HOUSING INDUSTRY ASSOCIATION

Pre-Budget submission for

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2017/18 Commonwealth Budget

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HOUSING INDUSTRY ASSOCIATION

contents

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ABOUT THE HOUSING INDUSTRY ASSOCIATION

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry, including new home builders, renovators, trade contractors, land developers, related building professionals, and suppliers and manufacturers of building products.

As the voice of the industry, HIA represents some 40,000 member businesses throughout Australia. The residential building industry includes land development, detached home construction, home renovations, low/medium-density housing, high-rise apartment buildings and building product manufacturing.

HIA members comprise a diversity of residential builders, including the Housing 100 volume builders, small to medium builders and renovators, residential developers, trade contractors, major building product manufacturers and suppliers and consultants to the industry. HIA members construct over 85 per cent of the nation's new building stock.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry. HIA's mission is to:

> "promote policies and provide services which enhance our members' business practices, products and profitability, consistent with the highest standards of professional and commercial conduct."

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into the manufacturing, supply, and retail sectors.

The aggregate residential industry contribution to the Australian economy is over $150 billion per annum, with over one million employees in building and construction, tens of thousands of small businesses, and over 200,000 sub-contractors reliant on the industry for their livelihood.

HIA develops and advocates policy on behalf of members to further advance new home building and renovating, enabling members to provide affordable and appropriate housing to the growing Australian population. New policy is generated through a grassroots' process that starts with local and regional committees before progressing to the Association's National Policy Congress by which time it has passed through almost 1,000 sets of hands.

Policy development is supported by an ongoing process of collecting and analysing data, forecasting, and providing industry data and insights for members, the general public and on a contract basis.

The Association operates offices in 23 centres around the nation providing a wide range of advocacy, business support including services and products to members, technical and compliance advice, training services, contracts, stationary and industry awards for excellence.

INTRODUCTION

The 2017/18 Federal Budget will be one of the most demanding of recent years. It is well documented that the Australian economy faces a number of challenges, including: lower than average economic growth; slow wages growth; historically high underemployment; and weak private business investment.

This economic backdrop exacerbates the Federal Government's challenge in confronting intense pressure to demonstrate a commitment to a substantial and timely fiscal consolidation over the medium term. Insufficient revenue growth compounds this challenge.

HIA is of the view that the housing industry can be an important source of growth in productivity and government revenue in the overall economy over the coming budget period, just as the industry has proved vital in providing economic, employment and revenue growth for the Australian economy over the last five years.

Residential building activity provides employment for over one million Australians, supporting 321,595 firms and producing $162 billion worth of economic activity each year - one tenth of Australia's total economic activity in 2016. The industry generates $77 billion in taxation annually, more than 17 per cent of the total taxation receipts across all levels of government.

The current new home construction cycle is the longest and largest in Australia's history. It is unlikely that a recession would have been avoided in Australia without the substantial direct and multiplier impacts that new home construction has provided the wider economy over the last five years.

HIA welcomes the Federal Government's recent commitment to housing affordability, home ownership, and hence the residential building industry. The recent announcement of Senator Sinodinos as the Minister for Industry, Innovation and Science and the appointment of Michael Sukkar to the new position of Assistant Minister to the Treasurer are important moves that will support the outcomes of the housing industry for both the public and private housing markets.

The appointment of a new Assistant Minister to the Treasurer to focus on housing affordability is a significant step by the Prime Minister to recognise the federal government has a key role in guiding the states and territories to better manage housing supply, in particular the cost of that supply.

Creating this position within Treasury presents an opportunity to look at the complex issues affecting both housing affordability and falling rates of home ownership, including the disproportionate level of taxation on new housing and the need for planning reform.

A national focus on Australia's housing challenges affords the Federal government the opportunity to develop a strategy and reform program, in conjunction with the states and territories, to reduce the excessive and highly inefficient cost of new housing in Australia. This cost impost – represented by new home building being the second highest taxed large sector of the Australian economy, cannot be addressed without Federal policy support and reform. A holistic approach is required.

In pursuing the twin goals of improving housing affordability and increasing home ownership rates, HIA also advocates the following policy initiatives for the 2017/18 Budget:

- Working with states and territories to streamline taxes and charges on new housing and land supply;
- Establishing a national housing unit within Treasury to oversee housing data and identify housing delivery issues that will affect annual housing production;
- With regard to foreign investment in new residential policy: work with the states to ensure further cost imposts are avoided; and consider options to streamline the range of cost disincentives to foreign investors that have become prevalent in recent years;

- Allow First Home Buyers access to a proportion of their superannuation funds to assist them enter the housing market;
- Better resourcing of the Australian Bureau of Statistics to ensure a wider and more accurate measure of housing activity in Australia;
- Adopt an evidence-based approach to migration policy aimed at supporting Australia's long-term prosperity, skills needs and sectoral labour shortages;
- Commitment to focus on skills, training and apprenticeships to ensure a sufficient pool of human capital to meet the home building demands of Australia's growing and ageing population;
- Develop policies, in conjunction with the states and territories, to reduce the high cost of non-essential residential infrastructure. Much of this cost is currently borne by new home buyers yet the infrastructure provides benefits to the wider community.
- Ensure Federal Government funding of public and social housing provision is appropriately targeted and utilised in an efficient manner.

CURRENT HOUSING CONDITIONS AND FUTURE NEW HOUSING SUPPLY

History shows that the new residential building sector is prone to large fluctuations in activity. The upturn in new home building that began in 2012 remains the longest since modern records began, with data for the 2015/16 financial year indicating that total dwelling commencements increased to nearly 232,000, the highest financial year total on record and a level 5.9 per cent higher than in 2014/15.

It is worthwhile noting the large volume of dwellings, predominantly in medium/high density (MHD) developments, that were approved but had not yet commenced as at the end of June 2016. At the end of June, a total of 38,898 dwellings had gained approval and were awaiting commencement with the majority of this total (25,414 or 65.3 per cent) accounted for by MHD dwellings.

This provides the basis for a strong short-term outlook for dwelling commencements in 2017, especially in the eastern states, although the HIA expects that the commencements cycle has passed its peak. Preliminary data for the September 2016 quarter, while signalling a second quarterly decline in dwelling commencements, suggests that a historically very high level will be achieved in calendar year 2016.

The current cycle has also seen very wide geographic variation. While the three largest states are still undergoing expansion in terms of activity on the ground, conditions are quite different in other markets. For example, detached house starts in South Australia peaked in late 2014, as did house commencements in Western Australia. A renewed downturn in Tasmania took hold late in 2015. On the multi-unit side, the large states are still doing very well in terms of activity, predominantly in the MHD segment but also in the semi-detached/townhouse market. Conditions are less favourable elsewhere. For example, the level of multi-unit activity in WA has been contracting since early in 2015.

At the end of the June 2016 quarter there were over 212,000 dwellings under construction. Of these, less than 30 per cent were detached houses. Over 70 per cent of the dwellings under construction were in multi-unit developments, which is a much larger share than at any other time on record. With multi-unit developments (predominantly MHD dwellings) taking longer to complete than detached dwellings, the elevated level of dwelling investment following a peak in commencements is likely to be more prolonged than in previous cycles.

While the short term outlook for the multi-unit market remains strong, there is a significant degree of uncertainty facing this part of the market over the medium term. Over recent months there has been some speculation around a heightened settlement risk and the potential for some localised markets to become oversupplied with high-rise apartments.

HIA is of the view that 2015/16 represented the peak of the cycle in terms of dwelling commencements. In 2016/17, we anticipate that around 222,700 new dwellings will be commenced - representing an annual decline of 3.1 per cent. HIA is currently undertaking a quarterly forecasting review following the release of ABS new dwelling commencement statistics for the September 2016 quarter.

In terms of gross fixed capital formation, the decline in new dwelling commencements may herald a period ahead where contracting dwelling investment provides a material detraction from economic growth. The HIA expects this cyclical downturn in investment to begin in 2017/18.

HOUSING INDUSTRY BUDGET PRIORITIES FOR 2017/18

THE NEED FOR COMPREHENSIVE HOUSING TAXATION REFORM

The tax (cost) on new housing is the major impediment to addressing the current low housing affordability levels and declining home ownership rates.

Independent research commissioned by HIA[1] demonstrates that in absolute terms housing is the second largest contributor of tax to Australian governments. Whilst among Australia's largest industrial sectors (those sectors with a value added of more than $10 billion), the new residential building sector is the second most heavily taxed in relative terms.

There are a range of high and inefficient costs applied to new housing, which places undue pressure on affordability. These costs include: stamp duty; excessive infrastructure charges; restricted land supply; planning delays; and unnecessary building regulation.

When all taxes and costs are included, the taxation on a new house can represent up to 44 per cent of the purchase price. The cost for younger home buyers of financing the extra amount of a home due to taxes can equal around one third of their after-tax incomes.

The HIA has long advocated for a commitment by the Federal government to work with the states and territories to develop a housing policy reform strategy that addresses the pressures on the private housing market for both first home buyers and the rental market.

Research demonstrates that the core focus for housing reform needs to be a reduction of stamp duty and increased land supply in the right locations, and in a timelier manner than current planning regimes permit. Stamp duty is Australia's most inefficient tax and policy reform related to stamp duty and its impact on land supply would deliver the greatest improvement to housing affordability. [2]

In relation to taxation reform, a reduction in inefficient taxes on housing to lower the residential cost of building by approximately 1.0 per cent would increase GDP by up to $1.3 billion a year (under less than full employment) with a flow-on impact of $3.38 of additional GDP per increased dollar of activity in residential housing.

A renewed commitment to reducing the excessive and inefficient cost of new housing by addressing housing taxation reform and delivering the real benefits to the Australian economy that housing has proven can be achieved must be part of the 2017/18 Federal budget.

The HIA advocates that funding in the 2017/18 Federal Budget should be allocated towards:

- Working with states and territories on a national strategy and timetable for housing policy reform, with the aim of reducing taxes, charges and the cost of regulation on new housing and promoting the timely and affordable supply of new housing stock in all forms.

[1] *Taxation of the Housing Sector*, Report prepared for the Housing Industry Association by the Centre for International Economics, September 2011; *Taxation Generated from the Housing Sector: an extension*, Report prepared for the Housing Industry Association by the Centre for International Economics, January 2013.
[2] *Tax Reform and Housing*, Report prepared for the Housing Industry Association by Independent Economics, April 2015.

MEETING AUSTRALIA'S LONG TERM HOUSING REQUIREMENTS

Commensurate with the need to have an appropriate migration policy (outlined below) to ensure Australia's future prosperity is the requirement for a national strategy to ensure Australians' are adequately housed.

Housing Australia's current and future residents, including migrants, in homes that meet the aspirations of the community is a key challenge. The persistent and significant increases in the real cost of housing over time indicate that supply policies have not been adequate in delivering the requisite output of new housing stock over time. Federal government policy commitment and leadership is vital to any success in reducing these high real costs, as previously outlined.

In order to understand where the residential building industry may fit within the Australian economy in the future, HIA has undertaken considerable analysis to assess home building requirements out to 2050, both nationally and in each state and territory.[3]

During 2016, it is estimated that new home building reached a new all-time record level of over 230,000 dwelling commencements. There are a number of factors that have combined to lift new home building activity to such elevated levels in the current cycle, notably large capital inflows from overseas, strong demand from investors, and low borrowing costs. However, this has been balanced by some significant obstacles in the form of high taxation levels on new housing, planning delays, and inadequate mechanisms for the financing and delivery of housing infrastructure.

Despite this record high level of housing construction, it is essential that governments recognise that housing affordability is a function of more than a decade of undersupply in many states and territories. One single year of increased building falls well short of placing real downward pressure on house prices. The underlying demand for accommodation, and hence new home and rental prices, will only be addressed with year on year levels of building that are well above what has historically been achieved over the last thirty years. For any year where this is not the case, pressure will remain on home prices.

Australia's future housing requirements will be determined by the rate of population growth, the types of households that form, and the extent to which living standards change over time. Analysis by the HIA of possible variations in these demand determinants shows the long term average requirement for new home building ranges between 134,237 and 253,239 per annum, thereby highlighting a very wide range of possible scenarios.

Incorporating real household income growth, a scenario whereby there was mid-range growth in population and real incomes would require 187,659 dwellings to be built each year over the coming decades. While the mid-range scenario requiring 187,659 new homes per year appears achievable in the context of having built around 230,000 new homes in 2016, the analysis implies that Australia must average 187,659 new dwellings per annum over the long term in order to meet the needs of the growing population. Prior to the current cycle this level of new home building had never been reached in any 12 month period.

Without Federal government leadership and policy development to address the causes of the high cost of new housing, Australia's future housing requirements will not be met and unaffordability will remain a reality for thousands of first home buyers. This reinforces the importance of the need for a Federal commitment to housing affordability.

A Federal government focus on housing policy reform would be greatly assisted by the establishment of a National Housing Unit – equivalent to the previous Indicative Planning Council (IPC). A national housing unit, within Treasury, could take a lead role to collate and improve the vast and disparate information on housing and land supply that exists across the states and territories. Such a unit could have scope to undertake strategic research in relation to the information currently lacking, and improve the Federal

[3] HIA *Housing Australia's Future*, 2016

government's ability to forecast the future housing requirements of Australia's ageing and growing population.

HIA advocates that funding in the 2017/18 Federal Budget should be allocated towards:-

- The establishment of a national body - modelled on the previous Indicative Planning Council - to measure, monitor and forecast the housing requirements of Australia's growing and ageing population. This national housing unit should be established within the Commonwealth Treasury.

THE IMPORTANCE OF FOREIGN INVESTMENT TO THE AUSTRALIAN ECONOMY

Under current arrangements the Foreign Investment Review Board (FIRB) regulates purchases of residential property by foreign investors. Foreign investors are currently restricted to the purchase of new dwellings only. Accordingly, foreign investors play an important role in bringing additional units of housing stock into existence. This effect has been clearly demonstrated in the current cycle.

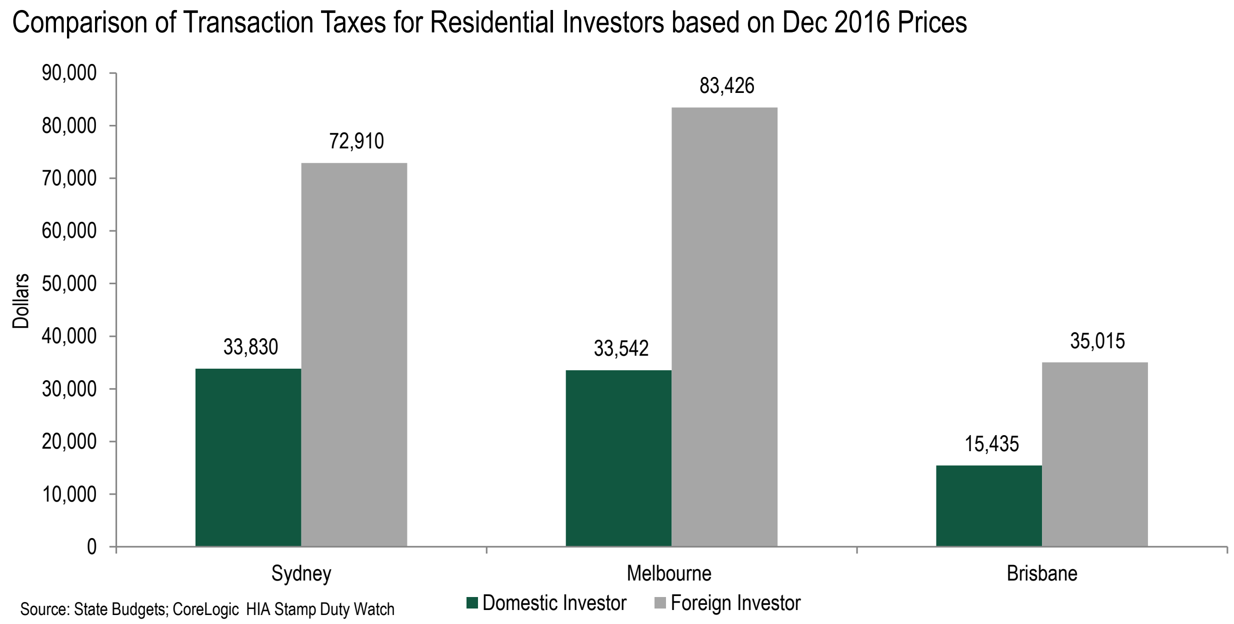
Over the past two years, more hurdles have been applied to overseas residential property investors. This has been partly predicated on the perception that foreign investors have pushed up existing property prices in several Australian markets. However, by some estimates foreign investors account for just 2 per cent of all residential property transactions and it has been argued that foreign investor participation has had little role in dwelling price increases over recent years.

Tighter regulations, higher costs and a larger taxation burden on foreign investors dissuades the participation of these investors in the market, resulting in fewer new homes being built than would otherwise be the case. This situation is especially evident in the modern world of very mobile capital flows. The impact of this is felt particularly strongly in Australia's rental market: in cities like Sydney and Melbourne, restrictions and taxes on foreign investors are exacerbating the shortages of rental accommodation in some markets and inhibiting rental affordability.

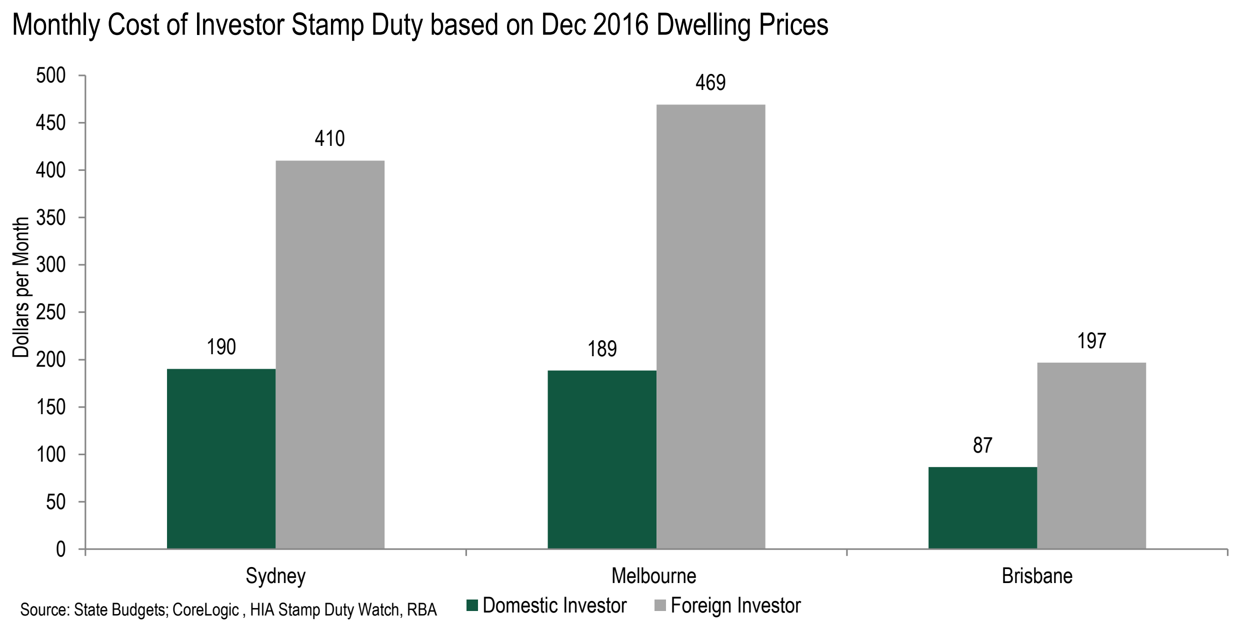
Over the past 18 months the burden on foreign investors has unfortunately become more cumbersome in terms of regulation and taxation. In addition to the introduction of the $5,000 fee on foreign investors in late 2015, several states have imposed heavy stamp duty surcharges on foreign investor purchases:

- a 4 per cent stamp duty surcharge in NSW on transactions on or after 21st June 2016;
- a 3 per cent stamp duty surcharge in Victoria was introduced on 1st July 2015 and was increased to 7 per cent from 1st July 2016;
- in Queensland, a 3 per cent foreign investor stamp duty surcharge has applied from 1st October 2016; and
- land tax surcharges for foreign investors have also been introduced in NSW and Victoria.

The chart below compares the typical stamp duty bill for domestic and foreign investors in Australia's three largest capital cities.



Based on median dwelling prices in December 2016, the typical transaction costs to foreign investors (including the FIRB's $5,000 application fee) are highest in Melbourne ($83,426), followed by Sydney ($72,910) and Brisbane ($35,015).[4] The imposition of these taxes forces investors to take on greater debt for the purchase of the dwelling and adds significantly to monthly outgoings. These are summarised in the chart below. The additional cost to investors is highest in Melbourne ($469 per month), followed by Sydney ($410) and Brisbane ($197).



Inevitably, a substantial portion of these tax-related monthly costs are being passed onto households residing in rental accommodation. A disproportionately large portion of low-income households rely on the rental sector for housing provision. Accordingly, the recently introduced stamp duty surcharges have resulted in the unintended outcome of increasing financial pressure on many of Australia's poorest families.

Whilst the majority of these taxes are applied at the state level, they directly affect the national economy in decreased investment and increased rents, placing pressure along the housing continuum which risks increasing demand for public and community housing options.

[4] HIA *Stamp Duty Watch*, Summer 2016 edition, December 2016

The Federal Government needs to work with the states to ensure further cost imposts are avoided; and consider options to streamline the range of cost disincentives to foreign investors that have become prevalent in recent years.

This policy focus should be included in the responsibilities of a National Housing Unit within Treasury.

First Home Buyer Access To Superannuation Funds

Amongst advanced economies, Australia is one of the most progressive in terms of promoting adequate retirement provision. The policy of compulsory superannuation contributions will help ensure that most Australian workers can look forward to a more comfortable retirement compared with their peers overseas.

Many young workers struggle to step on the first rung of the property ladder, and superannuation savings represent an opportunity to rectify this. Consideration should be given to a scheme whereby First Home Buyers (FHB) can access a portion of the funds in their superannuation accounts in order to purchase a new home. FHBs would be required to repay the funds to their super account within a certain period, with a 0 per cent tax rate applying to the income used to make the repayments.

This would represent a cost to government in terms of lost revenue. However, there would also be higher GST receipts resulting from more homes being built, as well as increases in income tax and corporate taxes resulting from larger construction sector. The large spin-off effect from construction to the rest of the economy would result in the tax base outside of residential construction also increasing. The additional government revenue generated by increased new home building resulting from the scheme would mitigate this revenue loss and may even eclipse it.

HIA advocates that in the 2017/18 Federal Budget the government should:

- include a commitment to investigate the potential for First Home Buyer's to access their superannuation funds in order to enter the new home market.

Adequate Resourcing Of The ABS

Good decision making relies on good information. Having an accurate read of our operating environment improves the chances of solid business decisions being made and the chances of organisations attaining their highest possible performance. Conversely, inaccurate data misleads individuals and businesses, resulting in poor decisions and uncertainty around operating conditions. In short, effective strategic decision making is built on reliable quantitative and qualitative inputs. This applies to government agencies as well as industry.

Resourcing issues have resulted in a marked deterioration around the breadth and quality of Australian Bureau of Statistics (ABS) data over recent years. These resourcing issues have had serious consequences. First, the number of data series published by the ABS has been scaled back at a steady pace. Second, serious data quality issues continue to affect the ABS in terms of figures on loans to residential property investors and the role of foreign investors in real estate, for example. These errors hurt the performance of businesses around Australia because they lead to decisions being made on erroneous grounds. The costs resulting from bad data place smaller businesses in a particularly vulnerable position.

Examples of data that is not currently available include: the average number of bedrooms in a home; the average number of bathrooms; sufficient detail regarding the typology of the current housing mix (e.g. breakdown of multi-unit housing types); and the average block size.

These data gaps also prevent the Federal government from obtaining an accurate understanding of the housing market, the housing mix and basic housing statistics that can support accurate policy settings.

HIA advocates that funding in the 2017/18 Federal Budget should be allocated towards:-

- Prioritising the adequate resourcing of the ABS, with a view to maximising the accuracy of key macroeconomic data and recommencing the collection of national housing information that underpins an accurate understand of the housing market in Australia.

THE IMPORTANCE OF SKILLED IMMIGRATION TO THE AUSTRALIAN ECONOMY

Migration-led population growth is central to Australia's long-term economic prosperity. Over the past decade, net overseas migration to Australia has been high by historic standards, having averaged over 217,000 per year since 2006. Although peaking at over 315,000 during 2008, net overseas migration has fallen back to about 175,000 to 185,000 annually over the past two years.

Inward migration provides a number of key benefits to the Australian economy:

- More consumers are provided for the producers and providers of goods and services;
- A larger population allows for the achievement of scale economies in the provision of infrastructure and other large capital projects, as well as in public services like health and education;
- Migrants to Australia tend to be younger and relatively skilled, meaning that economy-wide participation and employment rates are increased and productivity is enhanced;
- Targeted correctly, migration allows for specific shortages in the labour market to be addressed, often without additional training or education costs being incurred by the public purse;
- Inward migration strengthens the links between Australia and migrants' 'home' countries in terms of investment, trade, Research & Development, tourism, education and entrepreneurship.

The role of migration to Australia will become even more important over the long-term. The 2015 Intergenerational Report highlighted the challenges posed by the ageing of Australia's population over the long term, with the proportion of the population aged 65 years and older projected to more than double between now and 2055. At the same time, the proportion of the population in the economically productive age group (15 to 64 years) will fall. Currently, there are 4.5 persons in this age group for every person aged 65 years or older. By 2055, this ratio is projected to fall to 2.7 even if net overseas migration were to average some 215,000 annually.

With net inward migration volumes now below this threshold, the risk is that the old-age dependency ratio could become less favourable than envisaged by the Intergenerational Report. Higher dependency ratios place greater pressure on government finances through higher expenditures on healthcare and transfer payments, which must be sourced through higher borrowing and/or by a heavier taxation burden on those still in employment. Ensuring a sufficient volume of inward migration is vital in assisting to mitigate these challenges.

There are several estimates of the value of overseas migration to the Australian economy. The Productivity Commission (2016)[5] found that current rates of migration would increase GDP per person by around 7 per cent out to 2060 and also lead to greater labour force participation; and higher government revenues compared with the 'zero migration' counterfactual. Modelling conducted by Independent Economics [6] had similar findings, including an increased labour force participation rate; and increase in after-tax real wages for low skilled workers; and a boost to per capita GDP.

The vital role of migration in determining future living standards means that the Australian government should adopt an evidence-based approach to migration policy aimed at supporting Australia's long-term prosperity, skills needs and sectoral labour shortages.

[5] *Migrant Intake into Australia*, Productivity Commission Inquiry Report No 77, April 2016
[6] *Australia's Comparative Advantage: economic scenarios*, Independent Economics, May 2015

As immigration also represents a crucial source of skilled residential construction labour, it is important that current labour market conditions do not lead to blanket restrictions on immigration, which exacerbate labour shortages in pockets of the economy such as residential construction.

With regard to the residential building industry, it is important that the Skilled Occupation List (SOL) remain appropriately broad in the area of construction trades to reflect the fact that the industry is facing labour shortages, unlike some other parts of the economy.

HIA advocates that the 2017/18 Federal Budget include provision to:

- Retain or increase the acceptance of skilled residential construction labour as part of the Skilled Occupation List to ensure an ongoing supply of appropriately qualified and experience trade skills for the housing sector.

Resources For Training And Skills

The record levels of new home building during 2016 shone a light on the capacity constraints in the residential building industry. Unsurprisingly, skills shortages have emerged which resulted in unfavourable cost developments and delays in work being completed. The situation with respect to bricklayers is particularly acute. [7]

Over the long term, the annual requirement for new home building is over 185,000 homes per year. In the past three decades, this level of activity has been surpassed on only a handful of occasions and only once prior to 2014/15. As Australia's population increases, the need for a larger pipeline of new home building will also grow. The labour-intensive nature of the industry means that we must adopt a long term approach to ensuring the adequate provision of skilled labour. Policy around training, workforce development and apprenticeships must be tailored to ensure sufficient new entrants into trade training from school level through to mature age entrants.

The unique skills set required by the housing industry means that federal support for training and upskilling is crucial in order for the capacity of the industry to match future requirements.

To attract new entrants to the construction workforce, it is important that a sound understanding of what a building apprenticeship involves is available, in particular for school leavers. Work experience and 'trade taster' programmes offer potential entrants to the industry a short term way to gain this understanding. Government support for career advice and employer matching services being provided by industry associations can also make an important contribution towards meeting this objective, and ultimately reduce non-completion rates.

The challenging budgetary situation faced by government should not allow worthy skills development schemes from being impeded. Funding for skills development in residential construction must remain a government priority in the 2017/18 budget, given the vital role of housing in driving long term progress in the economy.

HIA advocates that training funding in the 2017/18 Federal Budget should be allocated towards:-

- Mentoring of building apprentices throughout their apprenticeship tenure;

- Supporting apprentice hosts (employers) to ensure a viable pool of placements in residential building;

- Training and upskilling grants for individuals, in addition to employers, as new entrants and upskilling are required beyond the employer co-contribution model currently available.

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[7] HIA *Trades Report*, September 2016 quarter

BETTER FUNDING AND DELIVERY OF HOUSING INFRASTRUCTURE

In addition to taxation, the current design for infrastructure funding at state and local government level has very detrimental effects on housing affordability, land prices and new home building activity.

The delivery of new housing requires a large collection of support infrastructure, including access roads, sewerage systems, water pipes, electricity lines, telecommunications links and community facilities. The eventual residents are the predominant beneficiaries of most of this new infrastructure. However, in the case of social and community infrastructure, there is a 'public good' element which provides a much wider benefit to society. For these portions of housing infrastructure, therefore, there is a strong case for the costs to be met by government through general rate revenue and borrowings as appropriate.

Currently, the essential infrastructure for new housing is paid for upfront by residential developers. However, for non-essential infrastructure the costs are being passed on to developers, builders and ultimately new home buyers. This results in very detrimental effects on the affordability of both new and existing homes. Funding costs for private developers are much higher than those of government entities and this means that infrastructure is not currently being delivered at lowest possible cost. For example, detailed analysis of the Brisbane market by Bryant (2015) found that each $10,000 in upfront developer contributions caused the final sales price of a dwelling to rise by about $40,000.[8]

Additionally, many infrastructure charges are set by local government, often with little transparency around how the charges are calculated and a lack of clarity from local government in terms of what they deliver in return for the charges. The current infrastructure charging structure can result in 'gold-plating' and incentives for local authorities to insist on unnecessarily elaborate amenities and community facilities. The current system also restricts competitive outcomes in the delivery of non-essential infrastructure, by placing too much power in the hands of the relevant government authority without oversight on the items being funded. This too results in unnecessarily costly housing infrastructure.

By increasing the focus on residential infrastructure as part of the federal government's infrastructure agenda, some of the unfavourable effects of the current non-essential infrastructure delivery model could be mitigated. This would support improved housing affordability and increase the likelihood of Australia meeting its new housing supply requirements over the long term.

This is a role that could be taken up by the National Housing Unit, proposed to be established within Treasury.

Where infrastructure is essential but that infrastructure benefits a larger proportion of the local community, direct levies should not be permitted. Rather, a broad-based financing infrastructure policy, through the use of publically-backed bonds for example, would lower the financing cost compared with the current system. Raising capital in this way would also improve the incentives for the relevant monies to be spent in a way consistent with value for money and for a level of infrastructure provision that is adequate yet not excessive.

The infrastructure bond model would have the added benefit of contributing to financial product innovation in Australia. This would increase the set of options available to investors in superannuation, and provide a wider set of options for the Australian investor generally. The development of deep and sophisticated financial markets is an important institutional requisite for continued economic growth.

HIA advocates that arrangements in the 2017/18 Federal Budget should include:-

- a Commonwealth guarantee to back state and local government infrastructure investment supporting large-scale residential development, including underwriting innovative and alternate funding mechanisms; and

[8] *Developer Charges and Housing Affordability in Brisbane, Australia*, Bryant, L., 2015 QUT.

- Funding to develop a legal mechanism to facilitate access to superannuation funds to support housing financing.

Ensure The Efficiency Of Funding For Housing

Increasing Australia's home ownership rate to levels in line with historical norms would lead to reduced demand for Commonwealth housing assistance, over both the short and long term. Doing so will require government at all levels to address the constraints on housing supply.

The Commonwealth government has budgeted approximately $3.57 billion in 2016/17 for its housing programmes, including the National Rental Affordability Scheme (NRAS) and Commonwealth Rent Assistance (CRA). In the constrained financial environment that Australia faces, it is important that the value for money outcomes from both schemes are maximised.

These rising public housing costs are symptomatic of a housing market facing a number of barriers constraining the responsiveness of housing supply to a steady increase in underlying demand. The resultant shortage in housing stock places upward pressure on dwelling prices and consequently on the rental market.

Without addressing these constraints on new home building, the demand for Commonwealth (as well as state and social) housing assistance is poised to grow exponentially. The long-term ageing of Australia's population and the growing cohort of those with inadequate retirement provision are set to increase the demands on publicly-funded housing assistance programmes in the absence of reform.

These constraints range from excessive taxation and charges, planning and approval delays, to the availability of land for residential development. Clearly, many of these obstacles fall within the responsibilities of the state/territory and local governments. However, the Commonwealth can play a leading role. By tying Commonwealth funding for public/social housing programs to related performance targets, particularly targets with both strategic and practical housing delivery benchmarks, state and territory governments would have access to new housing supply performance incentives. Recognising the importance of several housing programs to support disadvantaged households, the performance targets should be proportionate, pro-rata and outcomes specific.

Importantly, the funding benchmarks should target new housing supply and establish agreed outcomes for new house numbers, type, size, location, and facilities for households with particular needs, including provision for ageing in place.

The national housing unit proposed for funding in the 2017/18 budget could provide the vehicle to manage these outcomes.

Australia-wide service + support

HIA represents the residential building industry nationally and helps members locally through its regional offices across Australia.

hia.com.au

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