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Helen Owens
Presiding Commissioner
Cost Recovery Inquiry
Productivity Commission
LB2 Collins St East
Melbourne VIC 8003

Dear Helen

Thank you for the opportunity to offer comments on the draft report of the Commission's Cost Recovery Inquiry. As Australia's peak building industry association, HIA has a keen interest in cost recovery issues. The housing industry is one of Australia's most heavily regulated industries, and consequently cost recovery impacts heavily on housing activity.

HIA endorses the Productivity Commission's finding that cost recovery revenues have grown dramatically but that this growth has largely occurred in a policy vacuum. From HIA's national perspective, cost recovery across all three levels of Government has been far more dramatic at the State and Local level than at the Commonwealth level, but this growth has certainly proceeded against a dearth of analysis.

While the Commission's jurisdiction is to make recommendations to the Commonwealth Government, the draft report is a welcome analysis of cost recovery. The draft guidelines provide an excellent framework for assessing cost recovery, and HIA suggest that the guidelines are largely applicable to State and Local Government.

Australia's housing industry provides a startling example of the rampant growth of cost recovery initiatives that have been introduced without the benefit of considering their broader economic implications. Widespread regulation of housing, particularly at the State and Local level, provides a number of lucrative opportunities for Governments to more than simply recover their costs. HIA has long been concerned at the growing tendency of the application of development fees and planning charges, which are being inappropriately used to cross-subsidise the provision of fundamental community infrastructure.

While HIA recognises that it is beyond the inquiry's terms of reference, HIA propose that the Commission's workshopping of the guidelines should also include some State and Local authorities. At the very least, this broader perspective will be useful in refining the guidelines and the involvement of other levels of Government will help to ensure the guidelines are widely applicable.

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HIA suggests that the Commission consider recommending in their final report that the Commission's cost recovery guidelines be introduced as part of National Competition Policy. This incorporation would provide a national mechanism for the implementation and monitoring of these guidelines. Such a national mechanism has the potential to provide ongoing national efficiency gains similar to those already achieved through competition policy. The application of competition policy principles to Government's own operations is also likely to be popular with businesses, and may partially redress some of the current backlash against the application of competition policy.

While HIA endorses all of the Commission's draft recommendations; two recommendations resonate particularly powerfully, recommendations 6.1 and 6.2, which respectively find that:

- 6.1** Cost recovery arrangements, which are not justified on grounds of economic efficiency, should not be undertaken merely to raise revenue for government activities.
- 6.2** As a general principle, cost recovery arrangements should apply to specific activities, not to the agency which provides them.

HIA welcomes the Commission's recognition of these important principles. HIA will be lobbying State and Local Governments to recognise these principles.

Finally, the Commission may be interested in work that HIA is undertaking into constructing a red tape index. The intention is to benchmark the regulatory impact on the cost of a standard house between the different state and territory jurisdictions. While cost recovery is only part of the regulatory impact on housing, the impost of cost recovery policies continues to grow. HIA would be delighted to brief the Commission on progress to date in constructing this index. However, given that the Commission's final report is due on 16 August of this year, HIA's work may not be sufficiently advanced to have delivered relevant findings.

The Commission's draft report, and the guidelines in particular, represent a significant step forward in developing a nationally consistent system of analysing cost recovery issues which is efficient, transparent and rigorous. HIA congratulates the Commission on their contribution and looks forward to receiving a copy of the final report and the final guidelines.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

[Original signed]

Lia Morris
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