



Property Council of Australia (ACT)

2008-2009 Pre-Budget Submission

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The Voice of Leadership

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Summary of Recommendations

Recommendation 1:

The current model of delivering capital works needs to be thoroughly reviewed and recommendations made to improve the efficiency of the program and provide more certain commencement/completion times for projects.

Recommendation 2:

The Property Council recommends the ACT Government commit to an integrated population policy as a way of securing Canberra's long term growth.

Recommendation 3:

The Property Council recommends the Government release sites specifically for structured car parking as a matter of priority.

Recommendation 4:

The Property Council firmly believes the Government should consider as a matter of priority, policy measures to encourage the adaptive re-use of buildings recently vacated by large tenants such as the Federal Government, such as the abolition of the change-of-use charge.

Recommendation 5:

The Property Council believes the ACT Government should immediately review the range of property related taxes and identify areas where tax relief can be applied.

Recommendation 6:

The Property Council firmly believes that the policy of the ACT Government in terms of the conservatism of budget forecasting be amended to better reflect the level of economic activity in the Territory and ensure the Treasurer can therefore have a more accurate budget framework in which to make revenue and spending decisions.

Recommendation 7:

Given the very positive state of the ACT Budget, the already high contribution the property sector makes to Government revenue and the inherent inefficiencies of the tax, the Property Council recommends that the Fire and Emergency Services Levy be scrapped in the 2008-09 Budget as a reasonable and realistic tax relief measure.



Recommendation 8:

The Property Council believes the Government should commence phased reductions in the level of commercial stamp duty with a view to permanently abolishing the tax within five years.

Recommendation 9:

The Property Council recommends the immediate abolition of stamp duty on commercial leases.

Recommendation 10:

The Property Council recommends the ACT Government ends the practice of applying stamp duty on leases inclusive of GST and apply the duty on the value of the lease net of GST.

Recommendation 11:

The Property Council recommends the thresholds for stamp duty and land tax should be updated to reflect the true movement of property values and taking into account the greater than expected total tax revenues from the property sector.

Recommendation 12:

The Property Council recommends the 'use as development' provisions be removed from the *Planning and Development Bill 2007* and the ongoing process of reform in planning and land management continue to be strongly supported within Government.



1. Introduction

The Property Council welcomes the opportunity to provide a pre-Budget submission to the ACT Government.

The Property Council represents the property investment sector of Canberra and is an important contributor and stakeholder in the economic viability and future of Canberra. Our broad membership base includes commercial property owners, managers and advisers, architects, planners, engineers, surveyors, valuers, energy and telecommunications suppliers and financial institutions.

Throughout its history, the Property Council both nationally and within the ACT has been a strong advocate for the interests of the property sector and the contribution the sector makes to the growth of the nation.

It is also worth noting that anyone who has superannuation has by definition an interest in the growth and success of the property sector, as a very significant proportion of superannuation funds are invested in property. The Property Council, as the peak representative body for the property industry is conscious of this in its approach.

The ACT Property Council has always taken a constructive and comprehensive approach to working with Government on ideas and opportunities to improve the city and its future. The Property Council looks forward to continuing this approach with the Stanhope Government.

2. The ACT Property Sector

The property sector and associated industries, such as retail trade, communication services and finance, represent approximately 30 per cent of the total ACT economy. In addition, the property sector and associated industries are one of the biggest employers in the ACT.

Property Council members are the ones who invest directly in the fabric and infrastructure that underpins Canberra and therefore play a vital role in sustaining the future growth of the City. Property is a key business sector and driver of the ACT economy and an important partner with Government in delivering sustainable and well thought out economic policy.



3. Property Industry Outlook

The low vacancy rates, firm yields and strong investor sentiment which has characterised the ACT property market for the previous few years is expected to continue into 2008 and beyond. The residential sector in the ACT will also continue to remain robust despite increases in interest rates and the emerging domestic effects of the sub-prime mortgage events in the United States.

Recent announcements from the Federal Government of potentially another \$4 billion worth of further construction in Canberra could generate a second boom in the ACT, outstripping the record levels of activity recently seen in the city.

This positive outlook in the construction area will continue to fuel Canberra's growth but does raise the prospect of a large amount of existing stock becoming vacant as Federal departments move into new buildings.

4. Infrastructure and Capacity Issues

With the strong and sustained growth Canberra has experienced in recent time showing no signs of slowing in the years to come, the great challenge for the ACT Government is how to manage and predict the emerging capacity issues that will arise as a natural result of the current period of strong economic growth.

The Government must ensure it has a capability to focus on such issues and provide whole-of-Government solutions to them. The Property Council believes it is appropriate for the Government to establish a task force with representatives of industry and Government to identify capacity issues and provide advice on how to manage them.

4.1 Capital Works

The lengthy time taken for capital works projects to actually commence once funding has been provided is a historical feature of the ACT, irrespective of the political party in power.

The establishment of the Special Projects Unit (SPU) within the Chief Minister's Department was an acknowledgement of the problem and while welcome, does not represent the entire solution to the problem. Indeed, the problem of delivery delay in the capital works budget is not restricted to projects of a 'special' nature, such as would be managed by the Chief Minister's SPU.



There has never been a comprehensive review undertaken of the capital works budget and the processes involved in the management of the projects contained in each year's allocation.

The prolonged period of strong growth in Canberra has placed added pressure on the city's infrastructure and this means an even greater need for the capital works budget to be well targeted and for the projects to be delivered on time.

Recommendation 1:

The current model of delivering capital works needs to be thoroughly reviewed and recommendations made to improve the efficiency of the program and provide more certain commencement/completion times for projects.

4.2 Population and Skills

A potentially significant impediment to Canberra's continued growth is the shortage of skilled and unskilled workers. The current shortfall in available staff is effectively evidenced by the number of 'help wanted' signs displayed in shop and restaurant windows across Canberra.

It is inadequate to describe the situation simply in terms of a 'skills shortage'. The need for staff spans all sectors of the workforce and in Canberra at least, points more to a population shortage rather than merely a shortage of skilled workers.

The Property Council's *A Sustainable Community – Initiatives for Canberra*, highlights the danger that lies in Canberra's tiny population growth. The report cites Australian Bureau of Statistics figures showing that Canberra's population will peak at 330,000 in 2017 and drop back to 289,500.¹

For an economy and budget that relies so heavily on growth, slow population growth or negative population growth is the biggest threat to the Territory.

Recent efforts to generate interstate immigration through the *Live in Canberra* campaign are welcomed, but the small scale of the effort undertaken clearly limits the results that can be achieved. The Government would benefit greatly from combining their efforts to attract and retain people with those that the industry might undertake in a joint effort. This opportunity should be examined as a matter of priority.

¹ Australian Bureau of Statistics – 3101.0 Australian Demographic Statistics, Dec 2005



The Federal Government plays a vital role in Canberra's economic prosperity. The recent expansion of the Federal public service provides a great opportunity for Canberra, but poses an even greater challenge. Recruitment targets across most departments are not being met which raises the prospect of the Commonwealth being forced to examine alternatives to Canberra as a site for further public sector expansion.

This not only makes it more important for the ACT Government to ensure the conditions are right for sustainable levels of population growth, but highlights the need to work with the Federal Government so that both can benefit from higher population growth.

There is a clear need for the Government to produce an integrated and realistic population policy. Such a policy could inform decision points throughout Government and provide a sound basis for future planning. It would also act as a signal to industry that the Government is taking firm steps to mitigate against one of the factors limiting Canberra's growth.

Recommendation 2:

The Property Council recommends the ACT Government commit to an integrated population policy and engages with industry and the Federal Government to develop incentives as a way of securing Canberra's long term economic growth.

4.3 Car Parking

While the 2007-08 Budget included \$32.5m for new car parking, \$29m of which will be for a new structure at Canberra Hospital, there is a clear and dire need for more car parking in Canberra, particularly in Civic and the established town centres.

Parking problems have been exacerbated recently as new buildings to house large Federal Government departments have been erected on many of the old car parking sites round the city.

The lack of sufficient car parking poses a real threat to the sustainability of the growth seen in Civic and the other town centres. Unless the city and town centres remain relatively accessible by car, there is potential for businesses to suffer.

The Property Council's submission to the Legislative Assembly's inquiry into ACTION buses identified a number of key issues that are currently increasing the gap between transport planning and its effective implementation.



Better provision of car parking closely linked to public transport points and a flexible and frequent bus service in and near town centres will have a greater impact upon achieving a modal shift to public transport than reducing car parking.

A greater and more effective range of incentives are also required to produce is also vital to encourage that move to public transport. The Sustainable Transport Plan provides a useful framework but the lack of more positive incentives represents a significant omission.

Industry stands ready and willing to fund the construction of new car parks but the Government needs to release sites with the Crown Lease specifying their use as a multi-level car park as a matter of priority.

The Government will not only receive a premium for the land, but it will also receive ongoing rates and taxes and be saved the expense of providing car parks out of the public purse.

The Property Council is fully supportive of efforts to produce a genuinely sustainable transport plan which successfully integrates public transport with appropriate car parking facilities within the ACT.

Recommendation 3:

The Property Council recommends the Government release sites specifically for structured car parking as a matter of priority.

4.4 Infrastructure

There is a growing abundance of evidence reinforcing the fact that investment in infrastructure pays considerable dividends for an economy. Work undertaken by the Allen Consulting Group demonstrated that for example, 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 \$110m million for local roads.

The ACT faces a number of significant infrastructure challenges and they all have priority. The Government's ability to deliver on these in a timely fashion is inhibited by two factors.



Firstly, the ACT Government has shown a historical tendency to fund all capital works projects from the balance sheet, relying on taxes and the positive state of the budget in order to fund major projects. This is a comparatively narrow approach and a much larger range of options exist for the Government than just simple appropriations from the balance sheet.

Debt funding of major projects should be considered by the ACT Government as way of meeting large capital works requirements without having to rely on increasing taxes or charges to pay for them.

While the ACT's balance sheet currently allows for a significant annual capital works budget, this does not mean that debt funding be deemed an unnecessary form of financing large projects. Given the data clearly shows investment in infrastructure pays considerable dividends in increased economic activity year after year, borrowing to pay for infrastructure investment will reap a return and makes good business and economic sense.

The second inhibiting factor is the Government's ability to manage their capital works budget and ensure projects are delivered on time, as has been previously discussed.

This is a problem irrespective of the method of financing used and needs to be addressed urgently so that any sensible investment in infrastructure is not delayed.

Allowing a greater role for the private sector in managing the Government's capital works delivery offers one solution to the issue of project delay. This could be examined through a full and thorough review of the capital works budget and its administration.

The private sector's expertise at delivering projects on time and on budget also highlights the questionable need for the ACT Government to build its own building.

If successive Federal Governments, with their enormous requirements for space, have not chosen to build their own building, why would the ACT Government choose such a path. The already identified challenges with capital works delivery and more pressing needs for infrastructure investment makes the idea of the Government building their own building even less sensible.



5. Major Areas of Concern

5.1 Existing Stock Issues

The serious potential for many large and older office buildings becoming vacant all within a very short time of each other has the potential to generate an over supply of lower grade floor space which could be difficult to let as the preference for high grade, environmentally sound buildings increases.

Civic and Woden are particularly vulnerable to this occurrence as more high grade office space becomes available in City West and the airport precinct.

Ensuring the floor space which is vacated by Government tenants does not lie unused for long periods of time presents a challenge not just for industry, but the ACT Government as well.

It is worth noting that Canberra's office market continued to tighten in the six months to July 2007, posting its lowest office vacancy rate since January 1990, after rates fell 0.5 percentage points to 1.3 percent, according to the Property Council of Australia's Office Market Report. The fall in Canberra's vacancy rates occurred despite substantial supply additions totaling 97,268sq m of new office space being added to the market, the highest on record. There is now no A Grade office space available anywhere in Canberra.

With tenants showing a clear preference to A Grade office space, it is increasingly clear that without well targeted financial incentives to encourage and facilitate the reuse or conversion of older office buildings, in addition to the provision of incentives announced for the conversion of commercial office buildings to residential, significant areas of Canberra could become dormant, thereby putting the Government's Civic revitalisation program at real risk.

The Property Council's *Initiatives for Canberra* paper highlights some possible incentives such as waiving the development application fee for vacant stock, renting the change-of-use charge and offering stamp duty concessions on lower-priced apartments.

Indeed, betterment tax is not charged in other states and should be abolished in the ACT not simply as a tax relief measure but as a method of providing significant impetus to the revitalisation of civic and the re-use of vacated stock.

This is an area that clearly requires the leadership of the ACT Government.



Recommendation 4:

The Property Council firmly believes the Government should consider as a matter of priority, policy measures to encourage the adaptive re-use of buildings recently vacated by large tenants such as the Federal Government, such as the abolition of the change-of-use charge.

5.2 Undue Reliance on Property Sector Revenue

The property sector in the ACT generates enormous revenues for the Government whether through direct revenue from land sales or through the range of property based activity taxes such as stamp duty. The amount of revenue the ACT Government receives each year from the property sector has increased dramatically and shows no signs of abating.

The recent return to surplus of the ACT Budget was in no small way as a result of the increase in the property tax take from the previous year.

The 2007-08 Budget forecast land tax to increase by 14 per cent to \$72.4m. Stamp duty on conveyances is expected to be 25 per cent higher than forecast and will reap \$198m. Amazingly, the budget forecast a 2 per cent reduction in conveyance revenue over the year which runs counter to all available evidence.

Revenue from the LDA was 27 per cent higher than the level forecast in the previous budget and the dividend from the agency is expected to increase by 84 per cent which will likely be less than the actual figure.

General rates will reap the Government at least \$167m in 2007-08 which is a relatively modest 5 per cent increase on the previous year.

None of these figures are insignificant both in terms of the bulk of tax revenue flowing to the Government or the percentage increases in the take from year to year.

Recommendation 5:

The Property Council believes the ACT Government should immediately review the range of property related taxes and identify areas where tax relief can be applied.



5.3 Revenue Forecasting

The consistent underestimation of revenue, particularly in the property tax area is one of the major and fundamental failures of the ACT Budget.

The announcement on 15 August 2007 that the interim GFS net operating result for 2006-07 was \$117m, a turnaround of nearly \$200m from the \$80m deficit originally forecast was not so much a result of an upswing of economic activity in the Territory, but a failure on the part of the Government to appropriately and accurately forecast revenue.

It is worth noting that on a GGS basis, the method used until very recently, the operating result would have been a massive \$355.8m surplus – a very large figure for ACT standards.

While better than expected results are not unwelcome, the deliberate underestimation of revenue has reached dangerous levels in the ACT. This is due to the fact that when revenue is so significantly underestimated at the time the budget is being built, there is considerable pressure on the Treasurer of the day to examine further revenue measures and leaves no room whatsoever for consideration of any tax relief.

The 2006-07 Budget is a case in point. An \$80.3m deficit had been forecast and so the Fire and Emergency Services Levy was introduced as a new taxation measure and the range of existing taxation measures raised nearly 7 per cent more than was budgeted for. Had Treasury forecasts been more accurate, it is doubtful whether the Fire Levy would have been introduced at all.

The contribution of the property sector to the turnaround is demonstrated by the following. Of the \$99m turnaround from the 2007-08 Budget to the announcement on the 15 August 2007, \$45.3m of that was as a result of increased tax receipts. Of the \$45.3m in increased tax receipts, \$32.4m came from increased conveyance revenue and \$3.5m came from increased land tax. So \$35.9m, or 79 per cent, of the \$45.3m increase in tax revenue came from the property sector.

Recommendation 6:

The Property Council firmly believes that the policy of the ACT Government in terms of the conservatism of budget forecasting, be amended to better reflect the level of economic activity in the Territory and ensure the Treasurer can therefore have a more accurate budget framework in which to make revenue and spending decisions.



6. Tax

As has been identified, 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.

However, it is important to point out that 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.

Similarly, 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.

6.1 Fire and Emergency Services Levy

This measure was introduced in the 2006-07 Budget and was justified as a method of recouping some of the significant extra expenditure undertaken by the Government as a result of major bushfire events in Canberra.

The levy remained in place in the 2007-08 Budget despite a significant positive turnaround in the operating result for that year. The levy raises around \$20m annually and increases each year based on the Wage Price Index.

The FESL remains one of the most poorly targeted and inefficient taxes in the ACT and while other jurisdictions impose levy to supplement funding to emergency services, the model used in the ACT does not address risk or cap amounts – leaving it out of step with other states.

In some cases in the ACT, rates have increased on some commercial properties by 60 per cent, partly as a result of the imposition of the FESL. The St. George Centre for example, had its rates bill increase in 2006-07 by \$24,000 from its base of \$45,000 – an increase of 53 per cent. The AMP Building had its rates bill increase in the same year by 55 per cent. It is worth noting that the 2006-07 Budget claimed an average commercial rate increase of \$442.



On a reasonably modest commercial property with an unimproved value of \$3m, the FESL alone would represent an additional cost of \$14,518 for which there is no offset or benefit.

Recommendation 7:

Given the very positive state of the ACT Budget, the already high contribution the property sector makes to Government revenue and the inherent inefficiencies of the tax, the Property Council recommends that the FESL be scrapped in the 2008-09 Budget as a reasonable and realistic tax relief measure.

6.2 Non-Residential Conveyancing

The ACT has the highest commercial stamp duty rates in the country. The disparity between the ACT's 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.

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 the Government and economy than other State or Territory taxes.

The recent experience of NSW and the vendor duty is a prime example of how Government tax policy can have a very real effect on investment decisions made by industry. The significance of the tax mix in shaping investment decisions cannot be overestimated in a competitive national economy.

An economic environment which is attractive to business and investment and is known to be such can actually stimulate and sustain an economy, just as bad policy decisions, such as the vendor duty, can retard economic growth.

By nurturing economic growth in this way, reduction in commercial taxes can actually lead to long term enhanced revenue through higher returns from economic growth.

Recommendation 8:

The Property Council believes the Government should commence phased reductions in the level of commercial stamp duty with a view to permanently abolishing the tax within five years.



6.3 Stamp Duty on Subleases

Both Victoria and Western Australia have abolished stamp duty on leases (the equivalent of subleases in the ACT). This puts Canberra at a distinct business disadvantage and leads to a drain of investment out of the ACT.

In addition, the collection process for stamp duty revenue on commercial leases is highly inefficient. The amount of time and resources expended by the ACT Revenue Office and landlords in administering and disputing the revenue collection does not justify the amount of revenue collected.

Recommendation 9:

The Property Council recommends the immediate abolition of stamp duty on commercial leases.

6.4 Tax on a Tax

The ACT Government assesses stamp duty on the grant and transfer of crown leases and subleases taking into account the amount of GST payable. Despite the Government receiving GST through the Commonwealth, it also imposes stamp duty on the amount which includes GST. In other words, the ACT Government is actually imposing a tax on a tax.

Not only is this practice extraordinary, it is incredibly simple to remedy – assuming the Government believes in applying a fair approach to its taxation measures.

It is worth noting that Western Australia has abolished this practice and only assesses stamp duty on the relevant amounts net of GST.

Recommendation 10:

The Property Council recommends the ACT Government ends the practice of applying stamp duty on leases inclusive of GST and apply the duty on the value of the lease net of GST.



6.5 Bracket Creep

For the purposes of both land tax and stamp duty, there has been a greater burden placed on property owners by virtue of '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 11:

The Property Council recommends the thresholds for stamp duty and land tax should be updated to reflect the true movement of property values and taking into account the greater than expected total tax revenues from the property sector.

7. Planning Certainty

The Government has learned through such controversies as the Gungahlin Drive Extension and the crisis in establishing aged care facilities that a simplified and reformed planning system is critical to the future of the ACT.

Certainty in outcome, simplicity in process and timeliness in delivery are objectives that should be integrated within the ACT's planning process. A planning process that does not embrace these principles actually retards economic growth and puts pressure on revenue collections.

The Property Council supports the Government's planning reform process and encourages all arms of Government to support the reforms.

However, aspects of the recent *Planning and Development Bill 2007* represent a significant step backwards in terms of certainty for developers. Under the terms of the Bill, a Crown lessee will not be able to erect or alter a building or structure on that land without development approval to confirm that the 'use' is allowable.

One of the direct effects of this provision is financiers and valuers won't be able to determine the value of a Crown Lease with any real certainty as the lease will only be suggestive of what purpose might be approved by ACTPLA. At the very least, this new approval step provides the Authority with the opportunity to deny a use which may be allowed under the lease.

There will be an unavoidable flow-on affect to Government revenue as rates and land taxes are linked to lease values.

This provision undermines one of the central features of the Crown Lease system and puts at risk many of the otherwise valuable reforms undertaken in the planning regime, whilst at the same time providing a dubious benefit to ACTPLA and the Government as a whole.

Recommendation 12:

The Property Council recommends the 'use as development' provisions be removed from the *Planning and Development Act 2007* and the ongoing process of reform in planning and land management continue to be strongly supported within Government.

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