LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Vicki Dunne MLA (Chair), Tara Cheyne MLA (Deputy Chair)
Nicole Lawder MLA, Bec Cody MLA

Inquiry into commercial rates

Submission cover sheet

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SHOPPING CENTRE
COUNCIL OF AUSTRALIA

SUBMISSION: ACT STANDING COMMITTEE ON PUBLIC ACCOUNTS – INQUIRY INTO COMMERCIAL RATES

1. INTRODUCTION

Thank you for the opportunity to provide this submission to the Standing Committee on Public Accounts on its *Inquiry into Commercial Rates*.

We respectfully submit this submission for the Committee's consideration.

In making this submission, we are mindful of the ACT Government's tax reform plan to 'phase down' stamp duty, which commenced in 2012.

Several SCCA members own and operate shopping centres in the ACT including Charter Hall, ISPT, Mirvac, QIC and Scentre Group (owner and operator of Westfield shopping centres in Australia & New Zealand).

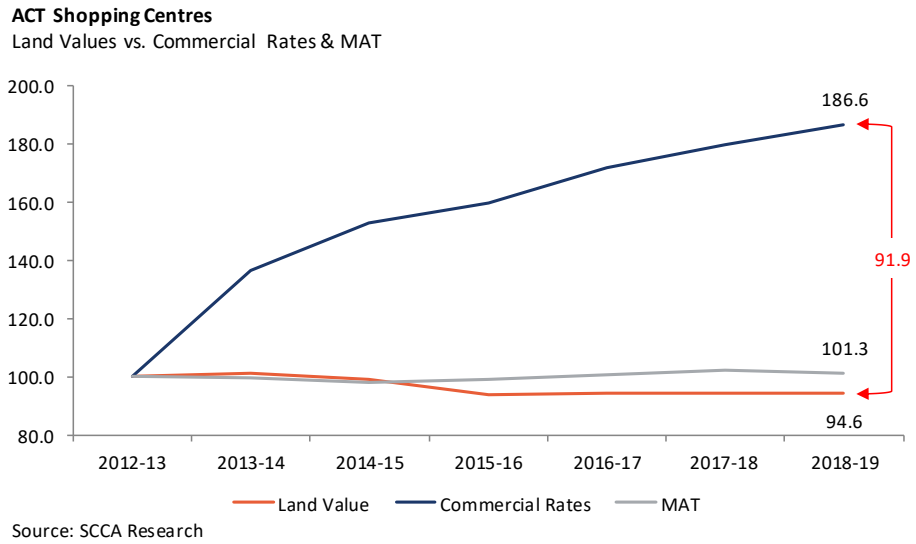
Noting the *Terms of Reference*, the purpose of this submission is to outline some targeted issues for shopping centres under the ACT's current commercial rating system.

We have analysed a representative sample of our members' centres, across the 2012-13 to 2018-19 period, which accounts for almost 50% of shopping centre floor space in the ACT. All centres in the sample are in the 'highest' valuation threshold for which commercial rates apply.

The analysis includes average unimproved value (AUV), commercial general rates and moving annual turnover (MAT).

2. KEY AREA OF CONCERN

The key area of concern is, as illustrated below, the fact that the growth of commercial rates (rates paid) has vastly outstripped the growth of land valuation, along with MAT.



For the sample, land value (AUV) has decreased over the period (-5.4); yet commercial rates have significantly increased over the period (86.6) – an adverse gap of 91.9 percentage points.

Based on our analysis of the ACT Budget Papers across the 2011/12 to 2018/19 period, while we note that rates, as a proportion of overall revenue, have remained relatively stable, the above illustrates what we believe is a disproportionate (and increasingly disproportionate) burden on our industry.

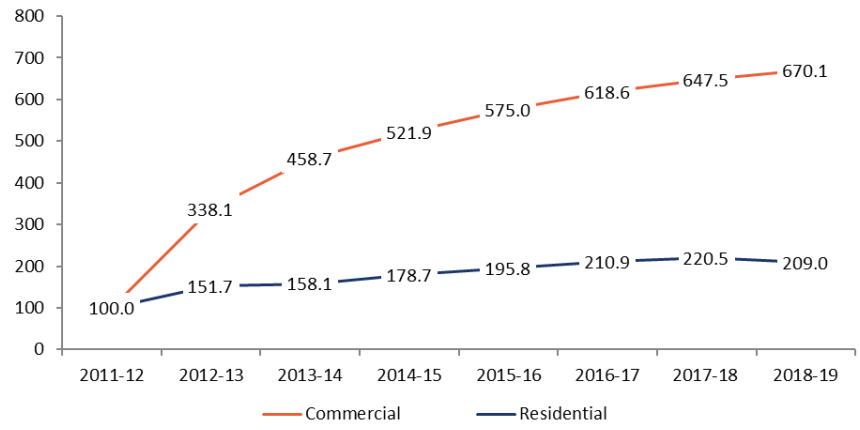
In this regard, we don't believe that the current commercial rating system delivers fair outcomes for our industry.

3. KEY ISSUES

In our view, the shortcomings of the current framework, are as follows:

- The **de-linking of rates from statutory land values**, whereby the growth of rates has vastly outpaced the growth of statutory land valuation.
- The **de-linking of rates from key industry metrics** such as MAT (retail turnover).
- **Increased rate volatility** (i.e. year-on-year changes) making it difficult to undertake annual budgeting including for retailers within shopping centres, noting that under the *Leases (Commercial and Retail) Act 2001* our members are required to provide annual estimates for recoverable outgoings to relevant retailers.
- The **relative growth in commercial rates**, and the seemingly **growing gap between residential and commercial rates (see below)**, which is potentially a reason for the increasing de-linking of rates from statutory land values for shopping centres.

ACT General Rates - Top Rate in the Dollar
Commercial vs. Residential Rates - Index (100 = 2011-12)



Source: SCCA Research

Since the changes introduced in the 2012-13 Budget, the 'top marginal tax rate' for commercial property has increased exponentially averaging **31.2 per cent** compound annual growth rate (CAGR) over the last eight years. During this same period, the 'top marginal tax rate' for residential property increased at a CAGR of 11.1 per cent.

Interestingly, the 'top marginal tax rate' for residential property in the 2018-19 Budget has **decreased** by 5.2%, whereas the corresponding commercial rate has **increased** by 3.5%.

4. RECOMMENDATIONS

We respectfully submit that the Committee recommends as follows:

- That the Government **immediately reviews commercial rates**, with a view to decrease rates effective from the 2019-2020 Budget.
- That subject to a new rating benchmark (above), that the Government develops a rating policy which ensures that commercial rates, and the growth of commercial rates, **are linked to statutory land values.**
- That the Government develops a rating policy which ensures a **smoother and less volatile rating environment** to provide increased certainty in relation to shopping centre operating costs and recoverable outgoings.

5. CONTACT

We would gladly discuss the above with the Committee.

Nadia Superina, Policy Officer