2018-19 Estimates Committee Submission

Unit title rating system impacts

Cases and options

Owners Corporation Network

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Overview

The Owners Corporation Network (OCN) appreciates the opportunity to make a submission to the Australian Capital Territory (ACT) Legislative Assembly (ACTLA) *Select Committee on Estimates 2018-19*. OCN represents the views of strata title property owners and has been a voice for reform to changes in the system of rating in the Australian Capital Territory (ACT). The views are assisted by feedback from 5,700 petition respondents who have shared stories about the impact of increases in rates and land tax generally, and specifically in relation to the additional increases on multi-unit dwellings (unit title).

As part of the ACT Government taxation reforms, generally, rates and land taxes are being increased to replace stamp duty on conveyances by around 2032. As part of this taxation substitution, the Government announced that:

> From 1 July 2017, the Government will change the general rates calculation for multi-unit dwellings to base it on the total average unimproved value] AUV of the land rather than the individual [AUV of the unit (consistent with changes to Land Tax). This change, to be phased in over two years, will establish greater equity in general rates paid between houses and units. This change, to be phased in over two years, will establish greater equity in general rates paid between houses and units.[1]

The OCN argue that the changes introduced to unit title rates are a blunt instrument that will achieve neither efficiency or equity in the rating system. Indeed, it is argued in this submission that the impacts on unit title owners, investors and the community at large, from the total approach to taxation substitution has not been considered at a systemic level and the reforms will have a wide range of impacts on competing policies and household budgets.

This submission builds on work submitted by the OCN, and other interested parties, to the ACTLA Public Accounts Committee *Inquiry into the methodology for determining rates and land tax for strata residences* (PAC Inquiry).[2] The additional work reflects on the combined views of submitters, analysis undertaken since making the submission and the 2018-19 Budget released on 5 June 2018.

The OCN urges the Select Committee on Estimates to make recommendations that will reverse the decision to change the unit title valuation methodology. If this is not feasible, a next best outcome would be a fundamental and open review of the ratings methodology in general, but certainly for the way in which unit titles are levied land taxes.

We recommend the committee notes:

- The impact of the change in unit title rating is having an inequitable impact on unit titles dwellings across the ACT.
- The impact is most pronounced in larger complexes.
- The changes are impacting 63,611 dwellings of which 23,848 may be dramatically affected. These units are distributed across Canberra and include a high proportion of renter households.

[1] ACT Government 2015, 2015-16 Budget Paper No.3, p 258

[2] See Submission No. 53 – Mr Gary Petherbridge, Submission No.33 – Mr Ted Quinlan, Submission No.59 R O'Connell, Submission No. 20 – Ms Jane Godtschalk, Submission No.21 – Mr Andrew Sutton, Submission No.25 – Mr Mike Buckley and Submission No. 60-Mr Arthur Lagos.

- In some instances, for residential properties, valuation-based component increases could be as high as 109 per cent, which is in addition to a 47 per cent increase in the fixed charge component and 230 per cent increase in the fire and emergency services levy component.
- Generally, the impact is biggest in larger complexes, however the changes have introduced inequitable anomalies between equivalent units in different complexes.

We recommend that the committee agrees to suggest that:

- The ACT Legislative Assembly reverse the valuation change for unit title properties.
- In order to assess the impact of the changes and to have meaningful dialogue on any reform options proposed by the PAC Inquiry that the PAC consider an unusual approach of providing a draft report, open a window of public engagement on its findings to allow for consideration of any new evidence, and revise and publish a final report after considering feedback from stakeholders.
- The ACT Legislative Assembly not agree to any changes to the rating or land tax system that would increase the negative impact on unit title dwellings and undertake a full and open review of systemic alternatives with a view to introducing a system which is genuinely equitable and efficient at or before the 2019-20 Budget.

Setting the Scene: Land Taxation and intervention

Taxation reform has initiated a range of changes in how the ACT Government intervenes in the ACT economy.

The changes to rates and land tax are a part of wider ACT Government intervention in the land system. The root of the taxation intervention is to generate resource for a range of services. In this section OCN unpack the changes to the rate and land tax system and outline other, wider land interventions. Effectively, this section sets out our understanding of the policy basis for the reforms, in a wider land system context.

Changes to the rates and land tax system

The Quinlan Review

In 2012 the ACT Government received a review of taxation from the ACT Taxation Review Panel (the Quinan review). The review undertook significant analysis and assessment of all own-source ACT Government revenues.

The review discussion on general rates covered a range of matters, including the general method, description of the existing system, revenue performance, comparisons with other locations, a range of matters on incidence and assessment against an equity and efficiency criterion. Some of the key observations were that:

> Under the current rating system smaller blocks attract a larger amount of general rates on a dollar per metre squared basis. This imposes a disproportionate burden on households which consume and use land in a more efficient manner and reduces the overall progressivity of general rates.[3]
>
> Rates as a taxation instrument are efficient.

[3] ACT Taxation Review Panel 2012, p 92.

> While mostly equitable, they found "the current system is inequitable, with the amount of general rates paid per square metre for smaller blocks being larger than that of larger blocks.[4]

On Land Tax, the review assessed a range of models, in light of analyses in the 'Henry Review' of Australia's tax-transfer system, as well as matters similar to that for general rates. This included the general method, description of the existing system, revenue performance, comparisons with other locations, and a range of matters on incidence and assessment against the equity and efficiency criterion. Some of the key observations were that:

> In the short run, an increase in land tax may be reflected in higher rents but given sufficient competition in the rental market, landlords will absorb land tax in the long run.[5]
>
> Generally, land tax is efficient, however the base is compromised.
>
> Land tax is progressive in the ACT contributing to horizontal equity and "assuming that land ownership is an appropriate and accurate measure of capacity to pay, the progressive tax satisfies vertical equity and horizontal equity. However, this may not necessarily be the case, for example households can be rich in assets but poor in income, especially for retired households and estate transfers."[6]

For both land tax and rates the review found that there is a reasonable chance the incidence of the tax fell between the land holder and the tenant, where the property was rented.

The review recommended abolishing land tax in its historic form (recommendation 18) and transferring commercial land tax into commercial rates (recommendation 19). It also recommended changing the valuation for rates to a 'site value' and creating a two-part charge including a 'basic city services' fee (recommendation 20) and a progressive general taxation component (recommendation 21). The ACT Government agreed-in-principle to abolish land tax, noting "any transfer of residential land tax to general rates will be subject to community consultation", agreed-in-principle to transferring commercial land tax into commercial rates, agreed-in-principle to adopting 'site value', and agreed-in-principle to the two-part charge regime for rates. [7]

What is crucial to observe is that differential treatment of unit title properties did not form part of the package of recommendations from the Quinlan Review report. The only discussion of unit title or individual unit entitlement in the review, and the Government response, was in the context of the pre-existing valuation charging formula and lease variation charge.

Implementation: subsequent budgets

The 2012-13 Budget announced the commencement of taxation reform, based in part on the Quinlan review. Budget Paper 3 included discussion of the total reform plan, and specifically discussed the funding of the abolition of a range of taxes by 'increased general rates for the commercial and residential sector' and the first announcements covered a tranche of reforms for 5 years. The reform included the abolition of commercial land tax.[8] The plan did not discuss unit titles.

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[4] ACT Taxation Review Panel 2012, p 96
[5] ACT Taxation Review Panel 2012, p 88
[6] ACT Taxation Review Panel 2012, p 90
[7] ACT Government, Response to the ACT Taxation Review, pp 9-10.
[8] ACT Government, 2012-13 Budget paper No.3, Chapter 3.

The 2013-14 Budget updated progress on the reforms and set adjusted taxation parameters to achieve the stated goals.[9] It did not discuss changes to unit titles.

The 2014-15 Budget changed the rating structure for land tax, and a range of other programs, as well as adjusted taxation parameters to achieve the Government's stated goals.[10] However, again, it did not discuss changes to unit titles.

The 2015-16 Budget largely announced adjusted taxation parameters to achieve the stated reform goals.[11] It did not discuss changes to unit titles.

The 2016-17 Budget discussed the first five competed years of reform. It discusses the partial removal of conveyance duties, the relatively large increase in the proportion of rates to total own source revenue and drew dubious conclusions about other economic analyses (for example, claiming 'the ACT's tax reforms *have replaced* conveyance duty revenue with a 'broad-based land tax', whereas this is only partly true). It also adjusted taxation parameters to achieve reform goals.[12] The chapter flagged 'stage two of the reform process to commence in 2017-18, to take a 'more targeted approach'. This stage adjusted the thresholds and rates for conveyance duty. It also introduced the comparison of a 'Charnwood' versus 'City' property with equivalent improved values of $500,000 that pay different rates and claimed:

> The progressive nature of the general rates system has resulted in lower increases for properties with lower [average unimproved values] AUVs. Houses typically have relatively higher AUVs than units – despite often having similar market values.[13]

The Budget announced a change to the valuation method applying to the rates and land tax formula targeted at multi-unit dwellings. The Government announced:

> From 1 July 2017, the Government will change the general rates calculation for multi-unit dwellings to base it on the total AUV of the land rather than the individual AUV of the unit (consistent with changes to Land Tax). This change, to be phased in over two years, will establish greater equity in general rates paid between houses and units.[14]

The 2017-18 Budget Papers do not include a comprehensive update of taxation reform, rather weaving the changes into typical revenue discussions. The statement on the change in multi-unit dwellings is repeated, for both rates and land tax, with no update on implementation.

The 2018-19 Budget contained limited new information about taxation reform, except, once again, to outline new parameters that support the reform. The papers do allude to an adjustment reflecting the policy problem for unit titles, saying:

> To allow unit owners more time to adapt to this change, the Government will extend the transition to the new methodology by a further year, through an adjustment to the rating factors.[15]

[9] ACT Government, 2013-14 Budget paper No.3, Chapter 3.3.
[10] ACT Government, 2014-15 Budget paper No.3, Chapter 6.2.
[11] ACT Government, 2015-16 Budget paper No.3, Chapter 6.2
[12] ACT Government, 2016-17 Budget paper No.3, Chapter 6.3.
[13] ACT Government, 2016-17 Budget paper No.3, p 258.
[14] ACT Government, 2016-17 Budget paper No.3, p 258.
[15] ACT Government, 2018-19 Budget Paper No. 3, p 236.

This is not explained further, however OCN note that the marginal rate for AUVs exceeding $600,000 has been reduced for 2018-19. This measure was not included in the list of revenue initiatives in the Budget, so it is not possible to determine the revenue impact of the transition measure.

The key issue is that the unit title change has not formed part of the taxation reform dialogue during the period from 2012-13 until 2016-17 and there has been no open consultation or dialogue between the Government and the affected sector about the changes to unit title rating or land tax, despite seven completed budgets since the reforms were announced.

The unanticipated change

Each of the Budget's since 2012-13 has introduced change into the variables that form part of the system for rating, land tax, conveyance, fire and emergency service levy and some additional taxation in the form of a levy. Each of these changes has impacted all rateable properties in the ACT, except land tax, which is only applied to dwelling that are rented to tenants. This analysis focusses on the components relevant to the unit titles question.

Fundamentally, unit titles have experienced the same changes as detached dwellings in the underlying parameters of the components within the rating and land tax systems. To understand the functional form of the change in the relationship for units we have specified the system of equations that determine the total short-term impact on properties below. The old system refers to the pre-reform regime, and the new system refers to the current system.[16]

Old Residential System

$$Rates_{OLD} = FC_{type} + \left[\left(\frac{[UV_{t-2} + UV_{t-1} + UV_t]}{3}\right) \times \frac{UE_i}{\sum_i^n UE} \times GR\ MR_{type,threshold}\right] + FESL_{type} +$$

$$LT_{OLD} = \left[\left(\frac{[UV_{t-2} + UV_{t-1} + UV_t]}{3}\right) \times \frac{UE_i}{\sum_i^n UE} \times LT\ MR_{type}\right]$$

New Residential System

$$Rates_{NEW} = FC_{type} + \left[\left(\frac{[UV_{t-2} + UV_{t-1} + UV_t]}{3}\right) \times r\% \times GR\ MR_{type,\ \ threshold}\right] \times \frac{UE_i}{\sum_i^n UE} + FESL_{type} + Levy_{type}$$

$$LT_{NEW} = FC_{type} + \left[\left(\frac{[UV_{t-2} + UV_{t-1} + UV_t]}{3}\right) \times r\% \times LR\ MR_{type,threshold}\right] \times \frac{UE_i}{\sum_i^n UE}$$

Where: FC is fixed charge, type is residential or levy, UV is the entire unimproved value, GR MR is general rates marginal rate, threshold is the range of average UV at the MR, r% is the residential proportion, UE is the Unit Entitlement (sum of UE is Total UE).[17] FESL is the fire and emergency services levy, LT is land tax, i is a UE and n is the total UE in a unit title block.

The functional change for residential dwellings is a shift in the allocation of AUV for each unit from having a proportionate share of the total AUV of a site to which the marginal rates are

[16] The focus of this section is residential rates and land tax. Different functional forms exist for other property types.
[17] UE is defined in section 8 of the *Unit Titles Act 2001*, as the improved value proportion of a unit.

applied, to the total AUV being assessed at the marginal rate, and then having the unit share allocated. This reallocation is consistent between rates and land tax.

The changes to the unit title marginal rating factor at an individual unit level are not as clear cut as simply increases experienced within AUV thresholds. First, like all properties in the ACT, prices will go up and flow through to the AUV (eventually), which means bracket creep will become a material issue over time. Second, and crucially, the change in the valuation allocation method means many unit titles will fall into a higher valuation category. As an example, a property that was in the $0-$150,000 boundary in 2012-13 which is reallocated to the $600,001+ boundary by 2018-19 will see the rating factor change from 0.2727 to 0.5700 an increase of 109 per cent with no additional benefit from the supported public services.

Total land intervention

One of the reasons for pursuing reform expressed in ACT taxation review, and tax system reforms generally, is the overall efficiency of broad based land taxes. OCN do not wish to repeat the arguments, suffice to say, land is immovable, relatively fixed in supply and can be valued easily making revenue setting and tax avoidance difficult.[18] A broad based land taxation regime is a good policy decision.

The challenge in extrapolating from the idea of a broad-based land tax to the way in which ACT taxation reform is progressing is the extent and degree to which the ACT Government influence the 'rent' within the ACT leasehold system.

On a whole of life basis, from the conversion of unleased land, through to decisions to redevelop land toward its highest and best value use, the ACT Government exercises significant control. A stylised impression of the lifecycle interventions of the ACT Government is presented in Figure 1.

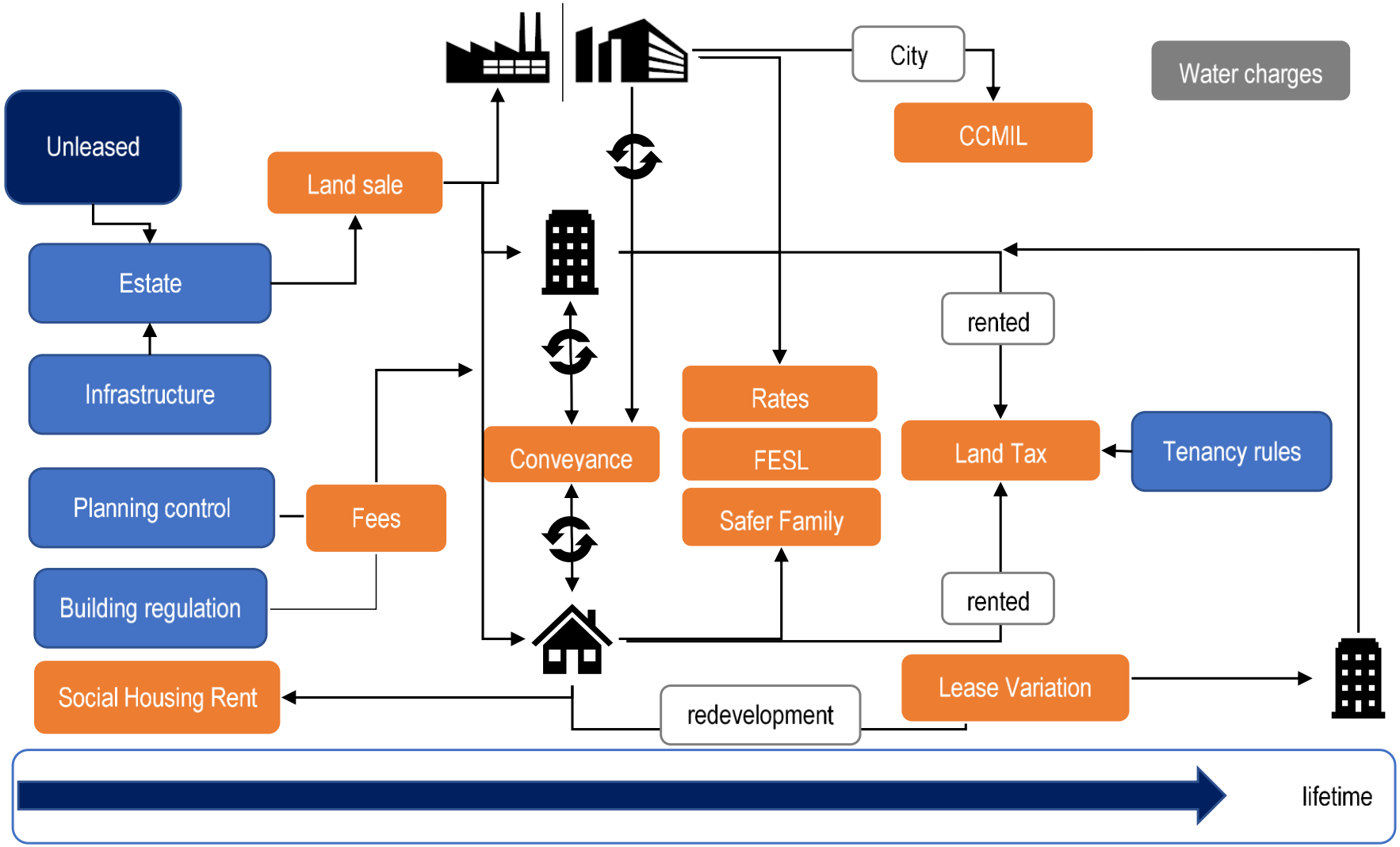
Under this stylisation, for new land supply and for existing stock, the ACT Government controls the base value of land, extracts rent at conversion from unleased to leased land, extracts a transaction tax at the initial point of sale, controls the development and building process, extracts ongoing base and incremental value (twice if the property is tenanted), extracts additional value uplift on transfers with improved relative AUV, claims 'windfall gains' through lease variation and recycle the process for redeveloped properties.

This level of intervention fundamentally affects valuations, and valuations affect what would genuinely be considered economic rent. This makes it challenging to determine how much value (and rent) ought to be taxed, and how frequently. The ACT reform will achieve the removal of one transaction tax, after 20 years, but retain and increase most other features of intervention. The unit title valuation change is a new intervention within the market.

The long run consequence of overall reform will be taxation substitution, higher overall taxation on land and result not in a 'broad based land tax', but a 'broad range of taxes and interventions on land', albeit without a direct transactional tax on land transfers. This affects the way in which evaluations of success and impact distribution must be measured.

[18] For a more eloquent discussion on land taxation, consider: G Wood, M Stewart and R Ong, Housing Taxation and Transfers: Final Report, Research Study for the Review of Australia's Future tax System, 2008, Petherbridge PAC Submission and J A McLaren, "The Australian Capital Territory has adopted measures to abolish stamp duty and impose a land tax on all real property: will this approach be adopted by other states in Australia?", Journal of the Australian Tax Teachers Association, 8 (1), 2013,101-116 [University of Wollongong Research Online version].

Figure 1: ACT Government lifecycle land intervention



There must be a limit to the amount of total interventions on land, that goes beyond whether individual tax components are considered equitable or efficient. This is a key reason why OCN and similar stakeholders consider there is a need for further inquiry about the setting of rates and land tax.

Reform performance generally

The changes to unit titles valuation need to be assessed through the lens of total taxation reform. The Government arguments around 'equitable' and 'efficient' policy outcomes, are couched in terms of needing to raise funds for essential services. OCN have undertaken an assessment of the different functions of taxes and the broader budget impact of the reforms. This sets a general benchmark for the assessment of the impact of the unit title changes, in terms of the government's criteria.

The function of different taxes

Total ACT Government intervention in land has been discussed. The taxation and other levy components have been reported in various settings as having specific purposes. A key issue for looking at the reforms is the degree to which boundaries—explicit or implicit—are set on how far the Government ought to go in maximising revenues from a tax, given the full range of revenue raising options available to government.

The Quinlan review stated that:

> general rates recover the cost of municipal services which usually are attributed uniformly across households irrespective of the size of the land plot.[19]

These functions—municipal services— are typically delivered in a local government setting and have conventionally been the target for revenue raising from the general rates system, the so called 'rates, roads and rubbish' model.

According to the Productivity Commission (PC):

> the four largest shares of local government expenditure are in the following areas:
>
> - transport and communication (including road construction and maintenance, parking, rail and air transport, community transport and communication technology)
> - housing and community amenities (including housing and community development, water supply, household garbage and sanitation, sewerage and street lighting)
> - general public services (including administrative functions such as executive, legislative and financial affairs and expenditure not classified elsewhere)

[19] ACT Taxation Review Panel 2012, p 91

- recreation and culture (including public halls, swimming pools, national parks and wildlife, libraries, museums and art galleries).[20]

In the second phase of reform the ACT Government started building a wider logic as the basis upon which the reforms were set, and conflated local functional spending requirements with state functions as the target for revenue growth from rates and land tax, stating:

> The transition to an efficient broad-based land tax secures a stable revenue base into the future to fund the provision of high quality government services, such as schools, roads, hospitals and community facilities, and relieves future generations from the economic burden of an unfair and inefficient tax system.[21]

This increases the heavy lifting required from the land taxation system, away from relatively low-cost functions towards relatively high cost functions.

At Annex A we have summarised the total functional expenditures of the ACT from the base year (2011-12) and the 2018-19 Budget. We are unable to build precise measures as the classification reporting has changed between the budgets. However, from this table, it is possible to look at several items, like education, health police, fire, light rail and public debt transactions and contemplate which of these costs ought to be funded from which sources.

Some of the specific functions are almost completely funded by targeted taxes. For example, 'Civil and Fire Protection Services' cost $53.14 million in 2018-19 and the Fire and Emergency Services Levy (FESL) will raise $82.37 million in 2018-19. In addition, the Ambulance levy will raise $23.7 million in 2018-19, further offsetting the need for other emergency services taxes. The table also identifies growth pressures, like a 55 per cent increase in the courts function, and new functions, like the $64 million allocated to light rail.

The challenge is assessing what taxes ought to raise funding for which functions, and how those targeting specific purposes are constrained to funding those services.

Commonwealth payments offsets

A counterfactual to the need to widen the land taxation competent within own source taxation is that revenue is granted from the Commonwealth, for general and specific purposes. The aggregate grant is broken down in Table 1 for the base year of 2011-12, the current Budget year and the outyear projection for 2021-22. Over the reform period to the 2018-19 Budget grants have increased by 46 per cent, and by 2021 will have increased by 65 per cent. ACT Government expenses for state functions will be offset by an additional $318.7 million, while united general assistance will increase by $492 million.

The GST is largely a growth tax revenue source that can be used to offset local and state functions. In terms of municipal functions, the ACT receives additional specific purpose payments from the Commonwealth for its local government functions—in 2018-19 this was $26.3 million (increasing to $59.3 million by 2021-22). The ACT is also compensated for the presence of Commonwealth agencies who are exempt from some state and local taxes and will receive $40.1 million in 2018-19.

[20] Productivity Commission (PC), Assessing Local Government Revenue Raising Capacity, PC Research Report, April 2008, p 18
[21] ACT Government, 2016-17 Budget Paper No.3, p 249.

Table 1: Grants from the Commonwealth

Broad Purpose	2011-12	2018-19	2021-22	$ - Base to		% - Base to	
	EO	Budget	Estimate	current	21-22	current	21-22
GST Revenue	836.6	1328.3	1525.1	491.7	688.5	59%	82%
ACT Municipal Services	36.1	40.1	41.9	4.0	5.8	11%	16%
Health	183.6	398.0	480.5	214.4	296.9	117%	162%
Education	198.1	315.8	355.1	117.7	157.0	59%	79%
Skills and Workforce Development	22.8	25.3	26.4	2.5	3.6	11%	16%
Disability	17.4	0.0	0.0	-17.4	-17.4	na	na
Affordable Housing	24.3	25.8	25.6	1.5	1.3	6%	5%
Specific purpose payments	*446.2*	*764.9*	*887.7*	*318.7*	*441.5*	*71%*	*99%*
Health	48.0	0.4	0.2	-47.6	-47.8	-99%	-100%
Education and Early Childhood	34.1	9.1	0.0	-25.0	-34.1	-73%	-100%
Skills	1.2	5.0	5.0	3.8	3.8	317%	317%
Community Services	25.0	31.5	17.4	6.5	-7.6	26%	-30%
Housing	5.2	0.0	0.0	-5.2	-5.2	-100%	-100%
Infrastructure	57.5	52.3	39.0	-5.2	-18.5	-9%	-32%
Environment	21.6	17.5	0.0	-4.1	-21.6	-19%	-100%
Other	13.0	15.0	5.7	2.0	-7.3	15%	-56%
Total National Partnership Payments	*205.6*	*130.7*	*67.3*	*-74.9*	*-138.3*	*-36%*	*-67%*
Financial Assistance Grants to Local Government	57.2	26.3	59.3	-30.9	2.1	-54%	4%

It is also fair to say, in terms of local government functions, the ACT is at an advantage to other local governments, as it does not face 'cost shifting' between state and local functions and gains economies of scale by not maintaining multiple decision-making units for its population. For example, for a population size similar to the ACT, Tasmania maintains administrative infrastructure for 29 local councils (and a parliamentary upper house) which the ACT avoids.

One of the general objectives of taxation reform is to achieve a more productive tax mix without increasing the overall tax take. The relative total tax take between a reform and no reform scenario has not been published. The arguments about components of land tax being necessary to contribute to all functions seems to be an overextension. What we conclude from the available evidence is that the total taxation target from land should contribute to targeted functions, offset by other grants and economies of scale unique to the ACT, but be revenue neutral in terms of the overall reforms. The overall revenue targets for land-based taxation should be investigated more thoroughly and transparently.

Budget data

Under the reform program each budget since 2012-13 has changed an element of land taxation, such as increasing a marginal rating factor, reducing a transaction tax rate, or changing a threshold. The fixed charge on rates has also been increased each year. The Fire and Emergency Services levy (FESL) has also been incrementally increased each year.

The Government has also added a property levy for 'safer families' as an additional tax on rateable properties. There has also been a gradual reduction in conveyance duty rates.

Changes in recurrent land taxation

The pattern of changes for the general rates system is demonstrated in Table 2 for residential properties, and Table 3 for commercial properties. Compared to a total expenditure increase of 41 per cent between 2011-12 and 2018-19, the changes in the system are:

- An increase in the fixed charge of 46.8 per cent for residential properties and 95.8 per cent for commercial properties;
- An increase in the FESL of 230 per cent for residential properties, and between 81 and 11 per cent for the marginal FESL rate for commercial properties;
- The introduction of a minor new levy for safer families; and
- Increases in the marginal rating factor of between 15 and 110 per cent for residential properties and 370 and 570 per cent for commercial properties.

Generally, the changes in marginal rating factors has been less for lower threshold ranges, and the systems have maintained progressivity.

The pattern is less clear for land tax, and this is demonstrated in Table 4. The pattern of the marginal rate is downwards, and thresholds have been adjusted making direct comparisons difficult. A fixed charge has been introduced and is increasing each year with a total increase of 34 per cent. Generally, the marginal rating component is progressive, however the flat rate has added a regressive element.

The offsetting changes to the conveyance duty system can also be traced across budgets, which is summarised in Table 5. Direct comparisons to the base are complicated as the thresholds and the rates have been adjusted. Generally, the upper thresholds have been increasing (a benefit) and after a short period of rate increases, most thresholds now have lower marginal rates. 2018-19 will be the 10th year of taxation reform—the half way mark—and by this time, only 3 of the 13 potential categories will have seen marginal rate reductions of 50 per cent or more.

Without modelling the system, it seems reasonable to conclude that over time the rates of conveyance taxation have been 'sticky', and that more aggressive reform, and higher revenues from general rates and land tax increases will be required across the second ten years of reform to completely eradicate the conveyance duty.

Table 2: History of changes to residential rates system components (including FESL)

Component	Threshold	Base Year	Reform Years							Base to	
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	current	2016-17
Fixed Charge ($)		555	555	626	675	730	765	795	815	46.8%	37.8%
Marginal Rates	$1–$150,000	0.2727	0.2236	0.2306	0.2547	0.2746	0.2746	0.2960	0.3130	14.8%	0.7%
(%)	$150,001–$300,000	0.2727	0.3136	0.3241	0.3571	0.3857	0.3900	0.4088	0.4088	49.9%	43.0%
	$300,001–$450,000	0.2727	0.3736	0.3876	0.4287	0.4629	0.4800	0.5130	0.5130	88.1%	76.0%
	$450,001–$600,000	0.2727	0.4136	0.4312	0.4873	0.5339	0.5400	0.5603	0.5603	105.5%	98.0%
	$600,001 and over	0.2727	0.4136	0.4312	0.4873	0.5339	0.5750	0.6013	0.5700	109.0%	110.9%
FESL ($)		101.8	104.8	120.0	130	196	252	294	336	230.1%	147.5%
Safer families ($)							30	30	30	new [100%]	

Table 3: History of changes to commercial rates system components (including FESL)

Component	Threshold	Base Year	Reform Years							Base to	
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	current	2016-17
Fixed Charge ($)		1258	1213	1749	1915	2130	2235	2380	2463	95.8%	77.7%
Marginal	$1–$150,000	0.7711	1.9070	2.2069	2.4134	2.6274	2.8000	2.9760	3.0800	na	263.1%
Rates	$150,001–$275,000	0.7711	2.2670	2.6429	2.7957	3.0467	3.3000	3.4940	3.6161	369.0%	328.0%
(%)	$275,001–$600,000	0.7711	2.6070	3.5369	4.0245	4.4339	4.6600	4.9350	5.1074	562.4%	504.3%
	$600,001 and over	0.7711	2.6070	3.5369	4.0245	4.4339	4.7700	4.9930	5.1675	570.1%	518.6%
FESL Comm	Flat	0.3907	0.4093	0.5041							-100.0%
	$0-$300,000				0.6097	0.6773	0.6984	0.7019	0.7068	80.9%	78.8%
	$300,001–$2,000,000				0.7153	0.7990	0.8198	0.8263	0.8226	110.5%	109.8%
	$2,000,000 and over				0.8209	0.8253	0.8511	0.8491	0.8040	105.8%	117.8%

Table 4: History of changes to land tax system components

Component	Threshold	Base Year	Reform Years							Base to	
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	current	2016-17
Fixed Charge ($)					900	945	1,045	1,145	1,203	33.7%	new
Marginal Rates (%)	<$75,000	0.600	0.600	0.600	0.410	0.410	0.410			na	-31.7%
	<$150,000							0.500	0.500	na	
	$75,000-$150,000	0.890	0.700	0.700	0.480	0.480	0.480			na	
	$150,000 to $275,000	1.150	0.890	0.890	0.610	0.610	0.610	0.600	0.600	-47.8%	-47.0%
	$275,001 to $2m	1.400	1.800	1.800	1.230	1.230	1.230	1.080	1.080	-22.9%	-12.1%
	$2m +							1.100	1.100	new	

Table 5: History of changes to conveyance duty components

Threshold	Base	Reform Years							Outyears			Base to		
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	current	outyear	2016-17
<$100,000	2.00	2.4	2.2	2	1.8	1.48	1.4	1.3	1.2	1.1	1	-35.0%	-50.0%	-26.0%
$100,000-$200,000	3.50	2.4	2.2	2	1.8	1.48	1.4	1.3	1.2	1.1	1	-62.9%	-71.4%	-57.7%
<$200,000		2.4	2.2	2	1.8	1.48	1.4	1.3	1.2	1.1	1	na	na	
$200,001 to $300,000	4.00	3.75	3.7	3.5	3	2.5	2.4	2.3	2.2	2.1	2	-42.5%	-50.0%	-37.5%
$300,001 to $500,000	5.50	4.75	4.5	4.15	4	4	3.8	3.6	3.4	3.2	3	-34.5%	-45.5%	-27.3%
$500,001 to $750,000	5.75	5.5	5	5	5	5	4.78	4.56	4.32	4.1	3.9	-20.7%	-32.2%	-13.0%
$500,001 to $1,000,000	5.75	5.5	5	5	6.5	6.5	6.3	6.1	5.9	5.7	5.5	6.1%	-4.3%	13.0%
$750,001 to $1,000,000	5.75	6.5	6.5	6.5	6.5	6.5	6.3	6.1	5.9	5.7	5.5	6.1%	-4.3%	13.0%
$1,000,001 to $1,454,999	6.75	7.25	7	7	7	7	6.8	6.6	6.4	6.2	6	-2.2%	-11.1%	3.7%
$1,000,001 to $1,649,999	6.75	7.25	7	7	7	7	6.8	6.6	6.4	6.2	6	-2.2%	-11.1%	3.7%
$1,000,001+	6.75	7.25	7	7	7	7	6.8	6.6	6.4	6.2	6	-2.2%	-11.1%	3.7%
$1,455,000+	6.75	7.25	7	5.25	5.17	5.09	4.91	4.73	4.54	4.36	4.18	-29.9%	-38.1%	-24.6%
$1,650,000+	6.75	7.25	5.5	5.25	5.17	5.09	4.91	4.73	4.54	4.36	4.18	-29.9%	-38.1%	-24.6%

Note: From 2013-14 the highest threshold rate is a flat tax on the transaction value. OCN have matched rates within the thresholds to create the time series.

Total gains and requirements

The reforms have altered the own-source revenue mix for the ACT Government. Total revenue, including the separation of in-scope reform taxes, are presented in Table 6. Compared to the base year, the in-scope taxes will raise an additional $421.6 million in 2018-19 increasing to $616.4 million by 2020-21. The drivers of this increase at 2018-19 and 2021-22 are an additional:

- $54.0 million in FESL (191 per cent), increasing to $62.9 (222 per cent);
- $4.8 million in safer families levy, increasing to $5m;
- $330 million in general rates (158 per cent), increasing to $475.3 million (227 per cent);
- $6.7 million in conveyance duty (2 per cent), increasing to $28.3 million (11 per cent); and
- $26.1 million in land tax (23 per cent), increasing to $44.9 million (39 per cent).

Total revenue will increase, respectively, by $1.67 billion (42 per cent) and $2.34 billion (59 per cent) driven primarily by general rates and Commonwealth grants.

Budget papers have not provided initiative costings for the marginal additional taxation that would be received from the change to the valuation method for units, other than to say other reductions would "be partially offset from 2017-18 by the revised method applying to residential general rates assessments for units." This means the change was revenue positive.[22] Nor have Budget papers mapped projected total revenues from the pre-reform system to the actual levels of revenue received.

The comparative increase in total expenses, and components, is summarised in Table 7. Over the period from the 2011-12 to 2018-19 total expenses grew by $1.69 billion (41 per cent), and to 2020-21 are projected to grow by $2.38 billion (58 per cent). The primary driver of the expense increase for 2018-19 is wages plus superannuation at $725.4 million (+42 per cent). Grants and supplies also added a combined $621 million. The highest proportionate increase is in 'interest expenses' at 100 per cent (+$99.8 million).

This leaves an underlying net operating deficit of $146.9 million for 2018-19 and $170.4 million for 2020-21. There is a macro-fiscal challenge in addressing these deficits that is beyond the scope of this submission, but that will affect own-source revenue requirements if the total increase in expenses continues to exceed the total growth in revenues.

Transitional impacts

Within the taxation reform there is a transitional burden which can be identified from several sources. For example, the 2018-19 Budget identifies that over the period 2017-18 to 2020-21 the ACT will collect $1.37 billion from conveyance duty.

The ABS estimate that over the period from September quarter 2012 until June quarter 2017 a total of 44,966 established and attached house transfers were executed. The median four quarter annualised transfers between September 2004 and December 2017 is 8,293. This suggests that between 2017-18 and 2031-32 an additional 124,388 transfers could occur.

Over the 20-year implementation period, we estimate a total of 169,354 dwellings will effectively be taxed twice, paying the transitional conveyance tax, albeit at a lower rate, and the increases in general rates and land tax.

[22] ACT Government, 2016-17 Budget Paper No.3, p 164.

Table 6: Total revenue performance

Category	2011-12	2018-19	2021-22	$ - Base to		% - Base to	
	EO	BUD	P	current	outyear	current	outyear
Fire and Emergency Service Levy	28,354	82,370	91,277	54,016	62,923	191%	222%
Safer Families Levy		4,800	5,000	4,800	5,000	new	new
General Rates	209,298	539,262	684,598	329,964	475,300	158%	227%
Conveyances	267,878	274,566	296,130	6,688	28,252	2%	11%
Land Tax	114,996	141,112	159,923	26,116	44,927	23%	39%
Other Own Source Taxation	597,353	856,080	1,024,089	258,727	426,736	43%	71%
Commonwealth Grants	1,581,707	2,311,269	2,602,127	729,562	1,020,420	46%	65%
Gains from Contributed Assets	78,272	220,515	201,991	142,243	123,719	182%	158%
Sales of Goods and Services	438,798	542,093	578,279	103,295	139,481	24%	32%
Interest Income	172,199	118,534	123,401	-53,665	-48,798	-31%	-28%
Distributions from Financial Investments		38,633	54,517	38,633	54,517	na	na
Dividend and Income Tax Equivalents	382,589	397,462	367,865	14,873	-14,724	4%	-4%
Other	122,535	144,609	145,905	22,074	23,370	18%	19%
Total	**3,993,979**	**5,671,305**	**6,335,102**	**1,677,326**	**2,341,123**	**42%**	**59%**

Table 7: Total expenditure performance

Category	2011-12	2018-19	2021-22	$ - Base to		% - Base to	
	EO	BUD	P	current	outyear	current	outyear
Employee Expenses	1,447,390	2,060,032	2,190,615	612,642	743,225	42%	51%
Superannuation Interest Cost	265,327	378,066	412,667	112,739	147,340	42%	56%
Other Superannuation Expense	236,322	328,592	330,464	92,270	94,142	39%	40%
Depreciation and Amortisation	307,897	435,806	463,694	127,909	155,797	42%	51%
Interest Expense	100,220	199,977	248,323	99,757	148,103	100%	148%
Supplies and Services	832,578	1,108,504	1,426,386	275,926	593,808	33%	71%
Other Operating Expenses	199,423	224,202	260,250	24,779	60,827	12%	31%
Grants and Purchased Services	737,740	1,082,992	1,173,110	345,252	435,370	47%	59%
Total Expenses	**4,126,897**	**5,818,171**	**6,505,509**	**1,691,274**	**2,378,612**	**41%**	**58%**

Some unit holders will effectively pay three times—conveyance, increased rates and land tax and relatively higher AUVs by virtue of the valuation method change. The OCN sees the latter change as unnecessary and attaches a high urgency to its removal or reform.

Direct impact of changes in unit title method

Despite a lack of analytical support to measure the impact of the changes on unit title valuation, it is possible to determine the magnitude and direction of the potential impact from the change. This includes the potentially affected population, the assumed impacts and some actual impacts (using both Treasury and case study data).

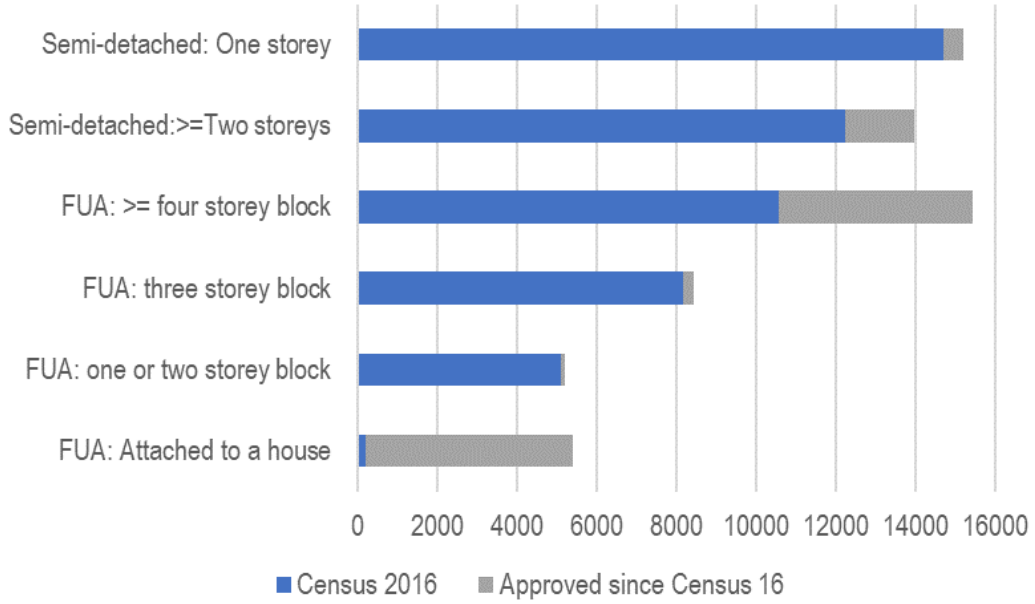
Unfortunately, publicly available data on commercial unit ownership, rental and distribution is not widely available. This segment is not analysed by OCN.

Affected population

In June 2012 there were 147,500 residential dwellings in the ACT. By December 2017, this had increased by 14.3 per cent to 168,600. The value of all dwelling stock owned by households in June 2012 was $74.28 billion, and this increased by 39.95 per cent to $103.96 billion by December 2017.

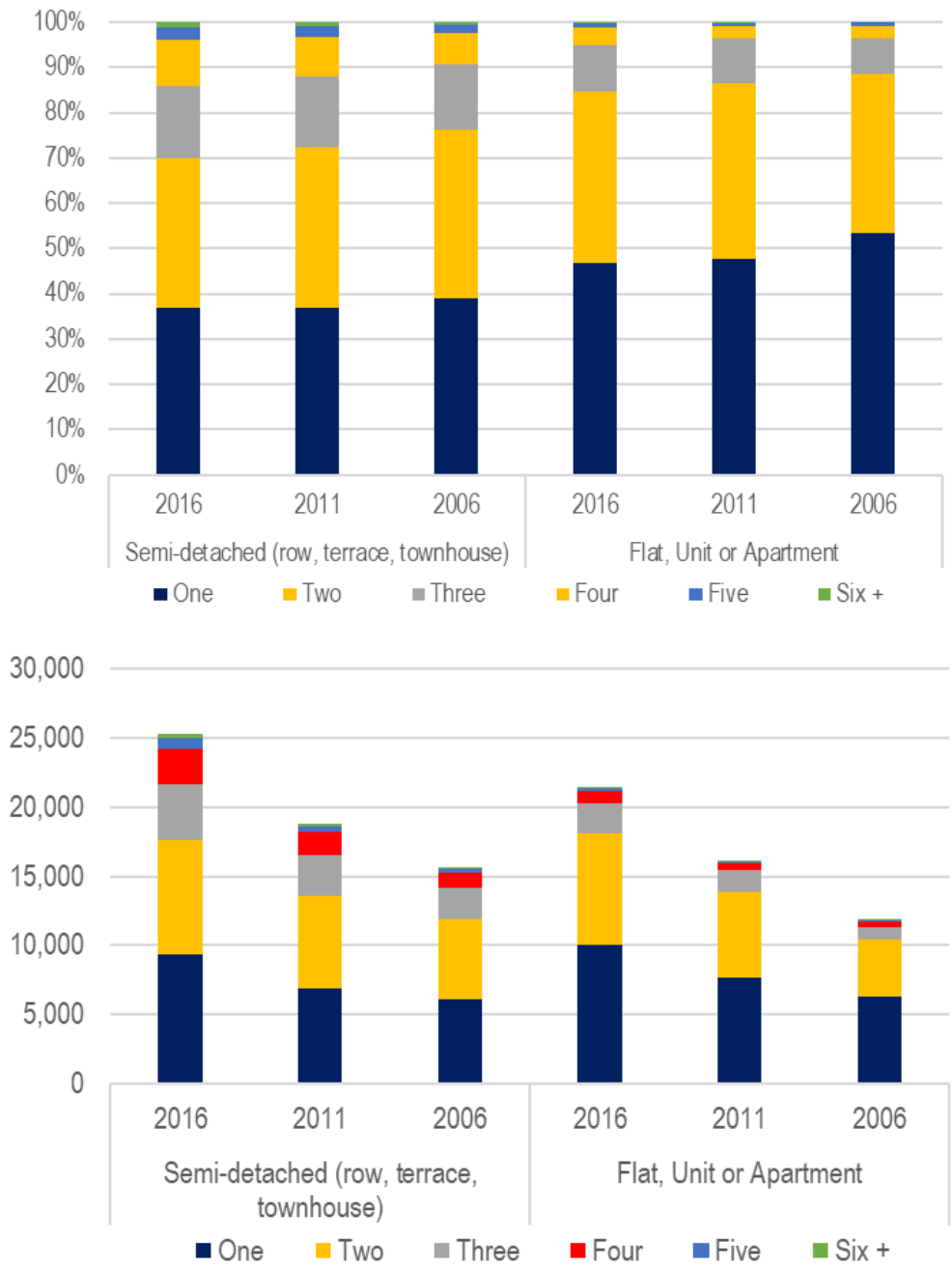
The census reported 50,984 'Semi-detached (row, terrace, townhouse)' and 'Flat, Unit or Apartment (FUA)' dwellings in 2016 (collectively referred to from here on as 'units'). ABS building approvals are counted using similar categorisation as census and between August 2016 (census date) and April 2018, an additional 12,624 unit dwelling were approved. The breakdown of these units by type is illustrated in Figure 2. This illustrates that potentially 63,611 dwellings are affected by the methodological change. Of these, around 23,848 are in complexes with three or more storeys, which OCN contend will be the most affected.

Figure 2: Number and distribution of units



It is difficult to define the exact number of individuals who live in units. However, Figure 3 illustrates the 2016 census distribution of occupied unit dwellings by the number of persons usually resident in those dwellings. From this we can infer that there were at least 91,200 persons in units at census who may be affected by the change.

Figure 3: Distribution of units by persons usually resident

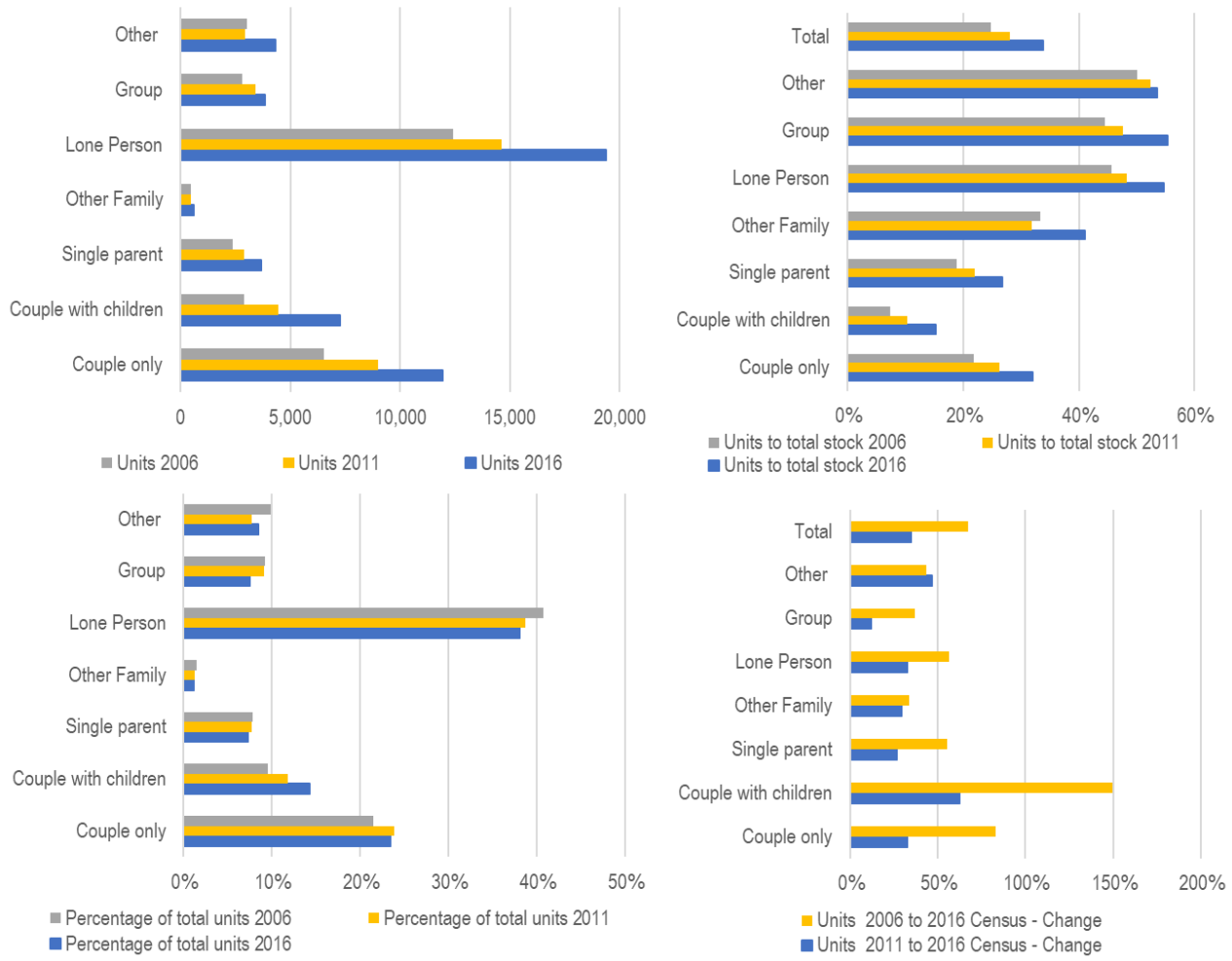


From these data we also observe that the growth in FUA is predominantly in units with one occupant. This is consistent with semi-detached units, however there is moderate growth in four-person units between 2006 and 2016. Proportionately the biggest shift is in three and four-person dwellings. Anecdotally, this suggest a shift towards unit living for single persons and small families.

Census provides some insight into the types of families in units as well. Figure 4 illustrates a battery of distributions of units based on household types in occupied private dwellings. The

total unit count is dominated by lone person and couple only households, and there is an increased proportionate occupation of dwellings by couples with children. Comparing total units to total dwellings illustrates that unit living is an increasing phenomenon across all segments, yet lone person, group and 'other' categories dominate.

Figure 4: Family types in units



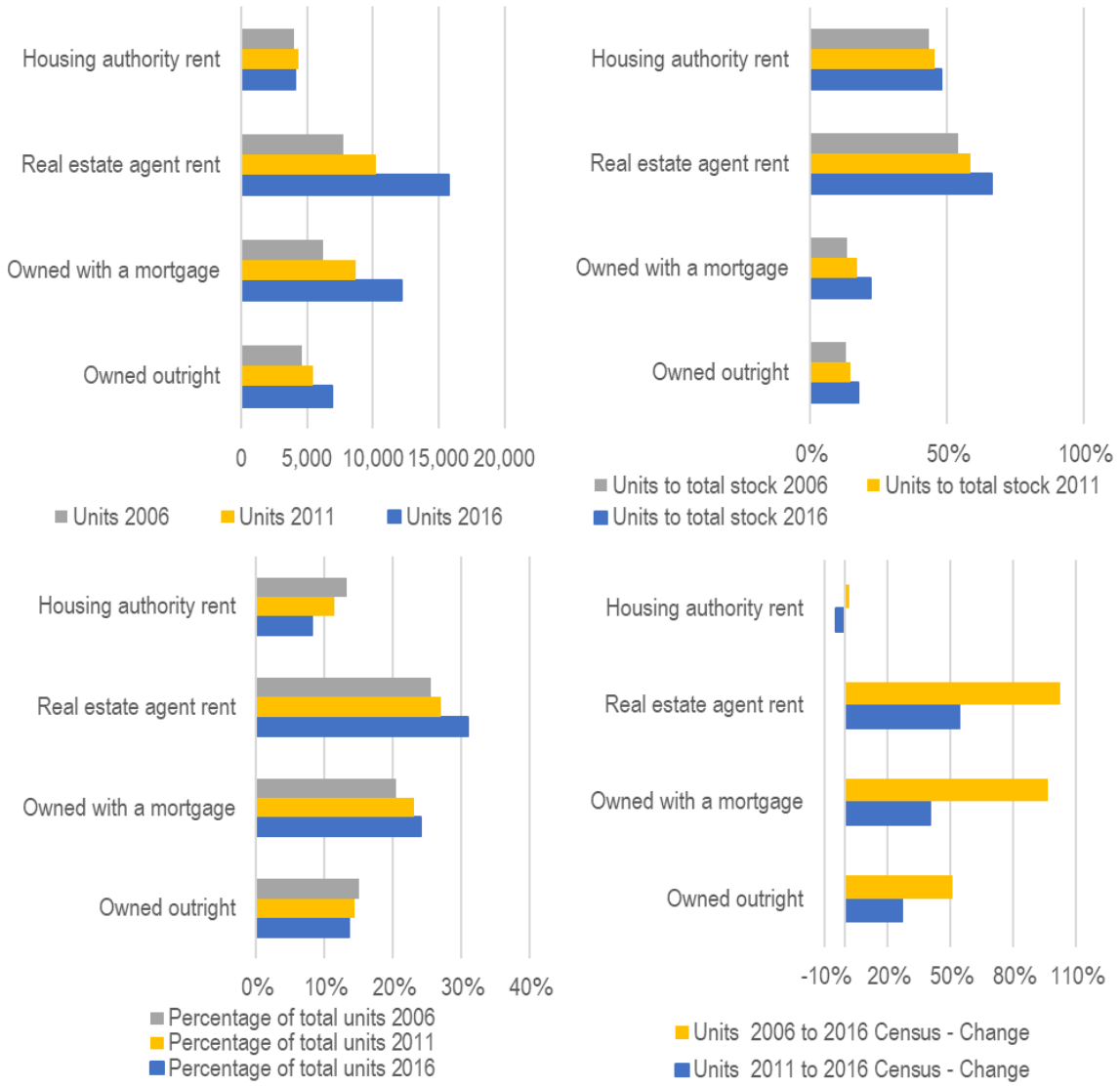
There are more than just residents in dwellings that are potentially affected. Units are a common form of property investment, so it is important to assess dwelling tenure. Figure 5 illustrates a battery of distribution metrics that define tenure for units. Across the unit count real estate agent and housing authority renters dominate. Proportionately, the largest components are real estate agent renters and owners with a mortgage; and we note the proportion of housing authority renters and outright owners has been decreasing over time.

Compared to the total dwelling stock, units account for a large proportion of all housing authority and private renters. The proportion of these categories is also increasing.

It is convincing that the changes in unit title rates and land tax, generally and with the change in valuation method, will impact upon many more than the 63,611 dwelling residents when also considering the number of property investors. This distribution also illustrates an impact from the reforms on ACT Housing as well. That is, Housing ACT are required to pay general rates on their housing stock. This analysis suggests that up to 4,135 social housing properties could experience an increase in rates, requiring a revenue transfer from ACT Housing back to the general government sector.

The affected population is dispersed across all regions within the ACT. Using census data, we have generated a regional profile of units in Figure 6. Please note that this profile covers only up to 2016, which will have not included the dramatic stock increases in Molonglo, the Northbourne Corridor, Belconnen and proposed developments in the Woden town centre. Some of the interpretation will be affected by this issue.

Figure 5: Units by tenure



At census the largest number of units was in North Canberra, followed by Belconnen. Dramatic growth is evident in Gungahlin. Proportionately Gungahlin has the highest volume of units.

Compared to total housing stock, units are increasing overall, however South Canberra and North Canberra have relatively higher concentrations of units. It is likely Molonglo, Woden and Belconnen will be similarly over represented soon.

To enrich the regional discussion, Figure 7 maps renting households to regions. North Canberra, Belconnen and Gungahlin have the largest number of renters in units, while proportionately, the volumes in Belconnen and Gungahlin are increasing. Compared to total renter stock, Woden, South Canberra, North Canberra and Molonglo (at 2016) have a higher share than the ACT total. Gungahlin is clearly growing the fastest between censuses.

This illustrates that the impact of the reforms will touch all districts and will have compounding effects where renters dominate.

Figure 6: Regional profile of units

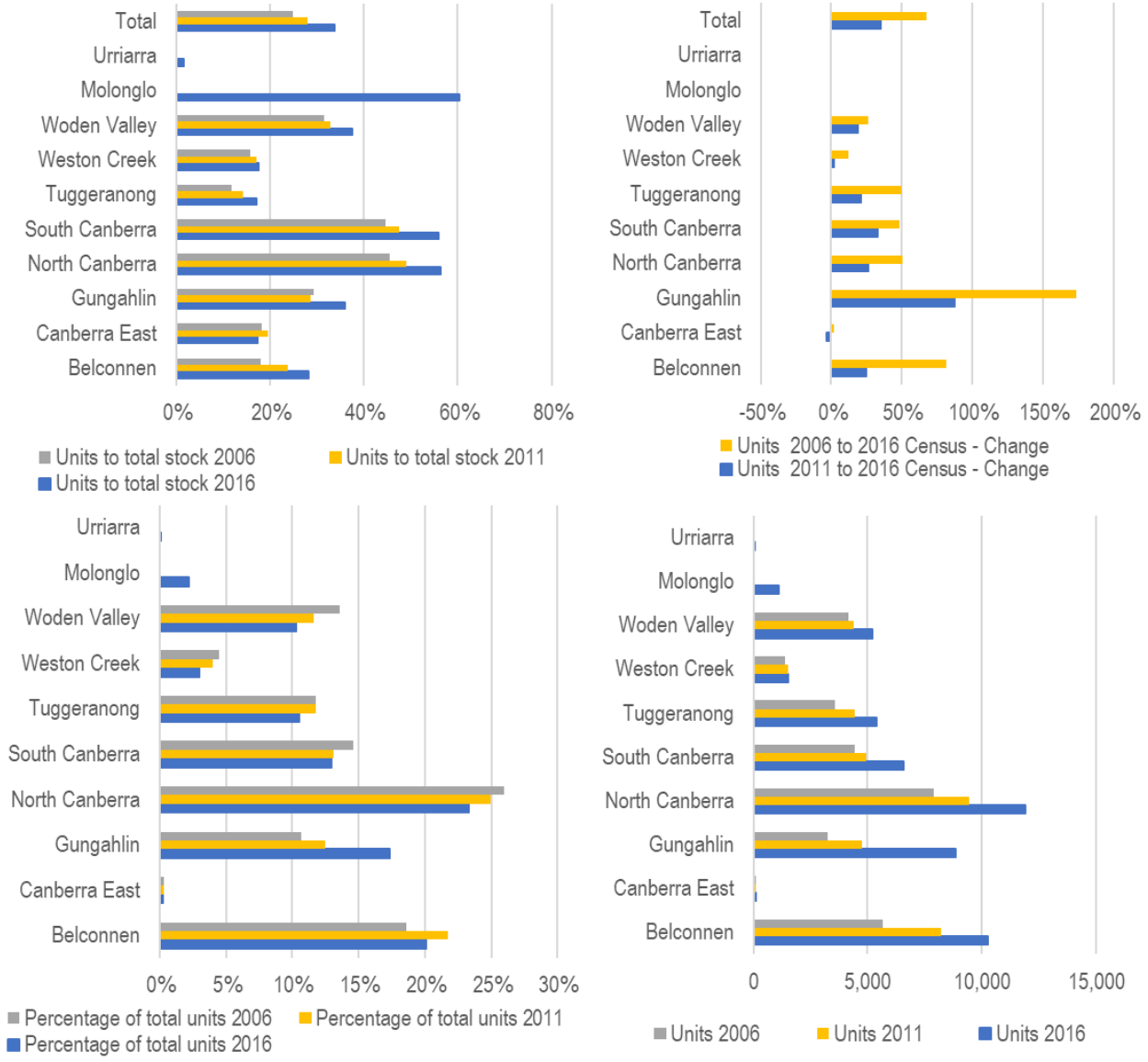
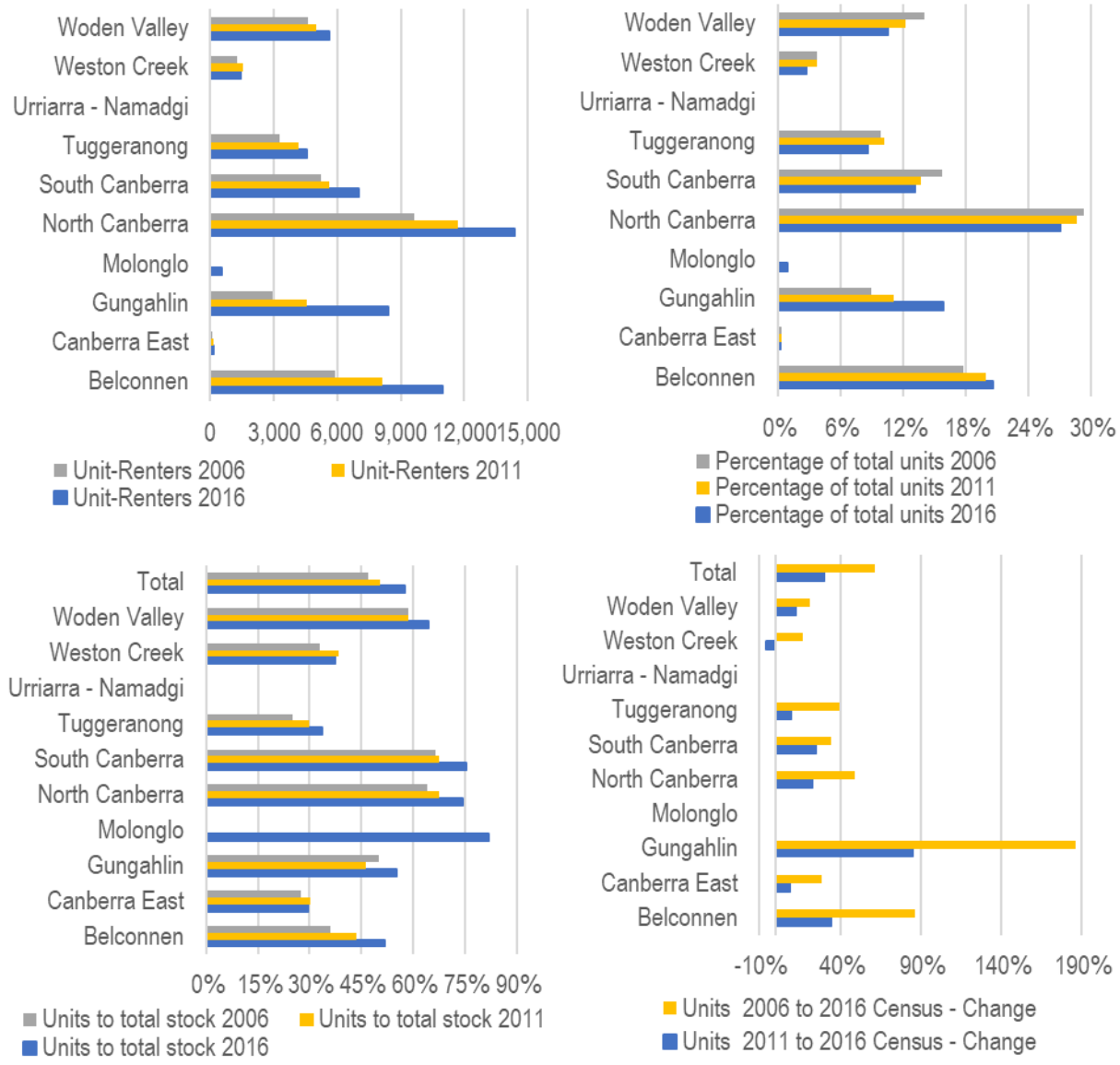
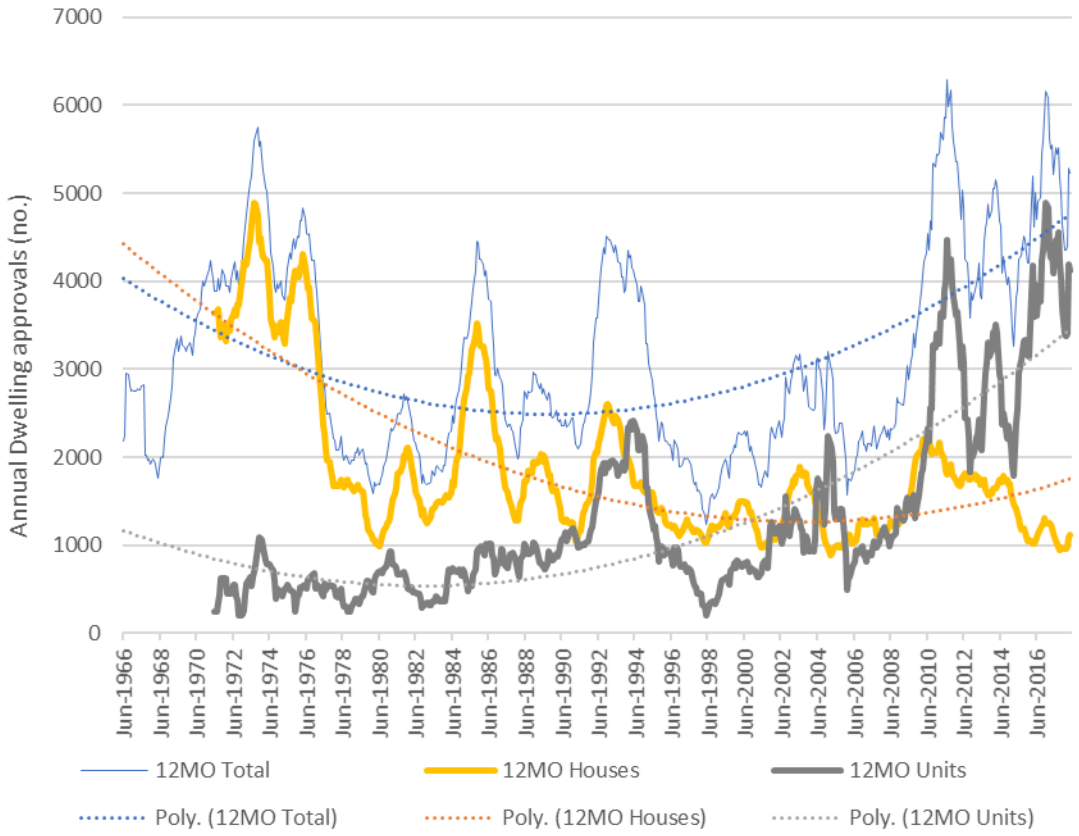


Figure 7: Renters by region in units



Going forward, it appears that the challenge faced by unit owners from increased in-scope taxes and the change in the valuation formula will become more pronounced. In Figure 8 we have mapped the four-quarter annualised level of building approvals for houses and units to track the annualised trend change in approvals within each quarter. The patterns in the chart make it abundantly clear that total approvals are being driven by unit title properties. In terms of trends, allowing for some non-linearity given the span of time covered, the trend for units easily outweighs the trend for houses and has done so since the early 2000s.

Figure 8: Trend changes in annualised building approvals



How the change hits the bottom line: assumed impact

When announcing the policy, the Government stated that:

> For units only, a change in the rates methodology will also add around $150 on average in 2017-18 and $115 on average in 2018-19.[23]

As part of the 2016-17 Budget package, a 'glossy' included a table on the change in the average residential general rates by district for different household types.[24] Table 8 demonstrates the Treasury assessment, and we have calculated the relative changes. The unweighed average increase across all districts was $318 with reform, compared to 2011-12, with 2016-17 reforms adding $203. The unweighted average percentage increase across all districts between 2011-12 and the 'with reform' 2016-17 level was 37.5 per cent.

More recently, in April 2018 Treasury data was published in the Canberra Times and included details about the distributional impact of the change to unit titles.[25] The summary table is reproduced in Table 9. The inference from the data was that the impact is not substantial on average. When looking at threshold to threshold variance, this is true, with the maximum percentage changes being generally below five per cent.

[23] ACT Government, 2016-17 Budget Paper No.3. p 164.
[24] ACT Government, 2016-17 Budget Booklet: Tax Reform, Table 2.
[25] K Burgess, 'Only small number of apartment owners had big rates rises: Treasury', Canberra Times, 23 Aril 2018.

Table 8: Budget presentation of taxation reform impact on units

District	Units – Treasury data			Change	
	2011-12	2016-17		2011-12 to 'with'	'with' to 'without'
		without reform	with reform		
ACT	847	961	1,156	309	195
Belconnen	815	925	1,098	283	173
Gungahlin	833	945	1,076	243	131
North Canberra	801	909	1,100	299	191
South Canberra	997	1,131	1,335	338	204
Tuggeranong	803	911	1,132	329	221
Weston Creek	827	938	1,187	360	249
Woden Valley	861	977	1,232	371	255

However, there is a clear distributional shift.

Of the 29.5 per cent of units shifting from the lowest threshold, 24.3 percent seem to shift to the second category (55 per cent increase on 2016-17 max), 3.8 per cent shift into the third threshold (120 per cent increase on 2016-17 max), 1 per cent shift into the fourth threshold (192 per cent increase on 2016-17 max) and 0.4 per cent shift into the highest threshold (no equivalent max data). The desired impression was that the impact is not widespread or particularly onerous, however the data confirms that of the 46,286 units, 13,649 will be significantly impacted after only the first year of change.

Table 9: Treasury analysis of potential impact

AUV thresholds	Maximum general rates charge	Units	Per cent units
		No.	%
2016-17			
$1-$150,000	$1,177	31,312	71.11%
$150,000-$300,000	$1,762	10,898	24.75%
$300,001-$450,000	$2,482	1284	2.92%
$450,001-$600,000	$3,292	373	0.85%
$600,000 and above	nc	168	0.38%
2017-18			
$1-$150,000	$1,209	19,263	41.62%
$150,000-$300,000	$1,822	22,703	49.05%
$300,001-$450,000	$2,592	3091	6.68%
$450,001-$600,000	$3,432	866	1.87%
$600,000 and above	nc	363	0.78%

Treasury also presented a distributional impact of the percentage changes (not reproduced). From this data, we observe that 37,400 units will see an increase greater than 5 per cent,

21,696 units will see an increase greater than 20 per cent and 6,702 units will see an increase greater than 30 per cent.

Over the same period (2016-17 to 2017-18) the ACT Budget estimated outcome for ACT CPI was to be 2.25 per cent, wages growth 2 per cent, and gross state product 4.5 per cent.[26] The unit rates impact is excessive even within the lowest threshold category.

Further, it appears that the data only measures the rates component—some dwellings will be owner occupied, some will be rented. Rented properties will have seen a larger overall increase from changes in land tax. This data seems to ignore the FESL, which has increased. Also, commercial properties are not summarised.

We note also, that over the course of the debate, there is a persistent logical flaw in Treasury statements. Under the reform, despite now using one AUV, the new system retains a fixed charge for each unit within the unit title. It has been observed that

> if the 'single block' treatment was applied on a consistent basis, that is the unit title's plan is treated as a single residence, then the fixed charge would only be applied once. However, that approach would result in significantly less revenue being collected.[27]

With fixed charges already accounting for $815 per unit, this means the impact has always been above the Government claim.

Clearly, the change is having a distributional impact that challenges the notion of fairness.

Case studies from the OCN

OCN have also gathered real world experience from a range of unit title owners directly, and from submission to the PAC Inquiry. Most of the submissions show that the impact of just the valuation changes to unit titles—upon residential and commercial properties, both owner occupied and available for rent—are far more than what was assumed by the Government.

For example:

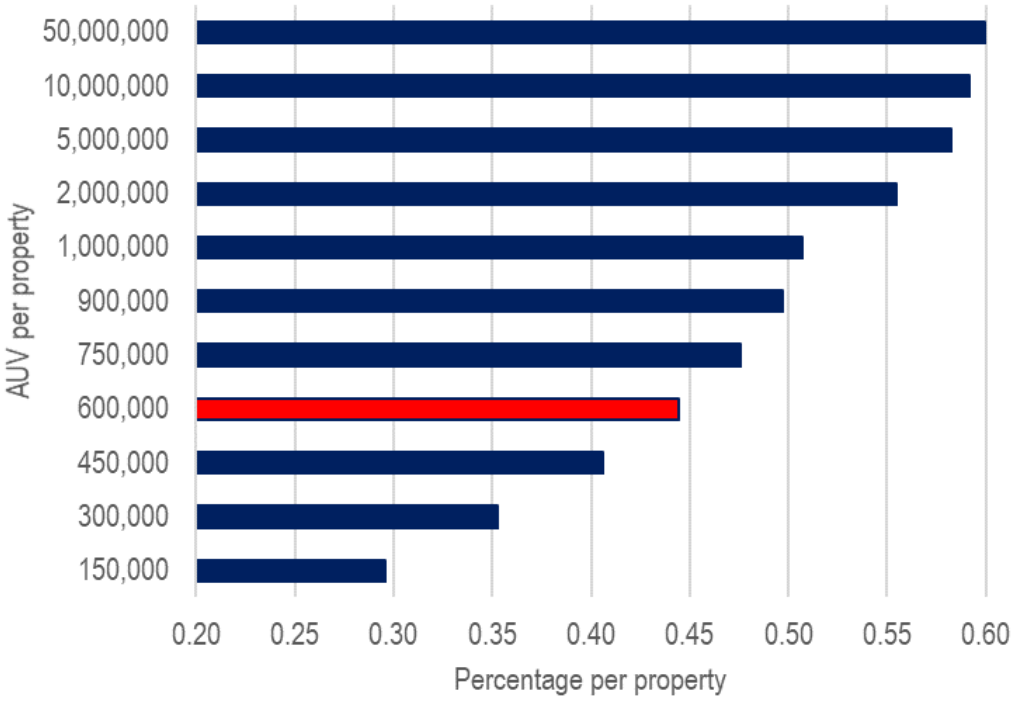
> The Phillip Market Place has seen increases of 28 per cent, 62 per cent, 36 per cent and 26 per cent over the consecutive years 2016 to 2019.[28]
>
> A private investment property has experienced general rates increases from $1,619 in 2016-17 to $2,132 equating to an annual increase of 31.6 per cent, in addition to a Land Tax increase from $2,035 in 2016-17 to $3,265 in 2017-18 an annual increase of 60 per cent.[29] These taxes would equate to a rent equivalent burden of $104 per week, incorporating an increased burden of $34 per week.
>
> For a Units Plan in Barton, consisting of 116 residences, when comparing rates prior to the change and after the change, there has been a shift to all

[26] ACT Government, 2018-19 Budget Paper no. 3, p 10.
[27] Buckley PAC Submission, p 3.
[28] Lagos PAC Submission.
[29] Sutton PAC Submission.

> 116 units being rated as if there AUV exceeded $600,000 whereas before the reform only four units exceeded $150,000.[30]
>
> Drawing on specific units in the Landmark multi-unit complex (282 units), it was found that a one-bedroom apartment experienced a 118.3 per cent increase in the valuation component of their rates, a two-bedroom apartment experienced a 102 per cent increase and a three-bedroom unit experienced a 41.1 per cent increase in the valuation component. Each of these units is effectively deemed to have an AUV of $600,000 or more.[31]
>
> One submitter stated that comparing a standalone house in Ainslie advertised at $1.9 million, with an AUV of $737,000 would have a valuation-based charge liability of $3,491, yet when compared to a private apartment, the apartment has a marginally higher liability $3,527 but with an improved value of less than 80 per cent of the Ainslie property.[32]

Further, OCN modelling demonstrates how the impact is achieving an accelerating distribution of rating increases. Figure 9 illustrates the average valuation-based charge (VBC) which will apply to every unit across a range of AUVs based on the 2017-18 marginal rating charges. This demonstrates how rapidly the average charge increases beyond the $600,000 threshold so that a relatively modest unit, with an improved value as little as $300,000, within a strata property with an AUV of $1 million, will pay the same VBC level of 0.5072 per cent as a single multi-million-dollar property with an equivalent AUV of $1 million.

Figure 9: Valuation base charge escalation



This distortion hits hardest where there are relatively modest units, with relatively modest improved values, which are part of middle to large sized strata complexes. For example, in

[30] Buckley PAC Submission, p 4.
[31] Godtschalk PAC Submission, p 1.
[32] Evans, PAC Inquiry Submission, p 4.

Landmark, a 282 unit property in Barton, a one-bedroom unit with an AUV of $108,360 faces a VBC of $650.16 compared with a freestanding house with the same AUV having a VBC of $320.75. The unit pays a VBC 103 per cent higher than the house.

Similarly, any unit located within a property where the AUV is $600,000 faces a VBC charged at 0.4445 per cent, regardless of which of the charging categories the AUV of the individual unit fell. If a property's AUV was $2 million then every unit within that property will have paid an VBC at 0.5543 per cent which is 25 per cent greater than the units quoted in the first example. Two similar units in the respective properties may have a similar AUV and improved value, yet because of the distortion created by the change in valuation methodology one unit has a VBC 25 per cent higher than the other.

OCN agrees with an observation made to the PAC Inquiry that:

> inherent in the revised system is the creation of an inequity which penalises some owners within larger complexes compared to those in an establishment with a few individual units—all other things being equal.[33]

There seems to be little about the change which is fair, or particularly efficient and under any interpretation of these changes the increases are 'excessive'.

Systemic impacts from changes in land intervention

Much of the discussion about the impact of changes under the taxation reform agenda has focussed on the marginal impact of some specific component changes or households. For example, in the case of unit title rates changes, much attention has focussed on the additional impact of the change in the rating formula on a case-study basis. However, contemplating the impacts of the systemic reforms to tax, which the units change is part of, requires a wider systemic consideration of the potential impacts.

OCN believe that there are wider consequences to the changes including policy competition and wider impacts on household decisions. We primarily have anecdotal evidence for these impacts, however, the nature and potential consequence of these impacts strengthens the case for more specific and transparent debate about the policy settings.

Policy competition

In the Quinlan review the ACT Government priorities were set as 'meeting the service needs of the community', 'a strong economy', 'supporting urban densification', 'sustainable transport' and 'cost of living'. The panel specifically incorporated the policy objectives of:

- Housing, affordability of tenure, and ageing in place.
- Economic development.
- Urban densification, and
- Sustainability.

These are loose terms but are fairly consistent with much of the longer-term policy rhetoric within ACT budget papers. In submissions to the PAC Inquiry, submitters flagged issues

[33] Quinlan PAC Submission.

from the unit title changes that will directly compete with the achievement of these policy objectives. For example, some observation are:

> …strata unit owners make a significantly reduced demand on government services, including reduced street frontages, street lighting, collection points for garbage and recyclables. For example, Units Plan 651 comprising 22 strata units has two street entrances only, two collection points for garbage and recyclables, reduced demand on external street lighting. In addition, the corporation of strata unit owners provides and maintains, at the cost of owners, its own internal roads, internal exterior lighting, garden and lawn maintenance.[34]
>
> Housing affordability is not just an issue for younger citizens and first home buyers; it is also an issue for older citizens who manage on reduced incomes.[35]
>
> Also many older citizens may have made their last housing choice in 'downsizing' and they paid the Higher Stamp Duty and now face the very high Rates as well. Self-Funded Retirees with investment properties are also attacked with the higher Land Tax and the impact this creates as they attempt to avoid use of the aged pension system. These 'over 60s folk' often contribute much to the community as volunteers…[36]

Reflecting on these issues, OCN encourage the estimates committee to interrogate the wider taxation reform agenda, and specifically the change in the unit valuation approach, in a wider context, in particular how the changes will impact on other policy objectives.

A stylised representation of how OCN see the impacts unfolding is included in Figure 10.

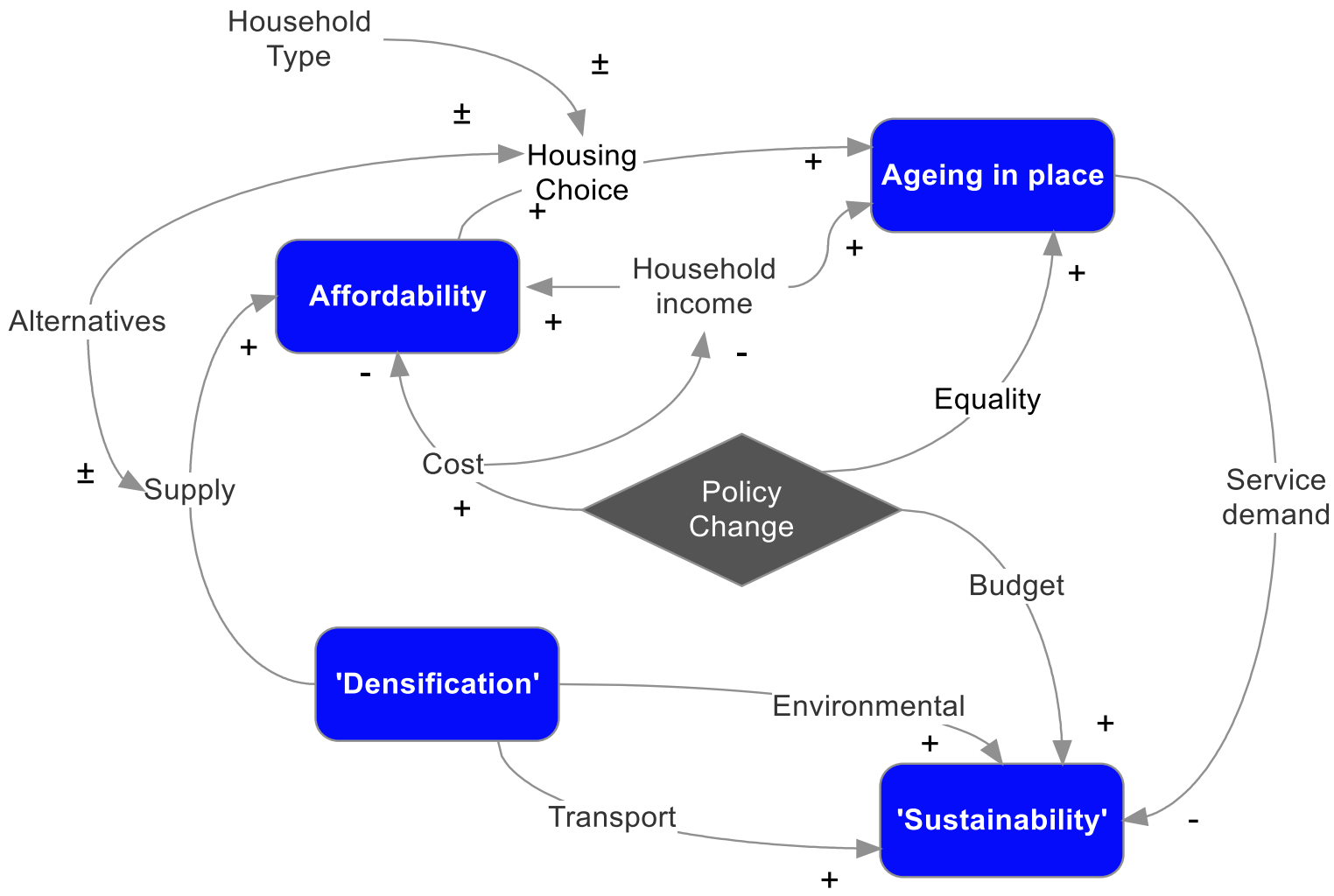
At face value, while the changes may generate additional revenue within the wider system of land intervention, they may inadvertently contribute to policy failure in other areas.

For example, the increased costs will impinge upon household budgets, which is negatively related to housing choice, in particular the decision to downside or upsize. This will affect ageing in place, which may increase service demand. The increased cost may affect affordability, which will impact on housing choice for alternatives that changes the requirement for supply of densification. A reduction in densification will reduce environmental and transport substantiality outcomes.

The key point is that a small policy change, within an already large policy change in a system with many interventions, may have unintended consequences that directly compete with other policy priorities.

[34] O'Connell PAC Submission.
[35] O'Connell PAC Submission.
[36] Petherbridge PAC Submission.

Figure 10: Policy competition framework



Note: A '+' means a positive reinforcement (increase in x reinforced +ve outcome, decrease in x leads to reduction in positive outcome); and vice versa.

Wider impact on household decisions

Within the policy competition framework, OCN see the most troubling aspect as the impact upon household decision making. There is an implicit assumption in the reform discussions that households can indefinitely absorb ongoing annual increased to taxes, fees and charges raised by the ACT Government.

OCN assume, alternatively, that ACT households and investors are not completely irrational, and that the reforms will impact on household financial decision making, especially where budgets are fixed in the short term.

Anecdotally, this is confirmed in submissions to the PAC Inquiry. Submitters have said:

> …retail trading is slow as consumer spending is falling due to cost of living pressures and these rates increases often cannot be passed onto the tenants…rates increases also has (sic) an adverse impact on property values as valuations are based on net property rents which are reducing as a result of these substantial increases. This reduction in commercial property value has further negative implications on bank lending requirements which places further pressure on owners.[37]
>
> The impact of the increases is to seriously disadvantage strata unit owners, many of whom are retired, have reduced and limited incomes and accordingly have downsized from larger properties in order to decrease their cost of living and continue to rely on their own resources. They paid full stamp duty to do this.[38]
>
> …unit owners generally incur a second level of costs relating to their residences in the form of corporate fees, some including expensive items such as elevator maintenance contracts and mandatory contributions to sinking funds. Further some evaluation of the reduced demand that unit owners make on municipal services should also be factored into rating assessments.[39]
>
> The principal asset of the unit owner is the building structure…the Unit Titles Act requires Owners Corporations to protect the value of the building. For example, its insurance policy is to cover the building to the maximum extent possible. The Owners Corporation is required to prepare a sinking fund to cover the replacement of aged assets. Also, fire and emergency obligations are greater for multi-unit complexes than single dwellings. These obligations require expenditures not required by owners of single dwelling…these facts …identify why the market value of units may appear high relative to a single dwelling. These obligations also mean that unit owners incur administration and sinking fund costs which are not borne by owners of single dwellings.[40]

[37] Lagos PAC Submission.
[38] O'Connell PAC Submission.
[39] Quinlan PAC Submission.
[40] Buckley PAC Submission, p 5.

> …because tenants are more highly represented in units compared to freestanding homes, they will be particularly hard hit as rate increases are passed through into rents.[41]

Similarly, analysis of marginal taxation changes confirms that there will be feedback effects beyond marginal tax increases. When assessing rating systems generally, the Productivity Commission observed that:

> Rates paid by businesses, for example, may be 'shifted forward' (to consumers) through higher prices of goods and services and/or 'shifted backward' (to suppliers of services such as tradesmen, contractors and others) by offering lower input prices.[42]

Deductively, this would be the case for landlords who pay land tax (feedback to renters), and for households who have fixed disposable incomes in the short term (choice between tax increases and household consumption).

After the ACT Government announced the taxation reforms, the University of Wollongong published research discussing the approach. The research was largely supportive, believing that the philosophical approach outweighed the direct costs to households and illustrating the connections between what was announced and the Henry Review of the Australian tax and transfer system preference for wider land taxation reform.

However, they outlined several of the negatives to be expected from the reform, which are relevant to the additional approach applied to the unit title properties. First, it was noted that Ben Phillips from NATSEM undertook modelling on the taxation substitution and found:

> …the general rate on all real property would need to double relative to current levels being imposed on all property owners in the ACT. Allowing for bracket creep with house prices increasing by 6 percent per annum provides an 80 percent increase over 20 years, and the researchers stated…this means that the cost of living in the ACT will increase.[43]

Further they said

> older people, often on fixed incomes, would be significantly affected by a shift to property taxation since, even though inequities between taxpayers seem to be far greater where capital value, rather than land value is used, superannuants tend to own disproportionately expensive properties relative to their incomes. [44] Finally, they stated, stamp duty in the ACT only directly affects 9 per cent of the population so statistically not a very large percentage of the population gain from this measure. [45]

Reflecting on these issues, OCN encourage the estimates committee to interrogate the change in the unit valuation approach in the context of the wider taxation reforms and all cost of living pressure increases within the ACT. A stylised representation of how OCN see the compounding cost of living impacts unfolding on households is included in Figure 11.

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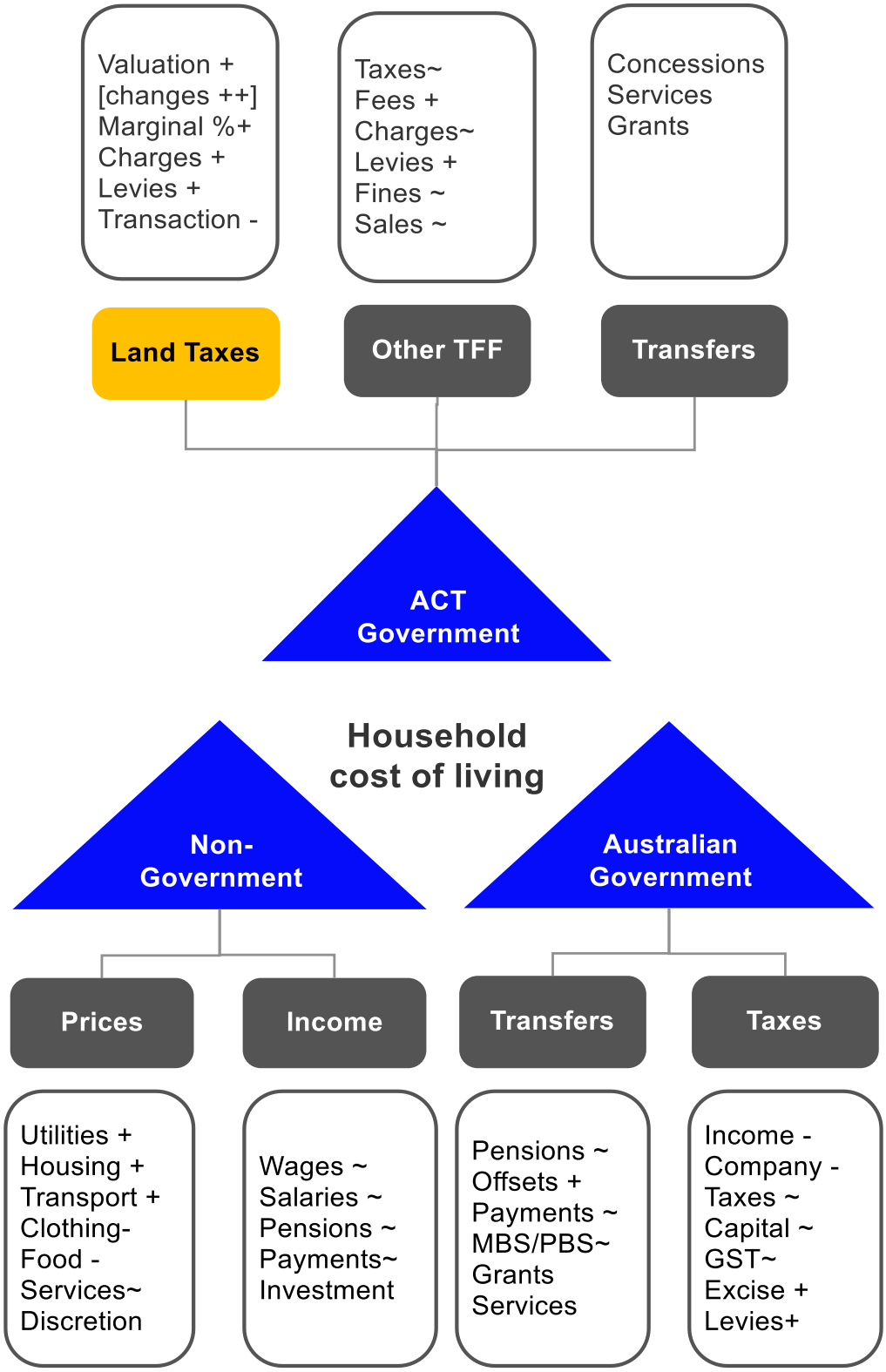
[41] Godtschalk PAC Submission, p 7.
[42] Productivity Commission, p 144.
[43] J A McLaren, "The Australian Capital Territory has adopted measures to abolish stamp duty and impose a land tax on all real property: will this approach be adopted by other states in Australia?", Journal of the Australian Tax Teachers Association, 8 (1), 2013,101-116 [University of Wollongong Research Online version], p 12.
[44] J McLaren 2013, p 13.
[45] J McLaren 2013, p 13.

Figure 11: Wider household decision making impact framework



Note: + means an increasing burden, - means a decreasing burden, ~ means an unclear burden (mix of +/-). No sign means not able to generalise.

To illustrate the relative impact of the total taxation reforms, and improve the stylisation framework, OCN have measured the changes in several demographic, 'market price and value' and 'economic dynamics' measures in the ACT between a reference point near the start of reform and the most recent measures. These are summarised in Table 10.

When compared to total revenue increases of 42 per cent, fixed charge increases of 47 to 96 per cent and rating factors increases of 15 to 570 per cent the relative metrics support the notion that households are being forced to make decisions about their finance based on the taxation reforms, at least in the short term.

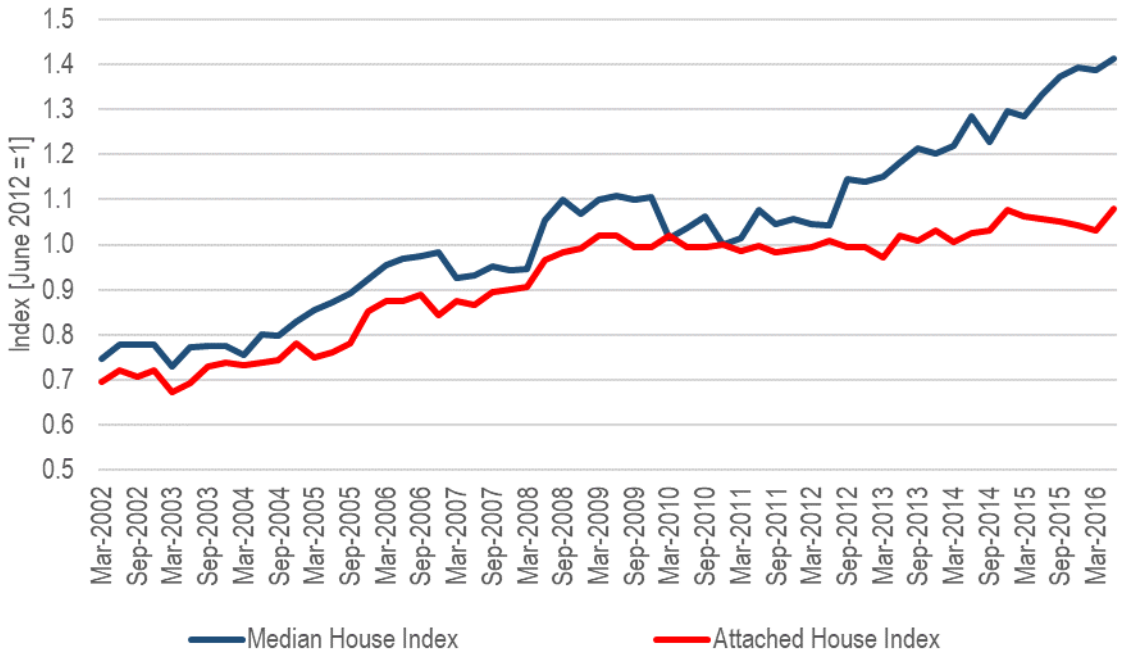
Table 10: Comparative percentage changes since reform

Measure	From	To	Change
Demographics			
Residential dwellings	Jun-12	Dec-17	14.3%
Projected Households	2011-12	2035-36	62.5%
Population	Jun-12	Sep-17	9.6%
Projected Population	2012-13	2035-36	48.5%
Households in units	2010-11	2016-17	34.8%
Couples with children in units	2010-11	2016-17	62.5%
Renters in units	2010-11	2016-17	30.1%
Market Prices and Values			
ACT implicit price deflator	Jun-12	Jun-17	6.0%
Consumer Price Index	Jun-12	Mar-18	10.9%
Median House Price	Jun-12	Dec-17	41.3%
Median Attached Price	Jun-12	Dec-17	9.5%
Value of HH dwelling stock	Jun-12	Dec-17	40.0%
Value of all dwelling stock	Jun-12	Dec-17	39.5%
Market and economic dynamics			
House Transfers	4Q:Jun-12	4Q: Dec-17	-11.0%
Attached dwelling Transfers	4Q:Jun-12	4Q: Dec-17	0.9%
Real Gross State Product (GSP)	Jun-13	Jun-17	15.2%
Real GSP per capita	Jun-13	Jun-17	5.4%
Nominal GSP	Jun-13	Jun-17	22.1%
Nominal GSP per capita	Jun-13	Jun-17	11.7%
Gross mixed income	Jun-13	Jun-17	-21.3%
Compensation of employees	Jun-13	Jun-17	25.0%
Final consumption expenditure (FCE)	Jun-13	Jun-17	17.7%
Territory Government FCE	Jun-13	Jun-17	31.4%
Gross disposable income per capita	Jun-13	Jun-17	15.7%
Industry gross value added	Jun-13	Jun-17	20.2%
MTAWE-FT	May-13	Nov-17	13.2%
AWE T	May-13	Nov-17	2.8%

The wealth counterfactual

A counterfactual view might be that households are accumulating more wealth, so it will offset the overall relative increase in the cost of living. This is an argument well beyond the scope of this submission. However, at a 'bread and butter' level, housing assets represent a large proportion of home owners' non-superannuation wealth. For unit owner, the current story in the ACT is relatively bleak. In Figure 12 established house prices are mapped to attached house prices, rebased to an index of June 2012 prices. The trend in unit prices is flat, while the trend for established houses is upwards, and the divergence between the prices is clear. At least in terms of the value of the home, those affected by additional cost of living impacts are not being compensated through windfall price-based wealth gains.

Figure 12: Relative house price changes (June 2012 = 1)



Clearly, the ACT Government is not responsible for all the cost of living pressures that households are facing. However, the ACT Government does need to take account of the entire impact of cost of living pressures on households in setting and adjusting marginal policy changes and not merely reflect upon single issue impact assessment as occurs in current cost of living reporting. This is a further reason to undertake a more thorough assessment of the impacts from the unit title change.

It is difficult to believe that the taxation reforms, especially those that are inequitable for unit titles, can be positive.

Are the changes equitable or efficient?

In public dialogue the ACT Government has set the bar for the review of this policy as being 'equitable' and 'efficient'. Other terms used are 'simpler and fairer'. These terms are not defined in the context on the unit titles additional increases, however there are public record definitions of these concepts in the ACT context and more broadly. To assess these issues, OCN have adopted specific criteria, and assessed the change against those criteria.

Criteria: what is 'equitable' and 'efficient'?

In 2012, the Quinlan review discussed the terms of 'efficiency' and 'equity' as meaning:

> An efficient taxation system is one that does not distort activity or influence the behaviour of consumers and producers. Taxes that distort behaviour typically result in a sub-optimal economic outcome[46]; and
>
> Horizontally equitable taxes apply to people in similar financial circumstances in the same way. Vertically equitable taxes are those that increase with either wealth or income.[47]

This ought to be sufficient, however, more detailed assessments of effective taxation systems have broader conceptual approaches.

The Australian Local Government Association considers 'fairness' to consist of the 'benefits principle' and the 'ability to pay'. The benefits principle is stated as 'households which benefit from services should pay for them', and the ability to pay is stated as 'households with more disposable income (or less need) should pay more tax than households with less disposable income (or more need)'.[48]

There are other factors that many consider important as part of a tax system. Simplicity is increasingly cited as part of an effective tax. Transparency is also regularly cited, as is sustainability.

The array of effectiveness measures was covered in a review of local government valuation and rating approaches undertaken for Tasmania. Access Economics adapted Productivity Commission criteria to define six principles[49] for a review of the rating system, including:

> Efficiency: does the rating methodology significantly distort property ownership and development decisions in a way that results in significant efficiency costs?
>
> Simplicity: Is the system practical and cost-effective to administer and enforce? Is the system simple to understand and comply with?
>
> Equity: does the tax burden fall appropriately across different classes of ratepayers?
>
> Capacity-to-pay: are those community groups with greater economic capacity in fact contributing more?
>
> Benefit principle: where the distribution of benefits is not uniform, should those who benefit more contribute more?
>
> Sustainability: does the system generate sustainable, reliable revenues for councils and is it durable and flexible in changing conditions (i.e. can it adequately withstand volatility)?

[46] ACT Taxation Review Panel, ACT Taxation Review, May 2012, p 62.
[47] ACT Taxation Review Panel 2012, p 63.
[48] Australian Local Government Association, Submission to the Australian Government's Taxation Review, 2008-09, p 9.
[49] Tasmanian Government, Valuation and Local Government Rating Review: Final Report, April 2013, p 33.

> Cross-border competitiveness: to what extent does the rating system undermine the competitiveness of the council/state as a place to live and/or own a property or operate a business?
>
> Competitive neutrality: are businesses conducting similar activities treated in similar ways?

Access Economics observed it would not be possible to achieve all these criteria equally or simultaneously, which we note and agree with. However, OCN have adopted this wider set of definitions to consider the overall impact of the taxation reforms and the impact on unit titles, noting that these criteria have been ignored in the Government's consideration of the changes to the rating of unit titles.

Assessing against the criteria

Some of the information OCN have provided is anecdotal, some is based on publicly available evidence and some is based upon actual real-world impacts. OCN have made a cursory assessment of the impact of the unit title change along the lines of the criteria outlined. These are summarised in Table 11.

Table 11: Assessment of 'equitable' and 'efficient'—wider criteria

Criteria	Observation: Is the criteria met?
Efficiency	Partial. The shift is likely to distort property ownership decisions of those who have low capacity to pay and may deter some owners substituting detached dwellings for units given the potential for the inequitable burden. This assessment would require much more data and analysis before being conclusive. In the context of the cost of living, the taxation reform process is adding a persistent cost of living burden that is likely to be distorting economic decision making.
Simplicity	Unknown. Intuitively it is part of an existing system which is relatively simple to administer.
Equity	No. Larger complexes are impacted more than standalone dwellings of equivalent improved capital values and underlying AUVs. Different complexes with the same unit types are taxed differently. Horizontal equity is not met, as there is no evidence that capacity to pay is aligned to AUV, and AUVs are not treated symmetrically. Vertical equity is partially met, as the valuation-based charge is based on progressive thresholds, however the change in valuation method has been demonstrated to remove the benefit of the thresholds in some case.
Capacity-to-pay	No. Most units are rented, and many are in social housing. Those downsizing in old age are being impacted. While some may be 'wealthy' or 'investors' there is no evidence they will pay the most, so a capacity issue exists.

Criteria	Observation: Is the criteria met?
Benefit principle	No. The case is not made by Government evidence that units benefit more than established dwellings without the change, and there are demonstrated examples where this is not the case. Much of the impact is asymmetric to the benefit principle.
Sustainability	Partial. At face value, the changes are part of the rates and land tax system which is considered relatively stable. However, disincentives to purchase units with higher relative land taxation may feed back into prices and AUVs undermining the revenue source.
Cross-border competitiveness	Unclear, but likely to be partial. Relatively higher growth and more punishing land taxation intuitively detracts investors with other options. In combination with taxation reform generally, buyers face a double cost hump of stamp duty (in the short term) and permanently increased land-based taxation.
Competitive neutrality	Partial. Equivalent businesses with commercial units in larger complexes are likely to be taxed more than equivalent businesses in smaller complexes.

The conclusion we draw is consistent with one of the PAC Inquiry submitters, who, when comparing actual unit entitlement changes in a property and other similar comparisons, concluded that

> …the change in methodology produces inequitable changes in rates liability: within multi-unit complexes; between residents of large complexes and residents of small complexes; and between residents of complexes and residents of stand-alone dwellings"[50]

In effect the changes have increase inequity.

The 2018-19 Budget may have tacitly acknowledged the key issue that larger scale sites are punished more aggressively under the reform, by announcing a moderation in the marginal rating factor for the $600,000+ AUV category.

If Members of the Legislative Assembly are serious about fairness, then on the balance of probability, a policy change like this should not be agreed to until the collective impact of these issues is understood.

Some options to simplify and moderate the impact

As a voluntary association, it is beyond our scope to determine the suite of reform options available to a Government. OCN are grateful for the recent and upcoming opportunities to engage with the Government in a dialogue to discuss the changes. Notwithstanding this, we believe we have demonstrated that the current option is having unintended negative

[50] Godtschalk PAC Submission, p 4.

consequences. These consequences are affecting real people now making it a matter of some urgency that the consequences are addressed.

Without exception, the best option to mitigate these consequences is to reverse the decision to change the valuation method.

At a high level, there may be a few relatively straightforward next best options to improve upon the change. A summary of three—wholesale systemic simplification, a change to the distribution mechanism for unit titles and a change to the valuation upon which the formula is based—are summarised in Table 12.

Table 12: Summary of some alternatives

Option	Short description
Wholesale systemic simplification	This option would extend the Quinlan Review recommendation and proposes a single comprehensive land tax to replace all existing taxes and levies on land (such as rates, land tax, conveyance duty, FESL, Safer Families and the lease variation charge). The goal is to tax the fixed factor of production once only. The PC noted that "rates levied on property are the only source of tax revenue available to local governments. Within limits, local governments can alter the level and composition of rates revenue by altering the percentage rate in the dollar applied to the rateable value of property, the structure of rates, the categorisation of land and the valuation method applied to each land category."[51] The ACT has this ability, plus powers at a state level. What is clearly different for the ACT Government is that it has the ability, in conjunction with the ACTLA, to freely determine taxes on land across the board. The ACT can leverage its uniqueness and implement a genuine single broad-based land tax.
A change to the valuation distribution mechanism within the rating equation	This option would alter the distribution equation from a blunt instrument to something more sophisticated. This option would assist address a distinct problem, summarised well in submissions to the PAC Inquiry …the current methodology does not differentiate between the different types and classes of units. A set of high rise apartments in a newer development is not the same thing as a townhouse complex of standalone single storey dwellings built 30 years ago in an older suburb with a lower government mandated plot ratio.[52] We now see in the rating process a distortion which effectively includes, for some, a randomising variable. That is the number of units in the overall complex. This comes about as the gross value of the land occupied has become the

[51] Productivity Commission Local Government Revenue Raising Capacity, p 21.
[52] O'Connell PAC Submission.

Option	Short description
	> determinant of the rating multiplier, regardless of the average land value taken up by each unit - as was the case.[53] Indeed, there is no acknowledgement of the different quality types within units (e.g. higher densities, better environmental performance or utilisation of existing infrastructure). An alternative may be to adjust the allocation of the master AUV of a site of unit title properties by a factor determined on a more effective criteria. One might be a simple extension of the Unit Entitlement ratio for Owners Corporations, or a 'land use index' that attributes scores bases on property attributes.
A change to the valuation basis upon the formula is based	The policy debate has confusion about relative valuations, and how those translate to equity. The equity comparison made between a property in Charnwood and a unit in the City appears to be based on a comparison of the market value of dwellings as a proxy for wellbeing, rather than an interrogation of the unimproved value of land or the services and entitlements that attach to these dwellings. This option would look at shifting to a different valuation method that equates more closely to perceived wealth, like an imputed rental valuation or an improved capital value. The range of valuation methods in use are summarised from a PC report in Figure 13. One submitter outlined that improved values already impact upon the distribution of costs within unit titles: > …Improved Value has been an integral part of rate determination for some considerable period as it is the basis on which each strata unit's unit entitlement is calculated. Section 8 (1) of the *Unit Titles Act* provides that 'The schedule of unit entitlement is a schedule indicating (by numbers assigned to each unit) the improved value of each unit relative to each other unit (the unit's unit entitlement).[54] Similarly, it was observed that taxation reform is looking to replace conveyance duties, where one submitter wrote, in relation to a shift to improved capital value: > through the adoption of such a policy the basis on which the variable element of rates and land tax [are based] would be broaden[ed] to more accurately reflect the actual value of residential properties whilst avoiding the shortcoming of stamp duty which only generates tax revenue when a property is sold.[55] Indeed, when reviewing different models, the PC observed that:

[53] Quinlan PAC Submission.
[54] Evans Submission, p;3.
[55] Evans PAC Submission, p 4.

Option	Short description
	rates per residence…would be higher under UCV, relative to CV, for those living in an inexpensive house compared with those living in an expensive apartment block on land of similar value (PC note such differences might cause interactions between perceptions of value for money and willingness to pay, although they might be able to be mitigated through the use of differential rates sub-categories)[56] They observed the use of different valuations, beyond arguments about the efficiency of including capital improvements, would come down to an adjustment of the marginal rate component of the calculation to resolve budget revenue requirement from the tax. [57] An improved capital method would yield administrative savings by simplifying the valuation process dramatically, removing arbitrary capital deductions from market valuations. If the government is determined that equity is best measured based on a property's improved value then it can move to replace the AUV with the capital improved value of each property.

Figure 13: PC summary of valuation methods[58]

Table 6.1 **Property valuation methods permitted to be applied**

Group[a]	*Method*	*NSW*	*Vic*	*Qld*	*WA*[b]	*SA*	*Tas*	*NT*
A	Assessed annual value (AAV)						✓	
	Annual value (AV)					✓[c]		✓
B	Capital improved value (CIV)		✓					
	Capital value (CV)					✓	✓	
	Improved capital value (ICV)							✓
C	Gross rental value (GRV)				✓			
	Net annual value (NAV)		✓					
D	Site value (SV)		✓			✓[c]		
	Land value (LV)	✓					✓	
E	Unimproved capital value (UCV)							✓
	Unimproved value (UV)			✓	✓			

[a] Various terms are used across jurisdictions to describe methods that are essentially the same and these are grouped together. [b] Two methods are used in Western Australia, but these are restricted by land type: UV for rural only and GRV for non-rural only. [c] The AV and SV methods can be used in South Australia if the council declared rates for that land on that basis for the previous financial year; or if the council declared rates for that land on the basis of capital value for the previous three financial years.

Source: State government legislation various.

[56] Productivity Commission, p 102-3.
[57] Productivity Commission, p 100.
[58] Productivity Commission, p 99.

DATA REFERENCES

Unless otherwise referenced, these are the primary third-party data sources.

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ABS, Residential Property Price Indexes: Eight Capital Cities: Tables 4 and 5. Median Price (unstratified) and Number of Transfers (Capital City and Rest of State), Cat. No. 6416.0, December 2017

ABS, Residential Property Price Indexes: Eight Capital Cities, Table 6. Value of Residential Dwellings, All Series, Cat. No. 6416.0, December 2017

ABS, Building Approvals, Australia, TABLE 29. Dwelling Units Approved in New Residential Buildings, Number and Value, Original - Australian Capital Territory, Cat. No. 8731.0, April 2018

ABS, Australian National Accounts: State Accounts, Table 1. Gross State Product, Chain volume measures and current prices, Cat. No. 5220.0, November 2017.

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ABS, Australian National Accounts: State Accounts, Table 9. Expenditure, Income and Industry Components of Gross State Product, Australian Capital Territory, Chain volume measures and current prices, Cat. No. 5220.0, November 2017.

ABS, Consumer Price Index, TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes, Australia, Cat. No. 6401.0, April 2018.

ABS, Average Weekly Earnings, TABLE 13H. Average Weekly Earnings, Australian Capital Territory (Dollars) – Original, Australia, Cat. No. 6302.0, Feb 2018.

ABS, Australian Demographic Statistics, TABLE 4. Estimated Resident Population, States and Territories (Number), Cat. No. 3101.0, March 2018.

ABS.Stat, Population data series.

All Budget data is extracted from ACT Government Budget Papers, especially Budget Paper No.3, for the years 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19.

Annex A: ACT Government Functional Expenditures

Single functions at the 4-digit level, $000, nominal

Category	2011-12	2018-19	2021-22	$ - Base to		% - Base to	
	EO	BUD	P	current	outyear	current	outyear
Direct Match							
Pre-Primary and Primary Education	381,321	554,334	617,506	173,013	236,185	45%	62%
Secondary Education	361,522	490,229	544,854	128,707	183,332	36%	51%
Police Services	141,990	171,482	172,707	29,492	30,717	21%	22%
Road Maintenance	173,072	170,098	169,829	-2,974	-3,243	-2%	-2%
Law Courts and Legal Services	80,556	125,174	135,885	44,618	55,329	55%	69%
Other Community Health Services	87,053	105,539	119,089	18,486	32,036	21%	37%
Vocational Education and Training	99,287	102,297	112,591	3,010	13,304	3%	13%
Family and Children Services	87,460	90,671	103,078	3,211	15,618	4%	18%
Prisons and Corrective Services	63,860	74,781	82,434	10,921	18,574	17%	29%
Community Mental Health	63,940	73,773	101,333	9,833	37,393	15%	58%
Fire Protection Services	62,658	53,140	59,334	-9,518	-3,324	-15%	-5%
Public Health Services	44,976	52,272	66,939	7,296	21,963	16%	49%
Rail Transport	0	50,444	63,578	50,444	63,578	new [100%]	new [100%]
Patient Transport	32,076	41,964	51,030	9,888	18,954	31%	59%
University Education	12,141	41,125	47,374	28,984	35,233	239%	290%
Medical Products, Appliances and Equipment	19,983	33,664	45,488	13,681	25,505	68%	128%
Mental Health Institutions	5,545	8,088	9,318	2,543	3,773	46%	68%

Category	2011-12	2018-19	2021-22	$ - Base to		% - Base to	
	EO	BUD	P	current	outyear	current	outyear
Close match							
Public Debt Transactions (PDT)	363,252	173,603	218,606	-189,649	-144,646	-52%	-40%
Housing and Community Amenities	167,658	92,360	91,782	-75,298	-75,876	-45%	-45%
Cultural Services	35,620	58,231	58,726	22,611	23,106	63%	65%
Waste Management n.e.c	33,443	48,556	36,974	15,113	3,531	45%	11%
Fuel and Energy	17,426	28,303	60,535	10,877	43,109	62%	247%
Communication	11,305	4,769	9,537	-6,536	-1,768	-58%	-16%
Agriculture, Forestry, Fishing and Hunting	6,336	3,405	4,038	-2,931	-2,298	-46%	-36%
Mining, Manufacturing and Construction	17,206	2,130	3,713	-15,076	-13,493	-88%	-78%
Residual measures							
Other Health (mostly hospitals)	832,788	1,215,617	1,390,743	382,829	557,955	46%	67%
Other General Public Services (ex-PDT)	353,277	1,149,383	1,278,246	796,106	924,969	225%	262%
Other (no comparison)	341,037	418,645	414,412	77,608	73,375	23%	22%
Other Recreation, Culture and Religion	80,197	171,680	193,365	91,483	113,168	114%	141%
Other Transport	99,865	135,089	158,460	35,224	58,595	35%	59%
Other Education	27,170	41,670	47,466	14,500	20,296	53%	75%
Other Public Order and Safety	22,877	35,655	36,539	12,778	13,662	56%	60%
Total Expenses	**4,126,897**	**5,818,171**	**6,505,509**	**1,691,274**	**2,378,612**	**41%**	**58%**

Note: functional classifications changed between the 2012-13 and 2018-19 Budget. *Direct Match* lists functions with virtually identical classifications. *Close Match* lists functions that have similar terminology, but which at face value have different components and perhaps different calculation approaches. *Residual* measures account for the difference between total functional category expenses less sub-functions that are identified elsewhere—these are unlikely to be directly comparable. *Other (no comparison)* components are summarised in the memorandum.

Memorandum: Components of Other (no comparison), $'000, nominal

Category	2011-12	2012-13	2013-14	2014-15	2015-16	2017-18	2018-19	2019-20	2020-21	2021-22
	EO	BUD	P	P	P	EO	BUD	P	P	P
Welfare Services for the Aged	26,069	23,182	24,152	27,618	28,841					
Welfare Services for People with a Disability	96,519	96,768	98,457	102,722	104,294					
Welfare Services n.e.c.	23,125	23,470	23,145	23,266	23,781					
Social Security and Welfare n.e.c.	2,531	2,598	2,504	2,521	2,550					
Tourism and Area Promotion	32,477	39,326	32,441	28,996	28,930					
Vocational Training	34,126	29,229	25,507	26,686	26,915					
Other Labour and Employment Affairs	1,158	1,231	1,262	1,293	1,326					
Other Economic Affairs	15,991	16,233	16,364	16,384	15,888					
General Purpose Inter-Government Transactions	108,993	91,362	96,480	102,943	109,378					
Other Purposes n.e.c	49	0	0	0	0					
Sickness and Disability						155,996	161,889	180,658	187,505	193,577
Old Age						4,685	4,922	5,175	5,298	5,404
Housing						149,644	115,102	101,957	92,702	85,152
Social Exclusion n.e.c						2,718	2,864	2,752	2,826	2,880
General Economic and Commercial Affairs						2	15	17	8	0
General Labour Affairs						27,456	29,573	29,959	30,861	31,402
Other Industries						12,130	11,715	11,889	12,127	13,065
Economic Affairs n.e.c						20,530	21,601	18,614	18,705	19,063
Waste Recycling						20,137	20,885	15,337	15,309	15,893
Waste Water Management						556	594	537	545	552
Protection of Biodiversity and Landscape						32,851	33,098	33,456	33,794	32,681
Environmental Protection n.e.c						17,024	16,385	16,044	15,650	14,745