



Government of South Australia

RESPONSE TO THE PRODUCTIVITY
COMMISSION'S DISCUSSION DRAFT
REPORT ON FIRST HOME OWNERSHIP

February 2004

Introduction

The South Australian Government has previously supplied the Productivity Commission with a detailed initial submission in relation to the Inquiry into First Home Ownership.

This second submission does not intend to repeat at length the issues highlighted in the earlier submission. Rather it is intended to provide a brief South Australian Government response to some of the key issues arising from the Productivity Commission's Discussion Draft report released on 18 December 2003.

Housing Affordability and Home Ownership

The Discussion Draft provides a detailed analysis of recent trends in house prices, affordability and the issues facing first home buyers.

Much of the analysis focuses on recent cyclical trends rather than the medium to longer term structural trends in home ownership and broader housing outcomes. The Discussion Draft only provides a very brief discussion of trends in home ownership, which suggests that it has remained stable or declined slightly in recent years. The South Australian Government's initial submission, however, suggested that there is evidence of a medium term decline in home ownership rates for those in younger age groups (25-44) and among those in the bottom-two income quintiles. To some extent, these trends may reflect compositional factors such as declining household size and lifestyle choices, as well as other factors which differentiate the current first home buyer cohort from their predecessors (such as Higher Education Contribution Scheme debts). The Productivity Commission should seek to explore in much more detail the medium to longer term trends in home ownership amongst segments of the population, the drivers of these trends and the policy considerations which arise.

A second, and related, issue is whether the distribution of income and wealth is a factor impacting on home ownership opportunities or indeed broader housing outcomes. While over the longer term aggregate economic and incomes growth will be important drivers of housing demand, the Commission has noted (page 48) that changes in the distribution of income are also important. Ignoring cyclical trends, the medium to longer term affordability of housing will on average reflect capacity to pay, but such capacity will be distributed unevenly. Moreover, with an ageing population, arguably the distribution of wealth will also play an important role.

Taxation

State Taxes

Notwithstanding the Commission's view that stamp duty has not been a significant contributor to the recent escalation in house prices, the Discussion Draft recommends that the planned 2005 review of aspects of Commonwealth-State financial relations be extended to consider the removal of stamp duties on residential property conveyances.

The rationale for this proposition is that stamp duties act as an impediment to the "reallocation and adaptation" of the housing stock. It is further argued that this can "heighten price pressures within metropolitan areas over time". Notwithstanding this

the Commission states that the removal of stamp duties “could not be expected to have a large effect on housing affordability”. It appears that the Commission believes that the abolition of stamp duty on housing is a priority because of the welfare benefits which would ensue from replacing a distortionary transactions based tax with broader and more efficient taxes, as distinct from a belief that such a reform would deliver direct housing affordability benefits to first home buyers.

If the Inquiry is designed to prompt a broader and more fundamental review of the efficiency of State taxation regimes (and by implication Commonwealth-State financial relations) there are two main issues to consider. The first is the relative prioritisation of State taxes which would desirably be abolished. From this perspective it is unclear that stamp duty on residential property conveyances would be the highest priority State tax for abolition. The Productivity Commission Discussion Draft (page 77) refers to the Real Estate Institute of Australia submission which quotes Access Economics estimates of the significant economic welfare gains which would accrue as a result of the abolition of stamp duty on residential conveyances. However the study prepared by Access Economics (“The Economic Impact of Reducing State Taxes on Property, prepared for The Real Estate Institute of Australia, February 2000) suggests that the gains to economic welfare from reducing stamp duty on residential conveyances ranks lower than seven other State and local government taxes. The largest welfare gains would accrue from reducing stamp duty on non-residential conveyances, which is one of the taxes to be reviewed by 2005 by Commonwealth and State and Territory Governments.

The South Australian Government is not convinced of the priority which the Productivity Commission has attached to the abolition of stamp duty on residential property conveyances. Nonetheless if the Productivity Commission desires to broaden the scope of the current Inquiry into recommendations about the efficiency of the indirect tax system in Australia then it must provide some evidence as to the priority which should be attached to abolishing or reducing stamp duties on residential conveyances relative to other State taxes.

The second issue of relevance to any reform of State and Territory taxation regimes is revenue replacement. The taxes currently scheduled for review in 2005, and their estimated revenue yield in South Australia are set out below. The revenue yield from stamp duty on residential conveyances is also shown. Including debits tax, the annual revenue loss to South Australia from the taxes which are being reviewed is estimated to amount to \$350 million in 2003-04 and \$320 million in 2004-05. The lower estimate for 2004-05 allows for some softening in property market conditions in that year. The inclusion of stamp duty on residential property conveyances would add a further estimated revenue loss of \$330 million in 2003-04 and \$280 million in 2004-05.

Taxes for review in 2005 and their estimated yield	2003-04	2004-05
	\$m	\$m
Debits tax (a)	59.6	60.1
Stamp duties proposed for review		
Non-residential conveyances	146.6	120.2
Non-quotable marketable securities	2.4	2.5
Leases	2.3	2.4
Mortgages	61.1	56.2
Rental	14.3	14.8
Cheques	3.2	3.2
Other minor stamp duties	0.9	1.0
Total	290.4	260.4
Residential conveyances	329.5	279.6

(a) Note that the loss of revenue associated with the abolition of debits tax is taken into account in the calculation of guaranteed minimum funding arrangements under national tax reform (ie, revenue gains from GST revenue are measured relative to a guaranteed minimum that includes compensation for the loss of debits tax).

Under the transitional arrangements contained in the Intergovernmental Agreement on Reform of Commonwealth-State Financial Relations (IGA) the States and Territories have received transitional “budget balancing assistance” from the Commonwealth to ensure that the reforms left them no worse off than they would have been under the pre-GST funding arrangements. South Australia is currently expected to cease requiring budget balancing assistance in 2003-04. Projected gains from GST revenues are provided below.

	GST revenue in excess of GMA
	\$m
2003-04	27.1
2004-05	84.2
2005-06	75.2
2006-07	145.5
2007-08	223.4

In considering whether they can afford to abolish any State tax, State governments need to take into account all forms of State revenues (including Commonwealth specific purpose funding and National Competition Payments) as well as expenditure pressures such as those evident from the ageing of the population.

Commonwealth taxes

Unlike stamp duties, the Productivity Commission has concluded that various aspects of the Commonwealth taxation regime such as negative gearing rules, high marginal income tax rates and the changes to capital gains tax for individuals have “magnified the attractiveness of investing in residential property during the recent upswing in house prices”. However the Commission argues that these issues are not specific to housing and need to be assessed in a broader context. It is unfortunate that the Commission’s recommendations regarding stamp duty on residential property conveyances were not also considered in “a broader context” as discussed above,

particularly given that the Commission itself concludes that stamp duties have not played a significant role in the recent escalation in house prices whereas recent Commonwealth taxation changes have had some impact in this regard. The South Australian Government would hope that the Final Report will provide a more balanced perspective as to the relative importance of reforms to State versus Commonwealth taxation arrangements.¹

Land Supply and Planning

Supply of Affordable Housing

The South Australian Government believes supply side measures will help to build long term affordability and recommends the following principles be adopted to develop supply side initiatives:

- Innovation in design, construction (techniques and materials) and planning should be encouraged;
- Planning and approval processes must be efficient to avoid adding unnecessary costs; and
- The scale and nature of development required lends itself to collaboration between Government, community and the private sector.

The Commission should examine alternative mechanisms adopted in other countries to promote the supply of affordable housing and assess their appropriateness in the Australian context.

As part of the Commission's discussion on imposing urban growth boundaries (pp 98-101), it should be made clear that Adelaide's metropolitan urban boundary was only adopted in May 2003. Given long lead times in converting greenfield land into construction ready lots, this would have had little bearing on the current availability of developable land in Adelaide, and therefore any perceived shortage by developers. In fact, the South Australian Government reiterates that there is ample land available for future housing construction in the Adelaide Statistical Division in the short to medium term.

The Government notes there are signs of increased development applications for residential allotments in near Adelaide country towns although there is no scarcity of land or allotments within the growth boundary. In the future this activity may have the effect of placing wider and more dispersed demands for both economic and social infrastructure than if development took place on the urban fringe of Adelaide.

The Discussion Draft places considerable emphasis (pp101 to 114) on improving the efficiency of the statutory and administrative planning processes and on long lead times in relation to converting greenfield land into "construction-ready" lots.

The South Australian Government is in the process of initiating improvements to the South Australian planning and development system in order to increase the priority on strategic planning, infrastructure planning and development policy formulation as

¹ See "Econocrats ignore the elephant in the living room" by Ross Gittins, Sydney Morning Herald 22 December 2003

well as improving the development assessment procedures (pp 40-42 of the SA Government's first submission).

The increased priority by State and Local Government on strategic planning and infrastructure planning incorporates the provision of a wide range of housing options throughout different parts of urban areas and the timely provision of infrastructure. The proposed Sustainable Development Bill, which will facilitate these improvements will increase this strategic planning and monitoring role. The draft Bill will also place greater requirements on the need for zoning policies to be relevant and up to date in order to provide certainty to the community and applicants. The Government is keen to ensure that such policies enable wide housing choices in locations throughout residential areas while reinforcing the stated desired future character for neighbourhoods.

Currently information is collected and collated by the Government in an effort to keep the industry informed of the current state of development activity and thus facilitate efficiency within the industry. A variety of data is collected and regularly provided to the public domain. The Government also periodically monitors land supply and adequacy of infrastructure to meet demand through the Metropolitan Development Program. As approximately 50% of dwelling commencements occur in broad-acre subdivision (pp 28 of the first submission), the development industry has a reliable and accurate data base upon which to make judgements about current levels of subdivision activity and the rate of absorption of new allotments.

While prudent and experienced developers utilise this information and prepare well in advance of anticipated demand, (whereby sufficient time is allowed during the development application for any negotiations with local interest groups and the approving authority), the development industry as a whole could more rapidly respond to changing demand if more developers adopted similar forward planning strategies.

The Commission's Discussion Draft focuses on improving planning processes, but fails to address whether the land development industry could adopt more efficient practices to take into account long lead times thus enabling it to be more responsive to changes in allotment demand.

The Commission sought (pp101) governments' views on an audit of Australian, State and local government property to ascertain whether land may be surplus and could be made available for residential development. Budget pressure on State agencies in South Australia has for several years provided incentive for agencies to identify and dispose of surplus land. The State has in place a centralised system that assembles surplus land and undertakes, prior to disposal, a strategic assessment in regard to future use.

Infrastructure Charging

The South Australian Government reiterates that a balance has to be struck between efficient use of government resources and facilitating an adequate supply of developed allotments. It is unrealistic to program and supply major infrastructure simply because a developer selects a specific location to produce allotments—

particularly when there is fluctuating housing demand and the ability of the developer to defer development approval for construction for an extended length of time.

If developers wish to undertake what may be regarded as premature developments beyond the limits of a contiguous urban area, then they should be prepared to meet the full cost of meeting both economic and social infrastructure. In practical terms, if developers had to meet the full infrastructure costs of their premature development, cost pressures may determine whether the project is viable, as the resultant housing cost consequence may influence the location decisions of buyers (pp116 of Discussion Draft). This concurs with the SA Government view that enforcing the user-pays principle sends the correct price signals to the market (pp 38 of the first submission).

Nevertheless, the South Australian Government continues to subsidise fringe development of infrastructure and the portion of total development costs comprising of taxes, charges and developer contributions is significantly lower in comparison to other States.

With respect to 'social infrastructure', the Government notes the Commission's view that it is neither equitable nor efficient for developer/home buyers to contribute upfront for social infrastructure that provides broadly-based benefits to the community as a whole. However, where such infrastructure provides private benefits and there is scope for 'exclusion' (such as a swimming pool or community centre), direct user charges are likely to provide a more efficient means of recovering costs.

Given that infrastructure needs have considerable financial pressures on Government and where the loading of such costs onto new developments puts further strain on fringe house/land affordability, this highlights the importance of the urban containment boundary and efficient urban regeneration. The Government reiterates that any debate on fringe expansion must extend to the cost of providing services beyond the containment boundary that are currently not being met by the developer.

The Discussion Draft does not address the issue of infrastructure charges in relation to redevelopment and brownfields developments (ref pp38-40 first submission identifying physical infrastructure issues for redevelopment). It should not necessarily be presumed that existing urban infrastructure is under-utilised, at least to the extent that it is able to absorb extensive urban consolidation and major redevelopment.

As with new infrastructure cost recovery, there is currently no statutory mechanism for cost recovery in South Australia for the cost of augmenting existing infrastructure. The Government notes the Commission's suggestion of differential rate charging and discounted developer contributions (pp 126 of the Draft Discussion) and encourages the Commission to expand on their views as to what might be the most efficient cost sharing/recovery mechanism.

Direct Assistance Measures

The South Australian Government supports the Productivity Commission's conclusion that the First Home Owners Scheme should be targeted through some form of means testing, as indicated in our initial submission.

Moreover, the South Australian Government also argued in its initial submission that the Productivity Commission should not restrict its focus in the Inquiry solely to home ownership issues but should also seek to consider broader housing affordability issues including rental tenures. In this context South Australian Government supports the Productivity Commission's perspective that direct assistance measures should also be guided by the social and distributional benefits arising from affordable rental housing. In its Final Report the Productivity Commission should consider in more detail the potential for Government housing support arrangements to be re-directed to maximise community welfare in terms of overall housing outcomes, not just home ownership outcomes.

Aboriginal Home Ownership

Aboriginal people remain a disadvantaged group in relation to home purchase. They have very low rates of home ownership (32% compared to 70%²). This situation warrants particular attention by the Commission.

² ATSIIC submission to the PC Inquiry into First Home Ownership