



SENATE SELECT COMMITTEE ON HOUSING AFFORDABILITY IN AUSTRALIA

Submission by the City of Greater Geelong

April 2008

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Preamble

The City of Greater Geelong welcomes the opportunity to provide a submission to the Senate Select Committee on Housing Affordability.

Greater Geelong is a rapidly growing municipality with a current population of approximately 213,000 persons and 89,000 households¹. The municipality includes the large urban area of Geelong, as well as an expansive rural hinterland and a range of attractive coastal settlements on the Bellarine Peninsula. Geelong is the second largest city in Victoria and the State's largest regional centre.

Being located less than an hours travel distance from Melbourne, Geelong is increasingly seen as a major metropolitan growth node. Urban settlements in the municipality are close to world class coastal and rural environments, whilst also enjoying direct accessibility to the range of higher order urban services offered by a major regional centre.

Accessibility between Geelong and metropolitan Melbourne has been recently improved through upgrades to the Princes Freeway and the Melbourne - Geelong rail line. Accessibility between the two cities will be further improved by the construction of the Geelong Ring Road, which is due to be complete by 2010. Geelong's reputation and attractiveness as a metropolitan growth node has been further enhanced by the recent redevelopment of the waterfront precinct in Central Geelong.

As a result of these and other attributes, population and housing growth in Geelong is expected to be strong over the medium to longer term. A key focus of Council is planning to accommodate this growth in a sustainable way which provides the highest quality living environments for all residents.

To this end, Council has recently completed a major overhaul of its controls on land use and development (articulated in the Greater Geelong Planning Scheme). This has included the development of a new 'Housing Diversity Strategy' and well as the preparation of strategic plans to guide the growth and development for most coastal settlements in the municipality.

Council's major urban settlement and housing directions include:

- Consolidating housing development within existing urban areas, particularly areas around activity centres and public transport infrastructure;
- Designating the Armstrong Creek Urban Growth Area as the Geelong region's principal greenfield urban growth area (2350ha, population capacity of 54,000 persons);
- Encouraging the development of a more diverse range of housing stock, particularly medium and higher density housing that is close to urban services and lifestyle destinations; and
- Improving housing affordability through: the maintenance of appropriate urban land supplies, the promotion of an efficient housing market; the implementation of best practice infrastructure delivery and coordination systems; the development of a diverse range of housing stock; and, the provision of strong advocacy for mechanisms to improve greater private sector investment in affordable housing.

Council, in collaboration with the G21 Region Alliance, has recently commenced the preparation of an Affordable Housing Strategy for the G21 Region. The G21 Region comprises the municipalities of Greater Geelong, Surf Coast, Colac Otway, Golden Plains and the Borough of Queenscliffe.

¹ Victorian State Government (2004), *Victoria in Future 2004 – Population Projections*, Melbourne.

Amongst other things, the G21 Affordable Housing Strategy will pave the way for the focused operation of a Registered Housing Association (RHA) in the G21 region. This will significantly improve the region's capacity to deliver an increased supply of well located affordable housing for those most in need.

Introduction

The City of Greater Geelong recognises the rapid decline in housing affordability across many of Australia's urban areas, including in Geelong.

As noted by many commentators, including by the Productivity Commission², this trend has been underpinned by the following key influences:

- A sustained period of population and household growth (including declining household sizes), which has increased the overall demand for housing;
- A sustained period of economic growth, which has generated low unemployment and increased wealth, in turn increasing many peoples capacity to pay for housing;
- Ready access to debt finance at historically low interest rates, which has further increased peoples capacity to pay for housing; and
- A shortage in the supply of housing, in particular in well serviced inner urban locations.

In summary, over the past decade or so an ever growing number of Australian households have exhibited a preference for locating in inner urban areas that are well serviced by transport networks, schools, jobs, educational institutions, lifestyle attractions and community facilities, for example.

The supply of housing in such locations is inherently scarce and inelastic. There are only a limited number of such locations within any metropolitan area in the first instance, whilst the capacity to deliver significantly increased numbers of dwellings in those locations is constrained by various environmental, social and economic factors.

Consequently, a growing number of increasingly wealthy households have been competing for an increasingly scarce product (well located housing)³. This has driven up the cost of that product to the point where those on middle to lower incomes have become increasingly marginalised. The supply of low cost rental accommodation for those on low to very low incomes is particularly scarce and concerning.

There are other, less fundamental, influences on housing affordability across urban Australia. These are mostly concerned with inefficiencies in housing markets and include:

- Inadequate land supply arrangements in some areas;
- Overly complex, time consuming, non-transparent and non-standardised development approvals processes in some areas;
- Labour shortages in the sectors involved with housing production in most areas;
- Inadequate infrastructure funding and delivery arrangements in most areas, particularly with respect to servicing new areas on the urban fringe;
- The impact of fiscal policy, in particular the lack of targeted incentives for increased investment in new affordable housing (e.g. targeted negative gearing and depreciation incentives for investment in new affordable housing); and
- Related to the above, the impact of current taxation arrangements (particularly negative gearing and capital gains tax arrangements) which serve to encourage increased investment in established housing products by relatively wealthy households, to the

² Productivity Commission (2004), *First Home Ownership*, Report no. 28, Melbourne.

³ It can be further contended that the supply of housing in 'inner' urban areas becomes increasingly scarce as metropolitan areas grow outwardly. That is, the inner urban core makes up an increasingly small proportion of the overall metropolitan area.

detriment of housing supply for those on lower incomes (particularly low cost rental housing) and those on the margins of home ownership.

The City of Greater Geelong expects that the Senate Select Committee will receive submissions covering the gamut of these key influences and issues.

The purpose of this submission is not to provide commentary on each one. Rather, Council wishes to highlight a particular and glaring deficiency in the current policy framework concerned with housing and urban development in many Australian jurisdictions, and to propose a solution. It is Council's view that the subject of this submission represents one of the most fundamental, relatively simple and important policy initiatives which any Government could undertake to dramatically improve long term housing affordability across Australia.

Council refers to the need for a return to an explicit, transparent and equitable approach to the capturing of 'betterment' or 'windfall gains' which land owners sustain when higher order development rights are conferred on land by the wider community.

Council submits that appropriately capturing a proportion of this betterment would significantly enhance governments' capacity to deliver of an increased supply of well serviced, well connected, sustainable urban environments. Implicit in this submission is the premise that a lack of supply of such locations - particularly in terms of adequately serviced new urban communities on the urban fringe - is a fundamental driver of the housing affordability problem.

Further implicit in this submission is the premise that, at present, jurisdictions across Australia currently suffer from:

- A lack of funding to deliver on the communities aspirations for urban development, particularly in fringe areas; and
- Significant difficulties and inefficiencies in coordinating new development, particularly in terms of coordinating infrastructure delivery and service provision across a range of public agencies and private developers.

In the search for new and effective policy levers to combat the housing affordability problem, the reinstatement of betterment capture as a fundamental public policy principle is perhaps one of the most obvious, simple and effective mechanisms available to any Australian Government.

Defining betterment capture⁴

As outlined above, 'betterment capture' in this submission is defined as "*a mechanism which seeks to capture a proportion of any uplift in land values which land owners sustain as a result of a public policy decision, rather than as a direct result of their own actions*".

Generally, such uplifts in land values are sustained when the scope or permissible intensity of development on a site is increased to fulfil some kind of public policy objective. This can include, for example, changes to the development provisions for sites in established urban areas, as well as instances where a public authority designates formerly non-urban land for immediate or future urban development (e.g. by enveloping non-urban land within a defined urban growth boundary or urban growth area).

Instances where formerly non-urban landholdings are designated for new urban development, particularly on the urban fringe, are perhaps the most notable examples of significant betterment being sustained by land owners as a result of public policy decision. For example, recent analyses of rural land on the fringe of metropolitan Melbourne has shown that when such is designated for future urban development, it's value typically increases by as much as \$300,000 - \$400,000 per ha⁵. At present, the majority of this betterment is shared by the owners and developers of the land in question, rather than flowing back to the community who created it.

Betterment capture theory relies on the premise that the community is entitled to 'capture' a proportion of this sort of uplift in land value, because the uplift has been sustained as a result of a community decision, rather than as a result of the actions of the land owner or developer.

More specifically, the community creates the uplift in land value through its collective 'design' of the city, particularly it's determination that urban development shall not occur on a laissez faire basis but, rather, in a rationed and systematic way which maximises the net benefit to the community. In short, by regulating the supply points and volumes of higher order land uses and development, higher values for sites with the rights to be developed are created. Advocates of betterment capture systems argue that at least part of this 'unearned increment' should flow back to the community for re-investment to the public good including, for example, the improvement of local infrastructure and delivery of affordable housing.

Allied to this idea of value creation by the community is the mitigation of unproductive speculation. If the value of the development rights created by the community are not retained by the community, a speculative futures market is likely to – and usually does - develop around anticipated re-designations of land from lower to higher order uses. This introduces another source of uncertainty in the land market and slows down market adjustment as speculators withhold land in pursuit of even higher land values. As noted by many commentators, land speculation on the urban fringe is currently rife.

Mechanisms to capture betterment

This submission presents two main mechanisms which may be applied to capture betterment. These could be applied in combination or separately:

1. The public acquisition of land at a rate which is commensurate with it's value prior to the 'betterment' being sustained; and
2. The application of a betterment levy which is payable to a suitable public authority in respect of land for which betterment has been sustained.

These are discussed in more detail below.

⁴ Much of the material presented in this section of the submission is drawn from the following research paper - SGS Economics and Planning for the City of Greater Geelong (2005), *Betterment Capture Scoping Paper*, Melbourne. That paper is explicitly referenced here.

⁵ Victorian State Government (2005), *A Plan for Melbourne's Growth Areas*, Melbourne.

The acquisition of land by a public agency to capture betterment

A suitable public agency may capture betterment by compulsorily acquiring land at its 'pre-betterment' value and then either on-selling it to bona fide developers at a higher rate or engaging in various forms of land development 'in house'. Usually, the land is acquired at a rate which fairly compensates the owner for the compulsory nature of the acquisition.

There is nothing new about this concept of public land acquisition to capture betterment. Most notably, between 1972 and 1977 the Whitlam Government initiated a significant program of public land acquisition on the fringes of many urban areas across Australia, under the auspice of the Land Commission Program (LCP). The LCP led to the development of Urban Land Commissions in NSW (1975), South Australia (1973), Western Australia (1975), Victoria (1975) and Tasmania (1975).

Gleeson and Coiacetto⁶ note that, amongst other things, the LCP sought to address various social and economic shortcomings in land markets, particularly the need to capture 'surplus land value', which was defined as "the increase in land value that occurs when a lot is zoned to permit urban development and/or is proximate to new social infrastructure". They state:

"this increase in raw land value is often referred to as 'betterment', 'speculative return' or a 'windfall gain'. Surplus land value is an externality because it accrues to landholders and developers as unearned income. Surplus land value is a 'super profit' that bears little or no relation to normal profit margins and the risk on development capital outlaid".

Widespread public land acquisition by respective urban land authorities was wound back during the 1980's and 1990s. There was no real reason for this other than a general disliking for intervention in land markets by conservative governments and an increasing faith in the capacity of the market to deliver on the communities urban development objectives.

Four states (NSW, VIC., SA and WA) and one Territory (ACT) currently maintain public land development agencies; however their activities (particularly in terms of large scale land acquisition and land banking to capture betterment) have been substantially diminished. Most have a clear charter to deliver commercial rates of return to their respective State Government owners and, on this basis, most engage in commercial development projects in much the same vein as any other developer. This commercialisation of the respective land development agencies has, to a certain extent, displaced the social and environmental objectives which underpinned their original creation under the LCP.

It is Council's view that a full review ought be undertaken of the renewed role which public land acquisition and, where appropriate, development by suitable urban land authorities, can play in capturing betterment and delivering more sustainable urban environments. The imperatives for public intervention, as stated in the original LCP, are arguably more valid today than ever before. Indeed, new imperatives have emerged which make the need for such intervention even stronger. These are effectively summarised by Gleeson and Coiacetto and include:

- The sustainability imperative and its application to urban settings, requiring new approaches to urban development with a particular emphasis on the conservation of land, energy and water, and the minimisation of waste flows;
- Social changes, including increasingly diverse household forms, that require new ways of providing and using housing and other elements of the built environment;
- Evidence that the private urban development sector remains 'innovation averse' and is unlikely to respond quickly to the new social and environmental imperatives outlined above (that is, this inability to adequately supply new community needs represents an area of significant market failure);

⁶ Gleeson, B and Coiacetto, E (2005), *Public Land Agencies in Australia: The key to positive planning?*, Griffith University, Brisbane

- Heightened community expectations regarding the quality of urban environments, including their design, layout, and the provision of social and physical infrastructure; and
- The rapid escalation of growth in key metropolitan regions, requiring urgent programmatic intervention by governments to secure planning objectives and good growth outcomes in the face of rising land prices and growing social and environmental dislocation.

It is noted that, in many instances, the achievement of urban development objectives may be most efficiently achieved by public authorities engaging in land development, rather than simply purchasing land at pre-betterment values and on-selling it to bona fide developers at post-betterment values. This latter approach is the most straight forward however, and could be accompanied by explicit urban development requirements or, indeed, the relevant planning approvals could be undertaken by the public authority prior to the sale of the land. In any case, the public acquisition of the land in question has the potential to considerably alleviate the current complexities involved with coordinating infrastructure delivery and planning objectives in new urban areas, particularly as these usually involve a range of State Government agencies and departments.

The application of a 'betterment levy' to capture betterment

An arguably less direct method of capturing betterment is to require the payment of a 'betterment levy' in respect of land for which betterment has been sustained.

It is important to note that the introduction of any such levy should be more accurately described as the introduction of a 'Development Licence Fee' or similar. In simple terms, the any such fee would be predicated on the basis that when a public authority confers a development right on a particular piece of land (e.g. by zoning it for urban purposes), efficient resource allocation dictates that the authority charge for that licence, rather than give it away for free.

A key proposition in this context is that a 'development right' has a value in its own right and this value is conceptually distinct from the attributes of the particular piece of land which might host this right. In theory, 'development rights' can be auctioned off separately, that is, without reference to any specific piece of land. Indeed, this occurs in some overseas jurisdictions which feature 'transferable development rights', and in some local jurisdictions albeit in a more restricted way. For example, the Victorian Government's Docklands Authority sold development rights separately to land, with title passing over only upon completion of projects or stages.

Looked at this way, 'betterment levies' are akin to the Government's sale of licences to access other rent generating activities which are rationed for the sake of overall community well being and market efficiency, such as taxi licences, radio frequency licences and television broadcaster licences, for example. Such licences have a market value independent from the circumstances or intentions of the bidders / purchasers. The equilibrium market value of the licence is determined by the present value of future earnings (including a return on capital) from operating the licence minus the costs, assuming a reasonably efficient operator. It is not determined by the capacity to pay of operators encumbered by various inefficiencies.

It is important to reiterate that any development licence fee would relate to the value of the development right inferred upon land by the wider community. The payment of such a fee, by a bona fide developer, would have nothing to do with the payment of other fees and charges that might typically apply to land development. These might include user pays infrastructure charges, for example, and charges which seek to make good any unanticipated adverse effects of development (the need to bring forward infrastructure delivery, for example).

Establishing the value of a Development Licence Fee

The value of any Development Licence Fee could be determined on a case by case basis, by reference to *market values* pre and post rezoning. However, as sites are likely to be subject to rezoning speculation, the revenue yield from this method would be significantly reduced.

An alternative case by case approach would avoid the use of market values and instead rely on calculated 'residual land values'. These would be based on a highest and best use of the land in question before and after the rezoning, including provision for any lag effects (for example, land that is rezoned may not be scheduled for development for some several years). A proportion of the difference in these values could be adopted as the Development Licence Fee (e.g. 75%, reflecting current practice in the ACT).

Both of these case-by-case approaches carry with them great scope for disputation, and both could involve significant transaction / enforcement costs for public authorities and betterment payers alike.

A more streamlined approach would be to 'schedule' the average or modal value difference between different classes of urban and non-urban land in different areas (e.g. rural versus residential land, in a particular municipality). These scheduled differences in value would then be used as basis for calculating the value of a Development Licence Fee. The schedules could be formally incorporated into the development assessment instruments of different jurisdictions, such as the Planning Scheme in Victoria. The values would be adjusted each year for changes in the CPI or some other index, if more appropriate to the task.

By way of example, the scheduled average differential between 'rural' and 'englobo residential' land might be \$23 per square metre in a particular area (i.e. \$230,000 per hectare). Proponents of rezoning of rural land to residential land in that area would be required to pay a proportion of this differential, say 75%, as a Development Licence Fee. Because of the lesser precision in assessing 'before' and 'after' valuations under the pre-scheduled approach, the relevant authority would apply a somewhat lower betterment capture rate compared to a case by case valuation scenario. However, even at, say 50% of the scheduled value difference, the revenue yield would be considerable.

A weakness of this approach is the potential for the fee to be passed forward to end buyers of finished housing, rather than backwards to raw land sellers. Theory suggests that in a passive policy scenario, the levy is likely to be shared between the three agents in the market – raw land sellers, the developer and the end buyer, depending on the business cycle and demand and supply elasticities.

The City consider this to be a fairly significant weakness of the application of a Development Licence Fee to capture betterment. Obviously the incidence of the fee should rest with the sellers of raw land, however there is no way of guaranteeing this (short of public land acquisition to capture betterment, as described previously).

Maintaining efficient land markets would be paramount to minimising the potential for any Development Licence Fee to be passed forward to the ultimate consumers of land and housing. In this context, this principally includes maintaining appropriate urban land supplies and a competitive housing market. Incentives should also be installed for raw land sellers to release land in a timely fashion, rather than withhold it in the search for higher prices.

Land withholding could also be discouraged through a variety of taxation and infrastructure charging measures, for example:

- Removing any applicable Land Tax exemption once land has been designated for urban development in a relevant plan;
- Removal of other tax and rate breaks, including any applicable farming rebate; and

- Use of Differential Rates on designated properties, reflecting the availability of infrastructure to the designated land and the opportunity cost suffered by the wider community if the land is withheld.

The potential for more dramatic intervention, for example, involvement by an urban land authority to consolidate crucial parcels for the sake of timely land release, would also render long term land supply less elastic with respect to price.

To further reduce the impost of a Development Licence Fee and reduce it's likelihood of being passed forward to the end consumers of land and housing, it would need to be phased in so that developers had ample time to factor the fee into their development equations. For example, a potential phasing scenario might be:

- No fee on land within the next five years;
- A fee equivalent to 50% of the scheduled average betterment margins on land in years 5 – 10; and
- 75% of the of the scheduled average betterment margins on land beyond year 10 and on longer term, as yet undefined urban land release.

By phasing in the fee, it's incidence would be directed to land sellers to the fullest extent possible. That is, developers would account for the fee in their development equations and subsequently reduce the amount they are prepared to pay for raw land in the future. This is the desired effect of the fee.

The potential contribution of betterment capture to housing affordability and the achievement of other urban development objectives

To illustrate the extremely significant potential of betterment capture, the City has prepared a crude estimate of the quantum of betterment which is currently being sustained upon the conversion of non-urban land to land for residential development purposes on Melbourne's urban fringe. The land supply estimates draw on data presented in the Victorian State Government Urban Development Program (UDP)⁷.

According to the UDP, in 2006 there were approximately 14,608 hectares of 'greenfield' land designated for future residential development across Melbourne's metropolitan fringe growth areas⁸. This includes land that is designated for future residential development but not yet 'zoned' as such, as well as land that is zoned but not yet subdivided / developed (i.e. broadhectare land supply). This equates to around 25 years of land supply at projected development rates. Note that some of this land, once developed, will be for commercial and retail purposes.

As noted previously, analysis conducted by the Victorian State Government indicate that, on average, when non-urban land on the urban fringe is newly designated for future residential development, its value typically escalates by \$300,000 - \$400,000 per ha⁹

Thus, in very crude, nominal terms, by designating the abovementioned land supplies for future residential development (remembering that such land supplies were formerly designated for non-urban purposes), **betterment in the order of \$4.4 billion has been sustained across the land in aggregate**¹⁰. This represents the difference between the total value of the land prior to its designation for urban development, and its total value after designation for urban development. The increase has nothing to do with added value that might be created as a result of actually developing the land in question (although the value does reflect future development *potential* of the land, of course).

The \$4.4 billion increase in land value discussed above (i.e. the betterment) has been sustained *entirely* as a result of the Victorian community's decision to confer on the relevant land owners the right to develop that land (where previously they had no such right). It has not been sustained by any direct action of the landowner, other than being lucky enough to be the holder of the land in question. As described previously, it is surplus value.

Assuming 75% of the abovementioned betterment was captured (allowing for fair compensation to land owners as a result of compulsory land acquisition), a total land value increment of around \$3.3 billion could have been captured by the community, had a suitable mechanism been in place. In the case of Melbourne's growth areas, this value could have been redeployed to:

1. Deliver high quality public transport links within and between urban areas, particularly between new communities on the urban fringe and established urban centres that accommodate higher order urban services and jobs;
2. Deliver other development and community infrastructure (e.g. roads, drainage, water, sewer, community facilities, open space, parkland, etc), particularly in new urban areas where the delivery of such infrastructure has traditionally lagged well behind demand;

⁷ Victorian State Government (2006), *Urban Development Program*, Melbourne

⁸ The UDP states that broadhectare lot supply in Melbourne's growth areas is 182,600 (potential residential lots). The UDP further states that, on average, there are 12.5 lots per hectare across Melbourne's growth areas. This equates to a total broadhectare land supply of 14,608 hectares.

⁹ Victorian State Government (2005), *A Plan for Melbourne's Growth Areas*, Melbourne.

¹⁰ 14,608ha multiplied by \$300,000 per ha equals \$4,382,400,000.

3. Achieve other urban development objectives, particularly those associated with the need for more environmentally sustainable development; and
4. Directly provide an increased supply of truly affordable housing for those most in need. i.e. housing that is provided at well below market rates.

At present, rather than being captured by the community via a known and transparent mechanism, the majority of the betterment being sustained is being shared primarily by the owners and developers of the land in question as a 'super profit'. Some of it, on the other hand, is being 'clawed back' by public authorities through relatively ad-hoc and opportunistic negotiations to secure contributions to infrastructure and services. Implicit in such negotiations is the respective public authority's quest to have some of this super profit reinvested in public services. A proportion is also being whittled away through inefficiencies in the land market, such as lengthy development assessment processes. Indeed, delays in development assessment processes are often due to the non transparency and opportunistic nature of the sorts of negotiations just mentioned.

There is little need for further elaboration on the significance of a suitable public authority capturing betterment of this kind in an explicit, predefined and transparent manner. As noted, in Melbourne's case this could have occurred (had the right policy settings been in place) either by the direct acquisition of the land in question (incrementally or all at once) and its subsequent development or on-selling to bona fide developers, or by the application of a betterment levy. As previously noted, either of the former two approaches are perhaps most efficient.

Betterment capture of this magnitude (e.g. \$3.3 billion across Melbourne's urban growth areas for example) is potentially more powerful than any other policy lever which might be deployed to alleviate housing affordability. For example and just to highlight the point, at a rough cost of \$4 million per kilometre, \$3.3 billion of realised value could be deployed to deliver over 800 kilometres of heavy rail infrastructure. Or, at a rough cost of \$2.9 million each, it could be deployed to deliver around 1130 community service 'superhubs'. This is just a crude, nominal demonstration which does not consider the timing of the betterment capture, cash flows, opportunity costs on any land banked, etc.

In any case the point is made that betterment capture, particularly when achieved through public land acquisition, is an equitable and entirely rational process of securing very substantial public gains, for reinvestment in the public good.

Implementing and administering a betterment mechanism

In the first instance Council submits that the introduction of any betterment capture mechanism ought be done in the context of a complete review of the efficiency of land markets, in particular the complexities and non transparencies in development approvals and infrastructure delivery processes, as well as the impacts of current fiscal policy on investment in different sorts of housing products.

Secondly, the introduction of a suitable mechanism should be accompanied by the following funds administration principles:

- Strictly hypothecate the proceeds of the mechanism to the achievement of predefined urban development objectives, such as the delivery of infrastructure and services located within, or demonstrably beneficial to, the areas / sites from which the funds were 'captured', as well as the delivery of affordable housing (including within inner urban areas where such housing is most needed);
- Manage the funds through a suitable 'arms length' public agency, with representation from Local Government, State Government and the wider community;
- Deploy the funds stream in strict accordance with a 'community development plan' that would set out a clear minimum schedule for provision of social infrastructure and services, including a range of facilities provided by State Government's like schools, police, public transport, health care etc; and
- Use at least part of the proceeds of the mechanism as leverage funds to promote integrated, sustainable and cost efficient infrastructure provision in the areas from which the revenues are generated. A model similar to that applied in the Commonwealth's now defunct Building Better Cities Program could be applied. That is, State, local government and private sector partners could be invited to come forward with 'area strategies' which make the most of potential synergies between the programs of differing investors, in return for top up funding from the betterment funds.

A number of additional principles could usefully be applied to management of these funds, with a view to multiplying their impact and building confidence in their use as a bona fide boost to local liveability and sustainability:

- The funds should be quarantined from the standard State budgetary process and, if they are to be passed through the State en route to the management entity, they should be separately accounted for in the State's books;
- Because the betterment margin arises from a multiplicity of Council and government investment and regulatory measures, it would seem logical for Ministerial supervision to rest with the Minister that has responsibility for urban planning and development matters. (e.g. the Minister for Planning in Victoria) as opposed to other line agencies which have responsibility for particular infrastructure categories. Administrative support in disbursing the funds in question could be provided by the relevant Minister's Department(s) e.g. the Department of Planning and Community Development in Victoria.

Conclusion

Declining housing affordability in Australia is fundamentally driven by a growing number of increasingly wealthy households competing for a scarce supply of well located and well serviced housing.

Policy to address housing affordability can be broadly dissected into two categories: 1) policy to relieve price pressures across the housing market generally and, 2) policy to increase the delivery of genuinely affordable housing for those most in need. This latter category invariably requires the delivery of a subsidy at some stage within the housing production pipeline.

Across Australia, communities are creating billions of dollars of value through their rationing of development rights. This value, or betterment, is currently flowing into the hands of a lucky few, rather than being effectively captured by the communities who created it. Sound public policy dictates that this inequity be addressed as a matter of urgency.

Effective betterment capture, especially through the public acquisition of land, would provide a substantial public funding source that could be deployed in various ways to meet important housing and urban development objectives. The mechanism has the potential to assist in increasing the supply of well serviced, high quality urban environments per se, as well as the supply of genuinely affordable housing that is available to those most in need.

Council urges the Senate Select Committee on Housing Affordability to conduct a thorough review of the potential to reinstate betterment capture as an explicit public policy objective.