Property Council of Australia (ACT)

2011 – 12 Pre-Budget Submission

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Level 1 1Hobart Place AMP Building Canberra City 2601- GPO box 1025 Canberra ACT 2601
PH 02 6248 6902 - FAX 02 6248 8210 – ABN 1300 8474 422
Email aperera@act.propertyoz.com.au - www.propertyoz.com.au

Contents

1. Summary of Recommendations 3
2. Introduction 5
3. Public benefit test 6
4. Taxation 7
5. Cabinet should rank priorities 8
6. No more across-the-board 'efficiency targets'. 9
7. Strike a balance on Change of Use Charge 10
8. Abolish Stamp Duty 11
9. Abolish the Fire and Emergency Services Levy and fund the services from general revenue 13
10. No more taxation by stealth 16
11. Increase infrastructure investment 17
12. Fund infrastructure with long term borrowing and private sector participation 19
13. Transport planning 20
14. Give public transport a chance 21
15. Achieve increased adaptive reuse of vacant office buildings 22
16. Increase car parking charges 24
17. Abolish penalties for not complying with timeframes for approved developments. 25
18. Civic Master Plan 26

1. Summary of Recommendations

Recommendation 1

That Cabinet formally rank priorities in the public interest and allocate funds accordingly.

Recommendation 2

That an estimate of the cost of every function/activity of each department be placed before Cabinet for the purpose of reducing or eliminating the funding of low priority functions/activities as determined by Cabinet as a whole.

Recommendation 3

That the ACT Government review current proposals to change the Change of Use Charge system against policy objectives including achievement of housing affordability in the Territory, achieving increased redevelopment and infill and overall levels of government revenue.

Recommendation 4

That in light of the serious flaws in the concept and impact of stamp duty on property transactions, the tax should be abolished within the term of the 2011-12 Budget.

Recommendation 5

That the ACT's fire and emergency services be funded solely from general revenue.

Recommendation 6

That the thresholds for stamp duty and land tax be updated annually to reflect more accurately the movement of property values.

Recommendation 7

That a detailed infrastructure study and program be formulated to address the ACT's needs, with projected delivery dates and proposed funding models.

Recommendation 8

That the ACT Government adopt a strategy of alternative funding models including public sector borrowing, public-private partnerships and TIFs to fund infrastructure, in order to spread the costs and benefits of the investment over time and across the population.

Recommendation 9

That the ACT's Sustainable Transport Plan be reviewed and integrated with the ACT's Infrastructure Plan (and a new proposed implementation program) along with an integrated new Civic Master Plan.

Recommendation 10

That the Government consider alternative funding modals, including debt, to enable the construction of the Majura Parkway and Monash Drive.

Recommendation 11

That the ACT Government reintroduce adaptive reuse policies including a waiver of the development application fees; remission on the change of use charge; and stamp duty concessions on lower priced apartments.

Recommendation 12

That car parking charges be increased to at least $15 per day to reflect demand, encourage greater use of public transport and encourage private sector investment in car parks.

Recommendation 13

That the penalty for extensions of time to the Crown Lease building and development provisions be abolished and that only an administration fee be charged on the basis of actual costs incurred.

Recommendation 14

That the Government develop a master plan for Civic, and release it for public consultation, which co-ordinates and integrates various policies and includes an implementation program that can be relied upon to guide the substantive development of the City.

2. Introduction

The Property Council of Australia welcomes the ACT Treasurer's invitation to participate in framing the ACT Budget with views and suggestions on how resources can be better used; where priorities should be targeted; and where possible savings and efficiencies can be achieved.

The ACT Government's commitment to returning the budget to surplus by 2013-14 sends a positive signal that the community will not be burdened by excessive public debt servicing charges and that high priority publicly-funded services and infrastructure investment will not be forgone.

3. Public benefit test

The view of the Property Council is that the funding decisions of the government as set down in the budget should yield the greatest possible public benefit by creating the environment for enduring economic growth as the basis for improving the quality of life in the ACT. In representing the interests of the property investment sector in Canberra, the Property Council is strongly committed to the soundly based, long term economic viability of the community, since it is sustainable economic growth which is the source of high quality services, living standards and lifestyle for the people of Territory.

That is, the budget should be judged not by whether one budget in isolation is in surplus or deficit, but on its contribution over the longer term to sustainable economic growth and the well being of the ACT's citizens as a whole.

Accordingly, the Property Council generally supports continuing the Government's fiscal strategy as outlined in the 2010-11 Budget to:

- achieve a General Government Sector Net Operating Surplus;
- maintain operating cash surpluses;
- maintain a AAA credit rating;
- manage debt prudently and maintain net financial liabilities within the range of all AAA rated jurisdictions;
- fund the Territory's unfunded superannuation liability fully by 2030;
- maintain quality services and infrastructure;
- make targeted investments to achieve strategic objectives of economic growth, reducing future costs and addressing chronic disadvantage; and
- maintain taxation revenues at sustainable levels.

However, the Property Council would like to see a clear explanation of what is meant by "sustainable levels" of taxation. In our view, increasing dependence on the property sector, where we are now in a situation where more than 50 percent of taxation revenue is drawn from the property sector, is not sustainable or prudent.

Also, on the question of taxation, the Property Council draws the Government's attention to revenue items such as stamp duty on property transfers, the Change of Use Charge and the Fire and Emergency Services Levy which clearly do not meet the public benefit test and, due to their perverse impact on behaviour, detract from the living standards and lifestyle of the people of the ACT.

4. Taxation

The ACT Government has relatively few ways to influence the development of the economy in Canberra. However, the approach taken to tax settings is one of them. The ACT Government should strive to make the ACT's tax regime competitive, especially with neighbouring jurisdictions, including NSW and Victoria.

The property sector accounts for the majority of tax revenue received by the ACT Government. The Property Council believes that the property sector in the ACT is over-taxed and that there is a compelling case for reducing the tax burden.

Providing targeted tax relief will have a positive effect on the overall tax receipts for the ACT Government. Experience has repeatedly demonstrated that efforts to encourage activity in the economy – particularly the property sector – leads to higher general economic growth and this feeds directly into government revenues.

The fiasco that was the experimentation with Vendor Duty in New South Wales demonstrated the nexus between tax policy and government revenues.

Moreover, the ACT Government should continue to seek efficiencies within bureaucracy that will lead to savings which can then be used to fund targeted tax relief. This tax relief will, in turn, stimulate further economic activity and generate higher tax income for the ACT Budget.

Rather than adopting a policy of matching NSW taxes, it would benefit the ACT to have lower taxes than competing regions in order to attract businesses and households to the ACT. Indeed, in the Government's own Economic White Paper, the competitiveness of the taxation system is acknowledged as a key factor behind business location decisions [p. 31]. The ACT Government should use the opportunity provided by the upcoming budget to identify where it can deliver the most efficient and effective tax cuts to foster a competitive and diversified economy.

There is a well-established set of tax design principles to guide policy makers on what taxes best serve the public interest and whether those taxes should be imposed or cut.

On public finance principles the tests for evaluating any tax are:

- Efficiency – does it raise revenue at least possible cost in terms of effort, compliance and distortion of taxpayer behaviour?
- Equity – is the tax burden shared fairly and spread across the broadest possible base?
- Simplicity – are the collection arrangements easily understood, are there few/no exemptions and are administration and compliance costs minimised?
- Stability – is the rate of tax stable and predictable and is there minimal reliance on volatile revenue sources?
- Transparency – is there openness and accountability in collecting the tax and reporting on how it (with others) is spent?

These five tests encapsulate the key areas through which people and businesses can be affected. They are central to efficient raising of revenue and creating the conditions for improving productivity growth.

5. Cabinet should rank priorities

A serious flaw in the concept of Budget public consultation is that it is seen as no more than an invitation to hone interest groups' lobbying skills at the expense of the public good. A case can be made for most claims on the public purse if they are viewed in isolation and if their advocates are not called upon to take into account the broader public interest.

By contrast, only Cabinet has the unique responsibility of setting priorities for the Territory as a whole. Only Cabinet has the authority and resources to balance the competing needs/demands of sectional interest groups. It is up to Cabinet to rank programs and expenditure priorities on behalf of the community and then allocate resources to reflect those priorities. In a formalised process, Cabinet should decide what is more important and what is less important.

Having ranked the government's priorities, each minister should ask their departments to (i) provide a minutely detailed list of all their functions/activities, (ii) demonstrate how each function/activity supports the government's priorities, both high and low, and then (iii) Cabinet could choose which programs to support and which ones to cut. This process would reveal many activities which have continued well beyond their useful purpose but have not been terminated due to departmental lack of interest in saving money and the incentive to empire build. It would bring the additional advantage of a closer alignment of public expenditure with the government's priorities.

Asking the community to identify areas of waste where expenditure savings can be made is ineffective because in many instances they don't have adequate knowledge of the workings of government. Those on the 'inside' of government are far better placed to have or obtain the detailed knowledge of where inefficiencies are occurring and programs of low priority are being perpetuated. And even those on the 'inside' cannot necessarily be relied upon to offer up savings, particularly if they work in line departments – which have an incentive to extend their role and expenditure – as distinct from a central department. Cabinet should identify and decide where savings are made, not departments

A related problem is that so-called 'razor gangs' in the past have not met their objectives because they have been subverted by portfolio ministers by-passing the scrutiny of the expenditure review process and going direct to the Chief Minister to plead a special case, usually with an argument of unusual political sensitivity. That is why Cabinet as a whole must decide.

The likelihood of getting the best results in terms of ensuring that scarce public funds are committed to areas of high priority are maximised when all proposals are considered together – not in isolation – so that every bid for spending competes against every other bid around the same table and at the same time and that all expenditure bids are accompanied with offsetting savings in low priority areas.

Recommendation: that Cabinet formally rank priorities in the public interest and allocate funds accordingly.

6. No more across-the-board ‘efficiency targets’.

All governments find expenditure discipline difficult.

Some ministers are team players giving up their preferred programs for an agreed bottom line. Others defend their department’s empires with spurious arguments for their special position or offer only token cuts.

Ministers faced with expenditure cuts also argue that, if there must be cuts, they should be applied across the board. Whilst this is the easiest option and superficially the fairest because the pain is shared amongst all competing portfolios, it fails because it perpetuates the status quo (in terms of balance between agencies) and therefore does not achieve the objective of devoting scarce resources to the higher priority areas. Instead of simply imposing an x per cent efficiency dividend across the public sector and taking the risk of departmental heads strengthening their hand over ministers by cutting the most politically sensitive areas, Cabinet should rank priorities according to how it perceives the public benefit and then, against that test, decide which programs justify increased resources and which ones should be cut.

Recommendation: that an estimate of the cost of every function/activity of each department be placed before Cabinet for the purpose of reducing or eliminating the funding of low priority functions/activities as determined by Cabinet as a whole.

7. Strike a balance on Change of Use Charge

The Property Council remains most concerned at the implications arising from the potential implementation of the recommendations contained in the November version into of the Nicholls report on the Change of Use charge in the Territory.

We believe that the lease variation charges proposed, even at the 75 percent rebate, will significantly stifle redevelopment and infill, will have a significantly negative impact on housing affordability and that rather than increasing government revenue will lead to an overall reduction.

The Property Council is preparing a separate submission which we propose to discuss with government in January 2011.

Recommendation: that the ACT Government review current proposals to change the Change of Use Charge system against policy objectives including achievement of housing affordability in the Territory, achieving increased redevelopment and infill and overall levels of government revenue.

8. Abolish Stamp Duty

Stamp duty on property transfers is a bad tax. It acts as a major deterrent to business investment in the ACT.

The ACT has Australia's highest rate of stamp duty on property transfers of 6.75 percent, 1.25 per cent points higher than the second highest rate. This renders investment in the ACT at a competitive disadvantage, especially on commercial property. The disparity between ACT rates and those of NSW are so significant that it impacts on the decision of some of our members as to where to undertake a development. For example, acquiring a $40 million commercial property in the ACT attracts a conveyance duty bill almost $500,000 higher than a similar purchase in either NSW or Victoria.

A study undertaken by Access Economics on behalf of the NSW Division of the Property Council concluded that stamp duty on commercial conveyances is Australia's most inefficient tax and that reductions in stamp duty on commercial property transfers would yield vastly greater economic returns to government and economy than other State or Territory tax.

As noted in the Henry Review of Taxation the States and Territories raise a significant proportion of their tax revenue from some of the least efficient taxes in our system. The more efficient of the taxes available to the States are poorly designed and, as a result, are currently limited in their capacity to generate revenue.

The least efficient taxes undermine Australians' living standards, reducing productivity and incomes by discouraging investment and workforce participation or by directing investment and resources to less valued activities.

Stamp duties are poor taxes. As a tax on transferring land, they discourage land from changing hands to its most valuable use. Stamp duties are also an inequitable way of taxing land and improvements, as the tax falls on those who need to move.

Since stamp duty is triggered by the sale of a property, it creates the possibility for people to avoid stamp duties by choosing not to buy or sell property, which can result in people not living in the house they really want to live in or staying too long in a house that could be better used by somebody else. This potentially results in a poor allocation of the housing stock. Though the efficiency impact of transactions taxes are difficult to estimate, one study suggests that stamp duties have efficiency costs more than ten times as great as those of a recurrent tax on the market value of houses (Emphasis added) (*O'Sullivan et al. 1995, cited in the Henry Review of Taxation*).

Stamp duties are a particularly inefficient tax when levied on business. This is because businesses face incentives to minimise their transactions and investment in property. For example, a business has an incentive to use existing buildings rather than moving to a lower cost region and buying a new property. As businesses are more likely to be mobile than consumers, stamp duties are likely to be particularly inefficient. Consumers are worse off in two ways — goods and services are provided using less efficient processes, and higher tax rates apply to those goods and services that disproportionately depend on property for their production.

Stamp duties are also inequitable. Given that higher valued properties are often purchased by people with higher incomes, it may appear equitable that the average rate of stamp duty increases as the value of the property increases. However, as property is just a part of a household's consumption and wealth, stamp

duties are a poor mechanism for improving equity. The tax instead falls most heavily on people with a preference for housing consumption. For example, one person of considerable means might buy an expensive house and pay more tax, while another does not because they prefer an expensive motor vehicle.

A further equity dimension to stamp duty is that it will always result in a differential tax burden depending on people's desire to move. The effective rate of stamp duty on housing differs according to the length of time spent in a property and the frequency of moving. The effective rate of tax declines over time as the up-front cost of stamp duty is spread over more years of occupancy. If a household sells their house and purchases another, the cycle starts over again — meaning that people have an incentive to stay in the same house, possibly against their aspirations to move to improve their well-being.

Recommendation: that, in light of the serious flaws in the concept and impact of stamp duty on property transactions, the tax should be abolished within the term of the 2011-12 Budget.

9. Abolish the Fire and Emergency Services Levy and fund the services from general revenue

The FESL is a bad tax because it violates sound taxation principles. It should be abolished and replaced with funding from general revenue for fire and emergency services. The Property Council has called on the Government to make this change on several occasions but the compelling arguments for change seem to have fallen on deaf ears.

The tax to fund fire and emergency services in the ACT only applies to rateable properties, is expected to raise $27.8 million in 2011-12 and increases each year based on the Wage Price Index.

The FESL is not based on sound taxation principles in that:

- it distorts investment decisions;
- it is grossly unfair in its discriminatory impact on the commercial property sector;
- it is arbitrary in that there is no relationship between tax paid and risk of fire and emergency services being called on;
- it is unstable because the revenue source is potentially volatile; and
- there is poor accountability on how and where the services are delivered and at what cost.

Moreover, tying the funding of fire and emergency services and the broad range of related activities to taxes on property creates a narrow tax base. Those caught in this tax base are subjected to higher costs by virtue of the narrowness of the base. There are simply fewer people to tax so the cost is more concentrated. This is inefficient because it distorts the property market. Tax policy principles require that an efficient tax is one that is broad based and set at a low tax rate. By spreading the tax burden across a larger number of people, the lower the individual tax burden and less distortion of business decisions.

ACT fire and emergency services provide a range of essential services to the entire community and they deserve a stable, reliable funding source for their continued operations. It is important that such funding arrangements should also be transparent, efficient and equitable.

In contrast to the current tax, funding of fire and emergency services would be efficient, fair and generally acceptable to the community if, as far as possible:

- all those who benefited from the provision of fire and emergency services contributed to funding those services;
- funding contributions were matched to the level of service provided to members of the community;
- avoidance through changed contributor behaviour were minimised;
- fire and emergency services were provided with a stable funding base; and
- account were taken of the risk factors and the probability of fire and emergency services being called on.

Whilst these are the policy objectives on which the FESL should be based, it is clear that in the ACT:

- many who benefit do not pay, such as motor vehicle owners;
- there is a marked disparity between who pays, how much and the level of service;
- the funding base is less stable than it was because half of the revenue from the FESL fluctuates with assessed property values; and

- no account is taken of risk factors in setting the FESL.

Since fire and emergency services are essentially ‘public goods’, the principles for funding them are best met if they are funded from general revenue. The provision of fire and emergency services, whether needed by an individual or not, is a positive benefit for the community. The protection of property and human lives, lowering the risk of harm and damage, lessening the financial costs involved in fire and rescue operations and the protection of the environment and ecosystems are all positive benefits that arise from fire services and emergency services. Everyone enjoys the benefits without being excluded from utilising them.

Given this strong ‘public good’ characteristic, the most logical, efficient and fair way of funding fire and emergency services is from general revenue or hypothecated taxes. Both provide transparency and a clear connection between taxation and benefits.

The FESL is not consistent with Government policy stated in the Economic White Paper in which “a fair and competitive taxation system that minimizes compliance costs to business” is listed as a key element in generating economic growth.[p.31]

The FESL does not pass the Government’s own tests of fairness and competitiveness.
It is not fair in that the burden falls heavily and inequitably on the commercial property sector and is not related to risk or the probability of having to call on fire and emergency services.

Moreover, within the commercial property sector the differential in the burden of the FESL is due to variations in assessed unimproved capital values but bears no relationship to the degree of risk.

The flat charge which applies to residential property compared with charges varying from about $5,000 to $80,000 on commercial property implies that commercial property is far more risky than residential property, but that implication is not borne out by actual experience. Indeed, anecdotal information is that for every call out to one commercial property there are some 200 calls to other incidents, including fires in residential properties, motor vehicle collisions and fuel spills. In order to develop an accurate and credible risk spectrum the ACT Government could provide data covering the past ten years on the number of occasions on which fire and emergency services have been called out to attend commercial properties, residential properties and other incidents and, if possible, the cost of providing those services.

The FESL is also not competitive in that, for example, land tax in the ACT is nearly four times greater than in NSW. Since commercial property investment is decided on the prospect of each new investment being profitable, prospective locations are in strong competition for business. That is not to say that decisions swing on just one factor, but it must be noted that the taxation regime is an important element in the mix not only for the monetary burden but also for what it signals about the government’s attitude to business. The experience of Victoria in the early 1990s – when the (then) government’s pronouncements and policies signaled that business could only expect high and rising taxes and resulted in a substantial movement of capital out of Victoria to other states – provides a salutary lesson.

Since the beneficiaries of fire and emergency services are widespread through the community, businesses, insurance companies, governments and the environment, those services have the characteristics of a ‘public good’ in that consumption by one user does not reduce demand by other users and users cannot be excluded from the service. The ‘public good’ also extends to education, prevention, attending to rescue services, motor vehicle collisions and so on.

There are four basic means of funding fire and emergency services:

- general revenue;
- user charges;
- full cost recovery; and
- earmarked or hypothecated taxes.

All four have advantages and disadvantages and should be assessed against the taxation policy principles of efficiency, equity, simplicity, stability and transparency.

When tested against the taxation principles, general revenue based systems rank highest, followed by hypothecated taxes, property-based levies provided they are broadly based, equitable and reflect risk, and insurance-based levies.

Insurance-based taxes are unsatisfactory because, by increasing the cost of insurance some people are deterred from insuring prudently. Also, because it is narrowly based only those insuring pay the levy and therefore carry a disproportionate share of the burden. That is, those who do not insure do not contribute.

It follows that ACT's fire and emergency services should be funded solely from general revenue.

Recommendation: that the ACT's fire and emergency services be funded solely from general revenue.

10. No more taxation by stealth

For the purposes of both land tax and stamp duty, there has been a greater burden placed on property owners by virtue of taxation 'bracket creep'. The thresholds for imposing rates of tax have not increased in proportion to the increases in the value of land. As a result, the Government has had a windfall gain at the expense of taxpayers. This is clearly evidenced by the higher than expected revenues the Government has been receiving year upon year from the property sector.

Recommendation: that the thresholds for stamp duty and land tax be updated annually to reflect more accurately the movement of property values.

11. Increase infrastructure investment

The Property Council reiterates the importance of improving the efficiency of infrastructure to raise productivity in the ACT. Indeed, this is as a critical policy issue for government at all levels across Australia.

There is a growing evidence reinforcing the fact that investment in infrastructure pays considerable dividends for the economy. For example, work undertaken by the Allen Consulting Group demonstrated that a $1 billion investment in Australia's roads would yield a long-run *annual* increase in Gross Domestic Product ranging from $810 million for urban arterials to $270 million for rural arterials and $110 million for local roads.

Vital to Canberra's economic, social and spatial development is an effective, integrated 20-year infrastructure strategy, together with a program for annual delivery of infrastructure and tied to an ACT population target program.

The Property Council welcomed the release by the Government of its first 10-Year Infrastructure Plan in June 2010, which recognises that the provision of high quality infrastructure is critical to the economic prosperity of our community and s an investment for our future. Among the important infrastructure priorities identified by the Government were a number of important capital works projects including road upgrades, funds for sustainable transport initiatives and infrastructure to support an accelerated land release program. It is commendable that the ACT Government has recognised the need for a long-term infrastructure plan and has taken some first steps towards developing and implementing one.

As the Property Council identified in its *ACT Infrastructure Priorities Report*, launched by the ACT Chief Minister in November 2008, since its inception Canberra has benefited from strong investment in infrastructure.

However this investment has declined steadily in recent years and has failed to keep pace with community needs.

Efficient infrastructure is important to the community because it builds the capacity to satisfy community's lifestyle aspirations and well-being. The timely, effective and efficient delivery of catalyst infrastructure is essential to secure Canberra's future.

Accordingly, we welcome the ACT Government's efforts towards developing a long-term infrastructure plan. In particular, we welcome the inclusion of the Government's forward land release program and details about the capital works program that will underpin it that was announced as part of the May 2010 Budget.

However, while we acknowledge that this is a 'living document' to be reviewed and updated each year, we are concerned that the first Infrastructure Plan really only identifies capital works projects for the next few years, with some rough indications for projects that are being contemplated for the next two years and beyond.

It is also surprising to note that the Government is forecasting a gradual decrease in infrastructure investment in coming years, in spite of our growing population. It is also not clear that a multi-criteria methodology - or triple-bottom line approach - has been used by Government to identify projects that will deliver the greatest economic, social and environmental benefits to the Territory.

The Property Council welcomed the opportunity to participate in a government roundtable on infrastructure and stands ready, as always, to lend the skills and expertise of its members to the ACT Government to assist in developing a robust integrated strategy in the form of a 20-year infrastructure plan that:

- can guide whole-of-government decision making;
- is linked to the ACT's land use strategy and population projections;
- is realistically achievable within the context of other endeavours such as the existing backlog of capital works projects; and
- synchronises service delivery with population growth.

The Chief Minister has previously indicated that the ACT Government would establish an Infrastructure Advisory Group, involving the Property Council and other peak bodies, to provide advice on these issues. We would be keen to participate and provide our expertise in order to achieve a genuinely robust longer-term infrastructure plan for the Territory.

Recommendation: that a detailed infrastructure study and program be formulated to address the ACT's needs, with projected delivery dates and proposed funding models.

12. Fund infrastructure with long term borrowing and private sector participation

Much of the underinvestment in infrastructure around Australia has been the result of political timidity at the notion of public debt, and a failure of governments to distinguish current consumption spending from investment in productivity-improving assets.

The Property Council does not endorse reckless public spending or unsustainable public debt, but we believe an overly cautious approach by the Government has led to underinvestment in infrastructure assets which are vital for the community's well-being over the long term, especially transport, water, sewerage and storm water.

The Property Council supports the concept of borrowing by governments to fund infrastructure on the grounds that the life of the asset and the public benefits are long term. Since future generations will receive the benefit of new infrastructure and infrastructure upgrades, it is both fair and efficient to spread the cost over the useful life of the infrastructure.

Research by the Allen Consulting Group shows that debt funding is the most efficient way for governments to invest in infrastructure without impacting credit ratings or interest rates. Significantly, this research shows that the way governments fund infrastructure affects the community's overall economic welfare. Funding the full cost direct from the budget is costly in terms of higher taxes, reduced private sector investment in other areas and forgone public services.

A political aversion to debt has been matched by a public aversion to PPPs. However, more use should be made of PPPs which provide for timely, effective and efficient delivery of infrastructure. PPPs are appropriate for some, but not all, projects and can be particularly successful for assets like health, education and public housing projects (e.g. the similar projects being undertaken in Victoria and Queensland). The Canberra Hospital car park project is a good example of a project that could have been the subject of a successful PPP. Regrettably it has been funded entirely from annual Budget revenue.

Tax Increment Financing (TIF) provides another option to fund infrastructure. Used extensively and successfully in the US for the past 40 years, TIFs draw on the financial dividend infrastructure delivers over time to help fund its cost up front.

TIFs are not new taxes and instead involve appropriating the increase in tax revenue (the increment) attributable from an investment in infrastructure (within a prescribed district) to pay back the cost of providing the infrastructure.

The Property Council urges the ACT Government to explore the use of debt funding, public partnerships and TIFs to accelerate the delivery of key infrastructure projects.

Recommendation: that the ACT Government adopt a strategy of alternative funding models including public sector borrowing, public-private partnerships and TIFs to fund infrastructure, in order to spread the costs and benefits of the investment over time and across the population.

13. Transport planning

For a broad range of reasons, including the fact that Canberra was planned for car use and has a relatively low population spread across a wide geographic area, Canberrans are highly car dependent.

The ACT Government has noted that the current level of car use for trips to work is around 87 per cent. Despite targets in the Sustainable Transport Plan published in 2004 for increasing non-car usage, the current level of car trips indicates that, to date, no significant modal shift has occurred.

Despite the Government's best efforts to encourage greater use of public transport, the bus network is inefficient and continues to be subject to almost constant criticism. Passenger numbers remain considerably lower than the targets in the Sustainable Transport Plan, while the level of subsidy to ACTION buses by tax payers remains onerous and is expected to continue to rise.

Various transport alternatives have been proposed, including a light rail system for Canberra, but cost estimates range from $1 billion and upwards, no real funding proposal has been put forward, and even if a light rail service provided access between the major town centres and employment nodes, there is currently no evidence to suggest that, on its own, it may be any more successful than the current bus system.

The Property Council again proposes an integrated transport planning approach to include at least:

Regional Perspective: a clear regional long-term perspective on transportation mode to and from the ACT: by air, train, truck, bus, car and even bicycle; including forecasting of volumes, capacity, shift between modes as well as linkages to industries and services and interdependencies with neighbouring NSW shires;

Urban Transport Corridors: transport oriented planning between Civic and the town centres which allows for train or light rail corridors beside freeways and bus lanes. However this will only be successful if: entry/exit points are linked to adequate transit parking and transfers to bicycle and foot paths; and it is coordinated with urban land use and density planning; and

Local Transport and Transit: it is at the local level where bus transport is most effective to provide connections to schools, shops, local centres and the nearest transport hub with park and ride facilities for cars and bikes. Passenger numbers will not significantly increase until the quality of the transport network itself is improved. Attempting to force people onto buses by ignoring the need for road infrastructure or adequate car parking is simply bad public policy.

The Sustainable Transport Plan is in need of urgent review and should be updated to take into account Canberra's recent and future growth, and include all modes of travel, including cars (and car parking), buses, cycling and walking.

Recommendation: that the ACT's Sustainable Transport Plan be reviewed and integrated with the ACT's Infrastructure Plan (and a new proposed implementation program) along with an integrated new Civic Master Plan.

14. Give public transport a chance

The Property Council has identified a number of key issues currently increasing the gap between transport planning and its effective implementation:

- increased car usage due to a lack of positive incentives and the absence of any linkage between car and bus transport to meet modern urban living conditions;
- the need to provide better car parking closely linked to public transport, park and ride, bus stops, and flexible and frequent bus services in and near town centres. This will create a greater shift to public transport than reducing car parking;
- the need to develop a framework of creative and positive incentives, for both car and public transport users, to offer comparable and competitive choice for the public; and
- the need for increased, and informed, public debate and awareness about ACTION's triple bottom line approach, marketing the increased environmental, social and economic benefits to the Territory and its citizens.

The Property Council has welcomed recent ACT Government initiatives to develop a sustainable transport plan and an integrated transport network for Canberra, but note that there is further work to be done, particularly to integrate transport with land-use planning, including forecast changes to the demographic composition of our population. Firm decisions about the achievement of greater urban density and infill development in key locations are also important considerations.

Of particular concern is the current transport chaos in the north of Canberra which will only worsen as the population of Gungahlin grows from 60,000 to a projected 90,000 people. Public transport fails because buses are caught up in the same traffic congestion as cars and the travelling public despairs because no solution to this deteriorating situation is in sight. The Government's unwillingness to invest in infrastructure to improve trip times to and from Gungahlin is simply imposing massive costs on business and individuals through time lost and productivity forgone.

There is no need for urban rail provided that buses were able to move people quickly and safely and therefore be seen as superior to the private car in terms of travel time, safety and convenience. However, this is not possible on the congested roads to and from Gungahlin.

The Property Council therefore proposes that the Government borrow funds for (i) an immediate start on the Majura Parkway as a six lane road, with one lane each way being primarily reserved for express buses and (ii) the design and construction of Monash Drive as a six lane road, also with one lane each way being reserved mainly for express buses.

It is clear that the ACT needs a broader and more integrated approach across infrastructure and transport, to provide incentives to car users to get them to make the change to public transport. The Property Council welcomes efforts made by the ACT Government to date looks forward to continuing positive dialogue on this issue and to make a positive contribution to the development of a transport solution specifically designed for the ACT, which meets the needs of Canberrans.

Recommendation: that the Government consider alternative funding modals, including debt, to enable the construction of the Majura Parkway and Monash Drive.

15. Achieve increased adaptive reuse of vacant office buildings

In the six months to July 2010, supply additions caused the office market vacancy rate in Canberra to increase from 8.6 percent to 13.6 percent, its highest level on record, according to the Property Council of Australia's *Office Market Report*.

The increase in vacancy rate has come about due to the second highest level of supply additions on record of 179,895sq m, with all grades of space, with the exception of B Grade posting large vacancy increases and are in double-digit territory. However, demand over the period was still positive, with net absorption of 50,477sq m posted.

Canberra now has the highest office market vacancy rates of any of the capital cities, with Brisbane CBD reporting a vacancy rate of 10.9 percent.

Civic's vacancy rate increased from 7.4 percent to 16.0 percent due to supply additions of 71,187sq m. This makes the vacancy rate the highest on record and supply additions the second highest on record.

Vacancy in the non-Civic market increased from 9.2 percent to 12.6 percent, the highest on record. This was due to record supply additions of 108,708sq m being more than twice net absorption of 47,172sq m.

Looking ahead, significant additional stock is due to enter the market in 2011 and 2012.

This increase in vacancy rates has largely been brought about because of Federal Government requirements for modern, energy efficient A Grade stock, typically with large floor plates to enable departments to be located within single buildings, and therefore leaving much older stock vacant. This has occurred in Civic, Woden and Belconnen and to a lesser extent in Tuggeranong.

The cost and time involved to reconfigure and upgrade these buildings to the standard demanded by many tenants and to comply with 'green' legislation is often prohibitive, therefore leaving buildings vacant for a long time. A case in point was the length of time that Scarborough House stood vacant.

When Canberra faced a significant oversupply of redundant offie space in the mid 1990s the ACT Government responded with flexible planning polices which saw the redevelopment of the Jolimont Centre to incorporate the Novotel Hotel, where changes were made to accommodate a reduced amount of car parking requirements coupled with change of use charge. Other successful conversions of office property include the Wales Centre on London Circuit, which was redeveloped in to the Waldorf Hotel and 16 Moore Street into the Globe Apartments, and other sites converted into serviced apartments.

Besides modifying the planning system, adaptive reuse policies of the day included:

- a waiver of the development application fees;
- remission on the change of use charge; and
- stamp duty concessions on lower priced apartments.

All of these initiatives provided an increase of revenue to the ACT Government through additional stamp duty, fees and charges. Additionally it provided ongoing jobs for the Territory at a critical time.

In 2011 there are a number of impediments which contribute to limited reuse and conversion of office stock including issues such as the change of use charge, stamp duty and car parking ratio requirements.

The Property Council strongly advocates that the ACT Government addresses these impediments to enable the conversion or adaptive reuse of existing buildings. This will in turn assist in enabling the Government to meet its infill targets, potentially provide more affordable housing in and around Civic and the town centres and leverage existing services and infrastructure thus potentially reducing the city's carbon footprint.

Recommendation: that the ACT Government reintroduce adaptive reuse policies including a waiver of the development application fees; remission on the change of use charge; and stamp duty concessions on lower priced apartments.

16. Increase car parking charges

In its budget submission a year ago the Property Council pointed out the adverse impact on business activity and the public's well-being from the congestion due to lack of car parking spaces.

Thousands of car spaces have been replaced by large commercial and residential buildings which increase the number of people in the city while significantly reducing the number of parking spaces available, so there continues to be a need for structured car parking sites in Civic and the town centres.

Local centres such as O'Connor, Ainslie, Deakin and Yarralumla are also experiencing a loss in trade from the inability of shoppers to find car parks which is reducing the ability of businesses in these local centres to compete with the town centres.

Car parking charges have to increase if privately owned and managed car parks are to satisfy public demand. At the same time, an increase in car parking charges would contribute to achieving the Government's objective of encouraging greater use of public transport. The current low price for car parking is about the same as an all day bus pass and therefore inhibits a modal shift to public transport.

Moreover, government-funded parking discounts also undermine a pricing strategy to encourage the private sector to build and manage car parks as well encouraging people to drive their cars instead of taking the bus. Daily car parking fees must increased to at least $15 per day to make structured car parks a viable investment for the private sector.

There also needs to be a consistent, non-discriminatory, treatment of car parking costs applied across all employment areas. The current debacle in the Barton/Parkes area arising from some parking being 'free' and others requiring payment is irritating both to employees in the area and to visitors. Car parking charges in these locations should be the same as in Civic and town centres – an outcome which the Property Council urges the ACT Government to pursue with the Commonwealth Government.

Recommendation: that car parking charges be increased to at least $15 per day to reflect demand, encourage greater use of public transport and encourage private sector investment in car parks.

17. Abolish penalties for not complying with timeframes for approved developments.

In March 2008 the Planning and Development Act and Regulations were amended to impose fines in cases where there was non-compliance with the commence and complete provisions of a Crown lease. The conditions were modified in October 2008, but the major upheaval in credit markets around the world continues to mean it is difficult for the non-residential development sector to obtain finance to enable developments to proceed.

For the foreseeable future it will be increasingly difficult for the development industry to obtain finance unless there is a major pre-commitment from either the Commonwealth or Territory Government. Coupled with the lack of any growth in demand, and with hefty fees being imposed to seek extensions of time, it will be impossible in many cases for developments to proceed. Speculative developments have basically ceased.

There still remains a need to change the regulations with respect to the non-residential sector to provide greater flexibility and greater certainty about the financial imposts of non-compliance.

In contrast to the ACT, other jurisdictions with the freehold land tenure system do not have time limits and the associated non-compliance penalties. Notwithstanding the temporary moratorium on payment of penalties, the basic problem is that a fine is imposed if a development cannot be started or completed in the time allowed under the lease conditions. The ACT developer therefore faces a risk not borne by competitors in other jurisdictions.

Recommendation: that the penalty for extensions of time to the Crown Lease building and development provisions be abolished and that only an administration fee be charged on the basis of actual costs incurred.

18. Civic Master Plan

It has become more clear by the day that a coordinated and integrated master plan for Civic is needed.

The review into the Sydney and Melbourne buildings is one example that highlights that without understanding how Civic as a whole is planned and sites are to be used, then planning for any particular development outcome becomes uncertain and potentially counterproductive. A plan, for instance, that clearly identifies what sites are available for carparking and how many carparks there will be and how roads are to be used in the future is an essential requirement.

The Property Council understands that the Government has a variety of detailed reports on topics such as roads, infrastructure and public transport as they apply to Civic. These need to be made public and their detail used to produce an integrated plan for Civic that identifies:

- what sites will be released and by when and for what purposes;
- how City Hill is to be integrated into Civic;
- how traffic will be directed through Civic;
- what opportunities exist for development;
- how sustainable is our water, sewerage and stormwater network;
- a sustainable public transport solution for Civic; and
- how Constitution Avenue and Edinburgh Avenue will connect to City Hill.

While section 84, section 63, ANU Exchange, NewActon and City West are being rejuvenated, that is occurring in isolation while older parts of Civic (like Hobart Place and Garema Place) look tired and run down.

A new whole-of-city approach needs to take place which provides a clear direction and which provides opportunity for all parts of Civic (old and new) to develop and add to the vibrancy of the City.

Recommendation: that the Government develop a master plan for Civic, and release it for public consultation, which co-ordinates and integrates various policies and includes an implementation program that can be relied upon to guide the substantive development of the City.

For further information contact:

Catherine Carter
ACT Executive Director
Property Council of Australia
GPO Box 1025
Canberra ACT 2601

T: 02 6248 6902
E: ccarter@propertyoz.com.au