

VICTORIA

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Victorian  
Auditor-General

Audit summary  
of  
Use of Development  
Contributions by Local  
Government

Tabled in Parliament  
9 December 2009

# Audit summary

## Background

Development contributions are payments or in-kind works provided by developers towards the supply of infrastructure to support new land developments. They are a critical component of Victoria's broader planning system, and are collected mainly by councils using Development Contributions Plans (DCPs), voluntary agreements and planning and building permit processes.

In 2008–09, the value of contributions collected across all Victorian councils was approximately \$716 million, including cash payments, in-kind works, services or facilities, and gifted assets.

Councils are responsible for effectively managing and using the development contributions they collect. The Department of Planning and Community Development (DPCD) manages the regulatory framework for land use and development on behalf of the Minister for Planning, provides guidance to the sector, and is responsible for monitoring the performance of Victoria's planning system.

The Growth Areas Authority (GAA) was established in 2006 to guide sustainable development in Melbourne's five growth areas. It is currently working with DPCD to reform the way development contributions are levied in these areas. These reforms were announced in December 2008 as part of the government's *Melbourne @ 5 million* strategy, and will include new arrangements for collecting state and local infrastructure contributions.

## The audit

The objective of the audit was to assess the effectiveness and efficiency of councils' management of development contributions; whether they had effective arrangements for managing, monitoring and reporting on the collection and use of development contributions; and whether they effectively used development contributions to deliver planned infrastructure.

The audit examined the nature and use of development contributions levied by the following councils up to 2008–09:

- City of Port Phillip
- Surf Coast Shire Council
- Wyndham City Council.

The audit also examined the roles of DPCD and the GAA in supporting and overseeing how councils collect and use their development contributions.

## Overall conclusion

There is little assurance that the development contributions system is operating as intended across local government. A lack of effective oversight and transparent reporting remain, despite similar issues being identified in 2005. Greater accountability for what has been delivered is needed, as is a better understanding of the future obligations that arise from the contributions received.

## Findings

Weaknesses in the controls and associated management practices of selected councils indicate there is insufficient assurance they have collected all contributions owed, that they have been used effectively, and that councils have met all their statutory obligations.

Each council had appropriately used development contributions to deliver infrastructure they had committed to. None, however, had a complete record that accurately linked all development contributions collected with those expended, and the associated infrastructure delivered against that planned. This meant that they were unable to demonstrate that all the funds contributed by developers had been used effectively, or that all in-kind works provided met requisite standards.

Oversight of development contributions in councils was limited. Reports to senior management and councillors focused mainly on the status of fund balances, and lacked sufficient detail to provide assurance that contributions were being effectively managed.

Similarly, public reporting by councils was insufficient to demonstrate to the community that contributions were being spent for the purposes intended, and that the associated infrastructure was being delivered as planned. While all councils identified aggregate development contributions revenue in their annual reports, it was not always possible to clearly distinguish this from gifted assets and, therefore, accurately compare councils.

Wyndham had taken the positive step of reporting on the infrastructure it had delivered using contributions in its 2008–09 annual report. Port Phillip and Surf Coast, however, did not provide similar details in their annual reports.

The absence of state-wide data on the overall performance of the system, including the adequacy of the underlying statutory framework and its application by councils, was previously raised as an issue by the Victorian Competition and Efficiency Commission (VCEC) in 2005. Little progress, however, has been made since then to address these issues.

DPCD, in conjunction with the sector, needs to further develop state-wide performance monitoring arrangements to improve the level of transparency and accountability over the collection and use of development contributions, to provide assurance the system is operating effectively, and to maintain public confidence in the wider planning system.

Recent reforms have sought to improve the operation of the system, but there is no evaluative data upon which to assess the impact of these initiatives, or the performance of councils in managing development contributions. The absence of this information means that there is no feedback on the operation of the system. This is needed to inform appropriate future actions.

## Recommendations

Number	Recommendation	Page
<b>Council management of development contributions</b>		
1.	Councils should review and, where necessary, enhance the effectiveness of controls to make sure that development contributions due are collected.	12
2.	Councils should assure that contributions have been used for their intended purpose by: <ul style="list-style-type: none"> <li>clearly identifying the standards and delivery time frames for infrastructure commitments contained within voluntary agreements and Development Contributions Plans</li> <li>transparently identifying within council budgets and capital works programs the infrastructure commitments arising from all development contributions</li> <li>accurately and regularly reconciling contributions collected and expended, including delivery of associated infrastructure against that planned.</li> </ul>	12
3.	Councils should strengthen local governance arrangements for development contributions by: <ul style="list-style-type: none"> <li>timely reporting to senior management on the collection and use of development contributions and delivery of infrastructure commitments against that planned</li> <li>systematically identifying and managing all risks to the delivery of infrastructure associated with development contributions</li> <li>assigning management responsibilities for the coordination and oversight of the management of development contributions.</li> </ul>	12

## Recommendations – *continued*

Number	Recommendation	Page
<b>Council management of development contributions – <i>continued</i></b>		
4.	Councils should clearly report on the collection and use of development contributions revenue in their annual reports, as well as report on the associated infrastructure delivered against that planned.	12
<b>Central monitoring and oversight</b>		
5.	<p>The Department of Planning and Community Development in consultation with the Growth Areas Authority and stakeholders should develop the performance measurement system and the broader planning system to include:</p> <ul style="list-style-type: none"> <li>measures for assessing the delivery of state and local planned infrastructure outcomes</li> <li>arrangements for assessing the success and uptake of reforms to the development contributions system</li> <li>information on the extent to which councils have fulfilled their statutory obligation in relation to development contributions in line with the 2005 VCEC recommendation</li> <li>arrangements for monitoring and reporting on the effectiveness and efficiency of statutory processes underpinning the system.</li> </ul>	18