PROPERTY COUNCIL of Australia

Australia's property industry

Creating for Generations

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23 September 2020

Mr Peter Achterstraat AM
Productivity Commissioner
NSW Treasury
GPO Box 5469
SYDNEY NSW 2001

Dear Mr Achterstraat,

Productivity Commission Green Paper – Continuing the productivity conversation

The Property Council welcomes the opportunity to provide feedback and comment on the draft recommendations contained in the Green Paper. We recognise the timely and important nature of this conversation and commend the Government for bringing it forward.

As Australia's peak representative of the property and construction industry, the Property Council's members include investors, owners, managers, and developers of property across all asset classes.

Increasing productivity, economic growth and the overall wellbeing of NSW residents is a shared objective of all our members. We recognise that New South Wales must be more competitive, attractive, and resilient in order to meet the productivity challenges that were prevalent prior to COVID, and which are even more acute now, given the COVID-19 induced recession.

As such, we are pleased to provide feedback and recommendations for how to achieve increased productivity, in the key areas of planning and contributions reform, taxation, and congestion. The property industry is committed to delivering high quality sustainable places where we work, live, and play and will be boosted by regulatory settings that support and enable development and innovation. Reducing opacity, delivering certainty and simplicity will result in better outcomes for all stakeholders.

Given the time lag in developing projects, and the need to actively bring forward private sector investment to create jobs and aid our economic recovery, reform in these areas has never been so urgent.

Planning Reform

It should be clear from the outset that the Property Council unequivocally endorses the Productivity Commission's findings on the critical role planning systems have in creating, or holding back, productivity growth, and we welcome the draft planning reform recommendations in chapter 7 of this Green Paper.

The importance of reforming NSW's planning system has been acknowledged by the NSW Government, and great strides have been taken through the COVID-19 pandemic to cut through backlogs and duplications and delays across the system.

It must be remembered that the planning system issues we have faced over an extensive period of time are significant and must continue to be improved. It is unfortunately well-known as a system that fails to deliver for everyone, whether it is proponents, investors, or the broader community. Put simply, the NSW planning system has historically acted as a handbrake on growth and has had a major impact on productivity.

A stronger focus on an outcomes-based planning system will have an immediate positive impact on productivity and deliver on key policy considerations for the government, including issues of affordability, liveability, and sustainability.

Contributions Reform

We warmly welcome the inclusion of contributions reform in the Green Paper and support the commitment to "deliver a principles-based, transparent, and certain system" as part of the separate review being undertaken by the Productivity Commission (recommendation 7.8) The contributions system has become complex, unclear and uncertain. This adds delay, cost, and risk to every project.

Tax Reform

The Property Council welcomes the timely analysis by the Productivity Commission of the many taxes that are currently being paid across the property industry. We support the conclusion of the Green Paper that transfer (stamp) duty is one of the most egregious and offensive taxes in operation. It is regressive, unstable, and unpopular across the community.

However, it does not follow that a simple swap for a land tax would be a desirable outcome given the significant reliance on stamp duty revenues, and the limits on how much land tax could be borne by households and businesses without giving rise to further adverse outcomes. The theoretical proposition is very different to the lived experience (such as has been seen in the Australian Capital Territory) which has resulted in disproportionate impacts on landlords and business. Now is not the time to be stifling growth nor creating unnecessary costs imposts on business.

We look forward to working with you and your team on these important issues, and should you have any questions in relation to this submission do not hesitate to contact [redacted]

Yours sincerely,

[redacted]

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Submission to the NSW Productivity Commission

Green Paper 'Continuing the Productivity Conversation'

23 September 2020

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1.0 Introduction

The *Green Paper 'Continuing the productivity conversation'* (the **Green Paper**) makes a number of recommendations that would have a significant impact on the property industry if they were to be implemented.

This submission is focused on a number of key areas*,* including:

1. Importance of planning reform in delivering productivity growth.
2. Reform of the infrastructure contributions system.
3. Tax reform and tax settings that support and drive economic growth.
4. Front loading focus on delivering infrastructure and incentive driven solutions to density issues such as congestion

Outside of the four priority areas above, there are various draft recommendations that are relevant to the property industry. In particular, we note that there have been many welcome efficiency enhancing measures that have been brought about because of necessity during the COVID pandemic period, and these should be retained, for example facilitated legal documents being witnessed online via videoconferencing or conducting strata meetings via video conferencing. These are sensible productivity enhancing measures that should be normalised.

We have included a summary of our response to draft recommendations of most relevance to the property industry in the appendix to this submission. Additionally, for convenience we have enclosed a copy of our earlier submission on the discussion paper -*'Kickstarting the Productivity Conversation'.*

1.1 The contribution of the Property Council and our members

The Property Council of Australia champions on behalf of an industry that employs 1.4 million Australians and shapes the future of our communities and cities. Property Council members invest in, design, build and manage places that matter to Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism, and hospitality venues and more.

On behalf of our members, we provide the research and thought leadership to help decision-makers create vibrant communities, great cities, and strong economies. We support smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which underpin the contribution our members make to the economic prosperity and social well-being of Australians.

1.2 Constructive and collaborative

The Property Council recognises the strong leadership of the Treasurer, the Hon Dominic Perrottet, in tasking the Productivity Commission with a broad and bold remit, in essence to rethink how we do business in NSW. We want to work cooperatively and collaboratively to deliver real change that achieves lasting outcomes.

Of note, during recent months, nationally, we have released our 7 Point Plan for national economic recovery and believe there are great synergies between it and the Green Paper. Our 7 Point Plan is attached to this letter. The key points of our plan are:

1. A Housing Construction Economic Kickstart.
2. Catalyst Projects to Accelerate Growth.
3. Resetting the Housing Affordability Equation for Australians.
4. Tax Settings to Drive Productivity.
5. Harnessing Capital to Support Recovery and Investment.
6. A Resilient and Forward-looking Australia; and

7. A ‘Welcome to Australia’ Migration Plan to Provide the Skills, People and Growth our Economy Needs.

This plan, if implemented with the bold agenda which is being considered by the Productivity, will together, make NSW more productive, competitive, attractive, and resilient.

2.0 Recommendations

Below is a summary of the seventeen (17) recommendations the Property Council has provided for the Productivity Commission to consider in addition to those set out in the Green Paper. Each of these recommendations relates to issues raised throughout the body of this submission.

Planning

1. Commit to providing further resourcing to the COVID Reform Plan for 2021/22.
2. Require the Department of Planning, Industry and Environment to implement a response strategy to manage local councils that fail to identify or implement 6 to 10 - year housing targets.
3. Consider additional planning services that can be delivered through the State Government's ePlanning program. Ensure that the Planning Delivery Unit within the Department of Planning, Industry and Environment is provided with adequate resources and powers to undertake its important role.

Contributions

4. Reintroduce a cap on local government contributions for another three years to enable a long-term reform plan to be developed to address the twin problems of uncertainty and cumulative impact that are undermining investment in NSW.
5. Halt the cumulative impact – all new costs must be justified and supported through modelling or a regulatory impact statement. Otherwise, they should fit under the existing regime, and levies for public art or cultural infrastructure must be triaged.
6. Resource the IPART or INSW to oversee the efficient spending of State and local contributions and delivery of infrastructure by government, councils and developer works-in-kind with regular audits and oversight as to how the money is being spent. This could involve testing variations from the original scope and timelines, comparison of cost estimates with final costs, and effectiveness and efficiency of particular delivery mechanisms. Some areas that such an agency might focus on include:
    a. Prioritisation and phasing.
    b. Better understanding of who delivers (what is the extent of WIK?).
    c. Are works programs being delivered on time and on budget? If not, why not? and
    d. Barriers to efficient delivery.
7. Councils should be required to publish all charges on their website, where they apply and what the money is going towards. This could be done on the *Your Council* website or through E-planning (Queensland model).
8. Infrastructure contribution plans must be in place at time of rezoning to ensure there is a plan for required infrastructure and how to fund it. An approved infrastructure funding and delivery plan must be in place at time of rezoning, which includes contributions plans covering both state and local infrastructure. It must include the role of State revenue and local council SRVs and any other funding sources.
9. The IPART must review benchmark charges for infrastructure, which have not been updated since 2014. This must be done by engaging with the development industry who are skilled at efficiently delivering infrastructure.

Tax

10. Government should conduct a thorough analysis to determine under what parameters a broad-based land tax could replace stamp duty revenue and the implications for both the commercial and residential property sector.
11. Government should carefully analyse the impacts the ACT's stamp duty/land tax swap on taxpayers, including commercial property owners
12. The goal of abolishing commercial stamp duty should remain as a top priority for state governments in keeping with the 1999 Commonwealth-State agreement.
13. Before proceeding with transfer duty reform, it is imperative that analysis of the impact of a new land tax on property investment, construction activity and jobs growth be undertaken.
14. Government should consider the timing of when tax reform should be undertaken to be most effective and beneficial
15. A better approach would be to look at comprehensive tax reform canvassing all tax options

Congestion

16. The NSW Government should work with the Board of Treasurers to replace vehicle registration, licence fees, stamp duties on motor vehicles and motor vehicle insurance with a distance-based charging scheme that better reflects the social costs of road use, including wear-and-tear, pollution and congestion.
17. Government front load focus on expediting public transport infrastructure programs and invest in incentive driven initiatives.

3.0 Planning Reform

3.1 Introduction

The Property Council promotes policy solutions that will make housing more accessible right across the market. We also note the impact of the COVID-19 pandemic on the Australian and NSW economies has been severe and the implications for the development industry and residential apartment market are still uncertain. This creates a greater urgency to ensure that housing and planning policy levers are quickly and strategically utilised to ensure the supply of residential housing which is needed to meet the objectives outlined in this Strategy.

The Property Council welcomes the Productivity Commission's examination of the planning system in NSW and we note the substantial improvements that has been made within the Department of Planning, Industry and Environment this year alone, due in part to State Government's the COVID's response. Nevertheless, there is much more that needs to be done.

We unequivocally support the draft recommendations contained in the Green Paper relating to planning.

Furthermore, we welcome the inclusion, on page 246 of the Green Paper, of our view that:

> *"Land can and must change its uses over time, as the city and community needs change over time a logic that the NSW planning system has always been flexible enough in the past to embrace and is the approach of most best-practice planning systems. The consequence of not being flexible is sterilisation and places which get trapped in time and function - then fail to deliver that function in practice while acting to block different futures and suppress new value." - Property Council of Australia submission (December 2019)*

We have long maintained that the New South Wales planning system is broken. Research commissioned by the Property Council confirms it has been the worst planning system in the country. It is characterised by delay, cost, lack of transparency and uncertainty of outcome. It lets down the communities it is meant to serve as well as the industries that need a fair and predictable process. We do however acknowledge the extraordinary efforts made during the COVID-19 pandemic period by the DPIE to fast track projects and cut through delays and processes to ensure economic stimulus measures can be quickly delivered by both the public and private sectors.

3.2 Solutions

Creating a transparent, fast, reliable planning system should be among the highest priorities for the Government, especially as we enter recovery period of the COVID 19 induced recession with the goal to 'build back better'. The property industry wants the same thing as the community from the planning system – a strong strategic planning framework, consultation with the community and an efficient, effective, and economical process that delivers high amenity places.

An independent, certain, and transparent planning system is a building block of better communities, economic growth, and jobs.

We proposed a number of sensible solutions to fix the NSW Planning System in our 'Six Step Plan'[1] released prior to the 2019 NSW State Election. These included solutions such as:

[1] https://advocacy.propertycouncil.com.au/six-step-plan-nsw-election

- Fast track the Western Sydney Planning Partnership model, established under the Western Sydney City Deal, to speed up planning outcomes and if successful, expand the model to other parts of Sydney.
- Introduce best practice code-based assessment for medium density housing (up to 10 storeys) once the strategic plans prepared by the GSC have been embedded in local planning instruments so communities know where and when housing will be delivered.
- Expand the use of Independent Hearing and Assessment Panels across the entire State and ensure they are adequately resourced and have standard procedures; and
- Introduce enforceable key performance indicators and timeframes for State and local government development approval processes; and consider financial incentives for councils that exceed them, to be enforced by the State Agency Referral Agency.

We also support the need for positive strategic initiatives for the state with a whole-of-government and whole-of state housing approach, to align public and private stakeholders, and include Greater Sydney and regional NSW in one framework.

3.3 COVID Reform Plan

We welcomed the announcement by the Premier in July that the State Government was investing $83 million in a new Planning Reform Action Plan that would help speed up the planning system, create jobs and support the State's economic recovery.

The plan provided a series of ambitious targets including: -

1) cutting rezoning decisions by 191 days (33%).
2) cutting decision times for larger regionally important development by 91 days (25%).
3) cutting decision times for State significant development by 20 days (17%).
4) commencing next phase of the ePlanning program.
5) fewer agency concurrence and referral triggers.
6) reforms to complying development provisions to support emerging industries; and
7) boosting the role and resourcing of the Land and Environment Court.

Some of the reforms outlined above have already been implemented and there are other changes requiring further detail to be finalised. We support the implementation of the reform plan and urge the Government to commit to its resourcing and delivery sooner where possible.

3.4 Housing Supply

It is appropriate that the Productivity Commission has identified housing supply as an area for reform. Recommendation 7.1 of the Green Paper rightly requires three actions to be completed by councils. Those actions are:

1) Require councils to analyse housing supply capacity and show that planning controls are consistent with the dwelling needs identified by Greater Sydney's 20-year strategic plans for 5-year, 10-year and 20-year windows.
2) Ensure councils revise their Local Housing Strategies and Local Strategic Planning Statements to reflect the objectives identified in the Greater Sydney strategic plans, where a lack of capacity is identified; and
3) Ensure councils immediately update relevant planning instruments to meet 6-to-10-year housing targets and report housing completions by Local Government Areas every six months.

Much of this work is currently underway with many councils having prepared local housing strategies for exhibition and some having forwarded their strategies to the Department for review and endorsement. Some councils have already commenced preparation of LEP amendments to give effect to their draft housing strategies.

What is missing from the above three actions is how the State Government proposes to respond to a council that has failed to make plans for or deliver an adequate supply of new housing or diverse housing types. Councils have the important task of planning for and delivering housing supply for the next 5 years (6 to 10-year targets) including targets set by the Greater Sydney Commission, and achieving that could be at risk if councils resist completing actions 1 or 2.

We call for the Productivity Commission to make a recommendation indicating possible actions that should be taken by the Department to work with or work in place of councils that fail to strategically plan and deliver on the targets set out for the next 20 years of housing its community needs.

3.5 ePlanning

The benefits of implementing ePlanning across the planning system are becoming increasingly apparent and the COVID-19 pandemic has accelerated its adoption by local councils. The Productivity Commission will be aware of the efficiencies and cost savings that ePlanning has provided since it was introduced and rolled out to a number of councils on a trial basis.

Major changes to the ePlanning program were announced by the Premier in November 2019 and they were widely supported. More detail on the reforms released in March 2020 promised mandatory use of ePlanning services for all 42 councils in Sydney, Hunter, and Illawarra by 1 July 2020. A further 86 councils will be required to use the service before 1 July 2021.

We support greater adoption of ePlanning services as they have been proven to deliver significant improvements to the customer experience. but because they also deliver efficiency for the local council and allow it to allocate more resources to review of projects.

Recommendation 7.6 should go further to expand the use and availability of planning services within the ePlanning environment.

3.6 Planning Delivery Unit

A significant planning reform that has started was the announcement and formation of the Planning Delivery Unit (PDU). This team has the responsibility for progressing priority projects and rezoning proposals that are “stuck” in the system due to unresolved issues.

The benefits the PDU’s operation is claimed to deliver include faster assessment and determination of key and priority projects, improved certainty on planning application outcomes, improved confidence in investment decisions and reduced costs for industry and government with more transparent and certain decision making.

We fully support the role of the PDU in the planning system and its outcome focus. It is important that this unit is appropriately resourced and given the level of authority that it needs to improve the way the planning system functions in respect of important development projects.

4.0 Contributions Reform

4.1 Introduction

The Property Council strongly supports recommendation 7.8 and 8.2, [2] regarding reforming the infrastructure contributions system. In our submission to the Discussion Paper and today, we support the Productivity Commission's focus on reforms to overcome how the planning system holds back the delivery of the homes and jobs in NSW. It is a clearly operating in a suboptimal manner and the accumulation of local and state levies, fees and other charges are acting as a barrier to growth.

Furthermore, the contributions system in NSW has expanded to become very complex and multi-layered across precincts and development types. The pain points vary between greenfield areas being developed for new housing where contributions are reaching more than $100,000 per dwelling and high-density apartments in urban renewal areas with significant costs imposed through planning agreements and satisfactory arrangements clauses. Finding a solution to these must extend beyond imposing another type of levy and involve a rethink of the way infrastructure is planned, funded, and delivered.

While there are inherent problems in the current system and the best outcomes for the State, community and industry are not being achieved, no stone should be left unturned if we are going to improve the system and economically recover.

4.2 Infrastructure Contributions Review

We acknowledge and welcome the fact that, in our submission to the Discussion Paper, we called for the Productivity Commission to examine as a matter of priority the State's infrastructure contributions system. We acknowledge that this review is well underway, and we await the delivery of the review's recommendations to the Minister for Planning and Public Spaces later this year.

For convenience, it is worth reiterating some of the key constructive suggestions we made in earlier submissions. For example, the following table provides a number of the recommendations we suggested where action could be taken over the short, medium, and longer term to address the efficiency of the system, feasibility of investment and improved certainty.

	Efficiency of system	Feasibility of investment	Certainty for all
Short-term	Clearer communications between the State and local government in greenfield areas. Improve the	Cumulative impact is halted – all new costs/charges must be justified and supported through modelling or a	Section 7.11 contribution rates should be capped at a maximum rate and indexed annually (to CPI or similar).

[2] **Draft recommendation 7.8** Progress reforms to the infrastructure contributions system after the Productivity Commissioner's current review, to deliver a principles-based, transparent, and certain system.
Draft recommendation 8.2 Use the Review of Infrastructure Contributions to find ways to deliver a more sustainable system of rates and infrastructure contributions, so that councils can provide the infrastructure and services required to accompany development and growth. Evaluate reforms within three years and if reforms do not provide sufficient funds to deliver services, councils should hold a plebiscite of ratepayers to test support for abolishing the rate peg.

	acquisition of land needed for critical infrastructure.	regulatory impact statement.	
Medium-term	Establish a State Infrastructure Financing Commission to provide growth loans through a Growth Area Bond to act as a financing mechanism allowing councils to borrow funds up front and provide key infrastructure and repay through levies.	Where section 7.11 contribution rates are exorbitantly high, the 'why' must be examined. Are there geographic constraints that warrant a State or region funded solution – funded either through HAF or another source.	Digitise the approach to development contributions for each council
Long-term	Removing the rate peg should be explored, with special provisions in place for apartments and other developments.		A centralised system – such as a State Infrastructure Financing Commission – can centrally collect local contributions and disperse to councils.

4.3 Cap on Contributions

Since 1 July 2020, local council infrastructure contributions have been uncapped, apart from a special temporary arrangement for The Hills and Blacktown Councils. Local councils seeking to levy contributions above $20,000 (or $30,000 for greenfield areas) can do so following a review of their proposed contributions plan by the IPART. Given the significant economic impact of COVID-19, there is concern that uncapped infrastructure contribution rates will jeopardise the recovery of the State's housing sector. As such, the Property Council is seeking the cap on residential contribution rates be extended for a further three years.

4.4 Cumulative impact of levies

Apart from infrastructure contributions levies under section 7.11 and 7.12, there are a number of other levies being applied to development projects, which are having a negative cumulative impact which is poorly understood nor appreciated (these include voluntary planning agreements, Special Infrastructure Contributions, affordable housing contributions and requirements to deliver public art, community infrastructure and public domain improvements) We recommend that these additional levies be included and considered as part of a regulatory impact statement (RIS). Hidden levies such as voluntary planning agreements etc must be included in the total levies figure in the RIS.

Levies for public art and cultural infrastructure should be delayed until the State's economic environment improves.

4.5 Spending of infrastructure contributions

An important issue for the development industry is that the contributions made to local councils and the State Government for infrastructure is being spent in a reasonable timeframe to deliver new roads, stormwater works, parks and community infrastructure. Communities in greenfield areas or in urban renewal precincts, have a reasonable expectation that physical and social infrastructure will be provided for their use and enjoyment as close as possible to the completion of a development as possible. Where contributions remain unspent for long periods of time it is the local community that suffers. We have recommended that the IPART or INSW being resourced to oversee the efficient spending of State and local contributions and delivery of infrastructure by government, councils and developer works-in-kind, with regular audits and oversight as to how the money is being spent.

4.6 Transparency

Infrastructure contribution rates are often unintentionally hidden within council contributions plans, indexation updates and SIC determinations and directions that make it difficult for practitioners and members of the community from understanding the costs involved. We have recommended that councils and, in the case of SIC, the Department, should be required to publish all infrastructure charges on their website or the NSW Planning Portal, where they apply and what the money is going towards.

4.7 Timing

In many cases, the provision of infrastructure requires land to be acquired for works such as roads, parks, stormwater detention basins and buildings for schools and emergency services. A challenge that is faced by councils and planners is making a reasonable estimate of the future value of land that will be needed for infrastructure well before it will be acquired. In many cases, land is identified for urban release years before it is actually rezoned by an environmental planning instrument and before the value is included in a contribution plan. During this time, the value of the land will increase significantly to reflect the new zoning of the land and this new value must be added to the cost of infrastructure delivery.

In response to this, we have recommended that infrastructure contribution plans must be in place at time of rezoning to ensure there is a plan for required infrastructure and how to fund it. The current arrangements for the acquisition of land are not working efficiently and there needs to be reforms implemented to the timing of land rezoning and the acquisition of land needed for infrastructure.

4.8 Benchmarking infrastructure costs

In April 2014, the IPART released a report titled *'Local Infrastructure Benchmark Costs'* following a request from the NSW Government for it to provide advice on benchmark costs and how councils can establish the efficient costs of providing essential local infrastructure. This report provided councils with a standard process for estimating local infrastructure costs for inclusion in a contributions plan. In most cases, the use of benchmarked costs for local infrastructure is reasonable.

We recommend that the IPART review benchmark charges for infrastructure, that have not been updated for more than 6 years. This must be undertaken through a collaborative process involving the development and construction industry who are skilled at efficiently delivering a pipeline of different types of infrastructure projects.

5.0 Tax reform

5.1 Introduction

The Property Council does not support recommendation 8.1 if it means 'replacing stamp duty with a broad-based land tax on unimproved land values' for both the residential and commercial property sectors.

As we noted in our submission to the '*Draft Report of the NSW Review of Federal Financial Relations*' that as Australia sets itself on the path to economic recovery after the shocks of COVID-19, serious consideration should be given to how policy settings can be reset to drive productivity, stimulate investment and catalyse economic growth. A broad-based tax reform agenda should be a part of those considerations.

In that submission we expressed great concern about the proposed phasing out or 'swapping' of transfer (stamp) duty for a broad base land tax. In this Green Paper, Recommendation 8.1[3] proposes a similar action.

We recognise that stamp duty is one of the NSW economy's most inefficient and unpopular taxes. Abolishing it should be a top priority for the NSW Government. But a simple swap for a new land tax needs much more careful consideration. Critically, the recommendation in this Green Paper, much like the recommendations in the *Draft Report of the Review of Federal Financial Relations,* does not adequately address critical threshold issues including how high a new land tax would need to be to offset lost stamp duty revenues and the differing impacts for the residential and commercial property sectors. Without GST or other replacement revenues in the mix, a simple tax swap would result in either a politically unpalatable new land tax on the family home or a disproportionate burden being borne by commercial property owners.

5.2 The Australian Capital Territory (ACT) experience

As we pointed out in our earlier submission to the Discussion Paper, it is worth considering the real-life experience of tax reform in Canberra.

Based on our research and industry's experience in the ACT, a simple switch from stamp duty to land tax presents several critical problems that are likely to be terminal to this reform proposal. It is anticipated that the land tax burden would fall disproportionately on commercial property owners – which has seen commercial rates become nine times higher than residential rates, constraining investment in office stock, mixed use developments and acting as a deterrent for reinvestment and improvements to things like performance and energy efficiency of lower grade commercial stock. Furthermore, the exercise has not been revenue neutral, with stamp duty receipts remaining fairly constant since the commencement of tax reform, and revenue collected from rates tripling.

In 2012, the ACT collected $294 million in stamp duty and $211 million in general rates. In 2019, the budget forecast was for an increase of stamp duty revenues to levels higher than before tax reform – up to $298 million, and general rates up to $599 million.

Property owners in the ACT are now paying the equivalent of stamp duty every single year, with the impacts being felt by both property owners and small to medium sized tenants with

[3] Replace inefficient taxes with more efficient ones. Start by replacing stamp duty with a broad-based land tax on unimproved land values. Coordinate payroll tax administration across states and territories (Recommendation 8.1). http://productivity.nsw.gov.au/sites/default/files/2020-08/Productivity_Commission_Green%20Paper_FINAL.pdf

little capacity to recover costs. The tax reform ‘switch’ has caused financial hardship and bill shock for all. It is not working for anyone.

5.3 Analysis on the impacts for businesses

Higher property taxes and charges will ultimately be borne by:

- Business tenants, to the extent the taxes can be recouped through higher rents, everyone from café owners to hairdressers are impacted, at a time they can least afford it.
- Property owners, which will mean there is less money for capital improvements and future investment opportunities; and
- Over 14.1 million Australians, due to lower returns in their superannuation and other investments in this real estate.

Imposing a material land tax burden on the family home is also unlikely to be politically palatable at the rates required. According to research we commissioned in 2016:

- Replacing stamp duty revenues with a broad-based land tax would require land tax of approximately 0.58% or $2,400 on the median Australian family home (which would be significantly higher in NSW given our land values) - this is in the same ballpark per household as an increase to a 15% GST (estimated to cost about S3,000) and could therefore be expected to have a similar negative political impact.[4]

- Our polling from 2015 showed low community support for land tax on the family home. When asked whether they would support a $500 land tax on the family home if it were to replace stamp duty,28% were in support, while 39% opposed the reform. This is a net negative of 11%. Modelling from Deloitte shows that land tax rates would need to be five times higher than this to fully replace stamp duty.

The different market structures and dynamics for residential and commercial property should be taken into consideration in assessing the drivers and efficiencies relating to a stamp duty land tax switch.

Most discussion of this proposal focuses on the impact for households and residential owners. However, business properties in NSW already pay very high land tax rates. Land taxes have the effect of reducing net income from a commercial property asset, which is the primary investment metric for such assets.

5.4 Property is already a highly taxed sector

The property sector contributed approximately $87.9 billion in combined Australian and state government tax revenues and local government rates, fees, and charges in 2015-16, or 18.2% of total government tax revenue. Property is the only industry that is taxed across all three levels of government and is taxed on acquisition, during ownership and on sale.

A stamp duty/land tax swap ignores the broader reality of the tax burden already imposed on the sector and how this would act as another drag on housing affordability, productivity, and

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[4] 1 The revenue raising potential of a broad-based land tax, Deloitte Access Economics, March 2016 https://cdn2.hubspot.net/hubfs/2095495/_Capital%20Markets/Deloitte%20Report%20-%20The%20revenue%20raising%20potential%20of.pdf

economic growth. Research by ACIL Allen estimated that taxes and charges represent around 26% of the cost of acquiring a new house in Sydney.[5]

A better approach would be to look at comprehensive tax reform canvassing all tax options. Rather than deterring new investment, tax reforms should aim to increase investment levels into the property sector as a way of expediting economic growth and a focus on job creation. For example, analysis by the National Housing and Finance Corporation (NHFC) found that residential construction is the second-largest economic multiplier of 114 Australian industries, and that every $1 million of residential construction output supports nine jobs.[6]

5.5 Timing of a tax switch

Government at both the state and Federal level should pursue tax reforms that seek to stimulate business activity rather than deter investment by introducing more burdensome taxes on businesses, investors, and other property owners. This can be achieved through utilising policy levers and removing tax barriers to encourage projects and job creation where and when it is needed.

The timing of implementing any tax changes must also be carefully considered within the broader context of Australia's current COVID-19 pandemic. Many sectors of the economy, including the property sector, have yet to feel the full impacts of the induced recession, with many predicting the economic cliff, particularly in the building and construction supply pipeline is yet to come. Too little is known about the path to recovery to be undertaking large scale tax changes at this time.

[5] *Modernising Australia's Tax System*, ACIL Allen Consulting, May 2015

[6] *Building Jobs: How residential construction drives the economy*, National Housing Finance and Investment Corporation, June 2020

6.0 Congestion charges

The Property Council does support (Recommendation 6.4) as it relates to a commitment to investigate new ways of easing road congestion, such as reducing problematic driver behaviours but not to charging for congestion.

6.1 Carrots, not sticks

The Property Council does not support recommendation 6.4 which proposes a form of congestion charge. In our earlier submission to the Discussion Paper, it is clear that we recognise the importance of corridor protection, prioritising cycling in higher density areas, and 'busting congestion'.

We believe that the approach in the first instance should be a mix of incentivising behaviour change coupled with long-term strategic infrastructure planning and a future proofed public transport network that is connected, smart, reliable, and affordable.

There are many different ways to incentivise cycling and public transport use but penalising those that need to drive into the CBD through a congestion charge is inequitable, and ineffective. It also has a documented, unintended detrimental effect on social capital.[7]

Areas that encourage cycling and walking are critical to a healthy, growing city. As Future Transport 2056 outlines, lack of access to safe cycling paths is currently a barrier for the 70% of citizens who would like to ride more for short trips and would do so if they felt safer and more confident.

In denser, high development areas the development of bike paths/lanes and walking routes should be prioritised to increase the use of multi-model transport options and reduce car use. Investment in bike paths in denser areas will ease the impact of new development on the community. Options to encourage private investment in public realm should also be considered.

Bike paths/lanes in denser areas will also provide a viable option for travelling to and from train and Metro stations, reducing the reliance on cars and carparking.

In short, protecting corridors and busting congestion is a two-step approach:

1. Provide the necessary public transport and sustainable transport infrastructure; and
2. Incentivise the use of alternatives to the car for trips to and from the CBD

Moreover, the Property Council has a consistent and clear position when it comes to congestion charges, and it should be made clear while we support efforts to reduce congestion, we do not believe a new tax is the way to achieve this outcome.

In our submission to the NSW Government's *Review of Federal Financial Relations Draft Report*, chaired by David Thodey we said that we support in principle nationally compatible fair road user charging scheme for electric vehicles and replacing registration, licence fees, stamp duty on motor vehicles with a distance based charging scheme. We believe this better reflects the social costs of road use, including wear-and-tear, pollution, and congestion. Revenue should be hypothecated to expenditure on roads and other transport infrastructure to ensure that investment is made by the government from the areas in which is collected and consolidates community support for benefits gained through investment and development.

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[7] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5327955/

7.0 Conclusion

The Property Council supports the majority of the recommendations put forward in the Green Paper, and especially the recommendations that relate to planning. As well as the specific areas we have addressed in this submission, we would also like to commend the measures contained within the Green Paper, which will have not only a positive economic as well as social impacts, for example, draft recommendation 3.2[8] which speaks to achieving better gender and age diversity in the trade sector. This is an area that the Property Council has shown immense leadership in and has seen many industry partners forged to help achieve gender and diversity targets. One such example is our industry leading 'Girls in Property' program which connects years 9-10 students with industry professionals and shows them a path to workforce participation in the property sector.

Another very positive recommendation is 4.19[9] which speaks to the importance of Regulatory Impact Statements that are "rigorous and transparent impact assessments". At the Property Council, we support informed consultation and engagement, and regulatory impact statements play a critical part in this equation. And there are many more recommendations like this that we strongly endorse and welcome. Of course, how these recommendations might be implemented is of critical importance.

We do not however support any simplistic transfer duty (stamp) duty for land tax swap, and we do not support a congestion charge for Sydney. We will not pre-empt the outcome of the inquiry into developer contributions.

We commend the Green Paper as an exceptionally well written and important report. We are heartened by the number of draft recommendations that mirror suggestions we made in our submission on the Discussion Paper last year.

The Property Council looks forward to working with the Productivity Commission on this pathway to economic reform.

[8] Recommendation 3.2-Introduce new pathways to trade qualifications aimed at HSC graduates and mature-aged workers. New pathways should allow students to complete the institutional requirements of a qualification before gaining on-the-job experience

[9] Recommendation 4.19-Create a best-practice regulatory policy framework, with Regulatory Stewardship as the cornerstone, that promotes rigorous and transparent impact assessments and improves regulator performance.

Appendix -Response to draft recommendations[10]

Recommendation Number	Recommendation	Support
	Education	
	Vocational Educational and Training	
3.1	By the 2020-21 Budget, develop a medium-term ‘earn or learn’ skills strategy that guides and supports skills transitions for workers displaced by COVID-19.	Yes
3.2	Introduce two new and more flexible pathways to trades qualifications: one for HSC-holders (two years or less) and one for mature-aged workers (18 months or less). • Incentivise registered training organisations to develop more flexible modes of course delivery, including after-hours learning and short intensive periods of full-time study. • Establish a Training and Skills Recognition Centre to implement the new training pathways, starting in the construction sector. • Regulate to allow employment of unqualified &juniors (those below 21 years of age) in a recognised trade vocation outside an apprenticeship, provided they have completed, or are enrolled in the relevant trades’ qualification. • Endorse a marketing campaign to raise the profile and awareness of new trades pathways.	Yes
3.3	Target Smart and Skilled funding more effectively by refining the NSW Skills List. Prioritise funding to courses that demonstrate value to industry or represent skill shortage areas.	Yes
3.4	Extend Smart and Skilled subsidies to targeted short courses and micro-credentials that provide discrete skills employers recognise and value. • Use economic and industry data to identify high value micro-credentials to fund.	Yes

[10] We have focused below on the draft recommendations of most relevance to the property industry:

	• Prioritise courses that have better evidence of employer trust and recognition, high quality assessment, and alignment with the Australian Qualifications Framework (AQF). • Use a risk-management approach to funding, with the capacity to quickly freeze or withdraw funding if problems are identified. Support the development of voluntary systems of trust and recognition for micro credentials, for example alignment to AQF levels or the adoption of 'credit points' standards.	
	Regulatory reform	
4.1	Extend the operation of temporary COVID-19 regulatory changes for 12 months while we evaluate their success. Keep them in place where we see a net public benefit.	Yes
4.2	Retain the temporary adjustments to regulatory and legal formalities, including digital solutions to replace paper-based reporting, physical witnessing, and attestation of documents and various other in-person requirements for compliance. Explore opportunities to similarly update other outdated regulatory requirements	Yes
4.3	Pursue automatic mutual recognition, or if that is not possible, unilaterally recognise occupational licences from other jurisdictions to help overcome skills shortages in New South Wales.	Yes
4.4	Reform mandatory Continuing Professional Development by removing requirements where costs exceed benefits.	Yes
4.13	Have the Independent Pricing Regulatory Tribunal update the NSW Government's competitive neutrality policy and processes.	Yes
4.14	Revise laws to encourage Personal Mobility Device innovation and use.	Yes
4.15	Improve regulatory practices in local government by expanding the scope of the 'Your Council' website. Encourage greater regulatory collaboration between state regulators and local councils.	Yes
4.17	Support the implementation of interoperability in the NSW e-conveyancing market as a matter of urgency.	Yes

4.18	Ease childcare costs by bringing NSW requirements into line with national requirements for additional early childhood teachers.	Yes
4.19	Create a best-practice regulatory policy framework, with Regulatory Stewardship as the cornerstone, that promotes rigorous and transparent impact assessments and improves regulator performance.	Yes
	Energy and water	
5.8	Review NSW's Building Sustainability Index scheme to ensure it meets both environmental and economic objectives.	Yes
5.9	Revisit the NSW Energy Security Target in the context of reliability standards endorsed by the Council of Australian Government (COAG) Energy Council: • If it imposes greater reliability requirements, demonstrate that this is consistent with consumers' willingness to pay. • Otherwise, adopt the COAG Energy Council standards in its place.	Yes
5.10	Commit to a contestable private energy market based on technology-neutral, competitive neutrality principles. Create an NSW-specific emissions intensity scheme to help optimise investment in electricity, having regard to climate change mitigation objectives and the pace of innovation.	Yes
5.11	Evaluate options for rolling out smart meters to all consumers and for time-of-use, cost-reflective electricity pricing.	Yes
5.12	Establish a single NSW Energy Regulator and remove the Independent Pricing and Regulatory Tribunal's responsibility for regular monitoring of the retail electricity market.	Yes
5.13	Review the Strategic Regional Land Use Policy and Strategic Release Framework to ensure they maximise the balance of costs and benefits to industry and the community	Yes
5.14	Improve efficiency and accessibility of administering energy rebates and support programs by incorporating them into the Government Made Easy: Tell Us Once initiative. Review the suite of rebate and assistance measures with a view to consolidating their number and better aligning them to the needs of vulnerable and low-income households.	Yes

	Infrastructure	
6.1	Change planning controls to enable more housing and business activity within reasonable walking distance of transport hubs on underutilised corridors.	Yes
6.2	Require Infrastructure NSW to publish, within one week of an announcement for all Tier 1 and Tier 2 projects: • Gate 1 strategic business case and Gate 2 final business case documents • a simple 'social value for money' rating based on the project Benefit Cost Ratio • a risk report, drawing on historical experience, with probabilities where feasible. To further increase the transparency of spending priorities: • Have Infrastructure NSW publish its five-yearly infrastructure plan (and annual updates), along with underlying analysis, at the time of the Budget. • Provide additional justification in the Budget where investments are prioritised that do not align with the Infrastructure NSW priorities.	Yes
6.3	Ensure that agency project business cases comply with the NSW Government Business Case Guidelines, including planning for monitoring and evaluation at the detailed business case stage. Ensure that post-evaluation costs are included in funding requests.	Yes
6.4	Explore options to reduce driver behaviours that increase road congestion, focusing on trip timing, merging, intersection etiquette and driver distractions. Develop a strategic option (Gate 1) business case for cordon charging in the Sydney Central Business District and at other congestion hot spots.	Yes
6.5	Ask the Independent Pricing and Regulatory Tribunal to review the Opal fare structure to reflect the costs of travel and encourage a more even distribution of demand throughout the day. Simplify and retarget the concession system. Make fares more efficient and reflective of need: • reduce the number of concession classes	Yes

	• increase incentives for off-peak travel • ensure that discounted fares target those who most need them.	
	Planning	
7.1	Require councils to analyse housing supply capacity and show that planning controls are consistent with the dwelling needs identified by Greater Sydney's 20-year strategic plans for 5-year, 10-year and 20-year windows. Where a lack of capacity is identified, ensure councils revise their Local Housing Strategies and Local Strategic Planning Statements to reflect the objectives identified in the Greater Sydney strategic plans. Ensure councils immediately update relevant planning instruments to meet 6-to-10-year housing targets and report housing completions by Local Government Areas every six months. Publish annual 10-year forecasts for State-led/partnered precincts. Monitor housing forecasts and projections on a six-monthly basis. Where housing shortfalls arise, require councils to revise housing strategies and Local Strategic Planning Statements to indicate how the shortfalls will be remedied.	Yes
7.2	Review and revise SEPP 65, aiming to minimise prescriptions so as to ensure maximum flexibility for housing that matches consumer choice while maintaining minimum basic quality. Review the Guide to Traffic Generating Developments by the end of 2021 to ensure it reflects current travel behaviour and the best approach to traffic management. Review parking controls within strategic centres and areas with good public transport accessibility. Reduce car parking requirements within 800 metres of public transport nodes by the end of 2021.	Yes
7.3	Rationalise existing business and industrial zones in the Standard Instrument LEP to reduce the number of zones. Broaden the range of permissible activities to ensure prescriptions are reserved for genuinely incompatible land uses.	Yes

	Expand application of the complying development assessment pathway to the newly consolidated employment zones.	
7.4	Require councils to prepare economic strategies (including commercial centre strategies) with the aim of increasing employment and productivity outcomes when updating Local Environmental Plans.	Yes
7.5	Better manage the retain-and-manage category of industrial and urban services lands in Greater Sydney to optimise employment and productivity outcomes.	Yes
7.6	Continue to implement measures to reduce red tape and complexity in the planning system. Bring NSW approval assessment times into line with other jurisdictions' times by the end of 2023.	Yes
7.7	Develop a consistent approach to measuring benefits to community welfare from the provision of open and green space to help inform government business cases involving development. Develop better options for taking into account green infrastructure and public space in strategic land use planning.	Yes
7.8	Progress reforms to the infrastructure contributions system after the Productivity Commissioner's current review, to deliver a principles-based, transparent, and certain system.	Yes
	Tax Reform	
8.1	Replace inefficient taxes with more efficient ones. Start by replacing transfer duty with a broad-based land tax. Before proceeding, identify how various designs will improve the economy and the State budget, and how adverse impacts on various groups can be minimised. Propose, for consideration by the Board of Treasurers, the establishment of a single interjurisdictional body to coordinate the adoption of a consistent approach to the administration of payroll tax systems in all states and territories.	We support tax reform in principle, but the Green Paper does not adequately address the limitations of a stamp duty land tax swap

8.2	Use the Review of Infrastructure Contributions to find ways to deliver a more sustainable system of rates and infrastructure contributions, so that councils can provide the infrastructure and services required to accompany development and growth. Evaluate reforms within three years and if reforms do not provide sufficient funds to deliver services, councils should hold a plebiscite of ratepayers to test support for abolishing the rate peg.	Yes