e udia@udiawa.com.au
t 08 9215 3400
f 08 9381 5968
Urban Development Institute of Australia (Western Australia)
Unit 26, Level 1, 3 Wexford Street Subiaco WA 6008
w www.udiawa.com.au
abn 632 211 689 44

Urban Development Institute of Australia WESTERN AUSTRALIA

24th April 2014

Mr Lyndon Rowe
Economic Regulation Authority
PO Box 8469
Perth BC WA 6849

By email: publicsubmissions@erawa.com.au

Dear Mr Rowe

Re: Inquiry into Microeconomic Reform in Western Australia – Draft Report

We are pleased to provide this submission on the Economic Regulation Authority's Inquiry into Microeconomic Reform in Western Australia.

The Urban Development Institute of Australia (UDIA) WA is the peak body representing the urban development industry in Western Australia. UDIA is a membership organisation with members drawn from the development, planning, valuation, engineering, environmental, market research and urban design professions. Our membership also includes a number of key State Government agencies and Local Government Authorities from across the state. Nationally, UDIA represents the interests of thousands of members and includes all the major land development companies, both public and private, and specialist consultancy firms.

1. CONTEXT STATEMENT

UDIA strongly supports the overall intent of the Draft Report to reduce the cost of complying with regulation, to maximise the efficiency of the taxation system and remove barriers to competition.

UDIA strongly rejects the recommendation to "Abolish Keystart as soon as possible" as it plays an invaluable role in the housing continuum, relieving the downward pressure on accommodation which can push vulnerable Western Australian citizens into homelessness.

2. COMMENTS ABOUT THE RECOMMENDATIONS

These comments are made by exception and not all recommendations have been addressed.

2.1 INFRASTRUCTURE

Recommendation 4

Repeal the Royalties for Region legislation

UDIA does not hold a strong policy position as to the mechanism for ensuring the adequate provision of infrastructure in regional areas, however the Institute recognises the need for formal structures for the provision of funds to support those areas.

It should be recognised that Royalties for Regions was a new initiative and therefore experienced a range of both positive and negative outcomes. As the program has matured it is delivering much needed relief for both existing and future residents in regional areas.

Western Australia is challenged by a historical and ongoing high proportion of the population residing in Perth and must support the growth and economic development of communities throughout the State if we are to manage the forecast growth.

The policy of “user pays” has exacerbated the higher cost of works in regional areas, leading to significant challenges in delivering affordable housing. Indeed sometimes the delivery of basic services such as power and water are cost prohibitive, impacting on local residents and the ability to diversify regional economies through the establishment of new businesses. Funding from the Royalties for Regions program should include the provision of major infrastructure where the level of population growth exceeds the forecast or becomes a state priority. A clear example of the need for a flexible approach to funding was Pilbara Cities where development was being stymied by the lack of potable water. It is noted that there were negotiated outcomes in that situation however the infrastructure and development initiatives were initially out of step.

The cap on expenditure in the State Government Budget, combined with the more rigorous approach to project identification and management, mitigates the concerns expressed in the microeconomic reform report.

UDIA POSITION: The recommendation to repeal the Royalties for Regions legislation is not supported.

Recommendation 6

Move towards fully cost reflective electricity tariffs for households and small businesses.

Recommendation 7

Investigate the feasibility of introducing flexible electricity charging schemes such as time-of-use and critical peak pricing.

Sustainable urban development is currently hampered by the market interference of artificially low electricity prices as they impact on the value proposition of low energy housing. Whilst the cost of electricity is of concern, strategies to lower consumption from the grid should be a priority. Unfortunately they often involve some additional costs for housing, whether that is through local generation such as solar panels or site specific house design. The payback period on that investment is currently artificially long, in some instances continuing past the expected life of that infrastructure.

Flexible charging schemes are supported as they have a direct impact on the standard of the infrastructure required with 20 per cent of the cost of infrastructure catering for the top two per cent of demand. By reducing the peak use, infrastructure costs would be significantly reduced. Flexible charging schemes, combined with in-home energy consumption display units, supports behavioural change.

UDIA Position: UDIA supports recommendations 6 and 7 however cautions that implementation strategies need to be carefully considered to avoid market shock. Full cost reflectivity should also be coupled with enhanced identification and monitoring of efficiencies that can be gained through the electricty supply chain.

REDUCING THE COST OF COMPLYING WITH REGULATION

Recommendation 11

Appoint a lead reform agency to work closely with senior departmental staff across all areas of Government.

Recommendation 12

Set Key Performance Indicators for regulatory reform targets for senior departmental staff.

UDIA supports the establishment of an appropriately funded and resourced lead reform agency due to the whole of government nature of many of the challenges facing the urban development sector. The translation of the priorities of that lead agency to agencies through Key Performance Indicators for senior departmental staff, if appropriately monitored, will deliver far great attention to the delivery of regulatory reform.

UDIA POSITION: UDIA supports recommendations 11 and 12.

Recommendation 14

Update the Red Tape Reduction Group's 2009 assessment of regulatory burden in Western Australia to measure current levels of regulatory burden in the state.

The Red Tape Reduction Group's 2009 assessment of regulatory burden in Western Australia identified a range of burdens which were impacting on the delivery of land and housing to the market. It is essential that the work of the group is reviewed and action taken to address unnecessary regulatory burden on the sector.

UDIA POSITION: UDIA supports recommendation 14.

Recommendation 17

Replace the Regulatory Impact Assessment guidelines for Western Australia with a statutory mandate establishing the Regulatory Impact Assessment process, and defining the roles and responsibilities of the Regulatory Gate Keeping Unit.

Recommendation 18

Establish a five-yearly recurring review of the implementation and effectiveness of the Regulatory Impact Assessment process, to be undertaken by the Office of the Auditor General.

It is essential that proposed changes to regulations and policies are subject to effective, objective impact assessments to ensure that there are no unintended consequences and that the value premise is supported.

Current policies, including State Planning Policy 2.6 State Coastal Planning, have had a significant impact on projects and, due to the inherent inflexibility of the policy when considered with other planning requirements, have led to poor outcomes. The current Bush Fire Policy is of similar concern as the one hectare threshold will over-reach the intended vulnerable areas that were the original target. The list of policies impacting on the urban development sector is extensive and "policy over reach" is a significant factor in the costing of new land for residential housing. A mandatory Regulatory Impact Assessment process is likely to have led to different outcomes for some State Planning Policies.

UDIA POSITION: UDIA supports recommendations 17 and 18.

Recommendation 31

Abolish Keystart as soon as possible

UDIA strongly disagrees with the recommendation to abolish Keystart.

The argument for the abolition of Keystart is premised on a very narrow understanding of the housing continuum and identifies issues created through the single interface of Keystart clients with privately financed buyers in the market when in reality the housing continuum is far more complex. Consideration of Keystart should be undertaken across the full spectrum of options, from homelessness to home ownership.

At each stage of this continuum the natural market pressure in an environment of rapid population growth pushes people towards homelessness. There is a natural friction between each sector due to eligibility criteria, whether that criteria is set by government or the private sector.

With downward pressure operating in the market, those that are not able to meet the criteria to purchase their own home remain in rental accommodation, increasing competition in that sector. Those that fail to compete for rental properties are then forced onto the social housing list and, if unsuccessful in obtaining that accommodation will couch surf or, ultimately, become homeless. The housing continuum is shown below in Fig 1.

Fig 1

Western Australia has the second highest rate of homelessness of any state, rising from 42.3 persons homeless per 10,000 in 2006 to 42.8 per 10,000 persons. Given the population rose, on average, 2.69% in Western Australia and 2.77% in Perth from 2006 – 2011, this is a significant uplift in the number at the bottom of the housing continuum. Further, AHURI-RMIT University recently released a report which expressed concern that changes to the statistical definition of homelessness adopted by the Australian Bureau of Statistics may have undercounted the rate in 2011.

Government intervention is required to reverse this market pressure and, whilst upward tension and competition for property can be the result, the action relieves pressure on waiting lists for social housing and reduces the economic and social blight of homelessness.

Keystart is both a facilitator and a clear indicator of the upward movement of people through the housing continuum with nearly 80% of clients moving into private financing arrangements within three years of the initial mortgage being approved. Clients are motivated to move by the additional services which are provided by the private sector financial institutions. Far from being a burden on the government, Keystart is an enabler through which purchasers move across the deposit threshold and into an equity situation which is more attractive to private providers of mortgage funding.

Keystart has a very low level of defaults therefore risk should be assessed on performance rather than a theoretical assessment.

If Keystart were to be abolished, there would be uplift in demand for social housing as the most vulnerable in the housing continuum succumbed to the downward pressure, resulting in additional budgetary pressure for the State Government. Keystart has operated profitably for the last 25 years, delivering a return to government which can notionally be used to further assist the most vulnerable people in our community. To abolish a secure revenue stream and replace it with a debt model for housing provision is a very poor outcome.

Additional benefits of Keystart

1. Keystart supports the shared equity scheme which is a further enabler of home ownership.

2. During the Global Financial Crisis maintenance of employment was critical to ensure that Australia did not fall into recession. With the construction sector having a major employment multiplier, Keystart was used as a vehicle to underpin employment outcomes in the same way as both State and Federal Governments awarded contracts for social housing to stimulate the industry. Unlike the latter approach, Keystart left no residual debt for the state. Whilst the property sector should operate without interference in most circumstances, Keystart does provide a safety net for the economy to protect vital jobs during a severe downturn.

UDIA POSITION: The recommendation to abolish Keystart is not supported.

Thank you for the opportunity to provide these comments on behalf of the urban development industry. Please feel free to contact us if further clarification is required.

Yours sincerely

Debra Goostrey

Chief Executive