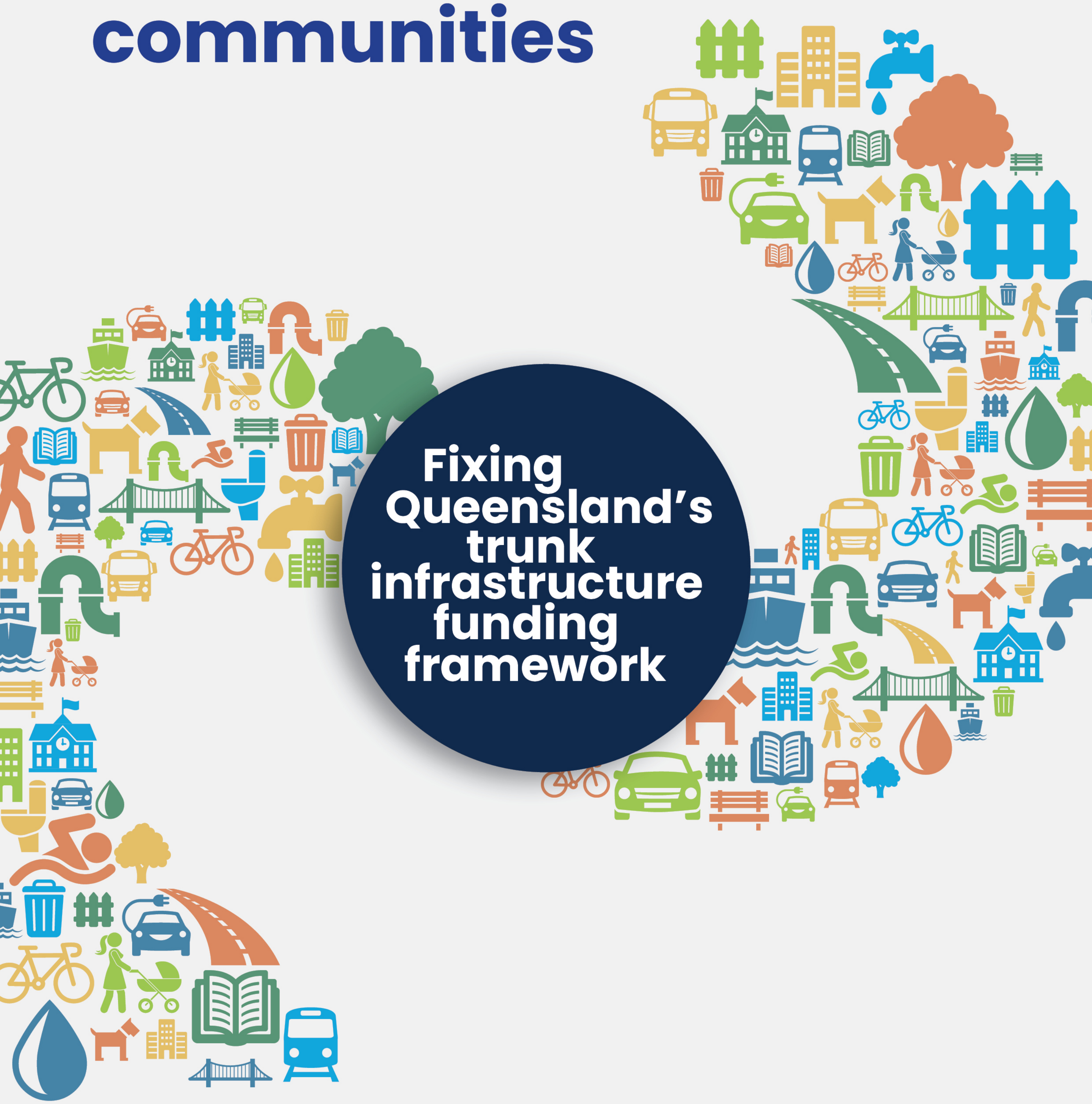
A fairer funding deal for Queensland communities



Fixing Queensland's trunk infrastructure funding framework

LGAQ

Every Queensland community deserves to be a liveable one

Introduction

Queensland communities rely on the provision of critical infrastructure like roads, parks and water and wastewater to continue to grow.

This trunk infrastructure is the backbone of liveable communities.

We live in a user-pays society – however, right now, it is councils, and therefore local communities, who are paying for the rising housing needs of the state.

When developers create new subdivisions and housing, each home needs access to power, water and sewerage, and drainage and roads. This is funded through an ‘infrastructure charge’ on the developer that is set by the State Government.

Unfortunately, the State’s infrastructure charging regime has been capped since 2011 and is much lower than the true cost that councils incur to provide this critical infrastructure.

This is why Queensland councils want the system fixed – so that it is fit for purpose, so that it enables a user-pays system, so that users are charged a fair price for infrastructure, and so that it does not keep gouging Queensland ratepayers.

The LGAQ has commissioned research to understand the gap – which shows Queensland councils, and their communities, will need to pay more than $2.2 billion over the next four years, unless the cap is increased.

To break that down, in South East Queensland, local governments are forecasting a trunk infrastructure funding gap of more than $1.54 billion over the next four years. If councils were forced to pass that on, it could potentially add an extra $269 per annum to rates on residential properties.

In regional Queensland, that figure could equate to an additional $437 per annum to rates on residential properties to meet the current forecast gap of over $650 million over the next four years.

Because infrastructure charges have not kept pace with increasing construction costs, local government has been forced to find other ways of funding infrastructure for new development, such as through rates, redirecting funds from renewal budgets and/or increasing debt.

This is not fair. If the State Government had appropriately indexed the capped charge, Queensland ratepayers wouldn't be left to foot such a big bill.

> **In our current cost of living crisis, this is untenable.**

It is not fair that councils and ratepayers shoulder the costs of others.

As the level of government that receives the least – just three cents in every dollar of tax revenue in Australia – councils, and therefore their ratepayers, cannot continue bear the financial cost of the increased cost of core infrastructure to local communities.

The answer is obvious – the State Government needs to modernise the infrastructure funding system so that Queensland communities are not footing the bill for new developments.

Our research shows how this can be achieved in order to provide equity and fairness for all Queenslanders.

Alison Smith
LGAQ CEO

The current climate

Growth

Queensland is one of the fastest growing states in Australia and data from the Queensland Government Statistician's Office (QGSO) suggests this trend is likely to be maintained (and possibly accelerate) until at least 2046.

Financial sustainability

The Queensland Audit Office's 2023 local government report has found 48 of Queensland's 77 councils are at a moderate or high risk of not being financially sustainable - up from 46 last year and 45 in the 2021 report.

Cost shifting onto local government

Recent research conducted by the LGAQ has found that councils are picking up a massive $360 million tab each year to deliver services that are the responsibility of other levels of government and the private sector.

Cost drivers

Since mid-2020, supply chain disruptions have had a significant impact on building costs for private developers and councils.

Infrastructure costs

The cost of constructing key infrastructure networks has increased considerably over time. These increases are well above comparable changes in infrastructure charge cap set by the State.

State commitment to increase

The State Government committed to annually index the capped charge in-line with the Road and Bridge Construction Index in 2011, however, to date this has not occurred.

What is the capped charge?

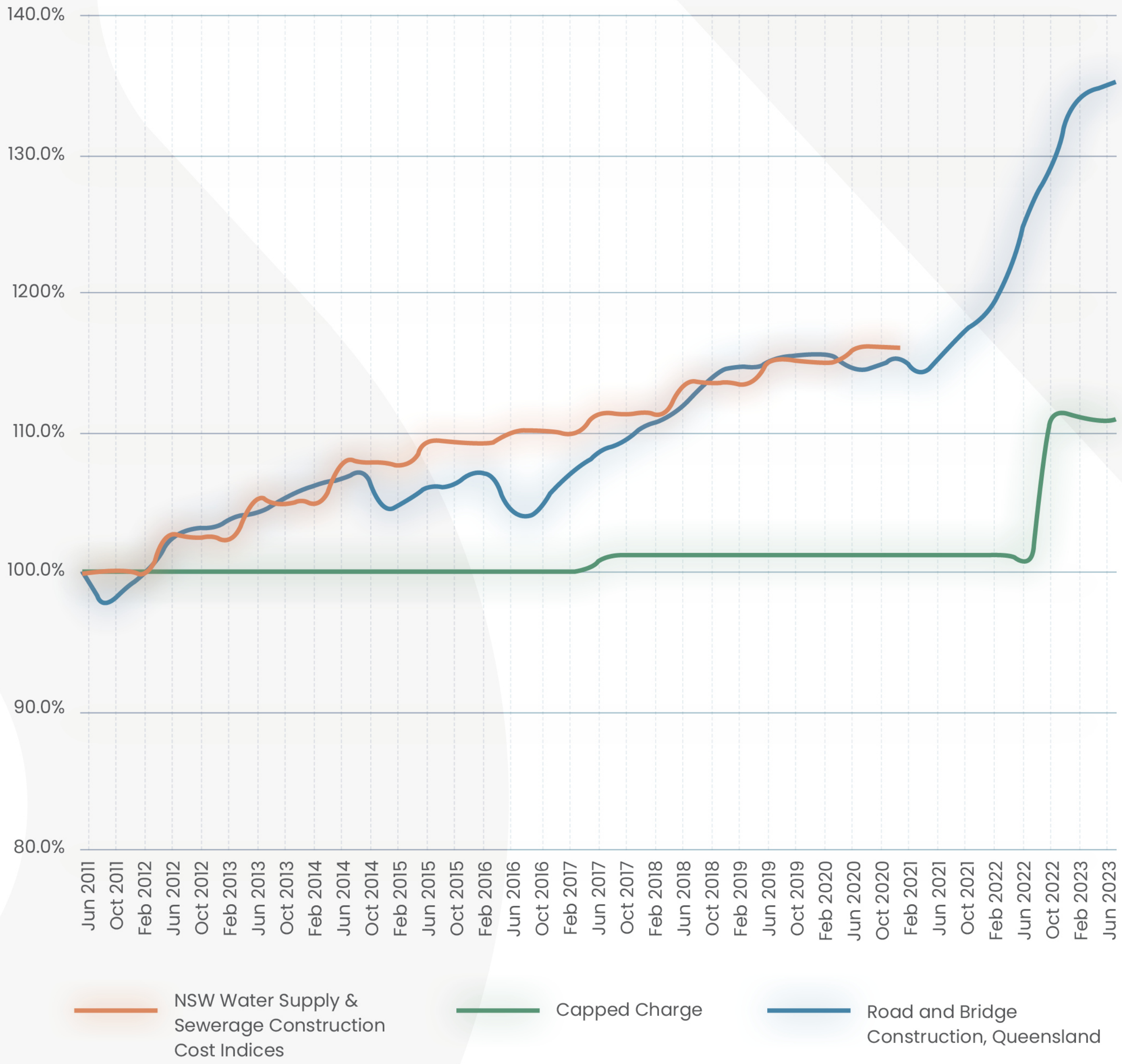
Since 2011, the State Government has capped how much local governments can charge property developers for trunk infrastructure to serve their developments, and others. This is currently known as the 'prescribed amount'.

The current climate

This graph shows the rising cost of infrastructure construction since 2011. The cost of building water, sewer and road infrastructure has increased dramatically.

However, the amount which councils can charge to deliver this infrastructure (shown in green) has not kept pace.

Infrastructure Cost Indexation



About the research

In 2023, the LGAQ partnered with Strategic Asset Management Pty Ltd to undertake the research discussed herein.

This latest research confirms prior studies in 2013 and 2018 that there is a growing trunk infrastructure funding gap.

The research sought to quantify the trunk infrastructure funding gap and its impact on Queensland communities, and to identify options for a fairer trunk infrastructure funding and charging framework that does not further shift costs onto councils and the community.

All SEQ councils were included in the scope of the research – as well as a representative sample of 12 regional Queensland councils.

Key findings

- Construction costs have escalated dramatically in recent times, which has had a profound impact on the cost of delivering infrastructure.
- Despite the Queensland Government's 2011 commitment to annually index the capped charge for infrastructure according to the Road and Bridge Construction Index, this has not occurred. Because the cap has not been appropriately indexed, local governments have not been able to recover the increasing cost of delivering infrastructure.
- Within SEQ, infrastructure charges have historically covered ~50% of costs to a local government. Moving forward, over the next 4 years, SEQ local governments are forecasting a trunk infrastructure funding gap of more than $1.54 billion – however, when accounting for unforeseeable expenses, this could be much higher.
- If this were passed on to ratepayers, every SEQ ratepayer could expect to pay an additional ~$269 per annum.

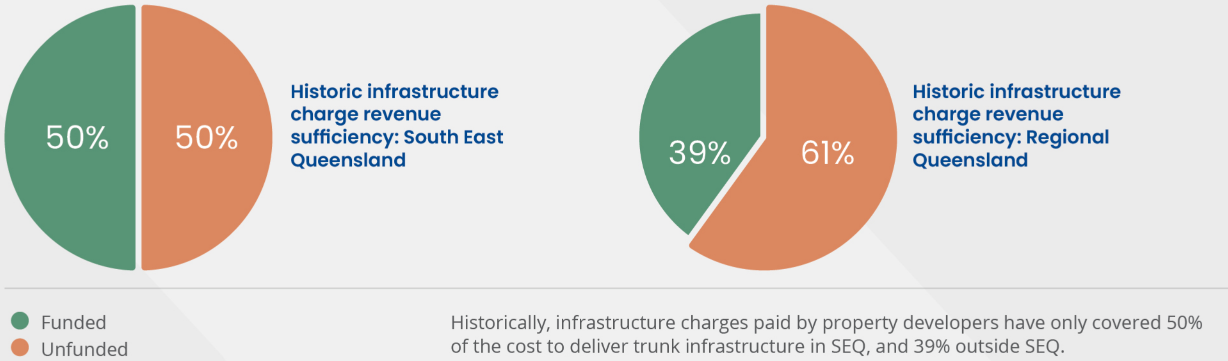
Key findings

- In regional Queensland, revenue from infrastructure charges has historically covered ~39% of costs to a local government.

- Over the next 4 years, regional Queensland councils included in the scope of this research are forecasting a trunk infrastructure funding gap of more than $650 million – however, this could be much higher. If this were passed onto ratepayers, they could expect to pay an additional ~$437 per annum.

- While research forecasts a more than $2.2 billion trunk infrastructure funding shortfall over the next 4 years, when accounting for councils outside the scope of this research and unforeseeable expenses, the funding gap will likely be much greater than $2.2 billion.

- Forecasts of infrastructure sufficiency are typically more favourable than actual rates of historic revenue sufficiency. This is because forecasts cannot account for unforeseeable expenses.



Historically, infrastructure charges paid by property developers have only covered 50% of the cost to deliver trunk infrastructure in SEQ, and 39% outside SEQ.

- 'Unforeseeable expenses' include servicing out-of-sequence or unplanned development proposals, which councils cannot account for when preparing their infrastructure plans.

- To fill the funding gap, in addition to using rates revenue, some councils have been forced to redirect funding intended for infrastructure maintenance, to build new infrastructure. This means existing communities are suffering in order to fund infrastructure for new developments.

- Had the original infrastructure charge of $28,000 per 3+ bedroom home increased in line with the Road and Bridge Construction Index, the current capped charge would be 22% higher than it is (e.g. rather than a rate of $31,080 per 3+ bedroom home, it would be $37,854 – a difference of $6,774).

- Development feasibility would need to be extremely marginal for an increase of $6,774 to have a material impact. As such, we would not expect an increase to the capped infrastructure charge to affect housing supply.

- Historically, infrastructure charges have not influenced lot production or home prices – (lot production has been in decline since 2011, despite constrained charges).

- In their Priority Development Areas (PDAs), the State Government charges ~50% more for infrastructure than local governments are able to – averaging approximately $46,000 per lot.

- When the State collects infrastructure charges for development in a PDA, they do not consistently pass-on a fair share of this funding to local governments to support infrastructure upgrades outside the PDA boundary.

Solutions

To establish a more equitable trunk infrastructure funding and charging framework, the LGAQ is proposing 5 solutions and calling for ongoing work, in collaboration with councils, to fix Queensland's trunk infrastructure funding framework:

1 Better balance

Increase the capped infrastructure charge by 22% in line with the ABS Road and Bridge Construction Index and ensure the rising cost of building and construction is reflected through annual increases to the capped charge.

2 Infrastructure restoration

Invest $500m per year, for at least 4 years, to support critical renewal of existing trunk infrastructure assets throughout Queensland.

3 Future-proof funding

Establish a permanent trunk infrastructure funding pool of at least $500m per year, to support (for example):

- Catalytic trunk infrastructure to unlock housing supply; and
- Additional costs associated with population projections being revised up through a regional planning process; and
- Additional costs associated with trunk infrastructure delivery in regional Queensland.

4 Equity for all

Where property developers propose out-of-sequence development:

- Confirm councils' ability to charge the 'actual cost' of delivering infrastructure to these areas by providing clarity regarding actual cost calculations; and
- Remove the ability for developers to claim a credit or offset for delivering infrastructure as part of these unplanned developments.

5 Fairness for councils

Ensure councils and communities are not left out-of-pocket by PDAs, by ensuring local governments receive a fair share of infrastructure charges to fund necessary supporting infrastructure.

If the State Government fails to modernise Queensland's trunk infrastructure funding and charging framework, communities and households could be hit with unfair rates hikes that could have been avoided.

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