

14 September 2020

Peter Achterstraat AM  
NSW Productivity Commissioner  
Martin Place, Sydney  
Via email: ProductivityFeedback@treasury.nsw.gov.au

Dear Mr Achterstraat,

### Continuing the Productivity Conversation Green Paper: SGS Submission

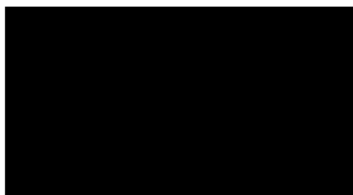
SGS Economics & Planning Pty Ltd (SGS) appreciates the opportunity to make a submission on the NSW Productivity Commission's recently released Green Paper. The Green Paper contains suggestions for productivity-enhancing reforms in consultation with community, industry bodies, representative organisations and not-for-profits.

Our submission is focussed on Sections 6 "Smarter infrastructure will support jobs and communities" and Section 7 "Planning for the housing we want and the jobs we need". These are the sections most aligned to our areas of expertise. The attached submission covers:

- Role of the planning system
- Cost benefit analysis in planning
- Mitigating rent seeking behaviour
- Social housing overlooked as vital economic infrastructure
- The full value of industrial lands
- Flexibility of industrial land use risks eroding value
- Aligning economic contribution with strategic planning
- SGS's views on the Commission's recommendations
- Other recommended reforms, including building in the circular economy

Thank you for the opportunity to make a submission. We would be more than happy to elaborate on any of the points raised in this letter, should the Commission find this useful.

Yours sincerely,



SGS Economics & Planning Pty Ltd  
Offices in Canberra, Hobart, Melbourne and Sydney



## Continuing the Productivity Conversation Green Paper: Submission

This submission reflects on Sections 6 “Smarter infrastructure will support jobs and communities” and Section 7 “Planning for the housing we want and the jobs we need” of the Green Paper. It covers:

- Role of the planning system
- Cost benefit analysis in planning
- Mitigating rent seeking behaviour
- Social housing overlooked as vital economic infrastructure
- The full value of industrial lands
- Flexibility of industrial land use risks eroding value
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### SGS’s experience

SGS Economics and Planning have long been involved in the discussion regarding the role of planning in supporting economic development and growth. For thirty years we have advised Local, State and Commonwealth Government agencies on strategic plan use planning and infrastructure alignment through the lens of urban and regional economic development. Directly informing our recommendations in this letter is SGS’ unparalleled experience advising government on issues relating to productivity, liveability and sustainability. SGS has recently delivered over fifty employment, housing, open space and other studies directly relating to Local Strategic Planning Statement work for local government across NSW. We have also been instrumental in developing the evidence base for the Greater Sydney Commission’s industrial and urban services policy in the Greater Sydney Region Plan. Our work is quoted extensively in the recently released [Commonwealth Productivity Commission’s Productivity Reform Case Study into Victoria’s Commercial Land Use Zoning](#) (July 2020, publicly released on 14 September 2020).

### Role of the planning system

We find the Green Paper’s narrative on planning confusing. The Commission acknowledges the role of planning in overcoming clear market failures. It also appears to understand the need for subtle curation of the elements which make for a productive city, including mixed use precincts supported by excellent infrastructure.

At the same time, the Green Paper portrays NSW’s planning system as ‘failing’. It is seen to be overly prescriptive and restrictive, particularly in respect of housing production in well serviced areas.

With respect, we believe the Commission’s conceptualisation of the economics of planning to be flawed. There are two distinct aspects to the planning system with their own economic rationales and policy challenges.

Firstly, the planning system is about *‘plan making’* - designing a preferred future in urban development. This goes to the market failures cited in the Commission’s report. Without a designed future and the associated spatial and temporal ordering of land uses and development, welfare would be diminished.

Secondly, the planning system is about *‘development control’* in line with the adopted plans for an area. Legally, this involves separation of the rights to own land and the rights to

develop land. The latter are granted entirely at the discretion of the State as codified in statutory plans under the Environmental Planning & Assessment Act. Indeed, through the creation of statutory planning instruments, the State reserves ownership of development rights in the same way as the State reserves access to other income earning resources such as minerals, forests and fisheries.

### Cost benefit analysis in planning

This dual role of the NSW planning system raises a number of productivity issues, some of which are not canvassed in the Green Paper. Plan making should deliver a significant net community benefit compared to a laissez faire base case or the next best alternative plan for an area, city and region. Oddly, while the Green Paper urges the more consistent and transparent application of cost benefit analysis (CBA) to transport and other infrastructure projects in Section 6, it overlooks the need to apply the same tests to statutory plan making.

Many of the misgivings raised by the Commission about the planning system, including the supposed choking off of housing supply in opportunity rich areas and the reluctance on the part of some Councils to allow the transition of industrial precincts to higher order uses, could be addressed comprehensively via a CBA when plans are formulated. If and when they are shown to deliver a significant net community benefit through a duly transparent process of interrogation, regulatory efficiency demands that the plans be properly and consistently enforced, to provide appropriate certainty to all market players.

### Mitigating rent seeking behaviour

As noted, the making of a plan inevitably means the rationing of access to development rights. Some sites will be candidates for higher order uses and others not. The Green Paper provides no economic analysis of the best way of awarding access to development rights.

As we have explained in our submission on the Commission's development contributions review, Governments routinely charge licence fees for access to State reserved economic resources, but not in the area of planning consents. This creates rent seeking behaviours which demonstrably sap productivity, but there is no commentary on this issue at all in the Green Paper. Rent seeking behaviours include the withholding of development sites in search of windfall gains via the planning system.

### Social housing overlooked as vital economic infrastructure

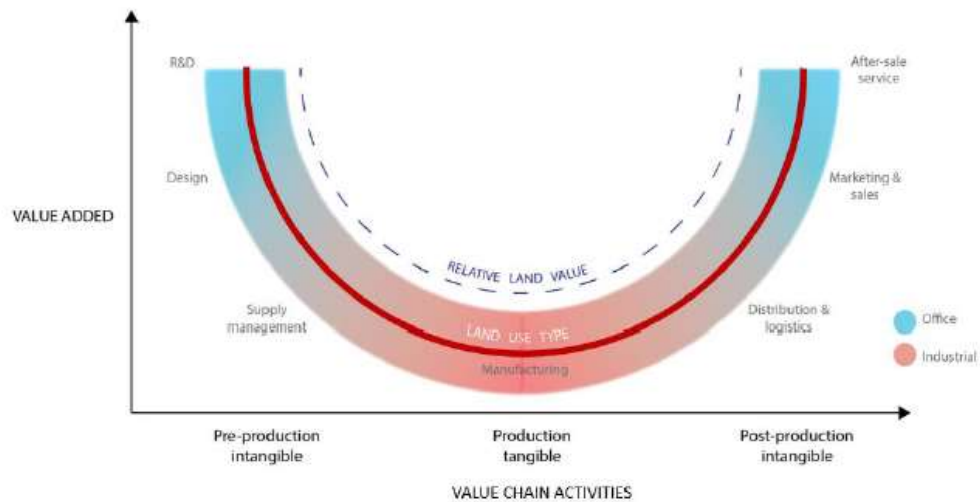
An important gap in the Green Paper relates to social housing. Social housing has been allowed to decline to a very small share of NSW housing supply, confining this form of housing to a residual welfare role. However, there is a considerable literature that social housing is an essential economic infrastructure, which plays a vital role in human capital development and the operation of efficient labour markets across the metropolis. Infrastructure Victoria's 30 year strategy nominates social housing as one of the three top investment priorities for that State. Yet, there is no discussion of this key productivity challenge in the Commission's review of infrastructure issues (Section 6).

### The full value of industrial lands is not clearly understood

The Green Paper talks about the need for industrial and urban services precincts to ensure they are flexible enough to become more productive in their land uses. This position, widely posited by residential property market representatives such as Urban Task Force and the Property Council of Australia, fails to understand the full value that industrial and urban service businesses contribute to the economy. The contention that such uses are under performing in terms of their productive contribution to the economy and should therefore be

opened up to 'higher value' industries is flawed, as it assumes that value is based exclusively on land value or the direct economic contribution of the jobs in situ. While industrial operations may be considered less productive per capita than other more knowledge intensive jobs, they in fact are critical translators of value. These precincts translate 'pre-production' value driven by R&D and design into 'post-production' value in after-sales service, marketing etc (see figure below from a recent report SGS has undertaken for the GSC).

So, while these jobs may not directly create as much value as other sectors, they enable significant value to be realised through their operation and location throughout the city.

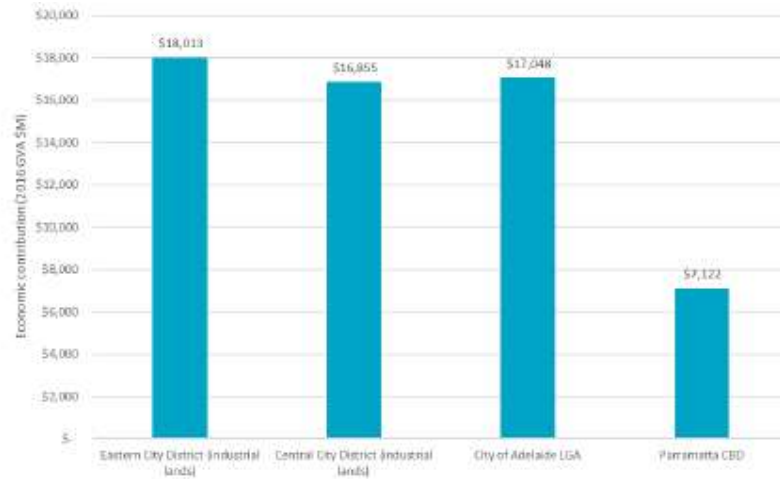


Source: SGS Economics and Planning, 2020, building on Smiling Curve derived from CSIRO Futures Advanced Manufacturing: A Roadmap for unlocking Future Growth Opportunities for Australia, (2016) and originally adapted from Stan Shih's 'Smiling Curve'.

### Flexibility of industrial land use risks eroding value

The Property Council is quoted in the Green Paper as suggesting that the inflexibility of the industrial zoning risks sterilisation. This point is disputed on several grounds. Firstly, industrial precincts are highly diverse in the industries they currently support. SGS analysis for the Greater Sydney Commission identified that the Eastern City's industrial and urban services precincts are *more* diverse in terms of the number of industries they accommodate than traditional commercial centres such as the Parramatta CBD. This indicates that, in fact, these zones are highly flexible. Secondly, The vacancy rates of most inner city industrial precincts is very low, while sales and rental prices are very high. The South Sydney Industrial rental market is approximately twice as valuable as the Inner Melbourne industrial market. Both these attributes indicate a highly desirable market, rather than one facing sterility.

These factors make the Eastern city's industrial precincts more valuable in terms of economic contribution than traditionally commercial centres such as the Parramatta CBD and the CBD of Adelaide (see below from a recent SGS report to the Greater Sydney Commission)



Source: SGS Economic and Planning, 2020 using ABS National Accounts and Census data, 2016

Ironically, the introduction of ‘more valuable’ uses in support of flexibility as recommended by some risks reducing the diversity and flexibility of industries these precincts accommodate, by driving up land values and introducing other uses that may create land use conflict with incumbent industries.

### Aligning economic contribution with strategic planning

The Green Paper uses an example of a supermarket proposal in a B6 zone being limited by planning controls, even though there is demand for retail floorspace and the proposal would generate jobs (Box 7.4 p240). This example doesn’t reflect the negative externalities that may be driving the Council’s controls on this site. Good strategic planning weighs up the costs and benefits of development, as the Green Paper suggests should occur. In this instance, there may be a struggling centre nearby that would benefit from the injection of a supermarket to not only lift its fortunes, but also revitalise a centre that can in turn attract more jobs through supporting small businesses. The same jobs are created during construction and operation, however more jobs may be created (or saved) by having the supermarket part of a local centre with better public transport accessibility. Economic productivity alone should therefore not be the only determinant of planning decisions, but rather one consideration as part of a suite of wider aspirations that factor in economic, social and environmental considerations.

### SGS’s views on the Commission’s recommendations

The following table indicates SGS’s assessment of the recommendations in the Green Paper.

Section 6 Smarter infrastructure	SGS's view
Plan for greater housing and business activity in areas where there is spare infrastructure capacity (Recommendation 6.1).	Supported
Improve transparency to create the right incentives for good infrastructure investment (Recommendation 6.2).	Supported
Ensure that agencies' business cases align with Government guidelines, and that funding is given to properly evaluate projects (Recommendation 6.3).	Supported
Investigate new ways of easing road congestion, such as reducing problematic driver behaviours and charging for congestion (Recommendation 6.4).	Supported
Assess how Opal fares and concessions can be used more effectively to ease demand in peak times, encourage greater use at other times, and support those that need it the most (Recommendation 6.5)	Supported
Section 7 Planning	SGS's view
Ensure planning instruments keep up with housing needs, while taking into account community interests (Recommendation 7.1).	Supported. This should occur via a Cost Benefit Analysis (CBA) at the plan making stage. These plans should be regularly reviewed – say every five years, but should be consistently enforced in between reviews.
Review apartment design and car parking regulations to accommodate consumer choice while maintaining minimum basic quality. (Recommendation 7.2).	Supported subject to CBA. An SGS CBA of similar standards to SEPP 65 in Victoria showed that they are efficient, that is, they were found to generate a net increase in welfare compared to minimalist standards previously in place. (see <a href="#">Economic Analysis of Better Apartments Initiative</a> , Department of Environment, Land, Water and Planning; and the Office of the Victorian Government Architect)
Rationalise zones and restrictions on permissible business activities and produce strategies to use commercial and industrial land more productively (Recommendations 7.3-7.5).	Not supported. Rationalisation of zones in Victoria has not been the success made out in the Green Paper. Producing good precincts and good cities inevitably requires granularity in planning instruments, not a one size fits all. Victorian authorities have made up for the lack of differentiation in the zones menu through all manner of supplementary planning controls which has made the system even more complex than that which had existed before the reforms.  There may be an opportunity to rationalise some B zones to remove duplication of intent (predominately the B5 and B6 zone). However there is also a need to consider a new type of zone that straddles the B6/7 and IN2 roles, to support emerging advanced manufacturing and productive innovation and enterprise functions that do not sit neatly in the current zones due to their range of land uses and floorspace requirements.

Continue to cut red tape to make the planning system more effective and deliver on the Government’s goal of reducing assessment times (Recommendation 7.6).	Supported subject to good strategic planning
Develop a consistent way to measure the benefits of open and green space, and incorporate it into land use planning (Recommendation 7.7).	Supported
Use the Review of Infrastructure Contributions to find ways to deliver a principles-based, transparent and certain system (Recommendation 7.8).	Supported – also see <a href="#">SGS paper</a> in response for public submissions on the NSW Productivity Commission’s Issues Paper on Infrastructure Contributions.

### Other recommended reforms

Prompted by what we see as major gaps in the Green Paper, as outlined above, we would encourage the Commission to consider the following additional reform directions to help boost productivity in NSW.

- Develop a consistent way to measure the economic benefits of social housing provision and incorporate it into land use and infrastructure planning.
- Introduce a system of development licence fees, to operate alongside (not instead of) the development contributions regime, with the fees reflecting the value of development rights awarded through planning consents.
- Consider taxation measures to facilitate timely release of sites designated for development in planning schemes to bona fide developers.
- Building in the circular economy: The Green Paper makes no mention of Circular Economy opportunities for productivity reform. There is a significant productive opportunity, both in terms of supporting new industries in the advanced manufacturing sector as well as reducing the costs associated with waste disposal and the wider externalities associated with pollution. SGS suggests that a Circular Economy strategy be central to any consideration of productivity in terms of industry attraction, cutting red tape to enable businesses to establish and land use strategy.