

18th October 2019

Romilly Madew AO
Chief Executive Officer
Infrastructure Australia

c/- mail@infrastructureaustralia.gov.au

Dear Romilly

Submission to Australian Infrastructure Audit 2019

The Urban Development Institute of Australia (UDIA) National welcomes the opportunity to provide this submission in response to Infrastructure Australia's *Australian Infrastructure Audit 2019* ('the Audit').

About UDIA National

UDIA is the development industry's most broadly representative industry association with more than 2,500 member companies – spanning top tier global enterprises and consultants to local governments and small-scale developers.

We have a long history of engaging positively with the Federal Government and its agencies on issues critical to the property industry – spanning tax, population, infrastructure, land use planning and beyond.

UDIA National's advocacy is defined by our state-representative National Council – and informed by a diverse membership base, extensive network of state councils and committees and businesses on the frontline of housing development around the country.

Our voice is backed by real experience and quality research designed to support good policy making and dialogue with governments, oppositions and the bureaucracy.

Introduction

UDIA is broadly supportive of the Audit. The document serves as a crucial stocktake of the state of the nation's infrastructure, the mega trends driving demand for infrastructure, our capacity to meet the future requirement for infrastructure and public policy frameworks needed to enable delivery.

It extends the analysis that underpinned the nation's first Audit in 2015 and should serve a critical role in defining the public policy response and informing the prioritisation of initiatives, projects and reforms that will follow.

Importantly, the independence of Infrastructure Australia and the Audit means there should be comfort taken in the credibility of its analysis and the urgency of advancing recommendations contained in the document.

We are particularly pleased to see there is bipartisan consensus around the role and value of Infrastructure Australia and its work; however, UDIA National believes there is a greater opportunity for governments to reinforce the transparency, consistency and durability of decisions arising from your work.

We do however urge Infrastructure Australia, governments and policy makers to better seize the opportunities arising from the continued reform and investment in infrastructure policy frameworks and pipelines to deliver the housing supply essential to support population growth.

Key themes

The Audit sensibly anchors itself in a series of key themes that emerge from its underlying analysis. In particular, UDIA National is pleased to see a recognition that:

- The **outcomes for users and impacts on communities** should serve as a central measure of the success (or otherwise) of infrastructure policy
- Merely sustaining current infrastructure expenditure levels is insufficient, and a **new wave of investment and reform will be essential** to lift productivity and quality of life
- Australia's ongoing global competitiveness and national productivity depends in part on **efficient infrastructure networks**
- Governments need to do more to deliver infrastructure to match **the rate of population growth in our four largest cities** – Sydney, Melbourne, Brisbane and Perth
- **The application of technology, use of data and deployment of digital solutions** is both transforming the way we provide infrastructure, but also has the potential to drive efficiencies in its operation
- **Pressures from climate change** demand a continued investment in smart solutions that improve the liveability and sustainability of cities and communities, and ensure energy costs do not become a disadvantage for the Australian economy
- The **increasing densities of our major capital cities** is well advanced, driven by demographic and employment trends and presents a positive opportunity to recalibrate the approach to land use, transport, employment and housing
- **Infrastructure planning, procurement and funding** needs to continue to evolve (as does the development of a workforce capable of delivering it)

The breadth and implications of these themes make it imperative that all tiers of government apply rigorous, sustained and coordinated solutions to create more liveable, productive, connected and competitive cities and communities.

Context

Infrastructure Australia's Audit should also be viewed in the context of other policy initiatives being advanced by the Commonwealth Government (and in select cases, state and territory and local governments).

These represents policy tools and frameworks that can be deployed to enable the delivery of better infrastructure outcomes and ensure the nation maximises the benefits that flow from public and private investment.

These include:

- *The National Cities Performance Framework* – which provides data across a key range of metrics to monitor and assess the performance of more than 20 capital and major regional cities
- *City Deals* – a new partnership approach between the Commonwealth and state and local governments to better align the planning, investment and governance necessary to accelerate economic and jobs growth, urban renewal and reform.
- *The Centre for Population* – which commenced on July 1st, 2019, to provide more detailed analysis and advice on population issues and settlement patterns (and sits alongside COAG's work to collaboratively develop immigration policy and targets)
- *New data and analysis on housing supply, demand and affordability* – by expanding the mandate and resources for the National Housing Infrastructure and Financing Corporation (NHIFC), and
- *The National Rail Program* – a \$10 billion fund to support the roll out of major new transport infrastructure projects in each of the major capital cities and lift connectivity and mobility.

Collectively, these streams of work have the potential to complement IA's work, as well as their own specific mandates. But a common baseline of evidence and assumptions, and integrated approach to delivery, will need to be established and leveraged.

UDIA National's Policy Framework

UDIA has consistently promoted six strategic threshold issues which should define the public policy framework – and help inform our position in response to the issues raised by the Audit. These are:

Getting the population settings right

. . . because they underpin the trajectory for growth, settlement patterns, land use demand, infrastructure requirements and community confidence.

Introducing an Infrastructure Accord

. . . to permanently insulate the planning, funding and delivery of critical infrastructure from politics, and build a bi-partisan consensus that delivers certainty

Delivering Urban Infrastructure

. . . to better align the delivery of housing and large- and small-scale infrastructure that makes communities liveable, and maximise the benefits of investment

Boosting Housing Supply and Delivery

. . . to ensure we keep pace with housing demand from a growing population, improve affordability and deliver a diversity of stock needed to accommodate shifting demographics

Reforming Taxes Imposed on New Housing

. . . to lower costs for homebuyers by progressively eliminating excessive and inefficient taxes, including inequitable infrastructure charges

Streamline Environmental Planning Processes

. . . by transforming the Environmental Planning & Biodiversity Conservation Act to fulfil its original promise of a single point of assessment, conducted at the appropriate stage in the development cycle.

The six pillars that inform our policy recommendations are each backed by specific and comprehensive policy recommendations that better cities, promote a stronger economy and set the platform to deliver more (and much needed) housing. More detail on our full policy platform can be accessed via www.udiacampaign.com.au

Housing – The Missing Link

UDIA National appreciates that the mandate of Infrastructure Australia and the role of the Audit is to primarily contemplate issues relating to infrastructure that governments builds, owns, operates and/or regulates.

However, in considering the future dynamics of our cities, the challenges of congestion, the demand for social infrastructure and the solutions that best help governments resolve them, housing should not be removed from the debate.

There are some elements of the Audit that make passing reference to the need for more diverse stock and aligning infrastructure with housing delivery. There is an opportunity though to better reinforce the imperative of good housing policy that:

- Lifts the capacity of governments and markets to collaborate in maintaining a sound and sensible supply of housing to meet the demands of future population growth

- Better plans the funding and delivery of infrastructure essential to support the mix of housing development (i.e.: greenfield and brownfield) required to meet growth targets
- Crafts new solutions for funding fine-grain urban infrastructure that reduces the burden carried by new homebuyers and currently adds to the affordability challenge, and
- Maximises the investment by governments and the private sector in infrastructure by utilising land use opportunities and encouraging a greater diversity of stock.

UDIA National believes there is urgency to the task given the looming risk that a shortage of supply will soon re-emerge. It is worth noting that:

- During the peak of construction across 2016 and 2017, housing approvals and commencements barely touched the level needed to sustain supply against population growth
- Building approvals have fallen by approximately 30 percent in the past 12 months, and continue to slide on a monthly basis
- Approximately 30,000 approvals are not yet converted to commencements – meaning the gap between demand and supply will potentially further widen
- There are initial signs of price improvements in the established housing market (though it is arguable that it has not yet translated to the new housing market given price and cost platform disparity)
- The intersection of rising prices, falling approvals and commencements and population growth will soon re-assert itself as a major threat to affordability.

Challenges and Opportunities

UDIA National has reviewed the full Audit and its 167 ‘challenges and opportunities’.

As noted above, we support the broad direction, underlying analysis and strategic intent of the Audit. As a result, we have chosen to comment on a select number of the challenges and opportunities, rather than all. This recognises either our satisfaction with IA’s approach, or that we do not seek to be subject matter experts on some issues raised.

Below are issues we wish to prioritise for attention – both by IA, and by the Commonwealth Government as it contemplates the report.

Challenge/Opportunity	UDIA Response
<p><u>Challenge 7</u>: User pays funding for infrastructure has widespread support within the community. However, its regressive nature disproportionately affects low-income earners.</p>	<p>The report contemplates the issue in the context of transport, water, telecommunications and energy.</p>

Challenge/Opportunity	UDIA Response
	<p>However, for housing development, the principle of user-pays is applied in a way that is inequitable and inefficient.</p> <p>Allocating the cost of new urban infrastructure almost exclusively to new housing development means it is baked into the cost of new homes and paid for solely by homebuyers, rather than the larger community which benefits from it.</p> <p>A shift towards funding fine-grain urban infrastructure from a broader tax base should be pursued.</p> <p>The National Housing Finance and Investment Corporation should be tasked with identifying and preparing a roadmap for removal of inefficient statutory charges.</p>
<p><u>Challenge 9:</u> Rapid growth in Sydney, Melbourne, Brisbane and Perth has brought many benefits, but also put legacy infrastructure under increasing strain.</p>	<p>Agreed. There is a clear need to:</p> <ul style="list-style-type: none"> • Establish a bipartisan Infrastructure Accord to remove politics from infrastructure planning • Use the Priority List of Australia Infrastructure as the baseline for project prioritisation • Align investment in infrastructure with future growth corridors to maximise the benefits of funding and meet housing targets • Restore the Asset Recycling Fund to unlock capital essential for the next generation of major projects.
<p><u>Challenge 12:</u> Smaller capitals and satellite cities have capacity to grow and in turn take pressure off infrastructure in our fastest-growing cities.</p>	<p>Agree in part.</p> <p>Our major capital cities will continue to grow, and the best solution is to better plan, fund and deliver the infrastructure needed to support them.</p> <p>However, a well-defined National Population Plan that includes clear population forecasts and analysis of settlement patterns – tied to migration and visa programs – can support the growth of smaller capital and satellite cities.</p>

Challenge/Opportunity	UDIA Response
	<p>The Government has launched its initial version of the Plan – but will need to refresh it regularly, starting with data and assumptions arising from the Intergenerational Report that will be refreshed next year.</p>
<p><u>Challenge 20:</u> Decision-making processes across many jurisdictions and sectors are not meeting best practice standards . . . (and) . . . failure to improve project decision making is likely to reduce the potential productivity and quality of life improvements to infrastructure investments.</p>	<p>Agreed.</p> <p>An essential element of an Infrastructure Accord would be ensuring the Priority List established by Infrastructure Australia as the baseline for decisions on prioritisation.</p> <p>Also, additions to the pipeline of projects should only occur when they have been subject to full business case analysis by Infrastructure Australia.</p>
<p><u>Challenge 24:</u> Funding for public infrastructure has risen above historical trends but remains below that of many other nations and may need to rise further to maintain or improve user outcomes.</p>	<p>Agreed</p> <p>However, the Commonwealth Government should restore the Asset Recycling to support and encourage the states to more effectively manage and unleash capital across their balance sheets.</p> <p>Also, existing major infrastructure projects should be audited to test whether land use opportunities are being unlocked, particularly mixed use, to maximise the benefits of infrastructure investment.</p>
<p><u>Challenge 33:</u> Poorly planned, budgeted or scoped projects can result in project cost blow-outs or delays, as well as a failure to meet project objectives resulting in long-term costs to users.</p>	<p>All major projects should be subject to full business case analysis by Infrastructure Australia.</p>
<p><u>Challenge 39:</u> Rapidly changing land use and development can place pressure on urban transport networks. Densification in our largest cities places pressure on legacy networks while greenfield development requires new infrastructure services.</p>	<p>The densification of our cities is inevitable and will serve as a clearly positive dynamic in our cities, serviced properly. However, it requires:</p> <ul style="list-style-type: none"> • Ensuring the business case for all projects analysed by Infrastructure Australia includes analysis of land use and housing opportunities to maximise the benefits of investment

Challenge/Opportunity	UDIA Response
	<ul style="list-style-type: none"> Investing in quality urban infrastructure by alignment investment to future growth corridors needed to unlock supply to meet stated housing targets Identifying and securing long-term infrastructure corridors informed by strategic land use plans that incorporate more robust population planning Increase the focus on local-scale infrastructure which can also create significant improvements at a fraction of a cost of the large-scale transport model Facilitate the development of Build to Rent, mixed housing and right-sizing options for seniors to add to house choices required for changing demographics
<p><u>Challenges 92, 99, 101 and 102:</u> Relating to the capacity of health and educational infrastructure to meet the needs of a growing population</p>	<p>The new National Population Plan can be structured to clearly chart the base level of services expected for key elements of liveability, including social infrastructure such as schools and hospitals.</p> <p>Also, population forecasts should be deployed to better inform strategic land use and infrastructure plans at a national, state and local level (including social infrastructure).</p>
<p><u>Opportunity 105:</u> School infrastructure can provide essential community facilities and spaces such as sporting fields and halls. Harnessing their benefits for community use outside school hours, particularly in fast-growing cities where space is scarce.</p>	<p>Agreed.</p> <p>This also has the potential to reduce the requirement for developers to pay inefficient and inequitable infrastructure charges or provide unnecessary “works -in kind” that are front-loaded into the cost of new housing.</p>
<p><u>Challenges 110 & 112:</u></p> <p>Investment in green, blue and recreation infrastructure is often not prioritised because the true costs and benefits are not well integrated into government decision making.</p> <p>and,</p>	<p>Agree in part.</p> <p>UDIA National fully supports the benefits of natural, recreational and community infrastructure and assets.</p> <p>However, the cost of such infrastructure is too often loaded into developer and statutory</p>

Challenge/Opportunity	UDIA Response
<p>Fragmented governance of green, blue and recreation infrastructure makes it hard to integrate into land-use planning.</p>	<p>charges because governments have not fully planned and provisioned for it.</p> <p>The National Housing Finance and Investment Corporation should be tasked with:</p> <ul style="list-style-type: none"> • Mapping the current mix of taxes, including statutory charges, imposed on new housing • Assessing the relative inefficiency and inequity of existing statutory charges • Charting short, medium and long-term paths for eliminating taxes and statutory charges better captured through more equitable and broad-based revenue measures.
<p><u>Challenge 123:</u> There are limited pathways for people to move through the housing continuum, particularly from social housing into the private market.</p>	<p>UDIA National supports the principle and notes that the Audit identifies Build to Rent (BTR) as a potential vehicle for diversifying the mix of housing options available for a changing demographic.</p> <p>The report is also right to identify tax settings as a potential barrier to BTR – namely, its treatment under Managed Investment Trusts, and land tax aggregation policies.</p> <p>UDIA National also recommends governments clarify and improve the method for encouraging development of affordable housing – noting there are myriad, inconsistent schemes applied across the country.</p> <p>UDIA National supports models and policy initiatives that provide an incentive to the private sector to deliver more affordable housing stock. This is best done via floor space incentives or bonuses that both stimulates overall housing supply as well as providing a mix of stock to service households across a range of lower income bands.</p> <p>Alternative schemes – which are either mandatory in their application or involve the imposition of a levy – risk the viability of future housing projects which may significantly impact</p>

Challenge/Opportunity	UDIA Response
	supply. In addition, any impost of mandatory provision or levy on existing projects will be inequitable given that developers have already committed to the cost structure of their projects which would not have taken into account any new cost imposts at the time of project inception.

Targets, priorities and next steps

UDIA National appreciates the role of the Audit in informing Infrastructure Australia’s next layer of work – including the *Infrastructure Australia Plan* and *Infrastructure Priority List*.

As Infrastructure Australia moves to finalise the Audit and progress the two further streams of work, and the Commonwealth responds to each document, UDIA National makes the following recommendations.

Population Forecasting

The Commonwealth Government (and states and territories) need to ensure a consistent application of baseline population forecasts and assumptions across all its policy work. It is anticipated a refresh of the Intergenerational Report in 2020 will provide a new set of data to inform the nation’s population trajectory.

These new data sets in turn need to underpin the work devised by the Centre for Population Growth, as well as inform the analysis of housing supply and demand to be undertaken by the National Housing Finance and Investment Corporation.

These forecasts should also be used in business case assessments conducted by Infrastructure Australia and be reflected across the strategic land use and infrastructure plans devised by the states and territories.

Using a consistent set of metrics will help chart the base level of services expected for key elements of liveability including housing, transport, social infrastructure and the environment – and better ensure they are reflected in national, state and local infrastructure pipelines.

Create an Infrastructure Accord

Infrastructure Australia’s work is emblematic of what can be achieved when an agency is given the independence to conduct and publish rigorous analysis of the nation’s infrastructure needs. However, we need to go further.

UDIA National recommends development of an “Infrastructure Accord” to remove partisan politics and remove long-term certainty in planning and delivery. An “Infrastructure Accord” would enhance the work of IA by seeing both major parties commit to permanently insulate the identification, funding and delivery of significant projects from partisan politics.

It would also entrench the Priority List established by IA as the baseline for decisions on prioritisation and ensure all projects are subject to full business case analysis by IA.

Better land use planning

UDIA National recommends that the business case for all projects analysed by IA formally include an analysis of associated land use and housing opportunities to maximise the benefits of investment.

This would assist growing cities better meet the demand for housing, open the door to more mixed-use housing that adds to the diversity of stock, and improve affordability.

The outcomes also need to be embedded in state and local strategic land use plans. These investment and housing ‘hot spots’ also have the potential to serve as the next wave of City Deals.

Local infrastructure

The focus on large-scale transport infrastructure needs to be replicated with a dedicated plan for delivering local-scale infrastructure which can significantly improve the functionality and amenity of local communities.

This includes both the trunk infrastructure required to unlock housing, as well as the green, blue and recreational infrastructure identified in the report.

Funding infrastructure

The Commonwealth should re-establish the Asset Recycling Fund to provide financial incentives to the states to fund key infrastructure, including via asset recycling that makes more efficient use of capital tied up across their balance sheets.

UDIA National also recommends the National Housing Finance and Investment Corporation’s new mandate on housing include assessing the relative efficiency and equity (or otherwise) of statutory charges imposed on new development and chart a pathway to their elimination. These taxes are better serviced through more equitable and broad-based revenue measures.

Enabling Build to Rent

The Audit rightly recognises Built to Rent as an important element of the requirement for diverse housing stock. It both provides an important alternative for renters and downsizers, as well as being a component of the affordable housing spectrum.

However, there are current barriers to its full emergence – particularly its treatment under Managed Investment Trust taxation rules, and land tax aggregation at a state level.

UDIA National recommends either the Commonwealth move to provide immediate parity for foreign capital investing in BTR as other commercial asset classes, or at least task the NHFIC with undertaking a complete assessment of all the barriers that need to be removed to ensure BTR reaches its full potential.

Reducing project red tape

The Environment Protection and Biodiversity Act also currently acts as a major barrier to the efficient and timely delivery of both major infrastructure projects and new housing development.

The EPBC Act was originally premised on the concept of a single, streamlined assessment. Instead, major projects often face the prospect of separate environmental assessments at federal, state and at time, local government level. These assessments can extend for years and add millions to the cost of projects impacting supply, economic growth and affordability.

UDIA National fully believes in the value of a well-designed legislative and regulatory system to preserve nationally significant flora and fauna. However, there is an overwhelming case for ensuring environmental assessments are appropriately coordinated, conducted at the appropriate time of the development cycle (for housing) or project cycle (for infrastructure) to provide certainty.

With the Federal Government poised to commence a statutory review of the Act, we believe IA and Government should establish clearly defined goals that see the reduction of excessive red tape and costs as headline objectives. This will be critical to ensuring the delivery of a consistent and needed level of housing supply required to support population growth and government infrastructure.

Conclusion

UDIA National welcomes the opportunity to engage with Infrastructure Australia on these issues and commends IA on its approach. We would be happy to discuss any element of our submission further.

I can always be reached on 0412 244 988 or via email to ckirk@udia.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Connie Kirk', is positioned below the 'Yours sincerely,' text.

Connie Kirk
Executive Director
Urban Development Institute of Australia (National)