

AROUND THE HOUSE

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2016-17 State Budget: a supply solution?

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The key message from the State Budget on housing outcomes for NSW households is that the existing system of market forces and selective government interventions is working well.

The Treasurer, Gladys Berejiklian, in her speech to the parliament on June 21, commented that “housing affordability remains one of the biggest challenges of our time”. Her assessment of a prognosis was upbeat and blunt: the solution is already here, in the form of supply (construction) of dwellings by the market.

This optimistic analysis draws for its ‘evidence base’ on data on construction of new dwellings, which show increases in approvals and construction in key segments of the housing market in recent years. Housing construction is expected to remain at high levels, but perhaps with some moderation in the rate of growth in the next few years. Key drivers behind these trends are low interest rates, population growth, and a market focus on high-density dwellings.

Berejiklian reminded us that: ‘The Government has always said that the key to affordability is supply’.

Indeed. It is what it has always said. Every year since 2011.

That new construction is the panacea it is claimed to be has been contested by academic researchers. The trickling-down effect arising from the heralded mix of construction boom, plus modest interventions by the state government, has been, well, modest.

And modest is clearly an exaggeration. Blink and you’ll miss it!

Data on affordability of rental housing in New South Wales and its ‘global city’ Sydney, released just a week before the Budget by SGS Planning & Economics and National Shelter, did show some positives.

Unaffordability levels have stabilized in Sydney in recent years, and some areas in western Sydney have experienced slight improvements in affordability.

The negatives are that there has been no relief for the

average household in meeting housing costs nearer to the city center, and, fundamentally, greater Sydney is still the least affordable metropolitan area in Australia.

The key microeconomic intervention by the Government in the housing market to help it work better is the Orwellian-named Housing Acceleration Fund. This Fund doesn’t fund *housing* for the market-disadvantaged or anyone else. It funds roads. Roads.

The idea is that direct government funding of local economic infrastructure might dissuade a government from charging private developers for provision of this infrastructure in new housing estates, and in turn those developers won’t pass on that cost to consumers, and so house prices are held down. And everyone is exhilarated. There’s a certain beauty in the brazenness of the logic.

But let’s look at the projects to be financed from the HAF allocation.

There will be a \$262 million allocation in 2016-17 for infrastructure-related projects from the Fund. Of this, \$60 million will go to HAF 'planning' and to a Southwestern Sydney HAF 'contingency' fund. Which leaves \$202 million, which will be spent on 4 road upgrades.

These are at Camden, Blacktown, and Lidcombe. The project at Lidcombe, a M4/Hill Road off ramp, costed at \$140 million, represents 70% of the amount for these road projects, and 53% of the 'housing acceleration' allocation. This project is part of the controversial WestConnex freeway through middle-ring Sydney.

Other Budget decisions that have relevance to financing programs were around state taxes. The Government will abolish 3 minor taxes as part of a long-term federally-driven process to rationalize taxes around the country.

The abolition of mortgage duty, share transfer duty, and non-real transfer duty, from July 1 will be at a cost of some \$400 million in foregone revenue in 2016-17, and \$1.3 billion over 4 years.

But the Government has squibbed on another suite of possible tax reforms that has also been part of the national tax debates. And that is the revamping of land tax so that

it grows as a revenue source for state government, which could be put to good purposes (including possibly the phasing out of conveyance stamp duty, if this is considered a priority).

In a context of high, but volatile, revenue from conveyance stamp duty on the one hand, and likely decreased GST revenue from the Commonwealth on the other, the Government could have initiated a process for firming up its own-source revenue. Reform of land tax should be high on the Government's agenda. Given the controversial nature of such reform, it could have, say, given a referral to a credible body like the Independent Pricing and Regulatory Tribunal to undertake a public inquiry on the matter.

Instead, the adhocery in the NSW tax system has been reinforced by 2 other measures. One is an increase in land tax of 0.75% for foreign buyers of residential property, from the 2017 land tax year.

The other is a 4% surcharge on conveyance stamp duty for foreign buyers of residential property, from July 1. This measure is the second of two measures in recent years where the Government has extended the reach of conveyance stamp duty. (The other was its decision in the 2011-12 Budget to narrow eligibility

of the exemption from this duty for first-homebuyers to only those who were buying newly-built dwellings.)

These measures are expected to raise \$1 billion over the next 4 years. Just short of the revenue foregone from the abolition of the 3 minor taxes mentioned above.

The Budget also included a number of initiatives to implement the policies contained in its *Future directions for social housing in NSW* (January 2016), and to increase funding for specialist homelessness services for young people.

Initiatives for growth of additional social housing were those we already knew about: the Communities Plus program of the Land and Housing Corporation, and the Social and Affordable Housing Fund targeted to nongovernment providers. The lack of new, *Budget-funded* initiatives is an opportunity missed.

More information on these other measures will be reported in a *Shelter NSW Update*, available in early July on the Shelter NSW website at:

www.sheltersnsw.org.au.

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