by local governments (across jurisdictions) in building the infrastructure that is needed to support and unlock new housing supply.
    - In Queensland, a key ongoing challenge for local government in relation to infrastructure provision is the limited streams of own-source revenue and unpredictability and competitive nature of government grants.
    - In regard to development approvals, councils are also subject to the financial constraints associated with the current infrastructure charging framework whereby a local government can, by resolution, adopt charges for providing trunk infrastructure for development, but only up to a maximum charge imposed by the State Government under the *Planning Regulation 2017*.
    - The funding gap for trunk infrastructure across Queensland's high growth local governments is estimated to be $10.3b ($481.9m annually) under the current maximum capped charge. The current capped maximum adopted charges only recover an estimated 69.9% of the actual infrastructure costs and therefore do not represent full cost recovery (source: AECgroup/PIE Solutions report, August 2013). As such, councils in Queensland are already subsidising development for over 30% of the infrastructure costs.
    - It is suggested that these issues (and similar issues in other jurisdictions) should be considered and reflected in the NHFIC investment mandate as it is developed, to ensure that the investment decision made by the Board accurately reflects the local government challenges in different jurisdictions.

Recommendation 1: The LGAQ recommends that local government expertise specific to each jurisdiction be strongly considered in appointing the NHFIC Board members.

3. ***Resourcing** – Whether 30 staff members split across the NHIF and bond aggregator is likely to be sufficient; the potential outsourcing of some NHFIC functions; and whether the self-funding objective for the NHFIC is attainable and if so, over what timeframe?*

Recommendation 2: The LGAQ recommends dedicated local government liaison officers for each jurisdiction be recruited for the NHIF.

- A dedicated local government liaison officer would ensure specialist knowledge of the infrastructure planning and charging frameworks applying within each jurisdiction, to help identify suitably eligible projects and provide a key contact point for the Commonwealth Government to liaise with the relevant state agencies, local governments and state-based local government associations (and establish working groups, if required).

4. ***Engagement** – How can the NHFIC effectively engage with stakeholders across Australia to ensure that viable projects are identified?*
   - The LGAQ and other state-based local government associations, including the Australian Local Government Association, are ideally placed to represent local government interests in the ongoing scoping and implementation of the NHFIC.
   - The LGAQ welcomes the opportunity to continue working with the Commonwealth Government as the Board membership is identified, the investment mandate developed and the design features of the NHIF are refined and finalised.
   - State agencies and respective state-based local government associations will also have a critical role to play in promoting the NHIF and creating awareness of funding opportunities as the NHFIC is implemented.

Recommendation 3: The LGAQ recommends ongoing and early engagement with state-based local government associations as the scoping and implementation of the NHFIC and the NHIF proceeds, to ensure local government interests are accurately captured and addressed.

<u>Section 3: The National Housing Infrastructure Facility</u>

1. ***Infrastructure** – Noting the examples identified in Table 4, what types of infrastructure do LGs fund, deliver and own? What types of infrastructure could be prioritised to address infrastructure bottlenecks?*
   - Local government plays a key role both directly, and in supporting other levels of government and the private sector, to deliver, operate and maintain public infrastructure.
   - In Queensland, local governments are responsible for the planning and provision of 'trunk infrastructure' which is typically shared between different developments and includes water supply, sewerage, transport, stormwater management, parks and land for community facilities.
   - According to the latest ABS Government Finance Statistics, in 2015-2016 Queensland's 77 councils managed $98 billion of non-financial assets. This represents the equivalent of three quarters of the non-financial asset responsibilities of the Federal Government (ABS 5512).
   - Road assets are a key component of this asset base. Queensland councils manage over 150,000 kilometres of road network and bridges, which the Department of Infrastructure, Local Government and Planning (DILGP) value at $47 billion. Queensland councils spend approximately 25% of their annual budgets to maintain road assets, which in 2015-16 amounted to approximately $2.3 billion.
   - The other significant asset class for Queensland councils is water and waste water infrastructure, which has an estimated value of $25 billion (plus approximately $6 billion of storm water assets). Additional water and waste water assets valued at $8.7 billion are owned and operated by two non-financial public enterprises, which have councils as their shareholders.

- Under the *Planning Act 2016*, local governments are required to plan for infrastructure needs through preparation of a local government infrastructure plan (LGIP), which is a key component of a local government planning scheme.
- LGIPs are the result of comprehensive integrated land use and infrastructure planning processes and must identify a 'priority infrastructure area' demarcating enough serviced land for 10-15 years urban growth.
- LGIPs identify the 'trunk' infrastructure necessary to support the intended development pattern of the local government area at the desired standard of service, in a coordinated, efficient and financially sustainable way.
- Based on a LGIP, a local government may impose infrastructure charges (albeit 'capped') and apply conditions for trunk infrastructure on a development approval.
- Infrastructure charges however, only represent approximately 70% revenue sufficiency for local governments in Queensland in relation to upfront infrastructure outlays, and do not cover ongoing maintenance and replacement costs. The 'gap' in revenue for infrastructure is not directly offset or subsidised by the State Government.
- Based on the eligibility criteria contained in the current proposal for the NHIF, it does not appear as though local governments could apply for financing associated with the delivery of infrastructure identified and planned for in a LGIP. It is also unclear whether funding could be provided to 'bring-forward' infrastructure delivery identified in a LGIP.
- By limiting the scope of eligible projects to housing-related infrastructure that otherwise would not proceed or would face undue delay without NHIF assistance, undermines the Queensland planning framework which promotes and requires local government to proactively undertake integrated infrastructure and land use planning.

Recommendation 4: The LGAQ recommends that the scope of eligible projects able to be financed under the NHIF, be broadened to allow for projects already planned (e.g. through an LGIP), and include assistance for local governments to offset inadequate infrastructure charges.

2. ***Design features*** – *Are the design features appropriate, including the considerations that the NHIF could take into account when assessing projects?*
    - The LGAQ is concerned with the focus of the NHIF funding on housing related-infrastructure projects that can demonstrate 'additionality' (i.e. those projects that would not proceed or would face undue delay without NHIF assistance).
    - In Queensland, local governments are required to plan for the long-term infrastructure needs of their community through preparation of a LGIP which must identify a priority infrastructure area capable of supporting 10-15 years growth.
    - Although the paper states 'the NHIF would give preference to 'greenfield' and 'urban infill' infrastructure projects, the requirement to demonstrate 'additionality' in a Queensland context could constrain the ability of local governments to access funding for areas already identified and planned for through a LGIP, and indirectly favour new greenfield development.
    - This is problematic given the generally lower costs of infrastructure provision for infill development and the affordability benefits that this can provide – for example, through using spare capacity within existing infrastructure networks. In addition, infill development is likely to result in an overall reduced cost of living due to greater access to services and facilities.
    - A report prepared by infraPlan on behalf of the South Australian Department of Planning and Transport Infrastructure, cites a median infrastructure cost per lot for infill development of $20,000 compared to a median infrastructure cost per lot of $85,000 for greenfield development[1].

[1] Giannakodakis, G. (2013). Urban infill vs greenfield development: a review of economic benefits and costs for Adelaide. InfraPlan: Adelaide. Available online: http://dpti.sa.gov.au/__data/assets/pdf_file/0009/123210/InfraPlan_Report_Infill_versus_Greenfield_Development_Adelaide_-_Final_report.pdf

- A report[2] recently prepared for the LGAQ, also analysed the costs of development on councils using a particular case study, and found that '*maintenance and depreciation effects outweigh the additional revenue received in the form of rates and charges and other revenues...*' such that '*the overall implication for Council's financial sustainability from the case study development is negative*'.
- The design features of the NHIF do not account for the lifecycle costs of infrastructure (e.g. maintenance and depreciation), focussing only on capital upfront costs.
- As stated in the AEC report, '*the failure to adequately recover the lifecycle costs associated with development could result in additional council levies on the residents of new communities and/or potential broader rate increases and reductions in services to the broader community creating wider social and community costs*'.
- Local governments also face other financial constraints in providing infrastructure to support housing supply, including the costs associated with the acquisition of land for infrastructure (such as for road widening or sewerage upgrades).
- In a recent submission to the Standing Committee on Infrastructure, Transport and Cities[3], the LGAQ noted that a number of Queensland councils with the capacity to service a loan currently use debt financing to provide certain infrastructure, and this is typically funded from general rates revenue. The Queensland Treasury Corporation Annual Report 2016-17 notes that as at 30 June 2016 Queensland Councils are carrying $6.5 billion in debt (market value).

Recommendation 5: To support housing affordability outcomes, the LGAQ recommends the design features of the NHIF:

- consider the lifecycle costs associated with infrastructure provision;
- include financing <u>land for infrastructure</u> to support housing supply; and
- promote projects in the most well-serviced and sustainable locations.

Recommendation 6: The LGAQ supports local government being retained as the primary 'eligible applicant' under the NHIF, with sufficient flexibility to enter a partnership arrangement at council's discretion. If the scope of eligible applicants is expanded to include for example community housing providers (CHPs), then consideration should also be given to including the costs of land for affordable housing development and other development feasibility costs (e.g. infrastructure charges, development assessment fees etc.), within the criteria for suitably eligible projects.

3. ***Financing options*** *– Are the types of tailoring potentially available under the NHIF's three types of finance sufficiently flexible?*
   - The LGAQ supports innovative, equitable and flexible infrastructure financing options for local government through the NHIF that does not further shift the cost burden of infrastructure provision onto councils and the community.
   - In Queensland, local governments have access to financing through Queensland Treasury Corporation (QTC) and there is a need to ensure the types of tailoring and financing terms of the NHIF are comparable with or better than what is offered to local governments in Queensland. More detailed feedback regarding the NHIF financing arrangements and complementarity is provided in the responses to Question 5 and 6 below.

Recommendation 7: The LGAQ supports the proposal that NHIF payments to local government will be made through state/territory governments and recommends that the Commonwealth Treasury consult closely with the QTC and the LGAQ in further developing the financing terms of the NHIF before these are finalised.

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[2] O'Donovan, G. (2017). Review of the cost of development to councils. AEC Group. Brisbane (unpublished).

[3] LGAQ. (2016). Submission to the Standing Committee on Infrastructure, Transport and Cities on The role of transport connectivity on stimulating development and economic activity. Available online: http://lgaq.asn.au/documents/10136/5689733/LGAQ%20Submission%20to%20the%20Standing%20Committee%20on%20Infrastructure%2C%20Transport%20and%20Cities%20Feb%202016%20FINAL%2020160212.pdf

4. **Metrics** – *What metrics could enable assessment of infrastructure bottlenecks and housing supply and affordability pressures?*
   - It should be noted that various state, regional and local policy documents and planning instruments in Queensland already contain metrics in relation to infrastructure prioritisation and housing supply. For example, the State Infrastructure Plan states that the '[net present value] *NPV and* [benefit cost ratio] *BCR are two metrics amongst a number of critical decision metrics the government will use to prioritise projects against each other and also options within projects (e.g. different rail route alignments)*'.

Recommendation 8: The LGAQ recommends that the metrics developed to enable assessment of infrastructure bottlenecks and housing supply and affordability pressures, align with state, regional and local policy documents and planning instruments where appropriate.

5. **Financing arrangements** – *Could the NHIF expand 'eligible applicants' to include a consortium of investors, such as institutional investors, social impact investors, CHPs and other stakeholders (for example, state and territory governments)? In addition, what could a partnership with LGs involving a NHIF equity injection look like? Are there further opportunities for aligning the interests of investors and other stakeholders to create incentives for co-investment to accelerate housing developments? Given the long lead times associated with the infrastructure construction, what are the appropriate repayment timeframes?*
   - The scope of 'eligible applicants' could be expanded to include a range of stakeholders such as proposed in the Consultation Paper. However, the LGAQ considers that local government should remain the primary 'eligible applicant', with sufficient flexibility to enter a partnership arrangement at council's discretion. Such a partnership approach would be particularly useful where CHPs are acquiring or leasing government land and may also require a development approval.
   - A partnership arrangement involving a NHIF equity injection, could assist in maintaining long term affordability of housing stock (e.g. the ability to control the price point when property is subsequently sold or rented following the initial purchase). This is important if improved housing affordability is to be an objective of the NHFIC and NHIF and may help to encourage co-investment in affordable housing development.
   - In relation to appropriate repayment timeframes, it should be noted that local governments in Queensland are able to access long term loan funding through QTC under the 'Local Government Borrowing Program' administered by the Department of Infrastructure, Local Government and Planning (see below for further detail).

Recommendation 9: As a minimum, the LGAQ recommends that the lending component of the NHIF should be consistent with the financing arrangements offered to local governments in Queensland through QTC, or otherwise leverage off this and provide a more attractive financing option to encourage uptake.

6. **Complementarity** – *Given existing state and territory lending facilities, how can the NHIF position itself so that it complements state and territory financing schemes and private sector finance options?*
   - In Queensland, local governments derive their investment powers from Part 6 of the *Statutory Bodies Financial Arrangements Act 1982* (SBFA Act).
   - The 'Local Government Borrowing Program' administered by DILGP provides local governments with access to long term loan funding from QTC for capital works. Key conditions attached to any borrowings approved in the 2017-18 financial year include:
     - Maximum loan term of 20 years. A local government may choose a shorter term.
     - Must be drawn down prior to 30 June 2018.
     - Approval does not carry forward to subsequent financial years.
   - Further detail regarding the terms of the 'Local Government Borrowing Program' can be directed to DILGP via email - lgborrowings@dilgp.qld.gov.au.

- For the NHIF to be a successful initiative in Queensland, it is important that the financing arrangements for the lending component of the NHIF, are comparable or better than what is already offered through QTC (see recommendation 9 above).
- In addition, a local government can, by resolution, adopt charges for providing trunk infrastructure for development and is required to publish their infrastructure charges resolution on their website.
- For new land developments, up-front, cost reflective infrastructure charges paid by the developer (and the first-round property buyer), remain the preferred method and have the benefits of transparency and consistency in service standards to communities.
- The LGAQ notes that councils should not be limited in their ability to apply infrastructure charges that reasonably seek to recover the full costs of providing infrastructure (particularly for new developments).
- In Queensland, the local government infrastructure planning and charging framework has been subject to significant reforms over the last five years that has led to the introduction of a maximum adopted (capped) charge and a raft of amendments that significantly benefits the developer, particularly those who build infrastructure as part of their development.
- The maximum (capped) adopted charges were introduced in 2011 and were frozen until July 2016 when the State Government ended the moratorium on indexation.
- The LGAQ estimates, in real terms, the capped charges had dropped in value by over 10% since 2011, which represented approximately $122 million in potential revenue forgone to local government in Queensland.
- The cumulative impacts of Queensland legislative amendments effectively limit councils' ability to plan and budget appropriately and pose a significant risk to councils' financial sustainability. As a result, Queensland councils currently under-recover infrastructure costs for new developments due to restrictions on charges imposed by the State government, creating a burden on existing ratepayers.
- The funding gap for trunk infrastructure across Queensland's high growth local governments is estimated to be $10.3b ($481.9m annually) under the current maximum capped charge. The current capped maximum adopted charges only recover an estimated 69.9% of the actual infrastructure costs (source: AECgroup/PIE Solutions report, August 2013).
- This means councils in Queensland heavily subsidise development for the construction of trunk infrastructure to service their development, even if council chooses to charge the maximum amount.
- The LGAQ suggests the NHIF could better position itself to complement the infrastructure charging framework by:
    - supplementing local government infrastructure charges revenue to support local government achieve 100% cost recovery of providing trunk infrastructure to local communities
    - removing the requirement to demonstrate 'additionality' to allow local governments in Queensland to access necessary funds to support the infrastructure already planned for and/or
    - broadening the scope of housing related infrastructure captured by the NHIF to capture the additional trunk infrastructure local governments are required to plan for and provide in Queensland (i.e. stormwater management infrastructure, parks and land for community infrastructure).

Recommendation 10: The LGAQ recommends that the scope of the NHIF be reconsidered to allow local government to have access to funding that will better complement the infrastructure planning and charging framework in Queensland.

7. ***Affordable housing** – Should the NHIF also focus on facilitating the supply of affordable housing, including for key works? If so, what is the most effective way to support this objective?*
   - At present, the objectives of the NHFIC and NHIF in relation to affordable housing are unclear.
   - The LGAQ supports the inclusion of affordable housing as an objective of the NHIF but there is a need to consider this in the context of the broader scope of the NHFIC and the current policy positions of different jurisdictions.
   - Although the Consultation Paper states that the NHFIC 'reflects the Government's priorities to improve affordable housing outcomes for Australians' (page 8), the NHIF is focussed on catalysing projects linked to new housing supply, through investment in housing-related infrastructure and the concept of 'additionality'.
   - The focus of the NHIF on housing-related infrastructure and 'additionality', preferences greenfield projects and does not necessarily guarantee an increase in the supply affordable housing stock.
   - Infrastructure planning is an ongoing function of local governments with various measure being used to support affordable housing outcomes, including but not limited to unlocking additional land supply, upgrading improving the use of existing infrastructure and integrating infrastructure with land uses so that communities are well-serviced and connected.
   - If affordable housing is included as an objective, a consistent definition of affordable housing will need to be used across all jurisdictions to ensure equitable distribution of funding under the NHIF.
   - In Queensland, the definition of 'affordable housing' used in the planning framework is "*affordable housing means housing that is appropriate to the needs of households with low to moderate incomes, if the members of the households will spend no more than 30% of gross income on housing costs*" (Planning Regulation 2017, schedule 4)
   - The LGAQ does not oppose the consideration of a proportion of housing supply being dedicated to affordable housing (e.g. inclusionary zoning) by the NHIF, but recognises the challenges in achieving this, particularly in Queensland.
   - Queensland does not currently have a state-wide policy position mandating a proportion of housing stock be dedicated to affordable housing product.
   - The performance based planning framework under the Planning Act 2016, also presents a number of challenges to implement such an approach and would require significant legislative reform to enable inclusionary zoning policies to be broadly implemented and/or mandated.

Recommendation 11: The LGAQ recommends that the objectives and targets of the NHIF be clearly defined in relation to housing affordability and affordable housing.

Recommendation 12: If it is proposed to include a new definition of affordable housing under the NHIF and incorporate inclusionary zoning measures, the LGAQ recommends consultation with state/territory governments and state-based local government associations, including the Australian Local Government Association.

8. ***Value uplift** – How should the NHIF factor value uplift and associated value capture schemes into its investment decisions?*
   - The LGAQ supports approaches that provide an equitable infrastructure development and funding framework, where these approaches do not shift the cost burden onto councils and their communities, including burdens and costs associated with the on-going administration and obligations for schemes.
   - Factoring value uplift and associated value capture schemes into the investment decisions of the NHIF, could undermine the objective of improving housing affordability.
   - For example, the rating of property values provides the primary own-source revenue raising method available to local government across Australia, and council rating

effectively applies the principle of value capture to property values to generate revenue for the local government sector.

- Local government rating proportionately captures the relative shift in values arising from infrastructure investment according to a long-established formula. Councils set rates in the dollar of property valuation to support a budget outcome. Where property valuations increase, the rate in the dollar will change to achieve the budget requirements.
- Minimum rates and differential rates are also applied to achieve equity objectives across increasing (or reducing) land valuations for the local government area. While properties in the same local government differential rate category that experience valuation increases above the average for that category will face an increased relative rate burden, overall rate revenue from the category will not usually increase at the same rate as the overall valuation increase.
- The ability of local governments to moderate rates based on local economic circumstances contrasts with State based land tax, where the rate in the dollar is maintained meaning that overall revenue increases (or decreases) relative to the valuation change.
- This discrepancy places greater pressure and expectations on local government to use rates as a means to moderate housing affordability, particularly when there is competition for household income from government rates and charges.
- Queensland local government currently raises around $3.3 billion annually from property rates (2015-16).
- The Queensland State Government raises around $1 billion through State land tax (Table 4.2 Budget Strategy and Outlook 2017-18), which is only levied on land in Queensland where the total taxable value (as determined by the valuer general) of a person's combined freehold land holdings is $600,000 or more. There are also exemptions for a principal place of residence.
- Any proposed infrastructure funding framework should not shift the cost burden onto councils and their communities, nor introduce new (or extend current) land taxes likely to reduce household income, that 'crowd out' local government revenue raising from its primary revenue base.
- Local governments also have the ability to raise general and 'benefitted area' special levies and there are examples where this is being applied to support funding for public infrastructure.
- Special levies for discrete beneficiaries are only used in limited instances due to the complexities in developing and applying a cost apportionment methodology over discrete beneficiaries / users, the reliability of infrastructure cost recovery (dependent on business activity in the defined area), and the potential for dissatisfaction and political issues that can be associated with a localised levy. There have been a number of cases where local levies have been discontinued by councils following the withdrawal of support by the local businesses who were subject to the levy.
- Currently land value increases that may be, in part, attributable to nearby public and private infrastructure, are captured on the sale of a property by the Commonwealth Government through CGT and GST on the services component (% of the transaction value), and by the State Government through land tax and stamp duty on the sale and insurance contracts.
- The implications of value uplift and associated value capture schemes on land tax, the revenue raising capacity of local government imposed by other levels of government, including in the form of caps on rate increases and caps on developer contributions to infrastructure costs, need to be considered in further refining the financing arrangements and design features of the NHIF.
- The imposition of restrictions on developer charges has created a situation where there is under-recovery of costs per developed lot. This places additional pressure on the revenue of local government, and compromises its capacity to provide infrastructure to accommodate local population growth.

Recommendation 13: The LGAQ recommends that the investment decisions of the NHIF ensure that the cost burden already on local governments in relation to infrastructure provision is minimised, rather than unintentionally introducing or expanding land taxes and rates/charges.

Section 4: The affordable housing bond aggregator

The LGAQ does not have any comments in relation to the affordable housing bond aggregator given the focus of this function on providing cheaper and longer-term finance to CHPs rather than local government.