



**Brisbane City Council Submission to the
Productivity Commission Inquiry
into First Home Ownership**

October 2003

Introduction

Although the Commonwealth and State Government have the legislative responsibilities for addressing the issue of housing, there is increasing pressure on local governments to complement State and Commonwealth responses. Local governments are also dealing with the consequences of government initiatives (or lack thereof), particularly when they are not meeting all needs. Homelessness is one of the consequences of failed housing policies and is an issue that local governments across Australia are responding to.

Brisbane City Council plays a significant role in affordable housing. Council was a partner with the State Government in forming and funding the Brisbane Housing Company. Council has also developed strategies on affordable housing and homelessness and is involved in a number of other affordable housing initiatives.

We are well aware that the issue of housing affordability is extremely important to the Australian community and that there are many individuals and family groups in the community under housing stress as a result of high mortgage or rental payments.

It also needs to be stressed that local government is a key stakeholder in the current debate over housing affordability. Local governments play an important role in planning, regulation and approval in the process of building or renovating a home.

For these reasons, it would be remiss of the largest local government in Australia not to prepare a submission to the Productivity Commission's Inquiry. This is particularly pertinent because of the public criticism that has been directed towards local government and suggestions that it is adding unnecessarily to the costs of housing.

The first part of this submission addresses the issue of rental affordability which is an issue that is often neglected in the housing affordability debate. There is a close relationship between affordability of purchasing and renting because they exist in the same market with the same costs.

The rental market is really an integral part of the total housing market. It is strongly influenced by investment and the Commonwealth Government's taxation policy on 'negative gearing'. The rental market includes a significant proportion of the community who presently cannot access home ownership and a proportion who may never be able to afford their own home or have any desire to.

Brisbane City Council's submission relates closely to point (f) of the Terms of Reference, which states:

f. The operation of the total housing market, with specific reference to the availability of a range of public and private housing types, the demand for housing, and the efficiency of use of the existing residential stock.

The second part of Brisbane City Council's submission relates to the misplaced criticism of local government and assertions that it is adding unnecessarily to the cost of first home ownership.

Local government incurs many costs in providing services to developers and builders. It is not unreasonable for local government charges to better reflect the true costs incurred.

It also needs to be remembered that Local Government has responsibility to balance planning, environmental, economic and social issues. Such responsibilities reflect the expectations of other spheres of government as well as the general community. It also demonstrates that calls for simple solutions, such as opening up more greenfield sites, are misplaced and unrealistic.

On behalf of the Brisbane City Council, I would like to thank the Productivity Commission for the opportunity to lodge a submission and would ask the Commission to carefully consider this local government perspective.

Cr Tim Quinn
LORD MAYOR

Section 1: Affordability

Home Ownership

The Productivity Commission's *Issues Paper* (September 2003) highlights many of the issues impacting on home ownership. It is obvious that home ownership will be well addressed by the Commission and individuals and organisations preparing submissions for this inquiry. Council will also attempt to address some of the issues related to home ownership and some of the related local government responsibilities.

However, Council is often called upon to help those who are not even in a position to aspire to home ownership and where rental affordability is one of the main problems. This, to some extent, will be a focus of this submission.

Defining Home Affordability

The term 'affordable housing' will be used many times in this submission. The definition of affordable housing, as used by both the Council and the Queensland Department of Housing is:

Affordable housing is housing that is appropriate to the needs of low-income households in terms of design, location and access to services and facilities: and where rent paid by households in the lowest 40% of income units does not exceed 30% of gross household income after any applicable Commonwealth Rent Assistance is deducted.

The above definition is quite broad and could easily be broken down to those who are on very low incomes, often with multiple social/disadvantage issues, those on low incomes and the working poor. In addressing the issue of home ownership, the Commission will also need to address the consequences for people in these lower categories.

Home ownership assistance can help the working poor, although not generally those in the lower categories. Any assistance needs to be well targeted to avoid measures simply subsidising the well-off or inflating the overall cost of housing.

Caravans or mobile homes are a possible cheaper ownership choice for some. Others make a trade-off between cost and location. However, this adds other costs such as transport and lack of services. Therefore, it is important to consider planning issues to ensure well-located affordable housing.

Inner-city Gentrification and Appropriateness of Housing in the Outer Ring

The problem of affordable housing is particularly acute in inner city areas and this is certainly true for Brisbane.

The loss of affordable housing in the inner city, or gentrification as it is often referred to, has seen many of those on low incomes being forced out of the area, or alternatively, onto the streets adding to the increasing homeless population. Caravan park and boarding house closures, rising rents and decreasing provision of public housing are all adding to the problem.

The table below provides an indication of the loss of affordable rental housing from inner-city Brisbane. Although there has been an overall gain in the outer ring of the city, this has mainly been dwellings with three to four bedrooms, which are often inappropriate for those displaced from other areas. In addition, support services, transport and social networks are also lacking in many of these areas. Much of the gain has also been in the higher price bracket.

Loss/Gain of Affordable Housing in the Private Rental Market (1991 - 2001)		
	Very Low Income	Low Income
Inner City	Loss of <1,200	Loss of ≈ 300
Middle Ring	Loss of 1500	Loss of <500
Outer Ring	Gain ≈ 500	Gain <2,700

Source: ABS Custom Data set, compiled from 2001 and 1996 Census collections. Excludes dwellings where number of bedrooms was not stated on Census return, and where residents are boarding.

Social Inclusion

The loss of affordable housing in the inner city has resulted in the social exclusion of sections of the community. If the only alternatives are homelessness or moving to the outer ring, the community is in danger of creating pockets of disadvantage and isolating marginalised members of the community. This leads to undesirable social outcomes creating additional issues in the community and consequently greater criticism and pressure on local government for responses.

A map titled 'Households earning less than \$300', is attached to demonstrate the number of households with little prospect of owning their own home (see Attachment 1). In fact, many of these would have difficulty finding affordable rental housing.

A second map is attached detailing areas where households earn less than \$700 per week (see Attachment 2). The Henderson Poverty Line for a family of four is \$553 per week. A 2002- 2003 Roy Morgan survey found that the actual amount a family of four spends is \$693 per week in total (Roy Morgan Research Finding No 3645). Given this information, those households earning less than \$700 per week would be finding it increasingly difficult to aspire to home ownership.

The Homelessness Factor

Approximately 350 people in the inner city sleep out or are in crisis accommodation each night in Brisbane (Source: *Where Did You Sleep Last Night*, Brisbane Homelessness Taskforce 2000). Many more are in insecure or inadequate accommodation. A further census is to be undertaken in November 2003 to determine the current number of homeless people, which is expected to have increased since the previous count.

Homelessness levels in the Brisbane LGA are 49 per 10,000 people, an unacceptably high number. As you travel further north in Queensland, this rate of homelessness progressively worsens.

Although homelessness is a complex issue, with many social causes, one of these causes relates to failed housing policies. Homelessness is an issue that local governments across Australia are responding to, particularly in terms of use of public spaces by homeless people.

Although the Productivity Commission's Inquiry does not focus on homelessness, the fact that such large numbers of people are homeless indicates that finding affordable housing is a problem for some and that there is housing stress and unmet housing needs within the community.

Public Housing

Access to public housing in Queensland is extremely limited. The waiting list for public housing is now well over 31,000. At this level, many people do not even bother adding their names to the list.

Brisbane's local newspaper, *The Courier Mail*, (29 September 2003) commented on this with the following:

Queensland's public housing waiting list has blown out to nearly 31,000 people as low income earners struggle to afford rising rents sparked by the state's property boom..... More than 8500 people applied to the State Government for public housing in the past six months, taking the total to 30,845. This is 2590 more than were on the list last November when the Government declared public housing was at "crisis point".

Although public housing is a responsibility of the State Government, the above information is another example of the pressure of unmet housing needs within the Queensland community. There is now a net loss of public housing in Queensland each year.

The Effects of Tax Policy and Investment Trends

As stated by Queensland Shelter:

Negative gearing has become a stimulant for speculative investment in booming property markets based on capital appreciation rather than return on investment. (Shelter News, August 2003)

Inner city gentrification has been boosted by investors seeking capital gain through the purchase of inner-city apartments as rental properties. Although this is financially rewarding for investors, the added demand only serves to push prices higher.

In turn, these rising prices prohibit many from entering the housing market, as well as putting pressure on older, low-cost premises in the inner city to close and sell up for the high capital returns.

For instance, Brisbane has been steadily losing boarding house rooms for the last 15 years – between March 2001 and March 2002 we lost them at the rate of over 40 registered rooms per month (Council registration data.)

There is a question that arises from the focus that investors have on capital gains rather than on obtaining a long-term cash flow from their housing investment. Does negative gearing slow down the rate of rent increases? The answer to this question needs to be taken into consideration in forming recommendations on Commonwealth Taxation Policy.

Nevertheless, better-targeted measures that encourage investment at the affordable end of the market need to be developed. Brisbane for instance, has developed an Affordable Housing Incentives Package to encourage the building of new boarding houses and supported accommodation. There is a need to examine how Commonwealth and State Government taxation incentives could be used in a similar way.

For instance, changes to Commonwealth tax policy that provides incentives for institutional investors to invest in affordable housing, are long overdue.

The effectiveness of the Commonwealth Government's Rent Assistance Scheme also needs to be investigated. Does the assistance lead to an increase in rents and if so, what affect does this have for purchase prices for first home owners?

The other issue that needs to be looked at is the amount of revenue the Commonwealth government is reaping through GST in the booming building and construction industry. What proportion of this revenue is being used for expenditure on public housing? It would seem appropriate and equitable that if industry and government are gaining a windfall from the housing sector that a reasonable amount of the GST collected is poured back to provide public housing and other housing assistance for those who are not benefiting from the boom.

Section 2: Local Government Responsibilities

Overall Responsibilities

Calls for councils and other level of government to release more 'greenfield' sites for housing to help reduce the cost of home ownership are flawed in many respects. Basically, it is just not that simple.

The Integrated Planning Act (IPA) requires local government to prepare and review its planning scheme every six years. A local government's scheme must:

- Coordinate and integrate the core matters dealt with by the planning scheme, including land use and development, infrastructure and valuable features
- Identify the desired environmental outcomes for the scheme area and
- Include matters that facilitate their achievement.

Brisbane City Council, for instance, carries out a wide range of roles and responsibilities. Some of these are enshrined in legislation. Council's planning schemes try to meet several needs, including:

- Development of good planning practices
- Economic development and availability of local employment
- Access to educational facilities
- Water and sewerage services
- Kerbing and drainage
- Availability of public transport services
- Community facilities planning
- Protecting areas of significant nature conservation/heritage value and the ecological processes on which they rely
- Protection of good quality agricultural land
- Road systems and potential traffic congestion
- Balancing the appropriateness of higher density development in existing areas.

Loss of Rural Land

IPA requires local government to plan for sustainability, that is, development of sustainable communities balanced with environmental protection.

The Queensland Department of Natural Resources and Mines has calculated that 10% of Good Quality Agricultural Land (GQAL) in South East Queensland (SEQ) had been alienated by subdivision activity by 1995. Between 1995 and 2001, a further 3,352 hectares of GQAL were alienated, an increase of 9.2%. (Source: SEQ Performance Monitoring Report 2001)

Data from the same report shows a 36% decline in the stock of suitable and available broadhectare land between 1992 and 2000, from 55,389 hectares to 35,579 hectares, as the available land is taken up to accommodate population growth (figures were not available for five rural councils). This is in a region that had just 15.4% of its area protected as National Parks, Conservation Parks and State Forests.

Opening up large tracts of greenfield sites for new housing would only jeopardise more GQAL, as well as urban green space for amenity and habitat.

Planning - Higher Density vs Urban Sprawl

A recent study into land availability within Brisbane (Broadhectare Study for Brisbane, Department of Local Government and Planning 2003) found that Brisbane has only enough residential land for another 30,000 dwellings. Based on current levels of development, it estimated that "Brisbane city will have exhausted residential land supply around the year 2012 to accommodate expected population growth options involving the identification of additional greenfield sites and promoting higher densities in appropriate locations will need to be identified." However, this will need to be carefully planned.

In an SEQ survey conducted for the SEQ 2021 resource unit which is coordinating planning for the next 20 years, respondents were asked to indicate their level of agreement with the following statement: 'Urban sprawl is negatively affecting the character of South East Queensland'.

The majority of the adult population (52.5%) agreed or strongly agreed with the statement. (Source: *SEQ2021 Survey - Summary Report for South East Queensland and Tweed Shire - Prepared for Department of Local Government and Planning*).

This is a good indicator that the community does not want the type of development that urban sprawl brings. However, this particular support needs to be balanced with another survey finding which indicated that there was a strong feeling against higher density housing. This indicates that more community consultation, education and discussion is required to raise awareness of the various issues involved and the trade-offs that may be needed.

Links to Transport, Jobs and Services

Strong population growth has been occurring in the SEQ region for the past 20 years. More than one thousand new people are currently coming into SEQ each week. About half of the growth is occurring through interstate migration.

In 1996 the SEQ region had a population of 2.2 million people. This region includes 18 Local Governments, ranging in size from Brisbane City, with 820,000 people, to Kilcoy Shire, with 3200 people. By the year 2011, it is expected there will be more than 3 million people living in the region (source: www.seq2021.qld.gov.au).

Continuing urban sprawl with this level of growth will make any sustainable transport solutions difficult. As the population spreads further out from key corridors, transport and other services will become more expensive to deliver.

In fact, in many cases, infrastructure costs for these greenfield sites will add significantly more to the cost of housing. In comparison, consolidating new housing in established areas, where schools, transport and other services already exist and infrastructure such as roads, sewerage, water and power are already in place, reduces the contribution that developers must make to cover infrastructure costs (see Attachment 3).

In Noosa Shire Council for instance, falling availability of land has led to the effective introduction of a population cap for the area.

Environmental Responsibilities

Approximately 36% of mainland Brisbane has been identified as land with significant biodiversity values. Over 8% of these lands sustain a high level of threat due to their inclusion in a City Plan Area Classification which foresees urban development, for example, emerging community, low density residential, future industry, general industry and so on. This would be exacerbated were Rural and Environmental Protection Areas to be targeted for greenfield development with Rural land at 7.1% of the city and Environmental Protection areas at 7.8% of the city.

Opening up more greenfield sites puts pressure on the environment. Again, it would appear that the community is not in favour of this course of action. In the SEQ values survey, an overwhelming 94.7% of the adult population agreed with the statement, 'I value the natural environment in my area'.

As well as their legislative responsibilities in relation to the environment, local government has to respect these community values.

A recent survey of Brisbane's community (Colmer Brunton, 2003) found that 12% of residents consider the preservation of the natural environment including bushland, trees, and forests to be an important issue for the city. They ranked this issue third in importance after air quality at 28% and water pollution at 15%.

Like many other local governments, Brisbane introduced a Bushland Preservation Levy some years ago. This is paid by all ratepayers and allows Council to purchase environmentally significant tracts of land for future preservation.

A survey of 300 residents was conducted in March 2003. 87% of respondents agreed that Council has an important role in protecting bushland areas. 74% of respondents were supportive of the Bushland Preservation Levy.

Although Brisbane will release and develop some greenfield land at Rochedale in the near future, this will be carefully planned and the community's values, referred to above, will be taken into account.

Affordability is not just a function of house and land price. It also reflects the disposable income of house buyers, diversity of housing choice and the cost of accessibility. There are also innovative housing concepts that are not only cheaper and better to live in, but are more environmentally friendly and cheaper to own. This is as a result of lower heating and cooling costs, as well as resource efficiency. Incentives for this type of sustainable development should be explored further, to better accommodate population growth by increasing economic and resource efficiency.

Urban Renewal

Urban renewal is an alternative to urban sprawl and greenfield development. Although urban renewal has been successful in the Fortitude Valley and surrounding suburban areas of Brisbane in providing higher density and centrally located housing for the city, it has been able to provide little affordable housing.

While it has clearly demonstrated that there is an alternative to greenfield development which has led to keen interest from both developers and potential residents, there is still a need to make such housing developments affordable for first home owners and private and public rental.

Social Responsibilities

Although housing is not a primary local government responsibility, local government is often left to deal with the consequences of unmet housing needs. Homelessness is one such example that has already been mentioned in this submission. Housing stress is another consequence of reduced funding for public housing by the State and Commonwealth. Many councils are now employing staff to assist with housing issues and develop strategies to deal with them.

Brisbane, for instance, is investing \$10 million over 4 years in partnership with the State Government, who are contributing \$50 million, into the Brisbane Housing Company as an alternative solution for providing affordable housing. Grants have also been made available to help boarding houses and supported accommodation comply with fire safety legislation and remain open. Other incentives for boarding houses and caravan parks are about to be implemented. Brisbane is also working on a number of responses to homelessness.

Economic Development

The major comment from an economic development viewpoint relates to the impact which house pricing has on residential location decisions and from this the impact on utilisation of urban infrastructure.

Residents of outlying local authority areas may be failing to pay for the costs that they impose on infrastructure providers in inner city local authority areas. Roads and public transport infrastructure are particularly affected.

Whilst infrastructure contributions towards roads may be sought from developers by the outlying local authority, this will not cover the cost of arterial road infrastructure and peak hour congestion imposed on the inner local authorities.

In many ways, the price of outlying land may be too cheap, particularly in respect of the costs which users put on to transport infrastructure outside their local authority areas.

On the other hand, a single lump sum contribution during the land development phase does little to modify the behaviour of commuters.

Perhaps some component of the infrastructure charge in respect of the trunk and arterial road system could be eliminated from the impost on the land developer, and instead, road usage fees such as a cordon toll or congestion tax could be introduced. The funds raised this way could be directly linked to improving public transport, creating cycling and walking ways to local employment opportunities for example. The effect would be to cause people to live closer to public transport nodes and substitute public transport trips, telecommuting and other options for private motor vehicle trips.

Urban Policy

Australia lacks a comprehensive urban policy to govern the funding and development of its cities and towns. This is despite the increasingly important role that cities and towns now play in Australia's economy. In the absence of such a policy, capital cities bear a disproportionate burden of population growth at the expense of regional and rural Australia.

An urban policy would also be very important in tackling housing affordability across the nation. A consistent and planned national approach to the problems of housing affordability should help deliver a level playing field for housing developers and potential first home owners.

Section 3: Local Government Costs

The Cost-Shifting Inquiry

The Commonwealth Government has already established a Cost Shifting Inquiry to investigate the shifting of an increasing number of responsibilities to local government without the necessary funding resources to properly deal with these responsibilities.

The fact that this inquiry was established at all, demonstrates the financial impact that that this is having on local government. Suggestions that local government should implement wholesale reductions to its fees and charges to help reduce the costs of housing would put even greater strain on its resources.

The Real Costs

Preliminary research suggests that infrastructure charges applied to development by Brisbane City Council equate to between 3% - 12% of total development costs with 3% relating to CBD unit development and 12% relating to housing in greenfield locations or the urban fringe. Clearly infrastructure charges represent a relatively small component of total project costs.

These findings are documented in the attached PowerPoint slides (See Attachment 3 - It should be noted that costs documented are estimates only).

One of the core matters to be dealt with under the Integrated Planning Act 1997 (IPA) is the "supplying of infrastructure in a coordinated, efficient and orderly way, including encouraging urban development in areas where adequate infrastructure exists or can be provided efficiently".

IPA seeks to achieve this goal by:

- Emphasising transparency in the infrastructure planning and costing process
- Improving economic efficiency in infrastructure provision and equity in charging through the adoption of user pays principles

IPA requires that Local Authorities have an Infrastructure Charging regime in place by March 2005

IPA (S5.1.6) clearly states that infrastructure charges "must not be more than the proportion of the cost of the item that reasonably can be apportioned to the premises for which the charge is fixed, taking into account the likely share of the usage of the item". Charges may reflect real cost but cannot be used to generate profit.

The Department of Local Government and Planning is currently preparing guidelines for the implementation of IPA Infrastructure Charging provisions. These guidelines will identify acceptable approaches towards charge calculation and cost apportionment.

At present, Brisbane City Council recovers only a percentage of infrastructure costs. If it were to recover the true costs of providing infrastructure associated with housing developments, the costs of such housing would increase even further.

Local government incurs many costs in providing services to developers and builders. Government policies such as National Competition Policy clearly demonstrate the Government's expectations that government agency charges should be based on recovering the real costs of providing services. Therefore, it should not be seen as unreasonable for local government charges to reflect costs incurred. Cost recovery charging also results in ratepayers not being left to subsidise developers.

Section 3: Conclusions:

To summarise, below are some of the main points raised in Brisbane City Council's submission:

1. In developing its recommendations, the Commission should ensure that it considers the outcomes for people in low-income categories and their ability to afford housing rents.
2. The current housing stress experienced by many in our communities and the unmet housing needs must be addressed by the Commission's recommendations.
3. The Commission's recommendations should include as part of their aim the need for inclusive communities.
4. There is a need to re-assess taxation policies that encourage speculative investment for capital gains and redirect these policies to target better social outcomes.
5. The effects of the Commonwealth Government's Rent Assistance Scheme on rent increases, availability of affordable housing and other related issues also need to be assessed.

6. The Commission's recommendations must be cognisant of sustainability outcomes including good planning practices as well as positive outcomes environmentally, economically and socially.
7. A national urban policy, focussing on the funding and development of cities and towns, should be developed with Commonwealth, State and Local Government involvement.
8. Local Government must have the ability to recoup costs for the services and infrastructure it provides or alternatively, be compensated for those costs.

Infrastructure Charges as a Development Policy Instrument

Attachment 3



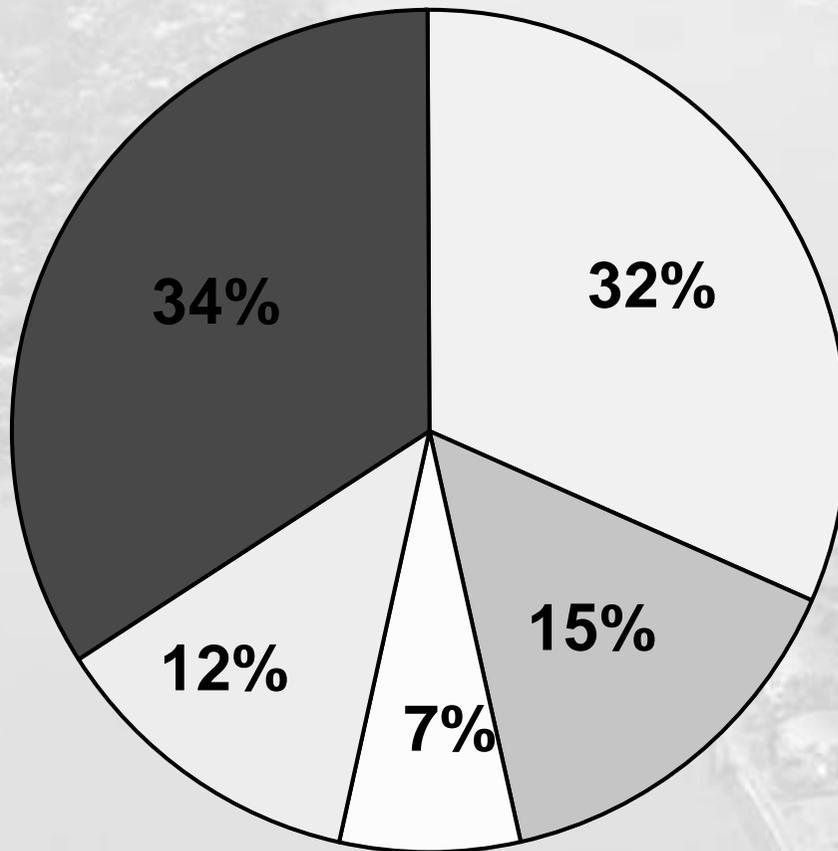
Development Costs - Various Elements Per Capita

	Greenfield (Land Only)	Suburban Townhouse	Inner Apartment	CBD Apartments
Land	\$ 20,000	42,857	37,037	\$ 35,294
Construction	\$ 9,259	\$ 44,000	\$ 68,611	\$ 79,412
Consultancies	\$ 926	\$ 3,300	\$ 3,705	\$ 4,288
Financing	\$ 500	\$ 2,850	\$ 7,100	\$ 7,100
Marketing	\$ 400	\$ 500	\$ 6,600	\$ 6,600
Agents Fees	\$ 2,000	\$ 4,500	\$ 5,600	\$ 5,600
Statutory Fees	\$ 500	\$ 2,000	\$ 900	\$ 900
Project Development Costs	\$ 4,326	\$ 13,150	\$ 23,905	\$ 24,488
ICP Charge	\$ 7,841	\$ 6,207	\$ 8,512	\$ 6,128
ICP Charge as % of output price	12%	5%	5%	3%
Total Development Cost	\$ 41,426	\$ 106,214	\$ 138,065	\$ 145,322
Output Price per capita (- GST)	\$ 63,000	\$ 135,000	\$ 175,000	\$ 185,294
Developer Profit (\$)	\$ 21,574	\$ 28,786	\$ 36,935	\$ 39,972
Developer Profit (%)	34%	21%	21%	22%

DEVELOPMENT COSTS - GREENFIELDS



Greenfield (Land Only)



□ Land

■ Construction

□ Project Development Costs

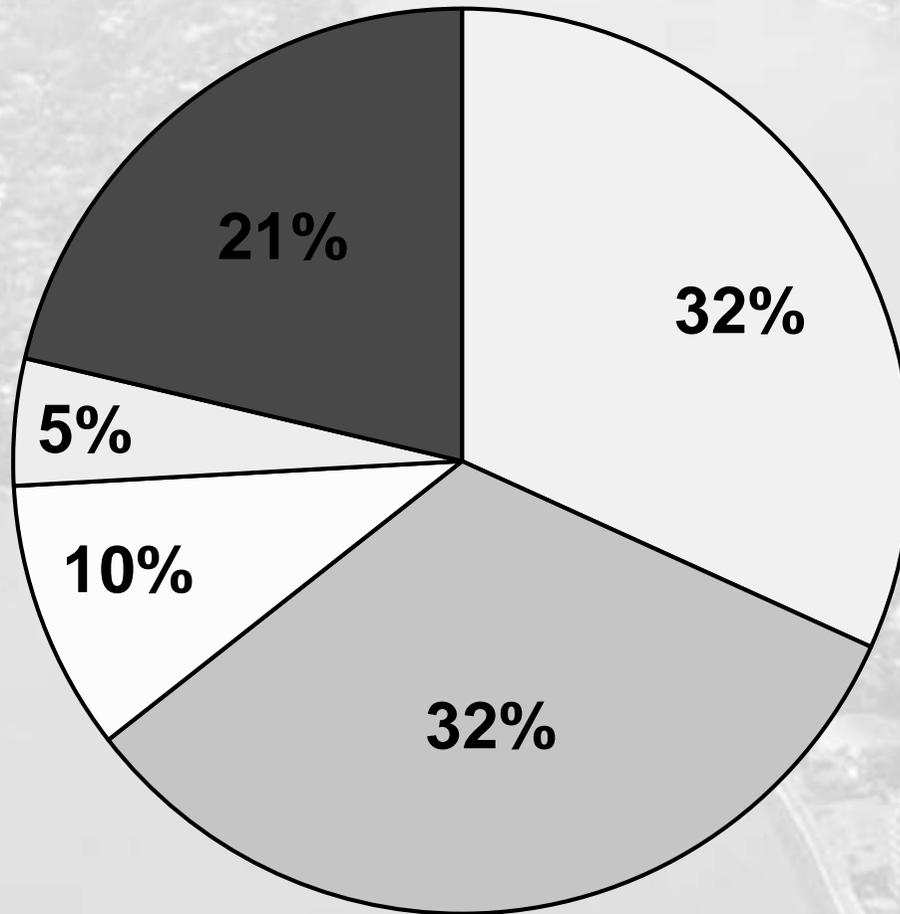
□ ICP Charge

■ Developer Profit (\$)

DEVELOPMENT COSTS - SUBURBAN UNITS



Suburban Townhouse



□ Land

■ Construction

□ Project Development Costs

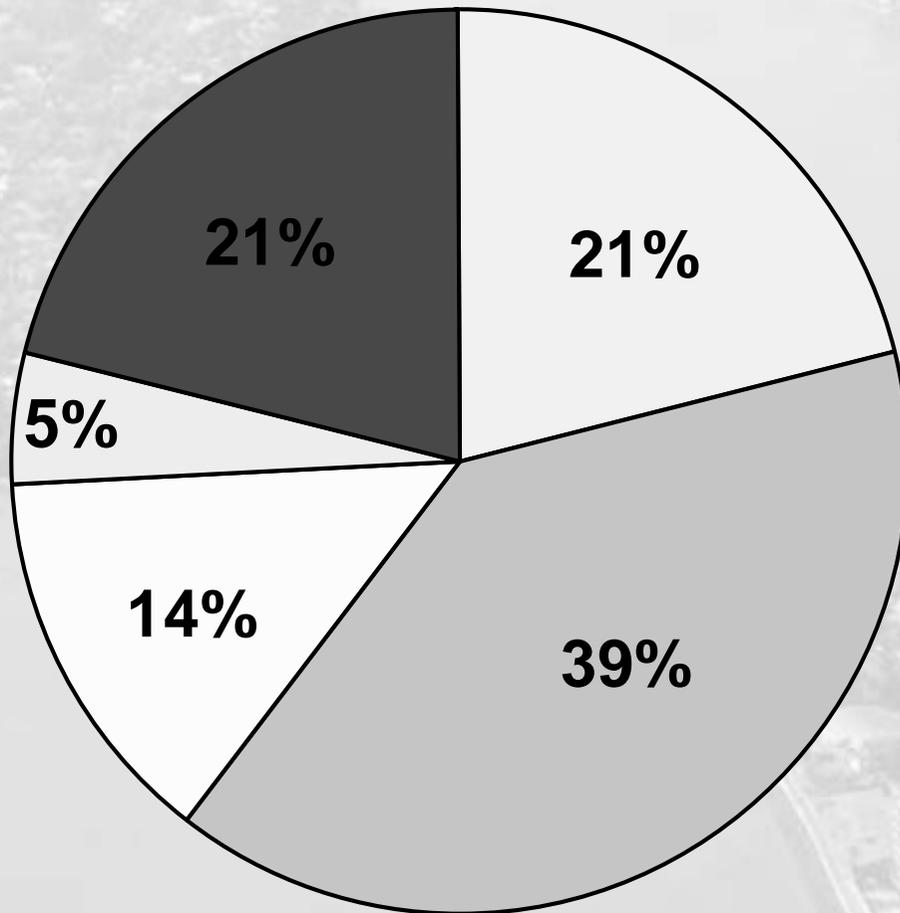
□ ICP Charge

■ Developer Profit (\$)

DEVELOPMENT COSTS- INNER SUBURB UNIT



Inner Apartment



□ Land

■ Construction

□ Project Development Costs

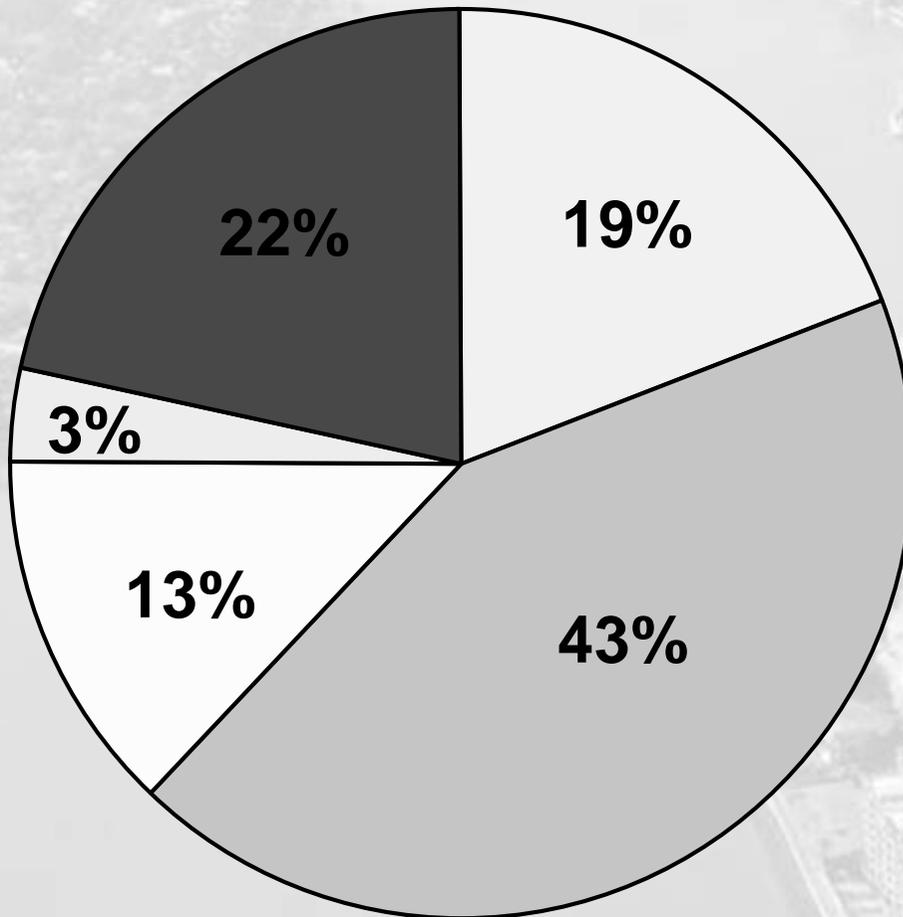
□ ICP Charge

■ Developer Profit (\$)

DEVELOPMENT COSTS - CBD UNITS



CBD Apartments



□ Land

■ Construction

□ Project Development Costs

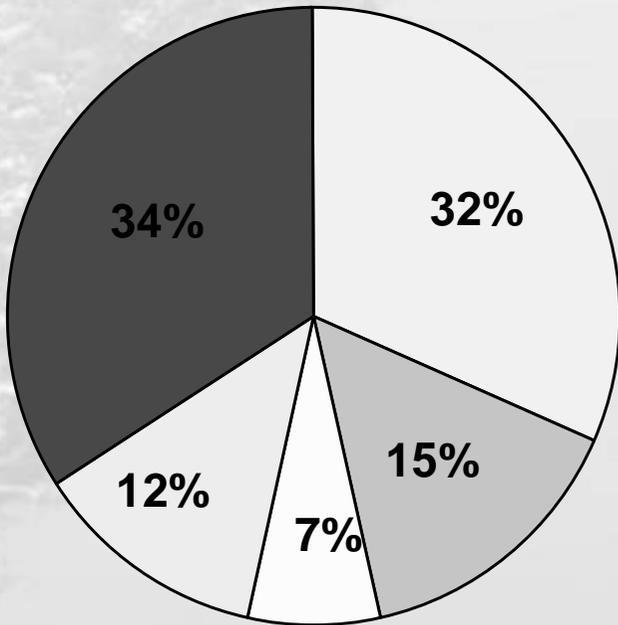
□ ICP Charge

■ Developer Profit (\$)

DEVELOPMENT COSTS

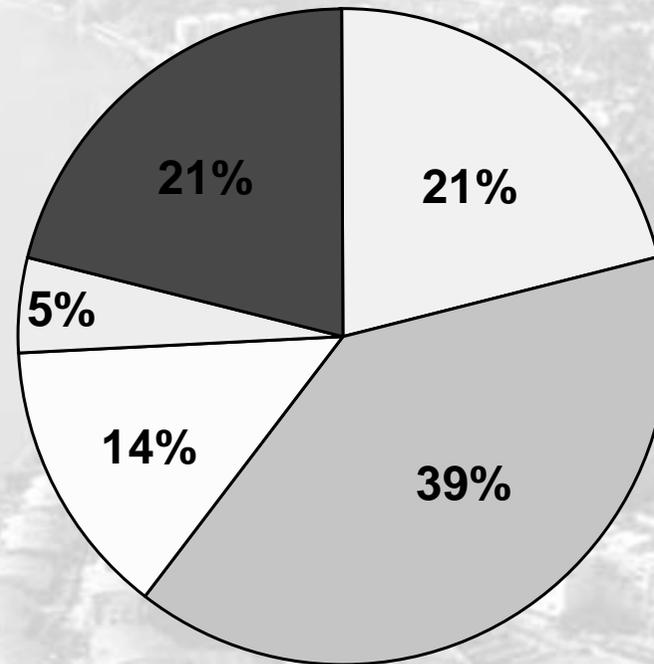


Greenfield (Land Only)



- Land
- Project Development Costs
- Developer Profit (\$)

Inner Apartment



- Construction
- ICP Charge