2013/14 Pre-Budget Submission

Prepared by the Urban Development Institute of Australia (UDIA)

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1. About UDIA

The Urban Development Institute of Australia (National) welcomes the opportunity to provide this Pre-Budget Submission to The Treasury. The 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 a further 6.2% in indirect impacts
- 975,700 full time equivalent jobs (9.1% of the workforce)
- 56.6% of all Australian private investment – equating to $146 billion
- $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

2. Introduction

The 2013/14 Federal Budget is an opportunity for the Government to deliver funding commitments and initiatives which promote housing delivery, housing affordability, infrastructure provision and sustainable development.

UDIA commends the Government for abandoning its intention to deliver a surplus at all costs. While fiscal discipline is a noble pursuit, Australia has a small budget deficit compared to other advanced nations and the fundamentals of our economy are such that a return to surplus should be achieved in due course. Nevertheless, departing from a surplus should be contingent on the Government directing spending to programmes which have direct benefit to the economy. Funding on urban infrastructure should be prioritised in this and future budgets due to the potential future benefits for productivity.

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. Unfortunately, the development industry is currently constrained by an excessive taxation and charging regime. In addition, burdensome and inefficient regulation of the industry results in significant delays and consequent holding costs which serve to inflate the costs associated with the development process, ultimately impacting on new home prices. The stymying effect which inefficient taxation and high levels of red tape has on the wider economy is a major cause for concern.

UDIA believes the Budget should strive to uphold an efficient and competitive development industry, which will serve homebuyers and the wider Australian economy.

This budget needs to maintain the funding commitments which have been made to Federal Housing and local infrastructure initiatives in recent years. It needs to give much greater consideration to the nation's infrastructure deficit. The recent focus on urban policy needs to be maintained. The Budget needs to work towards harmonizing the system of property taxation, creating greater transparency, simplifying the application of the taxes and removing inefficient and inequitable charges. It should also consider the triple bottom line of sustainability, giving due consideration to economic, social and environmental factors.

The development industry would like to work closely with the Government and the wider community to achieve the goals of housing delivery, affordable housing provision and sustainable development. The Government can take an important step towards achieving such outcomes in the 2013/14 Federal Budget. We urge the Government to consider the recommendations put forward in this pre- Budget submission.

3. Summary of Recommended Actions

- **Provide increased and ongoing funding to the National Rental Affordability Scheme and expand the scheme's dwelling target**
- **Release greater funding for infrastructure-enabling programmes with the goal of delivering more affordable dwellings**
- **Consolidate local infrastructure-enabling programmes, such as the Housing Affordability Fund and Building Better Regional Cities, into one programme and commit to ongoing and increased funding to such a programme**
- **Make the First Home Savers Account less restrictive and launch a public awareness campaign to better explain how the scheme works**
- **Commit to ongoing funding of the National Housing Supply Council**
- **Increase funding to promote the efficient and timely provision of infrastructure to support urban growth**
- **Link funding to State Governments establishing comprehensive land use plans which are aligned with detailed, costed infrastructure plans and underpinned by delivery timeframes**
- **Reward jurisdictions which pursue infrastructure provision based on rational and transparent criteria, including a publicly-available cost-benefit analysis**
- **Direct the Productivity Commission to undertake an inquiry into 'home buyer charges', the impact of these levies on broader based tax collections and alternative methods of financing infrastructure**
- **Through COAG adopt nationally consistent principles for infrastructure funding that:**
  - **prevent further cost shifting onto first home buyers under the guise of 'first user pays' development charges**
  - **favour cost recovery over time (via recurrent charges or property-based taxes) in preference to front-loading via development charges**
  - **set clear roles and responsibilities for infrastructure funding**

- **The Commonwealth Government should pursue two key recommendations from the Government commissioned study into prioritising and financing local infrastructure:**
    - **Work with the States and Territories to investigate the legislative changes that would be required to enable councils to introduce Tax Increment Financing**
    - **Work with the States and Territories to investigate the feasibility of establishing a national financing authority to aggregate local government borrowing and facilitate the creation of debt products for private investors**

- **Strengthen capacity of public private partnerships**

- **Review existing programmes and commit funding to new innovative programmes to improve the nation's cities**

- **Fund a national program which ensures the delivery of major urban renewal projects**

- **Encourage State and Territory Governments to phase out stamp duty on property purchases over a five-year period**

- **Broaden the base of the GST which will assist States to phase out stamp duties**

- **Reduce stamp duty compliance costs by creating national stamp duty legislation**

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

- **Retain the existing capital gains tax system**

- **Continue to use negative gearing taxation allowances to incentivise the provision of affordable rental properties**

- **Make incentives for sustainability accessible during the development application phase**

- **Develop and consider a Regulatory Impact Statement before introducing sustainability policy and regulations which will impact the urban development industry**

- **Abandon the practice of cost recovery under the EPBC Act**

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- **Release greater funding for management of the conservation of species listed under the EPBC Act**

- **Listing of species of national environmental significance to be accompanied by funded and publicly-available recovery plans**

4. Federal Housing Initiatives

Australia is currently experiencing a shortage of dwelling stock and a related scarcity of affordable housing. The underlying causes of this problem are the excessive taxes and charges being placed on developers and new home buyers as well as the unresponsive, time consuming planning environment. UDIA has welcomed the range of federal solutions such as the National Rental Affordability Scheme (NRAS),National Housing Supply Council (NHSC), Housing Affordability Fund (HAF),First Home Saver Account (FHSA) and the Building Better Regional Cities (BBRC). These are all measures which have the potential to positively influence housing delivery and affordability. In recent years, commitment to these schemes has wavered amid a tight fiscal environment and several programmes have suffered from funding cuts.

National Rental Affordability Scheme (NRAS)

UDIA was pleased that the National Rental Affordability Scheme (NRAS) was not further cut in the last Federal Budget. After initially wavering in its commitment to this important policy initiative, the Government seems to have realised its potential and necessity.

NRAS is starting to emerge as a viable solution to delivering much needed affordable rental dwellings.Over the past year the number of incentives has nearly doubled and the number of organisations involved in the scheme has risen markedly. The scheme's target of 50,000 new rental homes by 2016 will go some way to increasing the supply of much-needed affordable rental properties. As of October 2012, more than 10,671 homes built through NRAS have been tenanted or made available for rent.

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 by providing **increased and ongoing funding to the scheme while expanding the dwelling target.** It should be remembered that the original 2008 NRAS target of 100,000 dwellings was conceived to address the dearth of affordable rental properties across Australia.

Housing Affordability Fund (HAF) and Building Better Regional Cities (BBRC)

The Housing Affordability Fund (HAF) provided some $400 million to increase the supply of affordable housing. HAF represented recognition of the major challenges afflicting developers as the funding was supposed to specifically address ever-increasing infrastructure costs as well as holding costs brought on by long planning and approval times. Some 75 projects countrywide attracted funding from HAF resulting in an increase in affordable housing.

Complexities associated with developing land to provide ongoing housing stock are increasing, long planning and approval times are getting even longer as a result of these increasing complexities and therefore the requirement for stimulus funding streams such as HAF has even more importance now than in previous times.

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. Through the scheme the Government has allocated $112 million to some 16 communities for various infrastructure-enabling projects. UDIA supports attempts such as these to fund local infrastructure in regional areas as it has the potential to facilitate affordable development, possibly relieving the situation in Australia's capital cities. However, the amount committed by the Government is unlikely to have a wide-ranging effect on the cost of development in Australia.

UDIA believes the Government should provide further funding to infrastructure-enabling programmes with the goal of providing more affordable dwellings. While UDIA applauds existing efforts to address the cost of infrastructure in the development process, we believe a number of programmes with relatively low levels of funding are unlikely to significantly increase the supply of affordable housing.

The Government should consider consolidating local infrastructure-enabling programmes, such as the Housing Affordability Fund and Building Better Regional Cities, into one major local infrastructure fund and commit to ongoing and increased funding to such a scheme. A major local infrastructure fund is essential if Australia is to develop affordable housing and productive communities.

First Home Savers Accounts (FHSA)

As of September 2012 first home savers accounts (FHSA) have been taken up by some 38,500 people. This is a vast improvement from the take-up rate in the account's first couple of years and can partly be explained by some changes introduced by the Government in the 2011/12 Federal Budget. However, this is still well below the Government's target of 700,000 account holders by 2012. The general feedback UDIA has received is that the FHSA is complicated, inflexible and not well publicised.The FHSA still suffers from a perception of restricting access to one's savings and some big lenders have ceased to offer the product due to a lack of interest. **The Government should explore ways to make the FHSA less restrictive and launch a public awareness campaign to better explain how the account works.**

National Housing Supply Council (NHSC)

The National Housing Supply Council (NHSC) 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 affordable housing in Australia. **UDIA believes that the work of the Council is extremely valuable and that it should continue to receive Federal funding.** The NHSC's findings are an indictment on the state of housing supply in Australia and the Federal Government needs to respond in earnest by actioning its recommendations.

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5. Infrastructure Funding

Australia continues to experience high levels of population growth, but the provision of infrastructure, both major and local infrastructure, is failing. Ignoring the infrastructure deficit will have an adverse effect on national productivity and the Government needs to urgently respond to the demands being placed on our cities and growth areas. The 2013/14 Federal Budget needs to develop an effective funding strategy to provide new infrastructure and upgrade existing stock.

Currently, the delivery and charging system for infrastructure across Australia is failing. UDIA acknowledges that delivering and funding appropriate urban infrastructure is a challenge for all levels of government, particularly in a difficult fiscal environment. Nevertheless, **the Budget should increase funding to promote the efficient and timely provision of infrastructure to support urban growth.**

At the State level, an uncoordinated approach to infrastructure delivery has constrained the provision of dwellings in new greenfield areas and in existing urban areas, contributing to Australia's housing supply crisis. The **Federal Government should link funding to State Governments establishing comprehensive land use plans which are aligned with detailed, costed infrastructure plans and underpinned by delivery timeframes.** In addition, **Federal funding should reward jurisdictions which pursue infrastructure provision based on rational and transparent criteria, including a publicly-available cost-benefit analysis.**

One of the most pressing problems with Australia's infrastructure charging regime is the increasing reliance on the first user pays approach. These home buyer charges are inequitable in that the new home buyer pays for infrastructure which benefits the wider community. This infrastructure is inter-generational and therefore should be funded by future generations as well as current home buyers. Home buyer charges inflate the price of new homes and render countless development projects unviable. While the solution to funding local infrastructure varies between States and Territories, there are broader principles which should be applied to overcome the funding obstacles including need and nexus, equity, transparency, certainty and consistency. The Federal Government needs to provide leadership on this issue. UDIA has for some time been calling for **the Government to direct the Productivity Commission to undertake an inquiry into 'home buyer charges, the impact of these levies on broader based tax collections and alternative methods of financing infrastructure.**

The Council of Australian Governments (COAG) has a crucial role to play in agreeing to broader principles which should be applied to overcome the funding obstacles. **COAG needs to adopt nationally consistent principles for infrastructure funding that:**

- **prevent further cost shifting onto first home buyers under the guise of "first user pays" development charges**
- **favour cost recovery over time (via recurrent charges or property-based taxes) in preference to front-loading via development charges**
- **set clear roles and responsibilities for infrastructure funding**

Merely increasing the pool of Commonwealth funding is unlikely to provide the required level of infrastructure and the Government should dedicate resources to exploring new ways of financing infrastructure.

The Commonwealth Government should pursue two key recommendations from the Government commissioned study into prioritising and financing local infrastructure[1]:

- **The Federal Government should work with the states and territories to investigate the legislative changes that would be required to enable councils to introduce Tax Increment Financing**
- **The Federal Government should work with the states and territories to investigate the feasibility of establishing a national financing authority to aggregate local government borrowing and facilitate the creation of debt products for private investors**

In addition, the **capacity of public private partnerships (PPP's) needs to be strengthened**. The current system whereby developers are being hit with substantial upfront costs is unsustainable and will continue to have detrimental effects for the supply of both housing stock and the affordability of that stock.

[1] http://www.regional.gov.au/local/lgifr/files/20120622-strong-foundations.pdf

6. Urban Policy

Australia is one of the world's most urbanised nations and continues to experience high levels of population growth. With more than 75% of the population living in cities of 100,000 people or more, urban development is clearly a matter of national importance. In recent times, the Federal Government has acknowledged the national importance of cities through the development of a National Urban Policy.

The 2011/12 Federal Budget committed some $180 million over four years to implement the National Urban Policy. The funding was specifically linked to three programmes; the Liveable Cities and Urban Renewal Program ($20 million), the National Smart Managed Motorways Trial ($60 million), and the Suburban Jobs initiative ($100 million). Unfortunately the National Urban Policy was not spared in the cost cutting of recent years and the Government in the 2011 Mid-Year Fiscal and Economic Outlook cut $55 million from the Suburban Jobs Programme.

The Government should not lose sight of the importance of the National Urban Policy and should **review the existing programmes and commit funding to new innovative programmes to improve the nation's cities**. The functioning of our cities is crucial to the national economy and directing funding to urban policy should be seen as a catalyst for improved productivity.

Furthermore, Australia's future urban landscape will also benefit from **a national program which ensures the delivery of major urban renewal projects** that would not be possible without significant initial public investment, similar to the previous Building Better Cities program.

7. Taxation

The property and 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 (‘developer 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 has also sought to distort prices. The Government has convened a series of tax reviews and forums over the past five years, all of which have reached the conclusion that the property sector is currently subjected to a range of inefficient taxes.

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

One of the most inefficient taxes levied on home buyers is stamp duty. These upfront charges are synonymous of an out-of-date tax system that is focused squarely on securing revenues. They have excessive impacts on affordability, housing turnover, and general economic welfare. Stamp duties on residential properties distort the efficient allocation of housing and land by effectively encouraging property owners to adjust their property consumption less frequently. By significantly increasing the costs of moving, stamp duties reduce worker mobility and exacerbate labour shortages/surpluses in different parts of the state.

Furthermore, stamp duties on property by design are inequitable. The system unfairly penalises households for moving into accommodation that better suits their needs. Households who need to move because of worsening health or having a disability, or for any other reason beyond their control, move house more often and pay more stamp duty.

Stamp duty receipts are also an unreliable and volatile revenue stream as it is susceptible to property market fluctuations.

In 2012 the ACT became the first jurisdiction to commit to phasing out stamp duty over 20 years. While this is a step in the right direction, the urban development industry believes 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 encourage State and Territory Governments to phase out stamp duty on property purchases over a five-year period.** The loss in taxation revenue can be offset by **broadening the base of the GST.**

Although UDIA would like to see the removal of stamp duty, if it is retained we would like to see a greater uniformity of legislation across state and territory boundaries. Despite many attempts to harmonise stamp duty legislation and rates over the past two decades, there are different stamp duty regimes and a multitude of different rates that apply to property and other assets in the various states and territories. This creates substantial compliance costs, distorts investment between asset classes and between jurisdictions. Competitive federalism, especially as it applies to stamp duty rates in principle is welcomed. However, in reality there is no alignment in employment growth, immigration and housing demand, housing prices and stamp duty rates between jurisdictions. **The Government should seek to reduce stamp duty compliance costs by creating uniform stamp duty legislation nationally.**

The calculation of GST paid on land for development displays some fundamental flaws in design. As a principle the Budget should eliminate taxation on an existing tax. These design problems are most problematic in cost base definitions.

Such a problem exists in the cost base of land for development for GST purposes. When GST is paid on land, it is calculated on the land selling price less acquisition cost. The land selling price includes State and local Government levies and stamp duties. Government levies and stamp duties should be included in the cost base not the selling price.

Given that margin schemes and taxation of taxes and levies defies all principles of good tax design, UDIA believes the Budget **should include Levies in GST cost base calculations to improve housing affordability.**

The Capital Gains Tax regime has improved over recent years. Capital Gains Tax significantly impacts on investment returns and risk taking within the economy in general. UDIA believes that while not perfect, the CGT treatment of assets held for more than 12 months is a reasonable way to separate productive and speculative investment and reduce the lock in effect to investments. The removal of complex cost base calculation has also improved compliance costs of capital gains tax.

Furthermore, the exemption of business sales from capital gains tax has ensured that there is no disincentive to investment in businesses. Now that improvement to the capital gains tax regime has been made, certainty for investors is critical and as such **the existing capital gains tax system should be retained**.

In recent years there have been suggestions that negative gearing laws should be scaled back as cost saving measure. UDIA supports the continued use of negative gearing to help maintain an adequate stock of affordable rental accommodation. Eliminating negative gearing without addressing the fundamental problems which constrain housing supply has the potential to exacerbate the shortage of affordable rental accommodation. The Government should **continue to use negative gearing to stimulate the market.**

8. Sustainable Development

UDIA recognises that ongoing strong population growth requires development of urban areas which reduces the environmental impact while conserving our resources. Developers have increasingly adopted a sustainable approach to urban development both in response to legislation enacted by the various layers of Government and as a result of industry-driven sustainable initiatives, such as UDIA's EnviroDevelopment.

The industry is facing a host of cost pressures and would welcome any government assistance which encourages sustainable development. Tax rebates and other financial incentives are typically targeted at adaptation and mitigation technologies applied to existing homes. This approach completely disregards the need to promote energy efficiency technologies in new homes. With an average of 152,000 new homes built each year, this is a significant market. Targeting financial incentives during the construction and design stage of projects would complement existing initiatives. Such **sustainable development incentives should be made accessible during the development application phase**. This is a far more efficient process which will deliver a far greater commitment to sustainable urban development

While UDIA understands the Government's efforts to encourage sustainability, we believe funding should be provided so that **sustainability policy and regulations be accompanied by a Regulatory Impact Statement considering impacts on the urban development industry**. 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.

Environment Protection and Biodiversity Conservation (EPBC) Act

UDIA is fully supportive of the goals of the Environment Protection and Biodiversity Conservation (EPBC) Act, and we believe that if applied efficiently this legislation can contribute towards achieving the triple bottom line of sustainability. However, our members have firsthand experience of some of the problems associated with the application of the Act. The current system in which the EPBC Act is invoked late in the planning process and State and Federal processes are routinely duplicated is unsustainable. Duplication of State and Federal environmental processes results in significant costs and delays for development projects. A failure to streamline the process will exacerbate housing delivery and adversely affect housing affordability.

As such, the development industry supports efforts to reform the EPBC Act, and thus welcomes last year's commitment to provide $37.8 million over four years to implement reforms of the Act. However, a **greater deal of long term federal funding should be released to manage the conservation of species listed under the EPBC Act**. In the absence of such funding, the onus to fund the protection of flora and fauna will continue to fall on the various State/Territory Governments and developers. Increased Federal funding will also allow the **listing of species of national environmental significance to be accompanied by funded and publicly-available recovery plans.**

UDIA is opposed to the decision in last year's budget to offset the cost of the reforms through a cost recovery process. UDIA is fundamentally opposed to cost recovery on environmental impact assessments 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 Government should abandon the practice of cost recovery under the EPBC Act**

9. Concluding Comments

UDIA would like to thank 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.