

2010

**THE LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY**

**Government response to 2010-2011 Select Committee on
Estimates regarding Change of Use Charge**

TABLING STATEMENT

**Presented by
Ms Katy Gallagher MLA
Treasurer**

9-12-2010

Mr Speaker, I table three independent reports and the Regulatory Impact Statement on the codification of the Change of Use Charge, and seek leave to make a brief statement.

Mr Speaker, Members are well aware that the Government has been working on the codification of the Change of Use Charge system.

Quite expectedly, the project has drawn considerable interest, particularly with regards to what would appear to be a significant increase in the charge as reflected in the draft schedules that were released for consultation.

The 2010-11 Select Committee on Estimates recommended that the Government evaluate the impacts of the Change of Use Charge and that it does not create barriers to urban densification. A subsequent motion in the Assembly noted that this work was underway.

I should clarify at the outset Mr Speaker, the review and the discussion is not about whether there should be a Change of Use Charge or not. This is not a debate about the betterment principle, which forms an integral part of the Territory's leasehold system.

There is a good basis for a betterment charge as recognised by ACIL Tasman, the advisors to the 2010-11 Select Committee on Estimates, who noted that the CUC

'has a very strong basis in economic theory. True economic rent can be collected by governments for the purpose of public finance without the adverse effect caused by taxes on production or consumption. The CUC appears to be an attempt to isolate and tax economic rents.'

The Government undertook to codify the system in response to industry's concerns and recommendations, and I particularly note the Property Council's submission in the 2009-10 Budget.

This task was led by Professor Nicholls and completed through an extensive process of consultation with the community and key stakeholders.

The first report, prepared by Professor Nicholls and Macroeconomics provides an outline of the proposed approach for implementing codification in the Territory. The report includes a Cost Benefit Analysis and the 2010-11 codified schedules. Professor Nicholls has also made a

number of recommendations for Government to consider around transition and administrative arrangements.

Mr Speaker, in preparing his report, Professor Nicholls undertook three rounds of consultation with the community and stakeholders – 14 weeks in total. All stakeholders were provided the opportunity to provide a written submission and/or discuss their concerns with Professor Nicholls.

The Macroeconomics/Nicholls report also includes a summary of the input received through consultation and how the various issues raised have been addressed.

The schedules of codified values have been reviewed by a panel with representation from the Australian Property Institute, the Australian Valuation Office, ACTPLA and Treasury. The panel was chaired by Professor Nicholls. It is important to note that professional valuers have signed-off on the schedules.

The other two reports were commissioned to provide expert analysis and opinion on the economic impacts of introducing codification in the Territory, including the impacts on housing affordability, private property investment, cost of business and profit levels and revenues.

Treasury engaged Professor John Piggott from the University of NSW and Professor Mardi Dungey to undertake this analysis. The reports I table support the introduction of codification in the Territory, with transition arrangements.

Mr Speaker, both the experts noted that quantitative and empirical analysis was unable to be undertaken because of the relatively short time the rectification has been in place and the lack of history on changes in the charge rate, and suitable data on the market.

Professor Dungey was specifically engaged to build an econometric model to determine the impact of codification on various sectors in the Territory. Her paper includes an economic model, however, after analysis of the available data from various sources, Professor Dungey found that statistically significant results could not be determined.

Professor Piggott has undertaken a conceptual economic analysis. He has noted that the increase in CUC is related to rectification, but considers that with appropriate transition arrangements, the move to codification is unlikely to impact greatly on the various sectors within the ACT economy, particularly the residential property market.

Both Professor Nicholls and Professor Piggott have noted that the increase in charges almost entirely relates to rectification, rather than codification from a rectified system. This is a very important point – one that I have been stressing for some time.

Also, the impact of rectification is on the residential sector, and the commercial sector is not affected.

While Professor Nicholls has recommended a three-year period to introduce codification, Professor Piggott has recommended phasing in codification over time while remaining flexible and responsive to changes in the property market.

He is suggesting different phase in arrangements for commercial and residential sectors, and between low and high unit residential developments. He is more sympathetic towards the part of the sector delivering developments less than 20 units.

Overall, Professor Piggott is very supportive of the reform proposed by Professor Nicholls, acknowledging that the move to codification will

improve the operation of the CUC and accords with 'common sense tax administration'.

Mr Speaker, the Government is very mindful that any microeconomic reform needs transition arrangements. The Government will consider the appropriate transition arrangements.

It should also be recognised that the Government retains the ability to provide remission on the Change of Use Charge to achieve specific policy objectives. This would not change.

Mr Speaker, the Government remains committed to reforming the CUC system in the Territory. The consultation so far has been quite comprehensive. I envisage further consultation on the draft legislation, before its introduction in the Assembly for a planned commencement on 1 July 2011.

Note:

For details of three independent reports and the Regulatory Impact Statement on the codification of the Change of Use Charge, please contact Committee Office.