

# ADDRESSING THE HOUSING CRISIS:

## UNLOCKING LOCAL GOVERNMENT'S CONTRIBUTION

EQUITY ECONOMICS AND DEVELOPMENT PARTNERS | AUGUST 24



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## ABOUT US



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### ABOUT EQUITY ECONOMICS

Equity Economics is a unique consulting firm, providing economic and social policy analysis to government, private sector and non-government clients.

We combine technical economic skills with policy and design expertise, helping our clients contribute to a more inclusive, equitable society. Our work addresses the persistent challenge of social and economic disadvantage, through new and practical solutions.



AUSTRALIAN  
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ASSOCIATION

### THE AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION (ALGA)

ALGA is the national voice of local government, representing 537 councils across the country. In structure it is a federation of state and territory local government associations.

ALGA provides a range of services to its member associations and, through them, local councils throughout Australia. This includes representing local government on national bodies and ministerial councils, policy development to provide a local government perspective on national affairs, information and forums and raising the profile of local government at the national level.

This report was commissioned by the Australian Local Government Association

### ACKNOWLEDGEMENT OF COUNTRY

We acknowledge Aboriginal and Torres Strait Islander peoples as the Traditional Owners of Country throughout Australia and their continuing connection to both their land and seas. We also pay our respects to Elders – past and present – and generations of Aboriginal and Torres Strait Islander peoples now and into the future.

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# EXECUTIVE SUMMARY

## **Australia is experiencing a housing crisis.**

There are insufficient homes available in locations that people wish to live, at prices people can afford to rent or buy. To address this challenge, governments at all levels have made major new commitments to boost and accelerate the supply of housing, with a commitment to delivering 1.2 million houses over five years from 2024.

**The housing target is a 40% increase in the number of houses to be delivered per year for the next five years.**<sup>1</sup> If achieved, the boost in housing supply will increase economic activity by around \$30 billion per year, or 1% of GDP, a major boost to our national economy and critical investment in our local communities.

**However, every indication is that the target is unlikely to be achieved without immediate action, and the housing challenge will persist.** Housing construction has been in steady decline since 2016, with little evidence that reforms, including those that have removed powers from local government, have increased housing construction to increase supply. An examination of the steps and stakeholders involved in housing development, undertaken in this report, quickly reveals that the blame leveled at local government for its approval processes ignores the range of challenges that must be addressed if the trend decline in housing construction is to be reversed.

**Accelerating housing supply will only be achieved if all stakeholders work together in new ways.** Commonwealth, state, local government, developers, and communities will need to collaborate to overcome longstanding barriers to housing supply. Housing and

land management plans, land release, approval processes, infrastructure delivery, marketing, construction and sale, all require coordination to accelerate housing supply at the scale envisaged.

**Local governments are essential to this process.** Local governments work to ensure their communities are places people want to live and families can thrive, with amenities and services critical to people's livelihoods. In many cases, they are also responsible for housing approvals and the provision of local infrastructure, without which no new housing target can be achieved.

**And yet local government is rarely at the policy and planning table.** The National Agreement on Social Housing and Homelessness fails to even mention local government let alone include it as a party. State and local planning frameworks often don't align and need better collaboration to support long-term planning. Ensuring local government has a seat at the table in the development of housing policies and land management plans is an obvious first step to improve the process.

**Local infrastructure funding is also critical.** No institution or organisation can be expected to increase output by 40% without increased resources. Local governments are already financially constrained making it difficult to invest in new infrastructure for housing.

**This report sets out the housing development process, identifying essential steps to accelerate housing supply from the perspective of local government** – more coordination, more funding and better aligning incentives between public and private goals.



To give a sense of the magnitude of the challenge, the total trunk infrastructure funding gap to achieve 1.2 million new houses is estimated at \$19.4 billion over five years. The trunk infrastructure funding gap between projected new houses based on current trends in dwelling construction and the Housing Accord target would be at least \$1.1 billion per year or \$5.7 billion over five years.

The report was informed by engagements with the Australian Local Government Association and local government state and territory peak bodies, and a survey open to all local governments.

The survey found that of the 130 respondents:

- **Insufficient infrastructure funding** was the highest ranked challenge in delivering increased housing supply. This was followed by the **lack of control over market decisions** (e.g. where, when and how developers want to invest).
- **80% of responding local governments cannot cover trunk infrastructure expenses.** Only 5% of respondents have current annual revenues (from developer contributions and infrastructure-specific grants) that can cover their total annual expenses for trunk infrastructure.
- **40% of respondents indicated that their local government had cut back on new infrastructure developments because of inadequate trunk infrastructure funding.** 32% also identified infrastructure maintenance as another area that had funding diverted.

## To unlock local government's contribution to the housing crisis, this report recommends:

1. National housing agreements and decision-making processes provide for full involvement of local government representatives as parties, including at National Cabinet and the National Housing and Homelessness Ministerial Council.
2. Local government is engaged in ongoing formal partnership arrangements with state and territory governments on state planning and land management.
3. Commonwealth, state and territory governments work with local government to identify more reliable revenue streams – paid directly to local governments – to close the minimum \$5.7 billion infrastructure gap.
4. Responses to the challenge of a lack of commercially viable housing, particularly in rural and regional areas, be developed by government in partnership with communities and developers.
5. Governments work together to progress the challenging reforms that tackle the perverse incentives in many areas of housing policy, that produce results like land banking and unoccupied housing.

# TACKLING AUSTRALIA'S HOUSING CRISIS

**Australia has a housing challenge.** Housing affordability has declined, rental prices have risen sharply, and demand for social and affordable housing is increasing while stocks are diminishing.<sup>3</sup> The National Housing Supply and Affordability Council reported 172,000 dwellings were finished in 2023, constituting the lowest annual number of completions in the past decade.<sup>4</sup>

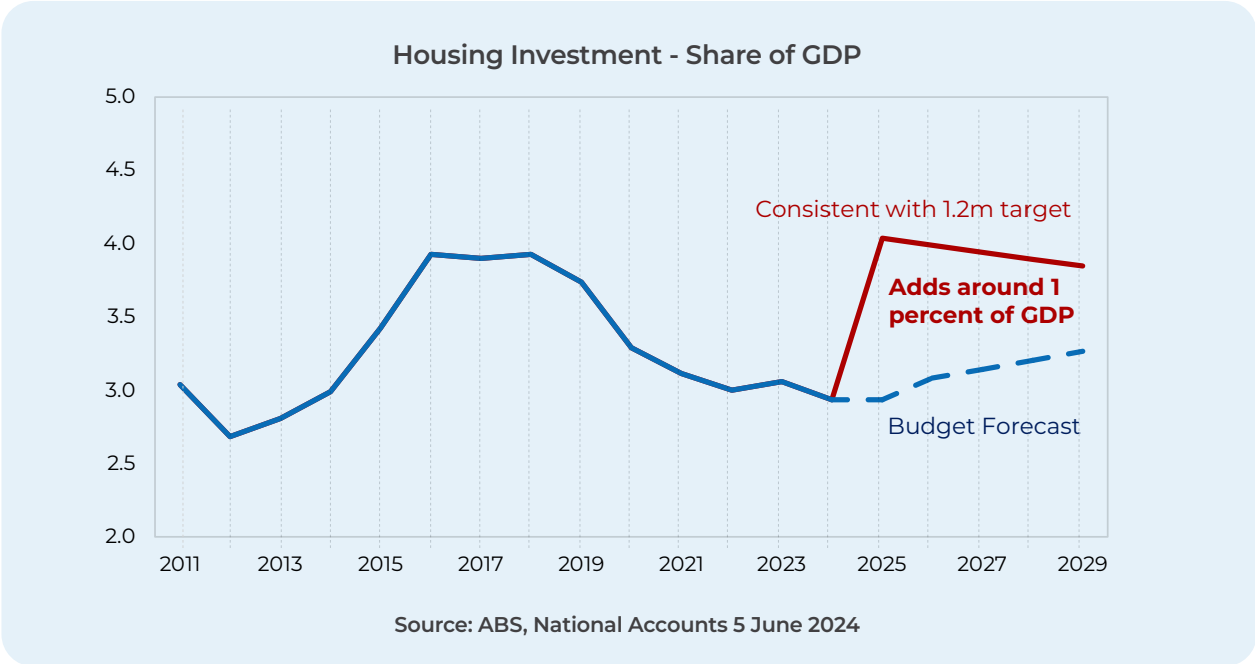
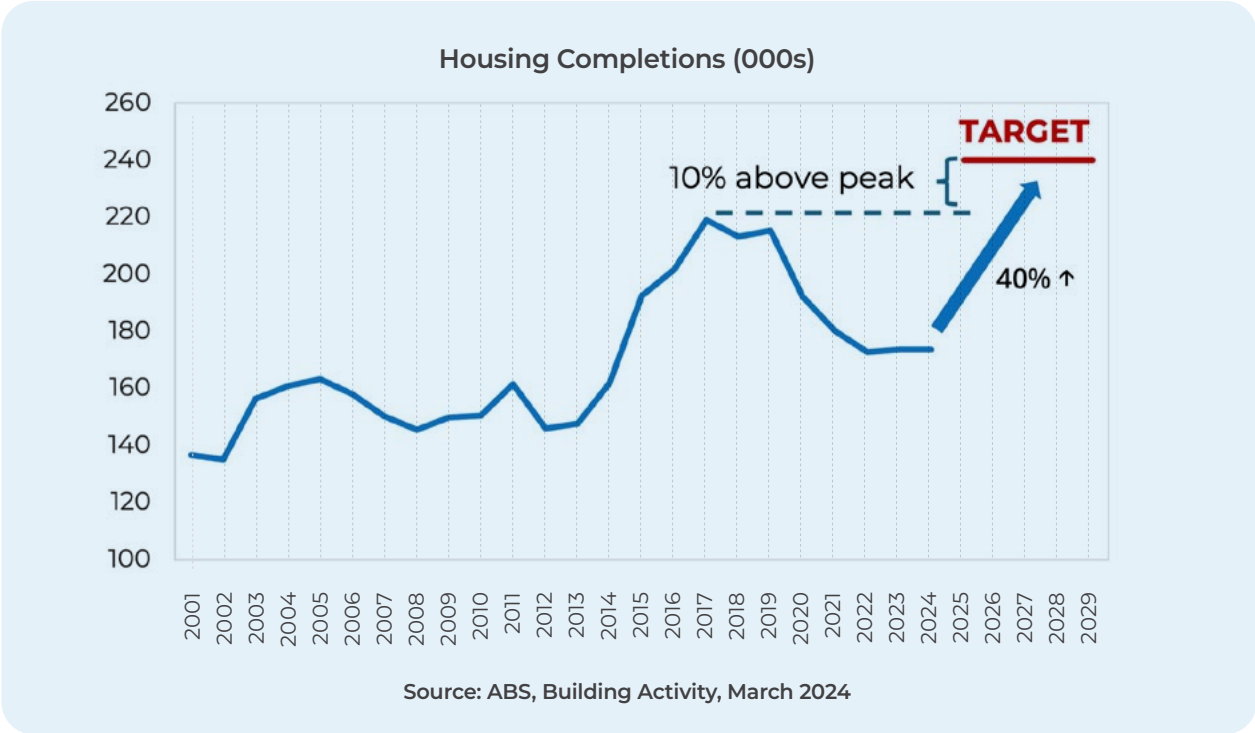
Access to housing is essential to wellbeing. And yet, over 1.5 million Australian households are in mortgage stress<sup>5</sup>, over 42% of low-income households are in rental stress<sup>6</sup> and 122,494 people were estimated to be experiencing homelessness on Census night in 2021.<sup>7</sup>

**Governments have responded with a commitment to build 1.2 million new homes by mid-2029.** Commonwealth, state, territory and local governments agreed through the National Housing Accord to a target of building 1 million extra well-located homes over five years from mid-2024. This goal was extended to 1.2 million homes through an agreement of the National Cabinet (comprising First Ministers of the Commonwealth, State and Territory Governments).

**This is an ambitious agenda.** The target reflects an almost 40% increase from the current number of houses being built each year. If achieved, it would add around 1% of GDP (or approximately \$30 billion per year) – leading to housing investment contributing to around 4% of GDP.<sup>8</sup>

**However, there are doubts about whether this is achievable with Australia's current approach.**<sup>10</sup> The target requires new housing supply to rise 10% above Australia's peak dwelling construction – when market conditions were more stable, construction costs were cheaper, interest rates were lower and access to finance was easier.<sup>11</sup> Despite a range of new funding commitments, like the Housing Australia Future Fund and the new National Agreement on Social Housing and Homelessness, many housing experts believe that new housing supply will fall well short of the target.<sup>12</sup>





**If the ambitious target is to be achieved it requires a unified, collaborative and constructive effort that mobilises all levels of government – including local governments.** While expediting housing approvals at the local government level is undoubtedly important, isolating this factor as a primary contributor to the shortfall oversimplifies the complex interplay of factors influencing housing supply and risks diverting attention

away from more critical issues and falls well short of solving the challenge

**An effective and necessary approach involves a comprehensive examination of the systemic challenges hindering housing supply at all levels of government and within the market.** This collaborative effort would aim to identify shared solutions and implement strategies to increase housing supply.

# LOCAL GOVERNMENT CRITICAL TO MEETING HOUSING TARGETS

“ Australia has a history of uneven and sporadic policy attention being given to housing at the national level. Sustaining the attention of the Commonwealth on housing policy concerns is more likely to be achieved when connected to intergovernmental coordination mechanisms... If housing is framed as essential infrastructure ... it becomes a natural realm for tri-partite collaboration in terms of taxation and social security provisions (a Commonwealth responsibility), microeconomic reform (state and territories) and local community building (local government and civil society). – AHURI<sup>13</sup> ”

**Local governments are on the frontline of the housing crisis.** All the new housing will be located in local government Areas (LGAs) around the country. Despite this, the role of the nation's 537 local governments, represented by the Australian Local Government Association (ALGA), in national discussions and intergovernmental agreements around housing is largely absent and does not reflect the critical role they play.



**Local government is critical to housing development and addressing the housing challenge.**<sup>14</sup> Key roles include:

- ✓ Trunk infrastructure such as water and sewerage treatment connections and facilities and roads to support housing developments
- ✓ Additional infrastructure projects such as libraries, tree planting, bicycle paths and recreational and play spaces to increase the desirability of living in a particular area, which in turn may impact affordability
- ✓ Implementation of state and territory planning regulations
- ✓ Regulation compliance
- ✓ Community services for increased liveability

**Local perspectives are crucial for national decision-making.** Delivery of housing in Australia occurs in a complex federated system where there are multiple provider settings and governance arrangements. Australians expect their governments to work together for their benefit, at all levels and across all issues. Addressing the housing crisis requires joined-up thinking about housing, employment centres and clusters, transport, the environmental context, and importantly human connection. Local government brings strengths and insights that other levels of government do not – a grass roots perspective with the expertise to support implementation of policy and programs at a community level.

**ALGA is invited to meet with National Cabinet once a year.**<sup>15</sup> In August 2023 National Cabinet agreed to the national 1.2 million housing target and a range of new funding measures to support its achievement, however ALGA is not a member of National Cabinet



At that meeting, National Cabinet also agreed to a National Planning Reform Blueprint that outlines initial planning, zoning, land release and other reform measures that will need to be implemented to deliver the 1.2 million well-located homes.<sup>16</sup> These are all areas that local government do and can make a significant contribution to.

**While local government, through ALGA, is a signatory to the Housing Accord, local government is not party to the National Agreement on Social Housing and Homelessness (2024) nor its state and territory implementation plans and arrangements.**<sup>17</sup> In addition, local government is not represented on, or part of any regular discussions with, the Housing and Homelessness Ministerial Council, made up of Housing Ministers of every jurisdiction to oversee ongoing housing reform. Local government is also not intended to be a signatory of the National Housing and Homelessness Plan under development, that will set out a “a shared vision to inform future housing and homelessness policy in Australia.”<sup>18</sup> Another example is that local government is not involved in the governance arrangements for the new \$4 billion housing investment made by the Commonwealth and Northern Territory (NT) governments in remote NT, nor do the governance arrangements provide for any role for local government in achieving the NT remote housing targets.<sup>19</sup>

**Their exclusion in national decision making on housing policy and investment presents a significant challenge for progress towards improving housing supply and addressing the housing crisis.** Absence of local government in national policy discussions risks:

- **Solutions that are poorly adapted to specific regional challenges.** National decision making will lack the nuance of the local context. Local governments

possess invaluable knowledge of local community needs, land availability, infrastructure capability and the practicality of implementation of national strategy in local contexts.

- **Information failure and implementation hurdles.** Local governments are responsible for implementing housing policies, e.g. through planning approvals and zoning. If local governments aren't included at the decision-making table, it creates a disconnect between national goals and their practical application on the ground, including understanding of key implementation barriers and drivers, and knowledge of the financial and/or technical capacity of local government to implement policy.
- **Missed opportunities for collaboration and innovation.** Local governments are incubators for innovative housing solutions tailored to their communities. Excluding them from national discussions limits the potential for knowledge sharing and collaborative, innovative approaches to tackling the crisis.
- **Unintended consequences of policies.** For example, in some jurisdictions targets for new social housing, while essential, can also erode the revenue base for local councils as social housing does not attract rates in line with market housing needed to maintain local services and infrastructure. Growth targets should be linked to funding mechanisms to address the shortfall. This is effectively a cost shift from state to local government.

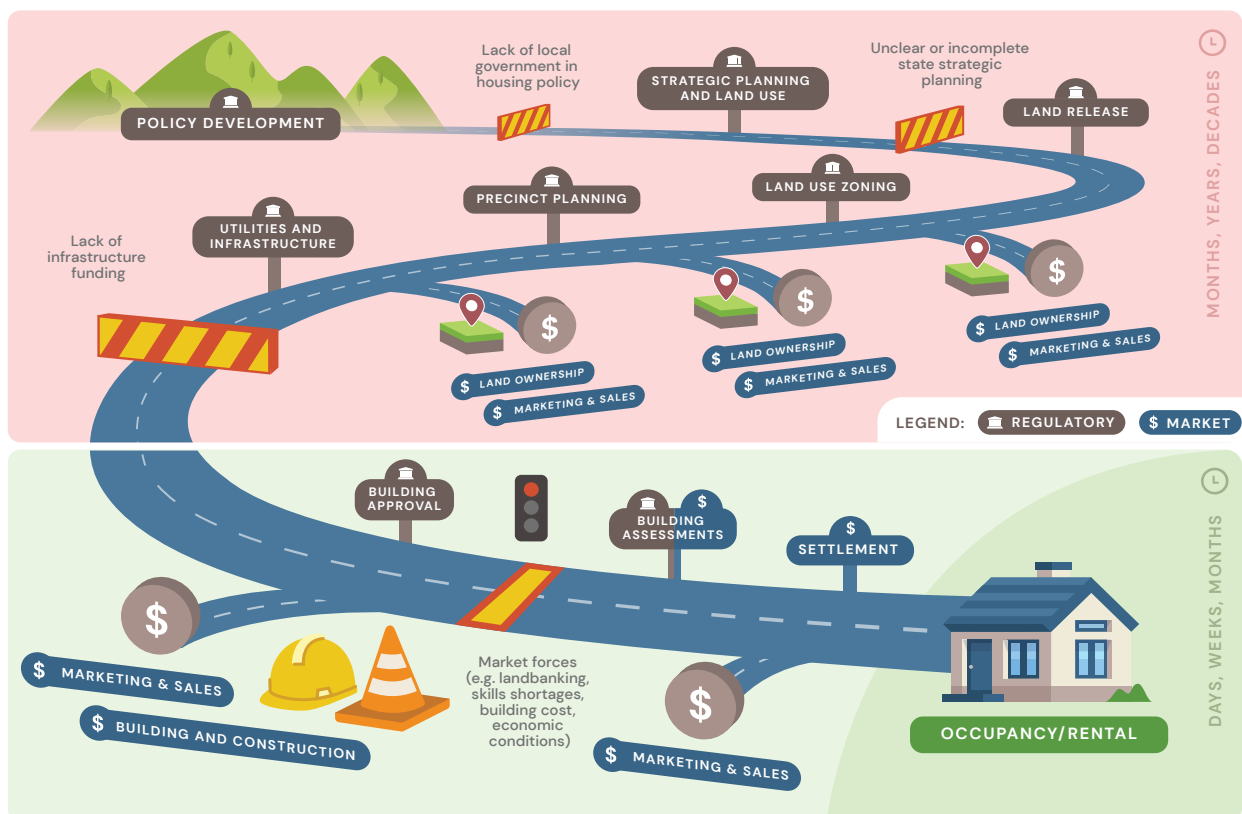
National housing agreements and decision-making processes should provide for full involvement of local government representatives as parties, including representation at National Cabinet and the National Housing and Homelessness Ministerial Council.

# UNLOCKING LOCAL GOVERNMENT'S CONTRIBUTION

Unlocking Local government's contribution to the development of new housing will be critical to meeting the target of 1.2 million houses. The existing housing development process(es) involve multiple stakeholders and vary across state and territories and can be broadly broken down into the steps below.

The development process shows that local governments are part of a complex federated system and market forces involved in the delivery of housing (Figure A).

Figure A. The housing development process



**The steps in the process are not linear.** Rather, multiple elements may occur at different times and/or happen concurrently. Further, time frames vary widely – the time frames to deliver some elements are counted in years, while others are achieved within days. Finally, a range of actors are responsible for different stages, with different levels of government responsible for regulating the market, but significant decisions affecting housing supply being contingent on the market.

**Within the housing development process, local governments identify a range of barriers that can contribute to potential delays<sup>20</sup>.** Four major barriers faced by local government are discussed below.

**These areas will require reform if the housing targets are to be met.**

# 1. ENSURING LOCAL GOVERNMENT HAS A SEAT AT THE TABLE IN STATE PLANNING AND LAND MANAGEMENT

“

*Responsibility for planning, funding, and delivering infrastructure in our cities is spread, in different ways, across all three tiers of government, which can lead to fragmented decision-making and prioritisation for investment. Ultimately, this can create uncertainty for other levels of government, industry, and communities.*

- Infrastructure Australia

”

While local government is responsible for essential infrastructure like local roads, open spaces, and stormwater management, these elements are inextricably linked to larger systems managed by the federal, state and territory governments.<sup>21</sup> For example, new housing estates often require state-funded upgrades to major roads, public transport and schools. Mismatched planning and investment between local and state governments can hinder housing development due to inadequate infrastructure.

A significant hurdle faced by local governments is a lack of timely and detailed local area planning within many state and territory strategic documents. State-level planning for land use, infrastructure, and other housing-related elements including related social infrastructure such as schools, hospitals and public transport) often suffers from a fragmented and siloed approach.

Plans often lack the necessary local detail and integration with local government planning, hindering effective local decision-making and resulting in uncoordinated delivery of infrastructure and services.<sup>22</sup>

Challenges include:

- **Outdated plans.** Many state and city level strategic plans become outdated over time, failing to reflect current demographic shifts, economic conditions, or local housing market trends. This reliance on outdated information hinders effective planning and can lead to solutions that don't address the most pressing housing needs in specific regions. For example, plans developed pre-pandemic may not account for the rise of remote work and its impact on housing demand in certain regional areas. For example, Tasmania's regional transport plans are over a decade old.<sup>23</sup>

Local government is engaged in ongoing formal partnership arrangements with state and territory governments on state planning and land management.

- **A lack of integrated planning.** Existing state and city level plans may not sufficiently integrate with other relevant planning areas, such as land use, transportation, and education to give the holistic picture needed. Disjointed planning across these sectors creates challenges in ensuring adequate infrastructure to support new housing and aligning housing development with future population growth and service needs.
- **Limited local direction.** Plans frequently fall short in specifying details about the quantity and type of housing needed in different local areas. This makes it difficult for local governments to translate broad state goals into concrete local plans that address specific housing needs.<sup>25</sup> The absence of detailed local area thinking in state housing plans creates a disconnect between state-level goals and local implementation, hindering local governments' ability to effectively plan for and deliver new housing.
- **Unclear responsibilities.** State housing strategies often lack clear articulation regarding the division of responsibilities between state and local governments in delivering infrastructure and housing outcomes, including financing. This ambiguity can lead to confusion and delays as both levels of government grapple with who is accountable for what. This lack of clarity hinders effective collaboration and slows down the development process.
- **Plans lack a collaborative approach.** The development of state-level housing plans often lacks a collaborative approach with local governments.<sup>26</sup> Local authorities possess crucial insights into their communities' specific needs and challenges. Without their active participation in the planning process, state plans risk overlooking these local nuances and proposing solutions that are poorly suited to the realities on the ground.

**Local government is critical to ensuring state / territory planning and land management takes accounts of community and place-based needs.** Local government involvement in state and territory planning also enables Local government to forward plan in a much more comprehensive way, including on workforce, infrastructure and zoning.

Infrastructure Australia has noted that state and territory and local governments need to work in partnership to ensure strategic plans are translated into tangible outcomes, and that incentive mechanisms promote improved governance and better collaboration between different levels of government.<sup>27</sup>





## 2. ADDRESSING THE LOCAL INFRASTRUCTURE GAP

Local government is currently responsible for a third (and growing share) of public infrastructure.<sup>28</sup> Roads, parks, water and wastewater, libraries and numerous other services requiring infrastructure are provided by local government. This infrastructure is essential to delivering well-located houses and thriving communities.

To give sense of the magnitude of the challenge, realising the housing target of 1.2 million new dwellings is estimated to require at least \$19.4 billion over five years to fill the trunk infrastructure gap. The trunk infrastructure funding gap between projected new houses based on current trends in dwelling construction and the Housing Accord target would be at least \$1.1 billion per year or \$5.7 billion.<sup>29,20</sup> This is on top of existing local government funding gaps, which ALGA estimates in its National State of the Assets Report as being between \$50 - \$55 billion to replace existing infrastructure owned by Local Governments that is in poor condition.<sup>31</sup>

And yet, 80% of local governments reported inadequate infrastructure funding. Just 5% reported adequate funding to cover trunk infrastructure costs. 60% believe that the relationship between trunk infrastructure revenue (from developer contributions and infrastructure-specific grants) and expenditure has (significantly) worsened over the past decade.

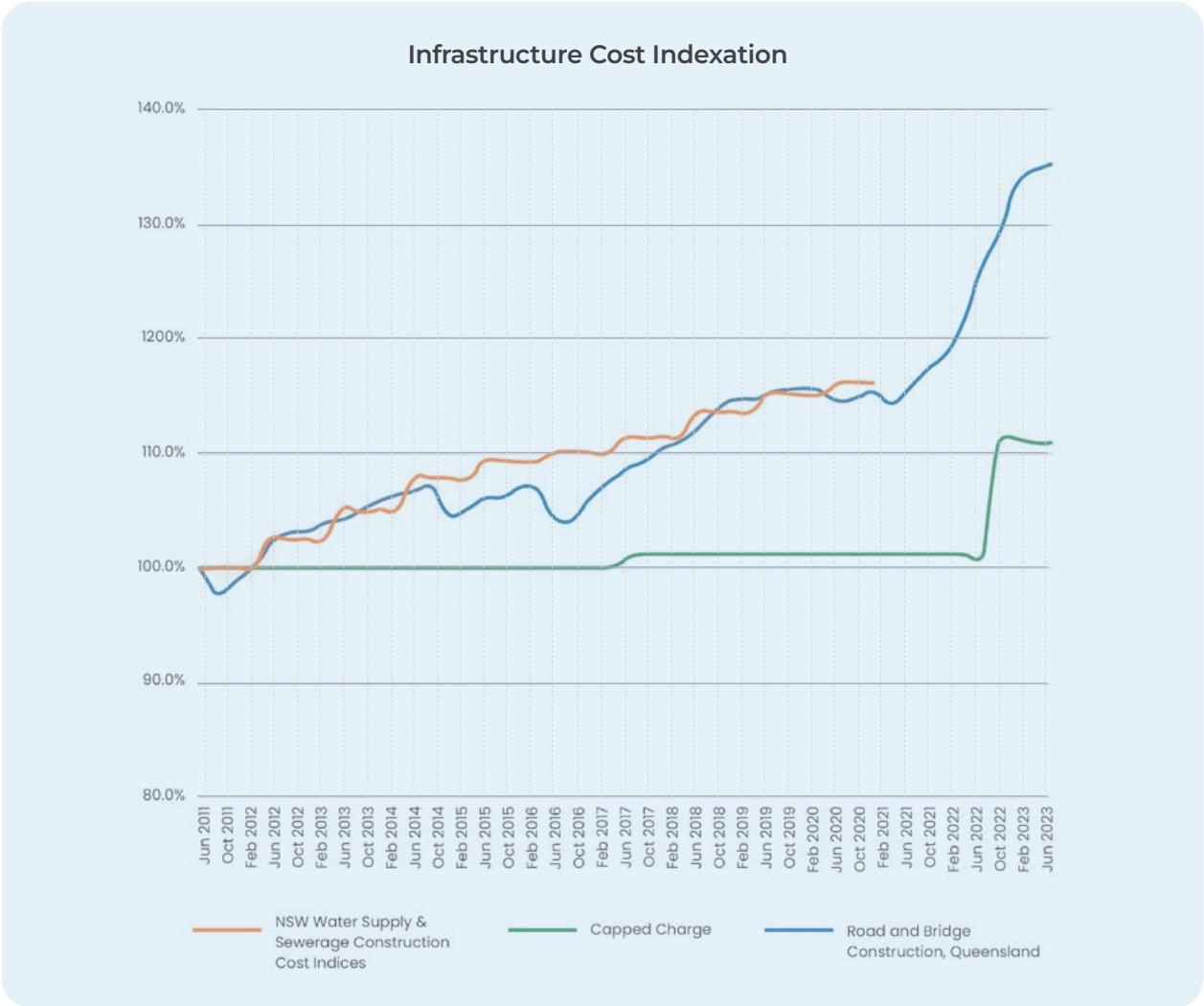
40% of local governments reported cutting back on new infrastructure projects to cover trunk infrastructure gaps. 32% also reported cutting back on infrastructure maintenance. Local government has limited capacity to respond to rising infrastructure needs (and maintenance costs) within their own resources. Dependent on a mix of developer levies and grants, local governments are reliant on capped, constrained and one-off funding mechanisms that cannot support the infrastructure investment associated with a 40% increase in new housing construction.

**Existing local government funding mechanisms are inadequate, certainly to support a 40% increase in housing.** Current funding sources – rates, developer levies and grants – all face funding pressure and cannot be relied upon to fund the scale of investment required to meet the housing targets.

**Councils are working hard to avoid placing additional pressure on rate payers during a cost-of-living crisis.** The primary source of local government funding is rates. An increase of this scale will place enormous pressure on ratepayers. Increasing rates to fund new housing contributes to local opposition to development that must be overcome to achieve the national targets.

**Developer levies are struggling to keep pace with the escalating costs of providing essential trunk infrastructure.** In 2011, the Queensland State Government capped how much local governments can charge property developers for trunk infrastructure, resulting in an infrastructure funding gap of \$1.54 billion over the next 4 years in Southeast Queensland alone (see figure B). In NSW, the cap on developer contributions has not been indexed in over a decade. As a result, the City of Sydney estimates that for every 3-bedroom dwelling constructed where the contribution cap applies, the City is subject to a shortfall of between \$11,000 and \$20,000.<sup>32</sup>

**Figure B Capped developer charge in Queensland vs. Infrastructure cost<sup>33</sup>**





*The [NSW] Review has found the current infrastructure contributions system is not fully enabling the State and councils to provide the infrastructure required to support development. Previous attempts at reform have resulted in a system that is overly complex, unpredictable, and imposes undue administration costs. Moreover, contributions collect only a small proportion of the required funding and fails to deliver services in a timely and coordinated way.* - NSW Productivity Commission review of infrastructure contributions in NSW (2020)



**Grant funding is a valuable tool for local infrastructure, but the current system is hindering its potential.** The majority of Commonwealth government funding committed to housing, including \$3.5 billion in the Housing Accord, flows to or through the state and territory governments.<sup>34</sup> Any funding that does flow to local government is insufficient to support the community development and infrastructure needed to meet the housing targets. Grant funding also presents significant obstacles to effective infrastructure delivery, including:

- **Grant funding has not kept up with rising costs.** For example, the Grattan Institute has found that the indexation of Commonwealth Financial Assistance Grants to local government (FA Grants) has been lower than cost increases. They estimate that if indexation had kept pace with cost increases, 2023 grants would be \$600 million, or 25%, higher. A review by SGS Economics found that FA Grants to local government were initially set at 1% of Commonwealth Taxation Revenue (CTR) in the 1970s, and currently only account for about 0.5% of CTR.
- **The ad-hoc one-off nature of many grants limit their reliability as a consistent source of funding.** Grant funding typically offers short-term, project-based support that often fails to align with long-term infrastructure needs and overlooks the ongoing costs of maintenance and operation.
- **Grant funding is often not available for infrastructure projects due to its restrictive nature.** Grants are often tied to specific state government objectives. Local governments often have minimal discretion in how to use grant funds, and these funds are frequently allocated for additional infrastructure beyond existing capital works programs. This can force local governments to modify infrastructure plans to align with grant requirements, compromising their overall infrastructure strategy.
- **Applying for grants is resource intensive, resulting in inequalities.** The process of grant funding is also often inequitable with councils who have the financial means to co-contribute or the ability to prepare compelling businesses cases having an advantage. There are also high costs associated with preparing an unsuccessful grant application, with the grant applications taking 20 to 30 hours for smaller grants up to 50-100 hours for bigger grants.<sup>35</sup>

**Increasing funding for local government infrastructure is imperative.** And yet simply lifting caps on infrastructure levies is an oversimplified solution. Instead, commonwealth, state, territory and local governments should work together to develop a new formula for providing ongoing local infrastructure funding with direct transfers to local governments. This should account for both capital and maintenance costs as well as the proportion of assets owned and managed by local governments.

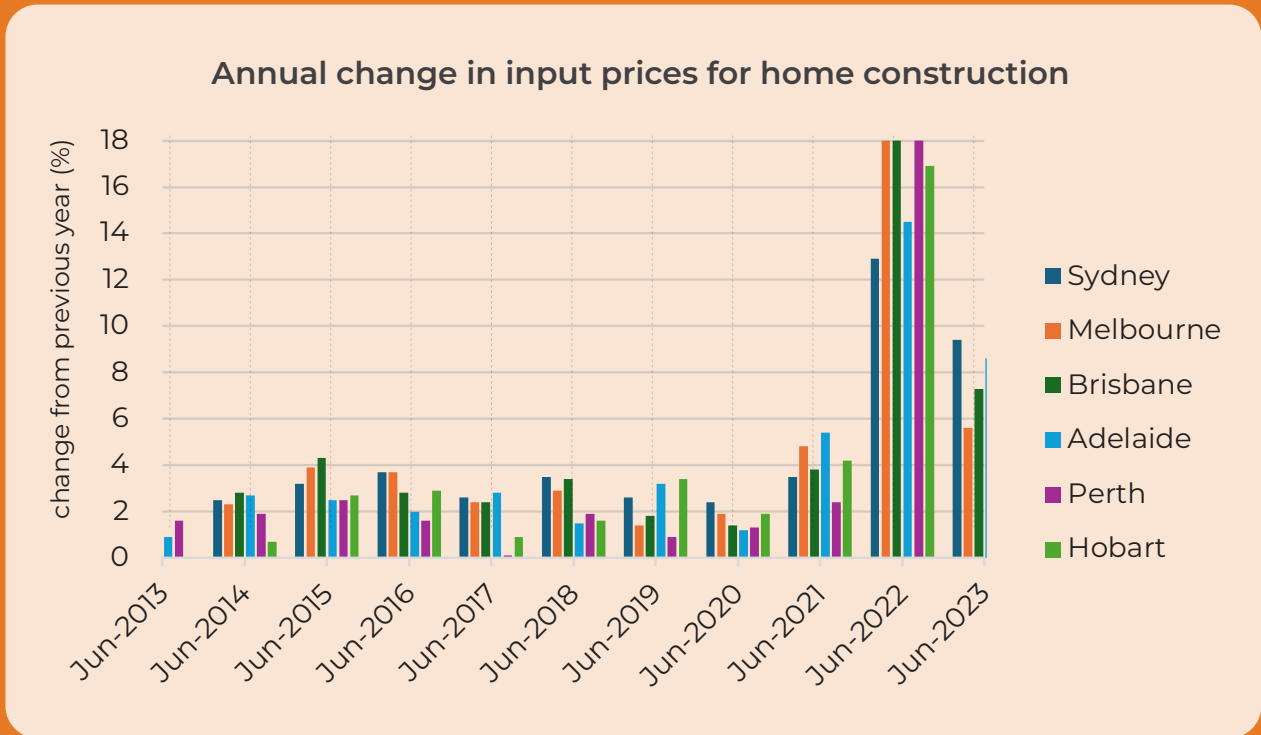
Commonwealth, state and territory governments should work with local government to identify more reliable revenue streams – paid directly to local government – to close the infrastructure gap. This includes lifting developer levies, as well as improving grant funding systems to ensure they become strategic investments in long-term infrastructure plans and are adequate to meet the task of significantly increasing housing supply.



### 3. ADDRESSING THE LACK OF COMMERCIALITY IN SOME REGIONS

Local government also identified the lack of commerciality as an impediment to the supply of housing. The cost of building new housing can exceed the potential sale price, particularly in rural and regional areas, making new housing supply unviable.<sup>36</sup> While house prices are increasing in many areas, the cost of constructing a house is increasing at record rates.

Figure C: Annual change in input<sup>37</sup>





**This challenge reflects a range of complex factors** – the high and rising cost of building materials, labour shortages, as well as income levels in those markets which are making housing at commercial prices unaffordable.<sup>38</sup> These factors are beyond the capacity of any one tier of government to resolve and reflect market realities, but they remain real constraints to increasing housing supply.

**More affordable and social housing is part of the solution.** Governments are increasing investment in more affordable housing and social housing after a long period of underinvestment. However, this is only part of the solution. Long term plans are needed to improve the viability of new housing, with a range of long-term options requiring further consideration and support, including increasing the availability of labour, and potentially increasing public funding for housing in affected areas where well-located housing is still needed.

The lack of commercially viable housing in some areas needs to be acknowledged and options developed to address the challenge where well-located housing is needed. This could include further increases in the supply of social and affordable housing, as well as long-term options to address rising costs caused by skill shortages and other deficits. Other demand side policy and program options also need to be considered to address housing affordability.



## 4. ALIGNING INCENTIVES – PUBLIC AND PRIVATE INCENTIVES WORK TOWARDS INCREASED HOUSING SUPPLY



*The government makes available a large amount of land in theory by rezoning and fast-tracking approvals ... but the decision is then left to the development company about the rate at which this land supply will be made available. So a lot of them are drip-feeding land out in order to keep land prices high.*<sup>43</sup> - Michael Buxton, Emeritus Professor of Environment and Planning RMIT University.



### Local governments face a significant challenge in influencing housing supply due to the dominance of market forces.

While local authorities possess regulatory power, including zoning land and influencing development plans, the ultimate decision of whether, when and what gets built rests with private developers. These developers, operating within a market-driven system, understandably prioritise profits. This profit motive can manifest in several ways that constrain local governments' ability to achieve housing goals:

- **Profit-driven land release and development:** Developers strategically delay land release and development to capitalise on anticipated price rises or changing market conditions.<sup>39</sup> High market prices of construction materials or labour also disincentivises developers from starting construction at all.<sup>40</sup>
- **Mismatch between profit motives and community need:** Developers gravitate towards projects that offer the highest return on investment. This can lead to a significant disconnect between what gets built and what the community needs.<sup>41</sup>

- **Proactive land acquisition and zoning advocacy:** Developers can be highly proactive. They may identify parcels with high profit potential and then pre-emptively purchase the land or lobby that align with their development plans, ultimately shaping land use patterns more than long-term government plans.
- **Limited leverage of regulatory tools.** Zoning regulations, development plans and infrastructure contributions can be powerful tools to influence development, but they are also blunt, and their impact is limited. Local governments may struggle to adequately incentivise developers to build the types and quantities of housing deemed most critical by the community. Developers may simply choose to walk away from a project if the proposed regulations or incentives don't align with their profit goals.
- **Competing interests in the value of land value uplift:** Changes to land use zoning and investments in significant new infrastructure can create windfall gains for existing landowners which can both increase the cost of acquiring land for new development and encourage practices like land banking (see below).

**Overcoming these obstacles is paramount to achieving a significant increase in housing supply.** Areas where reform is needed to better align the goal of increased housing supply and market forces are land banking, land fragmentation and unoccupied housing.

**Deliberate land banking by developers is exacerbating the housing crisis.** It limits the effectiveness of rezoning and increased land supply for governments. Land banking occurs when developers acquire land, but rather than develop it, hold onto it, speculating on price rises to increase profit, and has been estimated to cost \$6 billion in higher land and housing costs.<sup>42</sup>

**Fragmented land ownership is another significant barrier to housing development, particularly for infill projects.** This occurs when plots of land suitable for development are divided amongst multiple owners, each with potentially differing intentions and future plans for their land.<sup>44</sup> Fragmentation creates several challenges:

- **Acquisition complexity:** Assembling a cohesive development site becomes a complex and time-consuming process. Negotiations with numerous landowners can be protracted and may ultimately fail if some owners are unwilling to sell or have vastly different price expectations or plans for the land.
- **Integration difficulties:** Integrating multiple, often irregularly shaped, plots into a functional development can be challenging. This can lead to inefficient use of space and difficulties incorporating essential infrastructure like roads, utilities, and public amenities, increasing costs for developers.
- **Economies of scale:** Fragmented land often lacks the size and scale necessary for larger, mixed-use developments that incorporate a variety of housing densities alongside open public spaces. This disincentivises developers who seek projects with greater economic viability.

**Addressing the high levels of unoccupied housing could also boost supply.** Empty and underused dwellings are held for a range of reasons, but the consequence is a highly inefficient allocation of housing and contributes to poor housing affordability. Utilising water meter data, a study found that 27,408 dwellings in metropolitan Melbourne were completely unoccupied in 2023 (1.5% of all homes) and a further 70,453 (3.7% of all homes) were barely used – totally 1 in 20 homes across the city.

“ *The volume of vacant housing in Melbourne now surpasses two and a half years' worth of new dwelling construction, and could house everyone on the Victorian public housing waitlist twice over* - Prosper Australia<sup>45</sup> ”

Governments must work together to progress challenging reforms that tackle the perverse incentives in many areas of housing policy, that produce results like land banking and unoccupied housing. Only together will governments be able to design policy that better aligns market interests with those of the community.

## EVIDENCE SHOWS THAT LOCAL GOVERNMENT APPROVAL PROCESSES ARE NOT A KEY BARRIER TO ACHIEVING HOUSING TARGETS

**Local governments are often blamed for delays in housing supply because of “lengthy” approval processes.** The reality is that local government processing times for development applications are relatively short, particularly when compared with the long timeframes involved throughout the entire housing process. Land release, developers commencing construction, and major infrastructure works can take years and often decades.

**Local government approval processes usually take a few days to a few months.**

The average development application assessment is completed in 114 days in New South Wales,<sup>46</sup> planning permit applications receive outcomes in 132 days on average in Victoria<sup>47</sup> and 87% of development applications are completed on time in Western Australia<sup>48</sup> - relatively minor timeframes in the bigger picture of the housing development process.

**Research confirms that development approvals are not a significant barrier in themselves** with 99% of development applications being approved in Western Australia, 97% approval in New South Wales<sup>49</sup> and 84% of planning applications receiving approval in Victoria.

**Where delays do exist, they often stem from factors beyond local control,** including complex state-level planning regulations, poorly prepared or incomplete development applications, delay in input or approvals from other government agencies and planner skills shortages.

**Delays are more often seen after the approval process.** Developers often takes months to years to commence work after approval. In its most recent 2018-19 building commencement data, the ABS finds that the average time from planning approval to commencement was 64 days for houses and 83 days for townhouses. Delays are much higher in practice as these figures exclude dwellings that take over 3 years between approval and commencement as well as larger developments.<sup>50</sup>

**Many approved properties are never built.** In 2023, KPMG estimated that 37,074 dwellings had been approved but not yet commenced. In 2018-19, the ABS estimated that 2.8% of new dwellings were abandoned after gaining approval (including 4.1% of approved dwellings in NSW).<sup>51</sup> Almost half of the approved but not yet commenced dwellings are accounted for by Sydney (30%) and Melbourne (18%). *“There is always a lag between housing being approved and construction commencing, but current estimates show an abnormal number of dwellings sitting in this category, suggesting other market factors are stalling the pipeline of new builds.”*<sup>52</sup>



**1 in 35**

dwellings are abandoned after approval nationally (2.8%)



**1 in 25**

dwellings are abandoned after approval in NSW (4.1%)

Blaming local government is a simple solution that will not help achieve the housing targets. The range of complex barriers to boosting housing supply must be grappled with by all stakeholders in a co-ordinated way.



# NATIONAL LOCAL GOVERNMENT HOUSING SUMMIT: WHAT WE HEARD

On 16 August 2024, councils, industry leaders, and researchers met in Adelaide for Australia's first National Local Government Housing Summit. This event focused on the positive role local government can play facilitating more affordable housing and helping deliver on Australia's housing targets.

The summit heard from a range of local councils and industry leaders on the challenges facing local government delivering more housing for their communities. The summit also heard from multiple councils that are committed to driving positive, innovative solutions to building new housing.

There are several challenges facing local government outside of their control. This includes increased construction costs. For example, the cost of constructing a detached house is now 30–40 per cent higher than in 2019. This is compounded by extended construction times which have increased by approximately 50 per cent. Increased construction costs have been exacerbated by a need for careful planning to ensure new housing in locations that do not increase risks for new insurance.

The summit was clearly told that these issues could be supported by additional data to support effective, long-term planning for new housing. Clear, robust data will support all levels of government to make sensible decisions on what housing is being built and where it's being built. In many cases, relevant data sits within local government, but

councils need funding to ensure the data and maps are developed, maintained and communicated.

The summit also heard directly from councils that have implemented new, innovative programs to build new housing in their local communities.

Barunga West Council identified their contribution to meeting Australia's housing targets and has adopted an innovative development plan to finance new trunk infrastructure for their local community. This includes pre-sale and settlement of land to provide fundings for infrastructure installation.

Dubbo Regional Council has developed new innovative solutions to housing in a regional center. This includes a new approach to planning and construction in the regional area. For example, it has established a new precinct that provides diverse housing sizes and density options to meet community needs. The council is also working with renewable energy proponents to ensure construction workforce housing provides long-term housing benefits for the community.

The City of Melbourne has developed Make Room, a unique partnership that involves refurbishing a council-owned building to provide vulnerable community members safe and secure housing and access to support services.

From these examples it was clear that there are positive actions local government can adopt to play their part in addressing housing shortages

across the country. A significant first step is including local government in the National Housing and Homelessness Plan to ensure it thoughtfully negotiates the nuanced needs of local government across the country, recognises the diversity of council capability and provides effective funding to support councils overcome financial constraints.

It was also clear that communities across the nation are ready adopt a variety of housing solutions and make sure that all governments have their eyes and ears open to new solutions. This will be facilitated with more opportunity for

local governments to be heard at all levels of governments, through greater involvement in key decision making bodies such as National Cabinet and the Housing and Homelessness Ministerial Council. This includes allowing all local governments to innovate and have the tools to implement innovative solutions across the country. The summit recognised that with the right financial support, and with recognition of the local knowledge needed to build livable communities, councils can take a key role in addressing the housing needs of Australians.



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