



**Submission**  
**to the**  
**Productivity Commission**  
**on**  
**Local Government Revenue Raising Capability**

**July 2007**

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*building australia*



## **EXECUTIVE SUMMARY**

The challenge for the Productivity Commission will be to examine why local government has dramatically increased its reliance on other income sources, particularly developer charges and levies and what can and should be done about it?

The building industry has long complained that local government appears to have lost sight of the cost burden it is imposing through inefficiencies. Master Builders Australia, Australia's peak industry body, has for some time been calling for action to examine the fiscal practices of local government and its impact on housing affordability.

The Productivity Commission Study should have as a primary aim to put the spotlight on local government to see how it discharges its responsibility in relation to revenue raising and the delivery of community services and infrastructure and help to establish the facts relating to local government finances and the fiscal arrangements between the three tiers of government.

Developer charges, as currently configured, involve inequities and introduce considerable complexity, administrative costs and are open to significant disputation and litigation (The Allen Consulting Group, Funding Urban Public Infrastructure, August 2003).

Survey-based evidence shows that builders are concerned that infrastructure charges and levies are constraining their businesses. Master Builders asks the Productivity Commission to consider the impact on builders, developers and consumers alike, of recent trends in local government revenue raising practices, particularly the "get the developer to pay approach" which is inefficient, inequitable and only leads to worsening housing affordability in the long run.

It is to be hoped that the evidence based approach adopted by the Productivity Commission will inform current debate on this issue and lay the groundwork for improved government policy and point the way forward in order to arrive at a better model of federation, one that better sorts out the roles, responsibilities and ground rules across the three levels of government.

## **1 INTRODUCTION**

- 1.1 This submission is made by Master Builders Australia Inc (Master Builders).
- 1.2 Master Builders represents the interests of all sectors of the building and construction industry. Master Builders consists of nine State and Territory builders' associations with over 29,000 members.
- 1.3 Master Builders Australia welcomed the announcement by the Treasurer that the Productivity Commission would undertake a study to examine local government's own revenue sources as a clearer picture of local government's financial capacity and spending patterns is important for both home buyers and builders alike.
- 1.4 The building industry has for a long time complained that local governments appear to have lost sight of the cost burden they are imposing through inefficiencies.
- 1.5 Master Builders Australia has for some time been calling for action to examine the fiscal practices of local government and its impact on housing affordability.
- 1.6 The Study will put the spotlight on local government to see how it discharges its responsibility in relation to revenue raising and the delivery of community services and infrastructure and help to establish the facts relating to local government finances and the fiscal arrangements between the three tiers of government.

## **2 OVERVIEW OF THE INDUSTRY**

- 2.1 The building and construction industry is a major driver of activity in the Australian economy. It is comprised of residential building, non-residential or commercial building and engineering construction. Output of the construction industry was \$113 billion in 2006, close to 7 per cent to the Australian economy and 9 per cent of the workforce. As well as its own contribution to GDP, it has a significant impact upon the efficiency and productivity of other industries. As such any misalignment in supply and demand has a domino effect on the rest of the economy.

- 2.2 The industry is extremely diverse, with employment in businesses ranging from a few people in family owned firms to hundreds in major firms which work domestically and internationally. However, nearly all firms are small businesses (207,000 firms employing between 1-19 people), with some medium sized firms (2,100 firms employing between 20-99) and a small number of large firms (300 firms employing 100 or more people).

### **3 TERMS OF REFERENCE FOR THIS INQUIRY**

- 3.1 The Productivity Commission has been requested to undertake a research study assessing local government revenue.
- 3.2 In undertaking the study the Commission is to examine the capacity of local government to raise revenue including:
- 3.2.1 The capacity of different types of councils (eg capital city, metropolitan, regional, rural, remote and indigenous) to raise revenue and the factors contributing to capacity and variability in capacity over time;
  - 3.2.2 The impacts on individuals, organisations and businesses of the various taxes, user charges and other revenue sources available to local government; and
  - 3.2.3 The impact of any State regulatory limits on the revenue raising capacity of councils.
- 3.3 Master Builders will focus on 3.2.2, that is, the impact on builders, developers and consumers alike, of the dramatic increase in other income sources, particularly developer charges and levies.

### **4 DEVELOPER CHARGES**

- 4.1 The challenge for the Productivity Commission will be to find out why local government has dramatically increased its reliance on other income sources, particularly developer charges and levies. What can and should be done about it?
- 4.2 The Productivity Commission's own figures show that growth in 'other income' which includes developer charges and other financial contributions, grew from

\$1.4 billion in 1996-97 to \$4.5 billion in 2005-06, at an average annual rate of growth of over 14 per cent (separate data on developer charges would be useful). Ten years ago, this category was a relatively insignificant component of local government revenue but after such rapid growth (the fastest of any revenue component), it has now become a major source of revenue to councils.

- 4.3 As noted, Master Builders' is concerned about the adverse impact of increases in local government revenue raising, particularly developer charges. Given the extremely competitive nature of the building industry, builders are forced to simply pass on any additional imposts which means that the impact of increased charges is felt by builders and consumers alike. As the section below shows, builders are concerned about this issue.

## 5 NATIONAL SURVEY OF BUILDERS

- 5.1 Master Builders undertakes a national survey of its members on a quarterly basis. In the June quarter 2007, over one thousand (1,023) responses were received from builders involved in all sectors of the building and construction industry: residential, renovations, commercial building, engineering construction, sub-contracting and materials supply. The survey allows members of Master Builders to present their views on the national economy and the condition of their enterprises. The survey also provides information regarding on-going constraints on activity and availability of resources.
- 5.2 The June quarter 2007 survey shows that builders are concerned about housing affordability and a number of constraints on their business. Nearly forty per cent of respondents expressed a large or major concern about housing affordability and over 50 per cent expressed the belief that housing affordability will deteriorate over the next 12 months.

**Ranking of Constraints**

Ranking	Moderate, Large or Major effect on Business	
	March 07	June 07
1. Development/planning approval process	58.6	59.8
2. Availability of labour	51.1	44.9
3. Infrastructure charges and levies	44.9	40.1
4. Availability of land	34.4	36.9
5. Availability of finance	21.5	19.1

- 5.3 Builders were most concerned about local council development/planning approval processes, with nearly 60 per cent of respondents believing this issue was having a moderate, large or major effect on their business. As the table shows, over 40 per cent of respondents indicated concern with infrastructure charges and levies. Builders were also concerned about planning/development approval delays, with over 70 per cent indicating a moderate to major level of concern.

**What effect are Infrastructure charges and levies having on your business?**

	<b>March 2007</b>	<b>June 2007</b>
No effect	24.7	24.8
Slight effect	30.3	35.1
Moderate effect	18.7	21.0
Large effect	12.7	13.9
Major effect	13.5	5.2

## **6 FUNDING INFRASTRUCTURE**

- 6.1 Master Builders has long advocated a disciplined use of public debt to fund essential infrastructure. This approach:
- Spreads the infrastructure burden across the entire community (which benefits from it).
  - Spreads the burden across several generations (not just today's homebuyers) as infrastructure is intergenerational.
  - Is funded at a lower economic and social cost than the alternative (forcing home buyers to pay for the debt through their mortgage).
- 6.2 There has been no shortage of studies that are critical of the way developer costs have been ramped up to pay for infrastructure.
- 6.3 "They (current development regulatory framework) impose an enormous cost on developers in terms of holding costs and developer contributions, and all of that is passed on to the consumer. (Professor Bob Stimson, quoted in Residential Developer magazine 2007)

- 6.4 “It is simply unfair to expect new home buyers to pay for public infrastructure on behalf of the wider community where there are hundreds of millions of dollars already raised for that purpose that haven’t been used.” (Ross Elliott, Residential Development Council Executive Director, Media Release, 2 July 2006).
- 6.5 The findings of an authoritative research study into urban public infrastructure found that:
- “Government at state and local levels should view that recapitalising our cities is essential to maintain and enhance their economic, social and environmental sustainability.
  - The case for the greater use of government debt is strong.
  - Fundamental public finance arrangements need to be revisited.
  - The trend towards ad hoc and wasteful infrastructure funding techniques should be halted.” (The Allen Consulting Group, Funding Urban Public Infrastructure, August 2003)
- 6.6 The Report makes the point that “Current fiscal policy approaches eschew debt and tax increases... A recent development is the increased reliance upon producer levies, especially developer contributions. Governments are trying new levy approaches and more seem to be in the policy pipeline.” (The Allen Consulting Group, Funding Urban Public Infrastructure, August 2003)
- 6.7 What The Allen Consulting Group concluded was that a better way forward is an approach that matches the cost to the community to the benefits from the use of infrastructure which are obtained over time – that is, government debt and special purpose financial arrangements.
- 6.8 The report was scathing in its criticism of developer charges:
- “What is striking is that the economy wide costs from the use of a producer levy (eg, a developer charge) nearly wipe out the benefits derived from the infrastructure it funds.” (The Allen Consulting Group, Funding Urban Public Infrastructure, August 2003)



## **7 HOUSING AFFORDABILITY, COUNCIL CAPABILITY**

- 7.1 It is unfortunate that some state and local governments have lost sight of the cost burden they are imposing. The core of the housing affordability problem is on the supply side of the market and the decline in housing affordability is a direct result of inefficiencies in land supply, development approval process, increased building regulations, and taxes and charges, particularly stamp duty.
- 7.2 Master Builders has called for improved land release and planning approval processes, a review of developer charges with increased funding from general revenue sources and the replacement of stamp duties with less distorting taxes, particularly the growth component from GST revenue.
- 7.3 Home ownership is one of the cornerstones of Australia's social fabric and wellbeing and it is important that affordable housing is within reach of all Australians. This task is even more urgent now given recent increases in house prices which have made it that much more difficult for new purchasers to enter the market.
- 7.4 Reduced delays in the planning approval process would deliver greater certainty and consistency in planning decisions. Unnecessary council delays for planning approvals add to builders' holdings costs which in turn are passed on to homebuyers thereby impacting on housing affordability.
- 7.5 Master Builders notes considerable work has been done to improve the current planning systems around Australia, but believes it has not gone far enough and that in some cases efforts have stalled. Master Builders' National Housing Council has put forward a ten point plan to redress current deficiencies in the planning approval process:
- Increase the use of independent experts in the decision-making process.
  - Create a statutory framework for private sector certification.
  - Simplify compliance with planning schemes (as of right).
  - Improve accessibility and understanding of planning schemes.



- Accelerate the use of electronic lodgement and tracking of planning applications.
  - Mandate the completion of council planning checklists at pre-assessment application stage.
  - Improve council mediation processes.
  - Adopt standardised planning application information across councils. Streamline referral processes to other approving agencies and authorities.
  - Standardise application forms and processes.
  - Reduce turnover of experienced planning staff.
- 7.6 The ten point plan should go a long way towards fixing an increasingly ailing planning system and reduce the regulatory cost burden impacting on the building industry, thereby improving housing affordability.
- 7.7 According to the Australian Bureau of Statistics, house builders paid out \$740 million in interest expenses alone in 2004-05. A reduction of 15 per cent through further efficiencies and streamlining would mean cost savings of more than \$100 million per annum to builders and consumers alike.
- 7.8 Master Builders also calls for measures to prevent unnecessarily high expenditure on infrastructure, or 'gold plating' and to make sure councils only use developer charges to offset the direct cost of earmarked infrastructure and not use them for general revenue.

## **8 ENDNOTE**

- 8.1 It is to be hoped that the evidence based approach adopted by the Productivity Commission will inform current debate on this issue and lay the groundwork for improved government policy and point the way forward in order to arrive at a better model of federation, one that better sorts out the roles, responsibilities and ground rules across the three levels of government.