Property Council of Australia (ACT)

2010-11 Pre-Budget Submission

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Summary of Recommendations

Recommendation 1
The ACT Government should:

- finalise the Green Building Tune-Up Canberra program as soon as possible, based on the Property Council model for delivering energy savings in existing building stock, and commence to roll out the program before 1 December 2009; and
- increase the purposed funding for the program from $2 million to $3 million to compensate for the delay in rolling out the program.

Recommendation 2
The Feed-In Tariff scheme should be enhanced to:

- be made more attractive to building owners to encourage investment in solar energy technology by increasing the tariff and lifting the thresholds to suit more office buildings; and
- provide more certainty and easier connectivity to the existing electricity network through the assistance of the Territory’s electricity utility.

Recommendation 3
A more detailed infrastructure study and program needs to be formulated to address the ACT’s needs with projected delivery dates and proposed funding models.

Recommendation 4
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 5
The ACT’s Sustainable Transport Plan should 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 6
That the ACT Government release:

- sites specifically for structured car parking, including ‘Park ‘n’ Ride’ sites as part of an integrated public transport system, and negotiate with the Federal Government to adopt a consistent schedule of charges for car parking; and

in particular the previously announced car parking site in Barton to satisfy the growing demand for car spaces in the Barton/Parkes precinct but also to pressure the Federal Government to impose car parking fees in the Barton/Parkes /Russell precincts.
Recommendation 7

That the ACT Government abolish the Fire and Emergency Services Levy. Failing that, the Government should:

- fund the maximum possible amount of the cost of fire and emergency services from general revenue;
- apply the FESL to all property, including ACT Government and Commonwealth property;
- make the levy equitable between all types of property (including motor vehicles) and reflect risk in order to encourage risk reduction (along the lines of a no claim bonus for motor vehicle drivers);
- apply the levy at an average effective charge of $20.00 on registration of motor vehicle to reflect the demand which is due to them for fire and emergency services; and
- cap the levy at $150 on residential property and $5,000 on commercial property.

Recommendation 8

That in moving progressively to abolish stamp duty on conveyances, the ACT Government reduce the top rate of duty on property transfers to 5.5 per cent, flatten the rate structure and immediately remove GST from the stamp duty base.

Recommendation 9

Stamp duty should be progressively abolished and replaced with a broader revenue source. The Government should work with the Federal Government with the Federal Government’s Henry Review into national taxes to develop a more equitable, efficient, reliable and broader tax base.

Recommendation 10

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

Recommendation 11

The fees for extensions of time to the Crown Lease building and development provisions be abolished and return to the administrative fee arrangement that existed before their commencement.

Recommendation 12

The Act Revenue Office modify its interpretation of when stamp duty is still payable on leases to accord with the Duties Act and apply only to those leases entered into before 1 July 2009.

Recommendation 13

The DA approval process and the timing of the CUC amount should be decoupled so proponents are not slugged twice in terms of planning approvals delays.
Recommendation 14

There should be a review of the way in which ACT revenue is spent to ensure that the ACT get the most bang for its buck and ensure the management of our valuable revenue is efficient.

Recommendation 15

The ACT Government should promote in the most forceful of manners the ACT’s entitlement to its fair share of GST and other Federal Government revenue.

Recommendation 16

A Master Plan for Civic needs to be developed and released 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.
1. Introduction

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

The funding decisions in the Budget reflect the Government’s objectives and priorities. The view of the Property Council is that those decisions should yield the greatest possible public benefit by creating the environment for enduring and sustainable 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, for it is sustainable economic growth which is the source of high quality services, living standards and lifestyle for the people of Territory.

Many people in Canberra invest either directly or indirectly in property through a trust or superannuation fund and therefore have a significant interest in the viability and growth of the property sector. Since most of the activities contributing to the growth of the Territory’s economy are affected by decisions relating to property, they also want to see property put to its best use and managed wisely.

The Property Council has always taken a constructive and broad-ranging approach to working with government on ideas and opportunities to make Canberra a better place to live by improving the city and its future. The Property Council looks forward to continuing this approach with the ACT 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 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 well thought out and sustainable economic policy.
3. Property Industry Outlook

In the twelve months to July 2009 the vacancy rate in Canberra’s office market significantly increased from 6.1 percent to 9.2 percent, the highest since January 1998 according to the Property Council of Australia’s Office Market Report, due mainly to significant growth in supply combined with a dramatic fall in demand.

In 2010 an additional 212,924sq m is due to come on-line which is more than two and a half times the 15-year historical average. Of this, 44 percent has been pre-committed.

Over the next 18 months the additional supply expected to become available represents a 12 percent increase on the market’s current size.

In 2011+ a further 82,918sq m is due to enter the market, and a total of 99,184sq m is mooted.

Given the current outlook for economic growth and the high level of dependence in the ACT on spending by the Federal Government, it is essential that every encouragement be given to the Federal Government to increase its expenditure in the ACT.

The Global Financial Crisis has only exacerbated the problem with finance for new projects, refurbishments and roll-over funding becoming harder to secure. While the Federal Government’s significant fiscal stimulus has helped to alleviate the economic decline the resulting debt will need to be repaid. This presents a particular challenge for the ACT as it will be Canberra which may face some of the most severe cut backs in Federal Government spending as the Federal Government commences a campaign of aggressive Budget Deficit readjustment.
4. Green House Gas Reduction

Higher office vacancy rates and the need for public sector spending to counter reduced economic activity creates the opportunity to upgrade existing buildings to reduce greenhouse gas emissions.

23 percent of Australia’s greenhouse gas emissions come from buildings and their occupants. These emissions come predominantly from energy use.

Better designed commercial and residential buildings provide some of the most affordable forms of abatement in the economy, without the need for new technologies.

Research for the Australian Sustainable Built Environment Council (ASBEC) found that energy price increases from the Federal Government’s proposed Carbon Pollution Reduction Scheme (CPRS) will only deliver savings from the building sector of around 8 Mt a year. However, with complementary measures and encouragement to achieve the fuller energy efficiency potential of the building sector, abatement of around 60 Mt per annum (that is, almost eight times greater than CPRS) are achievable by 2030.

To achieve these predicted savings, greater incentives will be needed to deliver returns on capital sufficient to justify the investment.

Initiatives targeted at delivering leading practice new buildings will not markedly affect the overall level of emissions, which come from existing building stock.

Greater energy efficiency will also help to reduce emissions in times of drought and allow the Government greater opportunity to export electricity. Furthermore, the program could be used to support improvements in water conservation and other areas of sustainability.

The Property Council welcomed with enthusiasm the Government’s $2 million “Tune Up Canberra” program announced in last years Budget, in response to Property Council’s representations. Regrettably the program has yet to be finalised and rolled out and is a source of immense frustration for the industry.

The introduction of the Feed-in Tariff for use of solar energy for buildings in a visionary step in encouraging the community and building owners to invest in solar technology. While the initiative is welcomed there is still much that can be done to improve and encourage the scheme.

**Recommendation 1**

**The ACT Government should:**

- finalise the Green Building Tune-Up Canberra program as soon as possible, based on the Property Council model for delivering energy savings in existing building stock, and commence to roll out the program before 1 December 2009; and

- increase the purposed funding for the program from $2 million to $3 million to compensate for the delay in rolling out the program.
Recommendation 2

The Feed-In Tariff scheme should be enhanced to:

- *be made more attractive to building owners to encourage investment in solar energy technology by increasing the tariff and lifting the thresholds to suit more office buildings; and*

- *provide more certainty and easier connectivity to the existing electricity network through the assistance of the Territory’s electricity utility.*
5. Infrastructure Investment

The Property Council regards infrastructure as a critical policy issue for government at all levels across Australia. There is a growing abundance of evidence reinforcing the fact that investment in infrastructure pays considerable dividends for an 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.

We believe that the key 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’s 2006 Initiatives for Canberra paper, cited a report from Engineers Australia pointing out that much of the ACT’s infrastructure was ageing or nearing the end of its economic and physical life, and that there was no visible, coherent plan to support replacement and renewal costs.

The Property Council’s infrastructure paper was welcomed by the ACT Government and launched by the Chief Minister in November 2008, with a commitment by the ACT Government to the development and delivery of a long-term strategic infrastructure plan for the Territory. However, work is still to be done in finalising a comprehensive and co-ordinated plan and implementation program to guide and set a widely understood direction of how the ACT is to tackle its growing infrastructure needs.

It is the view of the Property Council that the ACT needs an infrastructure plan comprising:

- a statutory framework to manage growth and change in the Territory on a sustainable basis;
- clearly understood processes to ensure implementation from the ground up, with relevant timeframes and budgets to ensure timely delivery of projects;
- a range of review and evaluation measures;
- defined land use patterns and desired outcomes from land use;
- priorities for infrastructure investment across the Territory; and
- a strategy for procuring the necessary skilled personnel for success, incorporating training initiatives where needed.

The Property Council has identified a top 10 list of priority infrastructure projects, developed using a robust tool – a Multi-Criteria Analysis – developed by the Centre for International Economics in partnership with the Property Council of Australia. Delivery of these projects would optimize the allocation of scarce resources in the context of competing triple bottom line considerations.

The priority projects, evaluated against economic, social, environmental, governance and strategic criteria, are:

- high speed train (VFT);
- Constitution Avenue duplication and redevelopment;
- Monaro Highway extension to the Federal Highway;
• new convention centre;
• Kings Highway upgrade;
• inter-town public transport corridors;
• urban transit nodes; and
• new residential aged care facilities.

Options for funding should be evaluated objectively and include, where appropriate, borrowings and public-private partnerships as potential alternatives to reliance on additional levies, taxes or fees in the annual budget.

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**Recommendation 3**

*A more detailed infrastructure study and program needs to be formulated to address the ACT’s needs with projected delivery dates and proposed funding models.*

### 5.1 Infrastructure Funding

Much of the underinvestment in infrastructure around Australia has been driven by a focus on reducing debt and maintaining a AAA credit rating.

The Property Council does not endorse reckless public spending or unsustainable public debt, but we believe an overly cautious approach has led to underinvestment in long term infrastructure assets.

The Government announced in last years Budget an ambitions program of capital works (mainly focused around health and education). While these areas for public investment are welcome there needs to be a greater focus on the more fundamental elements of infrastructure that underpin Canberra’s society and economic well being. Transport, water, sewerage and stormwater infrastructure require more attention.

The ACT Government should not introduce inefficient upfront developer levies to fund public infrastructure. Developer levies are the least efficient way to fund infrastructure. Research by the Allen Consulting Group found developer levies:

- reduce housing affordability
- make today’s home buyers pay for infrastructure servicing the wider community and future generations
- shift capital interstate to lower cost and less risky environments.

The Property Council strongly 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. More use should be made of PPPs which provide the timely, effective and efficient delivery of infrastructure. PPP’s 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. Sadly it has been decided to fund that project entirely from funds sourced from revenue in the relevant Budget year.

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 4*

*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.*

5.2 Transport

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 attempts to encourage greater use of public transport, the bus network is inefficient and 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 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 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 5**

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

**5.2.1 Canberra’s Ailing Public Transport System**

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. Discussions and future considerations about density and infill development are also important considerations.

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 looks forward to continuing positive dialogue with government 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.

5.2.2 Car Parking

The parking situation in Canberra is an example of a lack of forward planning. 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.

There is still a need for structured car parking sites in Civic and the town centres. While we note that the ACT Government has committed to building a car park at the Canberra Hospital, this will not alleviate ongoing problems in Civic and the town centres.

The Property Council welcomes the ACT Government’s initiative announced in last year’s Budget to adjust car parking prices. The Government is encouraged to continue to monitor the price for car parking to achieve both an important social goal of encouraging the use of public transport and a sensible economic goal of making it commercially feasible to construct and manage privately owned public car parks to satisfy public demand.

There also needs to be an equitable treatment of car parking costs applied across all employment areas. The continued refusal of the Commonwealth Government to introduce paid parking in the Barton/ Parkes area and at Russell Hill distorts employment location activities and does little to encourage alternative transport uses.

As the ACT Government has been advised before, daily car parking fees must rise to around $15 per day to make structured car parks viable for the private sector. It is unreasonable to believe that the private sector will fund new car parks unless prices increase significantly or government provides other incentives for private developers to build new car parks.

The Property Council agrees with the ACT Government’s cost estimate of around $15 per day as a discussion basis for privately operated car parks. The current low price for car parking is comparable to an all day bus pass, and will continue to inhibit the modal shift to public transport.

Other government-funded parking discounts should also be phased out as they distort any proposed pricing strategy. Only with a clear and consistent pricing strategy that raises car parking fees in a consistent and equitable manner, while retaining and enhancing convenient public transport services, can the modal shift be effectively supported. The Property Council and its members offer their input in this process.
Many local centres are also facing parking difficulties. The O'Connor, Ainslie, Deakin and Yarralumla shops continue to provide just a few examples of areas with significant parking shortfalls which, in turn, have a significant impact on ease of access to these locations, and their ability to compete with the town centres.

As stated, government car park pricing continue to need to be further adjusted. The inequity in the cost of parking in Canberra is distorting office and employment location in the ACT. On-street parking in the Barton/Parkes and Russell Hill areas is remains free. The Property Council believes that parking in these locations should be charged at the same rates as in Civic and the town centres and that the ACT Government should continue to vigorously pursue this matter with the Commonwealth. It is not fair that certain Canberrans should be allowed not to pay their way while other Canberrans bear a burden.

**Recommendation 6**

*That the ACT Government release:*

- sites specifically for structured car parking, including ‘Park ‘n’ Ride’ sites as part of an integrated public transport system, and negotiate with the Federal Government to adopt a consistent schedule of charges for car parking; and

- in particular the previously announced car parking site in Barton to satisfy the growing demand for car spaces in the Barton/Parkes precinct but also to pressure the Federal Government to impose car parking fees in the Barton/Parkes /Russell precincts.
6. 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.

6.1 Basis for reforming the ACT’s own-revenue raising system

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.

6.2 How do ACT Property Taxes Rate?

6.2.1 Fire and Emergency Services Levy (FESL)

Introduced in the 2006-07 Budget, the levy to fund fire and emergency services in the ACT only applies to rateable properties, raises $20 million annually and increases each year based on the Wage Price Index.

The FESL is not based on sound taxation principles in that it does not adequately meet the five tests above. In particular, it (i) distorts investment decisions, (ii) is grossly unfair in its discriminatory impact on the commercial property sector, (iii) is arbitrary in that there is no relationship between tax paid and risk of fire and emergency services being called on, (iv) is unstable because the revenue source is potentially volatile and (v) there is poor accountability on how and where the services are delivered and at what cost.

In particular, 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 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.

Although several business taxes have been abolished as agreed under the Inter-Governmental Agreement, the good that might do is being negated by the Fire and Emergency Services tax. Indeed, the ACT Government has foreshadowed easing the burden on business generally by abolishing $14 million of business taxes by 2010, still introduced a new burden of $10 million narrowly based on the commercial property sector. That is, taxes on business are now much more narrowly based.

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

- all those that 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.

The FESL 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 would be able to 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 need for a more equitable basis for funding fire and emergency services is being recognised in other jurisdictions. For example, in South Australia there is an annual levy – depending in the class of motor vehicle and the district where it is located – of about $24.00 per vehicle in recognition of the fact that motor vehicles, motor cycles and water craft account for about 25 per cent of all call-outs. Similarly, in Tasmania a $14.00 levy is added to motor vehicle and cycle registration charges.

Having established a risk profile in the ACT, it should be possible to have it reflected in the FESL.

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.

The FESL runs counter to government policy. It would be preferable to reduce taxation but, assuming for this exercise a neutral effect on total revenue, spreading the burden more broadly would be consistent with the Government’s stated policy and would, at the same time, stimulate more investment and jobs in property and related industries.

So how should fire and emergency services be funded? The beneficiaries of fire and emergency services are widespread through the community, businesses, insurance companies, governments and the environment. Fire services have the characteristics of a ‘public good’ in that consumption by one user does not reduce the 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: (i) general revenue, (ii) user charges, (iii) full cost recovery and (iv) 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.
Ideally, the ACT’s fire and emergency services should be funded solely from general revenue. If that is not considered feasible the system should nonetheless be as broadly based as possible, fair, related to the degree of risk and capped.

Combining the principles for funding fire and emergency services with the experience of other jurisdictions, funding of fire and emergency services in the ACT should be according to the following parameters:

- Maximum possible funding from general revenue to reflect the public good characteristics of fire and emergency services.
- A levy on all property, including ACT Government and Commonwealth property. The 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 (including motor vehicle collisions) and, if possible, the cost of providing those services.
- A levy which is equitable between all types of property (including motor vehicles) and reflects risk. This levy structure would encourage risk reduction (along the lines of a no claim bonus for motor vehicle drivers).
- A levy at an average effective charge of $20.00 on registration of motor vehicle to reflect the demand which is due to them for fire and emergency services. The average charge of $20.00 on motor vehicle registrations would apply to some 260,000 vehicles and therefore raise about $5 million.
- A cap on all levy costs, for example $150 on residential property and $5,000 on commercial property. The cap of $5,000 on commercial property would reduce the levy on a property with an unimproved valuation of $3 million to about one third of the present charge.

**Recommendation 7**

*That the ACT Government abolish the Fire and Emergency Services Levy. Failing that, the Government should:*

- fund the maximum possible amount of the cost of fire and emergency services from general revenue;
- apply the FESL to all property, including ACT Government and Commonwealth property;
- make the levy equitable between all types of property (including motor vehicles) and reflect risk in order to encourage risk reduction (along the lines of a no claim bonus for motor vehicle drivers);
- apply the levy at an average effective charge of $20.00 on registration of motor vehicle to reflect the demand which is due to them for fire and emergency services; and
- cap the levy at $150 on residential property and $5,000 on commercial property.
6.2.2 Stamp Duty on Property Transfers

Stamp duty on conveyances 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 per cent, 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 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.

Commercial property investors face the highest stamp duty tax bills when investing in the ACT. 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.

Stamp duty on conveyancing in the ACT is also amongst the most inefficient of state/territory taxes, especially in the case of stamp duty on commercial property transfers. The current ACT stamp duty is contrary to all of the principles for good tax design: it has a non-uniform rate structure; it is a tax on a key business input; and it suffers from tax-on-tax interactions with the GST.

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 experience of NSW with 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.

Stamp duty on commercial property transfers should be abolished as was originally envisaged as part of the Intergovernmental Agreement between the Commonwealth and the States and Territories as part of the New Tax System. Failing this, the ACT Government should reduce the top rate of duty on property transfers to 5.5 per cent and flatten the rate structure. Tax-on-tax interactions between the GST and stamp duty on property transfers should be eliminated.

The Property Council has repeatedly warned the Government that by having too narrow a tax base (essentially one base on property taxes like stamp duty) is inherently risky as a method of reliable revenue raising and is prone to significant swings along with fluctuations in economic activity. As we have seen through the Global Financial Crisis there has been a marked decline in property transactions and so therefore a decline in stamp duty collections.
Reforms in these areas will help make the ACT a more competitive economy.

**Recommendation 8**

**That in moving progressively to abolish stamp duty on conveyances, the ACT Government reduce the top rate of duty on property transfers to 5.5 per cent, flatten the rate structure and immediately remove GST from the stamp duty base.**

**Recommendation 9**

**Stamp duty should be progressively abolished and replaced with a broader revenue source. The Government should work with the Federal Government with the Federal Government’s Henry Review into national taxes to develop a more equitable, efficient, reliable and broader tax base.**

**6.2.3 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 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 10**

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

**6.2.4 Penalties for non-compliance with Crown leases**

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.

In response to our submission for last year’s Budget the Government thankfully announced a moratorium into the building and development fees regime but only for 2 years as a measure to assist with the GFC. This was and continues to be a warmly received initiative, however, the need to completely wind back and permanently remove the fees continues to be a requirement of the property industry.
The Property Council therefore believes that there still remains a need to further review 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. While the ACT has in part a reprieve for another 18 months, once the moratorium is over it will be a return to the risk of investment in the ACT.

The moratorium of course is not a moratorium of all the fees, it is only those that apply during an extension sought that relates to development during that period. Fees are still imposed in relation to periods before and after the moratorium.

**Recommendation 11**

*The fees for extensions of time to the Crown Lease building and development provisions be abolished and return to the administrative fee arrangement that existed before their commencement.*

### 6.2.5 Stamp Duty on leases

The Property Council acknowledges the support of the Government in amending the *Duties Act 1999* (*Duties Act*) to re-apply the exemption from stamp duty for retirement village leases.

While the Duties Act has also been amended to, in general terms, abolish stamp duty on leases entered into from 1 July 2009 there appears to be confusion in the interpretation of the amendments. While the Duties Act now provides that leases entered into after 1 July 2009 will generally not be subject to stamp duty, the ACT Revenue Office appears to maintain that leases even though entered into after 1 July 2009, but with a commencement date before 1 July 2009, will be subject to stamp duty. This, with respect, is not what the Duties Act says.

**Recommendation 12**

*The Act Revenue Office modify its interpretation of when stamp duty is still payable on leases to accord with the Duties Act and apply only to those leases entered into before 1 July 2009.*

### 6.2.6 Change of Use Charge Decoupling

At present the Planning Act and ACTPLA approvals provide that a proponent cannot start their approved development until the Change of Use Charge is paid.

This means that a developer has to factor in the delay time in ACTPLA getting the AVO to determine the amount and then wait for the dispute to go to the AAT (soon ACAT) before the amount can be determined and finally paid. This sometimes doubles the approval time (which already exceeds the statutory minimum time).
Recommendation 13

The DA approval process and the timing of the CUC amount should be decoupled so proponents are not slugged twice in terms of planning approvals delays.

6.2.7 Responsible expenditure management

The Government in these perilous economic times needs even more to be mindful of managing its costs as efficiently as possible to ensure Territorians that their revenue dollar is being spent wisely and for purposeful outcomes.

The Property Council encourages the Government to introduce cost management initiatives to ensure that Government wastage is minimised and cost savings are maximised. A program to identify matters that warrant the expenditure of public funds should be investigated.

Recommendation 14

There should be a review of the way in which ACT revenue is spent to ensure that the ACT get the most bang for its buck and ensure the management of our valuable revenue is efficient.

6.2.8 Federal Government Appropriation

Recently, the Federal Government’s Productivity Commission produced a proposed new national appropriation model which if implemented could have the effect of reducing the ACT’s GST entitlement by $60 million a year.

It is incumbent on the ACT Government to put forward its strongest arguments and develop a strategy that protects the ACT precious appropriation from the Federal Government. Without the support of resource royalties like other States, the ACT is forced to live off a limited revenue base and becomes more dependent on Federal funding.

Arguably, individual Territorians constitute more per head to the Federal revenue coffers than other States and Territories, however, our distributions in return do not match these proportions.

Any reduction in GST revenue will of course lead either to a reduction in Government services or an increase in local taxes or both.

Recommendation 15

The ACT Government should promote in the most forceful of manners the ACT’s entitlement to its fair share of GST and other Federal Government revenue.
7. Civic Master Plan

It has become more clear by the day that a co-ordinated 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 important requirement.

The Property Council understands that the Government has a variety of detailed reports on things like 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 will traffic be directed through Civic;
- what opportunities exist for development;
- how sustainable is our water, sewerage and stormwater network;
- what is the sustainable public transport solution for Civic;
- how will Constitution Avenue and Edinburgh Avenue 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 16**

*A Master Plan for Civic needs to be developed and released 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  
Executive Director  
Property Council of Australia (ACT)  
GPO Box 1025  
Canberra ACT 2601