

30 August 2010

Ms Louise Sylvan  
Presiding Commissioner  
Performance Benchmarking of Australian Business Regulation: Planning, Zoning and  
Development Assessments  
Productivity Commission  
GPO Box 1428  
Canberra, ACT 2601

Dear Ms Sylvan

Master Builders Australia welcomes the Productivity Commission Inquiry on Planning, Zoning and Development Assessments. The Inquiry is very timely and relevant to what will be a major economic and social problem if there is no change to current government policy settings. Master Builders' submission on the Issues Paper is enclosed.

Master Builders contend that Governments need to embrace a package of reforms including reform of developer charges, timely land release programs, efficient and effective planning and development approval processes and removal of stamp duties.

The Henry Tax Review undertook a major analysis of Australia's housing affordability challenge and came up with two key recommendations: to free up zoning and planning and to set appropriate infrastructure charges (developer charges).

Reforms in Planning, Zoning and Development Assessments systems and processes must be top priorities for the all governments. The Commonwealth needs to provide strong leadership and funding where appropriate to ensure that reform is effected quickly and efficiently.

We look forward to working with the Commission in these matters and would be happy to discuss them with you and your team. Should you have any questions regarding our submission, please contact in the first instance Mr. Bob Appleton our National Director, Technical and Regulatory Policy.  
Yours faithfully

**Wilhelm Harnisch**  
**Chief Executive Officer**





**SUBMISSION TO  
THE PRODUCTIVITY COMMISSION  
on Issues Paper**

***Performance Benchmarking of Australian Business Regulation:  
Planning, Zoning and Development Assessments (May 2010)***

**August 2010**

Master Builders Australia Limited ABN 68 137 130 182

building australia



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## **1. OVERVIEW**

- 1.1 A lack of affordable housing adds to social dislocation and threatens Australia's economic growth and productivity. The family home has increasingly become unattainable as a confluence of circumstances have mitigated against an average Australian household realising the goal of affordable home ownership. Home ownership is one of the cornerstones of Australia's social fabric and wellbeing and it is imperative that affordable housing remains within reach of all Australians.
- 1.2 The National Housing Supply Council has estimated the cumulative shortfall in new housing at around 180,000 dwellings. The shortfall in new housing is not due to industry incapacity but rather supply constraints that prevent the industry from supplying not only the required quantum but also affordable new housing.
- 1.3 Master Builders contends that there has to be an urgent and increased focus on the supply side of the problem. Demand is not the problem and more demand driven solutions by themselves will only drive up house prices. Supply side constraints need to be urgently addressed.
- 1.4 The Henry Tax Review undertook a major analysis of Australia's housing affordability challenge and came up with two key recommendations; to free up zoning and planning; and to set appropriate infrastructure/developer charges. Reform pursued through COAG must be a priority for the new Government.
- 1.5 The Henry Tax Review got it right - Australia's planning, zoning and development assessment systems and procedures are not currently working efficiently and effectively. Urgent action is needed to solve one of Australia's most pressing economic, social and political problems.
- 1.6 While governments have made some small steps to improve the regulatory and administrative systems associated with planning, zoning and development assessments, there is still a significant amount of change required to make these systems more efficient and effective.
- 1.7 There are limits to what the Federal government can do directly, given that constitutionally housing is a state and territory government responsibility. Nonetheless, the Australian Government needs to take a strong leadership role. While the Australian Government and COAG have committed to various measures in reform of these systems, the progress is exceedingly slow.

- 1.8 Master Builders therefore welcomes this Productivity Commission Inquiry as very timely and relevant to what will be a major economic and social problem if there is no change to current government policy settings.
- 1.9 Master Builders believes that a system of benchmarking is required to provide the basis for improved systems designed to ensure more transparent and efficient, long-term development of the nation's housing and associated infrastructure requirements to meet Australia's economic and demographic imperatives.
- 1.10 Master Builders believes that an open, transparent and formal monitoring process should be designed, and with appropriate industry involvement.
- 1.11 A system of benchmarking would encourage continuous improvement given that rigorous monitoring of public sector performance, with regular reporting, would be in the public domain.

## **2. INTRODUCTION**

- 2.1 This submission is made by Master Builders Australia Limited (Master Builders).
- 2.2 Master Builders Australia is the nation's peak building and construction industry association, federated on a national basis in 1890. Master Builders Australia's members are the nine Master Builder State and Territory associations.
- 2.3 Over the past 120 years the association has grown to represent over 30,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry body that represents all three building and construction sectors: residential, commercial and engineering.

## **3. THE BUILDING AND CONSTRUCTION INDUSTRY**

- 3.1 The building and construction industry is a major driver of the Australian economy. It makes an essential contribution to the generation of wealth and the welfare of the community, particularly through the provision of shelter. At the same time, the wellbeing of the building and construction industry is closely linked to the prosperity of the domestic economy.
- 3.2 According to the ABS, the value of work done by the building and construction industry was \$152.5 billion in 2009, excluding \$20 billion of smaller renovations work. Residential building work done was \$43.3 billion, non-residential building \$32.5 billion and engineering construction \$76.7 billion. At May 2010 the construction industry employed 1,014,100 people.

- 3.3 The cumulative construction task over the next decade will require work done to the value of \$2.2 trillion. The residential building sector will require nearly \$1 trillion worth of work and the non-residential building and engineering construction sectors combined more than \$1.1 trillion worth. The construction workforce currently represents close to 9 per cent of the total Australian workforce with the number of jobs expected to increase by more than 200,000 to around 1.2 million employees by 2020.

#### **4. PURPOSE OF THIS SUBMISSION**

- 4.1 This submission sets out Master Builder's comments on the Productivity Commissions' Issues Paper "Performance Benchmarking of Australian Business Regulation: *Planning, Zoning and Development Assessments*".
- 4.2 In recent years Master Builders has made a number of related major submissions to government which include planning, zoning and development assessment issues and policies. These include a submission to the Senate Select Committee on "Housing Affordability in Australia" (see Attachment 1) and on Infrastructure Charges to the Henry Tax Review (see Attachment 2) which are provided for consideration in the Inquiry.

#### **5. HOUSING SUPPLY AND AFFORDABILITY**

- 5.1 In March 2008 Master Builders made a submission to the Senate Select Committee on "Housing Affordability in Australia". This submission contained a ten year projection of the value and number of residential dwellings that need to be built to meet Australia's social and economic needs. It also explains that there is an urgent need to develop a unified national strategy to combat the crisis in housing affordability.
- 5.2 Master Builders called on all governments to embrace a package of reforms including 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 plus less regulation to address this important issue. This substantial document discusses the issues involved, the policy needs that must be addressed, the problems associated with the lack of land release, taxes and levies imposed by state and territory governments and the effect on the market of government intervention in the Housing Sector, including planning. A copy is attached (Attachment 1).



- 5.3 The national challenge to housing affordability is complex and multidimensional and made more complicated by the federal system of government. This should not provide any excuse for the Government, or for that matter state, territory and local government to do nothing, or next to nothing, and to shift the blame and responsibility to others, particularly the private sector.
- 5.4 There is an urgent need to develop a unified national strategy to combat the crisis in housing affordability. Australia has suffered for over a decade from policy neglect at all levels of government.
- 5.5 The key will be implementing promised improvements in cooperation and collaboration between the Commonwealth Government and the states. The housing issues are real and there are many pieces of the puzzle that form the solution. A problem like this cuts across local, state and Commonwealth responsibilities. It needs a national approach and hence the importance of enhanced cooperative arrangements between the Commonwealth and state governments through the COAG process.
- 5.6 Master Builders calls on all governments to embrace a package of reforms including 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 plus less regulation.
- 5.7 The lack of affordable housing adds to social dislocation and threatens Australia's economic growth and productivity. The total cost of the family home has increasingly become unattainable as a confluence of circumstances have mitigated against an average Australian household realising the goal of affordable home ownership. Home ownership is one of the cornerstones of Australia's social fabric and wellbeing and it is imperative that affordable housing remains within reach of all Australians.
- 5.8 The National Housing Supply Council has estimated the cumulative shortfall in new housing at around 180,000 dwellings. The shortfall in new housing is not due to the lack of production capacity of the industry but rather the supply constraints that prevent the industry from supplying not only the required quantum but also affordable new housing.
- 5.9 There has to be a focus on the supply side of the problem such as dealing with chronic land shortages. Demand is not the problem and more demand driven solutions by themselves will only drive up house prices. Demand measures must



be matched with supply side reforms and supply constraints need to be urgently addressed.

- 5.10 Master Builders welcomes the Government's past range of initiatives for dealing with housing affordability, including: infrastructure assistance to local governments, subsidies for rental investment properties, setting up a special savings fund for first home buyers and releasing Commonwealth land. These are important and immediate steps but by themselves are not long-term or sustainable solutions.
- 5.11 A recent key decision of COAG was to make housing a priority for microeconomic reform for 2010 with Treasurers to lead the development of a housing reform agenda with Housing and Planning Ministers. State and Territory Treasurers were tasked with the job of developing a reform agenda to tackle housing supply and affordability issues. States and Territories also agreed to have capital city strategic plans by 2012 that will be independently assessed by the COAG Reform Council.
- 5.12 In terms of affordability, the Henry Tax Review undertook a major analysis of Australia's housing affordability challenge (an extract can be found in an appendix to this submission) and has come up with two key recommendations; one - to free up zoning and planning and two - to set appropriate infrastructure charges (developer charges). Those reforms must be top priorities for the new Government to be pursued through COAG.
- 5.13 The housing sector is constantly subject to increased regulations and standards that add to cost. The cumulative effects of this regulatory cost creep have added to Australia's affordability problem.
- 5.14 The recent decision by COAG to increase the energy efficiency standard for new residential dwelling to six stars is an example. The government's own Regulatory Impact Statement (RIS) showed that the mandating of six stars would not provide a cost-benefit to the community but in fact provide a loss to the community of \$444 million. Mandatory minimum energy efficiency standards for new homes should not go beyond a six star rating. Going to seven and eight star is not warranted and can only unnecessarily add to the cost of home ownership for young home buyers and add a further cost barrier to home ownership, exacerbating Australia's undersupply of new and affordable residential dwellings.
- 5.15 The key factors leading to a worsening of housing affordability include:
- Shortage of available land and inefficient land release strategies.

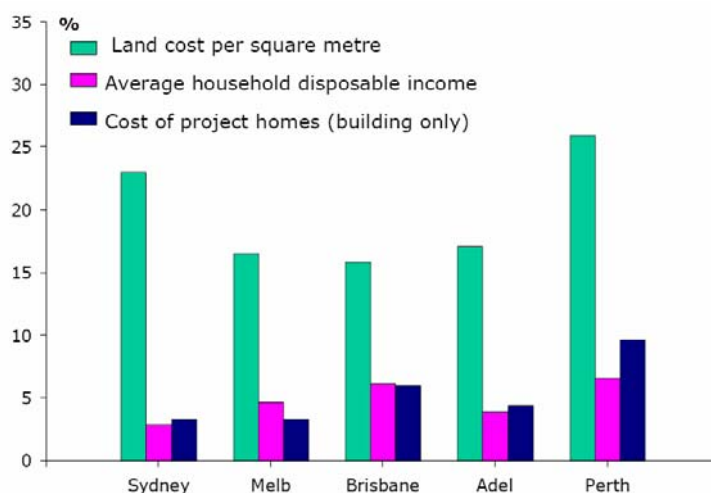
- Infrastructure costs being loaded onto developers and in turn passed on to home owners.
- Excessive infrastructure specifications in subdivisions.
- Excessive Council development levies, taxes and charges imposed by state and territory governments.
- Excessive Council planning and building requirements.
- Regulatory creep pushing codes and standards higher than required.
- Uncoordinated local and state government environmental regulations.

5.16 Discussion on these key factors follows.

## **6. LAND SUPPLY**

- 6.1 Australia has plenty of habitable land. Restrictions on the supply of land are driven by state and local government policies largely to reduce urban sprawl. Limiting urban sprawl became a predominant policy as governments became increasingly less willing to fund new urban infrastructure associated with growth.
- 6.2 Public policy now typically seeks to contain growth within existing urban footprints, citing the need for more efficient use of existing infrastructure (through higher density) and attempting to prescribe this outcome by creating urban land boundaries around major cities.
- 6.3 Master Builders advocates that all governments, at all levels, collaborate to increase both the supply of affordable land and the construction of well planned infrastructure to support new land releases.
- 6.4 Given the inter relationships between demand and supply it is critical that governments work to address the core structural problem affecting housing affordability, namely supply-side constraints. Unless the supply of land is improved relative to demand, the effectiveness of lowering stamp duty or increasing grants to first home buyers will be reduced, potentially translating into higher prices for owners and tenants.
- 6.5 Residential land undersupply is a major national issue which is now having long term affordability impacts, creating major market distortions. Limited land supply, induced by restrictive land release policies of State and local governments, is a significant driver of rising housing costs. It is important to note that building costs have been contained. It is the cost of land that has fuelled rising house prices.

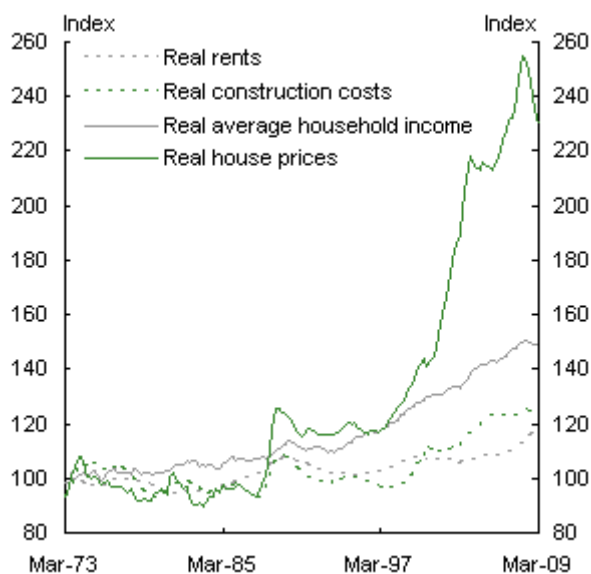
### Average annual % change 5 years to June 2006



Source: ABS, economics@ANZ

- 6.6 In a recent, comprehensive analysis, the Henry Tax Review confirmed this, stating:
- “The growth in house prices largely reflects increasing prices of existing houses, rather than growing costs of construction (see Chart E4–3 Panel B). Land has made up a growing share of house prices, increasing from 53 per cent to 61 per cent in the 15 years to 30 June 2009.” (Australia’s Future Tax System part 2 E4-2)*

### Panel B: House prices and construction costs



Source: RBA (unpublished).

- 6.7 Federal, State and local governments need to develop coordinated strategic land release plans to make housing more affordable. Unless swift and fundamental shift

in policy occurs, future Australians may witness the evolution of a 'rent-not-buy' model of housing at odds with the nation's tradition of home ownership.

- 6.8 Urban consolidation should also be a key element in improving housing affordability and at the same time providing more sustainable cities. Whilst it has been encouraged by State and Territory governments, urban consolidation is often rejected by local government and the community. Urban consolidation needs to be encouraged in a more coordinated way and the benefits better promoted through the wider community. Policies on urban consolidation should be consistent, with the overriding objective of ensuring housing remains affordable.

## **7. LEVIES, TAXES AND CHARGES**

- 7.1 In September 2009 Master Builders made a major submission to the Henry Tax Review called "Infrastructure Charges". A copy is attached (Attachment 2).
- 7.2 Developer charges have been one of the fastest growing taxes in Australia in recent years, increasing at an average rate of 8.2 per cent per annum. This is more than double the rate of increase in state and local government revenues and more than triple the rate of increase in municipal rates.
- 7.3 In the growth areas of Sydney, for example, developer charges can now amount to \$66,000 – about 30 per cent of the sale price – for a single vacant block of land zoned for residential development.
- 7.4 Government taxes and charges are a major contributor to the cost of a house and land package. In the table below (March 2008) on taxes and charges, one simple example shows State government and local government taxes, levies and development charges represent \$163,803 or more than three quarters of the \$213,803 total government impost on a new house and land package in Sydney's North West.

TYPE OF PRODUCT AND REGION		FEDERAL	STATE GOVERNMENT				LOCAL GOVERNMENTS			
			Stamp Duty Developer	Stamp Duty Purchaser	Land Tax	State Infrastructure Charges	STATE TOTAL	Infrastructure charges & Section 94	Application fee & Council Rates	LOCAL GOVT TOTAL
NEW HOUSE AND LAND PACKAGES		GST								
Sydney South West	\$544,115	\$47,727	\$5,403	\$19,115	\$2,975	\$17,500	\$92,721	\$26,000	\$817	\$26,817
Sydney North West	\$570,240	\$50,000	\$6,320	\$20,240	\$3,471	\$50,000	\$130,031	\$33,172	\$600	\$33,772
Hunter	\$361,240	\$31,818	\$1,645	\$11,240	\$942	\$5,000	\$50,645	\$10,500	\$642	\$11,142
Tweed	\$465,740	\$40,909	\$4,028	\$15,740	\$1,594	\$5,000	\$67,271	\$12,000	\$900	\$12,900
Maroochy	\$412,475	\$36,364	\$2,212	\$12,475	\$1,313		\$52,364	\$13,000	\$900	\$13,900
Redland	\$464,225	\$40,909	\$3,258	\$14,225	\$3,750		\$62,142	\$14,194	\$1,682	\$15,876
Ipswich	\$319,325	\$28,182	\$1,688	\$9,325	\$721		\$39,916	\$15,107	\$1,395	\$16,502
Gold Coast	\$391,775	\$33,409	\$2,380	\$11,775	\$1,721		\$49,285	\$15,333	\$1,065	\$16,399
Melbourne	\$366,660	\$31,818	\$2,750	\$16,660	\$3,292		\$54,520	\$5,400	\$1,017	\$6,417
Canberra	\$425,550	\$37,273	\$3,928	\$15,550	\$1,470		\$58,221	\$0	\$780	\$780
Adelaide	\$248,530	\$21,818	\$582	\$8,530	\$650		\$31,580	\$1,563	\$292	\$1,854
Mandurah	\$310,700	\$27,273	\$328	\$10,700	\$80		\$38,381	\$0	\$1,273	\$1,273
Perth	\$373,700	\$32,727	\$4,483	\$13,700	\$4,548		\$55,458	\$0	\$614	\$614
NEW HOME UNIT PROJECTS										
Sydney	\$570,240	\$50,000	\$6,860	\$20,240	\$4,788	\$8,000	\$89,888	\$8,000	\$3,305	\$11,305
Brisbane	\$422,825	\$37,273	\$4,350	\$12,825	\$3,000		\$57,447	\$6,250	\$2,010	\$8,260
Maroochy	\$345,200	\$30,455	\$1,288	\$10,200	\$322		\$42,264	\$7,576	\$712	\$8,288
Gold Coast	\$319,325	\$28,182	\$1,946	\$9,325	\$1,814		\$41,267	\$10,319	\$1,279	\$11,598
Melbourne	\$318,960	\$23,631	\$5,500	\$13,960	\$2,726		\$45,817	\$5,400	\$970	\$6,370
Perth	\$457,700	\$40,386	\$4,230	\$17,700	\$1,497		\$63,813	\$1,950	\$3,025	\$4,975
Adelaide	\$432,080	\$37,727	\$4,671	\$17,080	\$3,769		\$63,247	\$5,794	\$2,441	\$8,235

Source: Report prepared by Property Council of Australia

- 7.5 The Table clearly demonstrates that it is government charges and the method by which urban infrastructure services are charged for that are the significant contributors to housing costs. Accordingly, it is these factors that require urgent attention if any sustainable solution to the housing affordability problem is to be achieved.
- 7.6 The rising level of developer charges has flowed through to higher prices for newly built homes, making them less affordable and depressing building activity. The resulting housing undersupply has contributed to broader social problems such as a lower level of home ownership, undersupply of rental housing and higher rental prices.
- 7.7 Historically, infrastructure provision for housing development has been funded through a combination of local council rates and state/territory government general taxes, but the built-in political incentives for state and local governments to impose high developer charges has seen them rise to unprecedented levels.
- 7.8 In recent years there has been increasing recognition at official level of the damage caused by developer charges, with Commonwealth and state governments, as well as the Reserve Bank, introducing or endorsing measures to ameliorate the developer charges problem.
- 7.9 The Deputy Prime Minister of the Rudd/Gillard government described developer charges as “a significant supply-side barrier” to housing, while the Commonwealth government is raising more than \$500 million in taxes to fund a scheme – the

- Housing Affordability Fund – to pay local and state governments to specifically offset the impacts of these rising developer charges.
- 7.10 The fact that the Commonwealth government is raising taxes to offset the damaging effects of taxes imposed at local and state level illustrates the striking illogicality of the current arrangements.
- 7.11 The Reserve Bank says that the optimum way to improve housing activity on a sustainable basis is to reduce supply-side impediments that raise the costs of construction, and that reducing infrastructure charges will lift housing supply and lower the cost of housing in the medium term.
- 7.12 Master Builders Australia agrees with this analysis and contends that the current system is causing economic and social damage and needs to be changed.
- 7.13 A series of policy proposals that restrict the ability of councils and state governments to impose economically harmful charges, enhance the accountability and transparency of the process and expand the capacity of these governments to raise revenue through more rational means are required.
- 7.14 Master Builders Australia urges the incoming Government to acknowledge the harmful outcomes deriving from the current arrangements and make recommendations to improve the situation.
- 7.15 Master Builders makes the following recommendations for the reform of developer charges:

## **Recommendations for Reform of Developer Charges**

### **1. Disallow developer charges that undermine housing affordability objectives**

At present developer charges can be imposed by local councils without reference to the spill-over negative effects – affordability, building activity, housing supply, rent levels, congestion – that have an impact beyond council boundaries. All councils seeking to impose developer charges should be required to receive state government authorisation, based on an assessment that the proposed charges do not undermine the broader economic objective of housing affordability. It would be beneficial to have a nationally consistent approach, agreed to by the Council of Australian Governments that stipulates the affordability criteria and makes clear that developer charges will not be authorised without an assessment of their impacts on housing affordability and housing supply. The Commonwealth government, with its direct interest in maintaining affordability, should monitor and enforce compliance with the state government level administration of COAG-agreed affordability criteria.

### **2. State & Territory government infrastructure charges subject to affordability assessment**

The principle of denying infrastructure charges that undermine broader economic objectives should also be extended to state and territory governments. Developer charges imposed by state government departments and utility providers should in the first instance be subject to assessment by State Treasuries to ensure that housing affordability and supply is not being undermined.

The states should be required to share all data on infrastructure charges with the Commonwealth, which in turn should monitor and enforce COAG-agreed criteria for maintaining housing affordability. State or territory governments imposing developer charges found to be excessive should be penalised by the Commonwealth government through a reduction in transfer payments as an incentive to be economically responsible.

### **3. Establish an official Infrastructure Charges Info-Hub**

It would be beneficial to establish an official Infrastructure Charges Info-Hub, consisting of easily accessible tables on the internet that lists levels of developer charges and allows comparisons among jurisdictions and over time. Particularly useful information would be:

- ♦ Charts comparing all local councils' developer charges at the aggregate level.



- ♦ Charts comparing all local councils' developer charges per housing unit.
- ♦ Charts comparing developer charges for particular developments.
- ♦ Charts comparing developer charges for particular developments.
- ♦ Charts comparing state and territory governments' developer charges at the aggregate level.
- ♦ Charts comparing state and territory governments' developer charges per housing unit.
- ♦ Charts comparing state and territory governments' developer charges by utility type.
- ♦ Charts comparing each of the above over time.

These transparency measures would be a powerful tool in enhancing accountability and helping to expose anomalous charging. Interactive charts on the Info-Hub could easily rank all Councils and all state and territory governments according to the level of developer charges. The information would be of use to policy makers at all levels of government in developing and assessing policy effectiveness; to the building and construction industry in assessing the fairness of particular charges; and to academia and the media in assessing matters of public interest. The costs of establishing such an information base would be minimal — a collation of data that already exists at different levels of government, but the benefits to accountability, competition, transparency and trust would be enormous. The National Housing Supply Council, recently established and funded by the Commonwealth government to “aggregate and assess data on housing supply and demand,” is a possible host for such internet transparency measures. The Council of Australian Governments has agreed to the establishment of a Working Group of state, territory, and Commonwealth officials to ensure that data pertaining to housing affordability is supplied to the Council. There is a strong case for local government officials to be added to this Working Group so as to enhance the information flow on infrastructure charges. The Australian Bureau of Statistics should be tasked with measuring developer charges on an annual basis as a discrete revenue source for both local and state government, again allowing temporal and geographical comparisons.

#### **4. Mandatory public disclosure of developer charges**

Some states currently allow councils to strike agreements with developers with no requirement for public disclosure of the level of taxes charged. In the interests of transparency and accountability, and to reduce the risk of anomalous charging, the level

of developer charges should always be publicly disclosed. The developer charges imposed by state governments should also be publicly disclosed. This requirement would allow developers to make comparisons with comparable developments, enable councils to examine the charging regimes of other jurisdictions, and allow the general public to assess the reasonableness of charging levels.

#### **5. Greater Commonwealth funding of local government**

The Commonwealth government should investigate reforming intergovernmental fiscal arrangements to provide local government with greater funding certainty and reduce the pressure on local councils needing to pursue developer charges. Although a shift towards greater Commonwealth funding would exacerbate the current level of vertical fiscal imbalance, this shift needs to be considered against the greater efficiencies that can be derived from centrally imposed taxes.

It should be noted that an increase in Commonwealth funding that did not result in a diminution of developer charges would simply lead to a higher level of tax overall. This would be an adverse outcome for the building industry and homebuyers. Any increase in Commonwealth funding for local government should be accompanied by an enforceable undertaking by local government authorities that developer charges be accordingly reduced.

#### **6. Increased use of general revenues to fund infrastructure to better reflect user-pays principles**

Consistent with the recent acknowledgements that infrastructure provision provides benefits across the community rather than exclusively to the narrow spectrum of new home buyers, an increased use of general revenue by local and state governments to fund infrastructure provision should be considered. The greater use of general rates revenue or broader state revenues would reflect the broader community benefits of infrastructure provision, and ameliorate the free-rider effect that many are currently enjoying.

#### **7. Increased consideration of debt-financed infrastructure**

Where appropriate, local councils or state governments should finance infrastructure provision through debt financing which can allow the costs of infrastructure to be shared with future beneficiaries. The global financial crisis has increased the challenges associated with accessing credit for both private and public sector, but the current practice of placing the entire cost of infrastructure which may last decades onto new home buyers is inefficient and leads to housing undersupply.

## **8. Abolish rate caps and review rate exemptions**

Some state governments, most notably New South Wales, impose rate caps that restrict the ability of local councils to raise revenue across the community to pay for infrastructure. This places more pressure on councils to raise revenue through developer charges. Removing rate caps would allow the costs of infrastructure to be shared more evenly across the community, instead of being concentrated on new home buyers. The Commonwealth Government, as a victim of the effect of rate caps, has an interest in pressing State governments to remove rate caps. State governments also need to examine the extent to which restrictions on local councils' revenue bases, such as rate exemptions, can add to the pressure for increased reliance on sub-optimal revenue measures.

## **9. Reconsideration of the upfront provision of all infra-structure**

Historically the provision of infrastructure was spaced over time with the provision of vital infrastructure up-front and the supply of less immediate needs coming later as the capacity of the council or government to pay improved. In recent years many councils have insisted on the full panoply of infrastructure to be provided upfront, which adds to the pressure for higher developer charges. A consideration of a more patient provision of infrastructure is an option for local councils and state governments.

## **10. End harmful cost-shifting between levels of government**

The practice in past years of Commonwealth and state governments shifting responsibilities (and costs) on to local governments without due process or compensation has added to the pressure on councils to increase developer charges. An end to this form of cost-shifting would relieve some of the pressure on councils. In 2006 Australian governments at all three levels agreed to implement important principles to address this issue – the Inter-governmental Agreement Establishing Principles to Guide Inter-Governmental Relations on Local Government Matters. Adherence to these principles would mitigate the prospects of unreasonable cost-shifting and reduce one source of pressure on local councils to impose excessive developer charges.

## **11. Place developer charges on the Council of Australian Government (COAG) reform agenda**

The Council of Australian Governments should deal with developer charges as a specific agenda item. This issue is directly linked to all three levels of government, making COAG

the most appropriate forum for solutions to the problems that have arisen. COAG is also the appropriate body to consider effective means to counter the cost-shifting between levels of government that adds to pressure for increasing developer charges.

## **12. Change in timing of developer charges**

At present, the payment of infrastructure levies in some jurisdictions is required prior to the generation of any land/property sales, which can cause significant cash flow difficulties for developers. Official bodies responsible for setting developer charges should consider addressing this by aligning the payment of developer charges with sales of the properties.

## **13. Australian Local Government Association (ALGA) representation on the Ministerial Council**

The Australian Local Government Association (ALGA) should be represented on the Ministerial Council (Group of Commonwealth, state and territory treasurers). The representation of ALGA on the Ministerial Council would allow local government revenue raising concerns to be raised directly with the other levels of government. This may help to address concerns about appropriate levels of Financial Assistance Grants, fiscal equalisation, and cost-shifting by Commonwealth and state governments to local governments.

## **8. BEST PRACTICE DEVELOPMENT ASSESSMENTS**

- 8.1 While governments have made some small steps to improve development assessments systems, there is still a significant amount of change required to make these systems efficient and effective. These improvements have been haphazard and vary across the country.
- 8.2 Overall, Australia's development assessment systems and procedures are not currently working efficiently and effectively. This leads to unnecessary waste of time, money and resources to the industry and the community. It is also a source of great frustration within the industry.
- 8.3 The lack of consistency between states and territories and between local government area planning schemes, even when supposedly developed under the same state or territory jurisdiction, is a strong source of inefficiency and frustration.
- 8.4 The Development Assessment Forum (DAF) was established in 1998 with the intent of improving and harmonising planning and development assessment

systems. DAF comprises representatives of all levels of government, the building and construction industry, the built environment sector and industry professional groups. Master Builders is a member of DAF.

- 8.5 In 2005 DAF produced a Leading Practice Model for Development Assessment. This model set out 10 leading practice principles for how systems should be developed and operated. Recently the Property Council of Australia commissioned a study by a consultant to evaluate the progress in each state and territory in implementing planning reforms. This shows that the adoption of these principles has been slow and haphazard across the country.
- 8.6 The issues of chronic housing shortage and falling housing affordability create an imperative for action. Master Builders believes the Commonwealth Government needs to show strong leadership in this issue. This could be effected through COAG and its Local Government and Planning Ministers Council by an inter-government agreement.
- 8.7 DAF has also had a major role in the development of electronic Development Assessment (eDEA) systems. This has been introduced in part, to various degrees, by various states and territories and local government authorities but is not wholly integrated into the entire process at this stage.
- 8.8 It is DAF's intention to encourage the whole DA life-cycle to become electronic, including investigation, inactive abilities, lodgement, referral, request for information and determination. Master Builders believes this approach can lead to major reductions in time for approvals and associated costs to the industry and local government for many straight-forward DA's. We would encourage COAG to show leadership in this area also.
- 8.9 The key to the successful introduction and integration of eDA into DA systems is the development of the eDA Interoperability Specification (eDAIS). This proscribes how organisations are to inter-act electronically to complete transactions relating to planning and development applications. The eDAIS formally defines the format of the business documents and the transaction patterns needed to support the combined regulatory requirements of all states and territories.
- 8.10 The Commonwealth Government has provided some funding in the development of eDA and eDAIS. All jurisdiction highlight funding as the major hindrance in the development and introduction of eDA. Master Builders would urge the Commonwealth to support the states and territories in this matter.

- 8.11 eDAIS will need ongoing development and maintenance, for which there is no allocated funding at this time. A Business Case is being prepared for the long-term management of eDAIS as a national standard. This will include various hosting options, risks and associated costs. Master Builders would urge the Commonwealth to support this program.

## **9. CONSISTENCY IN PLANNING, ZONING AND DEVELOPMENT ASSESSMENTS**

- 9.1 Planning, Zoning and Development Assessments have a major impact on our industry and our members. When the systems are not efficient, it increases developers/builders business costs and risks and leads to frustration and reduced investment.
- 9.2 The problem of inconsistency between states and territory jurisdictions and also between local government jurisdictions has long been a major issue for the building and construction industry. This is exacerbated by the trend over more recent years to use the planning system to regulate building regulatory issues. Political interference in the processes can also increase the risk and reduce the level of investment.
- 9.3 The compliance costs associated with ensuring the requirements of each state and territory and each local government requirements is of serious concern to the industry. This often acts as a disincentive to organisations to work across jurisdictional boundaries and increases risk in the industry.
- 9.4 There have been calls in the past for greater consistency in planning regulation through an inter-government agreement, perhaps leading to a national planning act, a model code or set of guidelines. Master Builders supports this idea and calls for the Commonwealth Government to provide strong leadership in this area and, if necessary, provide supporting funding.
- 9.5 The introduction of greater consistency will lead to greater certainty and confidence in the industry and reduce costs. This will lead to greater investment and reduced costs which will have a positive impact on the community and economy.
- 9.6 Greater consistency will lead to reduced regulation across all areas of the planning system and less variation in rulings and decision-making. It will also lead to delivering appropriate and efficient allocation of resources.

- 9.7 Regional-based planning is used in some parts of the country which reduces the level of variation in planning systems and appears to be effective with large projects. It may also provide a better link between development and infra-structure and the needs of the community. This is an issue that needs examination by the Commission.
- 9.8 Any benchmarking of the performance of planning, zoning and development assessments must provide a basis for on-going comparison across all jurisdictions and encourage improvement in their systems. There is a need for this to be led by the Commonwealth Government.

## **10. Conclusion**

- 10.1 Master Builders welcomes this Productivity Commission Inquiry as very timely and relevant to what will be a major economic and social problem if there is no change to current government policy settings.
- 10.2 The family home has increasingly become unattainable as a confluence of circumstances have mitigated against an average Australian household realising the goal of affordable home ownership.
- 10.3 The Henry Tax Review got it right - Australia's planning, zoning and development assessment systems and procedures are not currently working efficiently and effectively.
- 10.4 Master Builders contends that there has to be an urgent and increased focus on the supply side of the problem. Demand is not the problem and more demand driven solutions by themselves will only drive up house prices
- 10.5 Governments need to embrace a package of reforms including reform of developer charges, timely land release programs, efficient and effective planning and development approval processes and removal of stamp duties.



## **APPENDIX – Extract from Henry Tax Review**

### **Developments in housing affordability in Australia**

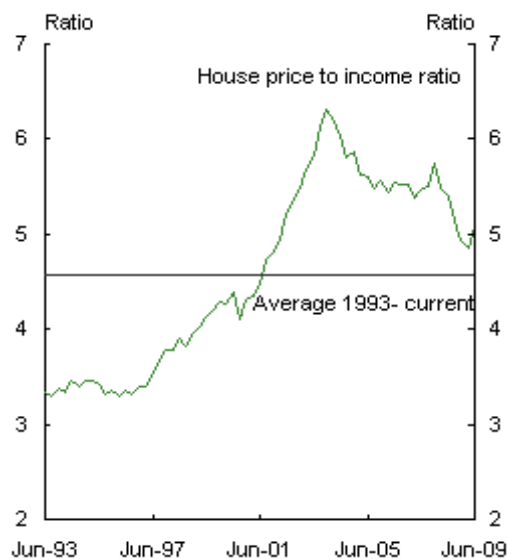
Current measures of housing affordability indicate that Australia faces significant challenges in providing sufficient affordable housing.

Median house prices have risen from around three times average household earnings in the early 1990s to around five times today (see Chart E4–1 Panel A). Higher prices affect access to housing in a range of ways. Under the Reserve Bank of Australia's measure, loan repayments are only just under 30 per cent of income (see Chart E4–1 Panel B). Houses are more affordable now than during 2007, but the recent improvement reflects interest rates falling to 'emergency lows' to combat the global financial crisis. These low rates are likely to be unwound as the economy recovers. Higher housing prices also meant that the deposit needed by first home buyers reached record highs during 2007 (Richards 2008). Higher house prices may also delay access to home ownership by younger Australians. The proportion of Australians under 35 who own their own home declined from 44 per cent in 2001 to 38 per cent in 2008. Similarly, higher house prices may mean fewer people own properties outright. The proportion of Australians aged 55 to 64 with mortgages has increased from 13 per cent in 1996–97 to 30 per cent in 2007–08. The National Housing Supply Council (2009) also noted that there is a spatial dimension to the affordability of dwellings; 27 per cent of dwellings in different population centres were found to be 'unaffordable' in 2006, while none were in 2001.<sup>1</sup>

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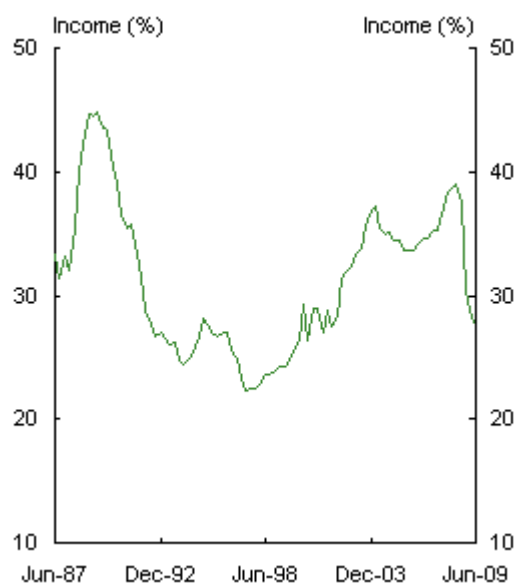
<sup>1</sup> This is based on the UDIA/Matusik Affordability Measure (2008), which characterised an area as 'unaffordable' when a household spending 30 per cent of the average income in that region on repayments (and with a 10 per cent deposit) could purchase less than 15 per cent of the houses in the region.

**Chart E4–1: Housing affordability for owners**  
**Panel A: Median house price to disposable household income**



Source: REIA 2009, ABS (2009a) and Treasury estimates.

**Panel B: Housing Loan Repayments**



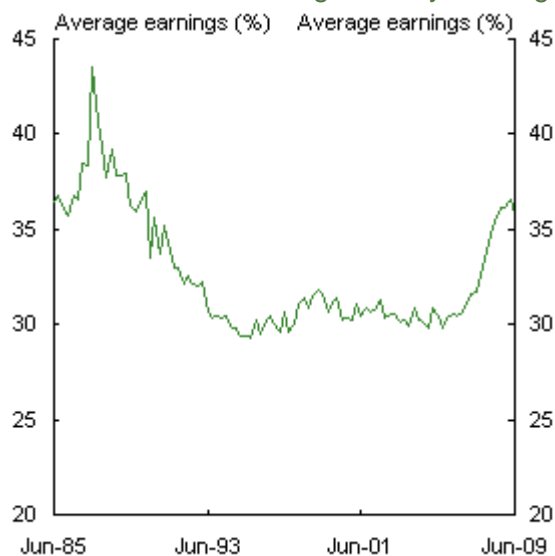
Source: RBA unpublished.

Importantly for many low-income earners, or transfer recipients, higher house prices reduce rental affordability, as rents need to increase if investors are to maintain their rental yield. The ratio of rents to average weekly earnings has risen to its highest level since the late 1980s (see Chart E4–2 Panel A). As at 5 June 2009 there were 418,000 individuals and families paying more than 30 per cent of their income in rent even after receiving Rent Assistance; 129,000 of these were paying more than 50 per cent of their income. Many of these people, especially age pensioners and disability support

pensioners (who make up around one-quarter of Rent Assistance recipients) are likely to have limited capacity to increase their incomes. The number of Rent Assistance households paying more than 30 per cent of their income in rent is at its highest level since 2000.

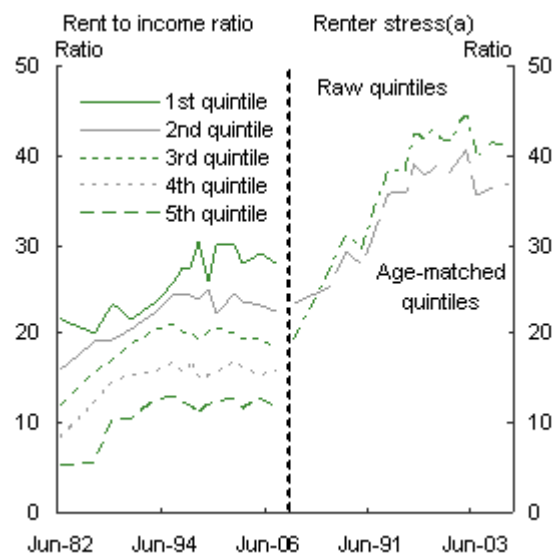
### Chart E4–2: Housing affordability for renters

Panel A: Rents to average weekly earnings



Source: REIA 2009 and ABS (2009e).

Panel B: Rental stress



- (a) Proportion of households in the bottom two income quintiles, whose rental costs are more than 30 per cent of gross income.

Source: Richards (2008).

The price level of any market good or service is set by its demand and supply. The Productivity Commission (2004) and Reserve Bank of Australia (2003) attribute the

increase in house prices around the start of the decade primarily to strong growth in demand. This demand reflected a range of factors, including growth in average household incomes, increased credit availability and relatively low interest rates. In the short term, when housing supply is relatively fixed, price increases are an inevitable response to strong demand.

A persistent gap between housing supply and underlying demand (or the 'need' for housing based on population growth and trends in household formation) indicates that there are problems on the supply side of the housing market. Strong population growth in recent years has led to relatively strong underlying demand for housing. However, the supply response has not been able to keep pace. Over the past five years, the population grew on average 1.7 per cent a year, while housing completions fell on average 2.0 per cent a year.

Thus sustained high levels and strong growth of housing prices are only possible when housing supply cannot increase to meet movements in demand.

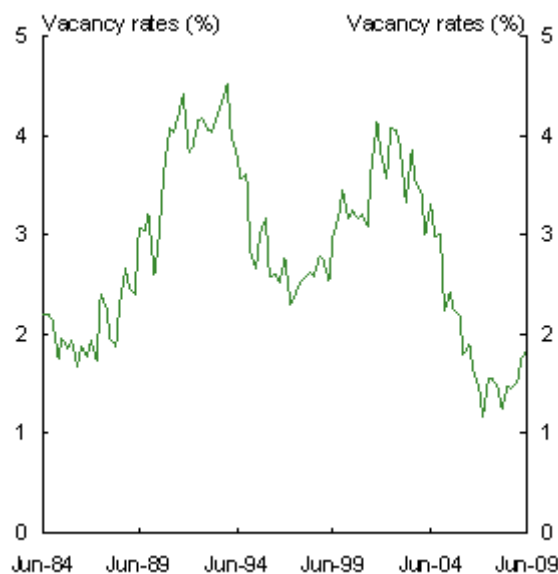
There are a range of indicators of tight supply in the current housing market. Rental vacancy rates are currently around the record lows experienced during 2008 (see Chart E4–3). The National Housing Supply Council estimated that there is a substantial shortage of housing in Australia, with an unmet need of 85,000 dwellings in 2008, and construction levels falling short by around 20,000 to 30,000 a year. If the Council's medium growth estimate of underlying demand and medium supply projection were met, there would be a cumulative gap by 2028 of 431,000 dwellings. Annually, the gap would increase by around 23,000 dwellings until 2016, when the annual shortfall would decrease consistent with an ageing population.

Of course, in markets demand always equals supply so long as prices can adjust. The Council's projections should be seen as an indication of the degree of likely price pressures and the subsequent challenges facing the community.

The growth in house prices largely reflects increasing prices of existing houses, rather than growing costs of construction (see Chart E4–3 Panel B). Land has made up a growing share of house prices, increasing from 53 per cent to 61 per cent in the 15 years to 30 June 2009.

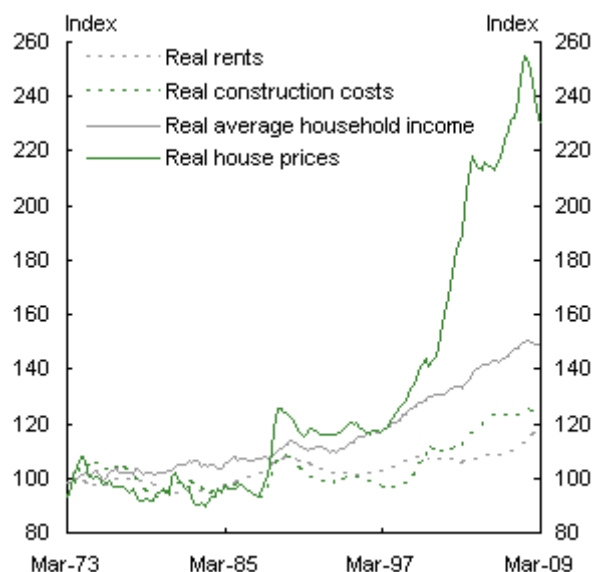
### Chart E4–3: Constrained supply

Panel A: National rental vacancy rate



Source: REIA (2009) and Treasury estimates.

Panel B: House prices and construction costs



Source: RBA (unpublished).

The responsiveness of housing supply is influenced by a range of factors. Even in ideal conditions, dwellings take a long time to plan and construct, which will mean that the supply of housing is unlikely to be as responsive as supply in other markets. Currently, difficulties in securing finance for the development of multi-unit developments are a consequence of lending practices changing in response to the global financial crisis. There are, however, many public policy choices that can have a long-term impact on

housing supply and housing affordability. As well as tax settings, housing supply and prices are influenced by planning and zoning laws, building regulations, environmental regulations, infrastructure provision and pricing, the availability of skilled labour in residential construction, and even transport policy. As a consequence of achieving other public policy objectives, these policies may affect housing prices.

### **Planning and zoning, approvals and building regulations**

Features of the planning system intend to enhance the efficiency of land use in two ways: by managing or preventing perceived negative spillovers from development activities that may extend beyond the site of the development itself; and by facilitating positive spillovers through the provision of public goods (National Housing Supply Council 2009). However, planning can also add costs, such as where the regulations are not well-targeted and lengthy development assessment processes are involved. The key question is whether the benefits outweigh the costs.

The zoning process is one aspect of the planning system that controls the manner in which land can be used and regulates the supply of land for new housing. Zoning can have many rationales. It can be used to manage land use to protect the property rights of neighbouring land owners. Zoning can reduce spillover costs by congregating spillovers (such as noise pollution) in common areas (such as industrial zones). Some forms of infrastructure may also be provided at lower cost if they are specific to some forms of land use. Zoning is therefore one mechanism for coordinating different uses of land and reducing spillover costs between owners.

Zoning and planning also can reflect other public policy objectives. A number of Australian cities employ boundaries or growth corridors that aim to limit the expansion of urban land. Limiting the expansion of cities can reduce the need for additional infrastructure, which tends to be more costly to deliver further from urban centres. These limits can be used to contain urban sprawl. The desire to contain sprawl can be motivated by cost considerations, such as reducing costs caused by congestion that results from longer commuting times. Objections to urban sprawl often reflect a range of values, such as a preference for non-urban land to be preserved or a concern that more distant communities may be socially isolated, particularly if the communities do not have access to public transport.

The use of zoning and local interpretation of zoning settings, however, restricts the supply of land for housing and necessarily increases its price. While land values for different types of rural land can be in the range of \$50 to \$5000 per hectare, the value of land on urban fringes can be substantially higher. For example, the value of land can increase by \$300,000 to \$400,000 per hectare when zoned for residential purposes (Department of Sustainability Victoria 2005). Such a significant increase will largely reflect the value that results from restricting supply.

Land already zoned for residential use is still subject to a range of constraints on its use. This may include preventing the construction of higher-density dwellings (such as dual occupancy or multi-story dwellings) in certain parts of a city. These restrictions may be motivated by similar reasons to those that underlie zoning itself. For example, a new higher-density residential development may impose social costs on existing residents by lowering the amenity of an area or congesting infrastructure. Another type of spillover is a 'pecuniary' spillover where increasing supply reduces the value of existing homes. Existing owners may therefore oppose the removal of restrictions on the supply of housing that maintain house prices at high levels. Limitations on higher density in existing urban areas may harm housing affordability more than restrictions at the fringe. This is because it would be cheaper to house people in areas close to services, transport, workplaces or places of natural beauty. The higher land and house values in inner-urban areas also reflects the fact that these areas are where more people want to live.

The removal of such building restrictions is not justified simply because it would reduce housing prices. Concerns for housing affordability need to be balanced against other policy objectives. Further, potential exists for some of these objectives to be addressed more effectively through price mechanisms. For example, moves toward more effective road pricing and congestion charging would reduce the need to use a growth boundary as an indirect way of reducing congestion costs. For many of the other policy motivations, however, there are clear trade-offs that need to balance concerns of competing groups who can benefit or be harmed by the maintenance of housing restrictions.

One such trade-off is reflected in the governance issues that affect development. In general, State governments are responsible for determining the plans for a city, as these require coordination across a number of local councils and the provision of large-scale infrastructure, for which they are responsible. Local governments often control the zoning or approvals that put broader plans into effect, such as by allowing higher-density housing in the areas designated by the plan. This can result in tension between the wider objectives, which can often include objectives for higher-density housing, and the decisions of local government, which reflect the concerns of their citizens who are most strongly affected by change. It can therefore be difficult for State governments to implement urban infill strategies. There appears to be scope for reforms to planning governance to achieve greater clarity in the roles of institutional policy-setting and decision-making between levels of government (National Housing Supply Council 2009).

Regulations on the use of land need to be governed by approval processes to ensure they are enacted in a transparent and fair manner. These processes require consultation with affected stakeholders and assessment against a range of criteria, such as environmental requirements managed by Australian government legislation. Where these processes are slow, they add to costs of house building and the risk of developing land, thereby reducing the supply of housing. There is some evidence that delays have increased and that approval times can be 50 per cent longer in inner-urban areas than at the fringe



(Productivity Commission 2004). Where approval processes are streamlined, they are likely to result in supply being more responsive to changing conditions.

While much of the recent increase in house prices reflects increasing costs of land, higher building costs can also affect housing affordability. National building codes mandate a minimum quality standard of construction. These standards ensure a minimum quality standard to ensure safety, promote environmental outcomes or improve the energy efficiency of buildings. Standards may be imposed to correct perceived market failures, particularly information asymmetry between home buyers and builders and spillover costs to the community that parties to the transaction may ignore. Improving the quality of housing raises its cost. These higher costs need to be balanced against the social and private benefits they deliver.

## Findings

Higher house prices are likely to result from restrictions on the supply of housing that result from zoning, lengthy approvals processes and building code and other standards imposed on building quality. Housing affordability needs to be considered against the other policy objectives that motivate these regulations.

## Scope for reform

### RECOMMENDATION 69:

COAG should place priority on a review of institutional arrangements (including administration) to ensure zoning and planning do not unnecessarily inhibit housing supply and housing affordability.

Australia is likely to benefit from greater emphasis on housing supply in a range of policy areas. In particular, there appears to be scope for reforms to planning and approvals processes to enable more responsive supply of housing in greenfield and infill developments. However, the Review has not considered these mechanisms and is not in a position to identify those regulations that may prevent or delay viable developments.

Reforms that could promote the more responsive supply of housing will present serious choices for both the Australian people and their governments. Most starkly, 'improving' housing affordability for purchasers involves policies that cause house prices to be lower or grow more slowly than the community would otherwise expect. While this will benefit those who gain access to housing, it will affect the wealth of the majority of home owning Australians.

Increased housing supply may also change the shape of Australian cities and towns in ways that many existing residents may not desire. How different tiers of government balance their concerns against those of potential new residents is an important question of governance. This suggests that a serious community dialogue is needed on the distribution and quality of housing across Australia. As a first step, the COAG should

review the administration of land use policies by local councils and planning authorities, with a view to facilitating greenfield and infill developments.

## ATTACHMENTS

### ATTACHMENT 1

Master Builders' Submission to Senate Select Committee on *Housing Affordability in Australia*. (March 2008).

### ATTACHMENT 2

Master Builders' Report, *Infrastructure Charges: where bad taxes beget more taxes*. (2009).