

3 December 2019

File No: 2019/604415  
Our Ref: X027278

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Dear Peter

### **NSW Productivity Commission Discussion Paper ‘Kickstarting the productivity conversation’**

Thank you for the opportunity to comment on the Discussion Paper and to participate in the conversation about how the NSW Government can best support continued growth in the State’s living standards. The City understands that this is the first in a series of papers to shape the productivity reform agenda for NSW, and we look forward to participating in further rounds of consultation.


Productivity, enabling jobs and skills growth and a well-connected city to create the conditions for a stronger economy, is captured in our Sustainable Sydney 2030 strategic directions. These include a globally competitive and innovative city, a leading environmental performer and a cultural and creative city. It is also part of our day-to-day activities as a planning, regulatory and infrastructure delivery authority and is an identified planning priority in our draft Local Strategic Planning Statement.

The attached detailed submission is structured around the Discussion Paper’s productivity priorities. The City hopes to contribute to the conversation around productivity to ensure the right priorities have been identified, the right questions have been asked and to help define what policy options should be considered. Matters currently not addressed that the City feels must be part of the dialogue include:

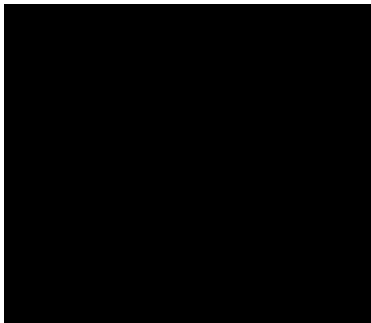
- The absence of a NSW policy and planning framework that supports affordable floor space for start-up, scale-up and creative enterprises
- The need to support and expand existing successful energy efficiency schemes like BASIX and NABERS, making sure they are appropriately resourced, fit-for-purpose and support the NSW Government’s net zero emissions by 2050 target
- The role-out of the Greater Sydney Commission’s Place-based Infrastructure Compact model across NSW
- Developing clear guidance and processes for prioritising and managing allocation of road space consistent with the NSW Government vision and policy, in particular the Movement and Place framework
- A review and restructure of the current Parking Space Levy
- How housing affordability is affected by taxation and limited government investment in social and affordable housing, and

- Getting a much more accurate and independent picture of housing preferences and the supply and demand side factors that affect housing affordability.

The City appreciates the ability to comment on such important reforms early in the process. These comments are provided in order for the community at large to better understand the positive and negative impacts of reform, as well as possible transitional issues.

Should you wish to speak with a Council officer about the above, please contact 

Yours sincerely,



City Planning | Development | Transport

# Kickstarting the productivity conversation

## NSW Productivity Commission Discussion Paper

### City of Sydney submission

This submission is structured around five of the six the Discussion Paper productivity priorities. It should be read in conjunction with the City's cover letter.

The City of Sydney (City) understands that this is the first in a series of papers to shape the productivity reform agenda for NSW, and we look forward to participating in further rounds of consultation.

Productivity, enabling jobs and skills growth and a well-connected city to create conditions for a stronger economy, is an identified priority for the City in our draft Local Strategic Planning Statement. It cuts across a number of our Sustainable Sydney 2030 Strategic Directions including a globally competitive and innovative city, a leading environmental performer and a cultural and creative city, and, our day-to-day activities as a planning, regulation and infrastructure delivery authority.

This submission is informed by the City's experience in trying to advance a productivity agenda in NSW, the barriers experienced and the role NSW Government policy has played.

The City hopes to contribute to the conversation around productivity to ensure the right priorities have been identified, the right questions have been asked and to help define what policy options should be considered.

The City appreciates the ability to comment on such important reforms early in the process. These comments are provided in order for the community at large to better understand the positive and negative impacts of reform, as well as possible transitional issues.

## **Building human capital for a modern and evolving economy**

A lack of suitable and affordable floor space for start-up, scale-up and creative enterprises in accessible locations is consistently highlighted in NSW Government and City consultation and research as a key threat to growing our economy.

This lack of affordable floor space directly results in the loss of human capital from our economy, severely restricting the ability for existing and emerging innovation and creative clusters to grow. This issue is exacerbated in today's global economy where cities increasingly compete for talent.

The Discussion Paper rightly focus on education, training and skills in relation to building human capital. But it fails to address the NSW Government's role in nurturing, retaining and commercialising that human capital.

NSW Government initiatives in creating affordable workspace on government land for start-ups and early stage companies is acknowledged, including the recently announced 50,000 square metres of affordable floor space committed to as part of the Central Station redevelopment. But beyond government owned land, local government needs support in growing suitable and affordable floor space in identified existing and emerging innovation and creative clusters.

Defining affordable employment floor space and providing a land use planning pathway for its delivery is a clear policy lever available to the NSW Government with potential for large productivity gains. As a start, State Environmental Planning Policy No. 70 Affordable Housing (Revised Schemes) and the NSW Government's support of Registered Community Housing Providers provides one model that could be adapted to support growth in affordable employment floor space.

## **Reliable, sustainable and productive use of our water and energy**

In Australia there are now more than 45 jurisdictions which have declared a climate emergency, including the government of the Australian Capital Territory and many local governments in New South Wales.

This reflects a high level of concern by those communities and a lack of confidence that the New South Wales and Australian Governments are doing enough to ensure a smooth transition.

A well designed more distributed and renewable electricity supply will reduce costs to consumers while improving reliability and reducing greenhouse gas emissions that are contributing to the impacts of climate change including drought and bushfires.

Given the direct risk the climate emergency poses to NSW's future productivity, any discussion around productivity must specifically address the climate emergency.

### **Lowering prices through investment certainty**

The environmental policy costs on page 65 need to be updated - these figures do not appear to include the significant benefits of reduced wholesale electricity prices (by lower operating costs) of renewable energy which have resulted by these same environmental policies.

The City supports the stated position on page 66, that:

*New South Wales has already adopted strategic priorities in the Climate Change Policy Framework, including the objective of moving toward net zero emissions by 2050. If the Commonwealth is not prepared to coordinate emissions policy for the energy sector, New South Wales could consider its own initiatives to reduce uncertainty and meet its 2050 target.*

Initiatives that should be part of the discussion include:

- The NSW Government adopt a renewable energy target of at least 50 per cent by 2030 - or enact a similar clear market signal for investment - that will contribute toward its target for net zero emissions.
- The NSW and Australian Government underwrite investment to fast track new transmission infrastructure for renewable energy zones as outlined in the Step Change scenario developed by the Australian Energy Market Operator Integrated System Plan and the NSW Transmission Infrastructure Strategy.
- Engage with the write down of electricity network assets. Repayment of over-investment of the electricity network is the single greatest contributor of increased energy bills to consumers.
- The recommendations of the Finkel Review should be pursued at least at the State level if not at the National level. However, experts agree that an economy wide price on carbon is the more efficient and cost-effective mechanism.

## **Improving asset utilisation and demand management**

Electricity demand management would be further improved by supporting changes to energy rules, for example the Demand Response Mechanism, to incentivise energy efficiency, demand management and trading of “negawatts”<sup>1</sup> in addition to supply side mechanisms.

Energy efficiency should remain a key priority with ongoing support for successful schemes such as the NSW Energy Savings Scheme and NABERS Energy and COAG Energy Council Net Zero Trajectory work, to ensure that new and existing buildings are significantly more energy efficient.

The NSW Government needs to lift its support of local government in implementing policies and programs to improve energy efficiency and increase uptake of renewable energy including the Better Buildings Partnership, Sustainable Destinations Partnership, CitySwitch, Green Office programs and through site specific planning proposals that incentives efficiency through BASIX and NABERS targets.

## **Ensuring secure and reliable supplies of gas**

The NSW Government could consider directly investing in new gas generation where it is required to support renewable energy such as done by the Government of South Australia. This is a more direct, cost-effective and efficient way to ensure that new gas generation is built where it is needed (compared with attempting complex market signals through rule changes to the national electricity rules).

The NSW Government should also support the National Hydrogen Strategy to decarbonise domestic gas and create a low carbon export opportunity for Australia.

## **Streamlining energy regulatory arrangements**

The NSW Government needs to proactively contribute to a redesigned national energy market through the Energy Security Board Post 2025 Market Design to ensure that energy markets support modern technologies and systems including clean energy, storage, demand management and new ways for trading.

## **BASIX**

The NSW Building Sustainability Index (BASIX) Scheme sets energy and water performance targets for residential apartments while other Australian states set thermal performance (not actual energy end-use) standards. NSW is ahead in this regard as other states do not have mains potable water savings or energy efficiency targets for residential apartments.

BASIX has delivered very high uptake of on-site rainwater capture and re-use for non-potable end-uses (especially for irrigation and toilet flushing) across new low density residential development (single dwellings and town houses) in NSW, and standardised high efficiency showerheads, taps and, in apartments, white goods such as dishwashing and clothes washing machines for the past 15 years.

Because all the architecture (legislation, web-tool, on line certificate generation ect.) that activates BASIX is in place, there is certainly good reason to consider using an existing framework to achieve additional productivity gains. However, the NSW Government currently invests little in maintaining the scheme architecture and enforcing compliance, despite the scheme generating income (from certificate fees) - an income stream that was never conceived at scheme inception and during the first decade of its operation.

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<sup>1</sup> A “negawatt” is a watt of energy that has not been used through energy conservation.

With relatively modest investment BASIX could be refreshed to meet development industry expectations of contemporary best practice on-line policy delivery, funded by income that from the very sector it seeks to set performance standards for.

One of the standout features of BASIX from a government policy perspective is the significant data capture enabled through the online BASIX Certificate and Completion Receipt functions. However the NSW Department of Planning and Environment make very modest use of this data to inform agencies of outcomes (and conversely compliance challenges) in the residential sector. Again it seems entirely reasonable that an appropriate portion of the income, generated by the scheme from the development sector, be reinvested to enable contemporary analysis of policy outcomes and to inform policy development and implementation going forward.

In February 2019 the Council of Australian Governments endorsed a trajectory approach to energy efficiency in the residential sector and the Australian Building Codes Board's Energy Efficiency: NCC 2022 and Beyond Scoping Study (which specifically references BASIX as an existing mechanism) which outlined ways to implement energy efficiency in the residential sector, across Australia, via the National Construction Code from 2022. The NSW Productivity Commissioner should consider how the existing, well established NSW scheme could be upgraded with, for example, revised energy (greenhouse gas emissions) and mains potable water targets.

The City of Sydney together with the NSW Division of the Property Council of Australia did make a detailed submission in May 2017 to the NSW Minister for Planning regarding the need for the scheme to be refreshed and effectively resourced to ensure it continued to deliver intended outcomes and meet industry expectations of efficient policy delivery. No obvious uplift in investment or administration of the scheme occurred at that time or since then, despite the logic of investing in a policy that had sound regulatory framework in place and that the development industry and consent authorities were now very familiar with.

Any review of BASIX energy targets must enable step changes towards net-zero emissions, supporting the NSW net zero emissions by 2050 target.

# Smart ways to get more from our infrastructure

## Better and smarter infrastructure investment and management

Our community have told us that one of their biggest concerns as the city grows, is the need for infrastructure to be provided in the right places and at the right time. Meeting this community expectation requires a new more sophisticated approach to infrastructure planning based on collaboration and engagement between NSW State Government agencies, local government, industry and the community.

Smarter infrastructure planning starts with better understanding our existing infrastructure (condition, capacity, quantity, governance, proximity, utilisation etc.) and our communities (demographics, density, expressed demand, participation trends, benchmarks etc.). Knowing more about our infrastructure, how it might be optimised or adapted, and knowing more about our communities, their current and future needs, means we can be smarter about how we use, adapt, share, staff, fund, prioritise and plan for infrastructure.

With the preparation of Local Strategic Planning Statements by councils across NSW, the NSW Government has the opportunity to complement these locally developed visions for growth with a framework that addresses infrastructure sequencing, funding and delivery.

With the recent publication of the Greater Sydney Commissions pilot Place-based Infrastructure Compact or 'PIC' for Greater Parramatta and Olympic Peninsula (GPOP), the NSW Government has a potential tool that could be utilised to promote collaboration and engagement.

The PIC is developed and implemented in 5 steps:

1. Setting the vision and outcomes, developing scenarios and forecasting land use change
2. Identifying infrastructure needs and costs, and integrating with scenarios developed in Step 1
3. Evaluating the costs and benefits for a preferred scenario and sequencing
4. Refining infrastructure proposals and prioritisation for funding over 10 years through a Strategic Business Case
5. Implementation of the PIC and Strategic Business Case through the planning system and NSW Budget processes

The PIC has merit because it is developed in collaboration with NSW infrastructure providers from Step 1. NSW collaborators for the pilot PIC included Transport, Planning, Health, Education, Sport and Recreation, Sydney Water, Ausgrid, Create NSW and emergency services, just to name a few. Collaborators could be tailored for each individual place depending on needs.

Local government's participation in the development and implementation of any PIC would be essential in order to ensure local infrastructure is addressed and supported. Some councils will not have the resources, background strategies and staff expertise to carry out this function, so NSW Government assistance would be required. This might include the development of local infrastructure provision standards which would permit infrastructure provision comparison across NSW and Districts and in the long term drive equity in access to facilities.

If the PIC progresses through step 4 to step 5, the certainty of having infrastructure projects committed through the NSW Budget, NSW State Government agency and local government asset management strategies and capital works programs will provide certainty around infrastructure provision.



## **Maximising value from investments – a transport and access focus**

Transport and access business cases are currently prepared on a modal basis, not on a collaborative place-based approach across all modes and non-infrastructure solutions. Generally, the current business case process for transport projects generates the bulk of its benefits from reductions in travel time (often small, but aggregated across many vehicles/customers). Improvements to “place” (such as through allocation of street space to people and place, or improvements in public domain quality) are often placed in the “cost” part of the economic assessment ledger. This works against improvements in place.

When NSW Treasury business cases are prepared in isolation, by separate agencies competing for funds, they do not promote coordination and prioritisation. As business cases are not publicly available, and cost and benefit logic cannot be scrutinised by community, they do not have the necessary transparency and accountability.

Business case process must be reformed to incorporate place or redefined based on place. The PIC process described on page 6 is one possible way of doing this. The NSW Government is also moving towards place-based transport planning with projects including the South East Sydney Transport Strategy.

A place-based approach to businesses cases provides the opportunity to better capture the set of benefits relating to place and planning, for example, agglomeration benefits. Combined with this greater transparency and public involvement in business cases and cost and benefit logic can only create greater accountability with investment decisions.

## **Getting most out of existing assets – a transport and access focus**

The past 70 years have seen road space allocated to the movement of private motor vehicles. In congested city centres this has served to prioritise travel by the least efficient mode (in terms of number of people moved in constrained road network) over more space efficient modes such as public transport, walking and cycling.

Pedestrians suffer significant congestion. 92% of trips in the Sydney City Centre are made on foot. Pedestrians wait at signals or have to walk slowly because they are not allocated enough space. The City estimates the annual economic impact of this delay will soon approach \$1bn.

Buses are often slow and at capacity as insufficient road space is available for them to operate relatively congestion-free. This increases cost per passenger and punishes people using public transport.

There is no definable logic for how the road and street network is managed to optimise efficient movement and improvement and place, and to ensure the full suite of benefits are realised from motorway and rail investment.

The current road pricing framework is incomplete, driven by revenue and financing considerations (not economic and productivity ones) and not aligned with government objectives.

Rail provides high capacity public transport with attractive levels of services to and through congested city centres, but:

- rollout of metros is insufficient to maximise connections between key centres, such as in Pyrmont, Camperdown/Sydney University and Zetland/Green Square, and
- investment in rail system has been insufficient to enable the full potential capacity of existing lines to be realised. This should be a priority even as metros are rolled out.

Government does not actively invest in active transport networks to supplement capacity on key congested transit corridors. The generally would provide up to 10% of relief for trips in the 0-5km range, at relatively low cost.

Roads and kerbsides are congested in centres due to loading and servicing demands. There is little policy framework around the issue of on-street loading - it is free, there is no ability to offer shorter and longer duration parking there is no incentive to operate outside the peak, outdated regulation cannot ensure spaces are used for loading or servicing, and enforcement of the regulations is constrained. The design solution is therefore lots of supply, quarantining kerb space that could be reallocated to active transport, or to place.

The NSW Government should consider:

- Developing clear processes for prioritising and managing allocation of road space consistent with the NSW Government vision and policy are required.
- Developing a policy framework and updated regulations for loading and servicing should be developed, with most activity undertaken off-street or off-peak.
- Giving greater weight to the economic cost of (and, therefore, the solutions to) pedestrian congestion. The City has nominated this issue for inclusion on Infrastructure Australia's Infrastructure Priority List. Low cost solutions include changing traffic signal timing.
- Committing to full implementation of the Sydney metro system, at least as far as Randwick, as soon as possible. This will connect all major innovation, university and health precincts, to the Harbour CBD and GPOP.
- Funding for the Sydney Trains network that focuses on realisable capacity increases on key corridors that connect centres.
- Reallocating bus investments to serve new markets as metros offer improved interchange points (e.g. Sydenham)
- Setting mode and network targets for walking and especially bicycle riding along congested corridors in Inner Sydney.

### **Case Study - Reform of Traffic Committee**

The Roads Act and the Road Transport Act require the Road Authority to manage all traffic facilities and road related issues in NSW. These responsibilities can be delegated to Councils or other recognised road authorities. The current emphasis on place-based planning and outcomes could be significantly supported by shifting the balance of power from the State road authority to the local road authority.

Local Traffic Committees (LCT) are the mechanism the Road Authority uses to delegate power for management of traffic facilities to Councils on all local and regional roads.

This process has not been reformed since 1999. The LCT process is ineffective and inefficient – LCT's generally treat simple and complex matters identically, membership is too broad and untechnical for its technical committee function, it has no performance metrics to determine its effectiveness, and, it is not accountable for delivering Government or Councils strategic outcomes.

It is estimated that the administrative cost of holding LCT meetings – not including the cost of preparing papers and Council meeting time is up to \$3million/annum for the Greater Sydney Region. The total cost in administering and managing LCT across NSW could more than \$10 million per year.

There is significant potential to trial a different delegation approach:

- review the current delegations to Councils and significantly enhance ability to make decisions on simple and uncomplicated matters without reference to LCT (this approach is used in some other states and territories, and on some other local government matters e.g. planning approvals)
- reform the membership to be aligned to the outcomes of a technical Committee to consider complex road and transport matters
- adopt a graduated model with an expert review panel similar to the reformed planning system where Councils can manage simple matters, and propose a local Committee for management for more complex matters. Proposals with more than certain number of objections can be referred to a regional expert panel with diverse planning, transport and urban design expertise.
- Measure the effectiveness of reformed process to contributing towards Government's strategic outcomes.

# Modernising our tax system to help our economy grow

## The role of taxation in productivity growth

The NSW Government has four major categories of levers that affect urban development by differentially privileging types and locations of activity and investment. The major categories of levers are:

- infrastructure and service provision both directly or by provision of funding
- regulation affecting the function of markets
- taxation that may privilege certain types of activity or investment that may be geographically specific, and
- land use planning.

The interaction of all the levers (including federal and local government) with external market forces, natural population growth and the existing activity and infrastructure situation influences the patterns of urban development. Their interaction affects private sector investment decisions as individually actors seek to maximise returns.

The private sector accounts for the majority of economic activity and may account for in excess of 80 per cent of national economic activity. Guiding this activity and investment to increase community wellbeing is core government responsibility.

Recently the government has increased its focus on infrastructure and planning regulation but the discussion of the role of taxation and borrowing rates in relation to urban development issues has lacked clarity. The discussion of population growth is highly contentious, however the lack of infrastructure and services planning to support increased population is coming increasingly into focus.

Acting or not acting to modify any or all of the levers that the NSW Government has, will change or perpetuate current patterns.

The City has long advocated for tax reform in general to support housing affordability. While the overall demand for housing is increased by favourable tax and transfer provisions, the sharp deterioration in affordability means that serious consideration needs to be given to recalibrating tax and transfer systems to make housing markets fair and efficient.

It is imperative that the NSW Government rebalances the tax environment for housing to dampen speculative investor demand and substitute that demand with existing demand from first home buyers. Taxation reforms are needed to address investor-driven house asset class inflation, transferable tax credits for low income housing, negative gearing, capital gains tax, stamp duty and land tax.

Furthermore, existing tax incentives don't recognise the particular issues faced by global cities such as Sydney, which are different to the remainder of the country, and may have a negative impact. Tax reform must consider nuance of the capital city housing markets, and the impacts that result from the concentration of high Australia's economic activity.

Any discussion on tax reform at a minimum should address:

- How housing affordability is affected by taxation and limited government investment in social/affordable housing
- Incentivise institutional investment in permanent low cost housing through transferable tax credits, and

- How congestion in cities relates to infrastructure investment and taxation mechanisms that support continued primacy of private road based transport.

### **Improving motor vehicle taxes**

The problem with current schemes are that they focus on revenue and not actually achieving economic and city outcomes.

A better approach would be to work with the Commonwealth to agree a framework to implement road pricing to deliver agreed city, transport and revenue outcomes. The Grattan Centre proposition that a CBD cordon tax's revenue should be hypothecated to place and pedestrian improvements in the city centre merits consideration.

A review and restructure of the current Parking Space Levy (PSL) should be considered to better articulate and target the transport outcomes it should support, including:

- mode shift away from private vehicles
- time shift of access to/egress from parking outside of times of peak person activity in centres
- reduction of impacts of vehicles accessing or egressing parking
- clarify what the levy could and should be spent on, with a strong preference for investment in walking and cycling, especially on congested road and rail corridors feeding the levied centres

### **Enabling councils to deliver better services**

The City supports the notion of introducing better and consistent operational performance reporting, for all councils to enhance comparability, and to allow the community to receive regular updates.

The City also agrees that rate capping constrains what councils can and can't deliver for their growing communities, particularly with increased densification and an ever-growing expectation for enhanced service delivery.

There are many ways that councils could be granted capability to lift their rates beyond the standard cap up to a permitted threshold provided they can demonstrate financial and operational plans, performance and results, with the support of their communities. Various rating models with greater flexibility and autonomy have been canvassed in a number of rate reviews in recent years.

# Planning for the housing we want and the jobs we need

## Unlocking the potential of employment areas

The City's enterprise areas in the south of the local government area are some of the most strategically important employment lands in the Sydney metropolitan area and the only remaining area in the city zoned exclusively for employment uses.

The enterprise area covers over 260 hectares and includes areas that are 'traditional industrial' in character and function, as well as areas distinguished by lighter industrial activity, such as warehouses and distribution centres. They also include more diverse areas with a range of employment based activities ranging from light and high tech industrial uses to 'cheap to rent' creative spaces for artists and designers.

Following substantial analysis and consultation with landowners, in 2014 the City reviewed its planning controls for the enterprise area, then referred to as the Southern Employment Lands. The new planning controls reflect a more contemporary understanding of the role of industrial and urban services lands in the wider Sydney context.

Importantly, the City's controls balance the short to medium term needs of business and industry with the need for the long term protection of industrial and urban services land. The latter is critical in that it ensures emerging business and industry opportunities and employment growth over the long term. It also ensures opportunity for strategic industrial activity required by airport and port activity and essential urban services to support the growing population.

Traditionally, land use planning has sought to divide uses into zones to minimise operational conflicts. Over time, however, this approach has shifted to recognise the positive outcomes that can be achieved by locating a range of activities together. This can be successful as long as the negative impacts generated by one use do not have unreasonable impact on another. These impacts may lead to certain uses being:

- environmentally incompatible, for example, noise or air quality impacts generated by industrial uses that may operate throughout the night
- economically incompatible, for example, where permitting high value uses would increase land values to the extent that other lower value uses become unviable, or
- contextually incompatible, for example, certain uses may not be appropriately supported by utilities, transport infrastructure or social infrastructure.

The discussion paper poses the question of how the zoning system can be simplified to encourage business innovation and competition. However the better question may be how the zoning system best can support and balance a range of economic, social and environmental policy objectives for a strong and sustainable community and economy. These objectives are articulated in the NSW Government's Region Plan for Sydney.

## Building dwellings that better match our preferences

### Apartment sizes

The Discussion Paper references Urban Ideas August 2017 a magazine from the Urban Taskforce that estimated that minimum apartment sizes add an additional

\$100,000 to the cost of an average apartment in New South Wales compared with guidance on minimum apartment sizes in Victoria.

The Urban Taskforce is a member run organisation representing Australia's most prominent property developers and equity financiers. Their claim is misleading in three ways:

- the Apartment Design Guide does not provide mandatory minimum sizes
- there are no regulated minimum apartment sizes in Victoria, and
- the \$100,000 figure is an exaggeration.

The Apartment Design Guide's criteria for minimum apartment sizes is modified by the guidance that directly follows it:

*Where minimum areas or room dimensions are not met apartments need to demonstrate that they are well designed and demonstrate the usability and functionality of the space with realistically scaled furniture layouts and circulation areas. These circumstances would be assessed on their merits.*

This allows applicants to propose and assessors to assess apartments of a smaller size. The Apartment Design Guide clearly guides a flexible not a strict approach and therefore no change is required.

Similar claims made by the Urban Taskforce in relation to the Apartment Design Guide are similarly misleading. At the time of publication of the magazine, the construction cost of an eight or more level apartment complex, including lift and basement car parking, in Sydney ranged from \$2,365 to \$3,515 per square metre<sup>2</sup>. The difference between construction cost and sales price is so great that a direct relationship between the two separate markets for costs is unproven.

As apartment size decreases the proportion of higher cost areas and items within the apartment (kitchens and bathrooms) increases, further diminishing any direct relationship between area saving and price. In the case of a 10 square metre reduction the cost reduction is more likely to be less than \$20,000 not the claimed \$100,000. The link to housing affordability is even more tenuous:

*A myriad of factors influence these determinants of housing affordability. On the demand side, these include: household growth (in turn, affected by natural increase, immigration, household formation); real incomes; real wealth; tax concessions to both owner-occupied and rental housing; concessions to first home buyers; returns on alternative investments; cost and availability of finance for housing; and the institutional structure affecting housing finance provision. On the supply side, these include factors that affect the cost of provision, such as: the availability of land; land development processes and policies; infrastructure costs (including development charges); the cost of construction; and property-related taxes.<sup>3</sup>*

Land values in Greater Sydney have been escalating at a greater pace than building costs. Figure 1 below standardises two indexes – the NSW Valuer General's Land Value Index and the Rawlinsons Construction Cost Guide Sydney Building Price Index – at 2002. This illustrates that, particularly in the period 2002-2004 and 2009-2011, land values increased substantially faster than building price costs.

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<sup>2</sup><https://www.bmtqs.com.au/construction-cost-table>

<sup>3</sup>[https://www.ahuri.edu.au/\\_\\_data/assets/pdf\\_file/0018/2178/AHURI\\_Final\\_Report\\_No105\\_Housing\\_affordability\\_a\\_21st\\_century\\_problem.pdf](https://www.ahuri.edu.au/__data/assets/pdf_file/0018/2178/AHURI_Final_Report_No105_Housing_affordability_a_21st_century_problem.pdf)

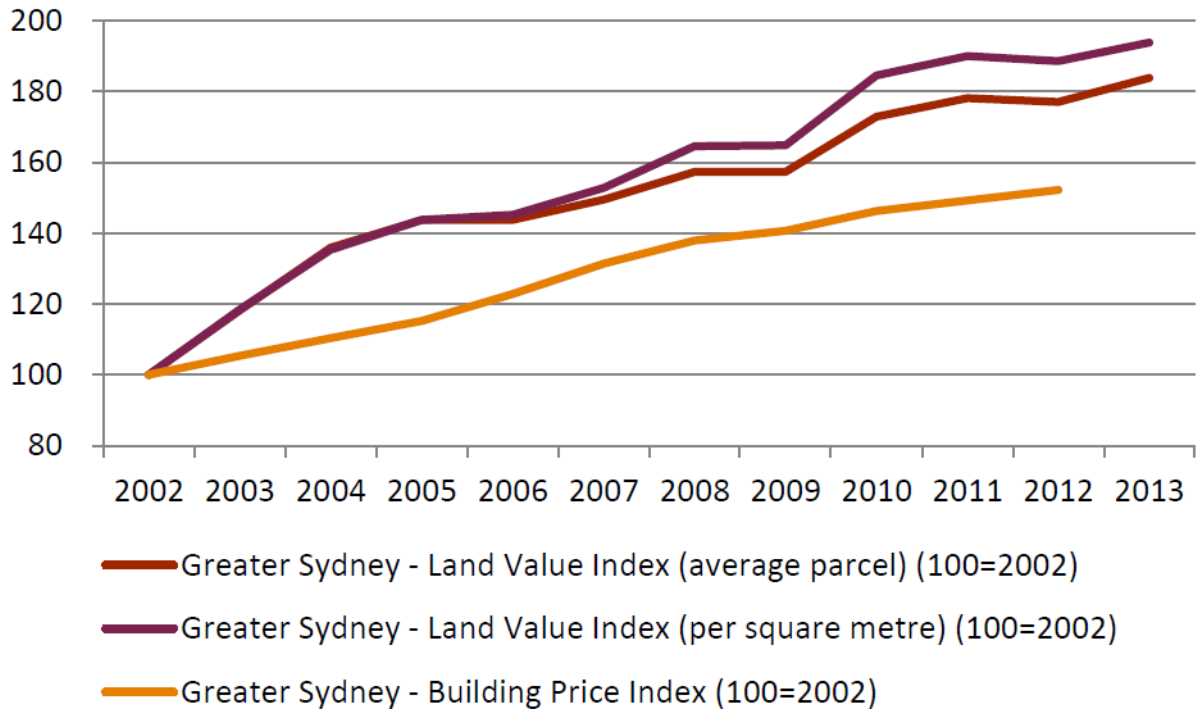


Figure 1: Greater Sydney Land Value and Building Price Index<sup>4</sup>

Note: The Valuer General’s land value index is compiled by suburb based on the land value of the typical land parcel in each suburb. Typical parcel sizes range from as low as 85 and 90 square metres in Ultimo and Balmain, to 690 square metres in Bankstown and Liverpool, and over 1,000 square metres in Gordon and Katoomba.

This also illustrates that when land value index is calculated on a per square metre basis, as opposed to an average parcel size by suburb basis, land value has increased even more rapidly. This suggests that land values in smaller lot inner city locations have increased much more rapidly than those of larger outer suburban lots.

This is supported by analysis undertaken for Infrastructure Australia, which illustrates the differing extent of land value increases spatially across Greater Sydney. Since 2004 land values in the inner zone of Greater Sydney have increased at a substantially greater rate than those located in the middle and outer zones.

<sup>4</sup> Historical valuation data, NSW Government Valuer General; Rawlinsons Construction Cost Guide Edition 31 (2013)



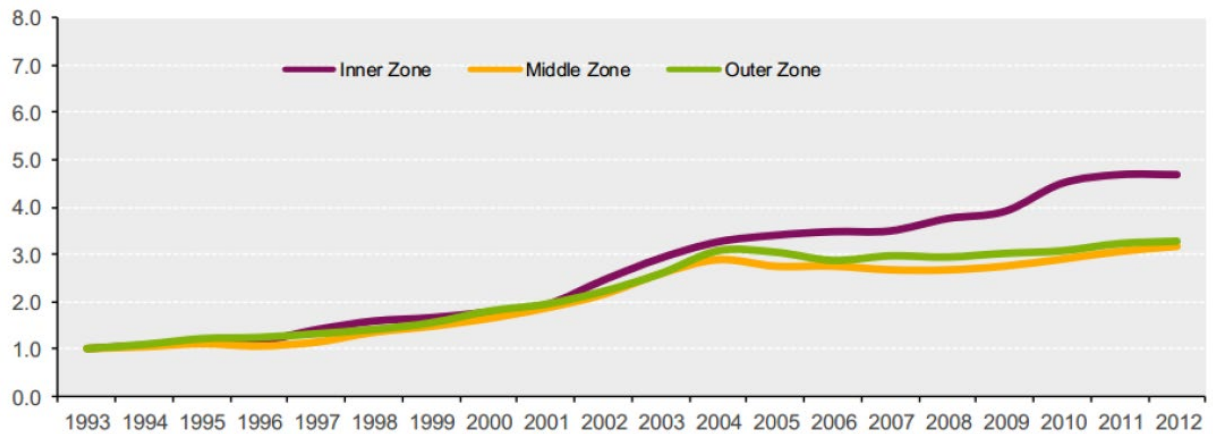


Figure 2: Sydney Residential Land value Index by zone<sup>5</sup>

Rising land values, rather than construction expenses, appear to have been the principal cost drivers behind increasing dwelling prices in Sydney. Over time, the small cost difference of a smaller apartment is more likely to have a small effect the cost of land and little or no effect on housing affordability.

#### Addressing asymmetry of information

The Discussion Paper briefly outlines the effects of asymmetry of information. For people purchasing apartments that are not yet built (off the plan), the asymmetry of information is extreme. The area of the apartment given in sales brochure is not necessarily the area of the apartment when finished and some contracts allow variations of up to 10%.

The Apartment Design Guide allows councils to have the area of apartments shown on application drawings and if a proper certification process is followed apartments are constructed in accordance with the application. Changing regulation in relation to the Apartment Design Guide risks removing the certainty that purchases could rely on if the process is properly followed.

Other aspects of apartment design and performance are even less certain and more difficult for a purchaser to find out or understand. For example a naturally cross ventilated apartment will be more comfortable, particularly in summer, causing less reliance on air conditioning, in turn lowering the operating cost and the carbon emissions from an apartment. This information is valuable for consumers, would lead to more transparency and competition in pricing and a better operating marketplace.

#### Understanding preferences

There are better resources to be referenced on people's preferences in housing choice. The following are two recent examples:

##### **Better Apartments - survey results prepared for the Department of Environment, Land, Water and Planning Report August 2015**

*Apartment size: a similarly high 76 per cent of respondents agreed or strongly agreed that there should be minimum apartment sizes to ensure apartments have reasonable sized rooms and storage. This response included a significant 55 per cent of respondents who strongly agreed. The*

<sup>5</sup> [https://www.infrastructureaustralia.gov.au/sites/default/files/2019-06/urbis\\_valuations\\_report\\_on\\_historic\\_land\\_value\\_growth\\_in\\_east\\_coast\\_capital\\_cities\\_july\\_2013.pdf](https://www.infrastructureaustralia.gov.au/sites/default/files/2019-06/urbis_valuations_report_on_historic_land_value_growth_in_east_coast_capital_cities_july_2013.pdf)

*ratings for all respondents to this question average to 4.1 out of 5, indicating overall agreement with the statement People who work in the industry were in less agreement, resulting in an overall rating of 3.6 out of 5, with 62 per cent agreeing or strongly agreeing.*<sup>6</sup>

### **The Housing We'd Choose, GRATTAN Institute 2011**

*Unsurprisingly, these results suggest that in choosing dwellings, people give priority to the number of bedrooms, having a detached house with a garage, and ample living space. In short, 'bigger is better'.*<sup>7</sup>

When asked, people's preference is clear: they are searching for a regulated minimum housing size as an assurance of amenity; and, they place the size of dwelling high in their preferences.

Understanding the consumers preferences, understanding the demand, is the necessary first step towards building dwellings that better match our preferences.

Starting with the supply side preferences, such as those indicated by The Urban Taskforce, is more likely to lead to supplying products that maximise profit for the development industry not building dwellings that better match our preferences.

In answer to the topic 'building dwellings that better match our preferences' the following questions must be addressed by the Productivity Commission:

- How can the NSW Government address information asymmetry in the housing market?
- What role can existing regulation have in assisting addressing information asymmetry?
- What are people's housing preferences and how can the market better respond to these?
- What are the factors on the supply side and demand side that effect housing affordability, what are their relative effects and how are these interrelated?
- What programs and regulations have been successful in addressing housing affordability and how can the NSW Government extend these?

There are many inquiries and investigations into the question of supply of affordable housing. A better place for the Productivity Commission to start the discussion to address affordable housing is with properly researched independent papers by experts in the area. For example, the Australian Housing and Urban Research Institute (AHURI) is a national independent research network. Their reading list is available here: <https://www.ahuri.edu.au/research/key-research-themes>

### **Making the most of public and green space**

The City agrees that public open space, especially green spaces, are important contributors to liveable, healthy and productive cities.

As identified in the City's Community Wellbeing Indicators 2019 report, a healthy population is better able to participate in employment, education, social and community activities, and reduces costs incurred for health related services. Our findings reflect the evidence, including World Health Organisation research,

<sup>6</sup> [https://www.planning.vic.gov.au/\\_data/assets/pdf\\_file/0023/9590/Better-Apartments-Community-Survey-Results.pdf](https://www.planning.vic.gov.au/_data/assets/pdf_file/0023/9590/Better-Apartments-Community-Survey-Results.pdf)

<sup>7</sup> [https://grattan.edu.au/wp-content/uploads/2014/04/090\\_cities\\_report\\_housing\\_market.pdf](https://grattan.edu.au/wp-content/uploads/2014/04/090_cities_report_housing_market.pdf)

regarding the positive physical and mental health outcomes of green spaces. This is especially significant given the Australian Government's Productivity Commission report in October 2019, which states that mental health and suicide is costing Australia up to \$180 billion annually. Green space is also important for mitigating climate change impacts such as increased heat-island effects. As outlined in the Lancet Countdown 2019 report, a changing climate has profound implications for human health, including more frequent heatwaves and extreme weather events, which has the potential to result in significant impacts to productivity.

The City's Open Space, Sport and Recreation Needs Study 2016 and draft planning statement outline many of the challenges the City is facing in providing quality open space in existing high density environments. The City is working to address these challenges in a number of ways including increasing the efficiency of land by making places and spaces more multifunctional, advocating for greater sharing of land and facilities with NSW Government agencies and educational institutions, and the establishment of district-wide approaches for sportsfield planning.

Although making the City's land and assets works harder, covering the costs of supplying and maintaining open space and recreation facilities will determine whether these spaces can function well into the future. A range of funding mechanisms are being used, or supported by the City, including developer contributions plans (which are not currently sufficient on their own to cover the ongoing costs), community infrastructure plans (used for Green Square) and the Place-based Infrastructure Compact model being piloted by the Greater Sydney Commission.

Open space is important social infrastructure for creating and sustaining inclusive, engaging and productive communities. Open, green spaces are highly valued by our communities, and this should not be put at risk through the creation of barriers to participation such as user pays systems.

### Transport corridors

The City agrees that there is scope to improve the use of transport corridors to enhance the public domain and the benefits that flow from this. In Central Sydney, 92% of trips are on foot, but road space allocation does not reflect this. Based on the City's forecasts, there will be an extra 700,000 people a day in the city by 2050, therefore how road space is assigned to support liveable, healthy and productive cities is important, rather than just maintaining historical road space allocation.

The Sydney CBD light rail project is an example of improving the productivity of public spaces due to the reprioritisation of transport infrastructure. Based on NSW Government data, about 8,000 to 9,000 fewer vehicles are travelling into the CBD on average during weekday mornings compared to 2015, coinciding with the closure of George Street to vehicle traffic for the construction of the light rail. To realise the benefits of this new public transport infrastructure, the City produced George Street 2020 – A Public Domain Activation Strategy. This report detailed how George Street could be transformed into a light rail and pedestrian boulevard with additional canopy cover to maximise people's enjoyment of the street, add vibrancy to the area and support retail and the local economy. There is scope to continue to encourage walking and cycling in the city through planning of streets to 'people first' places and transition to a low-carbon, energy efficient transport network by 2030.

Optimising public space for people can lead to integrated transport, environmental and health benefits. This is consistent with approaches being used in other global cities, such as Healthy Streets for London, which not only seeks to increase health outcomes, but also make London's streets more efficient. The City's Liveable Green Network is a significant project that will not only increase accessibility to open space across the city, but will also improve walking and cycling to connect communities, improve health and create more efficient movement networks. A city that is pleasant,

convenient and safe to move around is also likely to be an attractor of talent in a globally competitive world.

Improving efficiency of movement also needs to consider service and freight vehicle movements (which could include options such as more centralisation or sharing of service facilities), on and off street parking, and new metro stations to service existing and forecast populations and employment centres.

Clear process for prioritising and managing allocation of road space consistent with the NSW Government vision and policy are required. This should reallocate road space to people and place in centres and on main streets (at the expense of vehicle movement).

The movement and place approach should be applied systematically, ideally to implement place-based transport planning. Movement and Place is NSW Government policy (Future Transport) but implementation of the guidance is unstrategic and inconsistent

Programs that reduce speed and traffic volumes in local streets must be developed, so they are more pleasant and can fulfil some basic social and recreational needs. This will reduce demand for dedicated recreational facilities and parks

### **Moving toward more efficient and equitable developer contributions**

A more efficient and equitable contributions system starts with better understanding our existing infrastructure and our communities as described on page 6 of this submission. A more collaborative and open approach to infrastructure planning and delivery will ensure government, as a whole, has adequate resources to achieve planned outcomes, maintain their long term sustainability and providing maximum value to the community.

The City funds local infrastructure through development contributions, community infrastructure contributions and other funding sources, including general revenue and restricted grants.

In much of the city, developer contributions do not fully fund identified infrastructure due to the NSW Government's cap on developer contributions. For the infrastructure to be delivered, the gap needs to be covered by council rates and other revenue sources. The funding gap exists regardless of density because the cap is imposed on every dwelling constructed. Combined with restrictions on increases to rates revenue, there is a need for innovative sources of infrastructure funding to support our growing community.

The City has embedded a community infrastructure contributions approach in its planning framework to support communities in the Green Square Urban Renewal Area. Community infrastructure contributions provide for infrastructure needed because of the optional growth possible under the planning controls. This scheme enables a proponent to opt in to additional floor space and sets out the infrastructure contribution or works-in-kind needed to support the additional development, which is specified in a community infrastructure plan. The contribution is secured through a voluntary planning agreement.

Almost a half of Green Square's \$1.3 billion capital works will be delivered via developer contributions. Almost a third will be delivered via innovative planning mechanisms of community infrastructure contributions via planning agreements. Despite these funding mechanisms, a 13-15% per cent gap is needed to be covered by local government. Without the additional contribution of the City, the land could not have been made suitable for development (such as through essential drainage unfunded by Sydney Water) and necessary community infrastructure wouldn't have been provided, risking housing supply and good community outcomes.

Any discussion on moving toward more efficient and equitable developer contributions system must consider:

- **Population-dependent Infrastructure funding models** - when a new development increases the population demand for infrastructure such as open space and community facilities, the cost of meeting this development-generated demand should remain through development contributions and community infrastructure floor space schemes, rather than rates.

The cost of acquiring land and constructing facilities for open space, libraries and community facilities in established areas is very significant and typically the largest cost component in a contributions plan, particularly for residential development. Without these contributions – and with rate pegging and fixed income streams – councils would be unable to meet the cost of developing additional or enhanced community infrastructure. The absence of additional community infrastructure would result in access and quality inequities within each local government area (LGA) and between LGAs.

- **Residential development contributions cap** - the burden of funding major infrastructure costs (capital and recurrent) is borne not just by the NSW Government but also in large part by local governments. Over the next 10 years, the City will be spending \$1.66b on additional, enhanced or renewed infrastructure. The cumulative value of capital infrastructure investment and subsequent recurrent costs to maintain and operate facilities by local government in NSW would amount to tens of billions of dollars over the next decade. A significant percentage of this investment is associated with development contributions.

Unlike the NSW Government, local government is constrained by a Direction from the Minister for Planning from recouping the full cost costs associated with infrastructure delivery required by new residential development. This has the effect of sending inaccurate signals to the market about project viability, resulting in the development that reduces productivity and represents inequitable subsidy of new development by the existing community. It also means that the City has less opportunity to reduce charges that impede productivity. It also means the City has less capacity to provide new or improved infrastructure to meet the needs of our existing community. For these reasons, the City supports long-standing NSW Local Government Association resolutions for the abandonment of the \$20k cap on contributions for residential development in established areas and the \$30k cap applying to new release areas.

- **State Infrastructure Contributions** - State Infrastructure Contribution (SIC) plans should be subject to the same principles and guidelines that apply to local contributions plans. This would include detailing infrastructure to be funded by these contributions, the link to the new development and the timing of the works delivery. Communities, councils and developers are presently provided with little certainty and transparency regarding how SIC funding is allocated and how that relates to their needs.
- **Recognise Human Services infrastructure** – recognise that the human services component of local infrastructure (e.g. staffing at libraries, community centres, child care centres, arts/performance venues) is as critical as the capital works in meeting the needs of growing, changing communities. Funding of such services, at least during the establishment of a changing community could be considered.
- **Affordable infrastructure in established areas** – an efficient development contributions system will need to respond to the difficulty in affordably

funding delivery of additional local infrastructure in established areas where land availability is limited and acquisition costs are so high as to be almost uneconomic for the intended public purpose. This issue confronts all major metropolitan areas in NSW and impacts on our capacity to accommodate growth while ensuring equitable access to essential local infrastructure.

### **Minimising red tape and complexity**

The City welcomes discussion on improving the planning system so it is efficient, transparent, provides certainty, provides for genuine public consultation, produces quality outcomes and protects the public interest.

#### Notification and exhibition processes

Community participation is integral to the planning system. The City is committed to involving the community in planning processes and decisions, establishing effective, fair and consistent consultation processes and increasing transparency in decision-making.

Notification and exhibition procedures must remain relevant and reflect changes and improvements in technology, including NSW local government's shift towards e-planning and e-newsletter's for the notification of development applications, and, the reduced circulation and readership of local newspapers.

NSW Government direction on the standardisation of notification and exhibition procedures would assist local government in reducing the complexity and associated costs for both applicants and local government of notifying development applications.

#### Appeals

The appeals process is long and drawn out and does not result in quick determinations. It takes significant resources away from the assessment of development applications. The process effectively requires mandatory mediations and currently mandatory pre-mediation without prejudice meetings.

The six month period for appeals does undoubtedly encourage some appeals to be lodged and should be dispensed with. Consideration should also be given to increasing the non-determination time after which appeals can be lodged particularly for more significant development. It is common practice for some in the development industry to appeal after the 40 day deadline. This results in resources being dedicated to the appeal and taken away from assessment of other applications.

The Independent Planning Commission and Sydney Planning Panels have demonstrated that independent tribunals can provide the objectivity and accountability required to determine development applications and carry out plan-making functions that are contentious for the community and Council.

The City is supportive of independent hearings and considers that they may have a role in determining minor and major appeals where the Land and Environment Court may not always possess the necessary expertise and present the most appropriate forum for resolving complex projects.

#### Documents

The City notes that documentary requirements for development applications differs from council to council and in principle, would welcome standardisation across the state. However, such an approach is likely to be complex. The requirement for particular documents are unlikely to be able to be linked to a development type alone (a Geotechnical Report being required for excavation for example) and the

differing needs of urban and regional councils need to be considered. If such an approach is implemented, clarity needs to be provided to councils on what flexibility there may be to request additional documentation after lodgement.

### ePlanning

The City is currently in the implementation stage of its own ePlanning program. Part of this program includes the development of a lodgement portal for a number of application types that are handled by the City's Planning Assessments Unit. For a number of years, there has been a lack of clarity from the Department of Planning on its future intentions with regard to the development of a state-wide lodgement portal and it is still unclear whether its intention is to mandate its use across the state. More clarity is needed to ascertain how the development of the Portal will fit with investments councils are making in their own planning-related IT infrastructure. More engagement is needed with councils to ascertain how the future development of the portal will help deliver their individual needs in respect of functionality, data collection etc and what future support will be provided to councils.