79 Constitution Avenue
Canberra ACT 2612
t (02) 6245 1300
f (02) 6257 5658
hia.com.au

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Performance Benchmarking Australian Business Regulation
Productivity Commission
PO Box 1428
CANBERRA ACT 2601

Review of Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments

I am pleased to attach the Housing Industry Association's submission to the Productivity Commission's inquiry into Review of Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments

We welcome the opportunity to address a the Inquiry's purpose, including its emphasis on planning and zoning laws and processes that inhibit the adequate supply of land suitable for housing Australia's growing population.

Benchmarking performance in the planning system and assessment processes lacks definition, purpose and effectiveness, principally due to the absence of reliable information.

Historically, medium to long term estimates of population growth, migration intake, household formation and housing preference have been 'off the mark'.

Without commitment and effort from all three levels of government, and significant improvement in the collection of accurate and relevant land and housing supply and housing market indicators, the task of estimating, planning, and delivering housing for Australia's growing population is at best speculation. In the meantime, housing supply has fallen well below demand.

The proponents of urban consolidation rely heavily on the existence of spare infrastructure capacity, yet reliable information on existing infrastructure capacity is not available. Existing infrastructure is in various stages of disrepair, adding further doubt about the cost effectiveness of the urban consolidation agenda as a planning strategy.

Inhibiting housing delivery through planning mechanisms such as urban growth boundaries creates a competition paradox, while 'predict and restrict' strategies employed within planning mechanisms lack any notion of market responsiveness.

Planning reforms and statutory planning performance may be usefully benchmarked to provide a clearer picture of the realities of Australia's housing supply constraints. The gathering of information is perhaps a more important and urgent first step, without which we may continue to pursue poorly targeted reform programs into the future.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

Graham Wolfe
Chief Executive, Association

SUBMISSION BY THE

Housing Industry Association

to the

Productivity Commission

on the

Performance Benchmarking of Australian Business Regulation : *Planning, Zoning and Development Assessments*

31 August 2010

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HIA ::

Housing Industry Association
79 Constitution Avenue
Campbell ACT 2612
Phone:
Email:

HIA is the leading industry association in the Australian residential building sector, supporting the businesses and interests of over 43,000 builders, contractors, manufacturers, suppliers, building professionals and business partners.

HIA members include businesses of all sizes, ranging from individuals working as independent contractors and home based small businesses, to large publicly listed companies. 85% of all new home building work in Australia is performed by HIA members.

Executive Summary

During the 2000s the price of established houses in real terms increased by nearly 6 per cent a year, much faster than increases in the stock of dwellings, indicating that new housing supply was unresponsive to increases in existing house prices. Revised population projections suggest that the scale of the housing supply challenge is set to accelerate over coming decades.

Unexpected strong increases in population and incomes over the 2000s saw planning authorities consistently fail to meet the growth in the demand for land resources. Appropriately, public policy has shifted to the consideration of impediments affecting the supply of new housing and, in particular, planning systems that regulate the supply of land for development.

The underlying objective for planning systems should be to facilitate economic development and productivity taking to account social and environmental goals. The goal of sustainable development does not imply minimal use of land but the best use of scarce land resources taking to account economic, social and environmental costs and benefits associated with development.

Urban consolidation and containment have been the linchpins of metropolitan planning strategies intended to curtail 'suburban sprawl' and to reduce public sector outlays on urban infrastructure. Land-use regulation is being utilised to address 'externalities' and social policy goals, such as densification and affordable housing quotas that would be better handled through more direct, conventional policy instruments.

The tight containment of urban areas through densification has not been costless, particularly for households that have a preference for single-lot, detached housing. The strength of projected population increases and household formation suggests there will be a need for both green-field and in-fill land for development.

Densification strategies rely on the existence of under-utilised or spare road, water and sewerage capacity in inner-city areas, which appears to be at odds with the nature of objections of local residents to higher-density development. There should be an inventory and systematic assessment of the carrying capacity of existing urban infrastructure, including under a range of population scenarios.

The significance of the central city as a place of employment has declined steadily over the past fifty years. The vast majority of jobs in the major capital cities are located outside of the central city area, which has implications for the location, development and augmentation of transport infrastructure and services.

Planning strategies to limit green-field development, combined with much higher infrastructure contributions (and sustainability regulation) have pushed up the cost of new housing, leading to a switching of market demand away from new housing towards the purchase of 'cheaper' established dwellings, which are less sustainable than new dwellings.

The planning goal of densification has not been accompanied by a compensating increase in the availability of sites in established suburbs in the face of strident community opposition, creating a 'pressure-cooker' effect on existing house prices. Restricting the availability of land for development, by increasing the real price of housing can have untoward distributive consequences, particularly for households seeking to purchase or rent a dwelling.

The lessons of plan setting over the past 10-15 years should see the planning approach of 'predict and restrict' give way to a planning culture that is supportive of sustainable development through a responsive, market-driven strategy. Policy attention needs to be directed towards:

- initiatives to reduce the impact of regulation, development charging and taxation on the **cost** of new housing supply to moderate the impact of increases in housing demand on established house prices; and
- the adoption of market-related instruments and incentives to better align local level planning actions with the benefits of additional housing supply and to address community resistance to medium-density and higher-density development in established areas.

Major planning regulation, such as densification, growth boundaries and infrastructure charging should be subject to rigorous, transparent, cost-benefit assessments, similar to those required for changes to building regulation.

Regulatory impact assessments should attempt to estimate the effects of proposed planning regulations and alternative policy instruments on land and house prices, new housing supply, household responses, job location, employment and labour mobility, supply chain capacities, market competition and the environment, such as greenhouse gas emissions. The preparation of regulatory impact statements should be conducted at arms-length from the regulator.

Land development operates in a climate of considerable uncertainty, much of which can be sheeted home to the complexities and discretionary decision-making of planning systems. Private sector land development is a high-risk activity, characterised by the commitment of large amounts of capital up-front and delayed revenue streams.

The contention that developers hold unreasonably large 'land banks' overlooks the impact of regulatory risk on the decision-making of developers to hold stocks of land in order to achieve continuous production volumes and revenues. The more uncertain is the time to achieve re-zoning applications and development consent, the more developers are likely to hold some land in reserve.

In any event, the higher cost of capital and the diminished availability of external financing in the wake of the global financial crisis have reduced the attractiveness of land banking, which raises questions about the capacity of the development industry to respond in a timely way to a significant and sustained expansion of housing demand.

There has been a proliferation of planning reform activity intended to ameliorate chronic housing affordability problems. To date, most of the reform efforts have been directed to the 'micro' level, involving processes to simplify development assessment systems. Some agencies have formulated 'best practice' development assessment systems but the take-up has been limited.

Procedural planning reform activities need to be tightly focused, coordinated, monitored and evaluated to ensure that the reforms achieve their stated aims. The benefits of procedural planning reforms need to be quantified and benchmarked across planning systems.

Recent attempts to benchmark planning systems have been stymied by the lack of regular information on a range of housing market indicators, especially at the regional level, such as household formations, inventories of dwellings for sale and rent, house sales, land stocks, development pipelines, house prices and rents.

Improving housing market collections should be afforded a high priority in the forward program of the Australian Bureau of Statistics working with the National Housing Supply Council, State and Local Government authorities and the private sector.

Significant process-related reforms do not materialise on paper; they have to be implemented. It should be remembered that constant change in the planning landscape can create its own costs. Early engagement with stakeholders can inform policy-makers on the cost-effective delivery of the proposed reforms.

It has been suggested that reform of development assessment systems should emanate from higher-level reform of planning strategies. Planning reform at a 'macro' level raises the crucial issue of responsibility for the funding of urban infrastructure.

Community expectations and demands for economic and community infrastructure have out-stripped the growth in income to State and Local Governments. Whereas the development industry contends that the setting of development contributions for regional and community infrastructure have impacted on the financial viability of development, State and Local Governments complain about the widening funding gap to meet the cost of providing infrastructure for local communities.

New Commonwealth financial incentives are required for State and Local Governments to adopt planning systems that support economic growth and development. At the heart of increasing the responsiveness of land supply should be well-directed incentives from the Commonwealth to state and local government for facilitating and encouraging economic development and housing supply.

The context for and relevance of planning reform efforts would benefit from the presentation of a national policy statement that coheres a vision for planning reform and presents a road map for the implementation, monitoring and assessment of policy actions and outcomes.

Recommendations

1. The principal objective of planning systems should be to facilitate and encourage sustainable economic development and productivity. Much greater attention of planning authorities should be devoted to utilising planning and policy instruments to facilitate economic growth that is compatible with sustainable development.

2. Metropolitan planning strategies should shift from 'predict and restrict' to a more supportive culture that is characterised by a market-responsive approach to plan setting.

3. The features of a market-responsive planning system should be:

   - reduced complexity and greater consistency in planning approval systems;
   - a preparedness to increase the availability of land zoned for development to meet increases in market demand;
   - effective financial incentives for local government to support development and productivity; and
   - the timely coordination and efficient delivery of economic and community infrastructure.

4. Official collections on land and housing supply and housing market indicators should be expanded to enable the effective and consistent adoption of definitions, measurement, benchmarking and management of planning strategies and, in particular, land supply pipelines. A housing indicators user group should be formed under the auspices of the Australian Bureau of Statistics and the National Housing Supply Council to progress the up-grading of housing collections.

5. The National Housing Supply Council should:

   - work with States and Territories in the development of population and household projection methodologies at the national, state and local levels; and
   - investigate the links between land and housing costs and house prices on the demand for and supply of new housing.

6. The Australian Government should initiate an independent review of housing regulation and housing costs.

7. Major planning regulation, such as densification, the setting of growth boundaries and infrastructure development fees should be subject to formal, regulatory impact assessment that takes to account the full social and economic costs and benefits of development, the supply capacity of existing urban infrastructure, the location of jobs and residency, consumer housing preferences and the impacts on competition in the supply of land and housing.

8. The Australian Government should present a vision for planning reform through a National Planning Reform Policy Statement that identifies a road map for the implementation of planning reform to achieve the twin policy goals of affordable and sustainable housing supply.

9. New Commonwealth financial incentives for the provision of new and upgraded urban infrastructure should be linked to State and Local Government planning and development assessment systems that support economic development, reduce housing costs, increase new housing supply and productivity.

10. Local government should be supported in preparing an audit of the state of repair of existing urban infrastructure and its carrying capacity.

11. The value and application of development contributions raised by Local Government and State Governments should be accounted for in the financial statements of Local and State Government and made available to affected local communities.

12. The timing of the collection and application of development contributions for community, social and regional infrastructure should be aligned to the delivery of related community benefits.

13. Recourse to the up-front charging of development contributions for long-term infrastructure should be replaced by alternative methods of funding, including government borrowings linked to the value of future tax revenues as well as tax-preferred infrastructure bonds.

14. Planning reform processes should be tightly coordinated and reforms monitored to check progress against reform objectives.

1. Introduction

Planning systems can have profound effects on the built environment, the cost of housing and housing services, employment opportunities, urban amenity and community services.

Planning regulation is intended to correct market failures through government-mandated intervention in land markets. Planning regulation ranges from limits on green-field development, minimum and maximum housing densities, design requirements, restrictions on the use of particular building products and materials, minimum setbacks, site coverage and height restrictions to name a few.

Planning regulation affects the cost of supplying new land and housing through the costs of preparing planning applications for zoning and development, compliance with development standards and the imposition of infrastructure contributions and fees. The administration of planning has become much more complex and focused on processes to the detriment of housing supply outcomes.

New housing supply cannot be provided without land and it is **regulation**, such as zoning and urban growth boundaries, and not market processes, that determines the amount of land available for residential development. In looking at the source of constraints on the supply of **serviced** residential land consideration is required of a range of factors, including impediments and rigidities in the planning system relating to zoning and development controls, fragmented land ownership, community opposition to development, the financial viability of development, as well as possible barriers in the land development sector. The operation of the planning system, by affecting the risk profile of land development can impact on the structure and performance of the land development industry.

There has been next to no work undertaken in Australia that examines in a systematic way the impact of planning interventions and building regulation on the housing market, on the supply of new dwellings and house prices. The opportunity presented by the Productivity Commission benchmarking of planning, zoning and development assessment systems is welcome. It is hoped that the review will identify areas for improvement in the current planning systems and provide a road map for the timely and effective implementation of further planning reforms.

The National Housing Supply Council has drawn attention to the increasing gap between the underlying requirement for and the supply of new housing. The Council has identified planning regulation as a factor behind the increasing shortage of housing.

Over the past 10 years, established house prices have increased much faster than the general price level, residential vacancy rates have trended downwards to historically low levels, and the supply of new dwellings has fallen behind increases in population.

The long-term upward trend in real house prices is a signal of a widespread housing shortage. Revised population projections indicate that the scale of the housing supply challenge is set to accelerate.

Demand-side factors, such as higher incomes, reductions in interest rates and population growth are relevant to explaining real increases in established house prices in the shorter-term when there are limitations on the expansion of new housing supply. But the sustained trend increase in real house prices suggests that supply-side factors have also played a part.

During the 1990s, the stock of dwellings increased by 1.8 per cent a year, comparable with increases in the 'real' price of established housing. But in the 2000s, increases in real house prices increased on average by nearly 6 per cent a year, whereas the housing stock grew by a much more modest average of 1.5 per cent a year suggesting that **housing supply has become less responsive to increases in house prices.** Indeed, residential construction activity has been flat as a proportion of Gross Domestic Product, indicating that the under-building of dwellings in Australia has led to a loss of economic welfare.

A lack of responsiveness of new housing supply means that increases in demand have had more impact on the price of existing houses than on new housing supply. Demand pressures on the existing stock of dwellings not only impede housing affordability for potential buyers but can have wider impacts on the economy.

Whereas it had been thought that the increase in real house prices in the early part of the 2000s was cyclical in nature and would abate,[1] the persistency of real house price increases suggests that there have been structural supply-side constraints at work. It is a widely held view within industry that highly-complex planning regulation has been a principal factor behind the lack of supply response to increasing demand pressures.

Multi-layered state planning controls as well as regional and local government planning-schemes, have added considerable complexity and uncertainty to land development assessments. Planning requirements have become much more onerous in the past 10 to 15 years, exemplified by:

- the extension of planning regulation to single-lot detached housing, height restrictions, minimum set-backs, densities;
- an increasing opportunity for 'objectors' to become involved in conventional housing applications;
- a proliferation of government agencies through which development applications must be assessed; and
- reductions in government funding of urban infrastructure that have corresponded to the imposition of higher development contributions being applied to new residential development applications.

Highly fragmented and complex planning systems combined with higher infrastructure obligations on private sector land development have led to shortages in the availability of **serviced** residential land and forced up the costs of new dwellings. While developers will try to pass through the costs of planning controls, including holding costs into higher selling prices, a direct transfer of costs may not be possible if demand conditions do not permit.

A marked decline in the 'affordability' of new housing from the late 1990s saw a substantial reduction in the share of lending for new housing as purchasers selected against new dwellings in favour of the less expensive established dwellings. Even though demand shifts towards existing housing saw large increases in the price of established dwellings, the **cost** of comparable new housing increased faster, under the weight of costly planning regulation and requirements, keeping the brakes on new housing supply.

Planning authorities are confronted with a host of challenges created by structural changes in the economy, strong increases in population, the demands for a lower carbon footprint and declining housing affordability.

[1] Productivity Commission, Inquiry into First Home Ownership, Final Report, 2004, page xxiii.

There is tension between the need to increase new housing supply to ameliorate housing affordability pressures and planning systems that are predicated on limiting green-field expansion and expanding in-fill housing. In addition, the pace of economic and population change raises issues about the efficacy of 20-30-year planning strategies.

There are substantial efficiency gains to be achieved through the simplification of planning, zoning and development assessment systems applying to residential development. However, there are deep-seated impediments to more efficient and effective planning systems. One of the most significant obstacles relates to the financing constraints on local government authorities to meet increasing community demands for economic and community services. Arguably, the lack of financial incentives for local government to support development has impeded more efficient planning arrangements.

Procedural reforms of planning systems at the 'micro' level need to be buttressed by reform at the 'macro' level of infrastructure funding arrangements at the state and local government levels. In particular, there need to be stronger financial incentives for local government to facilitate more residential development and housing supply.

2. Objectives of Planning

There is a lack of clarity about the objectives of planning regulation in Australia. The Productivity Commission states that planning and zoning policies in Australia are intended to "preserve and enhance the conservation, use, amenity and management of land, buildings and streetscapes, provide and coordinate infrastructure services, safeguard the health, safety and well-being of the community and the orderly and efficient use and development of land."[2]

In practice, planning systems are intended to provide a framework within which decisions relating to infrastructure investment and development are made. The zoning of land for development attempts to allocate scarce land resources for residential, commercial or industrial use in an optimal way that balances the benefits of development against the environmental and social costs associated with particular developments.

There appears to be a substantial gap between the goals of planning strategies and the delivery of outcomes. Reconciling high-level aspirations for planning systems to achieve sustainable development while balancing economic, environmental and social goals requires a robust framework for assessing the total costs and benefits associated with development.

Against a background of highly complex planning systems, the Productivity Commission has been charged with the responsibility of benchmarking how planning, zoning and development assessment controls impact on the 'overall efficiency and effectiveness of the functioning of cities'. In addition, the Productivity Commission has been asked to report on best practice approaches that support competition, with reference to maintaining adequate supplies of land for development[3]

Planning regulation is intended to correct 'externalities' or market failures that are not reflected fully in the price paid for the use of land. It has to be acknowledged that attempts to alter private property rights through land-use planning and development control, inevitably, will generate conflict from individuals and groups who consider they will be disadvantaged by the planning decisions.

[2] Productivity Commission, Planning, Zoning and Development Assessments, Issues Paper, 2010, p.7
[3] Ibid, p.3

But too often planning systems are being called upon to address 'externalities' and social policy goals that may be better dealt with through more direct action other than planning regulation. By way of example, the price paid for urban land may not allow for the social costs of road congestion. Instead of confining development, a more appropriate way of dealing with road congestion could be through road user fees or congestion charges.

At the same time it would be optimistic to suggest that there is a panacea to resolve the conflicts inherent in the planning system. While there have been some improvements effected to planning systems, there are ongoing concerns that planning regulation and processes are impeding productivity. The impact of planning regulation on productivity should be given greater prominence in assessments of the planning system.

The underlying rationale for planning systems should be to facilitate sustainable economic development and productivity. In what ways can the planning system improve the economy's capacity to grow?

Much greater attention of planning authorities should be devoted to utilising planning and policy instruments to facilitate economic growth that is compatible with sustainable development. Accordingly, planning assessments should not only consider the social and environmental issues, but take greater account of the benefits emanating from economic growth and development. If the costs and benefits of development could be more closely aligned it would enable planning systems to respond more flexibly and effectively to changing market circumstances.

Most State and Territory Governments have been pursuing planning reforms over the past decade. Much of those efforts are limited to process issues, such as the electronic lodgement of development applications and code-based assessment of development applications. While these reforms are worthy, the gains in efficiency are unlikely to be sufficient to eliminate the shortage of land and housing supply. Ensuring there is sufficient zoned land for residential development must be addressed.

According to the Productivity Commission planning authorities typically plan to have sufficient land "to meet the forecast demand for land for 10 to 20 years into the future" (Issues Paper, page 27). However, the evidence reveals an inability on the part of government agencies to project reliably population growth, which can render obsolete very quickly long-term planning strategies.

The complexities involved in predicting housing requirements, especially at a regional level suggest that the planning approach of 'predict and restrict' should give way to a more responsive, market-driven approach to plan setting. Under the responsive planning system, land-use plans would be guided by housing demand and supply projections but market conditions would be 'measured and monitored' and land-use plans adapted to meet changed market circumstances.

A more responsive planning system would be characterised by:

- reduced complexity and greater consistency in the application of planning determinations;
- a capacity to adjust land supply availability to shifts in market signals;
- decision-making that takes to account the true costs and benefits of development;
- effective incentives for local government to support development and growth; and
- efficient and timely co-ordination and delivery of infrastructure.

3. Population Projections, Housing Demand and Land-Use

The demand for serviced land for housing arises from the need to provide additional housing to accommodate housing demand. Setting aside the factors that drive housing demand, net additions to the housing stock occur through new dwelling construction, (net) conversions of non-residential buildings into residential accommodation and the replacement of dwellings lost from the housing stock.

By definition, an increase in the number of dwellings is identical to an increase in the number of households *plus* changes in the number of second homes, changes in the number of vacant dwellings for rent and for sale and *less* dwellings lost from the stock due to demolitions. In a statistical sense, changes in the number of households account for most (about 90 per cent) of the increase in the dwelling stock.

3.1 Population Projections and Household Formation

National and state government projections of population and household formation have provided the basis for metropolitan housing plans. The projections of household formation are mechanistic, relying for the most part on a continuation of historical trends. The methodologies struggle to make allowance for the impact of structural economic and social changes on past patterns of behaviour.

There has been considerable difficulty in the determination of reliable projections of population, the essential building block of projections of household formation.

Projections of population have been undertaken by the Australian Bureau of Statistics since 1978, which are up-dated every two-to-three years. The table below shows the Australia-wide projections of population to mid-century under the 'low' and 'high' scenarios, reflecting different assumptions about the level of immigration and fertility.

Population Projections: Australia, mid-century		
Year published	**'low'**	**'high'**
1998	23.5m	26.4m
2000	24.1m	28.2m
2003	23.0m	31.4m
2006	24.9m	33.4m
2008	30.9m(a)	42.5m(a)

Source: Australian Bureau of Statistics, Catalogue 3222.0, various issues. *Note*: (a) 2056.

In a period of 10 years, the official projections of population have been subject to substantial upward revisions. In 1998, the ABS projected a population of between 23 million to 26 million by mid-century. Ten years later, the projections of population had been revised by upwards of 60 per cent with a high population scenario of 42.5 million people by mid-century.

Since the starting point for the projection of household formation is population, a wide margin of error in the projection of population will feed through to estimates of households. On the basis of 2.3 persons in a household, the implied estimate of households would need to be revised upwards by between 3.2 million and 7 million over the next forty years, or between 80,000 and 175,000 a year. Since the number of dwelling completions averages about 150,000 a year, relying on population projections to set planning strategies is problematic.

Moreover, the uncertainties attaching to projections of population at the national level are magnified for regional population projections. The conversion of national projections to state and regional levels adds considerable complexity and greater potential for slippage due to the volatility in regional flows of population.

The upward revisions to population projections have been explained by unexpected increases in immigration and fertility as well as longer life expectancy. While fertility rates have staged somewhat of a recovery, a step-up in immigration has been a more dominant influence over increases in population numbers, accounting for about 60 per cent of the increase in Australia's population in recent years.

While it is usually assumed that the level of immigration is set by the government, much of the increase in immigration has occurred outside of the formal, permanent visa immigration program. In recent years, nearly 90 per cent of the net migration gain arose from employment-linked 'temporary' visas, international student visas, working holiday-makers and the return of Australian citizens in the aftermath of the global financial crisis.[4] Most immigration flows are now 'demand' driven and not as readily influenced by government immigration policy.

Net Permanent and Long-Term Immigration-Australia (000s)				
2004-05	**2005-06**	**2006-07**	**2007-08**	**2008-09**
178.0	199.3	238.3	279.0	336.0

Source: Department of Immigration and Citizenship, Immigration Update, 2009. The estimates include permanent visas granted to 'on-shore' applicants, which can overstate the estimates of permanent and long-term overseas migration if arrivals were counted in earlier periods. Alternative estimates of net overseas migration produced by the ABS were lower. However, the ABS changed the method for counting net overseas migration, which caused a break in the series from mid-2006 (see Australian Demographic Statistics, Catalogue 3101.0.

The bulk of the temporary migrants will be counted in the Australian resident population if they reside in Australia for 12 out of 16 months or more. Since temporary employment visas are granted for a period of up to four years, the likelihood is that the official estimates of Australia's resident population have been boosted strongly by the large increases in 'temporary' migration.[5]

Employer-linked temporary migrants and international students will not be included in the formal immigration program unless they apply successfully for *permanent* residency (on-shore applications). However, for the purposes of preparing population and household projections, it is estimates of the resident population that are relied upon.

[4] "Population surge linked to jobs growth", The Australian, 12 July 2010.

[5] A change in the period of residency (previously a continuous period of at least 12 months after arriving) applied by the ABS to migrants when estimating the resident population has caused a break in the series of net overseas migration from mid-2006. Had the same approach to residency been applied to earlier years, the estimated net overseas migration and estimated resident population would have been higher prior to 2006.

While it is likely that the household formation behaviour of migrants will converge over time towards the household headship propensities of other similar demographic groups in the population, the housing experience of recent migrants deserves much closer attention as an area for future research. How do household headship rates of recently-arrived migrants compare with those of other households? Do temporary migrants mirror the household headship behaviour of permanent migrants? If household formation rates of migrants and in particular temporary migrants lag those of other households, then household projections based on the application of historical headship rates to estimates of the resident population would over-state the number of households.

Since demographic factors underpin household formation, it is not surprising then that most planning strategies rely on projecting population and households. A comparison of household formation with dwelling completions provides an indication of 'undersupply' or 'oversupply' of new dwellings. But care needs to be applied when interpreting a simple count of dwellings and households because it can lead to an underestimate of new dwelling requirements:

- projections of households provide an estimate of 'notional' demand or need for dwellings; they are not an estimate of market demand or effective demand;
- housing markets are local; there can be regions of excess housing demand as well as areas of undersupply;
- shortages and excess supply of housing can be eliminated by changes in market prices (and rents) for dwellings;
- changes in housing affordability will alter the demand for housing services and potentially the historical pattern of household formation propensities;
- a deterioration (increase) in housing affordability can increase (reduce) the incidence of shared or 'concealed' housing arrangements;
- the number of dwellings does not define the quality of the housing stock; changes in income can alter the demand for housing among existing households;
- changes in the stock of dwellings will be influenced by the demand for second homes as well as stock replacement arising from natural disasters and re-development; and
- for some groups, household formation is reliant on the availability of government-provided or subsidised housing.

3.2 The demand for second homes, vacancies and demolitions

The demand for second homes as well as changes in vacancies and demolitions is not fixed. The numerical significance of the second home and holiday home market is largely unquantified in Australia. The increase in unoccupied stock between the 2001 and 2006 Census against a tightening rental sector suggests that the demand for second homes expanded over that period. It is likely that the demand for holiday homes would be influenced by household income, net wealth and relative returns on housing investment.

Since the location of holiday homes is mainly outside of the major capital cities, the future expansion of the second homes market has potential implications for residential building activity in regional and coastal areas. Documentation of the second homes market ought to be the subject of survey work.

The marked expansion of 'investment' lending in the early part of the 2000s followed a 'halving' of the Capital Gains Tax in 1999 and was expected to lead to a large increase in rental vacancy levels. But rental vacancy rates contracted throughout the period. If the cost of holding property (interest rates, property charges) is high, the cost of keeping property vacant is also high. However, during periods of rising house prices, investors might be persuaded to purchase property for profit from sale instead of rental in the expectation of a future sale realising a substantial capital appreciation.

Strong gains in incomes and population increases supported household formations that absorbed the additional rental housing supply. But it is also possible 'investment-for-sale' activity could have been more important than has been allowed for relative to 'investment-for-rent'.

There is little by way of published information on demolitions. Apart from losses of dwellings occasioned by natural disasters, such as fire and floods, densification of existing suburbs will likely increase the level of demolitions to make way for medium and higher-density development. Revaluation of well-located land saw the emergence of a significant amount of 'knock-down, re-build' single-dwelling activity, especially in Sydney where limitations on the availability of green-field land saw larger project home builders diversify into the single-dwelling replacement market in established suburbs. More broadly, if market-conditions are characterised by persistent housing shortages, house prices are likely to increase, which could extend the 'economic' life of dwellings.

The National Housing Supply Council in its first State of Supply Report (2009) suggested that demolitions were running at about 24,000 a year, equivalent to about 15 per cent of new dwelling completions. In its second report (2010), the National Housing Supply Council more than halved the estimate of demolitions to less than 10,000 a year, representing about 6.5 per cent of annual dwelling completions. Such estimates need to be underpinned by proper collections on the number and location of demolitions of dwellings.

3.3 Implications for Planning Strategies

Australia lags considerably behind other countries in the development of behavioural models of population and household formation. The crude methodology adopted to prepare population projections means that the projections can do little to inform state and local government strategic planning for land-use management. The implications for reliable assessments of demand for housing and related services that underpin land-use planning strategies are all too obvious. It has been observed:

The states "along the eastern seaboard consistently under-estimated their population growth, and this had a knock-off effect across the public and private markets of health, education, transport and housing.

"Our real problems begin here, with the almost comical inability of our institutions to correctly forecast the basics: how many maternity beds, childcare and school places, new houses and apartments, train, tram and bus services would be required to raise, educate, accommodate and transport the most vibrant developed nation on the planet."[6].

[6] Population explosion? It's already happening, The Australian, 10 July, 2010.

During periods of rapid structural economic and technological change, it may not be possible to rely on the extrapolation of past trends to project population and household formation. For example, persistent housing affordability conditions could constrain the ability of individuals to establish a separate household. By contrast, government policies that improve housing costs relative to incomes could increase household headship rates compared with historical patterns.

The difficulties in developing reliable projections of future demand for housing and related infrastructure suggest that long-term planning strategies need to have performance benchmarks that can be measured and monitored. Long-term planning strategies might provide a level of 'certainty' to the community and business, but they can come at a considerable cost to flexibility and responsiveness when market fundamentals change.

Reconciling estimates of household projections and housing supply poses challenges. Assessing the adequacy of housing supply can be assisted by regular monitoring of market-based information. Effective land-use management needs to be more responsive to emerging market signals, particularly in relation to 'pressure-of-demand' factors, such as movements in the sale of dwellings relative to the inventory of dwellings available for sale as well as structural shifts in housing affordability, land and house prices, rents and vacancies. Adherence to redundant planning strategies in the face of persistent housing affordability pressures can have severe economic and social consequences for individuals and communities.

The amount of information available to local government (and state governments) when considering land-use planning is very deficient, calling into question the reliability of determinations about land-use planning. Statistical information on land supply and the land development sector is very poor and poses a hurdle to be overcome to assist policy making. The compilation of useful information on land supply requires the identification of common steps in the development process and the adoption of consistent definitions. In some cases, state agencies have been collecting relevant information for a number of years, but very little of it has been analysed and published.

The National Housing Supply Council has identified a number of areas of housing activity where official collections need to be improved. **A concerted effort is required to upgrade the frequency and quality of housing-market information.**

The COAG has established a working group of Commonwealth and State officials to gather information on land supply. It would be appropriate if requirements for housing-market information were prioritised through a collaborative effort on the part of Commonwealth, State and Local Government together with industry under the auspices of the Australian Bureau of Statistics and the National Housing Supply Council. The scoping of housing statistics should be incorporated in the future work program of the Australian Bureau of Statistics.

Notwithstanding reservations about the variability in official population projections, the more recent estimates suggest that the scale of the housing supply challenge could continue for some time. On the basis of the most recent ABS population projections, the implied increase in the number of households would be in the order of 8 million by mid-century, nearly double the current number of households. The number of new dwelling units supplied to the market would have to be sustained at an average of 190,000 every year just to match the projected increase in the number of households, considerably greater than the annual number of dwelling completions ever achieved in Australia.

Having regard to the other contributing components of housing demand, such as second homes, the prospect that there would be sufficient capacity to meet well in excess of 200,000 new dwellings a year would seem on current indications quite remote. It should be self-evident that considerably more undeveloped land will be required to match significant increases in population. Attempts to constrain the supply of land for development increase the prospect of further structural deterioration in housing affordability conditions with housing demand being curtailed by persistent increases in the real price of existing housing.

4. Densification

During the course of the 1990s, urban consolidation and containment became the linchpins of planning strategies. The impetus for densification of residential development within existing urban areas was influenced by increasing environmental concerns arising from 'suburban sprawl' and a desire to reduce public sector borrowings for new infrastructure to curtail government budget deficits. Thus the Productivity Commission in its Final Report on First Home Ownership (2004) stated:

> *Most governments have sought to limit the outward expansion of their capital cities, in order to reduce infrastructure costs and protect the environment. In doing so, the scarcity value of land in those cities will inevitably rise. Unless there are offsetting increases in housing density, affordability will be adversely affected.*[7]

Gleeson et al (2003) reviewed the metropolitan planning strategies of Melbourne, Sydney, South-east Queensland, Perth and Adelaide. The study concluded there was "a consensus across the five metropolitan strategies on the need to address the car dependent, sprawling morphology of capital cities". All of the plans "advocate urban containment and reduced car dependence in pursuit of sustainability."[8]

The goal of sustainable development does not imply minimal use of land but the best use of limited land resources taking to account economic, social and environmental costs and benefits associated with development.[9]

The tight containment of urban areas may not be costless. For example, some households can seek out more affordable housing in areas beyond capital cities leading to an increase in travel if employment and services are separated from extra-urban development. Commuters might travel very long distances in order to reach work.

If land supply restrictions force up the price of land, lower-income households and key workers can be priced out of the local market for housing, inhibiting labour mobility. The pursuit of inclusionary zoning, such as the requirement for affordable housing allocations in residential development, can have unintended consequences for the financial viability of development. Also, land-use restrictions can limit the potential for investment beyond urban areas and may hinder the ability of the rural economy to diversify beyond agriculture.

Research by Parsons Brinckerhoff and Curtin University Institute of Sustainable Policy (PB-CU, 2008) examined the 'lifetime' infrastructure, transport, environmental and health costs of inner-city development and fringe development. The report estimated that the 'net present value' of the lifetime costs of fringe development was more than $650,000 a dwelling as against $300,000 for an inner-city dwelling:

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7 Op.cit.,p.xxv.

8 Gleeson B, Darbas T and Lawson S, What is a Metropolitan Strategy?-A research paper prepared for Planning NSW by the Urban Policy Program, Griffith University, 2003, p.,48.

9 Kate Barker, Barker Review of Land Use Regulation, 2006, p.48.

- most of the 'savings' from inner-city development were associated with transport and infrastructure, estimated at around $86,000 in lower up-front capital costs per dwelling and $250,000 for operational transportation costs capitalised over 50 years;
- inner-city development offered "significant cost savings by either using excess capacity or requiring less of the service because of shorter distances and greater compactness";[10]
- Operational and capital costs of motor vehicles for outer-city developments were close to double those for inner-city development due to much greater vehicle kilometres travelled and the increased depreciation of longer trip distances.[11]

The attempt to quantify the private and social costs of inner-city and fringe development has the potential to inform policy consideration around different forms of urban development. However, the PB-CU study has some important limitations:

- the differences in the purchase costs of inner-city dwellings and dwellings at the fringe were not included in the assessment of costs, a serious omission in light of the price premium on inner-city locations;
- the assumption that there is underutilised or spare road, water and sewerage capacity in inner-city areas is heroic. The carrying capacity of existing infrastructure ought to be verified and the costs of augmentation and/or replacement estimated on the basis of a range of population and housing density scenarios;
- there can be social costs of urban congestion and diminished housing choice associated with urban consolidation, which have not been allowed for;
- distance from the central business district likely overstates travel to work due to the widespread dispersion of jobs throughout capital cities.

4.1 Location of Jobs

In looking at patterns of urban development there needs to be much greater attention paid to the location of jobs. The suburbanisation of employment is not a new trend. But the pace at which jobs have decentralised has wider implications for the development and augmentation of transport infrastructure and services. There ought to be closer consideration of where people live and work.

According to the Census, the proportion of jobs located in the central business district of the major capital cities has declined markedly over the past fifty years. By way of example, at the start of the 1960s, more than half of all jobs in Melbourne were located in the central city area. By 2006, more than 8-out-of-ten jobs were located in suburbs outside of the central city area. The Melbourne central business district accounts for less than 10 per cent of all metropolitan jobs.[12]

The growth in professional services and the transformation of information technology have enabled many more people to utilise their dwelling as a place of business. They have enabled the decentralisation of jobs and changed the relationship between work and the utilisation of the housing stock for many households.

[10] Roman Trubka, Peter Newman, and Darren Bilsborough, The Costs of Urban Sprawl (1): Infrastructure and Transportation, Curtin University of Technology and Parsons Brinckerhoff, p.2.
[11] Roman Trubka, Peter Newman and Darren Bilsborough, Assessing the Costs of Alternative Development Paths in Australian Cities, Curtin University of Technology and Parsons Brinckerhoff, p.7.
[12] Alan Moran, The Tragedy of Planning, Institute of Public Affairs, 2006, p.13.

Location of Jobs – 2006 (per cent of capital city jobs)		
City	**CBD**	**Central City Area**
Sydney	13.3	21
Melbourne	9.9	19
Brisbane	8.4	13
Perth	9.9	18

Source: Australian Bureau of Statistics, 2006 Census

More than two million households utilise their domestic dwelling for business-related and work purposes with beneficial impacts for the productivity of the existing dwelling stock.[13] The expansion of home-based employment and the suburbanisation of jobs need to be afforded appropriate consideration in the development of land-use and infrastructure planning strategies.

The dispersion of jobs throughout cities potentially has implications for commuting distances. PB-CU claims that "Australian cities are reaching an expansiveness necessitating many residents to commit upwards of an hour or two daily for commuting purposes."[14] The evidence for Sydney indicates that the average length of trips is higher for households in fringe suburbs, but much less than the increase in distance from the CBD would suggest.

Patterns of Travel –Sydney 2007				
Area	**Commuting/ Work-related Business (% of all distances travelled)**	**Recreation (% of all distances travelled)**	**Average Trip (kms)**	**Average Work Trip Time (minutes)**
Inner Sydney	44	28	4.7	31
St George/ Sutherland	41	21	7.6	32
Canterbury/Bankstown	42	21	6.7	35
Fairfield/Liverpool	44	18	8.8	34
Blacktown	47	19	8.9	34
Camden/Campbelltown	43	19	12.6	41
Blue Mtns/Penrith	46	18	11.7	35

Source: NSW Transport Data Centre Key Transport Indicators by Local Government Area of Residence 2007 Sydney Greater Metropolitan Area, October, 2009.

According to the NSW Transport 2008-09 Household Travel Survey:

- daily trips averaged about 5 kilometres for households in inner Sydney suburbs and 9 kilometres for households in Blacktown and about 12 kilometres for households in Campbelltown and Penrith;
- commuting and business-related travel accounted for about 40-45 per cent of distances travelled by households, a pattern that was fairly uniform between inner, middle and outer

[13] Australian Bureau of Statistics, Locations of Work, Aust, Nov 2005, Catalogue 6275.0.
[14] Assessing the Costs of Alternative Development Paths in Australian Cities, op.cit., p.6.

suburbs; much of business-related travel is undertaken by builders, electricians, plumbers, repairers, gardeners, carers, hospitality and catering providers, real estate agents, loan officers and other service providers, whose work-place is a vehicle;

- travel for recreational purposes represented the second-most important reason for travel, accounting for about 20 per cent of daily trips, but a little bit higher for households living in inner suburbs; and
- the amount of time spent travelling to work was about 30 minutes a day for households in inner suburbs and 35 minutes for households in outer suburbs.

Turning to Melbourne, the pattern of residency and journey to work is similar to that revealed for Sydney. Most Melbourne residents work close to their place of residence. About 50-70 per cent of employed residents work in their 'home' Local Government Area (LGA) or a neighbouring LGA:

- about three-quarters of employed residents in the outlying areas of Frankston, Greater Dandenong and Mornington Peninsula (half for Melton) work in their local area or neighbouring LGA;
- a modest proportion of residents in outlying LGAs work in the Melbourne LGA.

Journey to Work Patterns by Residency-Melbourne		
Area	**LGA (%)**	**(%)**
Frankston	76	6
Greater Dandenong	74	8
Knox	73	9
Maroondah	64	11
Melton	52	17
Mornington Peninsula	76	3
Whittlesea	63	13

Source: Victoria Department of Transport, Transport Demand Information Atlas for Victoria, 2008, Volume 1: Melbourne, Introduction and Chapter 1-Journey to Work Patterns.

4.2 In-fill Development

A number of State Governments have adopted urban growth boundaries as part of a strategy to contain the geographical expansion of their capital cities. In *Melbourne 2030* (2002), 60 per cent of development was targeted to be in-fill, representing a marked change in the pattern of urban development. In 2002-03, medium-density and high-rise dwellings accounted for 38 per cent of new dwelling activity in Melbourne; detached dwellings represented the dominant share of new dwelling activity with more than 60 per cent of dwellings approved for construction. By 2008-09, when the Victorian Government brought down its revised metropolitan strategy, *Melbourne@5million (2008),* the market share of detached houses had increased to more than 67 per cent and the proportion of multi-unit dwellings had declined to 33 per cent of all dwellings approved for construction in Melbourne.

Urban growth boundaries can pose significant challenges for housing affordability if there is a sustained increase in the demand for housing. In *Melbourne*@5million, the Victorian Government expanded the urban growth boundary and modified the density target, actions that were criticised in some quarters. However, the amendments could be important in moderating demand pressures on available housing supply and consequently, existing house prices.

The practice of limiting the release of new green-field land on the urban fringe was not accompanied by an increase in the availability of sites in established suburbs. Put simply, most land in established areas is owned privately; it is not at the disposal of governments. There is no certainty that existing residents will make their sites available for re-development simply because governments wish to see more high-rise and medium-density development. The option of of government resorting to the compulsory acquisition of in-fill sites is likely to be met with severe community opposition. Attempts by government to make available for development their 'surplus' sites have been modest.

Not only is there the difficulty faced by developers in aggregating residential sites for higher-density development, densification can be vociferously opposed by local residents. Described as the 'not-in-my-back yard' syndrome, it should be anticipated that existing owners would have misgivings about the diminution, perceived or real of services consequent upon densification. Existing residents can be apprehensive about in-fill development because of concerns about further congestion, increased pressures on existing infrastructure, loss of open space and depreciation of property prices.

There has been an absence of market-related instruments to address the concerns of local residents about the implications for urban congestion and over-stretched community facilities arising from re-development.

The case for densification should be tested against consumer preferences. To date, there has been little effort made to gather information on consumer attitudes to urban consolidation. However, the ferocity of local resident opposition to densification suggests that there are likely to be significant social costs that need to be taken into consideration. There should be a rigorous assessment made of the factors that influence the housing choices that households make.

The (uncritical) acceptance of the existence of under-utilised and spare existing infrastructure capacity in established urban areas ought to be examined based on a systematic assessment of available infrastructure. HIA is not aware of a published study on the state of Australian urban infrastructure in major capital cities. It is essential that there be an inventory of capital city infrastructure. In addition, a comparison should be made of the costs of upgrading existing infrastructure in established areas against the costs of developing new infrastructure to accommodate green-field expansion of housing demand.

The focus of the planning strategy around in-fill versus green-field development looks untenable when housing demand is experiencing strong growth through population expansion. Curtailing the supply of zoned green-field land for residential development in the face of steeply increasing demand for housing is likely to lead to large increases in the 'raw' land component of urban fringe land and intensify the demand for property in existing areas.

The long-lead times involved in residential development will limit the responsiveness of new dwelling activity to shifts in market conditions. But attempts to alter the pattern and composition of urban development by the (arbitrary) imposition of pre-set density targets and the scaling back of new release areas do not bode well for housing affordability and new housing supply.

Increasing housing densities to avoid incurring the cost of providing infrastructure to green-field land may be in sharp conflict with the demands for housing space over the next forty years, based on current population projections. In addition, it would be inappropriate to rely on steep increases in housing density as a means of meeting increases in household formation.

It has been argued that in-fill development should be pursued over green-field development because of the impacts of urban expansion on water, energy and waste disposal. Since new dwellings have been required to meet energy efficiency and (sustainability) benchmarks in all States and Territories since 2003, policy decisions that have the effect of increasing the cost of new housing *relative* to the price of existing housing may shift demand away from new dwellings to less sustainable existing dwellings. Restricting housing supply, by increasing the real price of housing can have untoward distributive consequences, especially for people seeking to purchase or rent a dwelling.

A significant component of housing demand is linked to population increase and household formation, which is unlikely to be met by curtailing green-field development. The mandating of energy and water efficiency standards for new dwellings has mitigated the environmental impacts of new dwellings. While much attention has been focused on the environmental costs of green-field development, there has been much less attention directed towards reducing the environmental impact arising from the use of the existing housing stock, which is less sustainable than new dwellings.

Planning strategies have been caught in the horns of a dilemma: on the one hand densification and urban containment have been seen as a means of mitigating the environmental impact of residential development. On the other hand, limitations on the availability of urban land for housing have contributed to the erosion of housing affordability.

Some planning authorities have resorted to further planning interventions, such as 'inclusionary' zoning in an attempt to increase the availability of 'affordable' housing. Using planning instruments to shift the cost of supplying affordable housing to other purchasers of new housing instead of the broader community through more conventional policy approaches can be counter-productive.[15]

5. Land Supply and Housing Affordability

> *…planning system complexity and ambiguity is associated with significant costs for housing development in Australia.* [16]

Planning regulation is a policy choice and can be interpreted as government-sanctioned increases in the cost of new housing supply. Planning regulations can be specific to different locations. But these are not compiled or recorded in a systematic way.

The channels through which different types of regulation impact on housing costs and new housing supply is difficult to measure because much of the regulation does not have an explicit price. Until recently, there has been next to no research in Australia on the impact of planning regulation on land and housing supply and housing affordability.

Of course, new dwellings cannot be provided without land and the cost of land has increased much faster than direct build costs in the past 10-15 years. Since land markets are segmented from housing markets, the demand for land is not directly derived from the demand for housing. The market segmentation means that constraints on the supply of land for development can push up the supply cost of new housing.

[15] Andrew Beer, Housing Affordability and Planning in Australia, Paper presented to the Housing Studies Association Spring Conference, 2004, Belfast, p.7.

[16] Nicole Gurran, Kristian Ruming and Bill Randolph, Counting the costs; planning requirements, infrastructure contributions, and residential development in Australia, Australian Housing and Urban Research, November 2009, p.15.

The supply cost of residential land can be affected by land-use controls such as growth boundaries, zoning restrictions, housing specific requirements and 'implicit' taxation of residential development imposed by state and local governments. The potential to lower the cost of the land component (relative to structures) through higher-density development can be affected adversely by restrictions and prohibitions on higher-rise development in established areas.

Because land-use regulation applies to new housing supply and not established housing, there is the potential for a price-cost wedge to emerge between the cost of supplying a new dwelling and the price of an established dwelling. An important and distinctive feature of housing markets surrounds the relationship between new housing supply and the price of the existing housing stock.

5.1 Housing Costs, House Prices and New Housing Supply

Housing markets do not comply neatly with the conventional market paradigm of demand and supply:

- housing as a commodity has the dual characteristics of a consumption good and an investment asset. An increase in housing prices might reduce the demand for housing services and curtail effective demand from potential first-home purchasers, but higher house prices can increase the demand for housing from existing owners seeking to trade-up and as an investment;
- the 'active' supply of dwellings comprises the inventory of dwellings for sale (and rent), which overwhelmingly is made up of established dwellings.[17] Transactions of established dwellings exceed new dwelling completions by a factor of about six-to-one;
- new dwelling construction is dominated by contracts to build and pre-sales; a modest share of dwelling construction relates to building for sale.

In the shorter term, changes in the number of dwellings for sale come mainly from potential turnover in the established market. In relation to housing price dynamics, it means that house prices are determined in the short term by the interaction of sellers and buyers of established dwellings and not through the cost and supply of new housing. The price of established housing in effect sets a cap on what developers and builders can charge for new land and housing, not the other way round.

Some buyers of new homes might be prepared to pay a price premium for a 'modern' new dwelling with various amenities as well as sustainability features. But they are likely to be in the minority when the cost of new dwellings becomes too far out of kilter with the price of alternative existing dwellings.

If the cost of new housing is significantly out of balance with the price of comparable established housing, demand pressures could see sustained increases in the price of existing houses through 'churning' of the established dwelling market. If new housing is not cost-competitive, established house prices will have to be sufficiently attractive to cause existing householders to move or sell investment property. The higher transaction costs are the more prices will have to increase to compensate owners for selling or moving.

[17] The existing stock of dwellings is not the 'supply' of housing because at a point in time most dwellings are not available for sale or rent.

When regulation of new residential development proceeds ahead of market demand developers and builders might not be able to pass through higher costs into contract or sale prices. The low margins that characterise new dwelling construction make it difficult for builders to reduce prices and to remain viable in a down-market. In a weakening housing market, market adjustment will fall more heavily on new housing supply than on the sale price of new housing.

The speed at which imbalances between the cost of new housing and the price of established housing are eliminated will depend on the strength of demand conditions. In depressed real estate markets there is the possibility of existing house prices lagging new development costs for some time with consequential low levels of new housing supply.

5.2 New and Established Housing Choice

Because new dwellings and existing houses are near substitutes, a change in the cost of new housing *relative* to the price of established dwellings can be important in determining housing choices between new and existing housing. The allocation of home loans between new and established housing provides an indication of the outcome of consumer preferences. A relative increase in the cost of new housing can lead to a switching of buyer activity away from new dwellings to existing dwellings. Similarly, if the price of established dwellings moves close to or ahead of the cost of new housing, some market demand could shift to new dwellings.

The share of lending for new housing was fairly stable in the first half of the 1990s. But from the mid-90s, the proportion of lending for new housing started to decline, which accelerated in the last years of the decade. There has been a modest improvement in the proportion of loans for new dwellings since 2008, which could have been linked in part to subsidies for the purchase of new dwellings.

Share of Home Loans for New Housing (% of total loans)					
June	**NSW**	**Victoria**	**Queensland**	**WA**	**Australia**
1990	25.00	26	29	30	27
1991	20.00	23	29	29	25
1992	24.00	21	33	29	27
1993	24.00	24	34	31	28
1994	26.00	24	36	30	28
1995	23.00	22	32	29	26
1996	22.00	20	30	24	22
1997	22.00	24	31	29	24
1998	22.00	27	30	25	24
1999	17.00	24	25	26	21
2000	13.40	23	21	23	18
2001	14.00	23	22	23	18
2002	12.20	22	17	22	16
2003	11.70	21	17	21	16
2004	14.00	23	18	24	18

Share of Home Loans for New Housing (% of total loans)					
2005	12.70	22	17	22	17
2006	11.90	22	17	23	17
2007	11.60	20	19	20	16
2008	12.32	23	21	25	18
2009	13.50	24	19	30	20
2010	13.30	29	21	30	23

Source: Australian Bureau of Statistics, Housing Finance, Catalogue No. 5609.0, various issues.

The decline in the share of lending for new housing was particularly marked in New South Wales. The possible factors behind the decline in the share of buyer demand for new housing included:

- rampant increases in the relative cost of new housing flowing from regulatory constraints on the availability of serviced land and higher infrastructure charging on new residential development;
- limits on the supply of green-field land that increased the acquisition prices of undeveloped land as developers bid for the reduced availability of zoned land and pushed up the cost of new housing and increased the demand for existing housing and housing re-development;
- the commencement of the GST in 2000, which increased the cost of residential land and new dwellings by about 7 per cent, considerably more than official estimates; and
- extra regulation on new dwellings for energy and water efficiency that does not apply to existing dwellings.

The GST affects housing choice by altering incentive structures between the purchase of new and established housing. Whereas the GST is payable on the sale price of new dwellings, land price up-lift and renovations, GST is not applicable to the purchase of established housing. Because existing dwellings account for more than 80 per cent of sales of dwellings, to remain competitive builders have to try and match the price of existing dwellings. The different treatment of new and established housing under the GST distorts the allocation of housing resources.

The application of GST to new housing supply means that it is likely to be cheaper to purchase an established dwelling than to acquire a new dwelling, with a consequential negative effect on new housing supply. There is also a disadvantage for investment in rented housing that is input-taxed, relative to industrial and commercial property, upon which GST is refundable. The availability of the First Home Owners' Grant to the purchase of established housing serves to increase the price disadvantage faced by new residential property.

Some indication of the relevance of new home costs to new housing supply is illustrated by the impact of grants to first home buyers to build or purchase a new dwelling in Victoria. In October 2008, the Australian Government tripled the First Home Grant for purchasers of new dwellings; the grant for the purchase of established dwellings was doubled. The Victorian Government boosted further the grant for first home purchasers of new dwellings.

In April 2008, before the grant was increased, about 21 per cent of loan approvals in Victoria were for the purchase of new dwellings, compared with nearly 16 per cent for the rest of Australia. By April 2010, 30 per cent of housing loans approved in Victoria were for the construction or purchase of new dwellings, compared with 19 per cent for the rest of Australia. Since first home buyers typically account for a modest share of the new home market, the sharp reversal in the overall proportion of loans allocated to new housing, suggests that the new home grants had a pronounced effect on the preferences of first home buyers.

Number of Loans for New Dwellings (per cent of total loans)		
April	**Victoria**	**Rest of Australia**
2008	20.9	15.7
2009	25.5	16.8
2010	29.6	18.8

Source: ABS-Housing Finance Australia, Catalogue 5609.0

Had a similar share of loans for new housing been achieved in the rest of Australia, the number of new homes built in Australia would have increased by about 50,000, bringing housing supply into closer alignment with so-called underlying requirement for new dwellings.

The new home grant, by changing the 'affordability' of new dwellings relative to the price of established housing had a marked effect on new dwelling activity in Victoria. But it also serves to highlight the sensitivity of the demand for and supply of new housing to factors that change the relativities between new housing costs and established house prices.

Policy-makers need to understand that housing producers respond to market sales and changes in regulation and taxes that increase the relative cost of new dwellings can tilt consumer preferences away from new housing leading to a churning of established housing with potential consequences for existing house prices.

5.3 Regulation and Housing Costs

It is **regulation** of land development that lies at the heart of higher costs of land supply. However, regulation of new housing is not confined to land supply. Higher costs of new housing through more onerous regulation of areas such as water, energy efficiency and accessibility can also have a similar effect on the supply cost of new housing. And with further policy changes in the pipeline on energy efficiency, climate change, life cycle, broadband and accessibility, there will be a cost effect on new housing relative to the price of established housing that will risk diverting demand to the established housing market.

Regulations to increase new-build sustainability present substantial challenges for the industry relating to additional construction costs, uncertainty, varying approaches between governments, supply-chain capacities, skill requirements and consumer acceptance. Impacts of regulatory change on the demand for and supply of new housing need to be assessed, which calls for proper monitoring and evaluation.

To date, the research work on planning regulation in Australia has been qualitative in nature, due in large part to the lack of usable data on planning regulation. The paucity of information on land supply, land prices, development pipelines and stocks of developed land raises questions about the basis upon which metropolitan planning strategies are formulated and monitored.

In the United States and the United Kingdom there have been official reviews as well as a long tradition of private research on the effects of planning regulation on land supply and housing affordability. In the United Kingdom, the Treasury instituted the Barker reviews of housing supply and land-use planning, which have informed policy development in that country.

Although some of the international research is equivocal on the impact of planning regulation on housing outcomes, the weight of evidence has been that planning-related restrictions on the availability of land for residential development and the escalation of development charges have had a negative effect on new housing supply and housing affordability.

It is more than 30 years since Australia undertook a major review of housing costs.[18] There have been substantial changes in the regulatory landscape since then that have had far-reaching effects on the supply of new housing, housing costs and housing affordability. The Australian Government should initiate a review of housing regulation and housing costs. A better understanding of the drivers of housing costs could help to identify where policy can exert the greatest amount of leverage on new housing supply.

A baseline for regulatory costs should be established against which existing regulation can be assessed, managed and mitigated where appropriate. Relevant departmental agencies should be required to report on efforts to ameliorate or simplify existing regulation.

6. Land Development

According to the Productivity Commission:

"There is…scope to moderate price and affordability pressures over time by:

- *improving land release and planning approval processes: and*
- *ensuring that developer charges for infrastructure relate appropriately to the benefits provided to the home buyers in new housing developments"* [19]

The provision of sufficient zoned land for residential development, the financial viability of land development and the timely availability of serviced land are vital to the achievement of housing affordability aims. When looking for barriers to increasing new housing supply, beneficial outcomes are more likely to be found in the reform of land-use management regulation, including arrangements for the funding of housing-related infrastructure.

A greater supply of serviced land is crucial to dealing with housing supply and housing affordability. The removal or at least the expansion of growth boundaries and re-zoning land for residential development are necessary actions to increase land supply. But they do not guarantee development will proceed. For land developers a key issue relates to the financial viability of sites (PC Issues Paper, page 27).

6.1 Risk and Uncertainty

Private sector land development occupies the higher risk spectrum of investment. Typically, land projects can take some years from initial project feasibility to the completion of developments. Land development requires substantial amounts of capital to be invested for long periods of time with delayed returns. Planning approval for individual developments can be lengthy and costly for developers and subject to the vagaries of shifts in market conditions. Long gestation periods mean that unexpected changes in demand conditions can alter the financial viability of land projects.

[18] The Cost of Housing The Report of the Committee of Inquiry into Housing Costs, AGPS, 1978.
[19] Productivity Commission, First Home Ownership Inquiry, op. cit. p.xii.

Due to high-risk exposure, financial feasibility assessments have to build in high required rates of return. The high risk-profile of land development can be exacerbated by unpredictable and uncertain planning requirements that can present an inherent barrier to increasing the supply of serviced land. The increased complexity of planning systems has led developers to employ or hire more planners to assist with negotiations and applications.

The risk characteristics of land projects may not be recognised by planning authorities when setting infrastructure charges and fees. Typically, development charges have to be paid up-front, well before developers receive revenue from sales of land. The requirement imposes a substantial financial burden, and especially so when capital is difficult and costly to access.

It has been claimed that planning systems in New South Wales, Queensland and Victoria are "highly complex, lack certain and consistent decision frameworks, and are associated with significant and unpredictable fees or charges." [20] The scale of development charges and other planning requirements that set aside parts of sites for non-revenue earning uses can reduce returns for developers. Attempts by developers to pass back to land-owners the impact of planning-related costs by way of lower acquisition prices may be resisted by existing owners, particularly in a supply-constrained market.

Planning regulation tends not to be clear-cut or well-defined. Planning systems are typified by a considerable amount of discretion and negotiation. While it may be argued that the potential for discretion allows some flexibility, at the same time the breadth of discretionary outcomes can create some uncertainty, particulary under a planning culture of 'predict and restrict'.

Reform processes in NSW, Queensland and Victoria are intended to achieve more predictable outcomes 'through greater standardisation, reduced administrative requirements, and new infrastructure charging regimes'[20]. Notwithstanding, there is some 'doubt about whether the reforms will lead to simpler or faster processes' [21].

Reform of planning systems should not be the sole responsibility of regulators. There is a compelling case for engaging private sector stakeholders at an early stage in the planning reform process. Frequent changes to planning systems in themselves can generate their own costs and uncertainty, as new systems are bedded-down.[22] Private sector participants ought to be able to advise government on the most cost-effective and timely way to implement planning reforms.

According to Gurran, uncertainty about both planning approval times and development requirements were ranked by developers as being more significant than infrastructure fees and charges.[23] The strength of the conclusion should be viewed with some care because of the small size of the sample and the variability in planning approaches between local government authorities and between projects within the same local government area.

When looking at measures to increase the supply of land and housing, positive benefits are more likely to be found in the process of land development, particularly if planning reforms lead to a reduction in development risk.[24]

Uncertain planning requirements and related costs, by impacting on the ability of smaller land developers to compete, can affect the structure of the land development industry.

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[20] Gurran et al, op.cit.,p.14.
[21] Ibid.,p.14.
[22] Barker, Land-use Regulation, op. cit.,p.4.
[23] Gurran et al, op. cit.,p.14.
[24] Michael Ball, The housebuilding industry Promoting recovery in housing supply, Department for Communities and Local Government, April 2010, p.58

6.2 Structure of the Land Development Industry

Whereas the residential building sector is characterised by a large number of small building firms, the land development sector is much more concentrated with a small number of companies, several of which are publicly-listed. These companies are responsible for most of the production of serviced land for housing. Typically, major land developers of green-field sites do not undertake house building.

Unlike in the United Kingdom and the United States, in Australia there is substantial segmentation between land development and house-building. Most residential builders in Australia do not take positions in land, they build under contract to changeover buyers, investors and first home buyers.

In the multi-unit sector, there are some builder-developers who re-develop sites for the sale of units to owner-occupiers and investors. Some developers of high-rise apartments engage large commercial construction companies to undertake the construction of high-density projects.

Multi-unit development projects are much more capital intensive than single dwelling construction, which increases the sensitivity of higher-density development projects to planning requirements and delays as well as changes in the cost and availability of working capital.

In Sydney, an apartment developer would have to allow for a planning approval period of at least two and a half years. Inordinate delays in the planning approval process require developers to form expectations about the likely level of sales revenue several years out. Most multi-unit developers attempt to mitigate the risk of unexpected market shifts through sales off-the-plan.

Large-scale developments tend to advantage larger development companies that are better placed to access capital through equity raisings and corporate borrowing. In addition, larger developers are more likely to be able to 'absorb costs during market downturns and to allocate resources to negotiations with planning authorities on planning requirements'.[25] Smaller development companies may be well placed to take advantage of small sites, such as 'windfall' sites.

Developers of green-field land deal with uncertainty by avoiding difficult local government areas and targeting higher-value, higher-yielding developments. On occasions covenants have been utilised to influence the quality of housing provided within specific developments. In these ways, the uncertainty of planning regulation can lead to a diminution in housing choice, especially the availability of lower-priced housing.

It has been asserted that making more zoned land available for development may not increase the supply of serviced land if land developers sit on planning approvals by 'land-banking'. The paucity of information on land supply makes it difficult to validate the claims.

6.3 Land Banks

Unlike manufacturing, the land development industry cannot rely on 'just-in-time' supply- chain management to contain the amount of capital tied up in land stocks. Developers have to commit considerable amounts of working capital in land stocks. If developed land could be brought to market without delays, developers could resort to 'just-in-time' procurement.

[25] Gurran et.al., op. cit.,p.13.

Very long gestation periods mean that it can be years before revenue flows from sales of serviced land. It makes sense for developers to turn over developed land as soon as possible to release capital for re-investment.[26] But if land is in short supply, developers are more likely to seek to acquire 'land banks' in order to protect future earnings potential.

The land bank is the quantity of land that a development company owns or controls for its future activities. Callcutt describes land banks as having two key components:

- Strategic land: includes land that is either outside designated residential areas or not zoned for residential development; it is more likely to be green-field. Some developers will control strategic land either through direct ownership or through options to purchase it consequent upon a rezoning or consent to develop;
- Current land: is land that is zoned for residential development or on which planning consent has been received.[27]

Strategic land represents a supply of land that can be later transferred into the current land bank. It is intended to provide a smoother supply of land into production and can be critical to allowing companies to cope with the often very long and uncertain lead times involved in bringing sites into production. [28]

Undue reliance on a short-term land bank can be risky and costly because such land is likely to be expensive to source and its availability less reliable to predict.[29]

The more remote land is from the prospect of planning consent, the more likely a developer will be able to acquire the site at a favourable price. The main down-side of building up a strategic land bank is the risk of rejection of planning consent, the potential for unexpected delays in obtaining planning approval, a rapidly changing regulatory environment (land management, native vegetation, threatened species, climate change, etc) and uncertainty about the value of development contributions set by approving authorities.[30]

Policies to contain the supply of green-field land can see land prices increase at a faster pace than the cost of capital to developers, creating an incentive for developers to add to their strategic land banking.

Developers will seek to contain financial risks by holding land on options or conditional agreements with land-owners. But there is a cost to taking out an option. If land-owners see rising land prices, they are more likely to demand a premium price for the option as well as a share of development profits. But an option may be less costly to having land on the balance sheet at its full acquisition cost. Risk management is required to set the costs of failing to achieve planning permission against the costs of holding undeveloped land, possibly for some years.[31]

The re-pricing of risk following the global financial crisis has meant that the cost of capital to developers has increased substantially. At the same time, lenders have become more risk averse to lending for land acquisition and development. The higher cost of capital and the diminished availability of external financing have reduced the attractiveness of land banking.

[26] The Callcutt Review of house building delivery, Department of Communities and Local Government UK, 2007, p.36.
[27] Ibid.,p.136.
[28] Ibid.,p.136.
[29] Ibid.,p.136.
[30] Ibid,,p.137.
[31] Ibid.,p.137.

It is not possible to ascertain how substantial land banking is. There is little or no information on the amount of land that can actually be built upon. Without knowing how much land is held by developers, possible measures intended to release land developers' land banks may be aimed at the wrong target.

In the case where public land is sold for residential development, a minimum rate of land production could be part of the condition of sale. The price offered by developers would take to account the risk of the development requirement.[32]

6.4 State Land Agencies

Most States have commercialised land and housing agencies that operate in land and housing markets, separately from agencies responsible for the delivery of social housing.

The rationale for land agencies was to provide 'affordable housing' for entry-level buyers, However, the agencies have tended to expand their operations and in some cases undertake the development of master-planned communities, drawing them into direct competition with private sector land developers.

The state land agencies include:

- Landcom, a 'State-owned corporation and a development arm of the NSW Government that has been operating for more than 30 years;
- VicUrban, which operates on a commercial basis as a land developer;
- The Queensland Urban Land Development Authority;
- The WA Landcorp that has been involved in re-development projects on surplus government land.

The entry of state land agencies into high-risk land development potentially exposes tax-payers to the prospect of losses from land development. There appears to be no justification to confer on state-owned corporations benefits that are not extended to private sector land developers, such as the exemption from infrastructure charges.

While it might be asserted that state agencies are helping to fill a gap in the provision of lower-cost land and housing, there is no reason to consider that corporatised state land agencies operate more efficiently than private sector land development companies that face the discipline of regular financial performance scrutiny, particularly publicly-listed development companies.

7. The Funding of Urban Infrastructure

Australia requires substantial investment in urban infrastructure to enable land to be brought into urban use, to facilitate re-development and to upgrade existing, dated infrastructure. The supply and cost of urban infrastructure exert a significant impact on the level of new home building.

The funding of urban infrastructure has become a much more challenging issue due to the politics of public sector debt at all levels of government. At the same time, increasing population, rising incomes and higher community expectations have increased demands for more and better quality urban infrastructure and amenities.

[32] Ibid.,p.39.

Attempts to contain public sector expenditure on infrastructure to green-field development have squeezed the availability of serviced land in new release areas, which has not been offset by a matching increase in the supply of in-fill development due to local resident opposition.

Much of the responsibility for urban infrastructure resides with local government.
Limits on the revenue-raising capacity of local government and reduced levels of grants from national and state governments have seen the funding of local infrastructure being shifted to the developer, through the imposition of development contributions raising concerns about their impact on housing affordability.

7.1 Local Government and Infrastructure

Local government is responsible for the development and maintenance of local roads, bridges, footpaths, water and sewerage (in Queensland, Tasmania and regional NSW) drainage, waste disposal, parks and public buildings, such as libraries. In addition, local government has been required to take on responsibilities for a number of community functions and services that were previously the responsibility of state governments. Some examples relate to Community and Home Care, Libraries and Maternal and Child Health.

The ability of local government to fund the expansion, upgrading and maintenance of urban infrastructure has been impacted by state government restrictions applied to local government through:

- Caps on property rates;
- Restrictions on borrowings;
- Limits on fees and charges councils can apply for goods and services;
- Non-payment of rates to councils by a number of state commercial enterprises.[33]

Rate capping of local government was brought in by the then NSW Government in 1977. Rate capping provides a ready-made excuse for local government to shift the blame for lack of infrastructure and services onto state governments. In Sydney, the average rates paid on residential property vary from about $600 a year for inner-suburbs to about $900-$1,000 a year for middle and outer suburbs. In Melbourne, property rates on average vary between $900 to about $1,200 a year.

It has been estimated that if councils in NSW had been able to increase their rates in line with other states, revenue to local councils in NSW would be more than $200 million higher a year.

The Hawker review into local government *Rates and Taxes* found there was a significant infrastructure renewal gap across the country and the quality of existing infrastructure assets was deteriorating due to under-spending on maintenance.

It is common-place to assume there is substantial spare capacity in existing urban infrastructure to accommodate a marked increase in population densities in the established housing stock through in-fill development. The assumption underpinned metropolitan 'strategies' developed by most state governments to curb green-field development in favour or urban consolidation.

But there is a serious question mark against the carrying capacity of much of Australia's existing urban infrastructure. It should be a priority for State Governments to have local government prepare an audit of the state of repair of existing urban infrastructure and its carrying capacity.

[33] House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003, p.40.

Fiscal constraints have increased the incentive for local government to contain future maintenance and replacement costs through 'gold-plating' engineering and subdivision requirements in new residential development. There has been no attempt to assess the impact of local subdivision and engineering standards on the cost of residential development since the *Housing Cost Inquiry* that was held more than 30 years ago.

The Victorian group of local government chief executive officers has claimed that Financial Assistance Grants from the Commonwealth to local government would have to increase by about $1.5 billion to close the gap on the maintenance and renewal of infrastructure. The Hawker report recommended that local government should be given responsibility for determining its own level of taxation.

In the face of restrictions on their revenue-raising from traditional sources, local governments have diversified their sources of funding urban infrastructure through recourse to development charges.

7.2 Development Charges

Until the mid-1950s, most urban infrastructure was financed from local government rates and state and federal government grants. User charges existed but were limited to the connection and use of services such as water.

The Productivity Commission observed that for at least the past 20 years: 'the trend has been to install infrastructure from the outset, with more of the initial funding burden shifted onto developers through upfront charges. Developers have in turn sought to pass the charges on in higher prices for serviced lots and house and land packages.'[34]

Information on the level of development contributions, both nationally and state-wide, is not readily available. It has been estimated that NSW local governments received more than $230 million in development contributions in 2005-06. In addition, more than $113 million was received in the form of 'in-kind' contributions. Local government in Victoria is estimated to have received about $450 million in cash-based development contributions and more than $360 million of contributions in-kind in 2005-06.[35]

In NSW, accumulated, un-spent contributions amounted to more than $1.1 billion at the end of 2005-06. The ability of local governments to accumulate development contributions raises issues about the reasonableness and accountability of the contributions. Local government counters with arguments that developer contributions fall well short of the total cost of providing infrastructure leaving a substantial funding gap.[36] The up-front capital costs of infrastructure are very high and the revenue from additional households accrues slowly. Developers contend that they have to incur expenditure for infrastructure charges before any income is received, and often well before home buyers realise the benefits.

Local government has resorted to higher development charges and contributions in the face of:

- cost shifting by State Governments to local government for a range of social and community services;
- rate-capping (in NSW) and stern community opposition to rate increases that have seen rate revenues lagging behind the growth in community demands for services.

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[34] Productivity Commission, *Inquiry into First Home Ownership,* 2004, p.156.

[35] Chris Chan, Danny Forward, Heather Roper, Chris Sayers, *Public Infrastructure Financing: An International Perspective*, Productivity Commission Staff Working Paper, March 2009, p.116.

[36] Nicole Gurran, Kristian Ruming and Bill Randolph, *Counting the costs: planning requirements, infrastructure contributions, and residential development in Australia,* Australian Housing and Urban Research Institute, Final Report No. 140, November 2009, p.14.

In addition to the front-end loading of community infrastructure onto the cost of new residential development at the local level, some State Governments have resorted to the cost shifting of major economic urban infrastructure onto new residential development:

- in New South Wales, the State Infrastructure Contribution (SIC) is applied to residential development in the north- west and south-west growth corridors at a rate of about $173,000 per (net developable) hectare, representing about $11,000 per allotment. The levy is set to increase to the equivalent of about $17,000 a lot from 1 July 2011;
- in Victoria, the Growth Areas Infrastructure Contribution (GAIC) has been set at $95,000 per hectare (about $8,000 a block) and will be levied on all land in Melbourne's growth areas. It is asserted that the GAIC will fund up to 15 per cent of the total cost of state-based items of infrastructure in new housing areas.

The basis upon which State infrastructure contributions are determined for new residential development lacks transparency and validation, which limits the potential for contestability.

The method of allocating the GAIC across Melbourne's growth areas raises issues about the nexus between the raising of revenue and the provision of infrastructure to service particular development areas. The source and application of funds raised through the GAIC will be limited to an annual report.

Up to 50 per cent of the levy will contribute towards public transport with the remaining 50 per cent to contribute to other regional community infrastructure such as health services, libraries and sporting grounds. Once again, there is the likelihood that new residential development will be called upon to meet the cost of infrastructure that will be utilised by the broader community.

Statutory responsibility for the payment of the GAIC will rest with developers. But who actually bears the cost of the development levy will depend on the strength of market conditions. Since the GAIC is known in advance, there might be some potential for the levy to be 'passed back' to land-owners by way of reduced selling prices for developable land. However, in a supply-constrained market, the GAIC is more likely to become part of the cost base for developers who will have to assess the profitability of new development on the basis of the preparedness of intermediary and final purchasers to accept higher purchase prices for serviced land. Because existing property does not include the new development contribution, there is the potential for the GAIC to reduce the cost competitiveness of new housing.

As the expansion of Melbourne's Urban Growth Boundary had been linked to the approval of the GAIC by Parliament, legislative delays meant that the availability of serviced land intensified for a period of about 12 months. Land in the expanded Boundary is now subject to the determination of Precinct Structure Plans (PSPs) or master plans that set out the location of roads, shopping centres, schools, parks, housing, employment and transport connections.

The Victorian Government appointed the Growth Areas Authority (GAA) to work with land-owners, the development industry and local councils to complete 40 PSPs across Melbourne by 2012, that would accommodate about 90,000 new dwellings. So far, 14 PSPs have been completed. There is mounting industry concern that the GAA will not be able to meet the specified timetable for the resolution of the 40 PSPs.

There is considerable uncertainty surrounding the setting and transparency of development contributions, particularly in relation to green-field development. Development contributions obtained from developers are not always made public. Lack of visibility could mean that local residents do not associate the benefits they receive from community infrastructure with new development.

Planning systems in NSW, Victoria and Queensland are 'associated with significant and unpredictable fees and charges.'[37]There can be protracted negotiations over the setting of development charges. Some have argued in favour of development charges being set at a known percentage of the development cost.

The reporting of development contributions for residential development and the application of contributions should be incorporated into the financial statements of local government and State Government and made available to residents in affected areas.

Secondly, development contributions should be collected when expenditure on relevant infrastructure actually proceeds. Aligning the raising of development contributions with expenditure on infrastructure would ensure there is a proper nexus between the two and help to quarantine infrastructure contributions from being used to meet the cost of other un-related local government obligations.

If the amount of development contribution exceeds the benefits receivable from the infrastructure, new home purchasers may be unwilling to pay the full price of new housing. This is more likely to be the case where local developments have to incur a disproportionate share of the cost of state and regional infrastructure upgrades and expansion and local community-based infrastructure such as child-minding centres and libraries.

If developers cannot pass forward to new home buyers the cost of development contributions, the development fees cease to be a 'user pays' charge. Legislative criteria for the apportionment and nexus of development contributions to infrastructure become meaningless in such situations.

Developers might try to pass-back some of the development contribution to owners of undeveloped land through lower offers for land acquisition. Negotiated agreements for development charges work against developers being able to pass-back to owners of undeveloped land. The potential use of purchase options may provide some flexibility for developers to negotiate the final acquisition price with existing owners following the finalisation with local council of development contributions.

Regardless of the method adopted to set development charges, there is no compulsion on existing land-owners to sell their land. In a rising market, and particularly for land within growth boundaries there is an incentive for owners to hold out for a higher price and especially so if the land is producing an income as a farm or market garden.

Having a known formula for the setting of development charges may reduce flexibility. But it would create a level of certainty for developers and provide a basis for price negotiation with existing owners of fringe land. However, it would not guarantee the financial viability of a project.

[37] *Ibid.,* p.14.

If developers cannot either pass through development charges in higher selling prices to builders and householders or pass back the charges to existing land-owners by way of lower acquisition prices, the level of development charges can present a real obstacle to development proceeding.

If development charges are deemed to be 'too high' developers will tend to cater for the high-end of the market and adopt practices to protect the 'value' of the development, such as limiting builder participation in developments and requiring particular design requirements on new dwellings.

If development charges are not recoverable either in higher selling prices or in lower acquisition prices for undeveloped land, they add to the cost base for development and form part of the supply price below which it would be financially uneconomic for the servicing of residential land to proceed.

According to the Productivity Commission the shift to greater reliance on development charges was 'unlikely to have any substantial effect on housing affordability, irrespective of whether infrastructure was previously subsidised.'[38] The proposition needs to be viewed in relation to the potential distorting impact of development charges against the selection of new homes over established dwellings. Most existing infrastructure was developed prior to the advent of development contributions and established dwellings offer a less expensive alternative to the inflated cost of new dwellings.

Development charges, by increasing the acquisition cost of new dwellings can increase the deposit or borrowing requirement to purchase a new dwelling. Lending institutions might not be prepared to capitalise higher development contributions into the valuation of new dwellings, especially if the development charges are used to contribute to the financing of urban infrastructure that does not bear a direct relationship to a new development.

Discussion and debate about development charges seem to focus on the issues of nexus between charges and infrastructure provision, apportionment of charges to benefits received from the use of infrastructure and equity between new home purchasers and existing home owners.

The missing element in the debate has been the assessment of the impact of development contributions on the competitive position of new dwellings relative to established dwellings. Development contributions might be less of an issue if new dwellings dominated the transactions' market for dwellings; increases in the cost of new dwellings would tend to become capitalised into the price of existing dwellings. But new dwellings account for a modest share of total dwelling transactions. The for-sale market is dominated by the turnover of established dwellings that exceed the number of new home sales by a factor of 6 to 1.

Because the cost of new housing is expected to carry the cost of development charges that were not applied to the vast majority of established dwellings, the price of new housing will tend to increase relative to the price of established housing. The effect of a growing gap between the cost of new housing and the price of established housing due to escalating development charges can cause households to select against new housing widening the deficit in new housing activity relative to the underlying requirement for new dwellings. The effect of regulation that increases the relative cost of new dwellings will be to add to the churn of established dwellings.

[38] Productivity Commission, Inquiry into First Home Ownership, op. cit., p.165.

The shift to development contributions away from borrowing by government to fund urban infrastructure for residential development has become a serious barrier to the affordability and supply of new housing. Although state and local governments have sought to justify development charges as 'user charges', increasingly new residential development has been called upon to carry the cost of community infrastructure the benefits of which are consumed across the broader community and may not accrue to the same individuals who bear the cost of the development charges. In such circumstances, the development charges are more akin to a tax on new development as distinct from a user charge.[39]

It has been asserted that in the absence of 'betterment' taxation, development contributions are justified because they capture some of the planning gain or 'windfall profits' associated with the re-zoning and development of land. But such arguments fail to acknowledge the application of the GST to the up-lift in the price of land and the value of housing capital improvements to land.

The GST raises between $8 billion and $10 billion a year from the development and sale of residential land and residential capital expenditure, representing about 20 per cent of total GST payments to the States and Territories. The share of GST accounted for by new land and housing is much higher than the share of residential land and building activity in overall economic activity. None of the GST revenue raised from land and residential building activity is set aside for the funding of urban infrastructure and when combined with development charges represents a substantial level of indirect taxation on new housing.

The funding of urban infrastructure needed to support new housing development has become a significant impediment to new housing activity as state and local governments have shifted away from earlier approaches of general taxation and borrowings to finance urban expansion towards development charges. Finding more appropriate ways to address the funding of local infrastructure will be crucial to facilitating land for development.

7.3 Alternative Approaches to Funding Urban Infrastructure

Investments in items of social or economic infrastructure that provide benefits in common across the wider community should desirably be funded out of borrowings and serviced through rates, taxes or usage charges.[40]

Much urban infrastructure is long-lived and it is quite sensible and rational for government to utilise borrowings to fund the expansion and upgrading of infrastructure provided there is a commensurate capacity to service and repay the debt.

While State Governments have the ability to raise debt cost-effectively on behalf of local government to support local investment in urban infrastructure, the restrictions need to be released on the ability of local government to raise revenue to meet debt servicing.

Solutions can be found in the modification of restraints on borrowing and caps on property rates.

Financial markets are more than capable of distinguishing between productive infrastructure investment and 'monuments'. Governments should present a transparent strategy and timetable for the repayment of public sector borrowings and establish a nexus between the borrowing for infrastructure and increases in general property rates or genuine user or beneficiary charges.

[39] Productivity Commission, Inquiry into First Home Ownership, *op. cit*., p.xxx.
[40] *Ibid*., p.xxx.

Communities want and expect local government to provide a broader range of services, higher quality roads, parks and amenities. Better and more services have to be paid for. Yet it is assumed that property owners will be unwilling to pay more for improved services despite opinion surveys repeatedly indicating that voters would be prepared to forego tax cuts in return for better health and education services. Expenditure requirements on local government have increased much faster than property rates, which in the case of New South Wales have been pegged at or below general inflation.

The adoption of more effective and less distorting approaches to the funding of urban infrastructure present a substantial opportunity to stimulate the supply of developed land for new housing. Closing the gap between the cost of new housing and established house prices would help to alleviate demand pressures on established house prices that have eroded housing affordability conditions for would-be home purchasers.

Borrowing through the sale of bonds to fund capital spending used to be the principal way in which states and local government financed the provision of urban infrastructure and date back to the mid-nineteenth century. Bonds are an attractive financing mechanism because they can generate large sums of up-front cash that local government can use to finance a range of local economic and community infrastructure, which would be paid for over time.

Local government must have sufficient revenue streams to cover debt servicing payments without jeopardising service levels in the future. Proposed levels of borrowing by local government can be linked to land supply targets to accommodate expected demand for additional housing.

Bonds remain a major source of finance for infrastructure investment in the United States and Canada. Infrastructure bonds in the United States are tax-exempt. The tax benefits amount to a reduction in the direct cost of financing by up to two percentage points relative to taxable bonds.

In Australia, all borrowings by state and territory governments, including government trading enterprises are undertaken by their Central Borrowing Authority (CBA). CBAs are statutory authorities that were established in the mid-1980s across all states and territories. When issuing bonds, the CBAs do not identify the purposes of the borrowings or the 'client'.

The disappearance of specific-purpose bonds that were used to finance a particular project, such as water treatment facilities, bridges or fire stations has weakened the transparency of government borrowing and the rationale for linking debt servicing to user charges and taxation. Because bond raisings are not tied to particular infrastructure investment, there is the potential for borrowings to be used in part to support recurrent public sector expenditure that should be funded out of current revenue.

General Obligation (GO) Bonds are the most traditional form of debt issuance and are secured by a pledge to levy taxes necessary to make timely payments of principal and interest. A GO Bond would be a suitable mechanism for local government to fund infrastructure, particularly social or community infrastructure assets. The loan would be secured against the value of the taxable property in the local government area.

GO Bonds would enable urban infrastructure to occur in a timely way and repayments would be made out of property rates and user charges over the useful life of the infrastructure. Rates and charges would have to cover the cost of maintaining the asset in a good state of repair. Rate notices should identify the surcharge for new and improved infrastructure.

Borrowing money against the value of future tax revenues allows immediate access to significant sums in return for payments into the future. This is particularly useful where infrastructure projects require large fixed investments.

Tax Increment Financing (TIF) schemes are widely used in the USA by local authorities looking to boost their spending from their tax base. A TIF area can be declared by the local authority from which future revenues can be taken and used as security against a long-term loan. TIFs are a popular means to fund urban infrastructure as they allow large up-front payments to be made in anticipation of future revenues. State Government or Commonwealth restrictions can be applied so that loans can be utilised only for capital expenditure.[41]

A clear benefit of the approach is that it would reduce the front-end financing load on residential development. The bulk of the savings in development costs would need to be passed through to new home purchasers.

The Australian Government could consider supporting State and Local Governments in the funding of new and re-vitalised urban infrastructure through the introduction of infrastructure bonds. Infrastructure bonds would be offered to the market through the Commonwealth's Office of Financial Management.

The bonds could be tax-preferred to reduce the cost to local government for the provision of community and social infrastructure where repayment capacity through user charges and fees could be limited. The debt servicing on the infrastructure bonds would have to be linked to commitments by local government to adjust property rates and where appropriate user charges. Infrastructure investment by increasing the property base of a local government area could contain the impact of rate changes on existing property owners.

Currently, there are no financial incentives to encourage local government to support in-fill development, particularly where there is resident objection to medium-density and high-rise development. Grants from the Commonwealth for the upgrading or expansion of community facilities in established areas might prove more effective than loans in gaining support for or quelling opposition to urban consolidation.

7.4 Financial Incentives for Local Government Infrastructure

Where is the incentive for local government authorities to reduce the formula for the affixing of development charges, especially if there is a substantial gap between the value of development contributions and the capital cost of providing a range of community infrastructure?

How can local governments be rewarded for enabling the provision of additional housing supply and adopting more flexible and responsive planning requirements? Some programs in other developed countries could be a guide.

In the United Kingdom, the local government sector is eligible to receive Housing and Planning Delivery Grants (HPDG) in return for meeting planning-related targets. The targets can apply to green-field and in-fill development.

The purpose of the HPDG is to 'incentivise' local government to improve the delivery of housing through more efficient and effective planning procedures and to provide more funding support to local councils that are endeavouring to increase the supply of new housing.

[41] Barker Review of Land Use Planning, op.cit, p.153.

To be eligible for funding, local councils have to identify 15 years of land for housing, by way of the strategic housing land availability assessment, of which five years should be **deliverable** land for housing. Deliverability is defined in terms of availability, suitability and achievability-the latter meaning there is a reasonable prospect that housing will be delivered on the site within five years.

There are two parts to the HPDG: a *housing* element and a *planning* component.

The *housing* element of the grant is provided to local councils when net additional housing completions exceed 0.75 per cent of their existing housing stock (revised down to 0.65 per cent due to the recession).

The *planning* element of the grant is based upon the local government authority completing a range of activities that support housing supply: demonstrating sufficient land for housing; publication of strategic housing market assessments; development control performance; joint working on the production of development plan documents.

Once identified, the supply of land is to be managed to ensure that a continuous supply of deliverable sites is maintained. Local government authorities are required to undertake risk assessment, scenario planning and contingency planning in the event that delivery does not occur at the rate previously expected.

Checks are made of local government land supply assessments and the results of the planning and housing grant monitored and evaluated to establish good practices.

In preparing strategic housing market assessments local councils are expected to engage with developers, builders and land owners. Local councils are called upon to review existing sites to decide suitable actions that can be taken to unlock sites and allow development to proceed and to work closely with the development industry on the identification of new opportunities.

The formation of a new British Government has seen that government revoke Regional Strategies accompanied by a move away from the 'centralised' setting of local housing targets.[42] Under the new arrangements, local planning authorities will be responsible for establishing the 'right' level of local housing provision in their area and identifying a long-term supply of housing land to support growth. It is envisaged that local authorities will work with each other and with businesses and communities to 'consider strategic transport priorities and cross boundary issues'.

Local councils will control the 'way in which their villages, towns and cities change'. Direct and 'substantial benefits for councils that support construction will be the centre piece of the radical restoration of local power. Imposed central targets will be replaced with powerful incentives so that people see the benefits of building.' There will be a 'Localism Bill' and a National Planning Framework the details of which will be shaped by consultation over a period of time.

For local decision-making to deliver better development outcomes, it is crucial that the financial incentives offered to local planning authorities are aligned closely with the benefits of development. The level of support for development can be weakened where the costs of development are incurred up-front whereas the benefits are less tangible and accrue over a long period of time. The cost and revenue wedge faced by local governments is aggravated by the narrow revenue base available to local government.

[42] Department for Communities and Local Government, Draft Structural Reform Plan, July 2010.

The Housing Affordability Fund in Australia was an innovative attempt to offer incentives to local government and the private sector to embrace affordable housing developments. The Housing Affordability Fund should be seen as the pilot to a larger program initiative where the States and the local government sector receive Commonwealth financial support for regional and community infrastructure provided housing supply targets are met. Savings in development costs would have to be passed through to purchasers.

8. Planning Reform

Reform of planning regulation can make a valuable contribution to reducing or moderating the costs of new housing and increasing new housing supply. Australian States and Territories have committed to reform of their planning systems, partly as a response to persistent housing affordability problems. Typically, reform efforts evoke strong opposition, which has limited the ambition for and pace of change.

To date, reform of planning systems in Australia has focused on 'micro' efficiency gains directed at reduced compliance obligations resulting from changes to administrative processes. Progress has been slow reflecting in part the inherent difficulties in resolving conflict that surrounds land-use management.

State Governments have been engaged in regular amendments of their planning legislation. However, systemic or 'macro' planning reform has been delayed as states and local government have struggled to meet the funding requirements to provide the economic and social infrastructure and especially to accommodate larger-than-expected increases in population. Income streams to local government have lagged considerably the increase in expenditure obligations and community demands for services.

Many of the problems associated with planning systems have been documented, discussed and debated for some time. Less obvious have been the planning reforms required to achieve the twin policy goals of affordable and sustainable housing supply. In broad terms, reform of planning systems should aim to increase economic development and productivity through:

- simplification and standardisation of development assessments to reduce risk and uncertainty;
- providing more certain infrastructure development requirements;
- increasing the responsiveness of land supply to changing market conditions; and
- fiscal changes to incentivise State and Local government to support development through upgraded and new infrastructure to ameliorate community concerns about both green-field and in-fill development.

There is some scepticism about the extent to which planning reforms will produce tangible beneficial outcomes for housing supply. It would be desirable to have metrics for planning reform accompanied by an evaluation of the benefits flowing from any reform measures taken by Federal or State and Territory governments.

Reform of planning systems ought to be focused on outcomes and less on processes. However, the appetite for structural planning reforms is more likely to occur where there are Commonwealth financial incentives for State and Local government to support economic growth and development.

8.1 National Planning Reform

There has been a very significant increase in planning reform activity. Much of these efforts have been led by the Council of Australian Governments (COAG).

In November 2008, COAG committed to a National Partnership Agreement to Deliver a Seamless National Economy to progress regulatory reform, which encompassed the reform of development assessment.

The National Partnership Agreement was part of COAG's overarching reform of Commonwealth-State financial relations and included a commitment by the Commonwealth to make National Partnership payments to encourage and reward the delivery of regulatory reform.

The Infrastructure Working Group of COAG established a Major Infrastructure Approvals Process sub-group to review planning and development approval processes in all Australian States and Territories and to make recommendations for achieving greater uniformity and efficiency in planning approval processes for major national infrastructure. The Major Infrastructure group's report was endorsed by COAG at its July 2009 meeting and its recommendations are being implemented.

In support of COAG's reform agenda, the Local Government and Planning Ministers' Council is overseeing five planning reform projects, of which four relate to development assessment. The projects, which are being progressed by different states and territories include:

- Electronic Development Assessment Implementation (Victoria);
- National Performance Monitoring (South Australia);
- Code Assessment-Complying Development (NSW);
- Measurement of Benefits of Development Assessment Reform (ACT); and
- National Planning Systems Principles (Queensland).

In April 2009, COAG's Cities, Infrastructure and Planning Taskforce was designated to examine national, state and local government strategic planning frameworks with the object of ensuring they supported the integration of land-use planning and state and national infrastructure in Australia's major cities.

In December 2009, COAG committed to capital city planning strategies and to a housing supply and affordability agenda, to be developed by a working group, comprising treasury and first ministers' officials. Future Commonwealth infrastructure funding of the States and Territories will hinge on capital city strategic plans that incorporate nine criteria spanning:

1. *the integration across government agencies of land-use and infrastructure planning, environmental assessment and urban development;*

2. *long-term infrastructure plans, medium-term priorities and near-term pipeline;*

3. *identification of required major economic infrastructure;*

4. *population growth, productivity, climate change mitigations, efficient use of existing infrastructure, development of major urban corridors, housing affordability and social inclusion;*

5. *regional and capital city networks;*

6. *land release and an appropriate balance between in-fill and green-field development;*

7. *investment priorities;*

8. *design excellence; and*

9. *performance measures, governance and stakeholder engagement.*

Under the process approved by COAG, there is to be an independent review of existing capital city planning systems against the national criteria; support for continuous improvement; and the identification of current best practice.

The Australian Government established the Major Cities Unit of Infrastructure Australia, which is to develop a National Urban Plan. The Major Cities Unit published its first report on Sustainable Cities in 2010. According to Infrastructure Australia:

The national urban policy is expected to present a long-term framework for national action, identifying priorities for reform and investment, working in partnership with State and Territory administrations, local governments, the private sector and the community to deliver more productive, sustainable and liveable cities.[43]

To win Infrastructure Australia support for infrastructure funding proposals, capital city strategic plans prepared by States and Territories 'will need to be well integrated with surrounding land use, and will need to leverage high quality, higher density land use outcomes that maximise the benefit of the infrastructure investment and contribute to a more compact, sustainable and diverse urban form'.[44]

The potential implications of strong population growth in tandem with densification and urban containment for the cost and diversity of housing delivery do not appear to have been considered by Infrastructure Australia. There should be a clear vision of the policy objectives and better recognition of the likelihood of trade-offs.

In April 2010, a Minister for Population (now Sustainable Population) was appointed to formulate a long-term strategy for population growth.

In April 2010, COAG endorsed a housing supply and affordable housing agenda covering the housing supply pipeline and infrastructure charges for a report by mid-2010. In addition, the working group is to consider the impact of government policies on the demand for and supply of housing, including state and federal taxation, the latter depending on the Australian Government's response to the Henry Taxation Review.

In May 2010, the Productivity Commission issued a discussion paper on benchmarking Planning, Zoning and Development Assessments emanating from 'recent meetings of COAG and the COAG Business Regulation and Competition Working Group'.

[43] Infrastructure Australia, Getting the fundamentals right for Australia's infrastructure priorities, June 2010, p.16.
[44] *Ibid.*, p.20.

The reform program is ambitious, spread across governments, agencies and departments. Most of the announced activities represent work in progress. "There are opportunities for synergies and alignment, which will be critical to the effectiveness of the Council of Australian Government's planning reforms."[45] So far, the reform process is being led by government without engagement of other stakeholders. It is important that reform extends beyond the mindset of the regulators.

The planning reform work program requires tight co-ordination. The proliferation of reform activities suggests the need for a **national policy statement** that contains:

- the vision for planning reform aimed at increasing the supply of affordable and sustainable housing;
- the road map for planning reform including priority actions and policy initiatives;
- the institutional arrangements for the efficient co-ordination and timely delivery of the reforms;
- the setting of performance benchmarks; and
- the framework for monitoring and assessing reform outcomes.

8.2 The Benchmarking of Planning Systems

Benchmarking of regulation is aimed at increasing both the accountability for the 'design, administration and enforcement of regulation'46 and the 'incentives for government to reduce unnecessary regulation'.47 It has been contended that benchmarking can identify where and how regulatory costs might be reduced. The benchmarking of regulation can take the form of:

- Performance benchmarking of regulation that involves measuring and comparing indicators of compliance costs between government areas and over time, without reference to a 'best practice' standard or whether particular regulations are justified. Performance benchmarking cannot account for the benefits of regulation and must rely on a comparison of performance indicators where regulations have similar objectives[48];

- Standards benchmarking that provides for the comparison of performance indicators against 'best practice' standards or policy targets. It can be used to identify duplication and inconsistency in regulation.[49]

8.2.1 Benchmarking Metropolitan Planning Strategies

A recent report by KPMG[50] attempted to benchmark each State Government metropolitan strategic planning framework against the national criteria adopted by COAG at its December 2009 meeting. The report observed:

- "*The significant issue for all Australian capital cities is how strategic plans translate into actions and developments that make our cities more competitive, productive, sustainable, liveable and socially inclusive" [51];*

- *there was a 'lack of integration between land-use and infrastructure planning' [52];*

[45] National Planning Systems Principles, Prepared by the Queensland Government fo the Local Government and Planning Ministers' Council, December 2009, p. 18.
[46] Productivity Commission, Performance Benchmarking of Australian Business Regulation, Research Report, February 2007, p. XX.
[47] Ibid.,p.1.
[48] Ibid.,p.XXVI.
[49] Ibid.,p.XXII
[50] Spotlight on Australia's Capital Cities, 2010
[51] Ibid.,p.13.
[52] Ibid.,p.10.

- *'few jurisdictions have medium to long-term land supply programs in place or strong targets that underpin these programs' [53];*

- *there is 'limited information on and monitoring of the supply pipeline from land identification to development approval stage for in-fill and green-field development' [54];*

- *'the role and accountability of government institutions need to be better aligned to meet the significant spatial directions for our capital cities' [55];*

- *the establishment of performance indicators is critical to enable all jurisdictions to better monitor and respond to major fluctuations in growth*[56] .

According to the KPMG study, an objective assessment of existing strategies was hampered by 'the lack of nationally consistent annually up-dated data'.[57] Despite the limitations imposed by information gaps, the KPMG study contended that Australia's capital cities were falling well short of the nine COAG criteria.[58]

8.2.2 Benchmarking Development Assessment

Efforts to reform processes relating to development assessment have a long history dating back to the development of the Australian Model Code for Residential Development published by the Australian Government in 1995. The Code was produced to assist the planning, design, assessment and implementation of low-rise housing.

Ten years later, the Development Assessment Forum, a gathering of government, development industry and professional associations formed in 1998, published the Leading Practice Model for Development Assessment in Australia. The 'best practice' model for development assessment was intended to provide a framework for the reform of development assessment processes nationally.

The Development Assessment Forum has proposed that the assessment of development applications be segmented at an early stage into particular assessment paths or 'tracks' reflecting the complexity of a project and its potential impact on the built and natural environments. Indicators of the time taken to process development applications, the adoption of appeal processes and the costs of completing applications form the basis of benchmarking development approval processes.

In August 2005, the Local Government and Planning Ministers' Council endorsed the leading practice model as providing a suitable reference tool for individual governments to utilise in achieving the reform of development assessment.

In 2009, NSW Planning published its National Low Risk Low Impact Assessment template for single-lot housing. It was designed to reduce compliance obligations, fast-track 'as of right' approval to between 5 and 10 days, exemption from notification requirements or third-party appeals, consistent performance monitoring, linkage to e-planning process and one certificate for code-assessable development.

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53 Ibid.,p.12.
54 Ibid.,p.12.
55 Ibid.,p.13.
56 Ibid.,p.14.
57 Ibid.,p.5.
58 Ibid.,p.4.

The Housing Code template compiles a list of harmonised definitions and development 'standards' relating to setbacks, building height, cut and fill, site coverage, front fences, car parking, streetscape façade, garage and driveways and solar access.

Victoria and New South Wales publish reports on local government development assessment performance. The reports provide information on development approval processing times, appeals, planning resources. Other States have flagged plans to adopt similar reporting arrangements.

In its report on housing affordability, the Senate Select Committee on Housing Affordability in Australia concluded that it was 'too early' to gauge the impact of government initiatives to reform planning systems.[59]

The Queensland Government has argued against placing too much effort and resources on the reform of development assessment because it is 'only one element of a large and complex planning framework' and 'offers the least opportunity to influence outcomes, is resource intensive and often adversarial'. The Queensland Government maintained that activities to reform development assessment should proceed in a way that is compatible with 'broader strategic reform'.[60]

The Productivity Commission has observed that government agencies do not have sufficient financial incentives to expedite approval processes.[61] The absence of financial rewards and incentives, particularly for local government to implement reforms influences the appetite for reform. The structure of local government finance in Australia serves to discourage development at the local level.

It would be possible to link financial assistance grants for local government to key performance indicators, such as land zonings and land subdivision consents in green-field areas and redevelopment consents in established suburbs. The financial support would be dedicated to the provision of new and upgraded community infrastructure in local government areas.

By helping to meet funding gaps in infrastructure expenditure in new urban areas financial grants can be utilised to bring down the cost of new land and housing and ensure that community facilities are provided in a more timely way.

Extending financial incentives for infrastructure to local councils in established areas could mitigate concerns about extra pressures on available community services.

The details of the funding formula could be determined through a co-operative consultation with local government and the private sector. There may be merit in local government authorities consulting across boundaries and with business and communities in considering 'strategic' priorities for infrastructure.

To increase community support for development, it is vital that local communities see the benefits of additional infrastructure and services flowing from additional housing supply.

[59] A good house is hard to find: Housing affordability in Australia, June 2008, para 5.47.
[60] Queensland Government, National Planning Systems Principles, op. cit., p.4.
[61] Performance Benchmarking, op. cit.,p.74.

8.3 Regulatory Impact Assessments

Achieving the right development in the right locations at the right time may involve trade-offs. The Productivity Commission has called for "strategic planning processes in which the benefits and costs of different long-term options for the evolution of cities, and the assumptions and estimates that underpin them can be publicly discussed and tested. It is not evident that all jurisdictions have adequately met these requirements in relation to the future supply of residential land."[62]

All new building work must comply with the Building Code of Australia (BCA) a nationally agreed technical standard. All States and Territories have adopted the BCA through their relevant planning or building acts based on a COAG Intergovernmental Agreement, which established the BCA as a 'national standard'. In contrast to the BCA, state planning systems are complex, cumbersome and in some cases, inconsistent with the national building standard. To an extent, the complexity of planning systems and the introduction of building requirements that diverge from the BCA provisions reflect a lack of rigor in regulatory assessment as distinct from national standards that must meet the guidelines for regulatory assessment as set down by COAG.

State and Local governments are resorting increasingly to planning legislation and policies to impose building standards outside of the Building Code of Australia to achieve social and environmental goals pertaining to sustainability, climate change and social housing. However, this approach is being taken without rigorous cost-benefit assessments or consideration of the economic, social and environmental impacts, as is required when amending the BCA.

The adoption by local government authorities of environmental and planning standards that exceed the requirements of the BCA increases the likelihood of planning regulation impacting on the cost of new residential development and the supply of lower-cost housing[63]. The case for planning regulation should be based on a demonstrated net benefit to the community. In addition, the primacy of the BCA in relation to building matters should be maintained to preserve consistency between building and planning regulation.

Regulatory impact assessments provide a valuable approach to analysing the potential private and social costs and benefits arising from proposed regulatory changes. Victoria, New South Wales and South Australia require impact assessments as part of the evaluation of proposed regulations. However, the frameworks set down are not necessarily well suited to a consideration of planning regulation[64]

In relation to building control, there is a clear line of co-ordination and authority for regulatory changes through the Australian Building Codes Board. Major planning regulation should have a similar line of accountability. Proposed significant planning regulation, such as the introduction or changes to growth boundaries, densification targets and infrastructure charging should be subject to rigorous cost-benefit assessments.

Regulatory assessments should consider the impact of proposed interventions on development costs, product supply, land and house prices, household behaviour and acceptance, supply chain adjustments and capacities, impacts on competition and relevant environmental and social impacts, such as greenhouse gas emissions and housing affordability.

[62] First Homeownership, op.,cit.,p.xxvi.
[63] Gurran, op cit. pg. 35
[64] Ibid, p.96.

The COAG Guidelines for the conduct of Regulatory Impact Assessments would seem to be suitable for application to proposed planning regulation[65]. Proposed regulation should also be appraised at arms-length from the regulator.

There should be greater follow up of assessment after new regulations have been put in place. The monitoring, evaluation and reporting of regulation should be ongoing to ensure that it is achieving its stated aims and to provide learning.

[65] COAG, Bet Practice Regulation, A Guide for Ministerial Councils and National Standard Setting Bodies, October 2007.