NCOSS

SHELTER
NEW SOUTH WALES
HOUSING IS A RIGHT NOT A PRIVILEGE

29th January 2004

Inquiry into First Home Ownership
Productivity Commission
LB2 Collins Street East
Melbourne
Victoria 8003

Dear Madam/Sir

Submission to the Productivity Commission Inquiry into First Home Ownership from the Council of Social Service of NSW (NCOSS) and Shelter NSW

We welcome the opportunity to provide comments on the Interim Report of the Productivity Commission Inquiry into First Home Ownership. Both NCOSS and Shelter have made previous submissions to the Inquiry, identifying key issues and suggesting policy solutions that are of particular relevance to NSW.

This submission will focus primarily on comments regarding the interim report. It will also reiterate the key recommendations of our previous submission in the context of the Interim Report.

About our organisations

The Council of Social Service of NSW (NCOSS) is an independent non-government organisation and is the peak body for the social and community services sector in NSW. NCOSS works towards achieving social justice in NSW community organisation and advocates for disadvantaged individuals and communities in NSW. It was established in 1935 and is part of a national network of Councils of Social Service which operate in each State and Territory and at Commonwealth level.

NCOSS membership is composed of community organisations and interested individuals. Through current membership forums, NCOSS represents more than 7000 community organisations and over 85 000 consumers and individuals.

Shelter NSW is a community-based, statewide, peak housing body, which aims to advance the housing interests of low-income and disadvantaged people in NSW. It is also part of a national network of Shelter organisations in each State and Territory, and is a constituent member of National Shelter. Shelter's vision is to work for a just and equitable housing system, where housing for all is a right, not a privilege.

Comments on the Interim Report

We note the Commission's finding that the dominant source of the widespread escalation in home purchase prices has be a general surge in demand, coupled with easier availability of housing finance[1]. We also note that population growth and household formation trends were not regarded as major drivers of housing price increases.[2] In contrast, the Interim Report concludes that recent boosters such as the tax treatment of residential property investment and direct interventions such as the First Home Owners Scheme (FHOS) [3]have further contributed to increased demand and therefore to house price inflation. Negative gearing is mentioned as a contributing factor to house price inflation as interactions within the taxation system between negative gearing, capital gains provisions and marginal income tax rates lend impetus to investment demand when prices are rising.

On the supply side the report notes the inherent incapacity of supply to respond to dramatic increases in demand (that is, its relative inelasticity) and the particular effect of planning and development regulation upon the supply of new build housing. The main recommendations of the Interim Report flow from this analysis and it is to these recommendations that this submission will now turn.

The tax system

In our previous submission to the Inquiry we suggested that the tax system and its impact on the supply of affordable housing warrants further research and consultation amongst stakeholders. We argued that significant work is needed to determine the capacity of tax reform at both Commonwealth and State to promote affordability and that any tax reform (or changes to subsidy arrangements through tax exemptions) should satisfy a housing affordability benchmark – that is, tax reform would have to deliver affordable housing in a significant way.

Unfortunately the recommendations regarding taxation reform in the Interim Report do not appear to satisfy such an affordability benchmark and therefore offer little to disadvantaged people in NSW in their current form

We have serious concerns regarding the recommendation that *"the 2005 review of Commonwealth – State financial relations consider the removal of stamp duty and its replacement by revenue raised through land tax, payroll tax and the growth component of the GST"* . It is our view that the full range of state and commonwealth taxes (including negative gearing, the tax free treatment of imputed rents and the exemption of capital gain tax on the principal residence) should be subject to review so that a whole of systems approach is taken.

We note that the Commission considers that the preferential treatment of home ownership which is estimated to cost up to $25 billion per annum[4] is best left in place. Similarly, negative gearing is regarded as beyond the immediate scope of reform, even though it

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[1]Australian Government Productivity Commission (2003) *First Home Ownership Discussion Draft* . Pg xv.
[2] *N1* at 53
[3] *N1* at xvii
[4] *N1* at 83

clearly has contributed to the overall increase in housing demand [5] and therefore overshooting of house prices in the last few years.

The report correctly points out that no tax system is perfect and measurement against the principles of good tax design (equity, simplicity, minimal compliance costs, maximising anti avoidance and revenue stability) is a complex matter, not least because of our federal system. The report is also correct in stating that "given the need for governments to raise revenue, the question becomes whether one imperfect set of tax arrangements is likely to be better or worse than an imperfect alternative… there will often be substantial transitional issues which diminish the attractiveness of change".[6]

But even allowing for the above there seems to be a differential in logic regarding the Report's consideration of stamp duty compared to other taxes (eg negative gearing). The report states that the impact of stamp duty, whilst not being able to be determined precisely, "has not been a significant contributor to the recent escalation in house prices".[7] The report concludes that "as stamp duties add only marginally to the price of housing, their removal could not have a large effect on housing affordability", yet then singles out stamp duty for abolition.

The suggestion that stamp duty be replaced by a more comprehensive system of land tax, although attractive in theory would be extremely difficult to achieve in practice. We agree that land taxes, as currently implemented apply very unevenly [8]and are therefore worthy of review. Further research needs to be undertaken to investigate the value in terms of housing affordability of shifting the state based tax treatment away from home purchase entry costs (ie stamp duty) towards taxes that can be spread over the life of a mortgage (for example progressive land tax on all properties) in terms of affordability impacts, revenue stream implications and potential hypothecation on revenue generated in to affordable housing projects.

One possibility for reform that could be researched is the efficacy of introducing land tax holidays for investors in affordable housing stock targeting low income renters. In particular modelling up how many units of affordable housing would be generated through such an exemption. Robust mechanisms for locking in investment to ensure the long term provision of this much needed affordable housing would be an integral part of any potential reform in this area.

NCOSS has repeatedly made submissions to the NSW government that land tax should be made more progressive and increased. In the NCOSS 2004.05 Pre Budget Submission it is recommended that land tax be reformed by:

- extending Premium Property Tax to apply to the top 0.3% of properties
- increasing the rate to 1.75% for properties with a land value of between $3m and $5m; and
- increasing the rate to 2% for properties with a land value of $5m or over.

However, In NSW at least there is strong media pressure to limit land tax and the chances of applying it to all properties would be highly unlikely to be achieved in the current political climate even if stamp duty was removed. Recent announcements by the NSW Opposition that holiday home owners should be given a land tax holiday indicate how

[5] *N1* at 87
[6] *N1* at 75
[7] *N 1* at xxi
[8] *N1* at 77

politically volatile the tax and housing debate has become. By opening up the pandora's box of abolition the Commission may well entrench the expectations amongst home owners that the family home is beyond the reach of the tax system. The continuing preferential tax treatment of the family home under federal tax law could add impetus to this expectation. Our fear is that much needed revenue from stamp duty will be sacrificed and political realities will step into the way of effective replacement. Thus, whilst at first glance the Interim Report suggestion that making land owners subject to land tax as a quid pro quo for the removal of stamp duties is attractive we are fearful that the quid pro quo would never be effectively realised.

The report argues that stamp duty acts as a hindrance to home ownership transfers, locking in existing owners and acting as a disincentive to trading up. However, only 16 per cent of home purchasers are first time buyers, suggesting that the remainder are either trading up or investors. It would seem safe to assume that the majority of this remainder were existing owners trading up, thereby negating the argument that stamp duty is locking owners into existing properties. We therefore consider the locking in argument to be secondary to the more fundamental questions of equity, efficiency and encouraging investment in affordable rental housing.

Nor are we convinced that in the current political climate, payroll tax can provide an alternative revenue stream to stamp duty. Whilst there is considerable merit in the idea of extending payroll tax the harsh reality is that many commentators still view payroll tax as a tax on jobs and it is in these terms that much of the debate would be likely to be had.

According to NSW Treasury Estimates in 2002 only one in ten employers paid payroll tax . This relates to the relatively low tax threshold of only $600,000. NCOSS has argued in its 2004.205 Pre Budget Submission that a concessional rate of payroll tax of 5% be introduced for businesses with a payroll of between $550,000 and $600,000 in an attempt to broaden the base of payroll tax.

In the current climate is seems unrealistic to expect that payroll tax could be reformed in such a way to broaden the base and raise the rate to the levels necessary to replace revenue currently collected through stamp duty. In NSW in 2002.03 this amounted to just under $5.2 billion of which an estimated $3.5 billion was raised through land related stamp duty.[9] In the same year payroll tax generated $4.7 billion.[10] Therefore payroll tax revenues would need to be increased by approximately 75% on top of existing receipts to cover the shortfall created by an abolition land based stamp duty. Even if revenue generated through land tax is added ($1.15 billion in 2002.03[11]) an extra $2.3 billion would still need to be generated to maintain the existing revenue base.

NCOSS and Shelter NSW are therefore of the view that in the absence of a comprehensive review of all state and commonwealth taxes impacting on housing affordability, state governments will lose a much needed revenue stream if the recommendation to abolish stamp duty is taken forward in isolation.

Therefore, we urge the Productivity Commission to amend their taxation recommendations to bring forward a comprehensive review of all state and commonwealth taxes and allowances (including negative gearing, imputed rents and capital gains tax) with a view to determining options for reform that would promote housing affordability across all tenures.

[9] Estimate from Frank Stilwell

[10] Office of State Revenue NSW (2003*) Annual report 2002.03* pg 4

[11] *N9* at 4

Land release and the planning system

The Interim Report argues that on the supply side, there is scope to moderate affordability pressures by:

- improving land release and planning approval processes; and

- ensuring that developer charges for infrastructure relate appropriately to the benefits accruing to a development.

Whilst everyone would welcome improvements in land release strategies, the suggestion to move away from developers levies for social infrastructure is of great concern. NCOSS and Shelter NSW do not accept the Interim Report recommendation that developer charges (such as S94) currently used to fund major infrastructure such as headworks and social/community wide infrastructure and open space be replaced by funding from general charges and revenue sources, including borrowing. Our reasoning is threefold:

1. The proposition that those who stand to make a substantial profit out of developing a “green field” or “brownfield” site should be required to contribute towards the level of long term community well-being in that development is sound and should be maintained through regulation and incentives. We reject the assumption that social infrastructure is not justified on efficiency and equity grounds.[12]

2. Developers levies are not impacting as heavily on house prices as some developers would suggest, there fore the affordability impacts are marginal. The interim report states “While charges have increased in many cases, they are not at such levels as to explain much of the recent increase in house prices. Industry estimates of potential savings from better charging regimes seem greatly overstated”[13]. This begs the question : *“Ïf developers levies are not significantly impacting on housing affordability, why does the Interim report recommend reform?* Indeed, in the example provided in the report regarding S94 contributions less than one per cent (0.6%) of the developer contribution was towards social infrastructure, as defined by the Productivity Commission.[14]

3. Any review of the means to finance community infrastructure and recurrent services should be consistent with a framework of achieving positive social outcomes for local communities. Significant developments, whether of the urban consolidation, urban fringe or regional city/rural town type, should be planned in a manner which enhances positive community well- being in both the short and long term. The question is therefore not solely one of “how to apportion the fixed costs of infrastructure across users and beneficiaries”[15]but how to produce the best outcomes in terms of community well being.

It is on this basis that NCOSS recently made submissions to the NSW Government review of S94 contributions. In those submissions it is argued that local government, as the tier of government most closely aligned to location based developments, is the most appropriate vehicle to be the lead agency in the collection and distribution of contributions made by developers. However, concerns are noted that there are varying capacities of local

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[12] *N1* at 115
[13] *N1* at xxv
[14] *N1* at 119
[15] *N1* at 121

Councils to effectively plan for the use of the contributions, reach decisions about the uses and deliver the infrastructure in a timely manner

There are also concerns about the inability of Councils to utilise any of the funds collected for other than capital purposes in the construction, purchase of establishment of community facilities; and the perception from other local communities with inadequate community infrastructure, within local Council boundaries, that they are being discriminated against because of their relative inability to have developer contributions applied to their needs. This final point sits at odds with the views expressed by the developer lobby that existing residents are somehow enjoying a free ride in terms of social infrastructure, however it is the view expressed at regional forums of NCOSS.

The Interim Report suggests that (save for major economic infrastructure) all other infrastructure costs, including social infrastructure be funded by general revenue, including borrowing. It is argued that affordability could be improved by reducing up front charges and extending the costs across the community (one assumes through local government rates). The danger in this approach is a heavier reliance on public borrowing in the absence of large scale reform of local government financing. NCOSS and Shelter considers that state government should be required to work with local Councils and indicate the levels of forward commitment funding for both recurrent and capital human services in localities earmarked for major development. However we are concerned that the removal of S94 contributions for community infrastructure in the absence of wholesale reform of local government financing could lead to a decline in the provision of essential community infrastructure.

Betterment taxes

We note then when reviewing the issue of developer levies and the planning system the Report makes no detailed analysis of the potential value of betterment taxes in the planning system. Betterment taxes have the potential to forge a meaningful nexus between taxation, development, affordable housing and community infrastructure without jeopardizing economic development. This is because betterment taxes would be likely to only apply to significant capital gains that have been realized upon re-zoning.

It is our view that in the same way that developers who make a substantial profit from major residential and commercial developments should continue to contribute to long term community well-being in those developments, landowners, who have, and continue to make major profits from the sale of holdings which are rezoned, should make a similar contribution. Developers must take account of the costs that they impose on others as a consequence of development. By allowing development in their areas through re-zoning, communities suffer stress on existing local infrastructure. Developers should display corporate responsibility and contribute by way of a reasonable betterment tax.

We are aware of a range of current discussions across local Councils about the desirability of the NSW Government re-introducing betterment taxes. We are advised that some local Councils, with massive “greenfield” developments proposed, are examining a levy on rezoning of land for the purposes of contributing to the costs of recurrent essential human services in the future as an active option.

NCOSS and Shelter NSW supports a trial or pilot of introducing betterment type taxes in some local Council areas where substantial population growth business development is being earmarked (applied to rezoning for both residential and commercial uses), especially if the approach allows for the local Council to apply the proceeds to capital and recurrent human services across the LGA.

Affordable housing targets

We note that the report does not substantially address the issue of building in affordable housing targets into the planning approval system. [16] For low income households (earning less than $40,000 pa), wishing to purchase, entry level prices of $350,000-$400,000 in most developments already well preclude them from participating in housing ownership. Other robust and well targeted affordable housing measures are required to ensure an effective income mix in most major residential developments.

NCOSS and Shelter NSW consider that affordable housing, as a key contributor to building cohesive, mixed communities should be included in the definition of basic services/infrastructure. Affordable housing is an essential service that all members of the community (including developers and Government) have responsibility for.

Mandatory affordable housing benchmarks and plans are a feature of planning systems overseas, for example the Greater London Authority requires that local Borough plans (known as Unitary Development Plans or UDP's) contain minimum targets for affordable housing. Ät present most London Boroughs seek around 25 per cent affordable housing through planning". [17] The London Mayor's Housing Commission envisages even higher targets – up to 50 per cent London wide, comprising 35 per cent for social renting and 15 per cent for new housing. Whilst the prevailing market conditions, including availability of public subsidy for social housing are quite different to those in Australia, the notion of setting affordable housing benchmarks through the planning system is a valuable one and worthy of further consideration by government.

First Home Owners Scheme (FHOS)

FHOS beneficiaries are most likely to be young, better qualified, in employment and with incomes higher than those typically renting.[18] The additional finding that the majority of first home buyers have above average incomes, with over 60 per cent reporting gross weekly incomes in the top two income quintiles, up from 50% in the early 1990's[19] is indicative of the significant differentials in housing options determined by income. It is also indicative of how equity and social justice arguments have not been at the forefront of recent housing policy.

When we consider that $3.8 billion has been spent on the First Home Owners Scheme (FHOS) by State and Federal governments in the last three years and assuming all first home owners eligible for the subsidy have taken it up, we can estimate that $2.28 billion has been spent assisting high income earners into home ownership.

Whilst we recognise the social benefits associated with home ownership one must question the economic efficiency of the FHOS, particularly in light of the Commission's finding that most recipients of the FHOS would have entered into home ownership anyway, and that its impact was largely to pull forward purchasing decisions[20] rather than assist people in need to enter into secure housing.

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[16] A brief reference is made at page 147

[17] Greater London Authority (2001) *Affordable Housing in London,* Executive Summary pg vi

[18] *N1* at 151

[19] *N1* at 28

[20] *N1* at 57

We therefore support the reports conclusion that government seeking "ever increasing levels of home ownership would be neither efficient nor equitable"[21] and agree that neither the "Shared Ownership" or "Lifeline" models as currently formulated would contribute positively to a government strategy to promote affordability.

We are pleased to see that the Commission has agreed with our recommendation that the FHOS should be better targeted and note that the exact workings of any means test would need to be developed in consultation with stakeholders, including the non government sector.

NCOSS and Shelter NSW also agree that current support provided through the FHOS and other arrangements might provide a greater return to the community were it re-directed into other measures to support the housing needs of low income households, however we do not agree that the reduction or abolition of stamp duty would fall within the range of useful alternative spending priorities.

Rather, potential savings from improved targeting of the FHOS should be utilized to address the ongoing neglect of funding for social housing over the last ten years.

The lack of social housing in NSW and its contribution to homelessness and housing related poverty is well documented. At June 30 2003 the number of households on the general housing register for the NSW Department of Housing was 80,188. [22] The Australian Bureau of Statistics estimates that there are just 100,000 people who are homeless in Australia, of these over one quarter (26,676) are in NSW.[23]

NCOSS and Shelter NSW therefore re-state their previous recommendations that***:***

- That the Commonwealth and State Governments increase funding for social housing under the Commonwealth State Housing Agreement to $4.7 billion per year, or failing this, to a level where social housing is at least able to maintain its current proportion of total housing stock.

- That the Commonwealth and State Governments commit to a series of short, medium and long term targets for the social housing sector, both in absolute terms and relative to total housing stock. In NSW this includes a target to double the social housing stock in the next ten years at an estimated cost of $1.8 billion.

Other recommendations not addressed in the Interim Report

We recognise the challenge the Commission faces in producing a report that identifies the key issues, imparts enough information to allow the reader to form a view and also remains a manageable size. However we were disappointed to see that two of our key policy suggestions were not canvassed in the Interim Report.

The need for a national housing policy

NCOSS and Shelter NSW believe that the lack of affordable housing is symptomatic of a broader malaise in national housing policy. Lack of affordability and resultant housing related poverty is becoming systemic – reflecting the mismatch (and at times direct contradictions) in the housing, employment, investment, and taxation and welfare systems.

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[21] *N1* at 143
[22] Audit Office of NSW (2003*) NSW Auditor-General's Report Financial Audits. Volume Five* . Pg 180
[23] ABS (2003) *Counting the Homeless 2001.* pg 6

We therefore recommend that a National Housing Policy Framework be developed to inform housing policy direction at all levels of government. The Framework should be devised in consultation with key stakeholders, including Federal, State and Local Government, housing consumers and providers, the housing industry, support agencies and relevant community groups. It would bring together under one umbrella the range of strategies and policies to deliver affordable housing in all tenures; and allow financing and other decisions to be made on the basis of agreed, national, housing priorities.

Regional Policy
We are also concerned that the particular issues facing regional and rural Australia were not fully canvassed in the Interim report. The report contends that regional policy is complex and that unintended consequences may result from short term policy solutions.

We appreciate the Commissions caution and agree that a detailed and comprehensive re-think of regional policy is the correct approach. We therefore urge the Commission to support our recommendation that that all three tiers of government work together to develop a coherent, sustainable regional development strategy with a focus on job creation, community infrastructure (including in particular transport) and the supply of affordable housing across all tenures.

We note that the NSW Government submission to the Inquiry confirms that households earning less than $40,000 could afford to purchase less than 10 per cent of properties in Sydney. Further, that households earning the median NSW household income could afford less than 20 per cent of properties in coastal regions. This compares to a figure of more than 40 per cent for non coastal regional NSW.[24]

It is clear that a lack of suitable housing is contributing to regional disadvantage and that patterns of housing affordability, employment opportunities and infrastructure provision are intertwined in such a way that distinct disparities between regions are becoming entrenched. Thus, a community and social strategy is needed to complement the economic and housing strategy if we are to find long standing solutions

NCOSS and Shelter NSW are of the view that regional development policies need to take as their starting point recognition of the economic and social interdependencies of housing, employment, transport, social participation, community infrastructure and regional identity. It should also be recognised that social, economic and environmental factors interact at a sub-regional and local level in differing ways; so that a one size fits all policy approach will not necessarily produce the best result in all areas.

Thank you for considering this submission. Should you require any additional information please contact Michelle Burrell Deputy Director (Policy) at NCOSS on 9211. 2599 ext 112 or michelle@ncoss.org.au

Yours faithfully

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[24] *N1* at 30