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# TRANSCRIPT OF PROCEEDINGS

**PRODUCTIVITY COMMISSION**

**INQUIRY INTO FIRST HOME OWNERSHIP**

**MR G. BANKS, Chairman**
**DR D. ROBERTSON, Associate Commissioner**
**DR E. SHANN, Associate Commissioner**

**TRANSCRIPT OF PROCEEDINGS**

**AT SYDNEY ON MONDAY, 2 FEBRUARY 2004, AT 9.34 AM**

**Continued from 28/1/04 in Brisbane**

**MR BANKS:** Good morning, ladies and gentlemen. Welcome to the first day of public hearings here in Sydney for the Productivity Commission's inquiry into affordability of first home ownership. My name is Gary Banks and I'm chairman of the Productivity Commission, and my associate commissioners for this inquiry are David Robertson on my left, and Ed Shann on my right.

The purpose of the hearings is to provide those who have an interest in the inquiry with the opportunity to present submissions in response to the commission's discussion draft which, as you know, was released on 18 December. We chose the discussion draft format rather than a more comprehensive draft report, partly because of timing considerations, but we focused on the key considerations in forming our findings to give you the opportunity to focus on those. After the hearings in Sydney we have a further week of hearings in Melbourne next week, having commenced in Brisbane last week. We'll then proceed to prepare our final report.

The public hearings allow anyone to have a say in person on the issues under consideration and for others to listen to those remarks and respond if they wish. We keep the hearings as informal as possible but the Productivity Commission legislation does require that people be truthful in their remarks. A transcript is made of the proceedings, which we endeavour to place promptly on the commission's web site. I would remind participants that all submissions need to be in by mid-February to allow us to draw on them adequately in working through our final report, which has to be completed by the end of March.

With those introductory remarks over, I'd now like to welcome the Housing Industry Association and ask its representatives to give their names, please, and their positions with the association.

**MR SILBERBERG:** Ron Silberberg, managing director of HIA.

**MR TEMBY:** Warwick Temby, chief executive, services, HIA.

**MS CROUCH:** Elizabeth Crouch, New South Wales executive director.

**MR BANKS:** Thank you very much. Thank you for attending the hearings this morning and also for not only the submissions that you provided in response to the discussion draft but also the earlier submission and consultancy reports that lay behind that. I should also put on the record our appreciation for the informal assistance you provided in terms of responding to data requests and so on along the way as we're preparing our draft report.

We've read the submission on our discussion draft and think there's some opportunity for discussion there. Clearly you agree with some aspects of our analysis and disagree with others, and that's par for the course, really, in these sorts of hearings, and I think we'll find through the day that others will have different points of view as well. So thank you for that and, as we discussed, perhaps we'll give you the opportunity to make some overview remarks and we'll take it from there.

**MR SILBERBERG:** Thank you, Gary. At the outset, I should like to acknowledge that the commission was given a challenging brief in this inquiry, with very broad terms of reference and a short timetable within which to respond. Arguably housing is a difficult topic, too, in that it has many economic and social aspects to it. HIA is pleased that the Productivity Commission recognised many of these dimensions, as outlined in HIA's original submission, and the commission has identified taxation, planning, infrastructure, housing assistance and regulatory issues, as well as economic and financial conditions, as important ingredients in delivering improvements for first home buyers, well beyond the current trough in housing affordability. Notwithstanding, HIA is concerned that the commission has downgraded the relative importance of supply side factors in the structural affordability problems faced by first home buyers.

While the draft report acknowledges that the supply side issues have a part to play, it does imply that they pale into insignificance against the so-called enormous subsidies being provided to owner-occupiers from the taxation treatment of imputed rent on the place of principal residence, combined with the exemption of the place of principal residence from the capital gains tax. My colleague Warwick Temby and I at one stage thought we were in a debate about housing policy from the 1970s and 1980s, reading significant parts of this report.

That economists continue to discuss imputed rent on owner-occupier dwellings is an artefact of national accounting, where one's own home is treated as a capital item, where the supply of services yielded by those dwellings are incorporated into the national account. We note that in respect to other consumer durable goods and indeed capital goods that they are expensed in the national accounts, notwithstanding there can be active markets for the hiring of those items.

In a policy sense, the debate over whether these matters are genuinely subsidies in their quantum is academic, but the commission's promotion of the notion that there is $25 billion in federal government subsidies being provided to owner-occupiers in HIA's view colours the commission's judgment and assessments of the merits of reform measures that could provide genuine cost relief to first home buyers. To reinforce this view, the commission goes to some lengths to question the estimates of the potential benefits from structural supply side reforms in stark contrast to its almost uncritical acceptance of the estimates of the so-called tax subsidies to owner-occupiers.

Added to this is the overall tenor of the report that the current housing affordability issues essentially are cyclical, the outcome of irrational effervescence or exuberance, and that housing affordability will be restored naturally as the market adjusts to increasing rates and the deflation of the hype that has apparently surrounded investment in housing. HIA suggests that the structural supply side issues surrounding infrastructure provision and taxation issues, particularly indirect tax, are now so entrenched that any improvements in housing affordability as the cycle softens will be modest, and certainly not return housing affordability to the mid-1990s position.

The discussion draft acknowledges that home ownership provides significant benefits to owner-occupiers and to the community more broadly, but fails to attempt to quantify their importance. Additionally the paper asserts, without analysis, that the current home ownership rate in Australia is somehow at a natural peak, and that any further encouragement or support for home ownership would be counterproductive. While home ownership rates have been falling markedly in the under-40 age groups - those most disadvantaged by the deterioration in housing affordability - the commission's contention that home ownership has reached a peak does need to be questioned.

The report is essentially a call on governments to do nothing about housing affordability, in our view. The long-term cost to the community from doing nothing will be substantial, especially when the current age groups who are unable to enter the home ownership market reach retirement age. The hurdles this group faces in accessing home ownership will not evaporate with the easing of the current housing cycle. HIA submits that the array of indirect taxes and charges that are now embedded in the cost of a new home will not be reduced as the housing market slows, because state and local governments in particular have become increasingly dependent upon those indirect taxes for revenue. Since the prices of established housing will mirror the costs of replacement - that is, the cost of new housing - there is little prospect for anything other than the price of established housing to ratchet up.

Against this background, the focus of our response to the commission's draft report is to reinforce the estimates made in our original submission of the potential benefits that could flow in particular to new home purchasers from genuine structural reform of the institutional arrangements applying to the provision of land and new housing. These and other elements of our submission were challenged by the commission. In our view, the work that HIA submitted has not been afforded the appropriate respect it deserved, and there are frequent references in the draft report to HIA having exaggerated or overstated savings or costings. We take umbrage at those observations and we consider them to be unprofessional. It is our wish to work through those areas of the report where we consider that the commission has not necessarily presented the evidence appropriately, and these were, by and large, outlined in our response to the draft report.  Thank you.

**MR BANKS:**   Thanks very much for that.  I should say perhaps just initially that the draft report that you're referring to, Ron, in your remarks, I have difficulty reconciling with the draft report that we actually put out.  I think you've to some extent created a bit of a straw man, and that's okay, because we'll look through the arguments and take them at face value.  I think, just to give a couple of examples before we go through it, our treatment of the notion of the subsidies or implicit subsidies relating to owner-occupied housing looms quite large in your submission. In our own draft, it doesn't loom anywhere near as large, and I don't believe it has the central place in the thrust of our report that the HIA attributes to it.

You also imply that we thought that the structural side paled into insignificance relative to some of the demand side things, and again we have several chapters on that, and in fact most of our recommendations or findings relate to ways in which the supply side can be improved over time.  A point that you just made there about the sort of natural peak in home ownership - again, we just raise questions about that. I don't think we assert that it has reached a natural peak, but there is a question about what the optimal level of home ownership will be, and we could talk a little bit about whether you believe it's 100 per cent or something less than that.

And perhaps just a final point:  I don't believe that we've made frequent references to the HIA getting the numbers wrong but clearly we had to have a look at the numbers and the recommendations that you'd made, and I think there's scope there for us to work together and work through some of those numbers, to see where we end up, and that's one of the things we could do briefly this morning, but perhaps can do after these hearings.  So I think perhaps the best way to go would be - without raising all the issues that are in here - some of the ones where we might want further elaboration from you or there's a scope to have a bit more discussion, and just go through the very helpful submission just bit by bit, and each of us will perhaps raise questions that we think are relevant to those parts, if that's okay with you.

**MR SILBERBERG:**   That's fine.

**MR TEMBY:**   Gary, we did have some summary tables that we'd like to refer to that are in the fuller response, if that makes it easier for you.

**MR BANKS:**   That are in your first submission?

**MR TEMBY:**   In our response to the submission, just as we work through some of the specifics of the numbers and some of those sorts of things.

**MR BANKS:**   Well, it might be a bit hard to do it here, unless we've got something to look at.

**MR TEMBY:** No. Well, it's here if we're able to work through that.

**MR BANKS:** All right. Look, why don't we then just go through section by section. Again, I think in the introduction where you say that we see it essentially as a cyclical issue, "and that given the 'subsidies' home owners enjoy, action on the structural issues pale into insignificance and do not warrant serious attention", is really, in my view, understating our position. I think we agreed with your original submission that there's quite a bit that could be done there. I guess our bottom line was that these are longer-term structural issues that can be dealt with, and are ones that are unlikely to have a short-term impact on the market. I think a part of our diagnosis that's a bit missing from this submission, although it's sort of accepted at one point, is the important role of what's happened with interest rates and access to finance, as being one of the drivers on the demand side, and that has been quite important. Did either of you have any questions on the introduction?

**DR ROBERTSON:** I would just say that I think taking one paragraph and one box out of chapter 5, I think it is, and saying that we promote the idea of taxing imputed rent is totally unjustified. We had to mention it. If we didn't mention it, somebody else would have come along. In fact, several other submissions do deal with it, so we have to deal with it. We haven't in any way promoted it.

**MR TEMBY:** Yes. I think in our view, the easiest way of dealing with it is to rely on the tax expenditure estimates produced by Treasury, and they don't regard it as a tax expenditure. I think that should be the end of the discussion, because it is - - -

**DR ROBERTSON:** It's not the end of discussion by economists.

**MR TEMBY:** But it is referred to again at the end of the report against the background of these large subsidies. In the concluding part of the report, these are the sorts of things that you're finding, so I think it's not insignificant in the overall tenor of the report that this enormous number is produced. I think the fact that economists still argue over imputed rent, as Ron said in his introductory remarks, is really an artefact of national accounting. There is no other capital expenditure that's treated that way in the national accounts, so why should housing? In the GST environment, the federal Treasury doesn't regard the non-taxation of GST on food, health, education as a tax expenditure. It's just a design feature of the system, and we would argue that the capital gains tax exemption on housing and the so-called imputed rent - non-taxation is similarly just a design feature of our tax system. You end up in impenetrable arguments about what ought to be the appropriate benchmark. I think it's really just missing the point.

**MR BANKS:** I think there is a difference between economic theory or economic analysis and national account type processes. Certainly there's a long tradition, as you know, in economic analysis of treating it that way and, indeed, a number of countries have taxed imputed rent over time, and some still do, so it's not irrelevant, and I think as David indicated, it's something that has been raised and, indeed, there are other submissions which would be arguing quite strongly that there should be taxation of imputed rent. Now, we've not argued that, as you know, so in a sense you've possibly missed the point of our bottom line which was to say that there's not a strong case for taxing imputed rent, but to deny the theoretical position I think is something that would have been hard to do.

**MR SILBERBERG:** The draft report acknowledges that people's behaviour might change, were owner-occupied dwellings - the imputed rental income - to be treated as part of income tax, but it doesn't extend that logic, so that the estimates are predicated on the current setting of the goalposts, but if you shift the goalposts people's behaviour changes. There's no attempt to establish the sensitivity of the estimates of the taxation receipts from incorporated imputed rent on owner-occupied dwellings within the income tax base. Yet the draft report does further acknowledge that for first home buyers, he or she might incur a net deficit, were you to allow for interest deductibility and other outgoings to be treated as offsets against the estimates of imputed income. That's precisely the point, because on the one hand you're saying rental investors can gear up and for those on high rates of personal income tax there's an incentive to do so under the current arrangements, but were you to extend the same taxation arrangements to owner-occupied dwellings there's not an adequate acknowledgment that that could have significant revenue impacts of a negative nature. It might well be that people, particularly those on high marginal rates of personal income tax, will engage in chronic gearing of their owner-occupied dwelling.

**MR BANKS:** I think we're probably agreeing furiously there, Ron, because we do acknowledge that. Now, whether we acknowledge it in the words that you think are sufficiently clear is a matter for debate, and we can have a look at it.

**MR TEMBY:** I think it's a fact that the 25 billion number sticks. There's no effort that says the 8 billion dollars notionally applied to imputed rent could end up being a negative if you were to go down the path of taxing imputed rent because everyone would negatively gear.

**MR BANKS:** But this is one of the points that we made in following a story-line through what people have been saying about these tax arrangements, and looking at whether indeed imposing such a tax would be justified. Now, we have to acknowledge that we didn't actually come to that conclusion, and one of the reasons we didn't come to that conclusion was some of the points that you've made which are actually reflected in our report.  Maybe we can put a bit more detail in the final report.

**DR SHANN:** We do explicitly say the 25 billion amount, because of behavioural changes, would not be raised.  So we've explicitly said what you just said to us. Maybe, as Gary said, we'll relook at the wording, but we've explicitly said what you've said.

**MR TEMBY:** Yes, but you also have explicitly called it revenue forgone, which is something that Treasury in its tax expenditure statements avoids doing at all costs, because that's not what it is.  It's not revenue forgone, and that's the strong implication out of your report.

**MR BANKS:** We're not saying it is revenue forgone.  We're saying that if you took a revenue-forgone perspective on it, then you would come - and then we say "but you need to qualify that with second-round effects and displacement effects and so on". So as I said, I think there's a certain amount of commonality in our position on both sides, and it may come down to the wording of the report.  So we'll look at that and maybe come back to it again further into the submissions.

**MR SILBERBERG:** Our contention, commissioner, is that you could be forgiven for considering that that treatment preconditions people's views about the agility or otherwise of trying to encourage people into owner-occupancy, or first home ownership.  In those circumstances, it could be argued that it encourages a view that there is this plethora of subsidies flowing to owner-occupiers against the wellbeing of other sectors of the economy.  The analysis is partial.  It is static, and at times you think that the commission is angling for a first-best sort of policy prescription in a world that's not even second-best with respect to tax arrangements.  I admit, you do acknowledge that if you were to adopt a sectoral approach to the taxation treatment of housing, you need to be mindful that there are other sectors of the economy that are treated in similar manner.  It's almost like a diversion from the main game, and in our view the main game is the supply side.  Again, it's as if the supply price of new housing plays no part in shaping or influencing the price of established housing assets.

There's a remark in the draft report, "New housing only represents 1 to 2 per cent of increments to the dwelling stock over a 12-month period."  I don't know when it was 1 per cent, implying that we would be, in current terms, adding 77,000 dwellings to the stock.  It is much closer to 2 per cent but in terms of the transactions in the housing market, it is about a fifth of all transactions, and it's the transactions in the housing market that, in a sense, set the prices.  So new housing contributes to about a fifth of sale transactions over a 12-month period, and importantly, a lot of new housing is being sold in established suburbs, because it's medium density and it's apartments, and in Sydney half of additions to dwelling stock are not detached housing.

The pace at which changes in the supply price of new housing can transmit to the valuation and pricing of established housing is probably a lot more important than I consider has been provided for in the report. Assuming that the demand curve for housing is moving rapidly to the right - and we would contend that it might have been moving to the right, but the supply curve of new housing services was moving to the left because the cost of providing additional housing services to the market has been increased very significantly by changes in the value of the raw land component - that has been the principal factor driving new housing prices, but also the cost of providing infrastructure services has been built increasingly into the price of land. It has not been the price of building that has escalated so much. It has been very much about land. In our view, there has been inadequate attention focused on land supply issues, and to just create the impression as we read it that this housing affordability crisis will blow over, there will be some casualties from a fall-out from higher interest rates, and over the longer haul, yes, you could do something about some supply side issues, unfortunately we consider that you run the risk that state and local governments will sit back and say, "Well, this was a temporary phenomenon. It will blow over," and we will have missed an opportunity.

**MR BANKS:** There are a number of points I could make, but as you say, when you look at a greenfield development as a proportion of total turnover, it's more like a fifth, but four-fifths is coming from demand in established areas, and that has been an important part of what has happened, I think. You're arguing that what happens at the fringe determines the prices in the inner areas, but I think for a lot of people in that market, they wouldn't see a fringe block of land as being a substitute for a block of land in a preferred inner-city area. Now, that raises questions about the extent to which one should be able to redevelop and consolidate in inner areas, but I think it's a long bow to say that all prices throughout the city are driven by what happens at the fringe. That's a little bit like the tail wagging the dog.

**MR SILBERBERG:** No, I didn't say that, Gary, with respect. I said that a lot of new housing constitutes apartments and medium-density units which are supplied predominantly into established suburbs. Not the fringe - established suburbs. So the consumers can make choices between purchasing housing assets in established suburbs or new apartments or home units, so the pace at which changes in cost of that type of housing permeates the established housing market is probably quite quick. You would know the prices are determined at the margin.

**MR BANKS:** Well, they are, but the margin isn't at the fringe. You say here:

> Much of the increase in land prices has reflected greater scarcity in

availability of land for greenfield development -

not brownfield development. All I'm saying is that there is clearly some effect, but the effect is more muted perhaps than you say, and maybe we need to talk about it in terms of the words we use, but it is still a minority influence on the overall turnover in the market.

**MR TEMBY:** I think in the longer term, though, it has to affect the price gradients right across the city.

**MR SILBERBERG:** It does.

**MR TEMBY:** The price of land at the fringe. They don't operate in isolation of each other, and they do transmit quite quickly.

**MS CROUCH:** When you have an underlying requirement of 13,000 blocks per year, and you're only delivering 5000 blocks, then that mismatch is always going to have a widespread effect. There's no question about it at all.

**MR BANKS:** Yes, and we acknowledge that, and I think we indicated - and particularly in the Sydney market there's some evidence that greenfield land release constraints have been a problem, among other things, or have been more of a contributor perhaps than in Melbourne, say - so we do have some of that analysis, but I don't know whether my colleagues have any comments on this second section here.

**DR SHANN:** Well, we're looking specifically at the second section. I wonder if you could just elaborate on page 6. You're effectively saying First Home Owner Grant had only a minor impact on demand. Then on page 32, you quote some numbers suggesting, on average, "the First Home Owner Grant brought forward the move into home ownership by five years for some 500,000 people", which would seem to be quite a significant impact. Could you just discuss the two points.

**MR TEMBY:** The bring forward was widely documented at the time, particularly when the First Home Owner Grant was doubled to 14,000 for new home buyers. The point that we're making I think in the earlier section was that, while the commission's report acknowledged that there was three point whatever it was - - -

**MR SILBERBERG:** Eight.

**MR TEMBY:** - - - billion dollars allocated to the First Home Owner Grant, at the same time that that happened there was also a significant impost on the cost of new homes in the form of GST which, in the context of the overall market, was significantly more, so that while that might have stimulated the demand for a subsector of the market, the overall demand for housing was likely to have been depressed because of the imposition of the GST.

**DR SHANN:** But in the absence of the First Home Owner Grant there would have been 500,000 less people?

**MR SILBERBERG:** No. What we're saying there, Ed, is that the timing of purchase was influenced. In the context of a total transactional marketplace of about 650,000 to 700,000 a year, what extent of bringing forward was due to really the First Home Owner Grant being doubled to 14,000 for purchase of new? When you look at the ratios, it's not that big. The fact that that component, the first home buyer activity that was brought forward as a proportion of total transactions - that there are about 100 to 120 thousand first home buyers a year; so you could be talking about bringing forward the actual timing of purchase by a matter of months. In some cases it would have been years.

**MR TEMBY:** I guess the point we were making, and maybe not making all that well, was that you might have got $7000 out of your First Home Owner Grant but you also had a $15,000 GST bill on your house at the same time. So the net effect wasn't all that positive, whereas your report only mentioned the First Home Owner Grant effect.

**DR SHANN:** And the source for the half a million people having their home ownership brought forward five years, is that the Wood - - -

**MR TEMBY:** I believe so, yes.

**DR SHANN:** As I understand it, that's an estimate based on the bring forward over a person's lifetime. It's not specifically talking about the bring forward in the three years, so I'd be careful about quoting that particular number.

**MR TEMBY:** Yes. If you count the people whose behaviour changed prior to the introduction of the GST and those in the three years afterwards, it might well have got to that sort of number. But, yes, I take your advice.

**MR BANKS:** The only other point on that page - and it's something we can check with you, but this is the question of the revision of underlying demand up from 140 to 160. Our understanding is that that was a projection rather than - I mean, we had a historical number there, whereas the 160 we thought applied prospectively from 2003, but that's something we can check with you. We did know about that number at the time.

**MR SILBERBERG:** Well, our estimates relate to the past two years.

**DR SHANN:** That 140 relates to a five-year average in history.

**MR SILBERBERG:** We contend that there has been a step up in the underlying requirement for new dwellings and that it is part of the landscape over the previous two years, and it did represent a significant increment to the demand for new housing services and needs to be taken into account, otherwise you could create the impression that what was happening to demand was purely effervescence.

**MS CROUCH:** The immigration figures alone have increased quite dramatically over the last few years and they're certainly a contributor in terms of a strong underlying requirement.

**MR BANKS:** Except that I think the ABS is correcting the immigration figures downwards by quite a significant amount, up to 15 or 20 per cent, which will flow through to their population numbers, which will push this down again.

**MR SILBERBERG:** Four years ago the number of visas being set was 80,000 and you've got net migration running at about 140,000 per annum, so let's take off 10 or 15 per cent. It still constitutes a significant change to a fundamental driver of the underlying requirement for new housing, and that's what needs to be kept in perspective.

**MR TEMBY:** And it's a significant job for the planning agencies, particularly in this town, who are trying to provide infrastructure, which then leads on to infrastructure charges and so on, when they're working on 10 to 15-year planning horizons and in the space of three years you get that step change in migration.

**MR SILBERBERG:** I totally endorse that because I have heard presentations from representatives of state planning agencies who were working on an immigration program of 80,000 per annum over the long haul. They were taken by surprise, in other words, and they were not equipped to deal with the change in underlying requirements for new housing occasioned by a significant change in the level of immigration. That's not to cast aspersions against the federal government's policy towards immigration - our position on immigration is well known - but there is a legitimate argument, in our view, that state planning agencies need to be kept abreast of changes in the Australian government's stance towards immigration because it does permeate state authorities' requirements quite significantly, Gary.

**MR BANKS:** Okay.

**MR SILBERBERG:** And we know the lead times on the provision of serviced land are extremely long.

**MR BANKS:** At least you've acknowledged that part of our diagnosis. Let's go on to section 3. I wouldn't be proposing to have any further discussion about imputed rent unless you're desperate to have such. Capital gains tax: any questions or comments there?

**MR SILBERBERG:** No, I don't have any further remarks about that. We should like to deal with some aspects of the GST, commissioner. In the draft report there is a contention that HIA's estimate of the receipts collected from housing activity through the GST seem high. That conclusion is inappropriate but seems to have been predicated on the basis that residential construction activity amounts to about 30 billion per annum. The period for which we made the estimate was 2002-03, where residential building activity was $45 billion, so the base from which we started is quite a bit higher than assumed in the draft report. So for the sake of good order we've set down the different segments of housing activity from which we derived our estimates of the GST receipts.

**MR BANKS:** Thanks. We'll look at that. I thought we got our data from the ABS but we can check those numbers.

**MR SILBERBERG:** And in circumstances where our numbers will be validated, we would respectfully suggest that the reference made to "HIA's estimate seems high" be deleted.

**MR BANKS:** Certainly we'd do that.

**MR SILBERBERG:** It creates the impression, commissioner, that HIA is trying to distort its position and we object to it. It's inappropriate.

**MR BANKS:** Far be it for me to ever do that. No, there was no implication in our report along those lines.

**MR SILBERBERG:** The opportunity was available to the Productivity Commission to approach HIA if it was of that view. I'm not aware, nor are my staff, most of whom are involved in the report here today - were approached. It was a needless comment attaching to the professional work that my colleagues undertake for their association and its members, and there are other references in the report, commissioner, of that nature. We take umbrage to it. Thank you.

**MR BANKS:** As I said, we had plenty of interaction with the HIA on some of the numbers. This one might have slipped through the net but we'll look at it and we'll put the correct interpretation in our final report, whether it remains the same or whether it changes.

**MR SILBERBERG:** Right.

**MR TEMBY:** There is the other element of the GST which we touched on in our submission, which is the issue of the GST flowing through on so-called GST-exempt items. Your report suggested that that was difficult and complicated and you needed to await a thorough review of the whole of the application of the GST. Our view is that the fact that the so-called GST-exempt taxes and charges end up having GST charged on them is something that was an accident in the design of the GST, probably because of the last-minute changes to the GST about the removal of food and those sorts of things, which is why people I don't think generally realise that, one way or another, you end up paying GST on payroll tax, for example, whereas it's firmly on the list of things on which GST doesn't apply. But because it becomes part of a business's operating structure and cost structure, at the end of the day people pay GST on payroll tax.

The difficulty with most of those sorts of GST on exempt tax issues is that they're buried in the administrative structures and cost structures of businesses, whether it's a fishing licence or payroll tax or whatever. In this particular case of new residential land, it's quite conspicuous, unlike some of these other areas. Our view is that because of its magnitude to a potential home buyer, it warrants perhaps a little more attention than it got in the draft report, because we believe that it could be quite simple to quarantine the kind of exemption that we're looking for, or the notional input tax credit that we're looking for, to new housing, or new land in particular. We don't believe it's all that difficult to do that.

**MR BANKS:** Okay. As indicated in our report, I think in principle we agree with you and it is something we'll look at again in relation to the final report.

**MR SILBERBERG:** It's extremely important, commissioner, as far as we're concerned, because the revenue that is derived from the application of GST to GST-exempt state and local taxes as they apply to the industry's product last financial year was estimated by my staff at $500 million. This is not inconsequential and it's revenue that could not have formed part of the calculations by federal Treasury because it's revenue on GST-exempt taxes, so there is a comment that any change would - in the draft report, that is - that the change would have impact on revenue and consideration would need to be given to other steps to maintain revenue neutrality. Our submission is that if it's GST-exempt taxes we're talking about, under what circumstance did federal Treasury incorporate estimates of GST revenue on such exempt taxes?

**MR TEMBY:** And for the individual home buyer, too, in Sydney you're potentially talking about $6000 at least - we'll have the discussion about infrastructure charges later - but potentially $6000, and then on top of that you're paying stamp duty on that $6000 as well, probably twice. So in our view it's not insignificant but administratively it's relatively easier to separate these local government taxes and charges out from mining royalties and payroll tax.

**MR SILBERBERG:** And, as Warwick Temby indicated, commissioner, the other item that would rank high in possible ramifications is payroll tax. In terms of the impact of what we're proposing, the issue is really about: what are the ramifications for other state and local government taxes, besides those that the HIA has identified? Well, it's payroll tax. So our assessment is that effectively GST on embedded payroll tax isn't going to be addressed. That shouldn't preclude governments from looking at the housing side. Stamp duty?

**MR BANKS:** Well, I'll just try and move along, to take the submission as read, together with your introductory remarks. I was going to make a point in relation to the interaction of taxes there, where you say that we contend that private rental investment is treated concessionally by the income tax system. Our bottom lines are really predicated on the opposite of that, and that's why we've argued that any changes in the taxes relating to investment and housing should be looked at more broadly in relation to impact on equities and so on, so it's just a point of clarification there really.

**MR SILBERBERG:** Yes, but again I could identify in the draft report statements which appear throughout the draft report which, when put into direct positioning, are difficult to explain, and it's as if there's a bet each way, and it does appear quite regularly.

**MR BANKS:** Well, if you could find a sentence which indicates where we've said that, that's fine.

**MR SILBERBERG:** Okay. It's pertinent to stamp duty. Quoting:

> Stamp duties add only marginally to the price of housing and their removal could not be expected to have a large effect on housing affordability at the same time.

**MR BANKS:** We're talking here about whether we're contending that private rental investment is treated concessionally by the income tax - that's the only point I'm making.

**MR SILBERBERG:** Elsewhere -

> the removal of stamp duties and their replacement by more efficient

forms of taxation should be a priority.

So given that this is an inquiry about first home ownership, it was difficult to see how those statements fit neatly together, and that's why we propose, we suggest, that the commission focus on the contribution of stamp duty to access first home buyers, and looked at in terms of its share of the amount of funds required to put down a deposit for a dwelling, stamp duty is quite important.

**MR BANKS:** Yes. Ron, this isn't a media interview. We're just discussing section 3.7, which is about interaction of taxes. We've moved on from stamp duties, if that's okay.

**MR SILBERBERG:** Yes, fine.

**DR SHANN:** We say on page 88:

> In this regard, tax arrangements for investors do not explicitly discriminate and favour investment enhancing.

And yet you've got a statement here on page 13 saying we think they do.

**MR SILBERBERG:** That's right. Let's move on.

**MR BANKS:** The other question I was just going to raise in relation to incidence of taxation - and this is one of the vexed issues, as you know: implicit in the position here is that there's no rent in land and that therefore owners of land would never bear any of the burden of subsequent taxes, which is a bit surprising, actually, and even the Access Economics report that was attached to your earlier submission concedes that it depends on the time frame and elasticity of demand and supply.

**MR TEMBY:** No, I don't think that was the proposition we were making. I think the concern we had was that the way the analysis had been presented in the draft report suggested that in a situation where the supply of land was relatively inelastic, which is what everybody assumes is the current situation, that taxes and charges will be passed back to the owner of the rural land. Our concern was that without qualifying that sort of analysis heavily, and I believe it needs to be very heavily qualified, policy-makers, particularly at the local government and state government level, will grab hold of that and say, "Well, we can impose whatever taxes and charges we like onto the cost of land," in the knowledge that it will be passed back to the vegetable farmer.

We thought there was at least one demand curve missing out of that particular graph anyway, and our biggest concern with that is that in the current circumstances we don't believe the market is anywhere near like in equilibrium and that that sort of partial equilibrium analysis is very misleading about the impact and incidence of taxes. Our concern is that others will use it for evil rather than for good and that in one sense it's like the debate about imputed rent, but it does sort of potentially colour people's judgments about policy responses, and that's our concern. We could argue till the cows come home about supply elasticities and whatever. It's about what policy-makers will make of statements that you make and give credibility to in your final report that concerns us, and in our view that kind of partial static analysis isn't all that helpful in assessing the true incidence of these taxes.

**MR BANKS:** I think part of what we're talking about is response times, which has a dynamic element in it, so it's not entirely static. But let's move on then to the next section, chapter 4. I suppose just one question on the bottom of page 16, where you talk about the situation in south-east Queensland: there was an escalation in demand, and so on, and despite a surge there was a very swift supply response, little pressure on prices. That situation of course changed in the late 90s and by your diagnosis at that time then the problem was that supply seized up. Is that the - - -

**MR TEMBY:** Yes, very much so.

**MR BANKS:** You don't see it as part of a wider set of demand pressures for which, as we've said, and I think you've agreed to some extent, it would be hard for supply to respond in a way that didn't have any effect on prices anyway.

**MR TEMBY:** I think one of the problems with analysing what's going on in land markets is just this measurement problem about what's actually in the market at any particular point in time. I think in the case of the south-east Queensland market in the mid-90s, there was an abundant supply of developed land on the market waiting to be bought. That isn't the case now, and I think if you talk to people in planning departments here in New South Wales, they will tell you that there is abundant land in the pipeline but it's all at the wrong end of the pipeline.

So it's difficult to quantify this sort of stuff, and I think again we would see that as a potential area for a strong finding from the commission about the need for better data and better systems for measuring and monitoring the availability of land. It's very patchy around the country about the quality of that sort of data. Some of it is very good, some of it is very limited, but at the end of the day I think Queensland now has quite good data on this sort of stuff, but it didn't help. It's necessary but not sufficient for fixing the problem.

**DR SHANN:** I would have said this is an area where in fact in terms of the policy conclusions we're broadly in agreement.

**MR TEMBY:** We're in danger of agreeing on some of these things, yes.

**DR SHANN:** One thing that struck me in reading this: you note - I think it's correct - suggest the growing trend for knock-down and rebuild in Melbourne and Sydney, and the renovation market more generally has picked up. One possible cause of that of course is the lock-in effect of stamp duty; that is, people have a choice whether they renovate their own home, their existing home, or move to another one, so it seemed to me the pick-up in that area of the market is one possible sign that stamp duty does have some lock-in effect.

**MR TEMBY:** Yes, I think that's an effect. I think the much bigger effect, particularly in Sydney, is just the absolute shortage of greenfield land for detached housing developing. I think that swamps the stamp duty effect here.

**MS CROUCH:** And in fact the fact that many of the greenfield sites are significantly smaller than their existing blocks and the access to community facilities in many cases are other reasons that they make a decision to stay put, other than purely issues to do with stamp duty.

**DR SHANN:** Well, stamp duty is one factor, and there are other factors as well.

**MS CROUCH:** A huge range of factors, and I would argue most of those factors are driven by whether or not they're going to end up on a 400 square metre block as against a 900 square metre block.

**MR SILBERBERG:** Access to social assets - - -

**MS CROUCH:** Schools.

**MR SILBERBERG:** Community networks - that's right - schools, hospitals, you would consider played a part in people's decisions to upgrade in situ as distinct from moving to a greenfield location, which might be short in supply of essential community and social services for a period of time. Again if stamp duty is only a small part of the house price, which is contended in the draft report, you then have to juxtapose the statement that it's a serious inhibitor to mobility, so that's something for the commission to contemplate, I think. We're happy for it to be acknowledged as an inhibitor to mobility in the housing stock; how important in the overall scheme of things, we don't know. For first home buyers it's not an inhibitor to mobility; it's a barrier to entry to the owner-occupier market. It has a lock-out effect, not a lock-in effect.

**DR SHANN:** I think there is both. Do you have more details of the Masterton Homes study that you provided?

**MR TEMBY:** Not with us, but - - -

**MS CROUCH:** We can provide that.

**DR SHANN:** Yes, sure.

**MR SILBERBERG:** We'll follow that up subsequently. The infrastructure for residential development is where HIA has significant concern with the exposition in the draft report, and HIA obtained its information from a range of builder-developers and provided a summary or a pooling of estimates from a range of greenfield developments, in some cases actually medium density and apartment projects, but we focus on greenfield developments because the draft report relied on one case study from Penrith in Sydney and one case study on Wyndham in Melbourne, whereas the HIA information was pooled.

Lest I be accused of having misread the draft report, I'll hazard my interpretation of what the commission has done. It appears that the commission acknowledges that in respect of major economic infrastructure there can be community-wide benefits beyond the private benefit of residents in a new subdivision, yet there's no attempt to categorise major economic infrastructure from internal economic infrastructure in those particular developments that appeared in the draft report.

It's assumed by the commission that HIA has necessarily lumped all major economic infrastructure with social infrastructure. What we did was initially combine what the commission calls major economic infrastructure with social infrastructure because we considered that major economic infrastructure had community-wide benefits and it was not inappropriate to have such a classification. So on the one hand the commission is saying that major economic infrastructure is separate and indeed suggests in one part that it doesn't have any objections to major economic infrastructure being paid for by residents in a new subdivision. So we've gone back to a host of builder-developers and tried to get a realignment of the infrastructure charges and fees along the lines of the classification adopted by the commission in its draft report, and again, I have to say our information has been pooled, so in that respect it might be contended that our information is reasonably representative of pricing arrangements in greenfield developments in the major capital cities. Our two summary tables in our response deal with Sydney and Melbourne, but it is correct to say that other capital cities were reviewed as well.

**MR TEMBY:** In the handout that I've just given you, at the top of that stage it goes through in some detail what we've allocated to basic economic infrastructure, major economic infrastructure and social and community infrastructure. As your draft report suggested, and as Ron has now confirmed, we did in fact lump social and major economic infrastructure together on the basis that being community-wide benefits they should be paid for community wide. So that's why we lumped them together. We have now desegregated them into the same sort of classifications that you've suggested and I think - - -

**MR BANKS:** Do you have numbers against individual categories? For example, in major economic infrastructure would you have values for, say, headworks or public transport?

**MR TEMBY:** Yes, we do.

**MR BANKS:** Do you? That would be quite helpful to us, I think.

**MR TEMBY:** Yes, and I think you'll find - I mean, even on the way it has been split up in the table in our response, the numbers that we come up with are actually less than the numbers. It was just a difference of interpretation about the purely social infrastructure which led to your assertion that our estimates were greatly overstated, to quote your report. If you, as we did, combine social and major together then, as I said, our numbers, on the basis of the pooled studies that we looked at, were less than the numbers that you had.

**MR SILBERBERG:** In the commission's two case studies, but the statement made in the original submission that if major economic infrastructure and social infrastructure - if the cost of the provision of those were borne by the broader community and not confined to residents in a new subdivision, the savings in Sydney in greenfield developments would be in the order of $30,000. We stand by that.

**MR BANKS:** Yes, and I guess it did come down to a semantic point because that was often talked about as if it was all social. I think it was the confusing use of the word "community". So we were just trying to clarify which goes into which, because both within social and major economic infrastructure you could have costs that were predominantly benefiting a particular development or two developments and one of the principles that we had in there is that, where costs can be so identified, it is useful to charge them because those costs could differ significantly from one location to another. So getting some locational signal in there about the costs of infrastructure seems like a worthwhile thing to do.

Now where we felt that wasn't appropriate, and headworks is probably the clearest example in the major economic infrastructure domain, was where you couldn't really talk about those services being predominantly used by a particular development. They would be pretty much used by the whole community.

**MR TEMBY:** Yes. I think it's a question of degree. I mean, there is also some basic economic infrastructure at a local neighbourhood level that gets used by broader communities as well.

**MR BANKS:** That's true, yes.

**MR TEMBY:** It's about degree, and intensity.

**MR BANKS:** Yes.

**MR TEMBY:** I mean, our view was that things that we had in our list - like trunk drainage, main roads, public transport, headworks, district roads - pretty much fell into the community-wide bucket rather than the private benefit bucket. It will vary from development to development and also it will then have implications as the Access Economics work in particular pointed out for people paying twice for this stuff, which I think was something that we felt had probably been downplayed a little bit in your report as well. Given the amount of money involved in these things, it seemed ironic that people were then turning around and paying it twice through their rate collections as well.

**MR BANKS:** That's right. In fact, we did identify that and because it was a relatively brief discussion draft, we probably haven't had a lot of discussion on any particular point, but we did raise the additional point, I think, that there would be a good case for development charges being discounted to reflect the element of subsequent cost recovery through rates or other periodic charges; this possibly being an administratively more feasible approach than differential rating or something like that.

**MR TEMBY:** I think you're right about that and the judgment that we made was that all of those items that we've called social and major economic infrastructure should fall into that category of something that's paid community wide and not up-front, for exactly that reason, that administratively it's impossible to have a differential rating systems. You'd have a different rating system for every house in the street depending on when people moved and so on.

**MR BANKS:** Of course, once upon a time that was exactly how it was done, even for basic infrastructure, when people moved out to the outer suburbs in the 50s. You know, they moved first and they paid for their roads and gutters and drainage and whatnot later. I agree, it's quite a complex - in these days, with greater densities and population it would be quite hard to differentially rate.

**MR SILBERBERG:** In the 50s and 60s and into the 70s you've had semi-government authorities that borrowed to fund the provision of urban infrastructure. Through the 80s and into the 90s there was an aversion to resorting to public sector funding to underpin the creation of those assets. There's an observation that people should be indifferent to paying up-front or over the lifecycle for the cost of urban infrastructure, provided the financial markets are prepared to change loan requirements on borrowers and it is arguable that the capital market is not always perfect.

I do recall that when the GST was introduced there was great consternation within the industry that home lenders would not take into account the effect of GST on the price of new housing. The argument from home lenders at the time, with whom we were in contact, was, "Well, the price of existing housing hasn't changed on 1 July with the GST." There was somewhat of a discontinuity for a period of time. We're not convinced that the capital markets necessarily take into account the need to change loan rules to reflect the additional cost of infrastructure being incorporated into the price of new housing.

**MR TEMBY:** It's not even on the financial institutions' radar. There is no loan application form that I've ever seen that asks you whether you've contributed to the headworks for the sewerage on the land that you're buying or the house that you're buying. I think that at the margin it's potentially very costly for people who get tipped into requiring mortgage insurance and so on.

**MR SILBERBERG:** The pace at which infrastructure charges have been applied, particularly in Sydney, has increased sharply over the past five years or so. We have information which examines the contribution to new housing prices from changes in infrastructure pricing arrangements and it is significant. Admittedly, not as significant as changes in the raw land component contribution to changes in new housing prices but any assessment of new housing prices and accessibility has to take into account changes in the level of contributions being sought by state and local governments for greenfield urban infrastructure.

**MR TEMBY:** Our view also is that, if you can have an impact on the provision of infrastructure and the funding of infrastructure, it will help take some of the pressure off raw land prices as well, because one of the reasons that raw land isn't being made available is that local authorities and state authorities aren't prepared to pay for the infrastructure. So if you can fix that part of the problem then hopefully that will make more land available and serviceable.

**MS CROUCH:** It is clear this has become quite a cash cow for many local authorities who are relying increasingly on this revenue and becoming quite highly dependent on this revenue and this avenue of raising funds. I think it's important also to note that, while some of these things are fairly transparent, there are also other things where there have been negotiations on individual development sites to deal with these things in a different way, and they don't always appear as a flat levy or whatever. There might be some other provision within the development which actually adds to the overall cost of that but you don't necessarily see it as a flat $15,000 transport levy or whatever it happens to be. This is a serious area and an area that I think will become even more so because of the hidden nature of many of these things and the unfettered nature of them also.

**MR SILBERBERG:** While the level of infrastructure charging on new residential development is at its worst in Sydney, there is deep concern that the practices will extend to other capital cities. We did provide some information on the pattern levels of infrastructure charging in other capital cities, and in some cases it is certainly on the move but pales into insignificance in comparison with practices in Sydney, but the Sydney situation portends for other capital cities with comparable consequences for access to first home ownership.

**MR BANKS:** Okay. Thank you.

**MR TEMBY:** On an issue related to that, one of the things we were pleased to see in your report were your observations about the potential and the capacity of governments to deliver land for urban consolidation in brownfield sites, and it is related to the infrastructure issue. We, I think, would like to see some perhaps stronger recommendations from the commission about governments actually strategically planning for that urban consolidation to happen, rather than just leaving it entirely up to neighbourhood bickering to sort it out because, at the moment, you've got a constrained land supply on the fringe in most capital cities and no real planning strategy to deliver the land that is needed as a corollary of that for urban consolidation.

If anything, the strategies that have been put in place are making that more difficult rather than easier. The capacities and the planning systems that are being put in place to provide people with opportunities to appeal and complain and whinge about urban consolidation are making the process vexed, so that you've got a constraint at the fringe and a constraint on supply in the middle, so the end result is what we're seeing now.

**MR BANKS:** Yes. I guess the point we're making is, as you say, that constraining the fringe with the presumption that a compensating supply will be made available, is a courageous call. The question is, even with the best processes in the world, whether you could ever get compensating supply response to make up for the given restriction at the fringe. It is a very important issue. It has been for some time, I guess, but it seems to be getting more important.

**MR TEMBY:** Yes. At the end of the day the only way you can really fix that is to reduce people's capacity to complain, within constraints. You know, if that particular block of land is zoned for a house then somebody should have a right to put a house on it. After all, that's what zoning is for, but that's not the way the system works, unfortunately.

**MR BANKS:** Well, politics has a habit of intruding. They say all politics is local and that's a good manifestation of it, I think. You make some remarks in relation to industrial relations, which we accept, I think, and we'll be having a bit more of a look. I think probably time got the better of us towards the end of our report although, as you acknowledge, it's not a report about industrial relations but there are some important issues there, I think, that you've raised.

**MR SILBERBERG:** Okay.

**MR BANKS:** Building regulations - similarly, we have another inquiry coming but I think your bottom line there about greater emphasis on utilising existing regulation impact statement processes, including an assessment of impact on housing affordability, is a point well made. Equally, with skill shortages, we'll have a bit more of a look at that area and the points that you've raised there but I have no particular questions to raise on that.

Perhaps then coming to home ownership assistance - well, I've made a couple of points already on that. One of the things we'll do for the final report is look a bit more closely at this trends in home ownership rates. I mean, some of the data there worries us a little bit in terms of the survey basis for the information, but we'll look more closely and maybe talk to you a bit more about it.

**MR TEMBY:** The data that's on page 4 of the handout that I gave you a moment ago was based on household expenditure survey data, which I think is probably a bit more reliable than census data for some of these sorts of things. It shows fairly clear trends. What we had expected to find when we started looking at that data was perhaps some deferral of the home ownership decision from the younger home-buying age groups into perhaps the late 30s, but it didn't seem to be apparent. All groups seemed to be being squeezed and the only reason that our overall home ownership rate has stayed where it is is because of the number of people of my vintage and older who have previously bought a home and who are becoming a more significant cohort in the demographics.

We are quite concerned about the 25 to sort of 35 age group. We expected to see some decline because of HECS and lifestyle changes and those sorts of things, but we expected to see some compensating increase in the slightly older age group, and it wasn't there, which, particularly when you start looking at the impact of this stuff on retirement income strategies, is very very serious for 10, 20 years' time, because there's lots of studies been done by lots of people, including one of the people outside there, that show that people who aren't home owners by the time they retire are significantly more likely to be in poverty and are significantly more likely to be a drain on the public purse.

**DR ROBERTSON:** One of the things that's been bothering me with the data when we've tried to look at it is of course there's a huge increase in investment purchasing of property, which also means there's a big increase in rental property.

**MR TEMBY:** Yes.

**DR ROBERTSON:** This may not be entirely irrational - if the rent rates are considered to be low, why would you buy a house. House ownership has certain advantages that we've talked about, but on the other side of the story it may be rational, particularly in a modern-day environment where people change jobs frequently, move place to place frequently, that there will be a big increase in the rental share, and it would be in this particular age group.

**MR TEMBY:** One of the things that - when we were working through that sort of possibility was that we were thinking, well, perhaps those people are renting but also own something somewhere else; being rational about the advantages of negative gearing and so on. We did some preliminary analysis, again from some household expenditure survey data and - admittedly this predated the recent surge, but I think it was 99 data - there was only something like 2 or 3 per cent of people who were currently renting who owned a house somewhere else. So they weren't that rational. So it's a possibility, but I don't - we expected to see that perhaps disappearing by the time people got into their child-bearing age groups, which is being deferred as well, but there's just sort of no evidence of that either.

**DR SHANN:** That would be presumably people who are moved for three years in their employment, to Melbourne from Sydney, and so they may keep a home in Sydney and rent a place in Melbourne - we've assumed.

**MR TEMBY:** Depending on your marginal tax rate, I mean, it can be quite rational to rent, and rent to somebody else in a house that you own as well.

**DR SHANN:** It is an area where it's unfortunate there's not a bit more information about why these percentages have changed, I must say. You know, perhaps in the 35 to 39, divorce rates rise, you end up with people - you know, one of the partners renting a house for a while, for example.

**MR TEMBY:** There's been some very high quality research done by News Ltd just in the last two weeks that showed that these people still want to own a house - or they say they still want to own a house.  So I don't think it's a complete lifestyle change.

**DR ROBERTSON:** Yes.  They probably want to buy it at 150,000, that's the trouble.

**MR TEMBY:** I'm sorry?

**DR ROBERTSON:** They probably want to buy it at 150,000.

**MR TEMBY:** Quite possibly.  I think there were quite a few of our people, when looking through some of your numbers, would like to buy the house in Victoria that you were using as your case study as well.

**MR BANKS:** Also the ones in Tasmania that people bought for the first home buyer's grant.  Okay.

**MR SILBERBERG:** I think - excuse me, commissioner - Warwick's observation that home ownership has been encouraged by successive Australian governments, in similar vein to the encouragement of superannuation.  But perhaps the policy positions towards superannuation have been made more explicit, that they have formed an integral part of a retirement income strategy.

Home ownership, in our view, ought to be aligned with superannuation in policy thinking; that it is just as important to retirement incomes policy to have high levels of home ownership as it is to have people able to derive income from their superannuation.  When you consider the ramifications of an ageing community for the capacity of the Australian economy to provide the level of entitlement programs and services that the community wants, perhaps we need to look at the other side of the ledger when evaluating the importance of policy encouragement of owner-occupancy; that it does mute the demands for public sector outlays for those at retirement age.

**MR TEMBY:** There has been quite a bit of work done on that by AHURI, beyond just retirement in government strategy, into things like health, education and so on.

**MR BANKS:** I think the point is well made, and I think you also make the point in your submission that with the advances in the capital market whereby you can reverse mortgage and so on, might be a worrying concern to potential - children or so on who might have otherwise expected to inherit a bit more.  But I think that's right. It's still an implicit recognition, I think, that it has a retirement incomes policy - retirement income dimension.  I think the welfare system still hasn't really caught up with that, in terms of how the family home is treated for welfare payments, which is perhaps a further implication.  I have no further questions, but my colleagues may.  I think you've been here for a while.

**DR ROBERTSON:**   No, I don't think there's anything that won't wait.

**MR BANKS:**   So we will certainly get back to you.  There were some issues to do with some numbers, some of the points we've made that you've raised.  Hopefully we can be in discussion with your people after these hearings.  Again, I just thank you for your participation in the inquiry, for coming along today and having this discussion, and thank you again for the submission.

**MR TEMBY:**   Thank you, commissioner.

**MR BANKS:**   I'd like to break now for about 15 minutes.  We have a morning tea break.  We've just received a submission from ACOSS who are appearing next.  We probably need a little bit of time to digest it, so we'll resume in about 15 to 20 minutes.

**MR BANKS:** Our next participants this morning are the Australian Council of Social Service. Welcome to the hearings. Could I ask you, please, to give your names and your positions.

**MR O'DONOGHUE:** Philip O'Donoghue, acting director.

**MR FARRAR:** Adam Farrar, principal housing policy adviser.

**MS YATES:** Judy Yates, the housing policy adviser.

**MR BANKS:** Thank you very much for coming here today to discuss your reactions to our discussion draft. You also provided a very detailed and useful first submission, which we found quite helpful. We may be able to talk about some of the issues you raised in that, as well, but I would like to give you the opportunity to make whatever overview or introductory remarks you would like to make.

**MR FARRAR:** Thank you for that. I might provide something of an overview and then look to some other participants to fill that out and respond to any further questions you may have. We have also provided not another submission, but some dot points which identify areas in the draft report, but I think we have some further interests and I will try to speak to those as we go through. If I could begin, there are, at least in a very broad sense, four areas of the draft report which we would like to begin by endorsing and indeed encourage you to perhaps make more of in the final report.

The first is the conclusion that in effect any policies to further increase home ownership are probably unnecessary and certainly would be at the expense of expenditure in other areas, including support for other forms of low-cost accommodation, such as support through the Commonwealth-State Housing Agreement, rent assistance, or indeed any potential future incentives for investment in low-cost rental, so we would like to support that view quite strongly - that while there may be some measures that could usefully support access to home ownership at the margins, any significant attempt to increase the overall role of home ownership in Australia is probably unwarranted and would come at a cost.

Although I will say a little bit more about this later, in general we certainly support the call for a full inquiry into federal tax incentives and the interaction with other aspects of the taxation system. Indeed we would - and, as I say, I will go a little further into that - want to see more attention in the final report to federal taxation measures but, at the very least, want to ensure that that call for a wider inquiry and review is strongly enough put for it not to be easily passed over by a government.

We also support the proposal that there be wider consideration of state taxes. Clearly we don't believe that all the balance lies in the federal tax system and we would certainly be supportive of exploring further whether or not the balance is right between stamp duty and, for example, land tax, so again that's an area of the report's findings that we would support. Lastly, we would support the conclusion that the first home ownership scheme would benefit certainly by being more tightly targeted to ensure that it assists those more in need and, secondly, that perhaps there is scope to consider whether or not it's the best form of assistance in any case.

Those are the four broad areas that I think we would want to put on record our support for. In the final report, however, we would very strongly encourage the commission to either strengthen or to do some further work in a number of areas. First of all, while there are certainly a number of references to the need to recognise that the distributional effects of a number of the drivers of current house price inflation need to be taken into account, we see very little attention being paid to looking at differentiating affordability by household type/household income and we would be very keen to see much more attention paid to looking at differential access to affordable housing, including rental housing.

Secondly, we think that there is - this particularly goes to the discussion about the extent to which this inquiry is able to deal with some of the other measures around rental housing and public support for, for example, affordable housing measures or public or community housing. We are concerned that there is insufficient attention placed on the capacity of the existing market - particularly the rental market - to pick up those households that will be the losers if there is the kind of correction that the report suggests there will be. Clearly there is going to be an impact and therefore we believe that it falls within the brief of the inquiry to consider what the capacity for the rest of the market is to pick up those losers of any correction.

Thirdly - and I guess this is perhaps one of our biggest areas - we are very disappointed I think, and would hope to see a change in the final report, in the balance between the kinds of attention and recommendations given to state taxation measures and federal taxation measures. It is probably fair to say that while the report calls for a review in both areas, it is much more prepared to reach some conclusions about the likely impact and the areas for improvement in state taxation and much more cautious, and disappointingly cautious, about reaching any firm conclusions about federal tax measures.

I would note that we have already endorsed the call for a wider review, but we do believe that this report should be able to go further and that your willingness to go into state taxation but not into federal taxation is unfortunate and unbalanced. Just to add to that, it does seem that not only is it clear that that is a very important driver of affordability for first home owners, affordability across the market, but it also has wider impacts which are pressing, so it's quite clear, for example, that house price inflation is one of the things that is driving interest rate prices, so there is a very strong public interest in ensuring that it's addressed not in the longer term but in the short term. We are certainly still of the view that over-investment at the top end of the residential market, particularly fuelled by tax measures and the interaction of a range of tax measures, is one of the things which is going to push increases in interest rates. We think there is a strong public good argument for addressing it rather than deferring it.

I think this goes to one of the main points that we tried to draw out in our original submission: we're not opposed to tax incentives for investment in residential property, and particularly in rental property. However, we're very concerned that all of the current incentives have led to over-investment at the top end of the market and a serious decline in the supply of low-cost housing; that is, there is no investment going into the bottom end of the market. ACOSS's view is that it is an urgent priority that tax incentives that can be put in place to redirect that investment from the top end to the bottom end of the market should be considered as part of this inquiry. We were disappointed that there was no response to those kinds of initiatives that we noted in our own submission.

Lastly, although the report does pay some considerable attention to the discussion about the potential benefits of greater neutrality between a tax treatment for owner-occupiers and for investors, the conclusion which you appear to reach - which is that while there has been previous work, including the earlier Industry Commission report, which put some quite big numbers on the potential benefits to overall revenue of a more neutral approach to those two sectors - we believe that your conclusion that the compliance costs and a range of other measures water those down was probably reached a bit too swiftly and we would certainly want to see greater attention paid to whether or not there is potential benefit in that area. Now, that's a broad overview of the sorts of areas that we are concerned about. I wonder if Judy might want to pull out one or two of those areas for further comment.

**MS YATES:** Let's just start at the end; that is, that if you look at the data on what has been happening to the rental market then there is plenty of evidence on census data, for example, to show that there has been an increase in rental stock, it's a thriving market, but it has been at the top end of the market. We did some work back in 86 to 96 and we showed a huge decline in low-rent stock. We've carried that through to 2001, and it's still going on, so we're actually getting absolute declines in the rental market up to the bottom four quintiles of the rental stocks. That just gives you an indication of the extent of the problem.

Just to emphasise the point that Adam made, the housing market has to be seen as a whole and the rental market is very much the part of the market that is meeting the needs of those who can't access home ownership. Conversely, home ownership, of course, is at the top end of the income distribution. Again we have seen that the decline in home ownership from 86 to 96 - particularly amongst your low-income households - has sort of been held steady in the last thing, most probably because of the first home owner scheme but, if you look at an incidence amongst every income group, basically it is still slightly down. It's only because there has been an overall improvement in income distribution that gives us this total picture. They're indicative results at this stage. They haven't been gone through.

So the housing market isn't getting any better. One thing I'd also like to emphasise is that I think it is a sanguine view to say the current affordability problems are part of a bubble and if you just wait long enough they will go away. I think we have got evidence that there has been a trend in declining affordability, particularly for those at the lower end of the market; obviously renters, but also lower-income potential home owners that are being increasingly excluded, particularly in your metropolitan markets.

**MR FARRAR:** If I could just add to that, the draft report - when it talks about affordability trends - focuses very much on measures around medians and I just want to reinforce the need to look not just at the median but at the differential impact across different income bands, and that's pretty important when we're looking at a segmented market like the housing market.

**MR O'DONOGHUE:** I wonder if I might just comment again, following on this, because of the great importance that the low-cost or affordable rental market has for many people living in poverty or working-poor households. ACOSS released late last year, together with National Shelter, an analysis of the rent assistance provision that helps to supplement, in part, the costs that particularly jobless households and individuals face in the rental market. What it showed is a broad correlation, not surprisingly, between the cost of rents and employment levels.

In other words, in suburbs and towns where unemployment is low and there are jobs, the rents are high, and not surprisingly, jobless people tend - because they can afford little else - to be accommodated in those suburbs and towns where unemployment is high and it's a jobs-poor region, so there is a broader economic issue here about access to housing which, in turn, facilitates or otherwise access to employment. Again, if you just rely on median and don't look at the rental market greatly, those broader economic impacts and importance stemming from housing can be either lost or not given as much emphasis as they might deserve.

**MR BANKS:** There are a number of things that have come out of what you have said, but this question about the bottom end of the rental market being quite different to the top end, to what do you attribute that? Those who are arguing that a lot of the investment has been, say, tax driven, particularly in the last few years, haven't necessarily been arguing that the tax arrangements favour top-end investment as opposed to bottom-end investment. Is it a just a reflection of the rising costs of land in the inner areas that is just, in a sense, driving lower-income groups out of areas where, traditionally, they have lived? Is there something more longer term going on?

**MS YATES:** There are two sides to the story, aren't there? There's one that's creating the investment in the property and then what's happening to the people who want to rent that property. With the incentives for investment, because a lot of them are tax driven and, therefore, they tend to benefit higher-income landlords more, there's absolutely - - -

**MR BANKS:** Although to be on a marginal tax rate of 47 cents you don't have to have to be such a high - - -

**MS YATES:** Don't have to be that a high an income - that's true.

**MR BANKS:** That is one of the factors that we mentioned.

**MS YATES:** Yes. Now, I have actually not done my homework as well as I might have for this, but certainly some of the work that Gavin Wood has done on incentives on private landlords shows how the balance is actually biased towards the top end rather than the bottom end in terms of the structure. That's using things like the rental investor survey looking at the characteristics of the landlords and the characteristics of the property they own and working out that there aren't incentives. He attributes quite a few of the transaction costs, which are the things coming up - so it's interaction of the combination of the Commonwealth taxes working through the income tax system and the state taxes working through the transactions costs. It's the interaction of those two tax systems which is partly contributing to the problem.

**MR FARRAR:** There are also perhaps two other factors that may be driving it, and I'm saying this rather less confidently perhaps than Judy has been able to. One is that to the extent that negative gearing is playing in interaction with a number of other arrangements, it is playing a bit part - and we certainly believe it is - in supporting that kind of investment. It does depend on investment with an expectation of a fairly substantial capital gain. I think that then skews the investment. It does two things: it fuels the house price inflation cycle and, to some extent, there will be a self-fulfilling prophesy about properties that acquire that kind of investment being at the top end of values, and that will be reflected to some extent in the rents; the second is that most of our traditional low-cost market and, indeed, most of our residential market, has been until very recently made up by the accidental investor, the small-scale investor who is not necessarily a rational investor.

However, with a great deal of interest in and heating going on in the market, we're seeing those properties which were the bedrock of our rental housing system at the bottom end disappearing. Certainly, at the very bottom end we've had a long history of that stock disappearing, which has been accelerating recently. So I think those also contribute to the long-term decline.

**MS YATES:** There is solid evidence to back up the kind of points that Adam has been making. If you look at the house survey, it shows that the ownership of rental properties at the low end is disproportionately amongst private landlords who are relatives but they don't live in the same household, compared with households and properties that are managed by landlords. So there is some sort of sense that there's a personal - even though they are in the private rental market, and I suppose the definition of whether it's the market or not - there is a higher proportion of the low-rent stock that is owned by people presumably who you know somebody. The return on low-rent properties is lower than it is in higher-rent properties. The kind of arguments Adam was giving before are all documented.

**MR BANKS:** If we look at the tax arrangements in relation to owner-occupation, we had quite a long discussion with the HIA, initiated by them, on those issues. I'll just give you the opportunity to make any comment you like about what interaction the tax arrangements for an occupation have on the rental market and then, in particular, on those who are perhaps are at lower income levels trying to get rental accommodation.

**MS YATES:** The first thing is that there are huge tax incentives to owner-occupiers, and I was very reassured to see you had collated some of the calculations I had done and giving very similar answers, so that's always a relief in some ways. But the trouble is that many of those incentives people either don't understand or don't recognise. For example, if you don't tax capital gains, people don't necessarily see it as an incentive, but you think if you don't tax capital gains on one asset and you do tax them on another asset, then it makes a huge difference to what people do about their allocation of their investment portfolio. There has been a lot of work done - particularly in the States but not so much in Australia - to work out that the impact of the tax incentives that are associated with not taxing income that comes from housing - - -

**MR BANKS:** That's the imputed rent.

**MS YATES:** Well, both the capital gains and the fact that, if you live in your own house, you don't have to pay any rent - to show that (1) it's increased the home ownership rate by a couple of percentage points above what it would have been in the absence of such incentives and (2) that it's added to price pressures on housing, which I think is about 10 or 15 per cent - and again this is a memory from way back. It has several effects: one is that pushes up owner-occupation rates, which is of itself not a problem but, secondly, it pushes up the actual demand for housing and housing services. You talked about demand pressures in your report of income as being one of the prime drivers, as well as population growth, and so on. But if you add to income the additional impact of the incentives - and at 10 or 20 per cent they add that much to incomes - that adds that much pressure on the upward pressure of house prices.

Of course, the second point to make is that these benefits are targeted largely perversely. Capital gains is the easiest one to understand, although rental income follows. They go to people who own their houses outright because it is associated with the equity you have in your house. They go to older people, because they tend to have been there longer and therefore they have accumulated greater gains. Now, I'm heading towards that age where I have no problem with older people benefiting whatsoever, but they don't provide any help at the point of entry into the market. You've got a twofold thing: they add to the pressures that push up demand for housing and, hence, prices, and there is evidence - at least in other countries but not so in Australia - that that happens; secondly, the assistance for those people is coming at the point they don't need it in their housing life cycle.

**DR ROBERTSON:** Am I not right in thinking that in the US, in fact, you don't pay capital gains tax? You just roll it forward if you change your home - - -

**MS YATES:** You can if it's a two-year - - -

**DR ROBERTSON:** - - - and yet you still have these big results.

**MS YATES:** You still get these big results, yes, although their results are exaggerated a little bit more because they can deduct, to a limited extent, mortgage interest, although you've got an absolute deduction for all mortgage interest for everything; it's across the board. So it doesn't specifically go to housing, but you can add the extra bit on, but the values of the incentives of the broad order are mainly the same as Australia, and you get those effects, yes.

**DR ROBERTSON:** Thank you.

**DR SHANN:** Can I switch directions slightly. You suggest targeting the first home owners scheme. Two courses have been suggested; one would be to cap the size of the house you can purchase, and the other would be some sort of means-testing in terms of income. Have you got any preferences between those two? Some of the state governments seem to much prefer capping the size of the house simply for ease of administration.

**MS YATES:** I'd say for administration that does make a lot of sense, and I wouldn't have any problems with that. I suppose the problem is that, regionally, house prices differ so enormously, but then the same thing would happen with an income cap as well, affecting different people. There could be some scope maybe for having differential things. My basic preference is to forget about it. Potential first-time buyers, certainly in Sydney, are in the top two quintiles of the income distribution; so many more people need assistance before then. My preference is not one of the options you gave me but the third option, which is to cut it altogether.

**MR FARRAR:** I think ACOSS's position has been for quite some time that it should be targeted and certainly that those on the highest income shouldn't have access to it. It may well be that, if you did that, you would end up with precisely the effect that Judy prefers, simply because it's not a measure which, by and large, benefits those on lower incomes in any case. We would like to see it targeted according to income, whether or not it's also capped, and perhaps with the consequence that it disappears altogether.

**MR BANKS:** What about the argument that it's a GST compensation measure and that it's a rationale?

**MS YATES:** It's a rationale, I think; whether it's a valid one, I'm not so sure. There are so many other pressures. House prices are influenced by so many factors, and particularly the last bubble has just overridden the impact of any increase as a result of the GST. What the GST did was provide one of the stimuli to send the overshoot, as you call it, off, along with tax changes in 1999. You've mentioned the interest rate changes. I think it's one of the factors, but it's just faded into insignificance.

**MR BANKS:** That perhaps leads me to another question in that you've got a longstanding interest in this area. We had a bit of a discussion with the HIA about the incidence of taxation in relation to housing and land. The HIA saw the burden of all taxes flowing to the purchaser rather than the owner of the land. We had a discussion which said that it really all depends on the elasticities and the time frame that we're looking at. Do you have any view that you'd like to put forward in relation to the incidence of taxes?

**MS YATES:** If you really want a short answer: no, because I think there are so many difficulties. On paper and drawing nice little diagrams, it depends on the elasticities of supply, and they are much lower in built-up and inner-city areas than they are on the fringe, and so most probably the incidence changes spatially, but I really would hate to say.

**DR SHANN:** You mentioned in your last dot point the possibility of a fall in house prices having consequences, particularly for those who have recently purchased a house. Have you had a look at the Lifeline proposal, which was one of the proposals we canvassed? What's your view, first, about the potential demand for it and your view of the proposal itself?

**MR FARRAR:** Broadly speaking, we'd concur with the conclusion in the draft report, which is, if I'm remembering correctly, that there are already a range of measures from most state governments that, broadly speaking, meet the same need, so an additional federal measure is probably not warranted. That being said, my preference very strongly would be to say that it's not just a matter of adding to those kinds of short-term solutions but rather ensuring that the housing market has available to it a sufficient supply of affordable housing, whether it's rental or low-cost home purchase, so that those people who have been affected, or will be affected, by the bubble coming to an end have alternatives. That is why we think that we can't easily quarantine the discussion just to first home owners because, clearly, we're going to have to look at current first home owners and future first home owners who have to find accommodation alternatively, and it has to be affordable and there has to be an adequate supply in the rental market. It's not easy to quarantine the two, and that is one of the things that we would very much like to see more discussion about in the final report.

**MS YATES:** I just want to add one more thing. There is one problem about market based solutions to insurance, and that is that if the market has got it right, they're going to price according to risk. Therefore, the people at the highest risk are going to be the ones who are going to have to pay the most for their insurance, and the people at the highest risk are often going to be those who are at risk of losing their jobs, are low income, have inadequate secure incomes and have no equity in their houses and no other wealth to back up their assistance. It's almost contradictory, the notion of trying to introduce a market based insurance scheme to cover those people who are in need.

**MR BANKS:** We have grappled a bit with this vexed question of home ownership trends in the discussion draft, and we'd like to say something a bit more definitive in the final report. Again, we had a bit more discussion about that this morning, and you might care to look at the HIA's submission, which had some information, basically underlining that home ownership rates had dropped off significantly for the younger age bracket. I think that was based on HECS data rather than census information. I'd just perhaps ask whether you would make - - -

**MS YATES:** Can I just get a bit of paper?

**MR BANKS:** All right. I suppose my question is what data do you think is most reliable and any further comments you have got on trends, particularly by age bracket.

**MS YATES:** I think census data is basically the only one and I think most probably it needs to be disaggregated down spatially, which I haven't done yet, but I've done an aggregate for - well, 86 and 96 I've done before and I've done it for 2001 just for today. I sat up late last night doing this for you. Therefore, because it was done late, I can't 100 per cent promise that all the comparability things are absolutely correct. What you see if you look at the aggregate census data across all things is that it looks as though there's sort of a slight tailing off or reversal of the decline. But that's - if you go back into the different age groups - for the 25 to 44 year age group, which is what I regard as being the critical age group, then in 2001 the lowest income quintile - sorry, and these were 86 quintiles so they're actually no longer quite quintiles any more - but these are consistent income groups based on what were quintiles in 86. So the real dollar cut-offs, I take it, stayed the same. Does that make sense?

**MR BANKS:** Yes, okay.

**MS YATES:** The lowest income quintile, the ownership rates drops from 36 to 31 from 86 to 2001; drop from 45 to 40 for the second income quintile; drop from 61.5 to 56.4 in the third income quintile; drop from 71.7 to 68.4 in the fourth income quintile; and drop from 75.7 to 72.5 in the fifth income quintile. In other words, every single - that's the incidence. Obviously the overall ownership will change, depending on the pattern of households in those different income groups, but it has not got any better and that is only since 86 and I actually think 86 is too - I think you should be going further back than that because the real grown in home ownership in Australia occurred in the fifties and sixties when my parents' generation went through and it has been relatively stable overall since then so that trends shouldn't look at decades; it should be across the generations. I can give you the paper if you want it.

**MR BANKS:** That would be very useful and we might talk to you a bit more after the hearings about that. Your response to that though, what does that imply about what you think is the appropriate rate of home ownership?

**MS YATES:** My response is - I don't know the answer to the appropriate rate of home ownership. As Adam said, I think that if you look around the world, 65 to 70 per cent - there are a lot of countries there. Australia is one of the first to get up there and so, in a sense, we're the first country to grapple with this sort of stable question about what the appropriate level is. What we don't know yet is what is going to be the implication of a stable home ownership rate as the generation that went through in the fifties and sixties die and pass on their homes. It's the classic thing: are they going to spend their kids' inheritance or are they not going to spend it?

If they don't spend it and they pass it down then in some senses there's not a problem with home ownership rates because - not in aggregate - but when you think about the implications of that, the distribution ones are huge, because only the children of parents who are home-owners are going to benefit from the inheritance. So I don't know if the aggregate level matters very much but I think there are severe problems with potential distribution issues if we're relying on inheritance.

Of course, conversely, if we do get inheritance, that enables my kids who are already well-established, to spend more on housing because they've got all the benefit so it actually could create a further polarisation as well. So I think there are huge problems and I actually don't think we know the answers to them.

**MR FARRAR:** I think, if I could just add one other thing, it's often argued that all we're seeing is a deferral and if it's just a deferral, that's not a problem. While I don't think we have the answer to what the impact of a deferral would be, it seems reasonable to speculate that it will have some significant impact in lifetime savings, so it has wider economic and social impacts. If households are not able to save as they have done at least for one generation through investment in housing or at least start doing that much later in life, I think we are going to see some quite significant impacts.

Now, I'm not able to spell out what they would be but I don't think we can just dismiss those kinds of changes just because it might be a deferral. That's quite apart from all the unknowns that Judy has talked about, about generational transfers.

**MS YATES:** And the specific question you asked, I mean, I think HECS obviously has to have something to say when you're going into the 25 to 30-year age group with a $20,000 debt that you didn't have in the past. It has to have had an impact. I think the other thing too is the uncertainty that has come from the labour market changes. We talk about the generation Xers keeping their options open so that - you know, there are a whole lot of complicating factors.

**MR BANKS:** The other fact I was going to mention was the generation Xers staying at home a bit longer too. I can speak from personal experience about that.

**MS YATES:** Because they can do because they've got big houses.

**MR BANKS:** That's right. It might just be opportunistic, I suspect, but it is just today that ACOSS has drawn attention to the cost to families of particularly older teenagers but clearly, when you add the deferral of young people leaving home, partly to do with house prices or a deferral of home purchase, then that's adding onto the burden of those parents and we need to recognise that.

**MR O'DONOGHUE:** And on that, speaking a bit more broadly - I'm not as expert as Adam and Judy on housing policy per se - but I have a brief to look at some of the connections elsewhere and, for example, rent assistance stops for sole parents when their youngest child turns 16. They actually get a drop in income support at the point where their child is making critical decisions about continuing on in schooling or not. On this question of intergenerational equity, if you like, and the value of capital being passed between generations, it goes to issues of inequality rather than poverty per se; that discrepancy between rich and poor.

Again, recently ACOSS has pointed to the consequences of that. Prof John Braithwaite from the ANU talks about how it's a driver of violent crime. Literacy inequality results with income inequality as well. It goes to the kind of social cohesion that in many ways security of housing helps to build because there's a base from which to engage in school with some continuity and personal relationships at a neighbourhood level. Now, obviously home ownership for most people gives that security but there are other tenures that can provide some security, including private rental, public and community housing. That needs to be the criteria that we want - some secure housing as well as being affordable, because it helps to contribute to community life in a way that most people want, as does that inequality question that, you know, housing has been the big capital item for most households in Australia and how that influences that has important consequences not only for housing but more widely.

**DR SHANN:** Can I just ask a question, switching to federal taxes and making sure I'm understanding your original submission, you say it's the combination of capital gains tax and negative gearing that does the damage - are the words you've used - but as I understand what you're suggesting, it is that you would leave capital gains tax as it is and only change negative gearing. Is that what you're suggesting? You have a discussion of capital gains tax and, as far as I can see, you reject a change and your recommendation only relates to negative gearing.

**MS YATES:** I personally - and I don't know that ACOSS actually has a position on this one or not - the notion of having a discount on capital gains - you know, a 50 per cent discount on the income from capital gains for individuals but not for anything else - just seemed to be slightly odd.

**DR SHANN:** Yes. Even if you abolished negative gearing, you could gear up to the point where you paid no tax on your current income and there would still be a big incentive to take advantage of the capital gains.

**MS YATES:** I think the argument that Adam put forward - the whole issue needs to be put back on the table and examined in detail - but, yes, they do need to be considered together.

**DR SHANN:** Yes.

**MR FARRAR:** It's certainly not ACOSS's position that we should ignore capital gains.

**MR BANKS:** I think, as we point out in the report too, the discount depends on what's happening to inflation too, so it's a discount on nominal but the situation would depend; over a longer time frame you may well find that there's not a greater gain from that arrangement than there would have been from the - - -

**MS YATES:** From the other one, yes.

**MR BANKS:** - - - on the real gain, so I suppose that leads me to just respond gently to your concern that we may have been a bit more definitive on the state taxes than - or we should have been more definitive on the Commonwealth tax arrangements, as we were with stamp duty. Our discussion draft I think sought to show that stamp duty is housing specific. It's quite a complex tax to do something with, partly because of the revenue importance to the states, and we looked at some more efficient taxes, but at least it's a tax that relates to transactions in housing. The arrangements, as you know, in relation to negative gearing, capital gains and indeed higher marginal income tax rates, all of which interact, are not specific to housing and I guess certainly at that stage we didn't feel confident to be able to say what the answer would be and indeed whether it would make sense to pick out one of those three props or interacting components of the tax system and what specifically you could do to those that would address the problems in housing without causing further problems in, for example, equity markets or whatever.

So that was the logic for our, I suppose, proposing that both areas be reviewed but having a better sense of what the direction should be specifically for stamp duties than for those other taxes. We're getting different responses from different people. I think the HIA would be arguing the opposite to you in terms of probably wanting us to entrench the notion that there's no problem with the tax provisions for investment and you're asking us to go a bit further in terms of proposing how they should be reformed. I don't know if you would like to respond to any of that.

**MR FARRAR:** I think there are two broad - one is a very broad comment which is while I understand the argument that at the very least, being a little bit more suggestive about the kind of issues and directions that need to be addressed in a broader-ranging inquiry - even if you believe that that kind of broader-ranging review or inquiry is outside your current terms - is probably needed both for balance but also to reflect the very crucial role that those tax incentives play in the overall impact on the housing market.  So it may be that you don't reach a firm conclusion but I do think that there's potentially more work that could be done in giving some direction to where the problems might lie.

The second goes to the point that we made earlier about our concern that the report doesn't address measures to - so it's not opposed to incentives for investment, and I need to make that very clear, but if we are very concerned that the investment is all going to the top end of the market, not only does that have an impact overall on house prices and an impact on home owners, but it has an impact on the rest of the market, including renters.  So we, at the very least, would like to see some much more substantial consideration of ways to redirect that investment towards the bottom end rather than benefiting those right at the top end.

**MR BANKS:** Thank you very much for that.  Will we receive any more from you, building on these discussion points?

**MR O'DONOGHUE:** We probably can supplement but we're a bit starved of staff resources in our office at the moment.  We rely heavily on our volunteers here, expert as they are, so we will endeavour to do so, yes.

**MR BANKS:** If there are areas where you feel that you want to elaborate, for our part if there are any questions that we have subsequent to these hearings, you won't mind if we get back to you for some elaboration.

**MR FARRAR:** Could I make just one final comment or proposal.  It's clear that you've recognised in the tax area that even if the discussion around federal taxation falls outside your terms that it's appropriate to recommend that there be further work done elsewhere.  I think I would be very keen to encourage you that if you reach the same conclusion, as you appear to do, about other parts of the market - whether it be measures to support affordable housing or social housing or investment at the bottom end of the rental market, that you similarly note the importance of that and recommend that further work be done in that area too.

**MR BANKS:** Thank you for that suggestion.  We've had a problem that I announced right from the start of the inquiry that there were very important issues to do with other tenures, including public housing and rent assistance, that were difficult for us to deal with as subjects in their own right.  So I think you've rightly focussed a lot of your discussion today about the interactive issues which are the ones we can most readily deal with, I think, but it doesn't preclude us drawing attention to these other matters for perhaps further subsequent review, so thanks for that.  Thank you, we will break now for lunch.  We will resume at 1.45.

(Luncheon adjournment)

**MR BANKS:** Welcome back, ladies and gentlemen. Our next participant is Master Builders Australia. Welcome to the hearings. Could I ask you please to give your names and positions.

**MR HARNISCH:** Thank you, Gary. Wilhelm Harnisch, chief executive.

**MR RITCHIE:** Todd Ritchie, chief economist.

**MR EVANS:** Neil Evans, national technical director.

**MR BANKS:** Thank you very much for attending today and for the submission that you've made on our discussions draft and I should say also for the first submission that you made, a very helpful one; and the early discussions we had in the process as well. I'll just hand over to you to make whatever introductory remarks you'd like.

**MR HARNISCH:** Thank you, chairman. Just perhaps make some opening comments about who we are and therefore our credentials as being able to comment on the critical areas of affordability for first home owners. Master Builders has around 24,000 builder members and exclusively we represent builders. We don't represent anyone else. A good majority of those members are in the housing sector, therefore our credibility, in terms of being able to identify the key issues not only in terms of housing affordability but other matters, I think we'd like to have noted; also, the fact that the majority of our members are housing members. We have drawn upon their experiences in not only putting our preliminary submission in but also our response to the draft.

In terms of the draft report, as we've identified in our response we're in broad agreement but there are areas that we believe perhaps some caution needs to be exercised, particularly in drawing conclusions, given that the commission itself identified that with the limitations of time, it has not been able to explore in great detail some of these matters; and we've been very concerned, certainly with some of the initial press in terms of the interpretation or the speculative nature of some of the findings that the Productivity Commission has come to, particularly in the area of taxation. There are some strong arguments, for instance, that negative gearing is a major contributor in terms of the current housing spike and current housing unaffordability problem for first home owners.

We believe that needs to be very carefully tested as a proposition, because we believe - as we put in our submission - that needs to be tested against the broader taxation regime and what that may mean in terms of how that may perhaps have contributed to the current housing spike. We're also very concerned that - we believe the issue of affordability and therefore price spikes are more in the purview of the supply side because in a perfect market or a reasonably efficient economic market, supply will meet demand in a reasonably short period of time.

What the report has correctly identified is that the housing industry is probably one of the most regulated industries in Australia at the federal, state and local government levels and that those regulatory demands upon the industry have created a very inefficient market, therefore making it very difficult for supply to meet the short-term demand spikes that do occur. So it's very important, we believe, that the report properly recognises the supply constraints, particularly in the area of planning in terms of adding and compounding the affordability problems during cyclical highs.

In terms of taxation, because I think it's very important just to reiterate our fundamental policy position in terms of keeping the family home tax free in terms of the current treatment of housing - it's a long-held pillar , bipartisan pillar, by governments. We just reiterate that any attempts to introduce taxation of the family home in whatever shape or form we would oppose and argue against, because it needs to be important to know that keeping the family home tax free has other social and government policy benefits, particularly as retirement income strategy: that housing does deliver a stream of services to the home owner that will offset perhaps any so-called tax losses to the broader community.

Certainly with negative gearing, the issue of negative gearing needs to be looked at in the context that most of the rental housing is bought by mum and dad investors. Through that process rental housing is kept affordable. I refer you back to the so-called "crisis" generated back in the late 80s when negative gearing was removed and there was an immediate drying-up of rental properties and a subsequent increase in rental prices. So that needs to be also considered. It also needs to be considered that negative gearing is not purely for the asset class of housing. It applies to other asset classes. Therefore, just to focus on negative gearing is focusing too narrowly. As we put in our submission, it should also be looked at in the context of the total effectiveness of our taxation regimes, the whole issue of high marginal tax rates and how that sort of perhaps might magnify the attractiveness of rental housing.

A couple of things that we might also, just at this point, comment on is immigration. Once again, we're proudly and unashamedly pro-immigration. The issue of pressures that that may impose upon certain cities needs to be looked at in the context of state governments' investments, in terms of their not only urban planning but forward planning in terms of infrastructure development. The harsh reality is, even if immigration was cut out as part of a population growth, capital cities by their very nature will continue to grow, so therefore the pressures placed upon the urban areas of the capital cities will remain regardless of immigration. It's acknowledged that perhaps immigration may add to those sorts of pressures.

What the issue really is is how state and local governments deal with that population growth in terms of land releases and high density urban planning.  Once again, to focus on immigration as being the problem is really ignoring those other structural issues which I think very fundamentally underpin the availability on the supply side.  It comes back to, as you properly identified, the need to look further into how infrastructure funding is currently being developed and what might be some appropriate policies.  We would agree with you that further work needs to be done, because it's a problem that will continue regardless of immigration.

In terms of stamp duties, we're of the view that stamp duty is a very inefficient tax.  We would certainly support substituting existing stamp duties with the revenue accruing to the states from the GST.  That issue of GST windfalls accruing to the states that will form part of a critical debate and should form part of the critical debate in the future.  That's something that we would encourage the Productivity Commission to look at more closely, because that was part of the intergovernment agreement when the GST was introduced.  We believe that that aspect of an intergovernment agreement should be kept in the forefront of any review dealing with stamp duties.

Related to stamp duties, we're very much concerned - while this may be very minuscule in its effect - is the cascading effect whereby the stamp duty is levied on the GST value of property transactions.  That is an inequity that should have been dealt with earlier on but is still maintained by most states.  We also believe that there needs to be a review of the thresholds, particularly for first home owners, recognising very much the recent initiatives by the Beattie government to increase the threshold for first home owners' stamp duty relief or concessions.  Nevertheless, the principle of the threshold for stamp duty, particularly for first home owners, needs to be looked at and indexed on a regular basis to make sure that that doesn't become an access problem for home buyers, because I think it's also important in the report that we look at access as well as affordability.

One of the major impediments is for first home buyers to get into home ownership.  There's the deposit gap problem.  Once they're in there, of course, there are other issues on the basis that because they've probably paid more for the property than they should have done through regulatory inefficiencies, they're paying considerably more in terms of loan repayments and therefore the interest they pay.

We would certainly support the ANZ proposition that first home buyers, which is more a Commonwealth initiative, attract a low or zero tax on the interest earned for moneys put in that deposit account.  I think it would engender a culture of saving, therefore we would support that as a worthwhile initiative.  The First Home Owner Grant we would also make the point that (1) we don't believe there's a case for the removal of the First Home Owner Grant. Just for the record, as we all know, the First Home Owner Grant was there as compensation for the introduction of the GST.

We would make the point that it's only construction of new homes that are subject to GST and not established homes, so if it is to maintain its GST compensation objective, then we believe that there's a case for skewing the benefit towards new construction and for the First Home Owner Grant to be indexed and indexed according to the formula that was contained in the ANTS document when the government introduced the grant scheme, at which stage it came up with 7000. We believe the calculation now shows, using that formula - or would show - that the First Home Owner Grant scheme should be at least $15,000 if it's to have a meaningful compensatory effect to offset the GST.

In terms of planning, we believe that is one of the major areas where, if there were meaningful reforms, it could have a significant benefit to meeting affordable housing, regardless of where that may be in the cycle. There have been many reports that have dealt with that. We certainly agree with the recommendations set out in your chapter 6 in terms of separating policy-making and implementation. We believe the whole issue of accountability and transparency needs to be examined and recommendations made upon it.

The area of infrastructure funding for new releases is one that needs to be examined. Where once this was funded through general taxation and general revenue of the local councils, for a whole range of reasons that responsibility has now been moved towards the developer. We believe that has created inequities. We're also very concerned that there is no accountability or transparency in the setting of those levies. We hear of continual complaints that some of the levies are in the multimillions, but yet it takes years if ever for delivery of the services against which those developer charges were put.

We're also concerned, even though at a minor level in terms of - one of the inefficiencies of the regulatory system is the appeals process. We believe that needs to be looked at. It's probably a bit difficult for the PC to make clear recommendations; but we believe in terms of our broad recommendations that there needs to be a joint Commonwealth-state ministerial forum established, whereby the reforms and issues that have been identified in the Productivity Commission can be progressed as opposed to just lie fallow on the table and just be another report that identifies the significant regulatory problems facing the housing sector. Probably they are the broad issues that we want to discuss, Mr Chairman, but also, just for the record, we will put out a press release which we would ask that we would table as forming part of our submission. If I could formally do so.

**MR BANKS:** Thank you for that.

**MR HARNISCH:** So we would welcome at this stage further discussion, following any questions you may have.

**MR BANKS:** Thanks very much for that. Maybe a good place to begin is where you more or less ended and that is whether you would like to elaborate a little on how a Commonwealth-state forum could actually make progress in this area; given ultimately, I guess, the state responsibilities, just how you would see its terms of reference, its interaction and what would come out of it.

**MR HARNISCH:** The background to our thinking on a Commonwealth-state ministerial forum is the policy principle that there needs to be uniformity of planning principles across Australia, because I think that's an important part of micro-economic reform. The inefficiencies that we have in having the different states and territories and local councils having different planning rules, different regulatory regimes for the supply side of housing, have resulted in, for instance, urban planners specialising in certain local council areas. Therefore, a planner in another state or even another council who is not aware of the local by-laws and peculiarities of requirements, is unable to take on work; so in an economic sense we have urban planners in that area having monopoly power over an area that, because of specific, additional and, we would argue, onerous, by-laws - because of those requirements.

For instance, we put the view that shadowing is very important, but shadowing concerns would be the same in Brisbane as it would be in Victoria, so why can't we have harmonised regulations dealing with the important issue of shadowing? Why can't we have harmonised regulations on a whole range of urban amenity matters? There is no reason why that can't happen. We have the Building Code of Australia that took 15 years to develop, to have a national set of principles and laws dealing with the construction of buildings. There is no reason why that can't be achieved in the area of planning, recognising there are some very important local issues that will always have to be dealt with at a local level.

Therefore, we support very much the work of the Commonwealth Development Assessment Forum, which is, I suppose, a mini version of the Commonwealth-state ministerial council that we were delivering. Unless there is a government commitment or a government process for pushing for these necessary reforms - which I don't believe that the Development Assessment Forum is capable of doing, because all the DAF can do is put forward recommendations that may then remain fallow and come to no meaningful end.

**DR SHANN:** It would be specifically looking at planning issues. It would be on planning.

**MR HARNISCH:** We believe that perhaps over time it should be expanded, given that these sorts of committees were in place a few years ago and they have played a role. I think that committee would certainly, from our point of view, ensure that the problems are retained on the political agenda. As was within our submission, the reason that the momentum isn't there is that the political accountability is missing, in that the home owner is only sort of faced with these affordability problems probably twice a year in terms of buying a house and then trading up and, therefore, is unable or unwilling to exert political pressure for change because of their very narrow and limited exposure to these sorts of problems. If they were exposed, like the building industry, on a daily basis, I am sure that that political pressure and political accountability would be there.

**MR BANKS:** I was just going to follow up a little bit. It wasn't clear to me in part of your response whether you thought this intergovernmental group might go beyond what I would call sort of developing uniform processes or institutions into actual regulation. When you talked about shading, for example, I would have thought that might be the sort of thing that might be differentiated by jurisdiction, but the process whereby you judged whether it was an issue might be common across jurisdictions, but they might have their own particular - because it doesn't seem at face value that you would necessarily have a uniform provision say in a heritage part of Melbourne to a relatively greenfields area or a suburban area of Queensland say.

**MR HARNISCH:** Yes.

**MR BANKS:** So it is more about process and institutions that you are - - -

**MR HARNISCH:** Yes, and broad principles. That is something the Development Assessment Forum is working on. They have, I think, now been in existence for five years as I recollect. I was on the initial committee and we still remain on it. There are some broad principles against which local councils and state governments can be benchmarked in terms of the, say, specific planning laws and by-laws that they may adopt. Considerable work has been done by that group, so I take your point. Obviously you cannot have a set of laws that can apply necessarily in every state and every local council, but there are some broad principles against which I think all state and local governments can at least be tested in terms of making an efficient regulatory regime.

**MR BANKS:** Thank you.

**DR SHANN:** You are advocating an increase in the First Home Owner Grant on new housing. I notice you also say consideration should be given to means-testing the grant. The two ideas which have had to be floated is putting a cap on the size of the house or income-testing - - -

**MR HARNISCH:** No, on income. Look, the sort of headline debate has been, "Is it right that millionaires' sons and daughters have access to the grant?" and if it's purely as a GST compensation, then the technical answer would have to be of course they're entitled to it, because they bear the cost of GST anyhow, but recognising the political aspect where in terms of scarce public resources it would seem to be at least a meritorious case to suggest that people on a high income perhaps should be limited in terms of getting access.

On one side of the argument we would say because it is GST compensation, therefore everyone is entitled to it, but recognising that in the political context and in the context of limited resources, then it could well be a case for placing a limit in terms of income on who should get it.

**DR SHANN:** I guess the significance of the grant relative to the price of the house - - -

**MR HARNISCH:** Correct.

**DR SHANN:** - - - diminishes as the price of the house gets higher.

**MR HARNISCH:** For people who buy a million-dollar house, I don't think that $7000 will make a meaningful difference to their decision to buy or not buy.

**DR SHANN:** I was just going to ask you, on page 3 you talk about the supply side factors and that we should see them as being an equal, if not more, significant part of the current rise in house prices. I just thought I would get you to elaborate on that a little bit and whether, in saying that, you are perhaps a bit more optimistic about the scope for land to come onstream and so on than we were. I think we had a conversation earlier - - -

**MR HARNISCH:** Yes.

**DR SHANN:** - - - where I think we both discussed that there are some inevitable lags in terms of land development and availability, but if I could just give you the opportunity to expand on that a bit.

**MR HARNISCH:** We put it in the context of economic framework which, as I said, in an efficient market supply will meet demand and, therefore, stabilise prices. In the housing sector, given its cyclical nature, recognising the lags, what tends to happen is that supply does lag, but our experience has shown it lags considerably more than it needs to because of the regulatory inefficiencies. We're not saying that in the housing market if demand were to spike tomorrow, the housing sector or the land sector would therefore be able to meet demand in a week's time, but certainly because of the fairly sophisticated nature of forecasting these days - recognising forecasts are always forecasts - at least with the sophisticated nature of forecasting, most governments in the private sector can anticipate the magnitude of the cyclical increase or decline in terms of the rough timing of it.

Therefore, what we are saying is that it is important that governments - state governments and local governments - in terms of land release programs, have systems in place which would allow for the timely release of land to meet the sort of demands and that the lags are not extended. Therefore, the price spikes that come as a result of the shortages are minimised. Also recognising that in a period of high activity, if there is irrational exuberance - to use the sort of jargon - then obviously there's not much you can do about it. If a market is prepared to pay above what we might believe may be a rational price, then like the share market we believe there's not much you can do about it.

**MR RITCHIE:** I think the point also is, chairman, you have to ask yourself is there a fundamental reason for the increase in the real price of the housing stock? I know you covered a lot of demand issues, but they're not the fundamental reasons. I mean, if supply is perfectly responsive, then the real price shouldn't have changed. Now, we have had a large fall in interest rates and that can certainly explain an increase in asset values across the board. It's a matter of degree. We're not saying that your analysis is wrong. We are simply saying that we think the non-responsiveness of supply is more important than the emphasis you gave it.

**MR BANKS:** Yes.

**MR RITCHIE:** It's a matter of where you draw the line and we drew it a little bit further in favour of limited supply - - -

**MR HARNISCH:** I think our concern is very much that no conclusions can be drawn by the different parties to suggest that the affordability problem is a demand-driven problem and, therefore, being able to walk away from what we see are the necessarily structural reforms that need to take place that haven't taken place and, therefore, we are keen for this report to highlight those and for those reforms to occur.

**DR ROBERTSON:** In my notes I've written down here that you've made proposals for more funding of public housing, but I'm damned if I can find where I found it. It's somewhere in your written submission.

**MR RITCHIE:** We proposed a scheme called the housing acquisition contribution scheme.

**DR ROBERTSON:** That's it.

**MR RITCHIE:** We called it that because it's similar to the HECS scheme, the Higher Education Contribution Scheme, in that the policy behind HECS is that more people need a higher education. There's also a policy agenda that housing is accepted as bringing social benefits to it. In the case of the HECS scheme the government actually funds the entire cost of the education, in terms of a loan. What we've proposed is - and I know in chapter 10 you covered a lot of these housing proposals, like the Lifeline and other proposals from the Home Ownership Task Force - all of them we thought had fundamental flaws in them. Either they didn't help the less well off jump the deposit gap or they didn't cover the financing problem.

So we proposed this scheme, and essentially what it means is that the government funds the deposit, in terms of a loan, so - let's say it can be 20 per cent, but there's no reason it can't be 30 or 40 per cent. To do that the government issues a bond to the banks. Now, this would just be for normal government security, although it would be augmented to take account of the fact that the banks do have a servicing cost. So from the bank's point of view there would be no problem getting these bonds, they would actually be slightly higher-earning securities, but they wouldn't show up in the government's balance sheet - well, they'd show up as an increase in the number of bonds on issue, but there wouldn't be an increase in net debt because it's matched by the government's stake in the home.

That's pretty much the way the Higher Education Contribution Scheme is; it's a loan, so there's no change in government net debt. But in this case it allows - and we say it should be targeted to people who are currently receiving public assistance through the current mechanisms - mainly rental assistance - and then those payments that they currently receive can be transferred into helping them finance their mortgage.

Now, these people won't be buying large houses because you have to take into account the financing problem. But if the government was to take, say, 30 per cent of the loan or maybe even 40 per cent, then the financing requirement is not as high. The reason we think this is a better system is, it uses the current housing system, the current housing finance system, and it really doesn't make much of a change. The loan will still be monitored by the banks, so the government wouldn't be involved in anything other than writing a government security and issuing it to the banks.

So from our perspective it's a good thing for the government, and to give you some quick figures, if the government wanted to finance, say, a billion dollars' worth of new housing for the poor, based on, say, a 200,000 cost, that would get you

25,000 new houses if they were to finance 20 per cent of it. In terms of the cost to the government, it wouldn't be a billion, it would just be the interest rate on the billion, so it would be 5 per cent of a billion, which is, if my mathematics is correct, $5 million.

So no problem for the government, it doesn't show up in their accounts other than a contingency liability, but in this case it's a contingency liability over housing so it would certainly be much preferred to the normal contingencies that governments take on. There's no problem from the person getting the housing, and from the bank's perspective I can't see any problem there; they're still getting new customers, they've got this secured by a government security, at least on the part that that the government has funded, and from the community perspective we have more people owning their own house, which would be much preferable to the current situation.

**MR BANKS:** So access to this would be means-tested, or what's the suggestion?

**MR RITCHIE:** Initially we've suggested only those who are currently in receipt of current benefit, but there's no reason you can't extend that. But there would have to be an element of means-testing involved in it.

**MR HARNISCH:** Yes. We wouldn't advocate it just for the so-called millionaire home owner.

**MR RITCHIE:** No.

**MR BANKS:** When you say "the current benefit", what are you talking about?

**MR RITCHIE:** Anybody currently in receipt of any Commonwealth payments with regard to public housing.

**MR BANKS:** Welfare?

**MR RITCHIE:** Yes.

**MR HARNISCH:** Or rental assistance, or perhaps may be eligible for assistance to get into home ownership.

**DR ROBERTSON:** So you'd just transfer that?

**MR RITCHIE:** Yes, transfer this.

**DR ROBERTSON:** In effect it's a shared equity arrangement but the government sharing the equity, not the lender, and it's targeted. Is that the difference - - -

**MR HARNISCH:** That's right.

**DR ROBERTSON:** - - - you see to the joint - basically the private sector shared equity? This is public sector shared equity, and it's targeted on lower-income groups.

**MR RITCHIE:** That's right, and as I said, it's a contingent liability to the government so hopefully they wouldn't be worried about it from a budgetary context, and we have to take those things into account. The only additional cost to the government is the interest on the securities they issue.

**MR HARNISCH:** Just for the record, I'm sure you gentlemen on the table there would recognise that in the end the Commonwealth and state governments do provide either direct or implicit subsidies for low-income people to get into home ownership in some shape or form, and have done in the past, so all we're doing is what we believe is a far more rational and perhaps more fiscally sustainable sort of option to assist first home owners, or at least low-income first home owners, into that first vital step into ownership.

**DR ROBERTSON:** And you think this would bring forth a supply of houses that would be in that price range?

**MR RITCHIE:** Well, there would certainly be demand for the houses in that price range, and we would hope it would bring forth a supply in that area as well.

**MR HARNISCH:** But it comes back in the end - if we've still got these remaining regulatory inefficiencies, then because of those inefficiencies even those modest houses would necessarily be higher than they otherwise might have been if those regulatory inefficiencies weren't there. It's like rental assistance. Rental assistance still works, whether you're in an inefficient or efficient market. No-one is going to say, "We're going to cut back rental assistance because the market is inefficient" - or, sorry, it becomes more efficient and "therefore we're going to cut back your rental assistance".

**DR ROBERTSON:** Yes, I did find it. The description was actually in the original submission. There was just a mention of it.

**MR BANKS:** Yes. In the final report we'll be going through a number of these proposals in a bit more detail. Obviously we did it relatively briefly in the discussion draft. So thank you for that. From our point of view the question is, I suppose, to look at these various schemes and to what extent they really do differ from each other in terms of efficiency or distributional benefits.

**MR HARNISCH:** Yes.

**MR BANKS:** Some of them we found actually collapsed down to much the same thing. But this is a useful suggestion, so we'll have a look at it for the final report. I was just going to clarify really what you were saying on the immigration issue, where I think you say that we overstate the impact of the immigration program on recent movements in house prices. Our bottom line on that was really that - at least in the broad - the population pressures couldn't explain what we'd observed in the past, at least since the mid-90s. Even though net immigration had increased significantly, there had been other domestic population flows and outflows and so on that had nullified that, so that the overall net population movements weren't great.

We also recognise that the ABS itself has declared that it has overestimated some of the immigration. I think we had a chart in there somewhere showing the official statistics with the projections or the alternative if you took into account the likely revisions by the ABS. Yes, on page 51 we had that.

**MR HARNISCH:** Well, I suppose that's our first reaction in terms of interpretation of the draft report. The way we read it, we believed that perhaps you may have been overstating the impact, but if you're telling me that you haven't done so, then I'm happy to accept that, Gary. But I suppose the point that we wanted to add to that issue of immigration is that even if immigration were to stop altogether, the population pressures and therefore all the other pressures that state governments and local governments have correctly highlighted will remain, because of the internal migration flows to capital cities.

That's not going to stop. That's just one of the fundamentals of economics, that people gravitate towards capital cities for a whole range of reasons. So even if immigration were to stop altogether, then the pressures of infrastructure and house prices and the need to plan simply will not go away, so therefore the point we're trying to make there is that we need to look at the fundamental structural issues that may lead to problems. They need to be addressed.

**MR BANKS:** Okay. Well, I think we've run out of questions. There may be things that occur to us in using the submission in preparing our final report, and indeed when we go back and review your suggestion for the subsidy program for - - -

**MR HARNISCH:** We certainly would welcome and make available all our resources to talk through and perhaps discuss with your research staff what it is that we're proposing, to make sure that the detail is correct and perhaps not misinterpreted.

**MR BANKS:** Yes. Good. Thank you very much for coming along today.

**MR HARNISCH:** Thank you.

**MR BANKS:** We'll just break for a couple of minutes, please, before our next participants.

**MR BANKS:** Our next participants today are the Property Council of Australia. Welcome to the hearings. Can I ask you, please, to give your names and positions?

**MR VERWER:** Thank you very much. Peter Verwer, chief executive of Property Council of Australia.

**MR HICKEY:** Denis Hickey, chief executive with Stockland, and currently the national chair of the residential committee of the PCA.

**MR WALKER:** Robert Walker, the Executive Director of the Queensland division of the Property Council.

**MR BANKS:** Thank you very much for attending today and also for the submission. Also the more substantial or detailed submission that you provided first time round, which was quite helpful to us. You have also organised some useful round-tables as well, along the way, from which we have benefited. As discussed, I would like to hand over to you to make whatever introductory remarks you'd like to make and we will respond accordingly.

**MR WALKER:** Thank you. After my opening remarks what we will do is just go through some of the key items and we will allocate those accordingly. First of all we would like to commend the commission, in general terms, for the draft report. In fact the Property Council's original submission had highlighted a number of issues, if not all of the issues, which you addressed in your report.

We do believe, however, that there are a number of key issues that haven't been addressed, or we don't necessarily agree with your final recommendation. However, the Productivity Commission has been able to distil down to the key issue in this issue of first home owner affordability or home owner affordability, full stop. That is, the demand-supply imbalance that currently exists in almost all of our markets throughout Australia.

The commission has also identified that there are major structural deficiencies that exist in all of our jurisdictions that can strain the elastic changes in supply to meet the surging demand that exists, particularly in Sydney, Melbourne, Brisbane and to some extent our other cities.

As I stated, there are certain aspects of the report where we don't necessarily agree or believe that the commission has omitted to address the issues in detail where we believe they need addressing. These issues include the ability of governments to act immediately or, in the short term, to address some of these demand-supply imbalances; the real impact of development charges on house pricing, the effect to first home owners or home owners, the failure of governments to commit to planning reform processes - we believe the commission, in its draft report, in any event, has failed to specifically address some of the issues dealing with social housing and what recommendations should be put to the government to address those issues.

The five key areas we have addressed in our response, and our response to the report, is really an addendum to our original submission, where much of the detail lies; first of all the demand and supply imbalance, which I stated. The second issue is taxation and how taxation affects house prices. The third issue is planning approval processes, developer charges, and the first home ownership scheme. And the sixth issue we will address today is social housing. We will put forward some recommendations on social housing and how we believe governments can address them.

We would also like to take the opportunity, if there are any specific issues arising out of today's discussion, to supply the commission with further information, either in writing or verbally, prior to the release of your final report.

**MR BANKS:** Good. Thank you.

**MR WALKER:** We might just kick off with addressing the demand-supply imbalance, and particularly dealing with issues of national strategic planning and how we can better forecast for land release programs. So I will hand over to Peter.

**MR VERWER:** Thanks, Robert. Commissioners, thanks again for the opportunity to address these issues today. The first one that we wanted to look at was the question of overall planning, which we separate quite distinctly from development assessment and development control. On page 96 of your report, in table 6.1, you have BIS Shrapnel looking at the delivery of land, versus the underlying demand. We thought that you would come to the conclusion that there wasn't a huge amount of evidence to say that the mismatch between - or the explanation for poor supply was with poor land release programs.

We would like to put it to you that this is a little bit light on, that in fact there are considerable arguments for the fact that there is not enough land release. That supports our case that something quite immediate can be done in this area. This all fits in the context of overall planning; we have discussed that at length in our report, the virtues of good strategic planning. We have submitted to you the materials from the Allen Consulting work. That's all huge, bit-picture stuff that needs to be done, but there are some things that we can do immediately.

If you add that BIS Shrapnel conclusion, which is that year on year there is about a 4 to 5 per cent mismatch between supply and demand, in some places like Queensland it's 10 per cent, according to that table. If you add that to the fact that planning systems in Australia tend not to be very good at allocating development, in terms of transport nodes or development nodes or urban consolidation - if you add that to the fact that some governments - the New South Wales government is a good example, where the premier said that there is a five-year backlog, in his own biography.

The New South Wales government's own submission to this inquiry said that they had a policy of starving fringe development or greenfields development because of a higher policy of urban consolidation. That all adds up quite specifically to a public policy failure and that is symptomatic of the fact that there are no good land supply-release programs in this country. That can be addressed immediately and we believe it should be a high priority. More than that, we would call on the commission to quite specifically recommend that each one of the state and territory governments be called upon to audit the land that's available. The HIA has also called for this, and you specifically asked for the industry's view in your interim report.

We support that view and we put that in our original submission. There should be an audit of available land. The government should release a land inventory and programs for releasing that land. That should be synchronised with a capital works program, which is going to support all of the infrastructure that's needed to ensure the land supply is in fact going to supply the needs that the community requires. They can do that very quickly. It may well be that it's going to take several years for the release of that land to have an impact on the marketplace. Nevertheless they can do it straightaway, and in our view need to do it straightaway.

**MR BANKS:** Could we just pause there, on that question of the audit? As you say, we looked at that and have sought some reactions from government to that; we haven't had any yet, I should say. What do you have in mind, in terms of the sort of land you think is available that would be discovered through this audit or publicly made more transparent through this audit? What kind of land are we talking about here?

**MR VERWER:** The great virtue would be that, firstly, they would know what land they have. I know they don't know what buildings they've got so it's very likely that they don't know what land they have. That, in the first place, would be an advantage. It's similar to when the current Howard government came to power. They did an audit of all of their land, in order to determine what was core ownership and what was non-core: this is their property, really, and not just their land or their buildings.

They were stunned to realise how much they had. And so we think that that would be a virtue in its own right. If you are asking, are they going to find old wool stores, munitions dumps and all of the rest of it, which can be used, the answer is yes.

They don't know what's out there and neither do we.  We should find out.

**MR BANKS:** Are we talking primarily state and territory governments now, given that this broader audit had been done, albeit for a different reason I guess, by the Commonwealth?

**MR VERWER:** Yes.  I think that the Commonwealth lands and property should be reviewed as well.  The original review that was conducted for them was not for the purpose of looking at what land could potentially be used for this purpose.

**MR BANKS:** Good.  Thank you.

**MR VERWER:** That's our major thrust.  Another point that Denis will now take up is the question of, well, how does one tackle the fundamentally difficult issue of trying to match the forward needs of a community within the public policy context? And that ends up to be an issue of forecasting.

**MR HICKEY:** One of the biggest issues is actually looking for a shift or a change in attitude in the way we conduct our forecasting right across the country.  As I travel around the country I see a systematic problem with all state governments.  I think there needs to be much more of an agreed nature, in terms of future supply and also future demand.  There are differences between the private sector and the public sector, as to what take-up is likely to be, what future supply is able to be released, et cetera.  This just creates a divide between actually getting an accurate picture on the future requirements.  And that satisfies many governments, to actually have that divide, to be able to create policy around their own set of data, which is collected largely, to some degree, in isolation to some sorts of industry views.

If, for example, you spoke to the development industry in New South Wales they have a different view in terms of take-up and demand than the state government does in terms of future release.  Yet the government is actually developing policies based on data that is really not consistent with the industry's point of view.

Really, one of the things we think should be a recommendation is that governments need to work with industry to develop data on demand and that there be some consensus and agreement, in terms of not only the demand but also the future supply.  Whereas it seems to be a common wedge in the arguments of land supply.

**MR VERWER:** So the Indicative Planning Council used to provide some level of information of forward demand.  It wasn't disaggregated to a great level and there wasn't a huge amount - with respect to anybody who was previously involved with the Indicative Planning Council - of sophistication.  It tried to produce headline statistics for the marketplace to fill an information gap.  It wasn't specifically designed, as I understood it, to deal with major public policy issues such as this one.

We believe that the world has moved on since then. I think one of the things that the Construction Forecasting Council has shown - which is a joint public-private sector body completely differently structured from the old IPC - is that more sophisticated methodologies can be applied to the task of estimating demand in the future. The CFC only deals with the non-residential and engineering construction area. There is an opportunity to apply more sophisticated methodologies to looking at underlying demand and potential mismatches of supply and demand at a highly disaggregated level in the future.

Certainly we would like to call on - knowing that the world isn't perfect and forecasting is difficult - a forecast is just a line between two mistakes I'm told. Nevertheless it can be helpful, from a public policy perspective, to have a more concerted approach to developing public policy on the basis of an agreed methodological approach. As Denis says, "They all do it differently."

**DR SHANN:** You would see this as effectively a joint federal-state body?

**MR VERWER:** And private sector.

**DR SHANN:** And private sector. You wouldn't have separate ones for each state. It would be a national body doing it.

**MR VERWER:** Absolutely. The model here is the recent blueprint for tourism, whereby the old BTR and the old Tourism Forecasting Council have been looked at very closely. The view of those involved there, which includes all of the jurisdictions, is that they need to take a single approach to the issue of market information gaps, and they all help pay for it.

**DR SHANN:** A problem on the supply side is - I mean, you may be able to get agreement on greenfield site releases. Your problem is going to be in the small scale medium density, which obviously in some jurisdictions is very important, which is really inherently difficult to forecast.

**MR VERWER:** It's very difficult. Of course the politics of what one does with the forecast is even more difficult. Maybe the politics and public policy-making could be slightly easier if the methodologies are more robust. We are very confident that the progress that's been made in the past few years, in terms of forecasting - which is really just applying our minds to the task a little bit more robustly - can help bridge that gap.

**MR BANKS:** So by implication you see some of the deficiencies in land release or planning as being primarily due to an information gap facing governments or - I mean, others have said to us that it's really part of a plan to have more compact cities and what has tripped them up is unexpected difficulties in converting brownfield sites to higher density; that it hasn't been a forecasting problem as such, but rather more a problem about assumption in relation to consolidation.

**MR HICKEY:** I think it's a combination of both, to a lesser extent. But we believe also that governments have worked from a different set of data than industry was talking about. Again using New South Wales - and we're back to industry members in the late 90s - there was very active and healthy debate and copious amounts of data put forward to government at the time that "There is a future land crisis coming because of X, Y and Z." This was chosen to be ignored really, because of saying there was a fundamental disagreement in terms of take-up and data and assumptions et cetera. So you have both sectors actually working on different data and different assumptions. That always leads to a stalemate position in anything and I think if you can actually get some uniformity and some commonality into that process, some of the issues regarding release of brownfield sites and urban renewal projects probably would have been better handled throughout that time.

**MR VERWER:** If the highly fragmented and political tourism and leisure sector can develop forecasts that everybody agrees to as the base case - which is not tying anybody to a public policy solution - then I'm sure our sector can as well.

**MR BANKS:** Okay.

**MR VERWER:** One final point on the issue of supply and demand: the cost shifting report I think might have come out after your interim report, or it was around the same time. That's a pretty important report. It's well written; it's a unanimous report from the House of Representatives which is amazing in its own right. What it did was to point very clearly to what is another mismatch, a political mismatch between responsibility and funding between the different spheres of government. It would be pointless having an Australian urban framework unless it could be drilled down and tied together in some way; in a way it's the thread between an overarching national framework, and then planning systems operating at the local level is accountability and funding. We put it to you that the implications of that cost shifting report are quite important to this study.

**MR BANKS:** Okay, thank you.

**DR SHANN:** Perhaps on social housing, one of the questions in my mind is there clearly has been a boom in investor housing for rental, but the evidence seems to be that that has been mainly at the top end of the market and that there is a shortage of rental accommodation at the bottom end. I suppose the interesting question is why:

why are investors producing houses mainly at the top end and why is there a shortage of rental accommodation at the bottom end of the market? You've got some proposals here but I'm interested in really why the market isn't working.

**MR VERWER:** Okay. We certainly want to keep the social side of the issue separated from some of the specific matters which are in your original charter, which related to first home owners, although we recognise that they are related. Can I make one point before I talk about why there is a putative market failure in terms of specific social housing, and I assume we all know what we are talking about with social housing - you've got your definitions here, which we accept.

In terms of the investor focus, the virtuous part of that is that with all of these negatively geared funded and capitalised houses, most of which are apartments, all of them are rented - by definition all of them are rented - which means that somebody who needs shelter has an opportunity placed before them. That is good in the sense that by fulfilling that particularly piece of demand you would hope that it would free up some of the stock at the other end of the market or another part of the market. I think that's just worth saying at the outset.

Why is it that developers don't invest, as they do in the US in particular, in low-income housing? The answer is that the yield is much lower. You've pointed out in your own report the huge yield differential that exists in Australia compared to other countries - you know, it's about half - three and a half or 4 per cent. So there is something like a 250 to 300 basis point gap; that explains it all. The solutions that we've put forward, which we can speak to now or later, are specifically designed to bridge that gap in order to bring on more supply. That is the sole purpose of the funding vehicle that we've proposed.

**DR SHANN:** But, I mean, the yield is low at the top end and the bottom end, so in a sense in both cases people are clearly expecting capital gains to make up the difference, so the question is: is there an expectation that capital gains are going to be higher at the top end of the market, in percentage terms, than the bottom end? It is why there is a difference between the top end and the bottom end. I agree the yields are low here, but they are low both at the top and the bottom.

**MR HICKEY:** But I think you are referring to basically the recent round of development of apartments - more so, are you talking about - in terms of more towards the higher end of the sector? I think that's a natural evolution of the market, because if you go back 10 or 15 years ago, the apartment market was predominantly or to a large, large extent purely for renters and investment itself. What we're finding in our company and along with other people is that there is a lifestyle shift to people wanting to actually move into new apartments for a lifestyle change. So what you're seeing is what was traditionally probably 90 per cent of apartments produced were for rental, assisted accommodation, and we're now much more into, say, a 25:75 or a 30:70 split. So the growth has been in that sector, of targeting for lifestyle change and demographic change.

That's basically what the recent round - mind you, there are people out there who are specifically large in all of the states who target that investment market; but you've seen a growth in more of the discerning purchaser from an age, from a population mix, from marriages - all of these sorts of things. That's been the fundamental - - -

**DR SHANN:** So effectively you'll be building a building which is going to be acceptable to basically the higher-income people who can afford to own - and some of that stock will be rented out but it will be basically more expensive.

**MR HICKEY:** It's a bit more about you focusing on a value-add market and you're focusing on more of a discerning purchaser. It would be like using an analogy with a motor vehicle, for example. I think buyers change consumerisms - you know, move and second-hand products. We all talk about cars being second-hand product and when you think about housing and apartments being second-hand product, in terms of the type and quality and look, people are looking for new infrastructure and new amenity and things in apartments.

**MR BANKS:** If we're still broadly talking about the supply-demand imbalance of which that is one aspect, I guess, it just occurred to me when you were talking about using more accurate forecasting tools, whether you know of any country or place where this seems to be done quite well, or that you could put forward as a model. The kind of planning system you have in mind and the role of forecasting within that - is it being done really well somewhere?

**MR VERWER:** I don't think any country tackles affordable housing really well. No country has developed a public policy solution platform, so the answer is no.

**MR BANKS:** Yes.

**MR VERWER:** We have to work from first principles and I think the first principles are that if there is a major public policy failure on the supply side, then we need to tackle all of the elements which are going to remedy that failure, and they begin with strategic planning and the tools which support strategic planning, of which forecasting is one.

**MR BANKS:** You could look at that optimistically or pessimistically. The fact that no-one else does it better than us, you could probably say, "Well, that's a good thing," but the fact that no-one can do it better than us worldwide, sort of shows how hard it's going to be to do it a hell of a lot better.

**MR HICKEY:** Just building on Peter's point, and we do talk about a series of issues and they are all interwoven and entwined and this is not just one when you combine this with the actual approval process. So when supply is identified, in terms of being able to release it, it actually has a compound effect. We talk about that a bit further down the track. But, yes, we admit the difficulties and, as Peter said, it's the line that we all struggle with in forecasting. But when you add on the complexities of the approval process to actually bring supply into the market, it compounds the ineffectiveness of the current system.

**MR BANKS:** Okay, good.

**MR HICKEY:** In our final submission to the commission we'll look at some recommendations.

**MR BANKS:** Good.

**MR VERWER:** We're on the optimistic side.

**MR BANKS:** Okay, so are we. Let's move then to the next point.

**MR VERWER:** Taxation.

**MR BANKS:** Yes.

**MR VERWER:** You've also got a very good chart on your table 5.1, page 63, which talks about the stamp duty payable as a relationship between the increase in the median prices and the increase in the taxes. I haven't weighted this in terms of population or market capitalisation or whatever, but taking that chart there has been an average 67 per cent increase in median values, and an average 104 per cent in the tax take. I mean, there's been no shortage of money here, in fact, to pay for a hell of a lot of affordable housing, whether it be social welfare housing or first home owner specific or the roads which link those communities together, or indeed, even the hospitals or the schools. At the very least, all the windfall which is about $6 billion - this is above budget windfall - in the last few years, could certainly have paid for some decent strategic planning, probably even a world-class forecasting methodology, commissioners.

All of this goes to show that there is a complete - well, there's been a thorough abuse of the taxation system as it relates to property over the past few years, and we're seeing now various treasurers who say that there is going to be a shortfall of funds because they've become dependent on the current take. All this has bred a public policy - a massive public policy - laziness, which we see both in terms of the inefficient indirect tax base of the states, all of which flows through into the cost of housing when it's charged onto developers.

I've read all your tables, and there is all of the graphs and the intersections of the charts and whatever, but we take a very simplistic approach and that is when the developers are charged more they just pass it on, as quickly as possible. There's absolutely no doubt that they do that. You don't have to have an econometric model to work out third and fourth round impacts. They just do it. The nature of the cycle for the past few years has meant that they can, of course they will and should. So these taxes are fuelling the lack of affordability of housing. The question is: what's to be done about it?

Several, as you note in your interim report, of those who have made submissions to you mention the opportunity of reform arising from the forthcoming review of the intergovernmental agreement, which was struck after the GST was introduced. In your own report you say that the opportunity should be taken to extend the terms of the IGA review to stamp duty on the residential site, which we strongly support.

The point that we'd like to make really is twofold: firstly, that in an appendix to our document we actually suggested with the Business Coalition for Tax Reform, the actual terms of reference for that review. I'd commend that to you again and recommend to you respectfully that in your final report you're a lot stronger about using those terms of reference as a basis for encouraging the various jurisdictions to participate. The second is the fundamentally more difficult issue of how would one replace the current inefficient indirect tax system with its very, very high dead weight costs? Several of the submissions have said use the GST revenue. We certainly agree with that, but the simple fact of the matter is that there won't be enough GST revenue to pay for the removal of all of these indirect inefficient taxes - both the residential sector and non-residential sector, the insurance sector and all of the rest of it.

So it seems to us that we need to quite specifically address the issue of a more efficient property-related tax system and, for that reason, we think that there is a virtue in taxing economic rent from property and that it's very hard to criticise a well-designed land tax system. We think the current one is massively inefficient with unnecessary compliance costs that, in addition to all of the taxes that every other sector pays - we're paying conveyancing tax, the stamp duty, the developer charges, the capital gains tax and all the rest of it - people still have the nerve to criticise negative gearing. It's amazing, isn't it?

Nevertheless, a way forward here must be, we believe, that there be a single property tax. That single property tax would, we think, go some way to satisfying criteria of simplicity and efficiency. It should wrap all of the other taxes - I should stress that we believe there is plenty of room to lower stamp duty on commercial and residential conveyances. This goes beyond that belief - and that the equity principle of such a single property charge could be satisfied by utilising the rating valuation system, which is there in order to build in equity.

Now, some have talked about sort of capping increases and all the rest of it. It seems to us that if it's legitimate that property be taxed in some way in the form of economic rent then what the government is trying to do is to create a pool of money to pay for other social services. We agree that that's a more appropriate way of paying for infrastructure, and we'll come back to that later, but we also would seek certainty. The way to do that is to ensure that the pool itself increases by no more than, say, increases in the gross state product or inflation or whatever.

So the pool itself could be indexed. Growth in the pool could be capped. That means that the overall burden on ratepayers, which now of course subsumes a much larger range of constituents, is also more certain.

**MR BANKS:** Well, I think that's interesting and your remarks have brought that out more strongly perhaps than your submission. We did, obviously, raise some of those questions and we'll need to look at them a little bit more for the final, but I thought there might have been a possible inconsistency in you saying that all taxes are immediately passed on and then declaring that the best form of tax is one that taxes rent, which by definition comes out of rent and doesn't change anything and doesn't get passed on.

**MR VERWER:** Commissioner, I was referring to land tax as an economic rent, which is really what it is. Naturally, we don't think a tax which focuses on rent is appropriate but land tax is an economic rent.

**MR BANKS:** That's right, yes, but by definition economic rent - if you tax economic rent it removes some of the rent and doesn't change the price to the purchaser, is my understanding of it. Anyway, we've tied ourselves in knots about the incidence of taxation but it's just that you were so adamant that all taxes are merely passed on to the purchaser that I just wondered about whether there was an inconsistency.

**MR VERWER:** I think the difference is in terms of the design. If the incidence of the economic rent is more broadly based and more equitably distributed then that's more efficient.

**DR SHANN:** So you are suggesting that land tax apply effectively to the unimproved value, the site value, or to the capital-improved value?

**MR VERWER:** Unimproved value.

**DR SHANN:** The unimproved, yes.

**MR VERWER:** On a broad base. This is where you get into Harvey, who did the Victorian review - Harvey-style political difficulties, which we don't need to explore.

**DR SHANN:** You'd see it replacing all stamp duties on residential and non-residential conveyancing?

**MR VERWER:** Yes, and of course, well, everything - the rates, the charges, the whole shooting match - that there is just one charge that is applied to property and that should be on the broadest possible base at the lowest rate.

**DR SHANN:** What, so that a portion of it would go to local councils? How would you - you're abolishing rates, aren't you?

**MR VERWER:** A portion of it would have to go to the councils. I mean, the rating base of the councils is really to do all the things that they want to apply to use the developer charges for these days. I understand the Local Government Association is next, so they are probably in this room. It should be easier for them to manage, as well.

Right. The next issue, unless there are any other questions, is developer development process.

**MR HICKEY:** Planning approvals.

**MR VERWER:** Planning approvals. Okay. I might start on this and then go to the expert. The commission's interim report makes a number of suggestions. It also refers to the work that is being undertaken by several jurisdictions. You are particularly taken by better decisions faster, I take it, but in New South Wales, the Western Australian government, South Australian government, there is a lot under way. All of this is being tied together, as I think Wil Harnisch mentioned in the last submission, by the Development Assessment Forum. DAF is a group which comprises all of the states and territories and, indeed, it is reporting to all the planning ministers and local government ministers on 13 February, Friday week. It is the body which is charged with undertaking these crucial reforms.

There is absolutely no doubt that the rigidities and inefficiencies in the supply chain have a huge impact, in our view, on the final cost of development, both in terms of the risk which is factored in to final prices but also sheer overheads which are passed on. You have outlined in your report a number of principles. Can I put it to you that the nine leading practices, which Development Assessment Forum's consultants have suggested as a basis for the now very broad-based consultation across the country, are the ones that we'd like to recommend to you that you adopt as a basis for outlining a way forward. These of course are now subject to consultation, as I mentioned before. They will be changed. I have the most recent version of the DAF guidelines for you, and I think you'd like to have them.

**MR BANKS:** Thank you.

**MR VERWER:** So that's the way to go. The encouraging thing about some of the points that you mentioned was that the notion of a separation of roles - we call it the separation of powers in the Property Council submission but DAF has a much more politically correct approach, which is also mentioned in that report you referred to - the OECD report on subsidiarity and the distribution of governance, which is a very good report. A lot of what we are talking about here is about how the subsidiarity principle would actually work at the ground level in Australia.

That has been taken up by the South Australian government and they have legislation before them which will ensure that in the future there is a separation between those who make policy in the local arena, which is quite properly their role as a parliament duly elected by the people, and those who assess development applications, which really should be about determining whether an applicant has complied with the rules. At the moment that system is mixed in Australia and there is no single greater reform that could be instituted than the separation of those particular roles.

Nevertheless, the other eight leading practices the DAF consultants have recommended, both in terms of streaming of applications and one point of assessment and all of the rest of it, make up a package which is very compelling.

**MR BANKS:** I might just note that the next participants this afternoon, and the final ones, the Local Government Association and the Shires of New South Wales, actually have done a survey of local governments. What they are saying is only about 5 per cent of DAs actually go to the council.

**MR VERWER:** Correct.

**MR BANKS:** How do you comment on that? Does that reduce the need for any reform in this area or not?

**MR VERWER:** Not at all. It underscores the problem. I think it was 94 per cent of all development assessments are dealt with at the officer level so it's extraordinary that, say, 5 per cent of development applications are causing such delays. I mean, there is no doubt about the feeling that exists out there amongst the development community. It's interesting that if there is no problem, why is it that every single jurisdiction in the country is looking at this? Work that has been cited by the commission itself in previous reports points to the cost of these delays as being $1.2 billion a year. Now, that's a number - 1.2, 1.4, who knows - but it's a lot. It's a very big number. So clearly something needs to be done out there.

Our view is that this in no way is undermining the role of councils. This is emphasising the important role that is played by councils in terms of developing policy. That's their job. They create the rules, but creating the rules and then judging the rules in our view is not an efficient way of doing things. The DAF's consultants recommendations are quite clear about the fact that an alternative approach which creates a separation between creating the rules and judging the rules can include - if you have a panel system, such as the South Australian proposed system, for instance - that can include councillors; but they're not operating as councillors when they are assessing developments. They are acting as assessors. It's just a question of efficiency and de-politicisation.

**DR SHANN:** One of the questions is how these changes actually get implemented. I see you are recommending that it's important to get the ministerial council - I assume you mean the ministerial council of housing ministers, do you? Is that the ministerial council you are talking about, to sign off on these DAF recommendations?

**MR VERWER:** It's actually more complicated than that, under the new councils system. It's the local government ministers, it's the planning ministers and it's the housing ministers. DAF's government structure is to report to the local government and the planning ministers. Maybe in response to your point which is really about: "Is this really a problem?" I should ask Denis.

**MR HICKEY:** From an industry level it is singly the biggest issue that the development industry faces, in terms of being able to meet future demand and also to contain costs and deliver an affordable product. I think the thing that has got into the process has been the uncertainty of process. What has happened now is the convoluted nature of actually trying to gain approvals through the system, both at a state level and also at a local council level, has meant that there are large inconsistencies and the industry itself faces a very confused position when it comes to actually trying to deliver product through.

I mean, the compliance costs in terms of the volume of reports, the detail, the time taken, the approval bodies and authorities to go through now, is infinitely more complex than it was a decade ago. You don't have to be a Rhodes scholar to figure out that that ultimately impedes the industry's ability to meet the market, which can lead to these supply imbalances as well, as we said before. The 5 per cent that was quoted before - I daresay that every development site would be in that 5 per cent in terms of any volume or nature of size. So in terms of trying to look at the type of DAs that go through a council system, nearly every development which has in excess of half a dozen properties on it would go through the full council approach and have to get all of the full sign-off and reports.

That, in turn, leaves the current system, which we find very open to politics rather than planning process and we have countless examples where - you know, I think it's unfair on the councillors that they get put under pressure where they have an ability to play judge and jury on a process. I think it's wrong that a ward member can get under enormous pressure to block a DA from a political point of view when it has already passed through the planning policy approaches and things get held up and snowball all the way through, and there are countless examples of that.

**MR BANKS:** Does it reflect the fact that the rules perhaps haven't met the best practice processes that DAF is already suggesting we have for the future.

**MR HICKEY:** No.

**MR BANKS:** In other words, the past rules have left too much blue sky and discretion in there so that they're not really - you don't have the basis for community acceptance that they are the rules that they actually think are justified.

**MR HICKEY:** It's probably also, I think, that - I also think the current system allows councils to always have a second say or a third say at the development application phase of the process, rather than putting a lot more energy back into the planning controls where a lot of the policy and the officers and expertise should rest, whereas now it's almost councillors - and I'm conscious of maybe treading on some toes but basically a lot of that is delegated to planning and council officers, yet when the DAs come up it becomes a very political process that goes back and questions some of the rules that were established in the first instance. We would like to see council focus more at the policy-making end and then allow the process to be judged in a non-biased nature.

**MR BANKS:** So more politics going in, in a way.

**MR HICKEY**: Up-front.

**MR BANKS:** More politics going into the rule formation and less politics into the interpretation.

**MR HICKEY**:   It is unfair and we practise it a lot; a lot of organisations, public or private, have rules and policies to separate and to stop people being put in a position where they are forced to be judge and jury on a decision.  I think that's one of the big problems that we have now in that process.

**DR SHANN:**   You may not be able to help me, but Master Builders Australia were suggesting that in order to get changes implemented in the planning area, they believe it appropriate that a Commonwealth-state ministerial forum be established which includes high-level industry representation.  I'm just trying to find my way through the various ministerial council proposals we've got here.  You're wanting one which would basically look at forecasting and land release programs; so, in a sense, getting into what's being done.  I take it the MBA one is more looking at policy issues in planning which would involve, I assume, industry representatives and so it would be different from the existing forum.  Is that right?

**MR VERWER:**   I think at the strategic planning level, the overarching level, we're all agreed, and that is that there needs to be a COAG level agreement in which ministers get involved.  Because there are so many, it has to be COAG.  In terms of the DAF arrangements or improving development assessment in Australia, that is not a COAG-level issue.  That is certainly for the planning and local government ministers.

**DR SHANN:**   So you'd operate through the existing - - -

**MR VERWER:**   Yes.

**DR SHANN:**   All right.  Okay, the next issue is developer charges.

**MR HICKEY**:   An issue that is dear to industry's heart.  The commission really concluded that there had been an increase in development charges but we would actually like to emphasise the problems with the current trend of imposing user-paid or development contributions on the industry.  We said a comment before about taxation being passed directly to the bottom line.  Well, these charges are a classic example of directly passing on to the end consumer.  We have seen rapid rises in developer contribution charges over the last five to 10 years.  The industry, working on any market forces or any economics, will always operate on an industry margin.  It has operated on similar margins for the last 30, 40, 50 years.

So if a cost base moves, the industry temporarily absorbs that for a short term but rapidly passes that on as early as possible.  For example, the GST, which caused a lot of heartache to a lot of developers, initially had to be absorbed by developers but then at the earliest possible change the clawback came to get back to industry margins and profits.  The issue is in fact twofold.  One is we think that development charges are inequitable because in a lot of instances development contributions are being sought that provide benefit to the wider community; not only to a new release. That ultimately affects new people and the end purchase prices of homes for people, which is really the driving force of this commission, which is home ownership and home affordability.

The other part is basically the nature of the imposition of development contributions.  Some are direct and overt and some are very indirect.  If we add the quantum of charges that are being compiled for developers now, it is significant and increasing the costs to produce product to meet the market.  We did in our submission quote several examples of those charges and how they're imposed.  We just think it's something that needs to be looked at a lot more thoroughly because, as I said before, it's very much a moving of traditionally what has been seen as public sector costs onto the private sector.

**MR VERWER:**   You said in your submission that you conceded or had noted industry's view but there was a flavour of you saying you add it all up and it's not really that much, so you can't explain the crisis of affordability or housing bubbles or whatever because of developer charges.  I think that was the flavour that I read into it.  But the answer is that these are all marginal and all these marginal costs add up, and some have a leveraging effect and they're inconsistent as well, so they're riskier and that risk gets priced too.  Besides, it's inequitable.

You had come up with some suggestions and we agree with them.  You had categorised some of the issues as well, from basically the roads and guttering all the way through to libraries, and we agree with that categorisation but you had tended to focus most of your recommendations on the nexus issue, which is fine, and had cited jurisdictions where there is a tight nexus, but the issue of transparency and appropriate governance, as applied to the operation of the developer contribution system, is something that we'd like to recommend to you is strengthened in your final report - on page 30 of our recommendations.

We've not only rehearsed some of those nexus arguments, but the fact that we think there needs to be something like a contributions impact statement that is undertaken by council so that they are forced to actually make their case and make it in a transparent manner, rather than some bodgie methodology that is currently applied, where nobody can work out what the hell is going on.  The second issue is in terms of the governance of the payments.  A lot of this stuff slips into a black hole: in New South Wales, $800 million worth of contributions out there doing something, God knows what, earning interest.

They were all collected on the basis of the nexus, so has the need been removed? If so, can we have the money back? There is no proper governance or annual auditing of these numbers, which there needs to be. Clearly, money is being collected. It's not being spent on community needs, even if it was necessary in the first place, and we tend to think that developer contributions - there's a rationale for them. Yet the price, the cost, has been passed on.

**MR BANKS:** Where do we find confirmation for that $800 million number, if we wanted to use a number like that in our final report?

**MR VERWER:** We'll dig it up for you.

**MR BANKS:** Okay, dig it up out of a black hole.

**MR HICKEY**: As Peter said, one of the biggest issues is that in New South Wales - and we're focusing on local council, which is section 94, but there are other increasing charges that happen more from the state infrastructure agencies as well that apply to development now, and it's the compounding nature of those. One of the issues with section 94s is the lack of transparency and the timing of these infrastructure provisions. So whilst you may have a capital budget that says, "This is our intent to provide", the accountability to provide those services at a given day is an issue, and also the transparency of had they actually been spent, and where is the accountability back to the community who ultimately pay for those services to be introduced. All you'd need to do is drive down some parts of the north-west sector of Sydney and you can see where there is a massive amount of development with a very obvious lack of infrastructure provided to that region.

**MR VERWER:** Denis had made the point but can I just underline that we're not just going to have local councils here. Everybody is getting in on the act. South Australia is a good example of where augmentation fees - you develop a property on the fringe of Adelaide and you're paying for an electricity generator in the Barossa. It's crazy stuff. Or you've had a building which has been vacant for half a year and you finally re-tenant it and you're charged an augmentation fee. It's a slippery slope.

**MR HICKEY**: Well, there's more. There's the transport levy that was introduced in New South Wales. It is widely anticipated that that is going to increase at a rapid rate of knots. We have, in Brisbane, BCC - city council - deciding to implement an affordable housing levy of 5 per cent on development. All of these are a real shift again from traditional public sector funding onto the private sector. In Sydney, North Sydney Council, any development there needs to contribute to the upgrading of the train station. Now, that is obviously a funding cost that is of benefit to the whole wider, greater district. The trend is alarming and concerning for the industry if it doesn't get some more accountability back into that region, and we think that's something that you should focus on more.

**MR VERWER:** Or recommend the scrapping of the taxation system altogether.

**MR BANKS:** And just introducing a comprehensive land tax?

**MR VERWER:** Well, just complete user pays - just only have inefficient indirect taxes. Okay, the specifics of the first home owners scheme: I think the issue here is targeting. It seems very straightforward. I think Wilhelm Harnisch was saying before that the idea of all of this money going to the millionaire sons and daughters off from their GPS schools and racing home to their houses which have been paid for by the first home owners scheme is crazy. The money can be used for something else.

The key issue here is simply how one balances the compliance - the overheads associated with an alternate scheme with means-testing by whatever basis or whatever with the money that's going to be saved. I presume the justification in the first place was the cost of means-testing, for instance, would be greater than the dollars saved. That's not something that we can specifically address but the principle of more targeted first home owners contributions from the government is something we strongly agree with.

**MR HICKEY**: The first home owners scheme that was introduced was obviously as a compensation for the introduction of GST. I'm very cognisant that that has a finite life, which means that there is basically no first home owners assistance scheme; it's up to the states to be able to contribute that. Some states do that by way of stamp duty relief, which we've already discussed - the future direction of stamp duty. If the Commonwealth is to play a role, how does that get channelled to the most appropriate sectors of society? And herein lies our $64 question. We really haven't assessed the bureaucracies or the complexities about being able to do that, but that's the challenge.

**DR SHANN:** So you don't have a particular view about the best way of - the cap on the value of the house or income tested?

**MR HICKEY**: No, we haven't finalised our best preferred view at this stage. It's best to say that we haven't done that yet.

**MR VERWER:** They're the two options that we've put forward and really I don't think we can go much further than that. They both seem okay. All right, the final contribution we'd like to make today is probably the most innovative part of our submission, which is to look at methods for addressing the broader issue of social housing. There are many other groups that have put in submissions and, indeed, we are members of many of those other groups - very collegiate - but the more radical solution that we've put forward, as I mentioned at the outset of this discussion, specifically addresses the supply side. That is, how can one create a pool of funds which will be used to build more affordable housing?

A lot of the mechanisms that we've seen are innovative financing mechanisms and they're all fine, they look quite good; there's a question of whether they would in fact just create more demand pressures, thereby worsening the problem, and that's something I'm sure that you can address more sturdily than we can. Nevertheless, we're experts in being able to create pools of money which can be spent on capitalising more infrastructure; in this case specific, affordable housing infrastructure.

Commissioners, I'm not sure to what detail you want us to go today because I heard before that you're going to spend more time on this for the second part of your report, but maybe I could just be very brief in saying that one of the things that the construction and the old-fashioned building sector - and maybe even, with respect, the social welfare movement - is not good on, and that is an understanding of modern capital markets; in fact it's relatively limited.

We know all about the modern capital markets and integration of property into the capital markets and the two key methods which can be used - a bonds system, which was in our Allen Consulting report submission to you, but also the National Affordable Housing Consortium's report - that's their favoured method. There's a lot of value in using those capitalisation techniques to create a pool of money - good old-fashioned bonds, government borrowings. As the Allen Consulting people showed, it is by far the most efficient way and the cheapest way of creating a pot of dough.

We think a more innovative method and one that directly interacts with those people who are currently renting and provides them with an incentive to save, bridge the deposit gap and have an equity in their home - is what we've called "a listed affordable housing trust". It simply takes the business model of Lister Trusts - that we all know so well. That is completely regulated by the Managed Investments Act, where governance is completely transparent; where there is a very long track record and applies it to housing, so why couldn't we do it right now - to answer Ed's question - and the answer is, "Well, there's no dollars in it right now."

There's a major shortfall in the rent that would be received which, under our system we're proposing that the rent would return to the beneficiaries, so the trust holders of this listed affordable housing trust, and a portion of the capital gain would go to the renters, the occupants, thereby giving them all sorts of incentives, but that rent at the moment is too low. Who will we propose supplement the rent? The answer is, the government, of course - the taxpayer - but the reason we think that this is viable and not another act of outrageous rent-seeking by the private sector is that there is already a huge amount of money which currently goes into rental assistance.

There's the Commonwealth-State Housing Agreement. We know how the dynamics of that agreement have changed over the past few years and we're proposing that there is an opportunity to use that money more efficiently and, by "efficiently" I mean using everyday techniques of the capital markets in Australia to leverage a dollar's worth of Commonwealth-State Housing Agreement money into a multiple of that. The numbers that we used in the appendices to our first report show that that multiple is very high - $1 can become $30, for instance, where the private sector leverage is up its component.

These are just common or garden-type, very boring everyday things in the world that we operate in. There's nothing magical about them. They're all controlled by Corporations Law and, as I mentioned before, the Managed Investments Act, and can I suggest to you, well worth exploring and what we proposed in our study is nothing massively radical. We proposed a pilot test of these techniques, using money that is already there. Our simple proposition is that instead of buying a dollar's worth of bricks with a dollar's worth of taxpayers' money, we can buy 20 bucks' worth of bricks using a dollar's worth of taxpayers' money. It's money that has already been spent. Let's make it go further.

**MR HICKEY:** In addition to that, Peter, there is also potentially the - we all know that there is a yield difference between what the existing residential property can deliver and what the capital markets demand from equity, but it gives the opportunity for the private sector to maybe look at how social housing is delivered, managed and maintained and potentially adds some value in terms of improvement in the processing and maintenance and delivery of that form of housing, which one would say could be considered maybe ineffective and a little bit bureaucratic in most markets.

**MR VERWER:** The safeguard, commissioners, is that who chooses who goes in there, who decides whether they should stay - all this sort of stuff - in our submission - well, there are already people who do that. They can continue to do it. There is a radical approach, which is: let community groups do it. I think that's the way to go - they're closer to the source. You can keep it on a traditional method or be more radical. The biggest supplier of affordable housing in the US supported massively by the US government - in fact the US government has just put more money into it - is the equivalent of the property industry in Australia.

Why? Because the rental income streams that come from commercial affordable housing investments have a bond-like character, a 20 to 25-year stability, which is extraordinarily attractive to them; in fact it is very, very straightforward.

These are very vanilla approaches to solving a problem.  We're talking about not the sort of piecemeal approach which arises from inclusionary zoning of three units here, 10 units there, whatever, or which we stuck out the back somewhere, but multi-billion-dollar solutions - multi-billion-dollar solutions - and in the end they can still be controlled by government or by community groups.  It doesn't worry us.

**DR SHANN:** What reaction have you had from welfare groups to this proposal, may I inquire?

**MR VERWER:** The community groups - the ones on the ground - are very interested.  I am talking about the ones who actually interact with tenants - the sort of second-level community groups - the Brotherhood of St Laurance and whatever.  By "second-level" I mean more distanced from everyday management of welfare tenants - a terrible name for them, but anyway.  They prefer bond schemes.  I put it to you that they have just taken five years to learn what a bond is, and so using more innovative capital markets' instruments is something which is too scary.

**MR BANKS:** Okay.  Anything else?

**DR ROBERTSON:** No.  That's fine.

**MR BANKS:** I think that has been a very useful discussion and, as I have said to the others, there may well be things as we reflect on what you have said today and as we go back through some of the submissions that we may need to get back to you, but I am sure you will be happy for us to do that.

**MR VERWER:** Yes, very much so.

**MR BANKS:** Thanks again for attending today.  We appreciate it.  We will break now for afternoon tea.

**MR BANKS:** Our next participant is the Local Government and Shires Associations of New South Wales. Thank you for attending the hearing. Can I ask you, please, to give your names and respective positions.

**MS SHEEHAN:** Maire Sheehan, member of the executive of the Local Government Association.

**MS GREGORY:** Carina Gregory, senior planning policy officer at the Local Government Association of New South Wales and the Shires Association of New South Wales.

**MR BANKS:** Thank you very much for attending today. You've provided some briefing notes for your presentation, and we've also got a submission from you, which was very helpful, prior to our producing our discussion draft, and we might have some questions on that. As we discussed, why don't you go ahead and make whatever points you'd like to make to start with.

**MS SHEEHAN:** I'll just run through them as they appear in the submission and make some comments on the ones we're emphasising. The first is land release. Generally, we state in our submission that this is really a state government issue, but we do have councils that have some concerns about the time taken by various state government agencies to approve rezoning, so there's this question of lag between land being identified and then being rezoned. That's a general issue that comes in a bit further on when we look at the planning processes and the interaction in terms of the timetables for approvals between local government processes and state government processes.

**MR BANKS:** What, typically, would be a rezoning situation that you're speaking of? A large parcel of land?

**MS SHEEHAN:** It could be land release on greenfield site areas on edges of towns. A number of towns are going through identifying where they would like land releases to occur, where they would like higher densities to occur and so on, so they're doing it on a precinct or a local level. Now, once you've identified the land that is to be rezoned for, say, the higher density or for release and there is a pressure of development, then the sooner that process gets in place and it kicks off the better it is, otherwise you'll end up having lots of pressure on the existing pieces of land or on the existing zoning. That pressure will continue.

The next one is the planning approval process. Planning approvals, of course, are complex and, depending on the areas, they can be very complex. They've got to take into account all the social, environmental and economic issues. If you're looking at a greenfield site, clearly there will be issues of environmental impact and infrastructure impact and also where in the line of land release and rezonings a particular block of land appears, for instance. So if they're downhill of all the land that's been released, they will take all the stormwater from all those places and so on. Usually, there are quite a lot of complex issues involved in terms of that and in terms of whether there are any habitats or other contaminations and so on.

In densely populated urban areas, generally the older areas are very complex, so even doing small things has an impact, and that makes the process complex. If a process is complex, it always takes more time, and you try to balance up the speed in getting things done efficiently with having a good outcome. A good outcome must include having a development application that stands up to some kind of rigour - at the end of the day, not only aesthetically, or in terms of shape and size, but also in terms of the soundness of construction and its impact not only in terms of privacy - overlooking and so on - but also in terms of its impact on the infrastructure and the environment around it. That has to be done well, and I would point to the issues that have arisen in the deregulation of the bill certificate process: that quick can sometimes be also poor. We also have to live with the consequences of that and then try to fix them up. So there's a balance between doing something quickly but badly and doing something very well and perhaps a little bit more slowly.

The other issue that we talk about is the slow planning approvals by council. Interestingly, we commissioned a survey, and I went back and had a look at some of the things in our councils as well, and it did bear out the general findings of the survey. It showed that two-thirds of DAs across New South Wales are determined within the relevant time frame. Now, you've got your 40 days, but you also have a "stop the clock" provision, which is when you've got an application that has missing information, for instance. You would stop the clock and say, "Go back and try to get that information." We found that the median processing time for applications when they're compliant - in other words, they comply with all the controls and they include all the required information, so they're a complete application - is 27 days. The overall median processing time is 30 calendar days.

We also found that, of the councils that were surveyed, 4 per cent of the applications go before a council meeting. I'm from Leichhardt, and that's one of the more complex areas. We have a tiny number of applications that come to the council meeting. It may seem like they get most of the attention but, in fact, when you look at it, 95 per cent of our stuff is dealt with by the staff under delegation. We also discovered that not all councils are properly using the "stop the clock" provisions, so that can skew the time frames. We also found that, if an application complies and if it has all the required information, it obviously gets processed more quickly. We also found that the ones that come in without the information, or are noncomplying, it generally doubles the time. I watch that myself on council.

Somebody comes in - and sometimes it's an experienced developer, but less the experienced developer than the inexperienced developer, or the person doing it themselves - and they will put in an application. They won't have a traffic study, they won't have addressed the contamination issues and they will have some engineering and drainage stuff that they won't have fully looked into, et cetera. All of that then would have to be built up over time, and we found a doubling of the process in time when applications come in like that.

We also found that one in 10 applications needs to be referred to a statutory authority. The DAs determined in the deemed refusal period were twice as likely to have been referred as those deemed outside the period. Obviously, sending stuff to Waterways, New South Wales Planning and RTA, all those kinds of statutory areas, extends the time considerably. There doesn't seem to be any prescription about a turnaround time for state government agencies dealing with DAs, but there is that turnaround time expected of councils, which is the 40 days, so they're a bit of a wild card. We then go on to the urban consolidation issue and, obviously, that's been discussed a lot.

**MR BANKS:** I'm wondering whether it might be more efficient, if we've got questions on the parts that you've gone through. Ed, do have any questions on that?

**DR SHANN:** I suppose this is one of those glass full or half empty situations. Effectively, a third of the DAs are determined outside the relevant time frame, so the question is whether one considers that a good or a bad performance.

**MS SHEEHAN:** Well, it's not so much whether it's good or bad. At the moment, it's a question of why is that happening. If it's happening because people are just stuffing around for no good reason, then that's a problem, but if it's happening because it's out with a state agency, they have no turnaround time and you're constantly having to try to follow them. If it happens because all the statutory provisions - and we're not just talking about council controls here; we're also talking about state government legislative requirements. If you look at a DA in the early 90s, the file was about five pages thick on your average dwelling. Now you look at it and it's got 100 and God knows how many conditions but, if you look at those conditions and where they're being driven from, they're mainly being driven out of state legislation.

**DR SHANN:** Should there be a system whereby there's regular analysis of why?

**MS SHEEHAN:** Absolutely. It would be very helpful.

**DR SHANN:** The other question, since you've raised it yourself, is: should there be a statutory turnaround time for utilities to respond?

**MS SHEEHAN:** It would greatly assist us. It would give a lot more transparency to the process, and then you wouldn't have this 40-day thing just seemingly being fully a council thing. It would really help. This is not in the submission, but councils try all sorts of ways to speed it up, because we understand that it can be difficult for people waiting - and we're not just talking about big developers; we're talking about individuals on their own home. We did try a process whereby we had a panel of private assessors and, if people wanted to get a clear time line, they could then ask those assessors - and they were on our list and it was all properly done - to do an assessment. We'd give them a guaranteed time frame for that, but they had to pay a full commercial fee, because the other issue is that, of course, the statutory fee for processing DAs goes nowhere near meeting full costs. Anyway, the minister banned that.

**DR ROBERTSON:** I'm being a bit stupid maybe, but this "stop the clock", if you go back to your first dot point, where it says that two-thirds of DAs are determined within the relevant time and it says 27 days, does that mean that, day 20, if something crops up and you stop the clock, it could be another three weeks before you start it again?

**MS SHEEHAN:** Yes, it does.

**DR ROBERTSON:** So the actual 31 days could be 60 days.

**MS SHEEHAN:** Well, it could be in reality, yes, but remember that you only stop the clock if an applicant simply hasn't put in the information, not if you sent it to a state government agency. You're saying, "Well, look, we have to have this information before we can process your application." But you might ask whether the process before you accept an application should be such that you simply do not accept an application without every piece of information in it. There's a downside to that, too, because there's a level of frustration, that people that they're having to jump through too many hoops before they actually get their bit of paper stamped to say, "Yes, we're going to look at it now."

**DR ROBERTSON:** Yes, we've heard of those people, too.

**DR SHANN:** These are also working days, aren't they?

**MS SHEEHAN:** Yes. We've tried not to work Saturdays and Sundays, but it doesn't always work out like that.

**DR SHANN:** It's just what it means in terms of actual delay.

**MS SHEEHAN:** Yes.

**MR BANKS:** We have a chart in our report on page 106 which I think is available. It's aggregated information for the local governments throughout New South Wales. I think that, up until 1999-2000, that showed somewhat longer mean times for determining development applications, but not hugely. Well, there was a drop somewhat before 1999-2000. It's really a discontinuity in the trend, and it's hard to know what's happened since then, but that gives a longer perspective.

**DR SHANN:** The other thing about that information was the huge differences between the councils in terms of the time taken, which may partly represent - as you were saying yourself - that in some areas there may be more difficult applications.

**MS SHEEHAN:** Yes.

**DR SHANN:** Another question would be: is there any attempt to look at whether some councils have a much better process than others?

**MS SHEEHAN:** The only thing I know is the reputation that we have at Leichhardt, and we'd be one that would have a longer processing time, certainly, than the median, or the average. Town-planners come to learn at Leichhardt, they learn what it's all about - and that's what I hear from the staff - and then you can go off and you can go anywhere.

**DR SHANN:** If you can survive in Leichhardt - - -

**MS SHEEHAN:** You can survive anywhere. That's right.

**MR BANKS:** Do you have problems with turnover? I think you've mentioned that.

**DR ROBERTSON:** Yes, that was mentioned.

**MS SHEEHAN:** Leichhardt is a conservation area. It's mainly conservation, but there's a chunk over in part of Leichhardt suburb that's not. The minute you've got a conservation area, you've got a whole swag of requirements that kick in. Now, your average person who buys into Leichhardt actually doesn't know they're buying into a planning controlled conservation area. They like to come there because the streets are nice, there are trees, there are parks, there are cafes and so on, but the planning complexities of maintaining that urban environment are such that it inevitably makes it a more complex planning process. We look very carefully at how we can reduce that, including pulling people up-front to the counter and saying, "You really need more information before you put this in or there's going to be a delay."

**DR SHANN:** I'm puzzled slightly, because the information that we've got, 2001-2002, in the metropolitan area the mean time is over 80 calendar days.

**MS SHEEHAN:** Yes.

**DR SHANN:** I'm wondering how representative your sample is.

**MS SHEEHAN:** We had a mix of metropolitan and rural.

**DR SHANN:** Yes, rural, the time is much less.

**MS SHEEHAN:** Much less. You might have a council that would deal with two applications a year and it's really simple. In some places, they don't particularly let people know much about what's happening, not because they're trying to keep it closed, but as they say, "Well, it's an empty field and we're going to put one house on it. It's already 500 metres from you."

**MR BANKS:** No overlooking.

**MS SHEEHAN:** Exactly, so the issues are similar.

**MR BANKS:** Okay. Thank you.

**MS SHEEHAN:** The next issue we looked at was the urban consolidation, because that has also been a pressure for councils and the arguments about whether it reduces the cost of housing. Well, I can tell you right now: it does not reduce the cost of housing in inner Sydney. There is no cheap housing in inner Sydney. What some of it might do is have a diversity of housing which is a desirable outcome, to have a diversity of housing in any area, because with diversity there's vibrancy, there are age groups, there are different demographics and so on. So you want that. You don't want ghettos of all the same kind of people, but it certainly hasn't reduced the cost. Every council had to put in a plan to address this urban consolidation, and that's one of the key points that our councils are putting in, about maintaining diversity. Now, the difficulty with some of the urban consolidation, depending on where you are, with the land market in Sydney, is you've just got the market driving it. You've got to have a balance of the market driving things as well as maintaining a balance in your community.

**DR SHANN:** Let me just clarify. So it's not that you're saying that you oppose urban consolidation, but you're saying it's not a solution in terms of providing low-cost housing.

**MS SHEEHAN:** Low-cost housing. That's right.

**DR SHANN:** There's a dilemma, isn't there? I noticed in your original submission you say there was "an underlying lack of greenfield sites suitable for future release". If you can't then undertake urban consolidation, and there's a lack of greenfield sites, there are clearly going to be implications for house prices.

**MS SHEEHAN:** Absolutely, and of course it's one of the difficulties of Sydney being a vortex for the rest of New South Wales. What has happened to planning for regional cities, regional areas? But that, again, is a bigger strategic planning issue than individual councils or even the association. It really is a state and national issue. It's, again, that issue of how much do you let the market drive things and how much do you manage your population flows and make other places desirable places to live, and support that? It's certainly bigger than one individual council. You're quite right: it's a big issue for Sydney.

**MR BANKS:** Okay. Thank you.

**MS SHEEHAN:** We move on to skills shortages, and I think that's probably well recognised, what the skills shortages are, so I don't particularly need to go into them. We're concentrating, of course, on the planners because that's a part of the industry that's relevant to us. We're certainly suggesting looking at innovative ways of having staff skilled in planning - and I think this might help with the processing times too - rather than relying entirely on university graduates. There are lots of skilled staff who have been in councils for a number of years, who know all the zonings and the controls and everything and they're support staff at present. It was perfectly feasible through traineeships and so on to upskill these people to play a more substantial role in certainly the simpler part of the assistant process. So that's a key issue for us. It's certainly a key issue for rural councils because, with the demand, with the salaries that planners can command, there's a real issue for them being able to get planners at all, and then good, skilled planners.

**MR BANKS:** So those from industry - and we had people particularly in Brisbane, I think, talking about this last week - who say that a big part of the problem is the lack of personnel within councils, in terms of the delays, would you agree to some extent with that?

**MS SHEEHAN:** Yes. That is a factor. There's no doubt that's a factor in delays, but that's multidimensional. It's not just about trying to get a skilled planner, because for instance in our area, we could possibly employ more, but the difficulty is, how much of your budget - because we've got other things to do too, like collect the waste and fix the roads and whatnot - do you allocate to the processing of applications, because the rates are subsidising the cost of the application because it has become so complex and, of course, it's now part of a set fee. So we do have to make decisions about where we put our resources.

**DR SHANN:** And I take it, this is not an area where you favour contracting out some of the work?

**MS SHEEHAN:** Well, in fact, we did start the panel process. We started the process of setting up a panel of assessors and we would talk with the applicant, the customer, at the counter and ask them if they wanted to pay the full commercial fee, and get a guaranteed time frame in which their application would be assessed. We didn't guarantee them an outcome in terms of result, but that it would be assessed. What that did - and I mean we're in an area where frankly people can afford that, and they choose to do that - it meant that the queue for everybody else was shorter, so it worked well for us, but unfortunately the Telegraph got hold of it and beat it up into a story about poor people not being able to get planning or whatever, and the minister clamped down the next day.

**DR SHANN:** They were paying to get approvals done.

**MS SHEEHAN:** Yes, because it was like people were paying to get it, and they're somehow jumping the queue, but in fact, our argument is that they were not jumping the queue. We were taking them out of the queue, yes, but it also made the queue faster for the other people, because we have other constraints about how much money we spend on planners.

**MR BANKS:** In that experimental period, how many applications went before that fee-for-service process?

**MS SHEEHAN:** There were about 15 per cent of our applications went through on that process. Certainly, the professional developers loved it because it was much easier for them, and they costed all that into their costings. But an awful lot of individuals with houses, for their applications, also did the same because they also did their financial planning around the cost-effectiveness of having a time frame versus waiting and waiting and waiting, and having banks - you know, they might have been paying off things and so on. So they made a financial decision about whether it was the way to go or not.

**MR BANKS:** Was there any sort of perceived difference in the degree of disputes coming out of that process, relative to in-house?

**MS SHEEHAN:** Not particularly. There were a couple of times where people came to see me at the end of a process and they got a knock-back from the private assessor, and some people had an assumption that because they were going through a private assessor rather than a council planner, they were maybe going to get a better outcome from their perspective, so they were quite surprised when they didn't. So there was a little bit of that, but not much. The satisfaction levels, generally, were very high, and there were certainly no complaints from our general population at all about it.

**MR BANKS:** From the council's point of view, managing this process didn't present too many difficulties?

**MS SHEEHAN:** No.

**DR SHANN:** Has anyone else experimented with similar - - -

**MS SHEEHAN:** Woollahra was just about to start, and North Sydney was doing a similar thing. In fact, the three of us have got together, the three mayors have got together and had meetings with the minister and tried to get a dialogue going about it.

**DR SHANN:** In the shires, where presumably the usage made of the staff, if there are not a lot of development applications being put in, might be very variable - the shires haven't combined resources so two or three shires might share a planning officer, as a way of - - -

**MS SHEEHAN:** They could. Generally speaking, in the smaller councils you'll find that they're environmental health and building surveyors, a lot of them, because unlike other states in Australia, there's a combined qualification for environmental health officers and building surveyors. You'll find that in rural areas they generally still have a multiskilled approach. That has shifted completely in other states, and I think now with the new regime that will come in for building surveyors, and the competencies and the requirements, you might well find that splitting in New South Wales as well. So it will create a bit of a difficulty for those councils who want to keep the multiskilled approach. I'm not quite sure how that's going to work out, but it looks like it's going that way.

Objections from the public: certainly the principle should be retained. That's our view very strongly. The principle that the public should have their say and should have access to the information about developments, I think that principle should absolutely stand. It is built into the Local Government Act in any case, that you exhibit things and consult. I suppose because there is such a lot of development going on and there's land being developed that nobody in their wildest dreams thought would ever be developed, in ways that people would never have dreamt of 15 or 20 years ago, there are some planning controls that are, frankly, quite out of date. But getting an LEP together and through the whole process - because, of course, there's a statutory document that has to be signed off by the minister - it's actually an incredibly lengthy process.  So there's this problem of having outdated planning controls that are really not up to the job of the kinds of pressures and pushes that are current.  Absolutely, the notion that the community should be involved in how their urban environment is going to be shaped, even at that micro level of applications, we would say that that absolutely has to stay.

**MR BANKS:** Is this a problem of transition, in a sense, from a set of rules that may no longer be meeting the norms within a community?  We had the Property Council of Australia saying that good process involves establishment of rules and proper consultation, and then the public butts out, essentially, because they've had their say, the rules have been established and they shouldn't have their say twice.  Is there anything in that?

**MS SHEEHAN:** Well, if all the rules were very simply numerical, then we all might say, "Okay."  But they're not, because in fact most planning ultimately is about a set of principles and guidelines, with some numerical stuff in there.  So it's performance and numerical, and whenever you have performance you make judgments.  So once it's about judgments, then I don't think the public should be locked out at any stage, because the judgments are continually being made.

**MR BANKS:** Okay.  Thank you.

**MS SHEEHAN:** The draft report suggests that elected representatives who devise rules should stand back from their application.  Yes, that's right.  I was interested in that.  We threw that around a lot.  No system is perfect, let's face it, particularly in a controversial area.  Our view is that elected representatives certainly set the policy guidelines, but staff assess.  They assess against those guidelines.  It only comes back then to the councillor, to the elected representative, if there is a judgment to be made on a particularly complex one, because remember we've already said that it's a tiny amount, a tiny percentage that comes back to councillors, but it's their job not to assess but to make the judgment.  It's the staff's job to do the assessment.

There's a proposition that perhaps the staff should make the assessment and make the judgment but you could just as easily end up in a closed-loop, potentially corrupted process if you do that, and particularly because if you're employed by an organisation, you're continuing employment, there's a pressure there on you because you're not a free agent to give fearless advice.  You're actually an employee of the organisation so there may be all sorts of imperatives that, "We've only got so much money to spend here, so you've really got do to these, or you've got to do it this way," and it's easier for senior management to put pressure on an employee than it is to put pressure on an elected representative in that regard.  So there are weaknesses I think in also handing it back over to the staff, and we don't accept the argument that it's inherently a conflict of interest because we don't put the information together and make the assessments. We only make the judgments at the end of the day, based on that evidence, if you like.

**MR BANKS:** Yes, but I think you're saying that the majority of development approvals don't need to go back to council and don't, in fact, in practice, so that the judgments are made presumably by the staff against some criteria that are established.

**MS SHEEHAN:** They're fairly clear-cut, because the ones that get to council are the ones that are most disputed, that have a lack of clarity about them. For instance, when we brought our new LEP in, which came in in early 2000 - it took 10 years to put it together - one of the first things we had to do was to say, "Now that we've got it, it requires a whole new set of judgments to be made," so we in fact conducted some joint discussions between staff and the elected representatives and our planning committee, with scenarios and examples, about how would you make a judgment around this particular one or not, so to get some kind of commonality between us about our judgments, but most of the ones that go through the staff are the relatively straightforward, so they meet the controls, or they've been negotiated with the applicant so that if they put it in first and it didn't meet the controls, like the sunlight controls or the overshadowing or the overlooking or whatever, they compromised and brought it back into a situation where it does, so it's not an issue then. But where it's likely to set a precedent or where it is really quite a marginal development - you could tip it this way or that way or there are significant judgments to be made, policy judgments - they're the ones that usually get sent along to the councillors.

**DR SHANN:** I take it the council staff will give you a recommendation, even on these?

**MS SHEEHAN:** Yes, they do.

**DR SHANN:** Do you have any review process, say looking at where there's been an appeal, where there's been a successful appeal? Are there examples where the council has overruled the staff recommendation? Is there any sort of process for trying to identify what's causing the problems in the system?

**MS SHEEHAN:** That would obviously be up to each individual council to do that, but I can tell you what ours is. We have a three-monthly report, an update on our decisions, how many applications have come before us, how many were recommended for approval, how many were approved, how many were not approved because councillors said no, whereas the staff said yes, or how many were approved with different conditions to the staff recommendations. We also have a list of all the applications that have gone to the Land and Environment Court, whether they've been settled through a section 35 conference or whether they've gone to a full hearing, which we prefer to avoid, and how they've panned out, and currently in the Land and Environment Court our success rate, if you like, is between 75 and 80 per cent of the cases we put to the Land and Environment Court. The court finds for us.

**DR SHANN:** And do you publish that analysis?

**MS SHEEHAN:** We publish it locally, yes. It's on our web site.

**DR SHANN:** Locally.

**MS SHEEHAN:** Yes.

**DR SHANN:** Is that a common practice among councils?

**MS SHEEHAN:** I'm not sure. I would imagine that any council who has a complex area like ours would certainly be doing that, because you have to look after the funds that you're spending, so I'd imagine that's a really good - - -

**MS GREGORY:** Yes, it would probably be a bit divergent. I would think there would be a bit of diversity across councils and how they dealt with that issue, but I guess it also depends on the communities as well, and where they are, how councils are expending their finances.

**MS SHEEHAN:** We could get you some more information on that if you like.

**DR SHANN:** I guess I'm thinking of the governance issue, in the sense that if you've got this system, the question is whether there's monitoring of how well it's working.

**MS SHEEHAN:** Yes, exactly. You've got to reflect and look at what you're doing and see if it's working. We can get some more on that.

**MR BANKS:** Okay. Thank you.

**MS SHEEHAN:** That's governance. The streamlining of minor delegations to council - this is the private certifiers. That's been very problematic, really. I mean, I know there are processes in place to improve this now with the three stages, the three levels of certification and the licensing arrangements and the competencies and so on, but, to be quite frank, it's been a nightmare - an absolute nightmare. And the biggest difficulty is people who come to us, having had a private certifier, sometimes in units, and we've had units go through the area, and sometimes in individual dwellings, where the work is shonky and it's been signed up, and then what is their recourse when they're left with a problem? But you've probably got all the information on that. That's been a really very difficult process for us, and in fact fixing the problems later takes council time, because if there's a problem, the person comes back to the council and says, "What can I do?" so we end up as the advice givers and our staff often end up contacting the private certifier and trying to make sense of what's happened there, so that they can tell the resident. So it's really been quite a drain and it hasn't worked well at all.

**MR BANKS:** Does that get us into the broader question, the as-of-right approval processes whereby applications meeting certain prescribed rules would simply have an as-of-right approval? I think what you were telling me earlier is that there are some measurable things and there are some things that require judgment and discretion, which may mean it's very hard to codify as-of-right provisions, other than for very simple things, maybe the colour you can paint your house or something like that, I don't know, but have you given that any thought or has there been any experience with that? Maybe it overlaps with this question of certification, but - - -

**MS SHEEHAN:** You mean what would be the kind of automatic things that could just get ticked off?

**MR BANKS:** Yes.

**MS SHEEHAN:** Yes. Believe me, the more you could tick off, the easier life would be for everybody, so we've given a lot of thought to that, and all councils now have an exempt and complying, so you've got your exempt, where you just do it, and then you've got your complying, which means there's not a DA, but you simply have to put in your drawings and specifications and then your condition is you build it to the standards, the BCAs.

**MR BANKS:** Yes.

**MS SHEEHAN:** Councils are constantly looking at that and reviewing it and saying what can be added to it, so there is a constant review of it.

**MR BANKS:** That will vary from council to council?

**MS SHEEHAN:** Yes, because the kinds of things that could be exempt in one council might not be able to be exempt in another, and vice versa, yes. But that's a constant one.

**MS GREGORY:** I guess, in a general sense, related to this issue is a review that's going on on our DA processes now with exempt and complying. You might have already heard about that.  There was an inquiry into the local development process chaired by Neil Bird.

**MR BANKS:** Yes.

**MS GREGORY:** In terms of that inquiry, that's essentially looking at upping the ante greatly on complying development and essentially removing applications for single-storey houses up to two storeys in height out of councils' assessment processes.  But, as Maire was saying, the associations have very strong concerns about the private certification system, and one of the biggest issues has been certifiers not complying with those standards in those plans that councils have and, as Maire said, councils having to then go up and pick up the pieces and fix up the mess.  The certifiers have no opportunity for any sort of cost recovery in that, and where they don't really legally have to.  It's introducing a new third party into the process and our view has been that it hasn't been very successful at all.

**MS SHEEHAN:** Or even where the person who's dealing with the problem just simply doesn't have the resources to fight it, so they're just left with living with it. A small comment on local approvals:  if you follow what they're saying, you'll end up with this everywhere, and that's one of the difficulties with the simplistic approach.  You just don't want to end up with every neighbourhood looking like that.

**MR BANKS:** Yes, okay.  Thank you.

**MS SHEEHAN:** The infrastructure charges:  yes, the contributions don't explain price surges since the mid-1990s.  We made some points about that.  We've got very few options to raise money, and community expectations have increased as rate pegging exacerbates this problem.  People are in a sense demanding a higher level of service.  The whole notion of having a higher level of service is there.  In terms of infrastructure, one of the problems has been that we're dealing with a lot of old infrastructure and we need a lot of money put into it to bring it back up.  Now, it's clearly an intergenerational equity thing.

You just can't let infrastructure run down, because all you're doing is passing the problem on to your kids and their kids.  But every level of government has in a sense let their infrastructure slip because the most expensive part of anything is the infrastructure, so we're having to keep the infrastructure up, but within a context in which our rates are pegged and in which there's a lot of cost shifting to local government, so as federal and state governments start pulling out of various services, there's a sense that your local council will have to pick up on those, and in rural areas local councils are having to engage in all sorts of new activities around economic development and looking at downturns in economies, loss of services out of rural areas, and so on - incredibly complex issues on a very small, constrained rates base, with rate pegging, and of course rate pegging doesn't exist in other states.

There are arguments back and forth, but it is extremely problematic to have it pegged the way it is, but that's a highly political issue. There's no other funding source at a state level which we can use. If you get your section 94 into a good state, that does contribute, but you can't get everything out of section 94. There have to be reasonable demands in that as well.

The HIA made some arguments about the rate of contributions in relation to the cost of a house, the amount of 6.7 per cent, really which is not a massive contribution overall. The extent to which contributions are passed on will depend on market conditions. Councils of course have to be transparent and indicate the rationale behind the charging policy. We can't just rack up charges for nothing - and so on.

Section 94 does not just apply to first home or low-income home buyers. Many existing single and multi-unit dwellings that do not attract contributions are purchased by this group, so it's not just about the new. Then the issue about allowing appeals on infrastructure charge without jeopardising consent - - -

**MR BANKS:** Sorry, if we just go back to section 94, could you give me a sense for a council how much those charges typically would be?

**MS SHEEHAN:** Well, we have a range of section 94s, and every council has a different one. We've got a section 94; we've got a parking levy; we've got an open space and recreation levy; we've got a community services levy and then we've got - not an infrastructure levy but we build into the approval process things like the piping - you know, the water and footpaths and so on. That's kind of built into the building costs, but it's not a levy as such. They are our components. But, again, it wouldn't be outside of that 6.7 per cent.

**DR SHANN:** So what would be in the community services?

**MS SHEEHAN:** Depending on the area, we might look at some child care, some libraries, some youth services - depending on the particular area, particularly serving what the needs might be. But it covers that broad range.

**MR BANKS:** So this might be a development of, say, a higher-density set of flats or something like that. You would then charge them, what, some proportion of their presumed use of such a facility, on some pro rata basis?

**MS SHEEHAN:** Yes, a representative basis. So you'd look at the population as a whole; you'd look at the new population coming in; you'd look at the kind of usage that's there and you'd do a match.  Again, with that section 94 process, of course, we have to do all the calculations, put it all together - because it's a statutory process, it's not just a policy - put it all to exhibition, bring it back in and then you have to clearly state each project you're spending it on.  It has to be itemised.  So we can't just gather all the money and say, "I wonder what we'll spend it on now."  Even with the best planning, it has to be itemised ahead of time.

**MR BANKS:**   We heard reference from the previous participants to a black hole of - was it $180 million?

**DR SHANN:**   800.

**MR BANKS:**   $800 million in section 94 contributions that hadn't seen the light of day since they'd been paid.

**MS SHEEHAN:**   My goodness me.  Look, I'd be really surprised.  I know that generally with section 94 - and I suppose it's a matter of how quickly you roll them out.  If there are delays in rolling out the works that are meant to be done, that's an issue clearly, but we have programs of rolling out our section 94 and they are very clearly in our management plan.  We have various projects and they are priority 1, 2 and 3:  priority 1 is they happen this year; priority 2 is they happen the year after and priority 3 is they happen the year after that.  So you're talking about a three to four-year time frame for projects.  Some projects won't because - for instance, we had some of our section 94 allocated to the purchase of particular pieces of land or buildings for public purposes - be it open space or other purposes.  Now, you obviously have to wait until those buildings become available.

We could go and purchase them compulsorily, but we don't want to do that.  We want to wait until the people who own them or are using them are ready to move on.  So that may well sit in our section 94 for some time.  I know we put funds aside for the purchase of two houses in Leichhardt to extend a park - two old houses in Leichhardt, and there were some pensioners living there and we're not going to chuck them out - so that sat there for six years.

**MR BANKS:**   Yes.  What you're telling us is that you've got no leeway on your rating base to fund those sorts of things, because of rate capping.  Is that it?

**MS SHEEHAN:**   Absolutely.  We're not going to put general revenue in that.

**MR BANKS:**   No, but with property values rising the way they have, surely your rates - I see, the rate cap, yes, okay.

**MS SHEEHAN:**   Capped.  What's capped is not the individual rate, but the total amount of rates you can raise in any area.

**MR BANKS:** Yes.

**MS SHEEHAN:** If it's 50 million, it doesn't matter whether there are a million people there or six, you'd still only get the same amount of money.

**MR BANKS:** Okay.

**MS SHEEHAN:** The commission draft report suggests the type of infrastructure, such as social infrastructure, to be funded from general revenue, which was your question.

**MR BANKS:** Yes, it's more a comment on the rate capping arrangement probably than anything else, from the - - -

**MS SHEEHAN:** Yes, it is, and the cost shifting. If you had rate capping perhaps without the cost shifting, you might be able to make different decisions, but when you've got both, the pressure is enormous. We're not a poor council relatively. We're financially viable - I mean, all the ticks and so on, we're very healthy - we meet all the benchmarks and so forth. We're not a particularly wealthy council, though. The wealthy councils in Sydney are Botany, North Sydney and the City of Sydney, for the time being, because they've got high commercial rates. A commercial rate is a net income; a residential rate is a net cost, because residents cost you, but commercial contribute, because they do their own garbage and they clean up their own buildings and all the rest of it. So if you've got high commercial rates you're doing really well.

**MR BANKS:** Are they capped?

**MS SHEEHAN:** Yes, they are capped, but it doesn't matter because where they will be spending their money is in the residential areas, not in the commercial areas. So they've got a lot of income that they can play with in terms of their residential areas. How you distribute all that around is somebody else's issue really. So, yes, it is a pressure, though, for most councils - apart from them.

The draft report suggests targeting the scheme, the first home owners scheme. Support was stated for retaining the current scheme which would be beneficial to a broad section of the community. You might want to tweak it certainly, because there have been stories about perhaps people who could have afforded to buy the housing, using it and so forth, but there's no doubt that the cost of housing now is so unaffordable in Sydney - and Sydney is the place that is attracting most people to live - that for younger people getting into the housing market it's incredibly difficult.

The whole of state development:  population growth in and around Sydney has been growing faster than the rest of New South Wales since the early 1990s, and we're committed to principles of whole of state development, and that's one of the things that we've been running for quite some time - is looking at a whole of state development so that Sydney doesn't suck everything in and you've got some really good concerted looks at where you put your regional development - because it's unsustainable.  The trend at the moment is unsustainable.

Many towns in regional New South Wales have requested a system to attract migrants to their area, to look at skill shortages and develop new opportunities.  The European Community did that all over the place when they expanded their territory some 25 years ago.  A lot of that has paid off now because you can't afford to have a city or a state with very wealthy areas and very poor areas.  It ultimately will backfire on the whole state.  We've had several conferences and working papers and research and initiatives around that whole of state development.

Affordable housing:  the association has always encouraged partnership with state and Commonwealth governments as well as the private sector and the community and the object of the act encourages councils to address the provision and maintenance of affordable housing.  There are some councils who have done quite a lot of work on that, looking at future housing needs, identifying some local opportunities for affordable housing and strategies that address local housing needs and looking at the planning instruments and how they might impact.

So you've got councils who have done some bonuses, in terms of floor space ratio, to get some affordable housing in.  You've got some rural councils in areas that are becoming unaffordable, because the coastal strip certainly is again starting to become unaffordable for people.  They're starting to look at whether the council can put in place or designate some land that will be clearly designated, if it's going to be developed, for affordable housing only.  So councils are certainly looking at a range of strategies there.

Co-ops haven't been exploited enough.  The whole idea of cooperative housing ownership as an affordable option just hasn't been really extended enough.  A large part is probably because the high levels of home ownership and the dominance of home ownership in Australia has always been there, so those other options have never really been tried and tested, but maybe the conditions that are now emerging will really get - you know, we should be looking at housing associations, housing co-ops, housing in common, et cetera, to look at the affordability.

**DR SHANN:**   Do many councils require some affordable housing to be included in developments, which is so common in the UK?

**MS SHEEHAN:** It's very difficult. I know South Sydney had a very strong policy on that and they were likely to get some outcomes there because of Green Square. We're unlikely to get very many outcomes because we simply don't have the sites. The kids' hospital is a big site but it's not in our area. That's actually South Sydney even though it looks as if it's ours. When they tried to do it at the big development sites down there in Alexandria and so on, they were taken to court. The whole idea of imposing affordable housing was challenged and they won - the developer won.

**MR BANKS:** So the court ruled that it couldn't be included under section 94, so - - -

**MS SHEEHAN:** Yes. So the industry - that particular developer obviously wasn't keen. For something like that it needs to be not just an individual council; there has to be a state government, local government and industry agreement about that, I think, before you can make it really effective.

**MS GREGORY:** Just to add to that, the state government was looking some time ago at a state policy on affordable housing, but it has seemed to have stalled, for want of a better word. It was some time ago, but I'm not too sure - with everything going on now in the state planning reviews - where it is actually going to end up.

**MS SHEEHAN:** Part of what happened was that Plan First started to come in. There was going to be this grand, overarching guideline on how everything would happen. Everything just got bogged down really.

**MR BANKS:** All right. Anything else? Thank you very much for that.

**MS SHEEHAN:** Thank you very much.

**MR BANKS:** It's been very interesting. In the light of this discussion if there are any other things you wanted to make available to us, we would be grateful. Indeed, we may want to - I don't know whether Leichhardt Council would be happy at you having appeared here, if we had any particular things where you could relate your experience at Leichhardt - but things may come up as we're trying to finalise the report.

**MS SHEEHAN:** Absolutely anything. Yes, any information if you're interested, just contact us and we'll be happy to get it - if not from us then from some other source.

**MR BANKS:** Thank you very much for that.

**MS SHEEHAN:** Thank you.

**MR BANKS:** That concludes our participants for today. We'll adjourn until tomorrow morning when we are starting, I think, at 9.30 in this room. Thank you.

AT 5.09 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 3 FEBRUARY 2004

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