6 June 2017

Member Briefing note: ACT Budget 2017-18

Key take-outs which affect the Property Sector

- ACT Government expects to deliver Back to balance budget by 2018-19 with forecast surplus of $63.3 million by 2020-21 – representing a total improvement of $542 million.
- Continue to be one of the leading jurisdictions on economic activity and growth rate second only to NSW. This is being driven by diverse range of activity, Housing, Construction trade, transport, pubic admin and retail are all pushing growth.
- State final demand is at 3.4% well in advance of national average at 2.6%
- Employment growth to continue.
- Wages subdued until return to 3% from 2019-20 – mostly due to public service. Likely to keep pace with inflation or be slightly in front over next 4 years.
- Population expected to be 430,000 by 2020. Three factors contributing – natural increase (births) international migration followed by interstate migration. Expectation that interstate migration will grow – with 6,000 new Canberrans expected every year.

Table 1: 2017-18 Budget economic forecasts, percentage change

	Actual	Estimate	Forecasts	Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
ACT						
Gross State Product[1]	3.4	3¼ (+1)	2¾ (+¼)	2½	2½	2½
State Final Demand[1,2]	2.9	5 (+2)	3¼ (+¼)	3½ (-½)	4	4
Employment[3]	1.8	1¼	1½	1½	1½	1½
Wage Price Index[3,4]	1.9	1¾ (-¼)	2	2½ (-1)	3 (-½)	3
Consumer Price Index[3]	0.8	2½ (+½)	2 (+¼)	2¼ (-¼)	2½	2½
Population[3]	1.3	1½	1½	1½	1½	1½
Australia						
Gross Domestic Product[1,2,5]	2.6 (-0.1)	1¾ (-¼)	2¾	3	3	3

Sources: ABS Cat. No. 5220.0, 5206.0, 6202.0, 6345.0, 6401.0 and 3101.0; Chief Minister, Treasury and Economic Development Directorate; 2017-18 Commonwealth Budget.

Notes: Forecasts and projections are rounded to a ¼ of a percentage point, reflecting an appropriate level of accuracy in forecasting economic parameters. Projections are based on long-run trend assumptions.

1. Real values.
2. Year average basis.
3. Through the year basis.
4. Total hourly rates of pay excluding bonuses.
5. These are the 2017-18 Commonwealth Budget forecasts. Comparisons are to the Commonwealth's *Mid-Year Economic and Fiscal Outlook 2016-17*.

- Chief Minister pointed out that whilst the ACT represents only 1.6 % of population of Australia we are generating 2.5 percent of service exports, highlighting importance of being outwardly focused.
- Fastest growth rate in service exports 65.3% (ahead of national at 33.8%). 1/3 of our service exports are a result of the higher education sector – our highest exporter of

services and employer of 16,000 people. In 2010 $1 billion to economy. In 2015-16 up to $1.7 billion.
- 33 months of growth in retail sector – driving growth with over $450 million (April 2017) in turnover.
- Housing market is driving growth – back to 2011 levels with some 6,000 approvals, which is supported by the land release program. Semi-detached housing and townhouses represent over 3,000 of these annual approvals. Focus by Government of diversity in housing mix – addressing the missing middle.
- Chief Minister highlighted importance of having a city centre that the national capital deserves – increasing residential development and new investment by government and the private
- Investment in town centres, transport corridors and urban renewal.
- Unemployment rate at 3.6%, well below national average of 5.8%.
- The Government stated it that re-Investing in service and infrastructure is the purpose of achieving a surplus.
- Debt objective is to pay down the $1 billion budget that was borrowed from the Mr Fluffy debt, which will free up capital in forward years to invest in infrastructure.
- Of the budget – 1/3 of spent on Health, ¼ Education, City services represents about 15pc of budget. Budget contains a focus on diversification of economy.
- Support for local businesses to grow, expand and innovate, (including $14.7 million to implement the territory's business development plan and $5.3 million for partnerships to support Canberra's jobs market) and support for women to enter male dominated trades ($1million) and enable night life in the city.

<u>Capital Expenditure</u>

- Infrastructure Investment Program is strong, building over the forward estimates – delivering on average of $600 million per year over four years, to drive construction, create jobs.

Focus of capital funds:

- Major expansion of services at Canberra Hospitals including Surgical Procedures, Intervention Radiology and Emergency Centre (SPIRE) and expanding the Centenary Women's and Children's hospital.
- Big capital investment in classrooms and school facilities, and expanding schools in Gungahlin.
- Stage 2 Light Rail - providing the funding to carry out detailed scoping and route planning on the city to Woden corridor - $53.5 million. Almost 210,000 Canberrans will live, work or study within one kilometre of this corridor by 2041.
- City to the lake activation – West Basin stage 2
- New city Renewal Authority and suburban Land agency – innovative projects to improve city (namely $59 million over four years to enable the city renewal

Authority to revitilise the CBD, Dickson and Northbourne Avenue and create a lakeside precinct in West Basin).
  - New roads, Gundaroo Drive and to facilitate development at Yarralumla brickworks
  - Active travel key focus.

- As announced in last year's budget, the ACT tax reform plan will see stamp duty halved this year and abolished next year for commercial properties under $1.5 million value. There is no change in rates increases which remain at 6 percent have higher valued residential properties continuing to bear the cost of both high stamp duty rates as well as continued increase in general rates.

Taxation revenues

- Total ACT revenue in 2017-18 is estimated to be $5.3 billion compared to 2016-17 estimate to be $5.2 billion, (up from 2015-16 outcome of $4.7 billion).
- The estimated outcome for own source taxation revenue in 2017-18 is $1.8 billion which is an increase of $42.7 million from last year (estimate was $1.6 billion in 2016-17; and in 2015-16 was $1.5 billion - which was also up $52 million from previous year.) The increase is cited as being due to higher than expected payroll tax and conveyance duties.

Conveyancing Duties (see BP 3 p 226-227)

Commercial: 2017-18 estimate is $73.8 million compared to 2016-17 estimate of $105.8 million, due to decreased activity.

Table 6.2.5: Commercial conveyance duty – Thresholds and rates

Threshold	2017-18 %
Up to $200,000	0.7
$200,001 to $300,000	1.2
$300,001 to $500,000	1.9
$500,001 to $750,000	2.39
$750,001 to $1,000,000	3.15
$1,000,001 to $1,499,999	3.4
$1,500,000 and above[1]	5.0

Note:
1. The $1,500,000 and above rate is a flat rate on the entire value of the transaction.

Residential: 2017-18 estimate is $194.4 million compared to 2016-17 estimate of $200.2 million, with decrease of $5.8 million due to one-off delay in revenue as a result of the Barrier Free conveyance duty reforms passed in Assembly in 2017.

Table 6.2.6: Residential conveyance duty rates

Threshold	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	%	%	%	%	%	%
Up to $200,000	1.48	1.4	1.3	1.2	1.1	1.0
$200,001 to $300,000	2.5	2.4	2.3	2.2	2.1	2.0
$300,001 to $500,000	4.0	3.8	3.6	3.4	3.2	3.0
$500,001 to $750,000	5.0	4.78	4.56	4.32	4.1	3.9
$750,001 to $1,000,000	6.5	6.3	6.1	5.9	5.7	5.5
$1,000,001 to $1,454,999	7.0	6.8	6.6	6.4	6.2	6.0
$1,455,000 and above[1]	5.09	4.91	4.73	4.54	4.36	4.18

Note:

1. The $1,455,000 and above rate is a flat rate on the entire value of the transaction.

Estimated property-related tax revenues 2016-17 & 2017-18 Comparisons (BP 3, p223).

Table 6.2.1: Own-source taxation revenue

2016-17 Budget $'000		2016-17 Est. Outcome $'000	2017-18 Budget $'000	Var %	2018-19 Estimate $'000	2019-20 Estimate $'000	2020-21 Estimate $'000
	General Tax						
439,977	Payroll Tax	445,357	470,254	6	504,413	542,183	580,556
172	Tax Waivers	172	178	3	182	182	187
158,602	Commercial General Rates[1]	163,245	172,090	5	185,351	199,443	214,420
288,578	Residential General Rates[1]	280,843	315,242	12	348,500	379,665	412,933
110,345	Land Tax	110,344	130,079	18	140,212	146,195	152,437
997,673	**Total General Tax**	**999,960**	**1,087,844**	**9**	**1,178,658**	**1,267,670**	**1,360,534**
	Duties						
79,410	Commercial Conveyances[2]	105,834	73,838	-30	73,296	72,661	70,536
187,564	Residential Conveyances[2]	200,246	194,356	-3	210,203	213,902	217,230
30,630	Motor Vehicle Registrations and Transfers	30,631	31,040	1	31,870	32,953	34,073
297,605	**Total Duties**	**336,711**	**299,234**	**-11**	**315,369**	**319,516**	**321,839**

Lease Variation Charge

An increase in total revenue collected in LVC in this financial year is as follows:

	2016-17	2017-18
Lease Variation Charge	$17.7 million	$22.85 million

There will be a significant increase in LVC required to enable unit titling on certain residential leases – up from $7,500 to $30,000 per dwelling effective 1 July 2017. It is anticipated that this charge which has increased 400 percent in this budget will act as a disincentive to development in our ageing suburbs, which will not enable developers to meet the 'missing middle' in the housing market, stifle ability to deliver product for 'ageing in place' and is counter to the objectives of urban renewal of our suburbs.

Fairer revenue – Unit titling variation

	2017-18 $'000	2018-19 $'000	2019-20 $'000	2020-21 $'000	**Total $'000**
Revenue	3,000	3,000	3,000	3,000	**12,000**

The Government will increase the codified Lease Variation Charge required to enable unit titling on certain residential leases to a flat fee of $30,000 per dwelling. This will improve consistency with the 'per unit' charges which apply to other types of residential lease variations, and will take effect from 1 July 2017.

Conveyancing changes:

- As foreshadowed last year, from 2017-18, commercial and residential property will have separate conveyancing rates.
  - Duty for commercial property transactions below $1.5 million will be phased out over two years effective 1 July 2017.
  - A flat rate of 5% will apply to commercial property transactions over $1.5 million.
  - Residential conveyance duty rates will continue to reduce every year through incremental reductions to the marginal rates.

Changes to general rates (see BP 3, p 225-226 to see rating system used including fixed and valuation based charge and marginal rating factors).

- Commercial – increase by an average of 6% - revenue to increase to $172 million.
- Residential – increase by an average of 7%, with revenue forecast to increase to $315.2 million.
- Rates for units to be higher for the next two years – up 19%, following the change in methodology for units, commencing 1 July 2017, adding around $150 on average in 2017-18 and $115 on average in 2018-19.

Land Tax

Land tax applies to any residential property that is rented, or any residential property owned by a corporation or a trustee, even if the property is not rented.

Land tax assessments in 2017-18 will be based on a valuation-based charge on the AUV for 2017 (which is the average of 2015, 2016 and 2017 land values), and a fixed charge of $1,145.

In 2017-18, the Government will change the land tax 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 general rates. The land tax marginal rates and thresholds have been updated to better reflect the distribution of land values under the new calculation methodology. The estimated outcome for land tax revenue in 2016-17 is $110.3 million. Land tax revenue is forecast to increase to $130.1 million in 2017-18. From 1 July 2018, land tax will be applied to all properties that are not the owner's principal place of residence. Refer to Revenue initiatives (Chapter 3.4 of BP 3; p 157 for more information).

Table 6.2.4 shows the land tax marginal rates that will apply to residential properties in 2017-18.

Table 6.2.4: Land tax – Marginal rates

Threshold	Marginal Rates %
$0 to $150,000	0.50
$150,001 to $275,000	0.60
$275,001 to $2,000,000	1.08
$2,000,001+	1.10

Other property-related tax changes

Utilities (Network Facilities) Tax The Utilities (Network Facilities)

Tax applies to the owner of a utility network facility that is installed on or under land in the ACT. The estimated outcome for 2016-17 is $32.1 million and the forecast for 2017-18 is $34.3 million.

Fire and Emergency Services Levy

A Fire and Emergency Services Levy (FESL) is charged on all rateable properties in the ACT. The revenue raised from the FESL is used to support the Emergency Services Agency. The estimates for FESL revenue include expected revenue from both existing and new properties, and represent the net amount after allowing for pensioner rebates and discounts for early payment. The estimated outcome for FESL revenue is $64.1 million in 2016-17 and the forecast for 2017-18 is $73.3 million.

City Centre Marketing and Improvements Levy

The City Centre Marketing and Improvements Levy applies to all rateable commercial properties in the City and selected areas in Braddon adjacent to the City Centre. The collection area is divided into two zones and the levy is applied on the AUV of each property at the rate of 0.2992 per cent for the retail core, and a rate of 0.2161 per cent for the non-retail core. The revenue collected from the levy is used to promote, maintain and improve the amenities of the City Centre area.

The estimated outcome for 2016-17 is $2 million and the forecast for 2017-18 is also $2 million. Energy Industry Levy The Energy Industry Levy funds: the Territory's national regulatory obligations and costs for the Australian Energy Market Commission and the Ministerial Council on Energy's responsibilities under the Australian Energy Market Agreement; and local regulatory costs incurred by the Territory in relation to energy utility services.

The levy applies to the energy utility industry sectors of: electricity distribution; electricity supply; gas distribution; and gas supply. The levy is charged on a cost recovery basis and reflects the cost of regulatory activities. The estimated outcome for 2016-17 is $2.7 million and the forecast for 2017-18 is also $2.7 million.

Water Abstraction Charge

The revenue from the Water Abstraction Charge (WAC) in 2016-17 is estimated at $31.2 million and is forecast to increase to $32.3 million in 2017-18.

Parking fees

The estimated revenue from parking fees in 2016-17 is $19.0 million and the forecast for 2017-18 is $19.6 million.

Increase to Building Levy – improving building quality (p 160 BP).

The Government will improve building quality in the ACT through three new initiatives: Building a better city – Building audits; Building certification reform; and Building regulation reform. These initiatives will be funded by an increase in the Building Levy from 0.9 per cent to 1.08 per cent.

Land Tax on vacant properties (see below

From 1 July 2018 the Government will extend land tax to all residential dwellings that are not the owner's principal place of residence, whether they are rented or not. Under the current system, land tax is only charged on residential properties that are rented or owned by a company or a trust. It is anticipated revenue will total $6 million/four years. We believe this is a draconian measure.

The Government says this initiative is aimed at increasing the number of residential properties available for rent and therefore helping to put downward pressure on living costs.

(Note: the Property Council's position is that if this is a 'housing affordability measure' as annunciated by the Chief Minister, than it only makes sense if the land tax was relieved on investment properties that were rented if you were trying to let more properties for less so we doubt this will have the desired effect).

Housing

Demand for detached housing blocks remains high, and the Government is aiming to maintain a supply of standard residential sites in greenfield estates in accordance with the principles of the ACT Planning Strategy.

Detached housing blocks in Taylor, Throsby, Wright, Coombs, and Strathnairn are programmed for release in 2017-18. To increase the rate of land servicing and compress the time between releases and shovel ready sites, the Government is letting concurrent civil contracts in most greenfield areas, and this will continue in the coming years.

In 2017-18, the ACT Government has a four year residential target of 16,250 dwelling sites. This is marginally lower than previous years (17,780) reflecting accumulation of approx. 2,000 privately held undeveloped sites already released (urban infill sites for mixed use); expiry of the Commonwealth Asset recycling Initiative; and earlier than forecast release of Denman Prospect (stage 2).

The Indicative Commercial Land Release Program (Table 5.4.2; BP 3 p210) seeks to ensure that adequate and affordable commercial land is available to support the needs of a growing economy. This program includes a release target of 120,970 square metres of dedicated commercial land over four years.

The Indicative Community and Non-Urban Land Release Program (Table 5.4.5 BP 3 p210) includes a range of community facility sites, including non-government schools and the development of aged care and retirement living accommodation. This program has a release target of 323,240 square metres of community and non-urban land over the next four years.