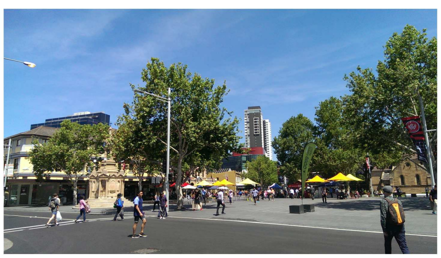
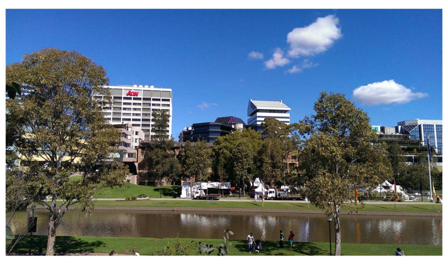
City of Parramatta

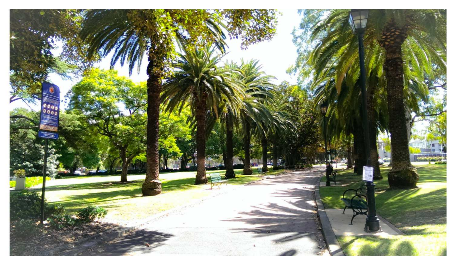
Discussion Paper

Infrastructure Planning and Funding in the Parramatta CBD

March 2017







PARRAMATTA

WE'RE BUILDING AUSTRALIA'S NEXT GREAT CITY

Executive summary

Sitting at the heart of Greater Sydney's 'Central City', Parramatta CBD will grow significantly over the coming decades. This means city infrastructure such as green spaces, recreational facilities, arts and cultural destinations, and community spaces will face greater demands than ever before, necessitating clear infrastructure planning that aligns with City of Parramatta Council's ('Council') vision of being a liveable, sustainable, productive, and leading city.

Council has developed a draft list of the local infrastructure that the city will need in order to provide high-quality spaces and services that meet the needs of the CBD's growing community of residents, workers and visitors. Council is now seeking feedback on this needs analysis which, led by Council's *Statement of Vision and Priorities*, responds to the following themes:

- **Managing growth and transport** to improve accessibility, navigation and connectivity, which will provide a better city experience for pedestrians and active transport users.
- **Promoting green spaces and the environment** by creating and maintaining green spaces and transitioning towards a resilient city. The focus will be on developing Parramatta River as a key green public space for residents, workers and visitors, serving as a 'green' trail throughout the city.
- **Providing opportunities for recreation and leisure activities** to promote healthy and active lifestyles and maintaining a reputation as a premier sporting destination.
- **Creating a strong economy with a strong city centre,** which relies on improving the city's public domain backbone of streets and laneways, as well as flood management. There is also is a push towards becoming a Smart City.
- **Having a community focus** that fosters and celebrates a sense of community through the new Civic Centre, community centres and spaces, and childcare facilities.
- **Supporting arts, culture, celebrations and destinations** which enrich people's lives by creating a collective sense of identity for the community and spaces to spark new ideas and imagination.

The local infrastructure identified to support growth in the CBD and the realisation of these priorities will cost approximately $1 billion over the next 40 years. This exceeds Council's estimated income from user charges (section 94a developer contributions), taxes (rates), and potential Government grants. The total estimated income from these sources will likely fall in the range of $449 - $605 million between 2016 and 2056. This means there is an anticipated funding gap of between $394 - $549 million.

- This paper describes potential options for Council to reduce the funding gap, and feedback is welcomed on the funding options considered - in particular whether they are fair, equitable and transparent. Some of these options are currently used by Council (such as rates, developer contributions and grants), while others would represent new funding opportunities (such as City Deals and a planning uplift value share (PUVS) mechanism).

In particular, this paper focuses on funding options that Council can readily influence, and highlights the difference between user charges (i.e. meaning that those who benefit from something should pay for it) and taxes. Value sharing is a type of user / beneficiary charge that is currently not being implemented in Parramatta CBD, and this paper will provide more detail on value sharing and how it might apply in the CBD.

While the funding options considered may be able to raise a significant amount of funds, there remains a funding gap. The identified local infrastructure needs of the Parramatta CBD represent an unprecedented level of investment, and finding the right mix of funding mechanisms will require innovative thinking and approaches.

Council welcomes your feedback on this discussion paper and the funding options considered, as well as on the draft infrastructure list. All submissions will be considered in Council's decision making process relating to CBD infrastructure planning and funding.

If you would like to provide feedback, visit www.cityofparramatta.nsw.gov.au.

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1 Introduction

1.1 What this paper is about

This paper identifies that Parramatta CBD will grow significantly over the next 40 years, and will need additional local infrastructure of all kinds costing approximately $1 billion. Council cannot meet this requirement under its current revenue stream, creating a funding gap.

This paper introduces the additional infrastructure needs and assesses several options to reduce the funding gap. It highlights the challenges and opportunities of these options, and recommends a value sharing mechanism as a potential way forward.

This paper aims to provide the community with an understanding of infrastructure planning and funding in the CBD by:

- Providing an overview of the plans and strategies put in place by Council, the State Government and the Greater Sydney Commission, which all identify Parramatta's strategic importance.
- Highlighting that Parramatta CBD is set to grow significantly over the coming decades and identifying what infrastructure is needed to support this growth.
- Assessing several funding options, identifying challenges and opportunities, and demonstrating that a value share mechanism shows strong potential to help reduce the funding gap.
- Determining how a value share mechanism would work in a fair, equitable and transparent manner.
- Outlining a way forward and inviting the community and industry to provide feedback on Council's work to date.

1.2 How this paper was written

This paper is the result of a highly collaborative effort between City of Parramatta Council and Aurecon Australasia Pty Ltd. Aurecon also undertook an independent review of Council's original analysis around value sharing; this is provided as **Appendix A** to this paper, and provides further information on assumptions, market feasibility analysis and results. Council staff have undertaken a draft needs analysis identifying what local infrastructure will be needed in the CBD and this is included at **Appendix B**.

Parts of this work were also informed by discussions with staff of the Department of Planning and Environment and Greater Sydney Commission, and interviews with developers and real estate agents.

1.3 How to get involved

Council welcomes your feedback on this discussion paper, especially on the infrastructure list and the funding options considered. All submissions will be considered in Council's decision making process relating to CBD infrastructure planning and funding.

If you would like to provide feedback, visit www.cityofparramatta.nsw.gov.au.

2 Planning for growth in Parramatta CBD

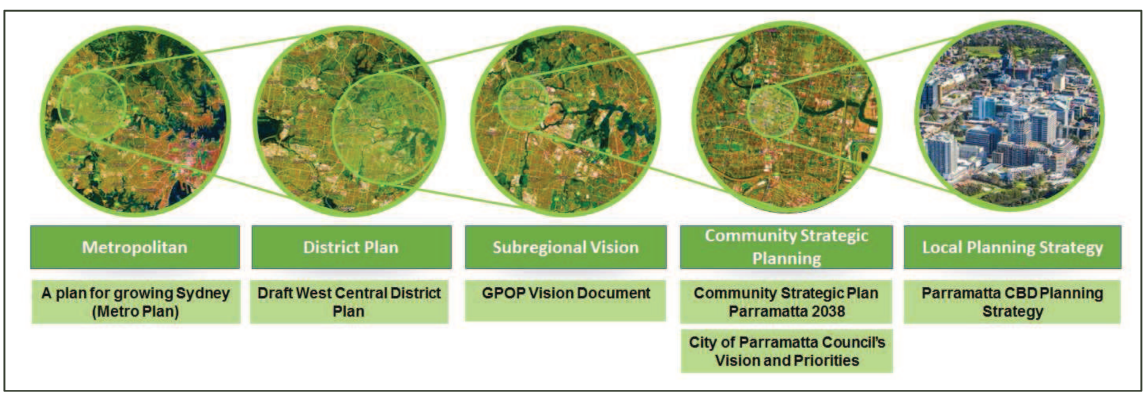
The NSW Government has identified Greater Parramatta to the Olympic Peninsula (GPOP) and surrounds as Sydney's Central City[3,4], with employment and population forecast to grow significantly over the coming decades. Parramatta CBD is one of four important precincts within GPOP.

Council and the NSW State Government are preparing for this growth and have developed several plans and frameworks outlining the vision for Parramatta. This vision seeks to transform the city into a sustainable, liveable, and productive world class city.

2.1 Frameworks guiding growth in Parramatta CBD

Great cities need a plan for growth. There are many examples of cities that have expanded too quickly without any kind of planning. The results are chaotic at best, and greatly threaten the quality of life in that city[5]. In order to transform Sydney's Central City (with Parramatta CBD at its heart) into a world class city, a series of plans and frameworks have been developed by the Greater Sydney Commission, NSW State Government and Council, which all agree on the need to grow the city while also addressing the impacts arising from that growth. The following sections outline this clear strategic line of sight in more detail.

Figure 1: Summary of Strategic Planning for Parramatta CBD



[3] West Central District Plan (http://greater.sydney/west-central-district)
[4] Greater Sydney Commission Greater Parramatta to Olympic Peninsula Vision (http://www.greater.sydney/gpop)
[5] How to make a great city, McKinsey&Company (2013)

A Plan for Growing Sydney[6]

The NSW State Government envisions the transformation of Sydney's metropolitan area over the next 20 years in *A Plan for Growing Sydney* (The Metro Plan). The Metro Plan provides key directions and actions that will make Sydney more productive, liveable and sustainable.

The Metro Plan identifies Parramatta as a new priority growth area and a second CBD[7]. The NSW State Government commits in the Metro Plan to working with Council to review expansion opportunities in Parramatta CBD such as updating building height controls and removing other barriers to growth.

The result will be a city with a strong commercial centre supported by infrastructure together creating a dynamic and diverse place to work, live and play.

Draft West Central District Plan

The Greater Sydney Commission (GSC) has released draft District Plans for the six regions that make up the Sydney Metropolitan area. City of Parramatta sits within the West Central District, which also includes Blacktown, Cumberland and The Hills Local Government Areas. This area is forecasted to grow from 971,000 residents in 2016 to 1.5 million in 2036 (roughly 27,500 more people every year from now until 2036).

The *Draft West Central District Plan*, like the Metro Plan, has the priority of developing Parramatta CBD as the GSC seeks to "collaborate to create, own and deliver GPOP" [Greater Parramatta and the Olympic Peninsula; refer next section].

Greater Parramatta and the Olympic Peninsula Vision Document

The Greater Sydney Commission has also released a Vision Document for Greater Parramatta and the Olympic Peninsula ("GPOP")[9]. In line with the Metro and District plans, this document positions Parramatta as Sydney's "Central City", and identifies GPOP as "the geographic and demographic centre of Sydney". The Parramatta CBD and Westmead form one of four key precincts within GPOP.

BOX 1: Greater Sydney Commission's vision for Parramatta CBD

"The revitalised Parramatta CBD will be GPOP's commercial and civic centre. It will grow with a strong commercial core, an identifiable CBD skyline, a sound mix of finance, insurance, accountancy, legal, real estate, convention, public administration and IT services and a lively night-time economy. The revitalised Parramatta River will be the CBD's centrepiece and will connect to the prestigious commercial address of Parramatta Square via the Civic Link. Parramatta CBD will be designed as our central '30-minute city'"

GPOP Vision (Pg. 30)

[6] http://www.planning.nsw.gov.au/Plans-for-your-area/Sydney/A-Plan-for-Growing-Sydney
[7] Direction 1.2 of the plan being to "Grow Greater Parramatta – Sydney's second CBD"

[9] http://www.greater.sydney/gpop

Community Strategic Planning: *Parramatta 2038*

Council's current long-term Community Strategic Plan is *Parramatta 2038*[10]. This plan closely aligns with metropolitan and regional plans in terms of planning for major growth in Parramatta CBD. It envisions four major transformational opportunities for Parramatta:

- Development of Parramatta CBD, Westmead, Camellia and Rydalmere
- A light rail network and local and regional ring roads
- Parramatta River entertainment precinct
- A connected series of parks and recreation spaces

Community Strategic Planning: City of Parramatta Council's *Statement of Vision and Priorities*

City of Parramatta Council released a *Statement of Vision and Priorities* in December 2016, following its formation through the amalgamation of parts of the former Parramatta City Council and The Hills, Hornsby, Auburn and Holroyd Councils.

While the Statement outlines the Council and community's vision and priorities for the area as a whole, its guidance for the CBD is clear. It supports a strategic vision for a Parramatta CBD which includes a strong city centre, effective transport and a focus on sustainability and equity. Council's new *Vision and Priorities* are referenced in Figure 2.

Parramatta CBD Planning Strategy and background work

In 2015, the former Parramatta City Council adopted the *Parramatta CBD Planning Strategy*[11], which, through careful consideration of urban design and economic outcomes, envisioned Parramatta's CBD as a world class city.

It concluded that significant changes to local planning controls would be required to drive change and growth in the CBD, and provided a clear implementation plan for delivery of a new planning framework for the Parramatta CBD.

This Strategy envisioned the preparation of a major Planning Proposal to change planning controls in the CBD to allow for significant growth and development, and help to realise the strategic vision laid out across all levels of planning for the CBD. This Planning Proposal is described in more detail in the next section.

BOX 2: Former Parramatta City Council's vision for Parramatta CBD

"Parramatta will be Australia's next great city, defined by landmark buildings and high quality public spaces with strong connections to regional transport. It will respect its heritage, be an exemplar in design excellence, facilitate job growth and ensure its streets are well activated."

Parramatta CBD Planning Strategy 2015

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[10] https://www.cityofparramatta.nsw.gov.au/sites/council/files/inline-files/Community%20Strategic%20Plan%202038.pdf
[11] https://www.cityofparramatta.nsw.gov.au/sites/council/files/inline-files/Appendix_2_Parramatta_CBD_Planning_Strategy.pdf

Figure 2: Extract from Council's *Statement of Vision and Priorities*, 2016

2.2 Planning Proposal for the Parramatta CBD

The clear strategic line of sight for Parramatta CBD described in the previous section is given statutory (legal) expression through a major Planning Proposal for the Parramatta CBD. Planning Proposals are the legal mechanism for changing planning controls, like land use zoning, height and floor-space ratio (FSR) controls. This section explains in more detail the changes proposed under the Parramatta CBD Planning Proposal, which was endorsed by the former Parramatta City Council in April 2016, and is currently awaiting a "Gateway Determination" from the Department of Planning and Environment to allow public exhibition and community consultation.

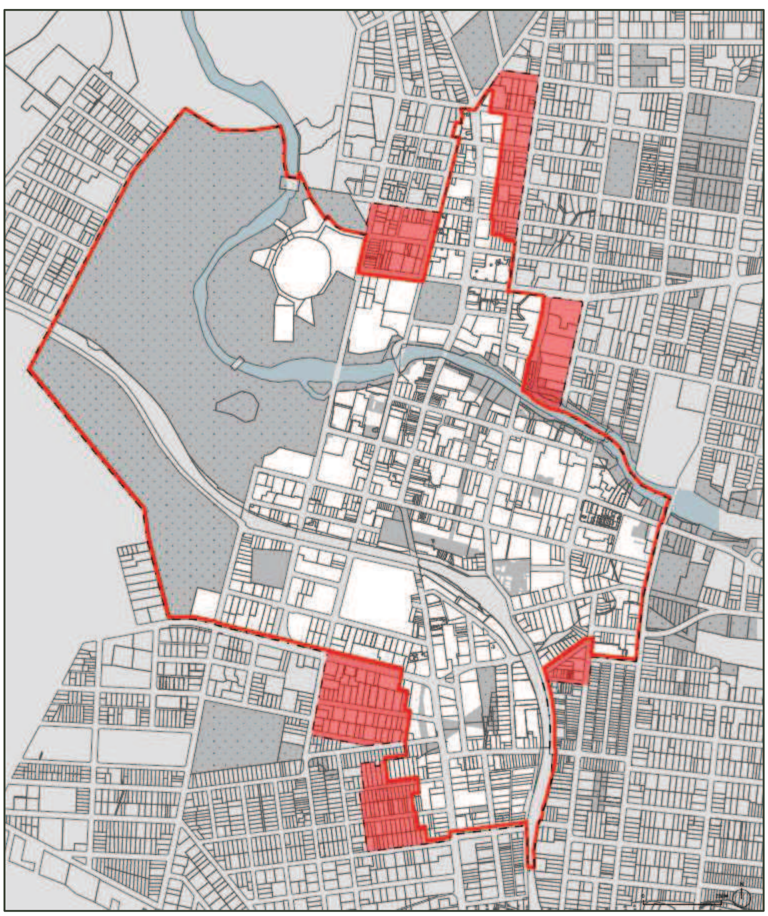
An expanding CBD

The CBD Planning Proposal proposes to expand the boundary of Parramatta's statutory "City Centre" as shown in the red shaded areas of Figure 3 below.

The Planning Proposal will not make any changes to the existing controls around the Park Edge Highly Sensitive Area adjacent to the world heritage-listed Old Government House and Domain Parramatta Park, the Stadium/Sports and Leisure Precinct and surrounds. However, these areas will still remain as part of the City Centre boundary.

Consideration of a further expansion of the city centre boundary will be undertaken as part of future planning studies in the CBD.

Figure 3: Expanded CBD footprint under the CBD Planning Proposal



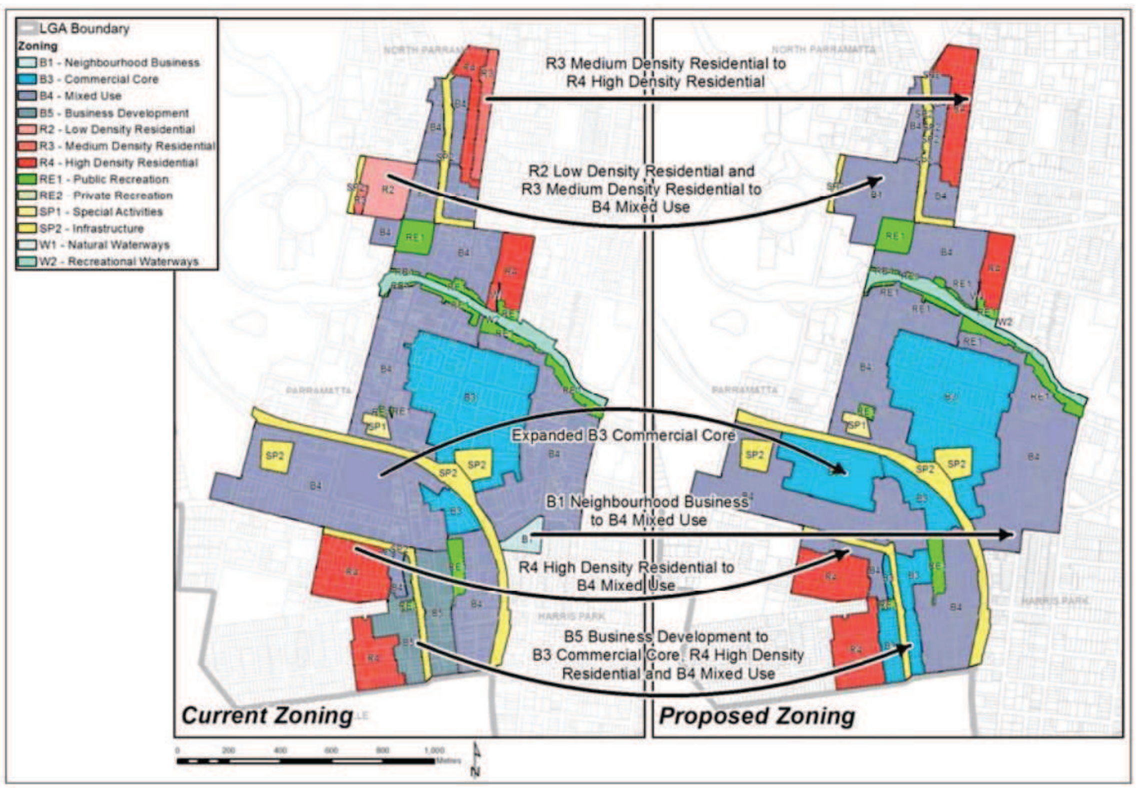
A changing CBD

The CBD Planning Proposal proposes changes to existing land use zones to protect and grow a strong commercial core, surrounded with vibrant mixed use areas.

These changes include expansion of the commercial core (bright blue) zone and changing some low and medium density residential zones surrounding the core to mixed use (purple) zones. These changes are shown in more detail at Figure 4 below.

In addition, the proposal will respond to several key issues facing Parramatta CBD in its new role as the heart of Greater Sydney's Central City. These issues include lifting environmental performance of buildings, creating active streets, protecting solar access to key public spaces, facilitating design excellence, responding to airspace operations issues, maintaining heritage protections, and managing flood risks.

Figure 4: Land use zoning changes under the CBD Planning Proposal

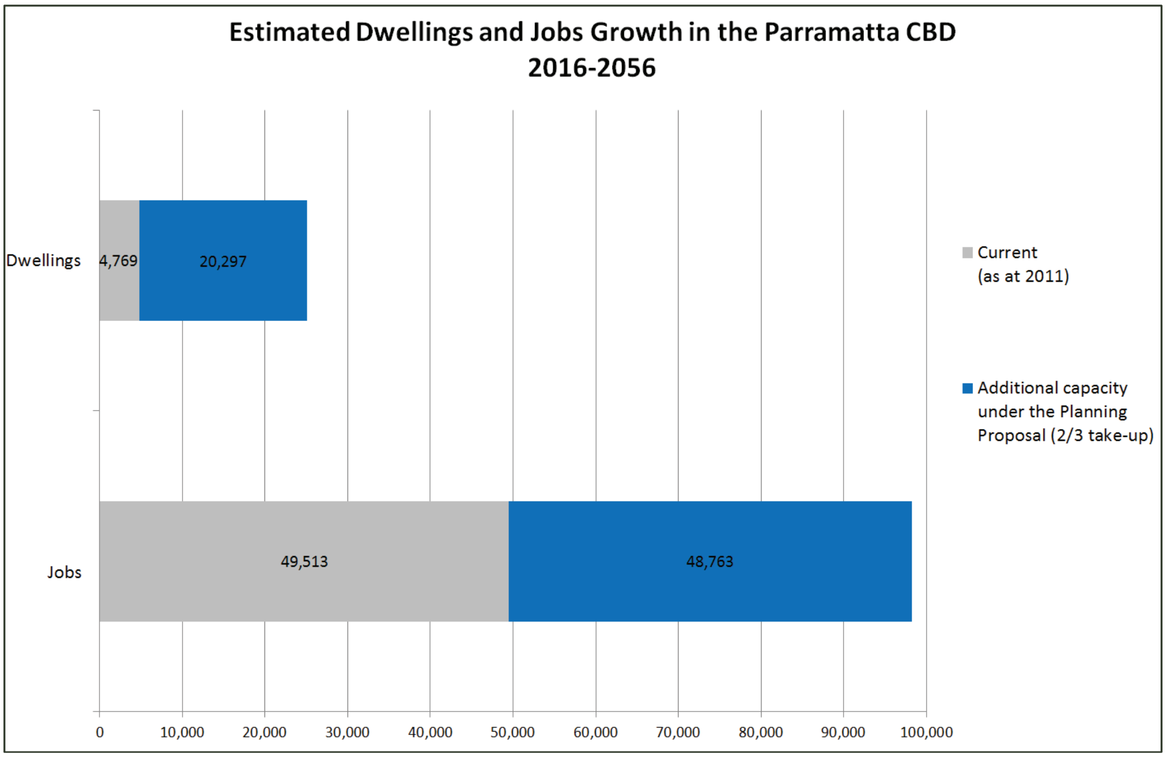


A growing CBD

Along with changes to land use controls, the CBD Planning Proposal also proposes to amend the existing planning controls of height and density. The key purpose of these changes is to meet the employment and housing targets outlined in the Parramatta CBD Planning Strategy.

As shown in Figure 5 below, the CBD Planning Proposal releases capacity for about **48,700 additional workers** and **42,600 additional residents**[12]. This estimate is based on two-thirds take-up of the total floor space area released under the Planning Proposal, and is estimated to occur over the period from 2016-2056 (40 years). This growth means that all types of infrastructure in the CBD will experience new pressures and demands.

Figure 5: Estimated growth in dwellings and jobs the Parramatta CBD to 2056



The Planning Proposal will allow for significant development of the built environment in Parramatta's CBD, but this will generate a need for significant investment in new and upgraded local infrastructure. Without this investment in infrastructure, growth in the CBD will not occur in a well-managed and appropriately-serviced way, and the strategic vision for the heart of Greater Sydney's Central City will not be achieved. Chapter 3 will focus in more detail on this topic.

[12] Based on 2.1 persons/dwelling.

3 Infrastructure Needs in the Parramatta CBD

3.1 What the community has told us about the CBD, growth and infrastructure

Council's *Statement of Vision and Priorities* identifies 'creating a strong economy with a strong city centre', as a key priority that drives the conversation around infrastructure needs of the growing centre of a sustainable, liveable and productive city.

Addressing this priority will specifically involve:

- Creating a city centre that generates jobs and attracts business and investment
- Creating a well-connected, efficient city that attracts knowledge intensive jobs and promotes Parramatta as a centre for ideas
- Ensuring that Parramatta Square is a key economic driver for the CBD
- Working with key partners to create a high value-adding, employment hub and driving force behind the generation of new wealth for Western Sydney.

However, growing a city centre that is **economically** strong is only part of the picture. The community has clearly told Council that growth in Parramatta must be **well-managed**, and that we must **harness the benefits of growth for all.** This acknowledges that all stakeholders in the CBD – whether residents, businesses, workers, visitors, landowners or developers – will benefit when appropriate infrastructure is provided to service the growth in the CBD. Servicing growth in the Parramatta CBD will include providing better spaces, experiences and transport as follows:

Better Spaces

- Create innovative spaces and places for the community
- Create a place that encourages social connectivity and is inclusive and accessible for all
- Ensure that green and open spaces are created, protected and maintained in line with population growth

Better Experiences

- Provide a variety of cultural experiences and attractions unique to Parramatta which make it a destination of choice for residents and visitors
- Create a green city by creating and maintaining green spaces, bushland and waterways for residents and visitors to enjoy
- Create a resilient city that uses less energy and water as the city grows – doing more with less

Better Transport

- Create more active travel options and maintaining accessible and high quality facilities to promote healthy and active lifestyles
- Work with government partners to improve connections and traffic flow
- Manage the parking and transport needs of residents, visitors and workers

These actions will benefit the CBD's growing community of businesses, workers, residents and visitors. These actions will also benefit landowners and developers, as they will improve the Parramatta CBD's attractiveness, competitiveness and land values, and because the increased densities that benefit developers and landowners will not be supportable without these improvements to infrastructure.

After briefly touching on important regional infrastructure projects, this chapter will lay out the local infrastructure which is necessary to allow increased densities and growth in the CBD to occur.

3.2 State-led infrastructure projects

Due to its metropolitan and regional importance Parramatta is and will continue to be the focus of significant State-led infrastructure investment.

Many of these State-led infrastructure projects are outlined in the *Parramatta Strategic Framework*[13], and regional infrastructure investment in Parramatta CBD will allow the city to grow over the coming decades. Key regional projects include:

- Major transport projects (like Parramatta Light Rail and Sydney Metro West),
- Major investment in new and upgraded educational facilities (like the Parramatta Schools projects),
- Major Cultural Facilities (like the relocation of the Museum of Applied Arts and Sciences),
- Major sporting facilities (Western Sydney Stadium), and
- Major utility upgrades.

These State-led projects are important city-shaping infrastructure elements which will help to effectively service and manage the growth of Parramatta CBD.

Council remains an important partner and stakeholder on these activities. However, it is not generally the responsibility of Council to fund and deliver major regional infrastructure projects. Therefore, this paper focuses on **local** infrastructure, and a few locally-led aspects of State-led projects (for example, works led by Council resulting from the Parramatta Light Rail project).

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[13] http://www.greater.sydney/news/parramatta-strategic-framework - a joint endeavour by Infrastructure NSW, the Department of Planning and Environment, Office of the Government Architect, the former Parramatta City Council and consultants Terroir.

3.3 Local infrastructure needs of the CBD

The growing Parramatta CBD will require all kinds of local infrastructure projects, including both new infrastructure and upgrades to existing assets.

Six of the eight priorities identified in Council's *Statement of Vision and Priorities,* have direct implications for infrastructure provision in the CBD, Therefore, this Discussion Paper organises the projects around these six priorities as follows:

- Managing Growth and Transport
- Promoting Green Spaces and the Environment
- Providing Opportunities for Recreation and Leisure
- Creating a Strong Economy with a Strong City Centre
- Having a Community Focus
- Supporting Arts and Culture, Celebrations and Destinations

(Please note that many of the local infrastructure projects identified are related to more than one of these priorities.)

The other two priorities identified in the *Statement* are less directly related to infrastructure provision in the CBD, but still underpin all of Council's actions relating to planning for growth in the CBD. These two priorities are *Building a Stronger, More Innovative Council for our Community's Future* and *Creating Vibrant Neighbourhoods and Precincts.*

The following sections will describe the infrastructure needs under each of the above six priorities. **Appendix B** of this Discussion Paper contains the *Draft Parramatta CBD Infrastructure Needs Analysis,* including projects descriptions, estimated costs and timelines.

Managing Growth and Transport

Managing growth and transport in Parramatta CBD will require improvements to accessibility, navigation and connectivity. Of particular importance will be improving the experience of pedestrians and active transport users.

Many projects needed for the Parramatta CBD have already been identified through the City Ring Road[14] vision. The City Ring Road is mainly comprised of Victoria Road, and O'Connell, Parkes and Harris Streets, and will help create an identifiable boundary to the city centre with entrances and thresholds, while also simplifying traffic flow, and reducing through-traffic and congestion in the CBD. Projects related to the City Ring Road include pedestrian improvement projects, intersection upgrades, median islands and road widenings.

A program of other road widenings will also be needed in association with further development of public and private transport options throughout the CBD.

New and upgraded active transport connections are also needed to span the Parramatta River and improve connectivity. These include improvements to Gasworks Bridge and Barry Wilde Bridge, as well as a new pedestrian bridge at Morton Street.

More detail on each of the required projects associated with *Managing Growth and Transport* can be found in **Appendix B**.

Promoting Green Spaces and the Environment

Green spaces and the environment will be promoted throughout the CBD as it develops, with a particular focus around the Parramatta River as a key green public space for residents, workers and visitors to enjoy.

Under the *Parramatta City River Strategy*[15]*,* Council is planning for upgrades to every section of the Parramatta River foreshore from the Marsden Street Weir to Parramatta Quay. This includes major projects at River Square and Parramatta Quay (on which Council will partner with key State agencies), public domain upgrades to the river foreshore throughout the CBD precinct, and improved active transport links to and along the foreshore.

A naturalisation project at Brickfields Creek and a river pool have been identified as requirements for Council to further its aim of returning swimming to Parramatta's natural waterways and to broaden recreational options in the CBD.

Upgraded parking and access paths at Lake Parramatta and significant investment in the CBD portion of the Parramatta Ways project will also help Council work to this priority, as will a major street tree planting project to help green the CBD.

More detail on each of the required projects associated with *Promoting Green Spaces and the Environment* can be found in **Appendix B**.

[14] http://www.designparramatta.com.au/projects/

[15] https://www.cityofparramatta.nsw.gov.au/sites/council/files/2016-11/River%20City%20Strategy%20Volume%2001%20Report%20Part1.pdf

Providing Opportunities for Recreation and Leisure

As the CBD grows, Council will need to provide new and improved opportunities for recreation and leisure to the community.

A new aquatic and leisure centre is needed to support the growing CBD community and to provide a range of accessible, sustainable, attractive and safe recreation opportunities.

An increased number of residents and the shortage of potential new recreation sites in the high-density CBD mean that our existing green open spaces must be significantly upgraded to meet new demands. These upgrades include improvements to sportsgrounds – like all-weather playing surfaces, better lighting and improved amenities – and provision of new multi-purpose outdoor spaces as well as playgrounds.

More detail on each of the required projects associated with *Providing Opportunities for Recreation and Leisure* can be found in **Appendix B**.

Creating a Strong Economy with a Strong City Centre

All of the projects described in this paper underpin this priority, but of particular importance are three key needs: improving the public domain, streets and laneways of the CBD, addressing flooding issues and undertaking Smart City initiatives.

The backbone of any city is its streets and major public spaces, which in Parramatta CBD are the river foreshore (see 3.3.2), the Civic Link, and Parramatta Square. The public domain of Parramatta Square will serve as the heart of the new city centre, and the upcoming Civic Link project will connect Parramatta Square and the river to complete the CBD's core of world-class public spaces. Major CBD streets and laneways also need upgrades to create great places for the community, cope with additional foot traffic and elevate them to the standards of a world-class city centre.

Major infrastructure works will be needed to address both localised overland flooding issues, as well as flooding risks associated with the river itself. These works will help to protect people and property in the CBD, as will installation of an early flood warning system. This system also connects to Council's vision for Parramatta as a Smart City, which raises several needs for infrastructure like improved CCTV, multi-function street poles, and utilities rationalisation.

More detail on each of the required projects associated with *Creating a Strong Economy with a Strong City Centre* can be found in **Appendix B**.

Having a Community Focus

The local community of the Parramatta CBD will grow by an estimated 42,600 additional residents over the next 40 years. This growing community will need all sorts of new and upgraded community facilities.

A key need of the growing Parramatta CBD is the new Civic Centre at 5 Parramatta Square, which has been the subject of a recent international design competition, and will provide state of the art library and community facilities.

Aside from the major facility at Parramatta Square, a wide variety of new community spaces are needed throughout the CBD. These include a new community centre, new childcare centres, and flexible community rooms of various sizes located throughout the CBD and CBD fringe. Because the growing CBD will impact on community facilities in North Parramatta, provision is also made here for a contribution towards those facilities.

As the CBD develops, we will also need better infrastructure for assisting disadvantaged community members with food and amenities.

More detail on each of the required projects associated with *Having a Community Focus* can be found in **Appendix B**.

Supporting Arts and Culture, Celebrations and Destinations

Many cultural infrastructure projects and facilities will be required to support arts, culture, celebrations and destinations in the new Parramatta CBD.

A key major cultural project will be modernising and expanding Riverside Theatres, to accompany the public domain river foreshore projects outlined in a previous section. Expansion of Parramatta Artists Studio and a new world class art exhibition and gallery space will elevate the place of the arts in the Parramatta CBD, providing new and improved spaces for production and presentation of diverse art forms. Aboriginal cultural infrastructure will showcase the local Darug peoples' sites of significance, history and contemporary connections to Parramatta. An incubator in the new Civic Link will house cultural organisations focusing in media, digital and creative industries, and provision is also made for appropriate storage of and public access to cultural and archaeological materials (as

Council's collections grow due to increased construction in the CBD).

More detail on each of the required projects associated with *Supporting Art and Culture, Celebrations and Destinations* can be found in **Appendix B.**

3.4 Funding the CBD's infrastructure needs

The preceding sections – along with the detailed *Draft Parramatta CBD Infrastructure Needs Analysis* at **Appendix B** – lay out what is needed to transform Parramatta CBD into a world class city centre over the next 40 years. This list presents exciting opportunities and challenges for Council and the community.

The total cost of local infrastructure needs in the CBD is currently estimated at approximately **$1 billion**.

It is important to remember that infrastructure planning for a growing centre is a dynamic process. The estimates contained in the *Draft Infrastructure Needs Analysis* reflect Council's current knowledge about the needs and costs of infrastructure in the CBD, and will continue to be refined as Council and its partners progress the planning and delivery of CBD infrastructure projects.

The *Draft Infrastructure Needs Analysis* reflects what will be an unprecedented level of investment in local infrastructure for the Parramatta CBD, and finding the right mix of mechanisms to fund this infrastructure will require innovative thinking and approaches. This will be the focus of the following chapters of this paper.

3.5 Chapter 3 discussion questions

1. Has Council considered the right types of local* infrastructure projects in its *Draft Parramatta CBD Infrastructure Needs Analysis* at Appendix B?
2. In your mind, what are the most important local* infrastructure priorities for Parramatta CBD?
3. Is there anything you feel is missing from the draft list?

**Remember that Council is not directly responsible for infrastructure like schools, hospitals and public transport. While Council advocates for the community and partners on projects where appropriate, provision of these types of infrastructure are generally the responsibility of the NSW State Government.*

4 Infrastructure Funding Options

4.1 Introduction

This chapter will explore different funding options that Council might use in meeting the approximately $1 billion local infrastructure funding requirement laid out in the last chapter.

First, it is helpful to clearly establish the difference between infrastructure funding and financing. In 2012, Infrastructure Australia, an independent Federal Government body that has the mandate to prioritise and progress nationwide infrastructure, commissioned a paper entitled *Infrastructure Finance and Funding Reform*[16]. It clearly explains the difference between financing and funding of infrastructure projects. The term *funding*, as defined in this paper, refers to sourcing an amount of money to fund infrastructure. However, *financing* refers to the way in which debt and/or equity is raised for the delivery and operation of an infrastructure project, with the expectation to ‘pay back’ the borrowed amount with interest.

The Infrastructure Australia report also presents a useful framework for considering who should pay for infrastructure and how those arrangements should be structured. The idea proposed in this report was supported and improved in the recent ‘Value Capture’ discussion paper released by the Australian Government in November 2016[17]. Together, these papers highlight an Australia-wide infrastructure investment backlog, mainly as a result of funding constraints from its two main sources – **user charges** and **taxes**. This chapter will address each of these funding source types in turn, beginning with user or “beneficiary” charges.

[16] http://infrastructureaustralia.gov.au/policy-publications/publications/Infrastructure-Finance-Reform-Issues-Paper-Report-prepared-by-the-Infrastructure-FWG-2012.aspx
[17] http://investment.infrastructure.gov.au/whatis/Value-Capture-Discussion-Paper.pdf

4.2 Beneficiary charges

Beneficiary charges can be explained as, ‘those who benefit from infrastructure should pay for it’. Beneficiary charges include both *direct* and *indirect* user charges.

Infrastructure projects have both direct and indirect beneficiaries. Take, for example, a museum, which has direct users/beneficiaries in the form of ticket holders who may be residents, workers or visitors and who directly benefit due to increased utility (satisfaction) from visiting the museum. However, the museum also has indirect users/beneficiaries including property owners; for example, store owners may benefit from increased shoppers due to increased foot traffic from people visiting the museum, and home owners may see an uplift in the value of their property due to their proximity to the museum. Indirect users may never set foot in the museum but may benefit from positive externalities (an economic term for benefits enjoyed by a third party).

This paper suggests that the most appropriate way to fund the infrastructure projects listed in Appendix B is by moving towards a ‘beneficiary-pays’ (charges) model to demonstrate stronger links between infrastructure funding sources and those who benefit.

4.3 Principles of beneficiary charges

The core challenge of a beneficiary charges model is defining who the direct and indirect users are, their ‘willingness-to-pay’ for the associated benefits, and how much they should be charged.

There are many ways of pricing shared costs or benefits; prices might be developed with reference to the following methods:

- **Market prices:** Prices in existing markets are the best indicator of consumer demand and supplier provision. Market prices may be changed by new demand or preferences due to an infrastructure initiative under consideration.
- **Hedonic prices:** In the context of land use planning, hedonic prices are derived from factors that determine land values such as changes to site accessibility or changes to existing planning controls. These factors ultimately drive changes in land values which may be realised when the infrastructure project under consideration is planned or implemented.
- **Revealed preference:** This method analyses consumer's purchasing habits to uncover their preferences. Travel cost methods use information about how much people are willing to pay to visit locations, to infer to how much they value changes in those attributes. (For example, the costs that people are willing to incur to visit Parramatta CBD for recreation is an indication of the benefits provided by the CBD infrastructure.)
- **Stated preference:** This principle explains the assumed choices and sacrifices of beneficiaries by using questionnaires to obtain a value based on the results. This method indirectly includes the inputs of the project users or beneficiaries in its planning process.

The application of these principles and concepts must be within the established regulatory framework or other governmental requirements to estimate a value to the benefits of the infrastructure project. The use of these principles and concepts also vary from project to project and the nature of the project will essentially determine which principle or combination of principles to use. This paper recommends that the collective use of the above principles and concepts is fundamental in developing beneficiary charging.

4.4 Types of beneficiary charges

Council already has a few beneficiary charges in place, such as developer contributions and a variety of other service fees and charges, where the collected charges are typically reinvested into infrastructure or facilities.

Developer contributions

Developer contributions are a form of *direct* beneficiary charge, in that the developer benefits from being able to develop in an area and, in return, is required to contribute towards infrastructure, in either monetary terms or works in kind, as a way of remediating the impact of their development on the community. Essentially, developer contributions reflect a 'user charges' system in that those who create the demand for infrastructure help pay for the provision of that infrastructure. Developer contributions are levied on developers for efficiency, but are passed through to property owners (on sale of property) and ultimately residents (through ownership or rent). These contributions are collected by Council through Section 94 and 94A of NSW Environmental Planning and Assessment Act (EP&A) 1979.

Section 94 Contributions

Section 94 contributions require a direct connection (a "nexus") to be established between the development and the infrastructure it is contributing towards (through monetary contributions and/or works in kind).

Section 94 contributions are limited by "caps" set by the NSW State Government. The relevant cap for Parramatta CBD is $20,000 per dwelling (for dwellings in in-fill development areas), which has been set by a Ministerial Direction. Any upward changes to Section 94 contributions as a funding source are likely to be controversial across government and industry, and would require support at the State level to progress amendment.

City of Parramatta Council does not currently use Section 94 contributions in the CBD. Should Council attempt to prepare a section Section 94 contributions plan that authorises a Section 94 contributions above the cap, the contributions plan would need to be reviewed by IPART and the contributions collected could only be directed towards items on the "essential works" list. In order for the Parramatta CBD to achieve its potential as the heart of Greater Sydney's Central City, a broader range of infrastructure is needed than that of the "essential works" list.

Section 94A Contribution

Section 94A contributions do not require a direct nexus to be established, and instead take the form of a levy based on a percentage of the total cost of development.

Currently in the Parramatta CBD the Section 94A levy is 3% of the cost of development (where the cost of development exceeds $250,000; the levy is not progressive). The cost of development is determined in accordance with Clause 25J of the Environmental and Planning Assessment Regulation 2000 (EP&A Reg.).

Despite the significant additional capacity offered under the Parramatta CBD Planning Proposal, the current 3% levy will be insufficient on its own to fund the local infrastructure requirements associated with Parramatta's new role as the heart of Greater Sydney's Central City. Council has estimated the potential range of Section 94A contributions under the Parramatta CBD Planning Proposal at $207 - $323 million.[18] This range reflects two site consolidation scenarios – the low range being minimal site consolidation and the high range being a greater amount of site consolidation.

Summary of Council's Past Work on Section 94 and 94A Contributions

Council has considered increasing developer contributions, and with the input of consultants GLN Planning modelled the impacts this would have on market feasibility and ability to raise funding for local infrastructure. The main finding was that increasing Section 94A contributions to 4.5% would only marginally increase funding, and that changes to Section 94 contributions are complex as a relationship (nexus) needs to be formed for all different types of developments and brings in a number of legal issues.[19]

Fees and charges

Fees and charges are (mostly) direct charges for providing services. Fees and charges are levied by Council on all chargeable services, requests, applications, approvals, licences, hire bookings and memberships. Fees and charges tend to have relatively fixed levy-base, so these sources are unlikely to grow substantially and support the funding requirement of major infrastructure projects. Furthermore, they would not relate generally directly to the provision of local infrastructure.

4.5 Taxes

Taxes are mandatory payments that usually have no direct link with infrastructure, though tax revenue can go towards funding projects that benefit the community as a whole. Types of taxes include income tax, GST and capital gains tax, land tax, transfer of assets duty, and Council rates; these taxes are governed by different levels of governments.

[18] Refer to Council Business Papers 27 June 2016, Item 7.4 for further discussion.
[19] Refer to Council Business Paper 27 June 2016, Item 7.4, Attachment 2 for further discussion.

Federal taxes

Income tax, GST and capital gains tax are collected by the Federal Government. Tax payers rarely know specifically how their tax dollars are being spent. It is unlikely that federal taxes will go directly to spending the types of local infrastructure outlined in Appendix B.

Land tax

Land tax is collected by the NSW State Government, and applies to land regardless of whether income is earned from the land. Payment of land tax generally arises when the sale or transfer of land occurs. Land tax would not generally be directed towards local infrastructure projects.

Transfer of land or business duty

Transfer of land or business duty (formerly known as stamp duty) is a duty levied by the NSW State Government on the sale or transfer of land, including improvements and, business assets, and a declaration of trust over dutiable property in NSW. The buyer or seller is liable to pay the duty, and must be paid within three months from the transfer arising. When purchasing property 'off the plan', the duty must be paid within a three month period from the date of completion of the agreement, the assignment of the whole or any part of the purchaser's interest under the agreement, the expiration of 12 months after the date of the agreement, whichever occurs first. Stamp duty is not currently directed towards local infrastructure provision, nor is a change towards this outcome expected.

Box 3: ACT Taxation Reform Plan Example

The ACT Taxation Reform Plan 2012 makes taxes fairer, simpler and more efficient. On July 1 2012, the ACT Government announced it would phase out stamp duty and increase reliance on rates. This is part of key tax reforms undertaken by the ACT Government to generate wider economic benefits. This option was open to the ACT Government since it collects both rates and stamp duty – unlike City of Parramatta Council.

[20]

Council Rates

Rates are an important source of Council revenue that can be used to provide essential infrastructure

[20] http://www.cmd.act.gov.au/open_government/inform/act_government_media_releases/barr/2012/fairer,_simpler_and_more_efficient_taxes

and services such as waste collection, drainage maintenance, public parks, and building inspections and construction certificates. These rates are determined in accordance with the provisions of the Local Government Act 1993, and in NSW, are calculated by land value[21], multiplied by a rate-in-the-$, (that is the rate multiplied by value of the land). The Act also restricts rate revenue growth by rate pegging that is set by the Independent Pricing and Regulatory Tribunal (IPART) which sets the maximum increase allowed in each Council's general revenue for the financial year. It applies to general income in total, not specifically to individual ratepayers, and means these rates may vary by higher or lower than the rate peg. (Note rate pegging does not apply to storm water, waste collection, water and sewerage charges.)

IPART sets the rate peg each year and in doing so, they consider the Local Government Cost Index (LGCI), which measures price changes over the previous year for the goods and labour an average Council will use, as well as productivity changes over the same period. The increase approved by IPART for 2016/17 is 1.8%, on the basis that LGCI was 1.78% and no adjustment for productivity.

Notwithstanding the above, Council can apply for a special variation to the rate peg, which if accepted, allows Council to increase their general revenue by more than the rate peg. Note that IPART accepted a special variation requested by the former Parramatta City Council in 2011. As part of the request, Council sought to replace an existing time-limited special variation of 4.9% from 2013/14 onwards with a special variation of a similar size to be incorporated into its rate base permanently. This was approved, and the 4.9% increase in general income is to be allocated as such:

- 2 percentage points applying to all ratepayers as part of the Council's financial sustainability strategy
- 2.9 percentage points applying to certain business ratepayers for the CBD Infrastructure and Economic Development special rates.

Table 1 summarises the types of rates that Council currently implements that could potentially fund local infrastructure, and their potential to raise revenue, stability and limitations.

The rate at which Council revenue grows is generally a reflection of (Council) budgetary requirements. However, 'rate pegging' limits how much the Council can spend on local infrastructure and other facilities. When there is a positive revenue growth through general growth, it can be used to fund local infrastructure and other assets.

Council has estimated the potential for rates growth under the Parramatta CBD Planning Proposal which is likely to be directed towards funding infrastructure at $111 - $151 million over the expected build-out period (2016-2056). This estimate is based on the rate types laid out in Table 1, and represents a combination of projecting a proportion of revenue from general rates towards infrastructure, as well as applying the current special infrastructure rates to the growth envisioned under the Planning Proposal. The range represents different possibilities for how much of general rates revenue might be directed towards capital works. This growth in rates will make an important contribution to funding local infrastructure, but would not address the entire $1 billion funding requirement.

[21] Land values are issued every four years and are defined under Section 64 of the Valuation of Land Act 1916.

Table 1: Summary of Council rate types and their potential to help fund local infrastructure in the CBD

Rate	Potential to Raise Revenue*	Stability and Predictability	Limitation
Ordinary Rate	High	Stable and predictable Depends on external economic conditions	Ad valorem** subject to a minimum Only a proportion of ordinary rates will go to funding infrastructure
Special Rates for Open Space	High	Stable and predictable Depends on external economic conditions	Part ad valorem and part base amount (fixed amount)
Special Rates for CBD Infrastructure	Medium	Stable and predictable Depends on external economic conditions	Limited tax base
Special Rates for Economic Development	Medium	Stable and predictable Depends on external economic conditions	Limited tax base
Annual Charges for Storm Water & Waste Management services	Low	Stable and predictable Depends on external economic conditions	Limited tax base Directed towards storm water and waste management

**High is defined as having a tendency to expand annually, is stable and has been a predictable source of revenue over the last five years*
Medium is defined as having a slight tendency to expand and has been a predictable source of revenue over the last five years
Low is defined as less stable and a less predictable source of revenue

*** Ad valorem rates are not fixed, but depend on property value as determined by the NSW Valuer General.*

Limitations of Council funding

Council has limited taxation powers beyond rates, which limits tax as a source of funding for local infrastructure. Furthermore, taxes are not cost-less – increased taxes reduce the money available to spend on other goods and services – representing a deadweight loss[22] to the economy.

The likelihood of borrowing is also limited due to increases in the Council's net debt positions, which will generally have an adverse effect on their ability to maintain good credit ratings. Even if Council were to take on debt to fund the infrastructure projects described here, it would have to have an appropriate funding stream to pay back the debt. Any increase in Council revenue will provide a stronger capacity for Council to borrow funds and subsequently deliver local infrastructure.

While Council does hold some reserves, this infrastructure plan identifies new infrastructure needs that are generally *beyond* Council's current funding and operational planning. Council's reserves are largely already earmarked for particular projects. In reality, Council only has an approximately $1-2m yearly operating surplus.

4.6 Government support

Generally, both federal and state governments can be a source of limited funding for local infrastructure.

Direct Funding by the State Government

As part of its *State Infrastructure Strategy*[23], the NSW State Government made a proposal to directly fund infrastructure projects in Parramatta that are seen as having an influence on a regional scale, such as light rail, Western Sydney Stadium, Museum of Applied Arts & Sciences, and public school upgrades. Much of the funding for these projects will come from taxes and levies imposed by the NSW Government through its Office of State Revenue. These projects have been excluded from the *Draft Infrastructure Needs Analysis* at Appendix B, as Council is not generally responsible for funding these larger-scale projects.

The NSW State Government is also making indirect contributions to the economy by locating State Government agencies in Parramatta CBD, providing revenue to building owners in the form of rent, and additional pedestrian foot traffic that supports local businesses and employment. Council benefits from these economic activities.

Federal

The Federal Government has not directly funded local infrastructure in Parramatta – other than the National Broadband Network (NBN), which operates under a beneficiary charges model. However, similar to State Government, the Federal Government has indirectly contributed to the economy by locating its agencies such as the Australian Taxation Office (ATO) and courts in Parramatta CBD.

Grants

Government grants and subsidies are made under various circumstances to support community initiatives that achieve goals and objectives consistent with government policy. Grants may be covered by legislation or regulation, or be subject to cabinet, ministerial or administrative discretion. They range in their accountability requirements from highly complex arrangements to the relatively informal.

For local councils in Australia, grants are awarded by both Federal and State governments. For example, the Roads to Recovery Programme, is a grant from the Federal Government to local councils through the state local government grants commission. The State Government also provides grants and smaller-scale funding on a project-by-project basis. However, such grant funding arrangements vary from project to project and year to year, and are therefore not predictable.

Private grant / gift funding is rare in Australia, especially for local infrastructure. Therefore, grants, if any, have to come from State or Federal governments for specific projects that have an impact on a region wide scale and are less likely to be directed to local infrastructure. This means it is unlikely that grants will be able to fund most of the projects listed in Appendix B, though they may contribute towards individual projects on an ad-hoc basis.

Council has estimated the potential contribution from State grants towards individual infrastructure projects listed in Appendix B at around $131 million over the expected build-out period of 2016-2056 – only a small part of the total need of approximately $1 billion.

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[22] http://library.bsl.org.au/jspui/bitstream/1/611/1/Costs_of_taxation.pdf
[23] https://www.nsw.gov.au/improving-nsw/projects-and-initiatives/state-infrastructure-strategy/#resource-allocation

City Deals

City Deals are partnerships between the Australian Government and State, Local and Territory governments for investments or projects that enhance quality of life and the knowledge-based economy. These deals provide cities of all sizes with a level playing field to receive funding for investments through coordinated governance, strategic planning, investment and reform.

The Australian Government has so far committed to early City Deals for Townsville, Launceston, and Western Sydney. As of 21 October 2016, the Prime Minister, Malcolm Turnbull, and the then-NSW Premier, Mike Baird, signed a Memorandum of Understanding to formalise a partnership to work together on the Western Sydney City Deal. It will involve "deliver[ing] a Western Sydney Airport and leverage[ing] other key infrastructure investments to catalyse jobs growth and better transport links".[24]

Further details on how the Australian Government intends to roll out a City Deals program will be released in 2017. At this stage, the Australian Government has yet to indicate support for a City Deals partnership involving GPOP or Parramatta CBD.

4.7 Summary: establishing the funding gap

This chapter has reviewed potential funding sources which could contribute to funding the approximately $1 billion local infrastructure requirement outlined in Chapter 3. The potential impact of these sources is summarised in Table 2 below, which demonstrates that the combined expected funding sources are insufficient to meet the anticipated $1 billion local infrastructure requirement. As shown in Figures 6 and 7 **a funding gap of roughly $394 - $549 million remains**.

All levels of governments are experiencing budgetary constraints. It is unlikely, for example, that the NSW State Government will take on additional borrowings to help fund local infrastructure, as its increased debt position will impact its current AAA credit rating. To service the gap, alternative funding sources need to be considered.

This funding gap must be considered by landowners and developers in the CBD, as this infrastructure is required to service the needs of a rapidly growing and densifying CBD. An appropriate mix of funding sources must be identified in order for the densities proposed under the Parramatta CBD Planning Proposal to proceed.

The next chapter explores another type of beneficiary charge that could help address the local infrastructure funding gap. Chapter 5 will introduce the definition, forms and benefits of planning uplift value sharing.

[24] https://cities.dpmc.gov.au/western-sydney-city-deal/documents/44846/download

Table 2: Chapter 4 Summary table – Funding options

Chapter 4 Summary Table: Funding options			
Type of funding		**Likelihood of contributing to Local Infrastructure**	**Estimated Contribution**
Beneficiary Charges	Section 94	Not recommended due to capping and scope of works	n/a
	Section 94a	**High likelihood**	**$207 - $323 million**
	Fees and Charges	No	n/a
Taxes	Federal Taxes	Unlikely	n/a
	Land Taxes	Unlikely	n/a
	Stamp Duty	Unlikely	n/a
	Council Rates	**High likelihood**	**$111 - $151 million**
Government Support	Direct State Funding	No (more likely for regional infrastructure projects)	n/a
	Federal Funding	Unlikely	n/a
	Grants	**High likelihood (only for some projects)**	**$131 million**
	City Deals	Unknown	n/a

Figure 6: Infrastructure Funding Needs for Parramatta CBD (Low estimated potential income)

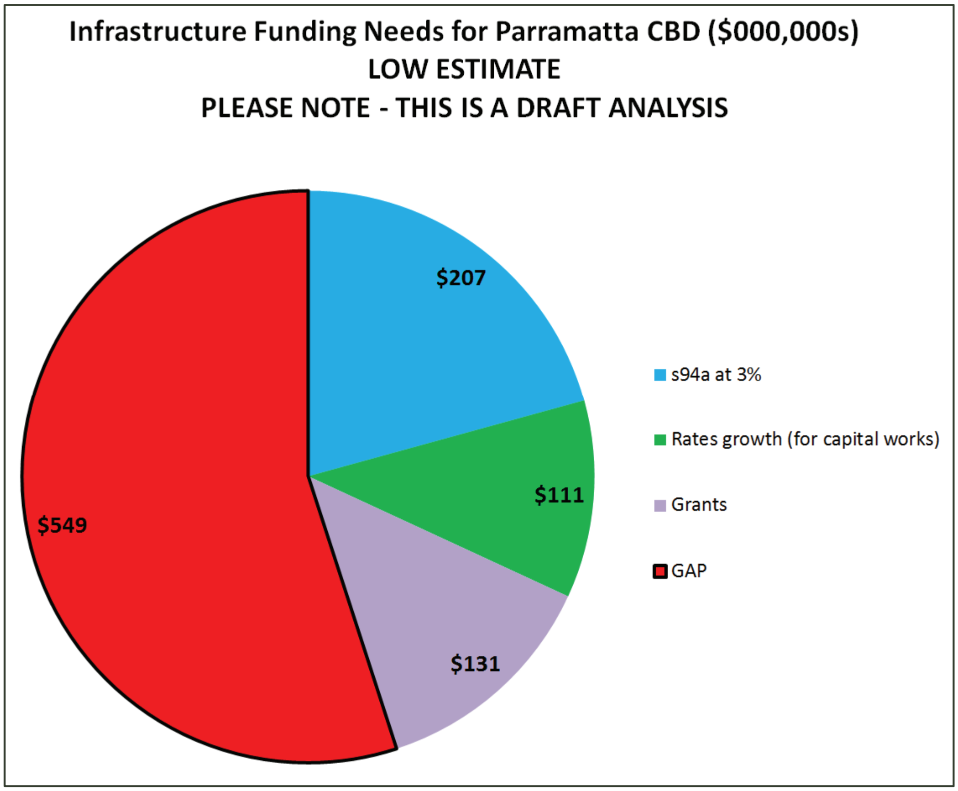
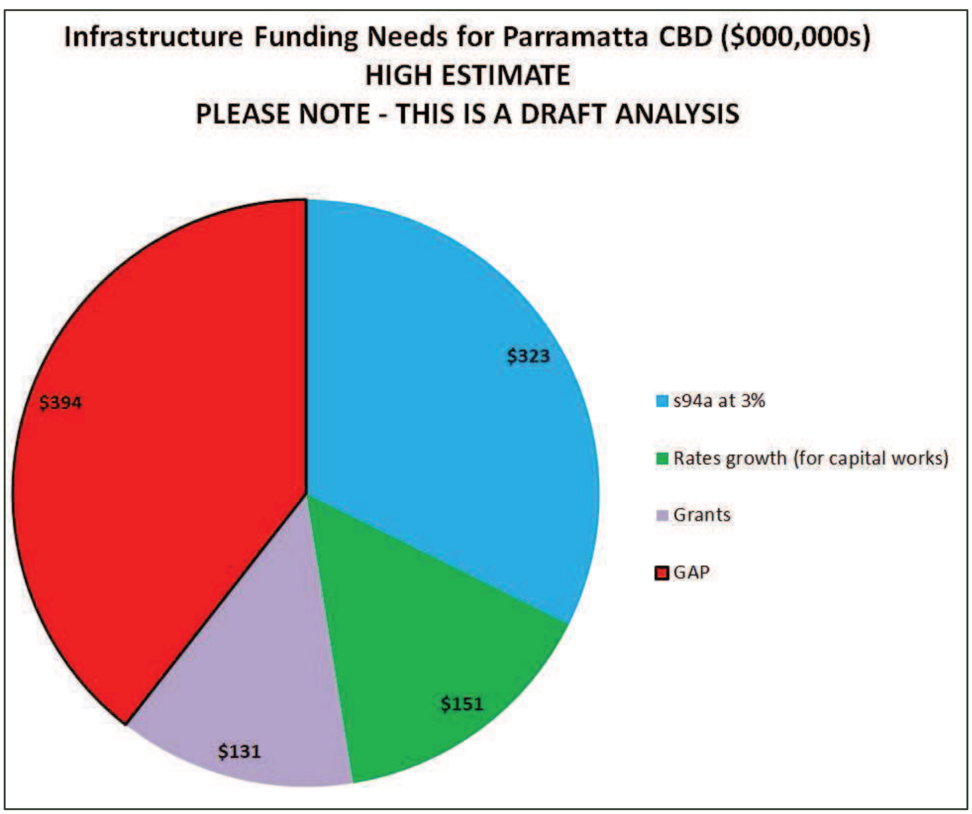


Figure 7: Infrastructure Funding Needs for Parramatta CBD (High estimated potential income)



5 Value Sharing: Harnessing the Benefits of Growth for all

5.1 Introduction

Value sharing is a funding strategy that seeks to raise contributions towards the capital cost of infrastructure from those who benefit from planning decisions or from the provision of infrastructure. Value sharing could be an important way for Council to alleviate (though not fully resolve) the funding gap for infrastructure provision.

Value sharing is not a tax. It is a mechanism that offers the potential to generate new funding streams by tapping into the value created by infrastructure or planning decisions for beneficiaries. This in turn can allow governments to deliver new infrastructure which they would not otherwise be able to fund, or to enable borrowings (financing) to bring forward planned infrastructure ahead of time. Delivering projects earlier also brings forward the benefits of those projects. Implementing value sharing could ensure that projects would be in a better position to deliver an adequate level of return.

Even though value sharing can help alleviate funding constraints, it is unlikely to provide enough funding for all required infrastructure – it is not a "silver bullet" to fund all infrastructure.[25]

5.2 What is value sharing?

Value sharing is an alternative way of funding infrastructure projects. It is an approach that seeks to fund the planned infrastructure project by capturing some of the benefits that are generated from implementing the project or from related planning decisions. Well-planned public infrastructure such as the Parramatta CBD projects can create benefits for a diverse range of stakeholders, including property owners, developers and occupiers, public transport users and operators, businesses and employees, and government. Value generally accrues:

- Directly to those who use the infrastructure through improved quality of service or
- Indirectly to those in proximity to the infrastructure.

Infrastructure projects exist within broader networks of economic activity, which means that the infrastructure will create benefits for individuals, businesses and governments beyond those who directly use the infrastructure. This can lead to increased value of residential and commercial properties and land surrounding the new infrastructure; growth in commercial activities for businesses; and improved connections between individuals and businesses, encouraging greater market competition, and opening up new employment and labour market opportunities.

Broad forms of value sharing arising from infrastructure investment include the following:

- **User charging,** which is a targeted way of ensuring users who derive benefits from infrastructure investment, such as a new motorway, rail line or utility asset, make a contribution to the provision, maintenance and operation of that asset. A charge is applied for the use of a specific asset each time the asset is used. The price charged typically depends on the use made of the asset and the length of time the asset is being used. Examples of user charges include various toll roads, access charges for ports, retail electricity, gas, water and telecommunications network usage charges, and public transport fares. As will be discussed further in this chapter (see Sections 5.4 - 5.5), value sharing based on a density-bonus scheme is also a type of user charge, as planning decisions to increase density create benefits for particular groups of users.

[25] https://blogs.crikey.com.au/theurbanist/2016/02/22/is-value-capture-the-silver-bullet-for-funding-infrastructure/

- **Sale or rent of a public asset,** such as government-owned land or development rights. This form of value sharing occurs when government owns or acquires land in the vicinity of the infrastructure project, and after construction, the land, air rights, or rights to develop the land are sold or leased.

The key principle of value sharing is that increased land values arising from government decisions should be shared with the government and public in order to defray the resulting infrastructure costs.

Growing acceptance of user charges

As mentioned above, value sharing is one example of a user charge. There has been growing acceptance of the "user pays" principle as technological advancements have reduced the transaction costs of exclusion and charging for use.[26] Funding sources, therefore, should reflect benefits to users, with public funding (taxes) making up the shortfall between user charges and the overall costs of the infrastructure (construction and operation).

Value Sharing in Australia

Value sharing as a method of funding infrastructure has been around for well over 100 years in Australia – notably to fund the Sydney Harbour Bridge[27]. In NSW, value sharing as a method of funding infrastructure projects is still not widely used, though there are examples as discussed in this paper.

Recent examples of value sharing across Australia include:

- The upgrades to Chatswood station in Sydney and Melbourne Central were a joint development form of value sharing between the developer and the local Council. The developer provided the infrastructure, in return for air rights.
- In Queensland, the Gold Coast City Council established a land value sharing scheme, which was based on a charge applied to certain areas that benefited from the Gold Coast Rapid Transit Stage 1 project, and helped fund the project.
- In Western Australia, a Metropolitan Regional Improvement Tax has been in place since 1959 to help fund the cost of land for roads, public spaces and other public facilities in greater Perth. This levy is an additional 0.14% charge on the aggregate taxable value of all metropolitan properties in excess of $300,000. The revenue from the levy is hypothecated (legally directed) to fund the acquisition of land by government for parks and transport corridors.
- The Macquarie Park Corridor Access and Open Space infrastructure scheme allows sites to be developed with increased floor space and heights provided that there will be adequate provision for recreation areas, and an access network. Similar to the Green Square Scheme discussed later in this paper, this mechanism operates in addition to the Section 94 contributions plan and the provisions are formally satisfied under a Voluntary Planning Agreement (VPA).
- The Waverley Variation Floor Space Infrastructure Scheme allows developments in certain areas to achieve up to 15% additional floor space above that permitted under existing planning controls, provided the developer enters a VPA with Council to provide affordable housing units.

5.3 Strategic endorsement of value sharing

The Australian Government's discussion paper[25] sets out the strategic justification for value capture (or value sharing) – at least from the point of view of value uplift arising from land transport infrastructure investment. Similar arguments apply to other infrastructure, to the extent that there are beneficiaries of local infrastructure.

Infrastructure Australia's paper *Capturing Value – Advice on making value capture work in Australia*[25] discussed the role value sharing can play in infrastructure funding. Value sharing can be used "as part of both a project funding mix and a broader policy agenda". It allows for more equitable and sustainable funding while creating an incentive structure to engage the local community throughout the planning, project development and delivery process.

Value sharing mechanisms have recently received a great deal of attention with the following statements from significant public sector bodies. It is noted that these statements more often relate to value sharing associated with transport investments, rather than planning uplifts.

Department of Prime Minister and Cabinet: Supports the concept and notes that all levels of

[26] http://www.pc.gov.au/research/supporting/public-infrastructure-financing/public-infrastructure-financing.pdf
[27] https://bitre.gov.au/publications/2015/files/is_069.pdf

[25] http://infrastructureaustralia.gov.au/policy-publications/publications/files/Capturing_Value-Advice_on_making_value_capture_work_in_Australia-acc.pdf

government can do more to realise the potential benefits of value capture.[30]

Commonwealth Department of Infrastructure and Regional Development:
Assessment of proposals for public funding of transport projects should include consideration of what proportion of the project can be funded by the beneficiaries of the infrastructure through targeted contributions and what proportion of the project should be funded by the broader community.[31]

Infrastructure Australia:
Infrastructure Australia in 2016 said that:

"… value capture can work in Australia and should be regularly considered for all public infrastructure projects, but with realistic expectations about the role it can play in funding the infrastructure we need." [32]

"All governments should routinely consider land value capture in public infrastructure investments".[33]

Federal Productivity Commission:
The Australian Government should encourage direct user charging and value capture measures (such as betterment levies and property development charges) where justified. When the benefits from infrastructure accrue to more than users, governments should also consider value capture initiatives — such as betterment levies and property development — so that wider beneficiaries contribute to funding.[34]

The then-NSW Minister for Planning:
"Councils should be able to capture a reasonable share of the uplift in value from a rezoning, to help pay for community facilities and amenities."[35]

Infrastructure New South Wales:
Infrastructure NSW supports the use of targeted value capture mechanisms, including special purpose property levies, in situations where there is a clear link to new infrastructure.[36]

Greater Sydney Commission – Western Central draft District Plan Nov 2016:
"We will continue to work across government on the amount, mechanisms and purpose of value capture to create a more consistent approach to capturing value for public benefit, complementary with other existing mechanisms".[37]

IPART:
IPART recommends that councils capture 50% of the uplift in land value from a rezoning decision through negotiations with the developers. These funds can be used to fund community benefits in the local government area.[38]

Infrastructure Victoria:
"…individuals and businesses who receive significant financial benefits from planning decisions made by government should also contribute to providing infrastructure the community needs". [39]

[30] Better Cities, Department of Prime Minister and Cabinet, May 2016.
[31] Department of Infrastructure and Regional Development, Principles for Innovative Financing, March 2016. http://investment.infrastructure.gov.au/whatis/Principles_for_Innovative_Financing_Mar2016.pdf
[32] Infrastructure Australia 2016, Capturing Value - Advice on making Value Capture Work in Australia, from http://infrastructureaustralia.gov.au/policy-publications/publications/Capturing-Value.aspx
[33] Infrastructure Australia: Australian infrastructure Plan February 2016.
[34] (Chapter 4 – Funding Mechanisms Infrastructure report 2014)
[35] (Media Release 4 November 2016)
[36] (State Infrastructure Strategy 2014)
[37] (Section 1.2.3 - Infrastructure funding and delivery)
[38] https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/local-government-tribunal-briefings-full-tribunal-2016/ipart-submission-to-the-draft-voluntary-planning-agreement-policy-22-december-2016.pdf
[39] http://www.infrastructurevictoria.com.au/node/84

Box 4: Case study in value sharing - Infrastructure Funding at Green Square

The Green Square Urban Renewal Area is subject to significant transformation from a heavy industrial area to a high density residential area surrounding the Green Square Town Centre. This renewal has so-far progressed over 20 years, originally starting in 1996.

As a consequence of the transformation, an array of new public infrastructure is being provided or funded by the new development, including new roads and traffic improvements, recreation and community facilities, drainage and flood mitigation works. Some of these are being funded Section 94 developer contributions under the *City of Sydney Development Contributions Plan 2015* and its predecessor plans. Other works may involve land dedication or works provided in-kind, formalised by Voluntary Planning Agreements.

Sydney Local Environmental Plan 2012 enables additional floor space at Green Square to be sought above the amounts set out on the Floor Space Ratio Map if the development includes Green Square community infrastructure. “Green Square community infrastructure” is specifically defined within the LEP and includes recreation areas, indoor and outdoor recreation facilities, public roads, drainage or flood mitigation works. The provisions of the LEP are supplemented by Sydney Development Control Plan 2012 and, more specifically, a Development Guideline “Providing Community Infrastructure in Green Square”.

This Development Guideline sets out the processes involved if a proponent seeks to access the additional floor space within Green Square. The development guideline also sets out a dollar value per square metre of additional floor space which is used to calculate the value of any additional floor space depending on the type of development proposed. At the time of publication of this Discussion paper, the rates were $475/sqm (residential floorspace), $275/sqm (retail floorspace) and$200 (other non-residential floorspace).

These values are applied to the additional floorspace sought by a developer to formulate the total value of the contribution. This value is then used to identify particular works that could be delivered by the developer either physically on-site in accordance with the Development Control Plan, or off-site by way of a monetary contribution. A proportion of the contribution always forms a monetary payment towards infrastructure within the Green Square Town Centre. The outcome of this process is formalised by a Voluntary Planning Agreement with an offer from the developer to provide certain Green Square community infrastructure and/or a monetary payment towards the infrastructure.

Box 5: Case study in value sharing - Infrastructure Funding at Macquarie Park

Macquarie Park is undergoing transformation from a traditional large campus-style business park to a higher density commercial and mixed use area. The traditional large lots in private ownership historically limit the permeability of the area and, consequently, rely mainly on private car as the dominant form of transport.

As a consequence of the transformation, new infrastructure – primarily new roads and open space areas – will be provided. Some of these are being funded Section 94 developer contributions under the Ryde Section 94 Development Contributions Plan 2007 (as amended). Other works may involve land dedication or works provided in-kind, formalised by Voluntary Planning Agreements.

Ryde Local Environmental Plan 2014 enables additional building height and floor space at Macquarie Park to be sought above the amounts set out on the Floor Space Ratio Map if the development includes adequate provision for recreation areas and an access network. The amount of additional building height and floor space available throughout the corridor is prescribed on the “Macquarie Park Corridor Precinct Incentive Height of Buildings Map” and “Macquarie Park Corridor Precinct Incentive Floor Space Ratio Map”

The provisions of the LEP are supplemented by Ryde Development Control Plan 2014 and, more specifically, provisions in Part 4.5 of the DCP. The DCP sets out the type and preferred location of the access network and recreation areas throughout the Macquarie Park corridor which would be subject to dedication or provision by the developer in accordance with the DCP. The DCP also sets out the procedure to implement the planning incentives mechanism.

A dollar value per square metre of additional floor space is used to calculate the value of any additional floor space depending on the type of development proposed, and this amount is set out in the annual Fees and Charges document published by the council. This value is then used to identify particular works that could be delivered by the developer either physically on-site in accordance with the Development Control Plan, or off-site by way of a monetary contribution.

The outcome of this process will be formalised by a Voluntary Planning Agreement with an offer from the developer to provide certain infrastructure on-site where relevant and in accordance with the DCP and/or a monetary payment towards the infrastructure where the infrastructure is located elsewhere in Macquarie Park.

5.4 Why value sharing is not a tax

Value sharing mechanisms only apply to parties who benefit (albeit indirectly) from proposed infrastructure, so should not be regarded as a tax. If a scheme has a threshold before which value sharing is not applicable (i.e. in a density bonus scheme) developers also would have the option of not exceeding this threshold. This also supports the proposition that such a scheme is not a tax.

Economic theory states that the primary purpose of a user charge is to recoup the costs of a good or a service. This is in contrast to taxes which are used to raise revenue irrespective of benefits. Charges also have a clear and direct nexus to benefits. Taxes do not. When thinking about value sharing as a charge, therefore, it is necessary to identify the service being provided and the benefits that accrue; this highlights the importance of clearly linking value sharing mechanisms with infrastructure planning.

5.5 The benefits of density

A key group of benefits accruing from the planning context in the Parramatta CBD are the benefits of density.

When governments undertake planning changes that create density (i.e. a "service"), a charge can be used to recoup the costs of providing this service, such as the costs of stronger local infrastructure. This recognises the economic opportunity of providing this service and allows property owners to contribute to the locale. Density allows for economies of agglomeration or the benefits that arise when households and firms locate near each other.[40] These benefits include the following:

Amenity

High density areas benefit from increased amenity as providers of goods and services can enjoy economies of scale. Social infrastructure and public spaces will attract more funding if it is likely to impact a greater number of people. Public services also tend to be better in more populated areas. Moreover, density increases demand for products and services creating a viable environment for shops, restaurants, bars and cafes. Empirically, higher-amenity cities are also higher-growth cities.[41]

Convenience

Density creates convenience. When personal services are within a short distance, residents and workers enjoy a higher quality of life. Increased density reduces the need for driving, which reduces petrol spend, eases traffic congestions and cuts air pollution.

Speed

Speed is a function of location. The accessibility of a location determines how mobile residents and workers can be and how quickly goods and services can reach that area. Higher-density areas are more fast-paced than lower-density areas, whether in terms of information sharing or travel.

5.6 Conclusion

Local infrastructure is required to support a certain level of density, such as that being established in the Parramatta CBD through the Parramatta CBD Planning Proposal. As the population grows, it will trigger the need for additional infrastructure, which can be partly funded by a value sharing mechanism (even though the resulting infrastructure will be used by all).

The next chapter will examine in more specific detail how Council has sought to apply value sharing under the Parramatta CBD Planning Proposal, in an effort to partly fund the infrastructure requirements outlined in this paper.

[40] National Bureau of Economic Research 2007
[41] http://scholar.harvard.edu/files/glaeser/files/consumer_city.pdf

6 Council's Proposed Value Sharing Mechanism

6.1 Introduction

As outlined in Chapter 2, the former Parramatta City Council endorsed the draft Parramatta CBD Planning Proposal in April 2016 to be submitted for "Gateway Determination" from the NSW Department of Planning and Environment, so as to enable public exhibition.

An important part of the CBD Planning Proposal is a proposed Planning Uplift Value Share (PUVS) mechanism to suit the infrastructure needs of the CBD. This PUVS mechanism is essentially a density bonus scheme, in which incentive density (FSR) controls are achievable, provided that development makes an appropriate contribution to Community Infrastructure (i.e. local infrastructure projects such as those listed in Appendix B).

Without providing appropriate infrastructure to meet the needs of the growing CBD, the proposed densities will not be able to be supported. Furthermore, developers stand to gain much from the provision of this infrastructure, as it will make the CBD a functional and attractive place to live, work, do business and play; this will only serve to further increase the competitiveness and land values of the Parramatta CBD.

In summary, and as outlined in the previous chapter, the proposed densities and accompanying infrastructure directly and indirectly benefits developers.

Before proceeding any further with the PUVS mechanism in the Parramatta CBD Planning Proposal, Council has resolved to undertake further work on its proposed approach to value sharing, including an independent peer review of Council's work on value sharing so far, as well as community consultation on the matter, which is the key purpose of this discussion paper. This chapter will introduce and explain Council's past work on value sharing (Sections 6.2 – 6.4), and share the results of the independent peer review undertaken by Aurecon and Land Econ Group (Section 6.5); please also refer to the peer review report at **Appendix A**.

6.2 Introducing Council's proposed mechanism

As introduced in the case studies in the previous chapter, the principle of value sharing by way of a density bonus scheme is in place in several council areas across Greater Sydney. Locations where value sharing is currently used include the City of Sydney at Green Square; City of Ryde at Macquarie Park; Burwood Council in Burwood Town Centre; Inner West (former Leichhardt) Council and Waverley Council. Some of these programs have been established for over 10 years (e.g. Green Square) while others have recently commenced within the last two years (e.g. Macquarie Park).

In these cases, the application of value sharing has been localised to a limited area and not applied at the scale of a full CBD environment. The Parramatta CBD Planning Proposal contains provisions seeking to apply a value sharing mechanism based on incremental density across the entire Parramatta CBD area.

The proposed value sharing mechanism is intended to apply to new residential development within the Parramatta CBD seeking to develop beyond the current density controls. Non-residential (i.e. commercial) development is excluded from the value sharing mechanism, in order to promote commercial uses in the CBD.

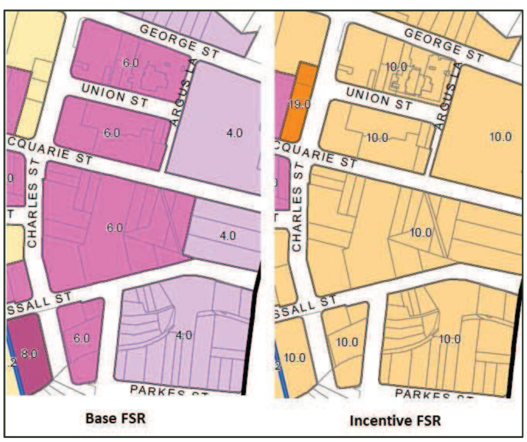
The proposed value sharing mechanism is based on sharing a portion of the uplift in density controls (and therefore land value) proposed under the Parramatta CBD Planning Proposal. Such a mechanism can be referred to as a "Planning Uplift Value Share" (PUVS) mechanism (as opposed to value uplift related to transport or other major infrastructure provision). The purpose of the proposed PUVS mechanism is to share part of the economic value gained from the increase in development rights with the community. The monetary contributions generated through the PUVS mechanism would then assist Council in providing necessary infrastructure in the Parramatta CBD over the next 40 years (refer to the *Draft Parramatta CBD Infrastructure Needs Analysis* at **Appendix B**).

The following subsections explain the general approach of the proposed PUVS mechanism in more detail.

Phase 1 Value Sharing

The Parramatta CBD Planning Proposal seeks to introduce "Base" and "Incentive" FSR controls for sites within the CBD. Base controls are generally the current Floor Space Ratio (FSR) controls under Parramatta Local Environmental Plan (LEP) 2011. Incentive controls are generally (though not always) increased FSR controls, and are achievable provided that a contribution to Community Infrastructure is made. An example of the Base and Incentive FSR maps from the draft LEP maps are shown in Figure 8 below.

Figure 8: Example of Base and Incentive FSR maps[42]



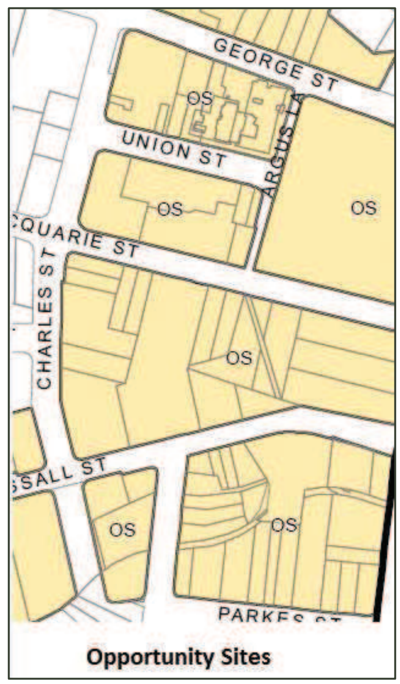
Under the proposed PUVS mechanism, a value sharing contribution is made based on the uplift between the Base and Incentive FSR controls. This contribution is referred to as "Phase 1 value sharing".

Phase 2 Value Sharing

The Parramatta CBD Planning Proposal also proposes amendments to the existing planning controls through the identification of "Opportunity Sites". Opportunity Site FSR controls are applied to a significant portion of land zoned B4 (Mixed Use) within the City Core area, with the intent to allow additional residential development within this zone. An example of the Opportunity Site FSR controls is shown in Figure 9 below.

Identification as an Opportunity Site means that a site is eligible for an additional 3:1 FSR on top of the Incentive FSR, provided that an additional contribution to Community Infrastructure is made. This contribution is made based on the uplift between the Incentive and Opportunity Site FSR controls, and is referred to as "Phase 2 value sharing".

Figure 9: Example of Opportunity Site Map[43]



Summary

All development – including residential development – can achieve the Base FSR without being subject to the PUVS mechanism. The PUVS mechanism would only apply when a residential development seeks to develop beyond the Base FSR controls, with value sharing contributions made based on the difference between the Base and Incentive FSRs (otherwise known as Phase 1 value sharing), and on the difference between the Incentive and Opportunity Site FSR controls (otherwise known as

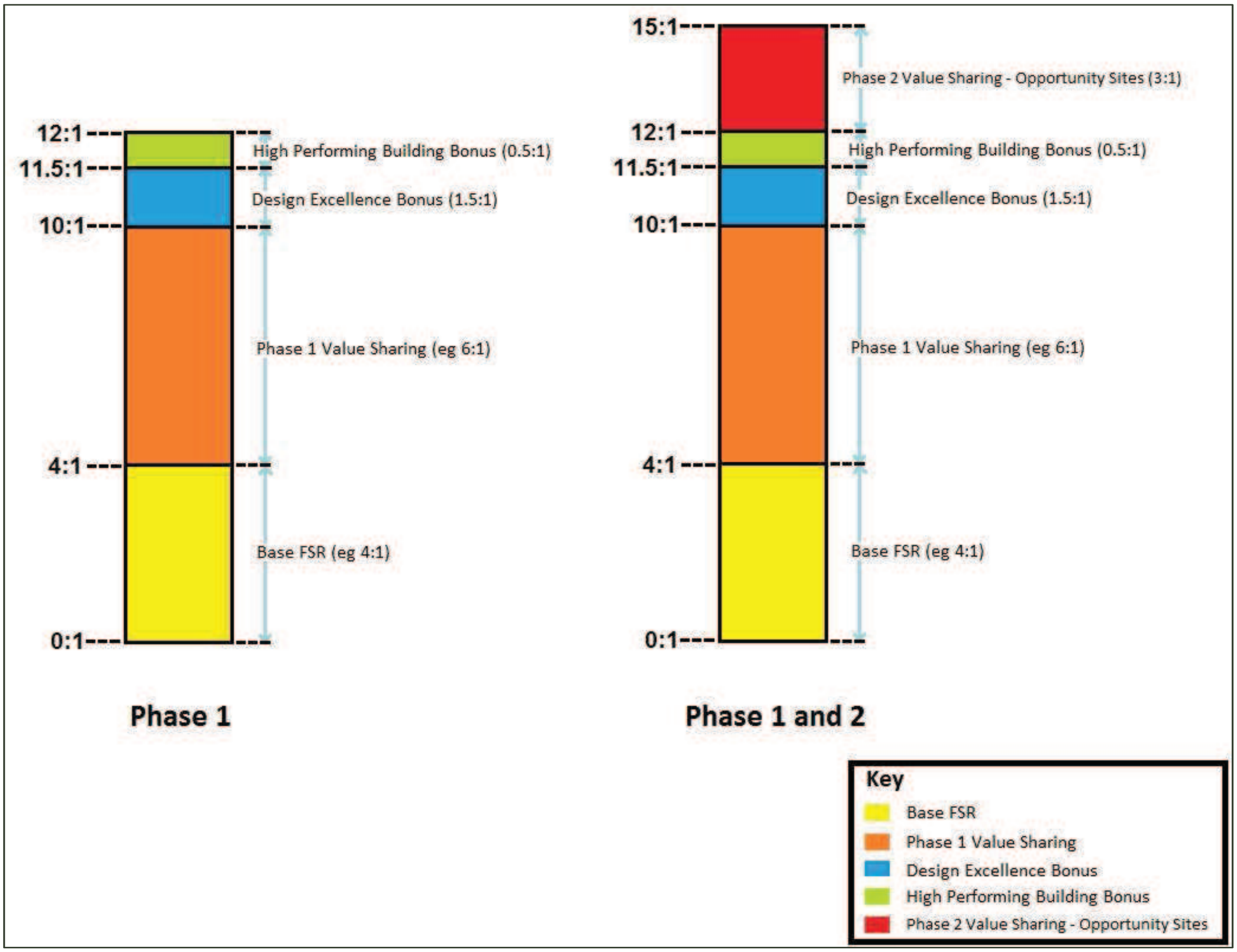
[42] Note: numbers on this example image indicate FSRs (e.g. 6.0 signifies 6:1 FSR).

[43] Note: "OS" on this example map indicates an Opportunity Site area.

Phase 2 value sharing, and only if the site is identified as an Opportunity Site).

Figure 10, below, summarises the proposed PUVS mechanism in terms of floor space. Other FSR schemes in the Planning Proposal include a Design Excellence bonus scheme (up to 15% bonus FSR on Incentive FSR), and High Performing Buildings bonus scheme (additional 0.5:1 FSR for meeting certainly environmental sustainability requirements). Both of these operate separately to the proposed PUVS scheme, so are not discussed in further detail here. However, they are shown in Figure 10 to demonstrate how all of the FSR schemes are proposed to work together in the CBD.

Figure 10: Summary of Proposed FSR controls and PUVS mechanism



6.3 Modelling Council's proposed approach

During 2015-2016, Council and consultants GLN Planning undertook development feasibility testing of a number of hypothetical development scenarios to determine the effect of introducing a Phase 1 and Phase 2 PUVS mechanism as outlined in the previous section.

Given that sales data over the preceding two years indicated that property transactions generally occurred on the basis of the potential controls outlined in the Parramatta CBD Planning Strategy (rather than existing statutory controls under the Parramatta LEP 2011) the base case used in the testing was modelled to reflect this.

The results of the development feasibility modelling undertaken by GLN and Council were based on a conservative land value uplift rate of $750/sqm.[44]

Table 3, below, shows the funding potential under the proposed PUVS, using multiple rate scenarios for Phase 1 and Phase 2 (with rates being a set percentage of the $750/sqm value rate). As previously mentioned in Section 4.4, this low and high range reflects two site consolidation scenarios – the low range being minimal site consolidation and the high range being a greater amount of site consolidation.

Table 3: Revenue potential under a Phase 1 and Phase 2 value sharing mechanism

Phase Scenario	Rate (% of $750/sqm)	Potential revenue (low range)	Potential revenue (high range)
Phase 1			
1	50%	$483 million	$589 million
2	40%	$387 million	$471 million
3	30%	$290 million	$353 million
4	20%	$193 million	$235 million
5	10%	$97 million	$118 million
Phase 2			
1	50%	$44 million	$133 million

Further Options Analysis

In early 2016, Council formed an Infrastructure Funding Review Committee to further review its work on the proposed PUVS mechanism. The Committee recommended that Council concurrently analyse two options for infrastructure funding as part of its review of the Parramatta CBD Planning Framework:

i. 4.5% section 94A levy to apply to the whole development (subject to Ministerial approval), plus 50% value capture for Phase 2 (being $375/m²); and

ii. 3% section 94A levy to apply to the whole development, plus 20% value capture for Phase 1 uplift (being $150/m²) and 50% value capture for Phase 2 uplift (being $375/m²); and

The financial implications for Council of each of these two Options are shown in Table 4 and 5 below.

Table 4: Revenue potential under funding option (i)

Option (i) No Phase 1, Phase 2 @50%, S94A @4.5%

Source	Rate	Low Range	High Range
S94A	4.5%	$310.5 million	$484.5 million
Phase 2	50%	$44 million	$133 million
Revenue potential		$354.5 million	$617.5 million

Table 5: Revenue potential under funding option (ii)

Option (ii) Phase 1 @20%, Phase 2 @50%, S94A @ 3%

Source	Rate	Low Range	High Range
S94A	3%	$207 million	$323 million
Phase 1	20%	$193 million	$235 million
Phase 2	50%	$44 million	$133 million
Revenue potential		$444 million	$691 million

The above tables demonstrate that Phase 1 value sharing generates significantly more revenue than a 1.5% increase in the section 94A levy. Therefore, Option (ii) - which uses Phase 1 value sharing - would generate significantly more income than Option (i) - which uses the 4.5% section 94A levy.

Development Feasibility Testing

GLN Planning and Council also undertook development feasibility testing of various scenarios of value sharing and section 94A charges.[45] The key outcomes of this testing are summarised as follows:

- 10-20% Phase 1 value sharing could likely be tolerated in the current market by those who have purchased land at above average rates, while a higher Phase 1 value sharing rate could likely be tolerated by those who have purchased land at below average rates.

[44] See Council Business Papers 27 June 2016, Item 7.4 for further discussion of this rate.

[45] See Council Business Paper 27 June 2016, Item 7.4 for further discussion of this feasibility testing.

- Sites which were acquired and held for a lengthier time would be more likely to be able to absorb a higher Phase 1 value sharing cost.
- Phase 2 value sharing at 50% will still enable higher (i.e. more risky) developments to meet lending authority benchmarks.

In addition, since late 2016, eight recent Voluntary Planning Agreements in the CBD have been negotiated on the basis of 20% Phase 1 value sharing. This further underscores the feasibility of Council's proposed approach, and how it is being applied in practice.

6.4 Council's proposed implementation of the PUVS

As part of the Parramatta CBD Planning Proposal, Council has proposed three key implementation mechanisms which would work together to formalise the proposed PUVS mechanism. These three mechanisms are provisions in Council's Local Environmental Plan (LEP), a Development Guideline containing the value sharing rates and Voluntary Planning Agreements.

Local Environmental Plan (LEP) provisions

As outlined previously in this chapter, the proposed LEP provisions to enact the PUVS mechanism would include Base, Incentive and Opportunity Site FSR controls. These controls would be contained in statutory maps as part of the LEP. The maps would be accompanied by an LEP clause which outlines that the Incentive and Opportunity Site FSR controls are only achievable if Community Infrastructure is provided. The conditions by which Community Infrastructure can be provided will be set out in more specific detail in a Development Guideline (see next section). This is similar to the approach used by the City of Sydney for Green Square.

Development Guideline

Alongside the LEP provisions, a separate Development Guideline would lay out in clear detail the value sharing rates on a "per square metre" basis for both Phase 1 and Phase 2 value sharing. The Development Guideline would highlight how community infrastructure is to be provided, which could be through dedication of land, monetary contributions, construction of infrastructure, provision of materials for public benefit and/or use, or a combination of these.[27] The main purpose of this Development Guideline would be to ensure certainty, transparency and fairness for Council and developers.

Voluntary Planning Agreements

The third key implementation component for the proposed PUVS mechanism is an update to Council's Voluntary Planning Agreement (VPA) policy. This update would articulate that VPAs are the intended way of formalising the PUVS mechanism for each individual development. Each individual development's contribution under the PUVS mechanism would be formally described and agreed to in a VPA for that site. All contributions collected under Voluntary Planning Agreements must be spent or utilised for the specific purpose they were levied and any interest applicable to unspent funds must be attributed to remaining funds.

6.5 Peer Review of Council's work on value sharing

As part of this project, Aurecon working with Land Econ Group undertook an independent Peer Review of Council's work on value sharing to date (as described in Sections 6.2 – 6.4). The peer review report is included at **Appendix A** of this Discussion Paper.

The peer review covered interviews with selected real estate agents and developers that are active in the Parramatta and greater Sydney market, and critically examined core documents:

- Parramatta CBD Planning Framework: Economic Analysis (2014) by SGS Economics and Planning
- Parramatta CBD Infrastructure Funding Models Study (2016) by GLN Planning
- Council staff reports and other relevant materials

The review highlighted that real estate development is a highly cyclical business, where developers are eager to apply for additional floor space during strong market conditions, but tend to hold back when the market conditions are weak as building higher may not necessarily translate to more profits. Because of the unpredictability of income flow, the review recommends that Council views the value sharing mechanism source as an important supplemental rather than primary source of funding for the construction of local infrastructure and

[27] https://www.planningportal.nsw.gov.au/understanding-planning/voluntary-planning-agreements

amenities in the Parramatta CBD. It also recommends a method for reviewing the rate, based on a selected residential market index (see more detail in recommendations below).

Market Feasibility

As noted in the peer review, several interviews were conducted with selected real estate agents and developers active in the Parramatta and greater Sydney market. The responses indicate some slowing of the Western Sydney apartment market but with no expectation of serious oversupply and resulting dramatic downturn. The reasons cited include:

- Population growth pushing out from the more developed portions of the Sydney region.
- Government policy support and planned infrastructure investment in and around Parramatta.
- Central location of the Parramatta CBD.
- High housing cost in the Sydney region.
- Major development projects being constructed that will elevate the market perception of the Parramatta CBD when completed.

However, there are early signs of a slowing apartment market due to some foreign governments beginning to slow capital outflow, which has been a factor in the Parramatta apartment market, making local banks more restrictive on financing for apartment investment, combined with expectations of higher global interest rates due to USA election results.

In addition, developers expressed their concerns on a value sharing mechanism needing to be easily predictable, flexible to market conditions, and that Council implement speedy development approval processes (which in some cases can take up to 18 months).

Review of Developer Responses

The interviews undertaken with three real estate agents and two developers active in the Parramatta and Greater Sydney market indicated some slowing of the Western Sydney apartment market, but with no expectation of serious oversupply resulting in a dramatic downturn. The peer review also reviewed and responded directly to past comments from the development community regarding Council's proposed value sharing strategy; these comments are addressed in turn in Section 2.4 of the Peer Review (Appendix B).

Recommendations of the Peer Review

Council is generally supportive of the peer review recommendations, and subject to consultation, proposes to adopt them as part of the CBD Planning Proposal. Balancing the continued local market optimism with the need for caution due to macroeconomic considerations, the recommendations based upon the peer review are as follows:

- **Implement the PUVS mechanism as promptly as possible to provide Council with an additional source of funding for community infrastructure** during this up-market cycle and the development community with cost predictability as the market moves toward less certain times.
- **Provide the developer community with cost predictability** through smoothing the implementation of PUVS over five years,
  - Set the Phase 1 (Incentive) contribution to a maximum of $150 per square metre for new residential developments that seek to develop beyond the existing planning controls up to the incentive controls.
  - Set the Phase 2 (Opportunity) contribution to a maximum of $375 per square metre for new residential developments that seek to develop beyond the incentive controls up to the opportunity site controls, applicable to certain areas in Parramatta CBD.

  This will allow developers to internalise this contribution into their pro forma calculations, and the impact will be on the amount they are willing to pay for land going forward. For future major projects, removing the uncertainty of the amount of PUVS contribution and the time required for negotiations will allow Council to continue to communicate its "open for business" attitude essential for the continued rapid transition into a world class city.
- **Re-evaluate the PUVS process after five years of implementation to make sure the contributions reflect market conditions,** and are on track to assist in meeting funding requirements for community infrastructure.
- **Build flexibility into the PUVS mechanism that provides Council with the option to either suspend or reduce the dollar per square metre contributions** for a finite one to two year period should a selected residential market index decline in five of six successive quarters. In the event of a severe real estate recession, this provides Council with an efficient tool to temporarily lower development cost and therefore reduce the mechanism's impact on

residential development and construction industries operating in Parramatta CBD. In effect, this operates as a concession to developers to account for the volatility inherent in the property market.

- **Apply the PUVS mechanism on residential development in excess of existing planning controls only,** as per Council's intent of creating a commercial core through improving the appeal of commercial developments.

This set of recommendations balances two objectives. First, it provides a revenue stream for the construction of CBD infrastructure essential to elevate Parramatta's position at the heart of Greater Sydney's Central City. Second, it provides the development community with cost predictability for five years. The developers will quickly internalise this added costs into their pro forma calculations, and the impact will be on the amount they are willing to pay for land going forward. For future major project removing the uncertainty of the amount of value sharing cost burden and the time required for negotiations will allow Council to continue to communicate its "open for business" attitude essential for the rapid creation of Greater Sydney's Central City.

Responding to the Peer Review recommendations

Together with the feedback received during this consultation period, Council will consider the recommendations from the independent Peer Review in making decisions around infrastructure planning and funding in the CBD. Please refer to section 7.2 for a more detailed discussion of next steps.

6.6 Value sharing's contribution to closing the funding gap

The Peer Review undertaken by Aurecon and Land Econ Group has recommended value sharing rates of $150 for Phase 1 and $375 for Phase 2 (i.e. 20% and 50% of the benchmark $750/sqm). If these rates were to be applied to development in the CBD, the funding gap established in Chapter 4 would be reduced (though not entirely resolved).

Based on two-thirds build-out of the Planning Proposal and the site consolidation scenarios previously discussed in this report, setting a Phase 1 Value Sharing rate at $150/sqm (20%) would yield an estimated **$193 - $235 million**.

Based on two-thirds build-out of the Planning Proposal and the site consolidation scenarios previously discussed in this report, setting a Phase 1 Value Sharing rate at $375/sqm (50%) would yield an estimated **$44 - $133 million**.

Figures 11 and 12 demonstrate the impact of this recommendation on the funding gap established in Chapter 4. The funding gap is reduced from an estimated **$394 - $549 million** to **$26-$312 million**.

Figure 11: Value sharing's potential impact on the funding gap (low estimated income

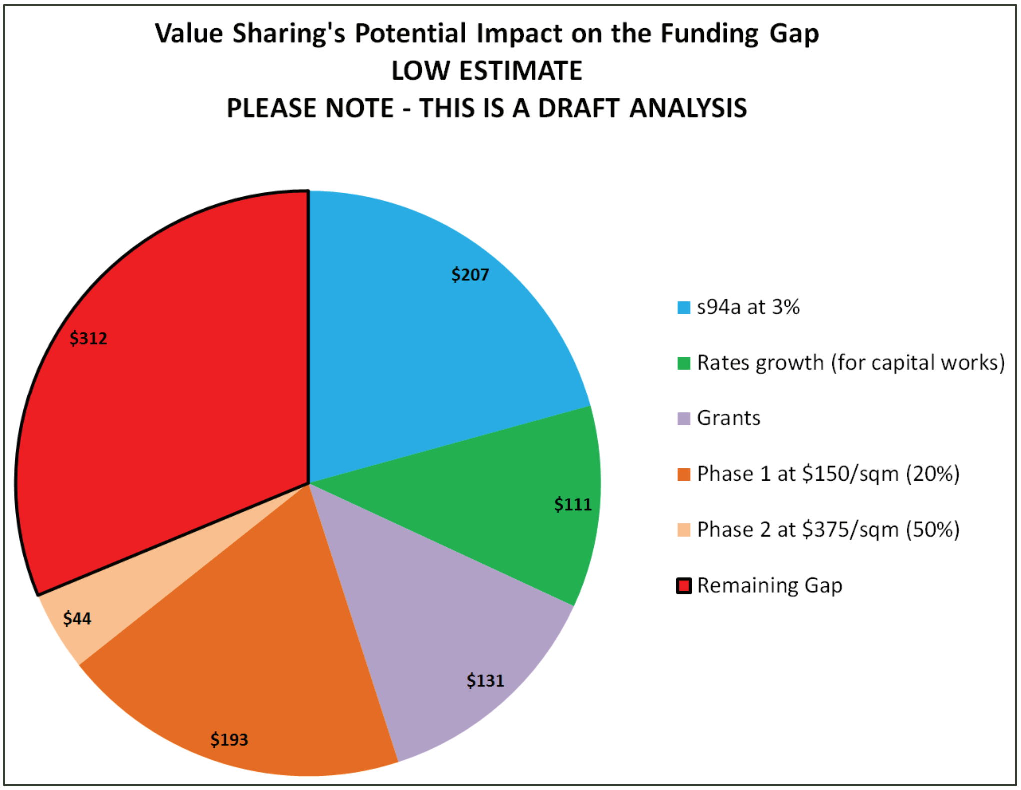
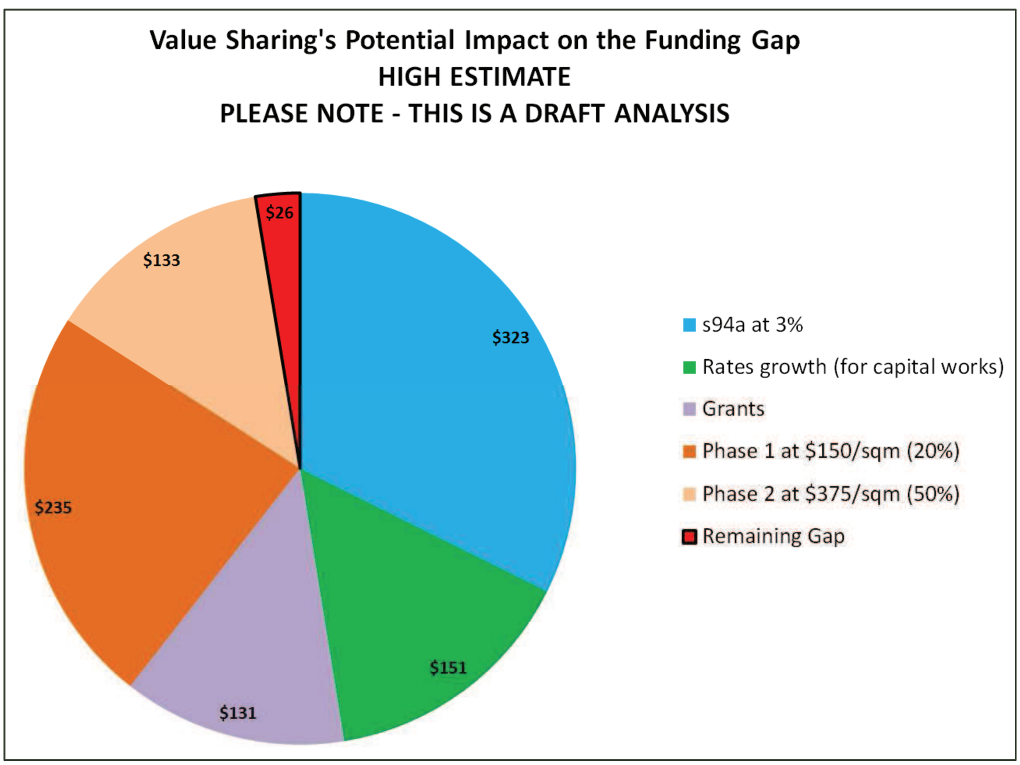


Figure 12: Value sharing's potential impact on the funding gap (high estimated income)



6.7 Chapter 6 discussion questions

4. What are your views on using value sharing to fund infrastructure?
5. Do the proposed value sharing charges strike an appropriate balance between public and private interests?
6. Are there other infrastructure funding mechanisms that should be considered by Council instead of (or in addition to) the PUVS?*

* *Remember that Council has limited powers to raise revenue. Stamp duty, land taxes and special area levies are the responsibility of the State Government. Refer to Chapter 4 for further discussion.*

7 Discussion Questions and Next Steps

7.1 Discussion questions

This discussion paper has posed the following questions:

1. Has Council considered the right types of local* infrastructure projects in its *Draft Parramatta CBD Infrastructure Needs Analysis* at Appendix B?
2. In your mind, what are the most important local* infrastructure priorities for Parramatta CBD?
3. Is there anything you feel is missing from the draft infrastructure needs analysis?
4. What are your views on using value sharing to fund infrastructure?
5. Do the proposed value sharing charges strike an appropriate balance between public and private interests?
6. Are there other infrastructure funding mechanisms that should be considered by Council instead of (or in addition to) the PUVS?**

** Remember that Council is not directly responsible for infrastructure like schools, hospitals and public transport. While Council advocates for the community and partners on projects where appropriate, provision of these types of infrastructure are generally the responsibility of the State Government.*

*** Remember that Council has limited powers to raise revenue. Stamp duty, land taxes and special area levies are the responsibility of the State Government.*

7.2 Next steps

This Discussion Paper (including the Peer Review and Draft Parramatta CBD Infrastructure Needs Analysis included in the appendices) are being exhibited during March 2017.

Council welcomes your feedback on the matters outlined in this Discussion Paper. Please visit Council's 'On Exhibition' webpage for more information about making a submission:

https://www.cityofparramatta.nsw.gov.au/about-parramatta/news/on-exhibition

In moving forward, Council will consider all submissions and input received during this consultation period, as well as the peer review recommendations.

The immediate next step for this project will be reporting to Council on the outcomes of the consultation period.

Pending the outcomes of Council's decision at that meeting, the intended next step is for preparation of a detailed draft CBD Infrastructure Strategy containing an updated CBD Works Schedule, as well as the appropriate funding implementation mechanisms.

It is intended that the draft CBD Infrastructure Strategy would then be exhibited alongside the CBD Planning Proposal (pending receipt of a Gateway Determination from the Department of Planning and Environment), at which point the community will have further opportunity to comment on issues on planning and funding infrastructure in the Parramatta CBD.

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