Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600
Via email: prebudgetsubs@treasury.gov.au

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PRE-BUDGET SUBMISSION 2012/13

The Urban Development Institute of Australia (National) welcomes the opportunity to provide this Pre-Budget Submission to The Treasury.

The Urban Development Institute of Australia (UDIA) is the peak body representing the property development industry throughout Australia. Established at a state level in 1963, the Institute evolved to become a national body with a number of state-based divisions in 1970. UDIA aims to secure the economic success and future of the development industry in Australia, recognizing that national prosperity is dependent on our success in housing our communities and building and rebuilding cities for future generations.

Our members cover a wide range of specialist and industry fields, including: Developers, Valuers, Planners, Engineers, Architects, Marketers, Researchers, Project Managers, Surveyors, Landscape Architects, Community Consultants, Environmental Consultants, Lawyers, Sales and Marketing Professionals, Financial Institutions, State and Local Government Authorities, and Product Suppliers.

In 2010, UDIA, on behalf of its members, commissioned Property Insights to undertake an economic impact study of the property development industry in Australia. The study confirmed the sector's significant influence on the Australian economy, as evidenced by the below findings:

- The property development industry directly accounts for 7.3% of GDP and, taking into account indirect impacts on the rest of the economy delivers an additional 6.2% of national output

- The property development industry directly accounts for 975,700 full time equivalents (FTEs) directly (9.1% of the workforce) and a further 749,600 FTEs (7% of the workforce) in the broader economy

- The direct impact of $1 million invested in the property development industry results in:
    - 6.7 full-time equivalent jobs generated in the property development industry
    - State and Federal taxes increasing by $73,458
    - An addition of $235,733 to wages and salaries

- The total (direct and indirect) impact of the $1 million invested generates in Australia:
    - 11.8 full-time equivalent jobs
    - State and Federal taxes of $146,474
    - An addition of $885,880 to wages and salaries

- An investment of $1 billion in the development industry in each State would directly add 0.4% to nominal GDP, while a further 0.3% would be added to nominal GDP as a result of the impact on associated industries

- Over half (56.6%) of all Australian private investment – equating to $146 billion - is undertaken by the property development industry

- 9.1% of the workforce is directly engaged in the development industry, with a further 7% engaged in other industries due to the development industry

- From 1999/2000 to 2007/08 the total factor income of Australian industries grew in current prices by 7.3% per annum. Only the mining industry, a reflection the resources boom, had a stronger annual compound growth rate (of 15.6%) than the property development industry (9.8%).

- As a conservative estimate, the property development industry, both directly and through associated industries, generated in excess of $29.7 billion of State and Federal taxes in 2007/08

- State and Territory taxes paid directly by the development industry totalled $2.8 billion in 2007/08, with a further $1.1bn being paid by industries associated to the development industry

- The property development industry contributes $36 billion of wages and salaries (6.7% of all wages and salaries) and an additional $40.4 billion in the rest of the economy

1. INTRODUCTION

UDIA appreciates the challenges associated with delivering a Federal Budget, particularly in light of our current fiscal situation and the global economic circumstances. While difficult decisions will need to be made and expenditure cut in particular areas, the Government should consider the importance of the development industry to Australia's economy. The crucial task of providing housing for an ever-increasing urban population should not be taken lightly in a country as urbanised as Australia. UDIA believes the 2012/13 Federal Budget should strive to uphold an efficient and competitive development industry, which will serve homebuyers and the wider Australian economy.

This budget needs to reaffirm the funding commitments which have been made to Federal housing initiatives in recent years. It also needs to give due consideration to the importance of our cities and the infrastructure needed to sustain them. The Budget needs to work towards harmonizing the system of property taxation, creating greater transparency and simplifying the application of the taxes. It should also consider the triple bottom line of sustainability, giving due consideration to economic, social and environmental factors.

The development industry is a willing participant in trying to achieve the goals of housing delivery, affordable housing provision and improved sustainability outcomes. However, these goals partly require good public policy to foster the desired outcomes. UDIA is committed to working with the Government in achieving such outcomes and we urge the Government to consider the recommendations put forward in this pre-Federal Budget submission.

2. SUMMARY OF RECONMENDED ACTIONS

- **Increase funding to the National Rental Affordability Scheme in order to meet the original 2008 target of 100,000 dwellings**
- **Release a new round of funding for the Housing Affordability Fund**
- **Make the First Home Savers Account less restrictive and launch a public awareness campaign to better explain how the scheme works**
- **Increase funding of the Building Better Regional Cities initiative to the original commitment of $200 million**
- **An ongoing funding commitment to the National Housing Supply Council**
- **Increase funding to promote the efficient and timely provision of infrastructure to support urban growth**
- **Strengthen the capacity of public private partnerships to deliver much needed infrastructure**
- **Explore alternative, innovative methods of funding infrastructure projects, such as tax increment financing**
- **Link Federal infrastructure funding to the creation of strategic plans for all capital cities that meet the Council of Australian Government's nationally agreed criteria**
- **Phase out stamp duty on property purchases over the period covering the forward estimates**
- **Use the distribution of GST revenue to reward States which phase out stamp duties**
- **Commission the Productivity Commission to undertake an inquiry into 'homebuyer levies', the impact of these levies on broader based tax collections and alternative methods of financing infrastructure**

- **Include Levies in GST cost base calculations to improve housing affordability**

- **Reduce stamp duty compliance costs by creating uniform stamp duty legislation nationally**

- **Address the vertical fiscal imbalance and remove impediments to local government revenue raising (especially with respect to rate pegging)**

- **Harmonise land tax regimes, reduce rates and over the next decade commit to combining the land tax regime with the local government rate system**

- **Retain the integrity of the capital gains tax system to provide investors with certainty**

- **Use the capital allowance regime to promote investment in sustainable housing technologies**

- **Continue to fund the administration of the Environment Protection Biodiversity Act through existing taxation revenue, not a cost recovery regime**

- **Protect home buyers, which make a concerted effort to embrace sustainability, from the effects of a Carbon Tax**

- **Enable the Clean Energy Finance Corporation to support private sector investment in low emissions technologies in large-scale greenfields developments**

3. FEDERAL GOVERNMENT HOUSING INITIATIVES

Australia continues to experience an acute shortage of affordable housing. The underlying causes of this problem are the perpetual stream of taxes and charges being placed on developers as well as the unresponsive, time consuming planning environment. Although the Federal Government's ability to drive reforms in these areas is somewhat limited, a series of initiatives have been introduced since 2008 with the goal of tackling housing affordability.

UDIA welcomed schemes, such as the National Rental Affordability Scheme (NRAS) and the Housing Affordability Fund (HAF), when they were introduced and the industry continues to lend its support to good public policy which strives to increase the supply of much needed affordable dwellings. Unfortunately, these and other initiatives seem to have fallen by the wayside in recent times, experiencing funding cuts and neglect. UDIA believes the Government needs to reinforce its commitment to the following initiatives.

National Rental Affordability Scheme

After launching the National Rental Affordability Scheme (NRAS), the Government has failed to maintain the momentum of this important policy initiative. Funding has been scaled back and timelines pushed out since the 2008 launch. The 2011/12 Federal Budget saw the Government alter the roll-out of NRAS over a longer time period and funding for 15,000 of the dwellings was postponed until after the forward estimates in 2015/16. This was a disappointing result considering that NRAS is starting to emerge as a viable solution to delivering much needed affordable rental dwellings.

NRAS was always going to be a slow starter, given its launch occurred shortly before the Global Financial Crisis. However, all indications are that the scheme is starting to deliver results in a country which has a desperate shortage of affordable rental accommodation. As of December 2011, more than 5,344 affordable rental dwellings have been created. Many more are under construction and there is a great deal of optimism that the scheme will meet its target of 35,000 by 2015/16.

Despite criticism that the scheme has not been taken up by investors, the fact of the matter is that applicants are facing significant delays from the time of submitting an application to the time of announcement of incentives. UDIA members have been among those affected by delays and uncertainty; sufficient resources should be made available for the processing of NRAS applications.

NRAS represents a workable partnership between the Federal Government, State Governments and the private sector. The Government needs to send a strong message that NRAS has a long term future. **The 2012/13 Federal Budget should increase funding to NRAS in order to meet the original 2008 target of 100,000 dwellings**.

Housing Affordability Fund

Funding for the Housing Affordability Fund (HAF) has been fully committed for some time now and **UDIA believes the Government should release a new round of funding for the Housing Affordability Fund**. Any new funding commitment should consider extending the HAF to allow private developers to apply for funding. The HAF would also benefit from a narrower focus and many of UDIA's members believe that the scheme should be primarily focused on funding infrastructure for the purpose of speeding up the release of land.

First Home Savers Account

UDIA would like to commend the Government on the changes it has made to the First Home Saver Account (FHSA). Changes promised in the 2010/11 Federal Budget have been made law and account holders who purchase a house before the four year eligibility requirement can now transfer the savings into a mortgage. While there has been a significant uptake in account holders since the changes were introduced, accounts have only been taken up by some 30,000 people countrywide and some big lenders have ceased to offer the product due to a lack of interest. The FHSA still suffers from a perception of restricting access to one's savings. **The Government should explore ways to make the FHSA less restrictive and a public awareness campaign is needed to tackle the confusion and better explain how the FHSA works.**

Building Better Regional Cities

The Building Better Regional Cities (BBRC) initiative was launched with the goal of investing in local infrastructure projects that support new housing developments in regional cities. At its launch in July 2010 the Government maintained it would provide $200 million for the BBRC. However, the 2011/12 Federal Budget committed only $100 million to this programme over three years. Affordable development targeting regional cities has the potential to relieve the situation in Australia's capital cities. UDIA is therefore opposed to the diversion of funds from the BBRC scheme. **The Government should double its funding commitment to the BBRC initiative to the original commitment of $200 million.**

National Housing Supply Council
The National Housing Supply Council was established in 2008 to monitor housing demand, supply and affordability. To date it has released three *State of Supply* Reports which have highlighted the ongoing shortage of housing in Australia. **UDIA believes that the work of the Council is extremely valuable and that it should continue to receive future Federal funding**.

4. CITIES AND INFRASTRUCTURE

Australia continues to experience high levels of population growth in cities. With more than 75 % of Australians living in cities of 100,000 people or more, urban development is clearly a matter of national importance. The demands placed on cities will need to be met by an effective strategy to expand housing; provide new and upgrade existing infrastructure; and seek alternative regional and urban centres.

UDIA urges the Government to adopt a Federal Budget which gives due consideration of the importance of our cities and the infrastructure needed to sustain them. **The 2012/13 Federal Budget should increase funding to promote the efficient and timely provision of infrastructure to support urban growth.** Merely increasing the pool of Commonwealth funding is, however, unlikely to provide the required level of infrastructure and the Government should dedicate resources to exploring new ways of financing infrastructure. The **capacity of public private partnerships (PPP's) needs to be strengthened** and **alternative innovative methods of funding infrastructure, such as Tax increment financing (TIF), should be explored**. The system whereby developers are being hit with substantial upfront costs is unsustainable and will continue to have detrimental effects for affordable housing (See homebuyer levy section – pg.7).

Since UDIA's last pre-Federal Budget submission the Federal Government has released its National Urban Policy. **UDIA is supportive of the policy, particularly the Government's intention of linking infrastructure funding decisions to the creation of strategic plans for all capital cities that meet the Council of Australian Government's (COAG) nationally agreed criteria.** While UDIA broadly supports the nine criteria set by the COAG Reform Council for strategic planning of capital cities, we believe the following are crucial to realising the efficient growth of urban areas and subsequent delivery of affordable housing:

- Integration across functions, including land-use and transport planning, economic and infrastructure development, environmental assessment and urban development
- Providing for a consistent hierarchy of future oriented and publicly available plans
- Provide for planned, sequenced and evidence-based land release and an appropriate balance of infill and greenfields development

5. TAXATION

The development industry continues to bear the brunt of a string of inequitable taxes and levies. The industry has been subjected to land taxes, stamp duty, GST, and excessive infrastructure charges ('homebuyer levies') to name a few. These have all served to discourage investment while negatively affecting housing delivery and affordability. Although the majority of these taxes are levied by State Governments and local councils, the Federal application of the GST on new properties has also sought to distort prices. The Government convened a Tax Forum in October 2011 where a consensus emerged that the property sector is currently subjected to a range of inefficient taxes.

In general terms, the Government should work towards harmonizing the system of the taxation on property, creating greater transparency and simplifying the application of the taxes.

Stamp Duty
One of the most inefficient taxes levied on home buyers is stamp duty. Stamp duty has a detrimental effect on housing mobility, which deters people from accessing employment opportunities and creates higher travel demands. Furthermore, it is an unreliable source of taxation revenue for Governments as it is susceptible to property market fluctuations. The urban development industry believes that stamp duty should be removed from all transactions immediately. However, given the reliance of State Governments on stamp duty as a revenue source, UDIA accepts that a more pragmatic approach may be required. We thus urge **the Federal Government to make a commitment to phase out stamp duty on property taxation over the period covering the forward estimates.** The loss in taxation revenue can be offset with a broader more efficient form of taxation. **The Government should also use the distribution of GST to reward States which phase out stamp duties.**

Homebuyer Levies
In recent times developers have been subject to increasing infrastructure charges which are passed onto homebuyers, as the charges directly add to the cost of production. These charges are in effect homebuyer levies as State and Local Governments are directly taxing the narrow base of new home buyers. This approach has had severe consequences for housing affordability.

By greatly increasing the cost of production, homebuyer levies undermine the business case for existing and proposed developments and constrain the ability of developers to acquire finance. This only serves to restrict the much needed supply of housing, a fact highlighted by the recent *State of Supply* Report which revealed the biggest housing deficit to be in New South Wales and Queensland, the two States in which homebuyer levies are at their highest.

Homebuyer levies constrain the number of dwellings which could be produced each year and as a result governments are missing out on substantial tax revenue which could be garnered by the potential development activity. Foregoing significant amount of taxes such as GST, Stamp Duty and Council Rates inhibits government's ability to fund much needed State/Local infrastructure from broad based, equitable tax revenue.

UDIA has been advocating for **the Productivity Commission to undertake an inquiry into 'homebuyer levies' and alternative methods of financing infrastructure. We believe the impact of these levies on broader based tax collections should be included in the scope of the study.**

Recommendations made to October 2011 Tax Summit
UDIA would also like to submit the following recommendations put forward at the October 2011 Tax Forum.

- **Include Levies in GST Cost Base Calculations to Improve Housing Affordability**

- **Reduce stamp duty compliance costs by creating uniform stamp duty legislation nationally**

- **Address the vertical fiscal imbalance and remove impediments to local government revenue raising (especially with respect to rate pegging)**

- **Harmonise land tax regimes, reduce rates and over the next decade commit to combining the land tax regime with the local government rate system**

- **It is recommended that the integrity of the Capital Gains Tax System be retained to provide investors with certainty, especially under existing economic conditions**

- **Use the capital allowance regime to promote investment in sustainable housing technologies**

6. ENVIRONMENT AND SUSTAINABILITY

UDIA urges the Treasurer to prepare a budget which considers the triple bottom line of sustainability, giving due consideration to economic, social and environmental factors.

EPBC Act
The development industry has welcomed the efforts to reform the Environment Protection Biodiversity (EPBC) Act, particularly the enhanced capacity for strategic assessments and the commitment to a national offsets policy. One aspect of the reform package which UDIA opposes is the proposal for cost recovery under the Act.

UDIA is fundamentally opposed to this reform as it is inequitable and unjustified where the community should expect a Government agency to function within budget funding. It will have differing outcomes for proponents dependent on the size of development and will result in smaller developments being rendered unviable leading to land and housing supply shortages. While we support the goals of the EPBC Act, we do not support cost recovery as an appropriate source of revenue for the Department of Sustainability, Environment, Water, Population and Communities.

It is unlikely that the additional income will result in greater certainty and an improved service unless the resourcing of the department is fundamentally improved with appropriately educated assessment officers who have a clear understanding of the Act and how its policies play out in the market. **The administration of the EPBC Act should continue to be funded directly through taxation revenue.** Should the Government move towards a cost recovery regime, it should place a lasting and definitive cap on the amount which can be recovered on a per lot basis to ensure that housing affordability is not unduly impacted.

Carbon Pricing
The Carbon Pricing Mechanism is scheduled to commence in the middle of this year and the Government has released data claiming that the price of residential construction will increase by 0.6 per cent or $2,500 on an average house and land package. The development industry has for some time been playing a major role in achieving higher levels of all round environmental sustainability and has made broader gains beyond the realm of limiting carbon emissions. **The Government should ensure that home buyers which make a concerted effort to embrace sustainability should not be subject to the effects of a Carbon Tax**.

Furthermore, the Government's Clean Energy Future strategy lists one of its goals as "creating opportunities in the land sector to cut pollution". While UDIA welcomes this goal, thus far ideas have only focused on carbon sequestration rather than initiatives designed to cut emissions in the land development sector. Pioneering the integration of environmentally sustainable elements in developments from the onset (i.e. solar energy) is more cost effective than post-development additions, thus, there is a key role for the $10b Clean Energy Finance Corporation (CEFC) to drive these projects. **The CEFC should support private sector investment in low emissions technologies in large-scale greenfields developments (i.e. masterplanned communities).**

CONCLUDING COMMENTS
UDIA thanks The Treasury for the opportunity to provide this Pre-Budget submission to the Commonwealth Government. UDIA would welcome the opportunity to discuss any aspect of this submission in greater detail. For further information, please contact UDIA National on 02 6230 0255 or at udia@udia.com.au.

Yours sincerely,

Julie Katz
UDIA National President