

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 371

Topic: Housing Policy

Hansard Page: Written

Senator EGGLESTON asked:

1. In relation to Dr Kennedy's speech given 27 May titled "Housing Supply and Affordability"
 - a) What are the most important barriers which prevent housing supply from responding more flexibly?
 - b) You spoke at length on infrastructure charges in this speech. In your view, are infrastructure charges too high in some areas?
 - c) Is there a risk though that if infrastructure charges are reduced below the costs of supplying infrastructure then we may encourage too much development in areas which are costly to service?
 - d) What is the situation regarding infrastructure charges in regional areas?
 - e) Has Treasury done any work on comparing the costs of infrastructure provision in our major cities compared to the regions? If so, do infrastructure charges reflect the different costs of supply in these areas?
 - f) More broadly then, what is the scope for regional development to effectively expand the supply of housing and take the pressure of housing demand in our major cities?
 - g) Can you provide an update to the Committee on the progress of the COAG review in the housing supply and affordability? Is it looking at the potential for regional development to increase supply?
 - h) You mention that infrastructure charges should be subject to "regulatory oversight"? What are you envisaging here? An ACCC type body setting infrastructure charges?

Answer:

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(a) “What are the most important barriers which prevent housing supply from responding flexibly?”

There are a number of barriers that may prevent the housing market from responding more flexibly than it presently does. These issues vary across jurisdictions, as housing markets in different areas face different issues, and judgement as to their significance can vary. However, there are some common themes.

One issue is the lumpy nature of housing and infrastructure construction, with housing investment and large housing developments taking a significant period of time to come to finalisation and requiring large amounts of investment. This can place an inevitable lag in the system as developers respond to indicators of increased demand, holding off until they are sufficiently confident that they can sell new homes with a sufficient return.

Fragmented ownership of land may also cause delays to the responsiveness of the housing market. Developers often require access to unbroken land of a minimum size to proceed with certain types of developments. It can be difficult to assemble land of a particular scale if land is demarcated into bundles of differing size, with multiple owners. This may mean that developers must slowly acquire individual lots of land over long periods of time, before finally acquiring a holding sufficient for development. This imposes both costs and delays on the supply of new housing.

Within the supply of new homes, there are a number of issues which impede responsiveness. In some cases, there may be opposition to further development of housing supply from local councils and “Not in my backyard” (NIMBY) campaigners. While this takes the form of opposing individual developments, it is also the case that some councils zone for lower density than the market may provide, resulting in a regulatory system that limits the use of land and restricts its availability for development. This would place a quantity restriction on the number of developments available for sale, and place upward pressure on house prices.

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The negotiation of infrastructure charges is another area which may impede the supply process. Delays and uncertainty as to the nature of the infrastructure charge and its level imposes significant uncertainty and time delays on the development of housing projects. A similar, and common grievance expressed by developers relates to environmental acts and building regulations which may impose risks, uncertainty, costs and delays on developments.

(b) You spoke at length on infrastructure charges in this speech. In your view, are infrastructure charges too high in some areas?

Infrastructure charges are the responsibility of, and set exclusively by state and territory, and local governments. The information on the raising of charges and the manner in which these funds are spent lies with these levels of government, who have their own means for assuring their legitimacy. As such, we do not know whether charges are being set too high or too low.

(c) Is there a risk that in infrastructure charges are reduced below the costs of supplying infrastructure that we may encourage too much development in areas which are costly to service?

It is correct that, at least in theory, the reduction of infrastructure charges below the costs of infrastructure supply can subsidise development of housing, and as such it would encourage too much development in particular areas.

We note that the Australia's Future Tax System states "Infrastructure charges can be an effective way of encouraging the efficient provision of infrastructure to areas where it is of greatest value and of improving housing supply. Charging for infrastructure may be a more effective means of allocating resources than regulating land release" (p428, Volume 2).

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(d) What is the situation regarding infrastructure charges in regional areas?

Infrastructure charges are the responsibility of, and set exclusively by state and territory, and local governments. Practices can vary across each state and local government area depending on the legislative arrangements. The arrangements for infrastructure charges in each of the non-major city local government areas will differ significantly and the information resides with those state and local governments.

(e) Has Treasury done any work on comparing the costs of infrastructure provision in our major cities compared to the regions? If so, do infrastructure charges reflect the costs of supply in these areas?

As the provision of infrastructure is the responsibility of state and territory, and local governments, most of the data necessary for making an assessment of the cost of infrastructure supply is available at that government level. Treasury has not done any specific work on this.

We note that an advantage of high density areas of population is that there are 'economies of density' which allow the large fixed costs of infrastructure to be shared across a number of people, at least to a point up to full capacity usage. A disadvantage of the low density areas is that supplying equivalent infrastructure can come at larger fixed costs, that are then recovered against a smaller number of users, pushing up the per capita costs.

(f) More broadly then, what is the scope for regional development to effectively expand the supply of housing and take pressure of housing demand in our major cities

This issue needs to be examined in the context of the housing supply pipeline more broadly, which will be considered as part of the broader analysis by the Housing Supply and Affordability Reform Working Party.

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(g) Can you provide an update on the Committee on the progress of the COAG review in the housing supply and affordability? Is it looking at the potential for regional development to increase supply?

The Housing Supply and Affordability Reform Working Party (the Working Party) has made considerable progress, particularly with regard to the examination of infrastructure charging and land aggregation, zoning and planning processes and governance. Regional development will be considered in the broader context of examining the entire housing supply pipeline. Regional development issues are also relevant to the Working Party's examination of whether strategic planning requirements for cities should be extended to other high growth/large population regions across the country.

(h) You mention that infrastructure charges should be subject to “regulatory oversight”? What are you envisaging here? An ACCC type body setting infrastructure charges?

While this issue of regulatory oversight was mentioned in the speech, no specific regulatory role for the ACCC was explored.

We note that the States and Territories have in places some processes in place to review infrastructure charges and ensure their integrity.