

SUBMISSION COVERSHEET

Submissions may address any key issues related to the Infrastructure Australia agenda and/or in specific response to the topics raised in the discussion papers.

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Via email Write 'Submission' in subject field of the email and send to: mail@infrastructureaustralia.gov.au	Via post Address your submission to: The Infrastructure Coordinator Infrastructure Australia GPO Box 594 Canberra ACT 2601 AUSTRALIA
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Please indicate if your submission:

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Issues Paper 1 — Australia's Future Infrastructure Requirements

Issues Paper 2 – Public Private Partnerships

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Water Infrastructure

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Climate Change

Public Private Partnerships

Infrastructure Audit

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Telecommunications Infrastructure

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International issues

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Submission to Infrastructure Australia

October 2008

Introduction

The Urban Development Institute of Australia NSW Division (UDIA NSW) is a proud advocate of the urban development industry. We represent over 500 participants in the industry and our members include developers, regulators and affiliated professionals. Our advocacy efforts are directed towards three major issues:

- housing affordability;
- investment certainty; and
- sustainability.

UDIA NSW welcomes the Commonwealth Government initiatives with regard to infrastructure and the emerging role of Infrastructure Australia in providing the framework for informing decision making. The consultative process being undertaken as part of the infrastructure audit initiative will be fundamental to a comprehensive analysis of needs and priorities to guide public investment and the opportunity to comment is appreciated.

UDIA NSW recognises that the scope of the infrastructure audit is necessarily broad, focussing on issues and projects that have national significance in terms of expanding the productive capacity of the economy. The current global financial situation underscores the relevance of this agenda.

The urban development sector is a major contributor to the underlying strength of the Australian economy. The residential sector alone contributes more than \$15 billion worth of economic activity in NSW and the property industry generally accounts for around twenty per cent of state government revenue through stamp duty. The urban development sector delivers social and economic outcomes on a considerable scale and is a major participant in the delivery of infrastructure.

Australia's metropolitan primacy underlines the importance of urban investment in promoting efficient and productive cities. Furthermore, nearly 70% of the nation's population lives in the capital cities. While recently somewhat overshadowed by the dramatic expansion of the resources industry in Australia, the role of cities in driving long term economic growth warrants particular consideration as part of the infrastructure audit. Indeed "*Sydney is Australia's premier global city with thirty per cent of national employment in financial business services, and its economy alone is comparable in size to Singapore*".¹

Cities are a key driver of economic growth and productivity, as such, urban infrastructure investments that generate efficiency dividends and stimulate new demand should be appropriately recognised as being of national significance. A major emerging constraint to Sydney's productivity is the capacity of the urban development industry to deliver housing opportunities within financial reach of the market. UDIA NSW advocates a considerably more significant role for the Commonwealth Government in the urban development process through targeted investment in infrastructure to support large scale dwelling production and employment generation.

¹ NSW Government (2008), *Infrastructure Audit Submission to Infrastructure Australia*

The Role of Australia's Cities

The role of cities in driving sustained, long term economic productivity was not well reflected in Commonwealth infrastructure investment by the previous Government. This has compounded a period of sustained complacency from the NSW Government in providing adequate stimulus for long term economic productivity. This prevailing philosophy has constrained the expansion of the NSW economy, which has not benefited substantially in relative terms to the resource-heavy states from the commodities boom.

By 2018 more than three quarters of the NSW population will reside in greater metropolitan Sydney. The challenge in leveraging the scale of Sydney's population and labour force to increase productive capacity is one that demands national leadership and tangible investment.

Infrastructure investments in Sydney are a fundamental contributor to national economic productivity given the city's scale and economic role. The role of major transport infrastructure in facilitating urban investment and facilitating greater access and labour mobility needs to be better reflected in Commonwealth investment.

A failure to invest in urban infrastructure Sydney to utilise the inherent intellectual and labour capital to the benefit of the economy will not only affect national productivity, but can dramatically impact on quality of life. The lack of public transport infrastructure in Sydney's middle and outer suburbs is already having significant impacts on labour mobility, denying people access to employment, particularly in the less skilled sectors which tend to be located remote from established public transport hubs and networks.

The opportunity cost of road congestion on a number of the key road corridors of Australia's only global city is a matter of economic and social importance to Sydney, and indeed Australia. While the classification of most of these roads reflect a notional state responsibility, their importance to the overall performance of Sydney with regard to productivity is a national concern. Access to key economic zones such as the airport, Port Botany, and Sydney's 'Global Arc' are particularly relevant to Commonwealth investment considerations.

National Productive Capacity

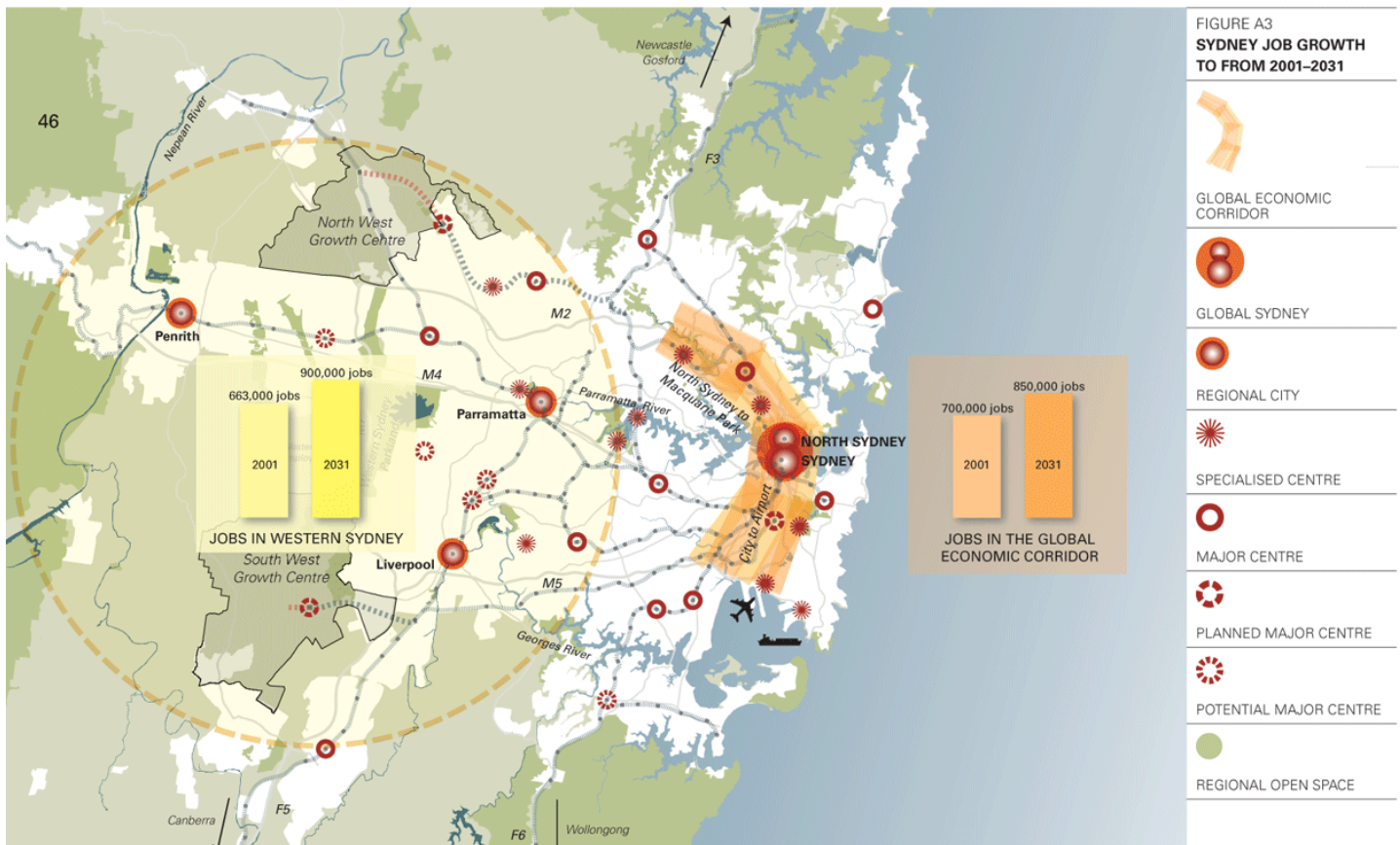
The scale and diversity of the major contributors to Australia's GDP underlines the importance of a broad and thorough audit of existing capacity constraints on the economy and in identifying opportunities for the future. Investment in urban infrastructure does not generate commensurate attention with port and airport developments, but must not be overlooked as part of the infrastructure audit.

Investment in urban infrastructure allows the development of the economies of scale offered by large cities to leverage the investment into significant productivity gains and to stimulate economic activity in its own right. The construction of the M7 in Western Sydney as part of the Sydney Orbital Network has demonstrated emphatically the role of infrastructure connectivity in stimulating economic activity through new housing and employment land development, and the benefits of targeted Commonwealth involvement in urban infrastructure.

UDIA NSW recognises that some infrastructure should continue to be funded by local and state governments, but that selected Commonwealth investments in urban infrastructure projects, particularly in the transport sector, are warranted in the context of national economic impact. Transport defines settlement and land use.

The concentration of industry sectors in Sydney that are directly exposed to international markets underlines the importance of internationally competitive infrastructure networks to sustain and attract investment. This cluster is referred to as Sydney's 'Global Arc' and is of

fundamental importance to national productivity. This area generates an output in excess of \$40 billion per annum². The arc is reflected in the image below.



Source: NSW Government (2005), *Sydney Metropolitan Strategy*

Ensuring efficient public transport links to the ‘global arc’ will be fundamental to national productivity. The blueprint for the next 25 years of economic and population growth was provided by the Sydney Metropolitan Strategy. The Strategy links people to employment. The ‘global arc’ was the foundation of the employment strategy. The expansions in the rail network were to link the North West and South West to the arc and from the airport to Ryde.

It is therefore critical that a commitment to delivering these public transport networks be maintained. The value of the ‘global arc’ in contributing to national productivity will be dependent on access to labour and efficient transport networks within the arc.

Regulatory Environment

The regulatory framework for major project assessment in NSW has undergone reform over the last five years but still remains less competitive than other states in terms of efficiency and in providing investment certainty. While planning legislation remains a state responsibility, UDIA NSW understands that there has been some action with regard to pursuing a more consistent framework for development assessment through the Council of Australian Governments.

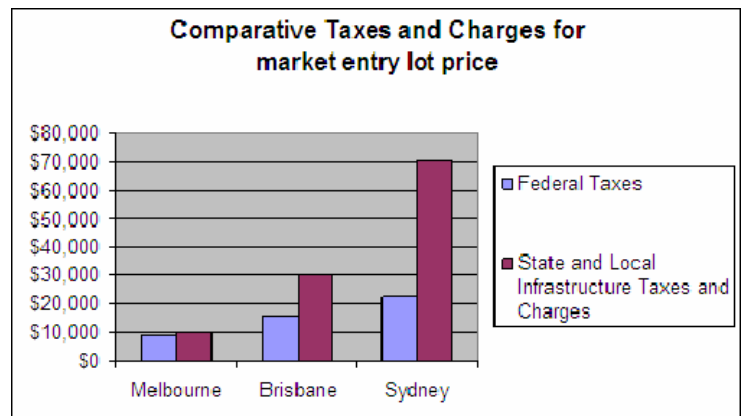
Given the role of significant infrastructure in driving national economic productivity, UDIA NSW suggests that there may be a leadership role for Infrastructure Australia in creating better legislative processes. A consistent, coordinated regulatory approach to the assessment of infrastructure projects of national significance would provide greater certainty

² NSW Government (2008), *Infrastructure Audit Submission to Infrastructure Australia*

for potential investors and would assist in depoliticising important decision making at state and regional levels.

One of the major issues with regard to the regulatory environment for project assessment in NSW is the role it has played in enshrining a completely uncompetitive economic framework of property taxes and levies. The principal regulatory impediment to stimulating adequate levels of urban development investment to provide housing and employment is the development contributions system used to fund state infrastructure.

The application of development levies in Sydney in particular has contributed to significant geographic and intergenerational inequities for new homebuyers. New homebuyers in Western Sydney are paying a minimum seven times more in local and state government charges than they would in Melbourne, and twice as much as they would in Brisbane as evidenced by the graph to the right.



The current framework of levies requires first homebuyers to pay the full cost of the asset up front rather than over the full life of the asset. The same concept if applied in a recent context would be not dissimilar to asking the first 1,000 people through Sydney's Cross City Tunnel to pay up front for the full cost of the motorway.

The Commonwealth Government has sought to begin addressing the issue of housing affordability generally, through the provision of the \$500 million Housing Affordability Fund, and more recently, through demand stimulus via the expansion of the First Home Owners Grant initiative. While these initiatives are very much welcomed by the urban development industry, the role of the Commonwealth Government in assisting urban stakeholders in the development of housing and provision of infrastructure must be expanded so that it addresses long term systemic issues as well as providing short term stimulus.

Infrastructure Adequacy

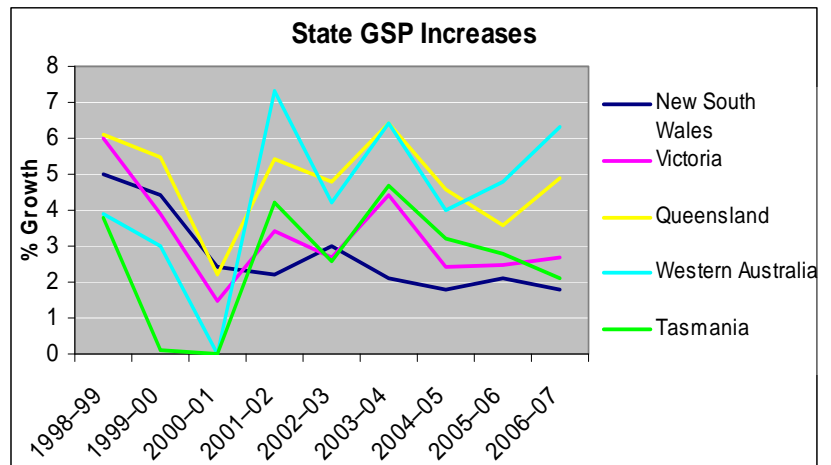
Investment certainty in urban development in NSW and Sydney in particular has been compromised by successive reviews of Government commitments to investment in public transport infrastructure. Existing transport networks, particularly in regard to rail infrastructure, have suffered from sustained underinvestment in both the maintenance of the existing network and the expansion of new lines to meet growing demand from new and planned development.

Investment in expanding the Sydney rail network in the North West and South West of the metropolitan area has been foreshadowed by the NSW Government yet lacks any financial commitment, and in the case of the North West investment, the commitments have undergone several iterations. The areas to be serviced by the new lines are planned to provide more than 160,000 new homes over the next 25 years.

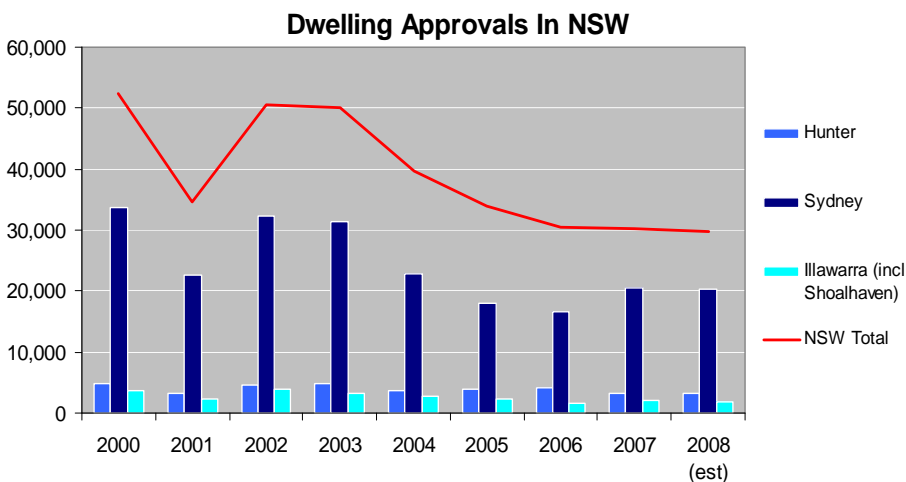
The Sydney' Orbital Network of motorways has expanded substantially in the last twenty years and this investment is recognised. This network has served to increase connectivity between major productivity centres throughout the Sydney Metropolitan Region and has activated previously underutilised employment and housing opportunities. There are however, significant equity issues that have emerged as a result of how the motorway network has been developed. A return trip from the North West of Sydney to the airport via the motorway network costs more than \$25 per car compared to a return trip to the airport from the South West of Sydney effectively cash free via the M5 cash-back structure.

Quantitative Measures

The NSW economy is significantly underperforming that of every other major state and this is being reflected in successive years of gross state product growth of less than three per cent. The need for the Government to provide a dynamic investment environment through public investment in infrastructure has been overshadowed in NSW in recent times by matters of less significance. NSW is now significantly uncompetitive relative to other states as a place to do business. This is nowhere more pronounced than in the urban development industry.



The effect of underinvestment in infrastructure to support urban development growth in NSW is reflected in declining GST and stamp duty revenue in 2008 and the increasing cost of congestion on business activity. Dwelling production in NSW is at fifty year lows and the industry is sustaining significant employment contraction, particularly in Sydney. The tax and levy cost structure of new housing in Sydney is now seven times more expensive than in Melbourne and twice as expensive as Brisbane.



The infrastructure funding framework is providing a context for consecutive years of record low dwelling production and is driving damaging structural change in the housing market. The lack of new dwelling stock is placing significant downward pressure on rental vacancy rates which is generating corresponding cost inflation in rental accommodation. Rental vacancy rates in Sydney have fallen from 3.8% to 1.4% in the past three years³.

Despite historically low production, the underlying demand for housing in NSW remains relatively robust, with record levels of immigration and changing household formation. NSW is attracting roughly thirty per cent of all new overseas arrivals, with net overseas immigration at 54,163 and rising, with the demand for access to highly skilled employment in Sydney.

UDIA NSW estimates that there is an underlying demand for housing of approximately 44,000 dwellings per annum in NSW which will likely increase between 1-1.5% over the next 2 years consistent with stronger immigration. The disparity between supply and the underlying demand for housing in NSW is therefore becoming increasingly significant.

³ ANZ, 2007.

Key Projects

The Sydney Metropolitan Strategy and Regional Strategies have provided the strategic framework for investment and have identified current and likely future demands on infrastructure. These projects lack strong commitment from the NSW Government with regard to financing and delivery.

In Sydney the delivery of the North West and South West Rail lines will be critical to servicing the public transport demands of the future residents on the North and South West Growth Centres. The NSW Government has made a public commitment to deliver both of these projects to underpin the population growth of 500,000 persons over the next 25 years in these sub-regions. Abandoning this commitment or a prolonged delay to construction will exacerbate existing constraints and limit labour access to key employment centres, particularly the global arc.

The Commonwealth Government has recently expanded the First Home Owners Grant to stimulate demand in the housing industry yet the underlying cost structure for development in Sydney still precludes market entry for a large proportion of potential homebuyers. Utilising Commonwealth investment in the major arterial road network that has traditionally been publicly funded but is now financed through development contributions, would be an effective stimulus for economic activity and generate significant and expedient flow on effects for the economy through increased household spending on furniture and house fittings.

A network of Sydney's arterial roads, including Richmond Road, Schofields Road, The Northern Road, Camden Valley Way are all located in identified growth areas and while they would not typically be regarded as being of national economic significance, they will play a vital role in stimulating new housing and employment land development addressing the nationally significant housing affordability crisis in western Sydney. The current framework for investment in these roads is dependent on housing market activity, which has stagnated because of the prohibitive cost structure.

Conclusion

The establishment of Infrastructure Australia and the infrastructure audit process with the intent to bring a level of coordination and structure to areas where public investment is needed is very much welcomed by UDIA NSW. The absence of previous Commonwealth investment in cities has impacted the competitiveness of our globally exposed centres, particularly Sydney. The role of Infrastructure Australia in identifying and targeting these existing and likely future capacity constraints will be fundamental to their contribution to national productivity.

Many of Sydney's current productivity constraints are related to access and mobility. Investment in public transport infrastructure in particular has been very insufficient and the failure of the Government to commit to delivering new rail networks to provide for future growth is of national concern. The urban development industry has been unable to deliver housing in Sydney with access to public transport at affordable levels due to the high premium on property around existing networks and the absence of new infrastructure to support growth. This is having a significant deleterious impact on the affordability of housing in Sydney, on labour mobility and on productivity.

UDIA NSW recommends:

- 1. That Infrastructure Australia prioritise the delivery of transport infrastructure in Sydney to improve accessibility and increase the city's productivity. This must include road and rail connectivity from new release areas to key employment centres, with investment in expanding the existing passenger rail network and the delivery of planned new lines to the North West and South West.**
- 2. That Infrastructure Australia support Commonwealth demand initiatives for new housing by key infrastructure projects to stimulate new housing production.**