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BACKGROUND

The Property Council of Australia is the largest and most influential industry organisation in the property sector and has over 2000 member companies throughout Australia that represent property assets worth over $300 billion. Approximately 500 of these members are part of the Victorian Division. Members of the Property Council represent the entire property investment cycle: finance, design, development, property maintenance, and the services that underpin the industry.

The Property Council is actively involved in public policy development and the Victorian Division has the following policy committees to assist in this task: taxation, planning and infrastructure, sustainability, asset management, industrial and logistics, residential development, retail and corporate real estate.

This document presents the Victorian Treasurer, Hon. Kim Wells, with a pre-budget submission from the Property Council’s Victorian Division for the 2011/12 Victorian Budget. In early 2010, the Property Council released its Policy Platform, Future Growth – Building a Stronger Victoria, which underpins many of the measures in this submission. Additionally, the policy recommendations in this submission are supported by our most recent independent, evidence-based research that revolve around:

Taxation Reform - Planning and Infrastructure - Sustainability - and Housing Affordability.

The Property Council recognises that strong economic management is important to Victoria’s ongoing success. As property taxes account for around 37% of Victoria’s revenue, a strong property sector is also central to Victoria’s overall economic performance. The Property Council supports economic growth through efficient, equitable and sustainable funding sources. We encourage the Victorian Government to consider targeted government funding on items which we have shown through independent research to improve economic growth and the welfare of Victorians.

The Property Council welcomes the Victorian Government’s announcements to improve Victoria’s productivity, particularly in planning, infrastructure and environmental regulation. In line with that goal, many of the recommendations in this submission will assist to reap significant productivity gains.

The Property Council believes that the strategies in this submission will attract and retain investment in Victoria, boost economic growth, improve Victoria’s competitiveness with other states, create jobs and advance the welfare of Victorians.

Jennifer Cunich
Executive Director
Property Council of Australia (Victorian Division)
SUMMARY OF RECOMMENDATIONS

Taxation Reform Recommendations
1. Harmonise property tax definitions, in particular land rich duty and corporate reconstruction exemption provisions, as per the Property Council’s models.
2. The Victorian Government should reduce the top land tax rate to 1.5% and the top rate of stamp duty on commercial property transfers to 4%.
3. The Victorian Government should use the revenue windfall from ‘tax bracket creep’ to fund taxation reform.
4. Equity and efficiency should be the main goals for the fire service’s property tax (FSPT). This means that current fire services premiums should be lower under the new FSPT.
5. The FSPT should be designed to include a broad base, flat rate, with no, or very few, concessions.

Planning and Infrastructure
6. The Victorian Government must establish a Victorian Planning Authority to manage the planning process, the overall implementation of key policy and the planning process in regional Victoria ensuring a coordinated approach across the whole of Victoria.
7. The Victorian Government must undertake a programme of accelerated and simultaneous development activities in the following areas:
   - new neighbourhoods of free standing houses built on the outskirts of the city close to jobs;
   - the conversion of old industrial sites to apartments and town houses; and
   - more medium density housing, such as town houses, in middle and outer suburbs.
8. Any review of Melbourne 2030 and Melbourne @ 5 Million must consider the option of a single planning authority as part of the best model for metropolitan and regional planning.
9. The DAF Leading Practice model should be adopted to ensure the attainment of a planning system that is efficient, transparent, and provides certainty and fairness.
10. The Victorian Government should allocate funds to determine the requirements for the DAF Leading Practice model to be adopted as Victorian Government policy in the establishment and implementation of the intended Planning Referral Authorities.
11. That the Victorian Government provide ongoing resources and funding to VCAT to ensure the continuation of recent highly successful VCAT pilot projects with respect to the Major Projects List, the Small Projects List and the Mediation-Based List.
12. That the Victorian Government provide resources and funding for the reform the planning approval process so as to reduce the number of applications going to VCAT and speed up the process which is currently severely backlogged.
13. The Victorian Government must consider responsibly increasing their current debt levels to fund urgently required infrastructure projects to underpin future growth.
14. The Victorian Government should develop a PPP framework that maximises competition in the market, which has the potential to drive further efficiency and innovation, by initiating a single government department to manage the whole of the bid and delivery process. This department would act as the government's project manager. This would provide for consistent quality documentation and requirements in both outputs from government and response from industry.
15. The Coalition Government must establish an Employment and Business Investment Strategy as part of its approach to planning in Victoria. Any strategy or policy for planning in Victoria must be
applied across government and must incorporate all aspects of social, economical and environmental aspects of planning.

**Sustainability**

16. Change the Victorian net feed in tariff to a gross feed in tariff to increase the implementation of renewable energy systems. Victoria should introduce a GFIT that is not limited to systems under 10 KW. This will encourage building owners to invest in microgeneration systems.

17. Establish a $20.4 million VBEEPS incentive program for Melbourne’s CBD and large regional centres for building owners to retrofit their buildings.

18. Provide assistance and incentives for building retrofits including grants, subsidies, accelerated project approvals and rebates for improvements undertaken by households and the commercial sector.

**Housing Affordability**

19. Victorian state and local governments must undertake to develop a clearly defined and consistent method of determining local government housing targets to ensure responsibility across all municipalities.

20. Victorian state and local governments must acknowledge and identify key strategic goals in order to address key infrastructure implications of population growth.

21. A committed programme of public education must be undertaken at the state and local government level to inform the general public of the benefit of proactive planning for population growth as well as the possible consequences of not responding in a structured way to this growth.

22. A Victorian Planning Authority must be established to drive metropolitan policy and hold both state and local governments, services and agencies, accountable for implementation.

23. A sound set of criteria to determine which sites are deemed as suitable for future development must be developed and applied as part of the State Government Land Audit.

24. That the Victorian Government makes use of the data base that is already in existence through programs such as the Urban Development Program (UDP) so as to ensure productivity and progress this as fast as possible.
SPECIFIC PROPOSALS

1. Taxation Reform

1.1. Land Rich Duty and Corporate Reconstruction Amendments

The Property Council encourages state governments to harmonise state taxes nationally to reduce the administrative burden for businesses that operate across multiple state jurisdictions. We are encouraged by the recent ratification of the Protocol for payroll tax harmonisation between jurisdictions.

We are keen to see a similar focus on harmonising property tax definitions, in particular land rich duty and corporate reconstruction exemption (CRE) provisions.

A range of state based property taxes exist across Australia. While they are broadly similar, they differ markedly in detail. Property owners (many of whom operate nationally and globally) incur additional legal and administrative costs to comply with different tax regimes. These costs can run into hundreds of thousands per transaction. This draws capital away from investment in the state and is an unnecessary burden on our industry.

A lack of consistency also deters capital investment in Australian property. Structuring ownership vehicles to comply with each state is complex and the movement of capital into and across Australia is inhibited by the variation of property tax regimes. Investing across multiple jurisdictions can expose property vehicles to additional tax, and can make investment in some jurisdictions unattractive and uncompetitive.

To reduce this burden, the Property Council believes state and territory governments should adopt common land rich duty and CRE definitions based on best practice - economic efficiency, equitability and simplicity. Significantly, reducing compliance costs by harmonising land rich duty definitions has also been recognised by Independent Pricing and Regulatory Tribunal (IPART) in its review of improving regulatory efficiency in 2007.

To assist state and territory governments, the Property Council has reviewed land rich duty and CRE definitions Australia-wide and developed preferred models of these provisions which we believe should be implemented nationally. These models are at Appendix A and B respectively.

We note that each of these proposed models should be considered as a complete package, rather than considering each individual recommendation in isolation. In our view, the attached models are best practice models which if adopted in full would be beneficial in reducing the compliance burden of business.

We believe this is an important reform which would deliver substantial administrative cost savings to industry without eroding Government revenue.

We have sent letters on this recommendation to all state revenue commissioners. A letter was sent to the Victorian State Revenue Commissioner, Mr Paul Broderick, on 8 December 2010.

Recommendation 1: harmonise property tax definitions, in particular land rich duty and CRE provisions, as per the Property Council’s models.

1.2. Property Taxation Reform – Commercial Stamp Duty and Land Tax

Land tax (LT) continues to be a major impost on small to medium business as inner city and coastal property values have rapidly increased in recent years. This penalises businesses that have a large land component. The benefit of capital gain is not necessarily realised because the owner may have no desire to relocate, or may not be able to find a suitable alternate site.
LT also impacts on housing affordability. The housing development sector often holds large parcels of land for future subdivision and development. In the majority of cases, this land is taxed at the highest marginal rate. The cost of holding the land is passed on to the consumer in the form of higher house prices. This has a negative impact on housing affordability, particularly for first home owners. While there is no doubt the changes to the rate in the dollar have been significant, land tax revenue continues to rise.

The Property Council’s overarching position on stamp duty on commercial property (SDCP) transfers is that it should be abolished, as agreed in the original intergovernmental agreement (IGA). The Property Council recognises that state governments across Australia have moved away from this position. Nevertheless, its ranking as a highly inefficient tax, combined with ever increasing GST revenue flows to Victoria, provides a case for a reform program to phase out stamp duty.

1.3. The Property Council’s History of Taxation Reform

The Property Council’s previous advocacy on property tax reform achieved a reduction in the top rate of land tax from 5% to the current 2.25%. This result was based on the outcomes of two comprehensive Access Economics reports (led by Geoff Carmody) in 2004 and 2008 that the Property Council commissioned.

The reports demonstrated that reform is feasible, and that the combined reforms of the top rate of land tax to 1.5% and the top rate of SDCP to 4.5% will:

- provide revenue certainty for the Victorian Government;
- boost economic growth; and
- increase the welfare of Victorians.¹

In late 2010, the Victorian Division of the Property Council commissioned Geoff Carmody to update the previous tax research. The results of the report, Reforming Victoria’s Property Taxes: A 2010 Update and Extension,² underpin the Property Council’s new positions on property tax reform (refer to Appendix C for the executive summary of the report).

This property taxation reform section of the pre budget submission will draw out some of the highlights and outcomes of the latest report. In essence, the Victorian Government could pursue further tax reform on land tax and SDCP. Significantly, the report identified three reform options:

1. reduce the top land tax rate to 1%;
2. cut the top SDCP rate to 3%; or
3. reduce the top land tax rate to 1.5% and reduce the top SDCP rate to 4%.

1.4. Practical Taxation Design Features: Broad Bases, Low, Flat Tax Rates

For any given revenue target it might be possible to get fairly wide agreement on two very general tax design features that should dominate the tax/charges system:

- The first is that the tax base should be as comprehensive as possible.
- The second is that the tax rate structure applied to the tax base should be as uniform as possible.

For widely held investments in property, for the reasons outlined above, this agreement should be even easier to achieve.

What are the advantages of these design features?
- Broad tax bases allow low average tax rates for any given revenue target.
- Low uniform tax rates themselves are more efficient, implying lower distorting effects, both absolutely and as between different products/activities/investments.
- A broad tax base means fewer revenue leakages, implying a fairer (i.e., more even-handed or horizontally equitable) and more efficient revenue-raising system.
- A broad tax base/uniform rate structure is simpler to administer and with which to comply: exemptions and multiple rates are minimised.

Where the focus is on indirect taxes (i.e., taxes on products or transactions, rather than incomes), these tax design principles suggest additional considerations:
- As far as possible, business inputs should not be taxed: efficient tax systems would place the tax burden on final demand, not intermediate demand.

Taxes should not be levied on other taxes. This generates multiple effective tax rates and associated distortions, undermining efficiency, equity and simplicity.

1.5. Application of Practical Design Features

The ‘broad base, low uniform rate’ prescription for good tax system design applies as much, if not more, to LT and SDCP as to most other taxes. In addition, the general prescription that business inputs should not be taxed applies as well.

In the case of LT and SDCP, this suggests the following desirable design features:
- There should be few – preferably no – exemptions from the tax base, in order to minimise scope for avoidance and to allow the lowest possible tax rate, given the revenue target.3
- Any exemptions ideally should be concentrated on land or property transactions that are business inputs, rather than residential land or non business transactions.
- As far as possible, tax-on-tax effects (e.g., the interaction between transactions taxes such as SDCP and GST, and LT) should be minimised if not eliminated.

In practice, there may be a case for a low-value land tax exemption on administrative simplicity (and possibly equity) grounds. In this case, the low value threshold should be indexed to prevent land tax ‘bracket creep’ (e.g, as is the case in NSW and, now, SA).

1.6. Conclusions from Past Tax Systems

In relation to SDCP, it has long been accepted that this is a very inefficient tax, and it should be abolished.

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3 Ideally, in the case of land tax, we should not see one particular asset or item of wealth – land – singled out for discriminatory tax treatment, as it currently is in most Australian states and territories. If one asset such as land is to be taxed, then the ‘broad base, low rate’ prescription suggests all assets should be within the tax base. This would minimise distortions encouraging investment to shift away from property towards other assets. However, this was beyond the scope of the report, Reforming Victoria's Property Taxes: A 2010 Update and Extension, 2010. Similar considerations apply to transactions taxes such as stamp duties, although these have additional flaws as well.
The IGA between the Commonwealth Government and the states as part of the New Tax System included the requirement that SDCP be reviewed by 2005, with a view to its abolition as one of the most inefficient state taxes.  

Most recently, the Henry Review also concluded that SDCP should be replaced with a more efficient revenue raising instrument.

In relation to LT, previous official reviews have tended to conclude that this is a less inefficient tax than SDCP.

Most recently, the Henry Review concluded that:

- Land tax could provide a more stable alternative source of revenue for the states than SDCP.
- When applied uniformly across a broad base, land tax is one of the most efficient means of raising revenue.
- This efficiency arises from ‘the immobility of the tax base’.  

1.6.1. The SDCP Tax Base

Stamp duties represent transactions based taxes on purchases of various assets and services, such as commercial property transfers. They are not hypothecated to particular uses, but, like other taxes, go into consolidated revenue to finance general government operations.

Stamp duties are more like selective turnover related taxes than value added taxes like the GST:

- They are selective because only some transactions, such as transfers of property, shares, and services such as insurance are included in the base. This contrasts with broad-based taxes like GST and payroll taxes.
- They are turnover related because the tax base is the value of the total consideration involved in the transaction, not the value-added component.
- Because of the last point, such taxes involve at least some degree of ‘cascading’ where multiple transactions are involved, or where the dutiable transactions costs feed into other transactions subsequently.
- And in the case of commercial property transfers, because these taxes are transaction-based, the revenue there from exhibits all the volatility associated with the real estate market generally.

Turnover related taxes are archaic – they pre-dated, and indeed were replaced by, value-added taxes in Europe – and are inherently non-neutral because of selectivity and ‘cascading’ effects.

The introduction of the GST – via the Intergovernmental Agreement between the Commonwealth and the States – explicitly recognised this reality by providing that most turnover taxes levied by the States (eg, FID, BAD and most stamp duties) should be abolished.

1.6.2. Comparison with principles for good design tax system

Especially where stamp duties apply to mobile tax bases, they are prime candidates for abolition. They do not have a place in a well designed, principles based, durable and competitive tax system.

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5 *Australia’s future tax system, Report to the Treasurer,* December 2009. See for example pages 48-49.
6 Ibid.,
Tax bases that are determined by flows of investment capital, such as commercial property transfers are inherently very mobile over time. Financial capital, increasingly, is not only mobile by investment use, but also geographically. Increasingly, decisions about deployment of investment capital are made within a global framework.

The archaic design of stamp duties, and the distortions they introduce, have no place in a modern, competitive economy requiring robust and growing tax instruments that minimise competitive damage to business. Replacing these as revenue sources with revenue from a broadly based growth tax like the GST makes good sense from a tax efficiency viewpoint.

Under the revised IGA, the states have already recognised these points to some extent:
- FID was abolished from 1 July 2001, along with stamp duties on marketable securities;
- BAD was abolished from 1 July 2005 (with New South Wales already having abolished this tax);
- stamp duties on business conveyances (other than real property); leases; mortgages; debentures, bonds and other loan securities; credit arrangements, instalment purchase arrangements and rental arrangements; and on cheques, bills of exchange and promissory notes, were all originally intended to be abolished from 1 July 2001. However, following the Commonwealth Government’s deal with the Democrats, the abolition of these taxes was deferred.

Stamp duties on real estate transactions – and especially those on commercial property transfers – should be amongst the priority candidates for abolition. This is because the commercial property market, particularly the non-land component of the asset, is potentially as price-sensitive as other markets whose operation depends on mobile financial capital.

### 1.7. Operational Pitfalls of SDCP and Stamp Duties in General

#### 1.7.1. ‘Cascading’ effects intrinsic to stamp duties

Because stamp duties are turnover or transactions-based, there is no system for claiming credits for stamp duty paid at an earlier stage in the value chain. Multiple transactions of the same type therefore generate a ‘cascading’ of the stamp duty burden in unpredictable, distorting and unfair ways. Where several types of stamp duties affect transactions in a value chain, these ‘cascading’ effects are multiplied, as are their damaging effects.

#### 1.7.2. ‘Tax on tax’ effects due to interactions with GST

Under the revised IGA, the states agreed that certain state taxes would not be subject to GST. Ostensibly, this was to reduce ‘tax on tax’ effects.

In fact, this action was not only futile – ‘tax on tax’ effects remain – but also the ordering of ‘tax on tax’ effects made the outcome worse.

#### 1.7.3. Business restructuring and turnover taxes such as stamp duties on business transactions

Stamp duties, including those on commercial property transfers, are taxes on business inputs. This violates basic principles for good indirect tax system design.

Their existence impedes business restructuring because they add to the costs of doing so. This reduces business flexibility and efficiency, and as a result undermines business competitiveness.
Their retention is also discriminatory, unfair and, in the longer term, counterproductive. Especially as the other reforms under the New Tax System are implemented, the retention of stamp duty on commercial property transfers unfairly discriminates against this form of investment and in favour of equities and other assets even though the underlying pool of financial capital driving investment allocation is the same for all assets. Over time, this discrimination is a recipe for tax base erosion as investment shifts away from commercial property.

1.7.4. Who pays? A customer/investor perspective
Whatever the *formal* incidence of stamp duties, such as those on commercial property transfers, the *actual* burden of such taxes depends on market conditions. In competitive markets, much of the burden is shifted forward to customers, and backwards to investors:

- As such, stamp duties on commercial property transfers are ultimately borne in part by tenants.
- And the balance is borne by investors in the properties, who, increasingly, are the ordinary Australians who save – either by compulsion or voluntarily – via superannuation funds.
- From this perspective, the actual incidence of stamp duties on commercial property transfers falls on individual tenants, both large and small businesses, and on individual, ordinary Australians trying to save for their retirement.
- The notion of stamp duty on commercial property transfers as a tax on wealthy property investors is increasingly a fiction.

There is a strong case for state governments examining very closely the actual incidence of stamp duties on commercial property transfers – as opposed to the formal incidence of such taxes. For business property users, they increase the cost of doing business, and reduce the scope to employ people.

Most ordinary Australians are now compulsorily contributing to superannuation. In the context of an ageing population, with growing concerns about adequacy of own-provided retirement incomes, the fact that stamp duty on commercial property transfers is itself eating into superannuation performance for people on modest incomes should be a source of concern:

- This is not just an issue for the Commonwealth Government.
- While the Commonwealth will face its own cost pressures (as summarised in the Treasury’s Intergenerational Reports) in relation to age pension demands and, even more so, health-related outlays), the states will also be affected – both by health-related demands and, no doubt, cost-shifting from the Commonwealth Government in this area.

1.7.5. Stamp duty on property transfers: a volatile tax base
The undesirability of property transfers as an efficient tax base – especially in the case of commercial property transfers – is underlined by the volatility of property transactions and tax revenue there from.

The evidence shows that the fluctuations in property transactions values and volumes generate corresponding fluctuations in taxation revenues from this source.

This makes budget forecasting and planning even more difficult than it need be.

In general a large part of state budget expenses is a steadily expanding demand for services, growing more or less in line with the economy overall. Ideally, what the states need is a similarly steadily growing revenue stream to more or less match this demand. Volatile revenues
complicate planning, and risk spending short term revenue windfalls on longer term programs that continue after the windfalls have disappeared.

To this end, both the GST (which grows almost in line with the economy) and payroll taxes (which grow in line with wage bills) are ideal revenue candidates:

- Private final consumption expenditure – the target tax base for the GST – typically grows steadily, and is relatively unaffected by the investment cycle.
- The total wages bill – which largely drives private consumption – is almost as stable a tax base, provided that major bouts of unemployment can be avoided.

Reliance on these tax bases improves the capacity to forecast the revenue side of state budgets, and therefore the capacity effectively to manage budget pressures over time.

1.8. Stamp Duty on Property Transfers: Non-uniform Rates

The final objection to Victoria’s SDCP, which reinforces all of the points made above, is that the rate scale is not uniform. There is a (formally) so-called ‘progressive’ rate scale (see section 1.2 above). The fact that SDCP applies to transactions in respect of assets whose ownership is not at all clear (as well as being taxes on business inputs) means that the actual incidence of SDCP is not known.

In addition to being both inefficient and complex, there is no evidence that this tax is fair. There are good reasons for believing that it is inequitable. There is no easy way of determining whether or not it is vertically equitable either.

In a nutshell, SDCP is a bad tax.

1.9. How Does Victoria’s LT Measure Up? – ‘Uncompetitive’

All of the comments made above about SDCP can be applied to some extent to Victoria’s land tax as well – especially as applied to business properties.

In addition, for land tax, aggregation provisions apply. These have the effect of increasing the average and marginal rates of land tax on all properties subject to the aggregation provisions and increase the adverse competitive effect of relatively high marginal land tax rates in Victoria compared with the substantially lower marginal rates applicable in NSW.

Of course, short of moving to a proportional land tax, the existence of aggregation provisions will always increase average and marginal land tax rates for the taxpayer involved. The key point is that retention of aggregation provisions reinforces the case for making Victoria’s top land tax rates more competitive with those in NSW.

1.10. Property Tax Reform Options and the Economic Benefits for Victoria

Based on the costings in Reforming Victoria’s Property Taxes: A 2010 Update and Extension a wide range of reforms both to land tax and to SDCP, or some combination of the two, would be feasible.

Geoff Carmody has concentrated on three illustrative packages chosen from within these options:

- Cutting the top rates of land tax to 1% (‘first round’ cost of $449 million in the 2011 tax year).
- Cutting the top rates of SDCP to 3% (‘first round’ cost of $556 million in 2010-11).
- Cutting the top rates of land tax to 1.5%, plus cutting the top rates of SDCP to 4% (‘first round’ costs of $254 million in tax year 2011, and $350 million in 2010-11, respectively).
There are significant net economic benefits to be garnered by Victoria from each of the three tax reform options.\(^7\)

In 2009/10 dollar terms, option (1) would result in an estimated year on year increase in real gross state product (GSP) of $215 million, household consumption could increase by $180 million, investment could increase by $133 million, and full time employment would increase by 510 persons.

Option (2) would also increase output, welfare and employment, but by more. GSP is projected to increase by $460 million, consumption could increase by $370 million, while real investment and employment increase by $285 million and 1,060 full time persons respectively.

Option (3) would also yield significant gains to the Victorian economy that lie between the two previous options. Real GSP is projected to increase by $375 million, consumption could increase by $308 million, investment could increase by $230 million, and 885 extra persons could be employed if this reform was implemented.

The Property Council recommends that Option 3 is the most favourable tax reform option.

1.11. How Can Taxation Reform be Funded?

In all Australian states the share of revenue from land tax in total state own revenue has grown over the ten years shown, albeit (except for Queensland) with a dip in 2007 - 08 due to the effects of the global recession. This growth has been strongest for Victoria – an increase of 133.5%, compared with increases of 117.3% and 112.8%, respectively, for all states and for NSW.\(^8\)

For SDCP the ten year performance is more volatile, as would be expected with a transactions based ‘turnover’ type tax. However, over the full decade shown, the net increase for Victoria (67.8%) is easily the largest shown, and compares with 29% for all States on average, and a decline of 3.3% for NSW.\(^9\)

In part, the increases in Victoria – not least for land tax – reflect the effects of ‘tax bracket creep’ as property price increases have pushed the tax base into higher tax brackets. These increases have outweighed any revenue reducing effects from tax rate reductions, because the tax brackets are not indexed. Thus, despite previous gains that were achieved by reducing land tax from 5% to the current 2.25% they have been eroded because of bracket creep.

The Victorian Treasurer, Hon. Kim Wells, previously highlighted the former Victorian Government’s reliance on property taxes. He also affirmed that Australian states are still too dependent on property taxes in the Australian Financial Review (25 Jan 2011, ‘States Grab $20 billion in Property Taxes’).

The current Victorian Government conveyed that in the 2010/11 budget it will focus on implementing its election promises, and it will rebuild and replace infrastructure that was damaged by the floods. Because of this, taxation reform is not on their agenda in the short term - this four year term.

While the Property Council completely appreciates these fiscal constraints, especially the priority of rebuilding flood affected areas, there is a strong case for reform as Victoria receives revenue windfall from property taxes due to ‘tax bracket creep.’ To put this into context, property taxes account for 37% of Victorian Government revenue. From 2002/03 to 2009/10, the revenue

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\(^7\) The net economic benefits of similar reforms were quantified by Access Economics using its AE-GEM model in its 2008 report. They have been extrapolated to the reforms proposed in this report, as applied to the current PEBU based Forward Estimates period, by Geoff Carmody.

\(^8\) Geoff Carmody, *Reforming Victoria’s Property Taxes*, p. 5.

\(^9\) Ibid., p. 7.
windfall from property taxes bracket creep was $2.599 billion. This is an annual average windfall of $319.9 million or 10.5%.

Although governments may sometimes feel the timing of reform is not opportune or that it requires federal - state cooperation, the Property Council has demonstrated that taxation reform would deliver significant ‘ongoing community wide’ benefits.

The Property Council’s view is that the additional revenue from bracket creep, which is not included in annual budget forecasts but is realised in the actual budget figures one year later, should go back into taxation reform. This is the logical and correct way to fund taxation reform as it would not interrupt governments’ spending commitments.

Recommendation 2: the Victorian Government should reduce the top rate of land tax to 1.5% and the top rate of SDCP to 4%.

Recommendation 3: the Victorian Government should use the revenue windfall from tax bracket creep to fund taxation reform.

1.12. Fire Service’s Levy (FSL)

The Property Council welcomed recommendation 64 of the Royal Commission into the Victorian Bushfires to replace the existing insurance based FSL. This is because the current insurance model does not reflect the nature of fire and emergency services. The Metropolitan Fire and Emergency Services Board (MFB) and Country Fire Authority (CFA) do not determine whether a property is insured before rescuing someone, nor do they hesitate in putting a fire out.

Whilst the Property Council maintains the best way to fund fire and emergency services is from consolidated revenue, a property based levy should foremost be designed around the principles of ‘equity and efficiency’, and to consider a property’s risk level.

The Property Council supports a broad based tax with a flat rate as this is more equitable than the insurance based approach; by sharing the costs of the levy, a reduction in premiums to all property owners should follow. This is a fair way of paying for fire and emergency services.

Wherever possible the Victorian Government should avoid applying complex, inefficient taxation arrangements for levies and charges because: (1) progressive configurations are inefficient when applied to one tax; and (2) when single progressive taxes are considered with other taxes (applied on top of each other), the resulting inefficiency is compounded.

Furthermore, commercial properties are already highly taxed as they are subject to the highest land tax rate, pay council rates, and incur the Terrorism Insurance Levy. A new model for the FSL should also take into consideration the level of risk associated with the property. Because commercial properties and shopping centres have sophisticated fire management systems they have a low fire risk.

The low risk is also attributable to their locations, building design and construction. This means for a typical commercial building a fire can be easily managed. In addition, the capital outlay for fire systems on commercial properties and shopping centres far outweighs the capital spend by proportion on residential or small commercial properties.

In developing the new FSL the Property Council recommends that ‘equity, efficiency and risk consideration’ should be key policy components.

The Property Council of Australia and the Shopping Centre Council of Australia (SCCA) commissioned Geoff Carmody and Associates (GCA) to prepare an analysis of reform models to replace Victoria’s current FSL.

The executive summary of the report covering this analysis is as follows:

- the current FSL will be abolished;
• make up the revenue lost from this decision by introducing a new, property-based, compulsory FSPT; and
• retain the 22.5% (country) and 25% (metropolitan) general revenue financing proportions unchanged.

1.12.1. Key Design Features of the FSL

If this position continues to be the case, the two key design features that need to be determined if a new FSPT is introduced are:

I. To what base should any new FSPT be applied?
II. What rate of FSPT should apply?

In relation to the first design feature, the following features for the tax base for any FSPT:

- A compulsory tax base, not an ‘optional’ tax base.
- A comprehensive tax base, covering all immobile and mobile registerable property.
- An exemption-free tax base: ‘special deals’ should be eschewed or, if provided, delivered in other ways rather than via FSPT exemptions or rebates.
- A tax base that avoids new incentives (‘moral hazard’) not to purchase general insurance cover for property liable for the FSPT.
- A tax base that is already used for other (including revenue-raising) purposes or is already estimated for other reasons to ensure administrative simplicity and efficiency.
- In relation to the second design feature, the analysis in the earlier sections of this report strongly supports a uniform proportional tax rate with no exemptions.

One practical expression of these design criteria is a new FSPT applied to:

- the unimproved capital value of all immobile property, plus the compulsory third party (CTP) insurance premiums for registerable mobile property;
- to which would be applied either a uniform percentage FSPT rate to all of the values just specified; or
- a uniform percentage FSPT rate to all unimproved capital values for immobile property, plus a different uniform percentage FSPT rate to all CTP values for mobile property.

**Recommendation 4:** equity and efficiency should be the Victorian Government’s main goals for the fire service’s property tax (FSPT). This means that current fire services premiums should be lower under the new FSPT.

**Recommendation 5:** the FSPT should be designed to include a broad base, flat rate, with no, or very few, concessions.

2. Planning and Infrastructure

To ensure that Victoria maintains its current level of growth and prosperity the Victorian Government needs to adopt a modern, efficient planning and application assessment system. We need to properly manage the growth of our cities and we need to bring the full suite of funding sources into play to modernise our ageing infrastructure and to service the new metropolis.

The Property Council recognises that planning reform is high on the Victorian Government’s agenda and major planning reforms were outlined in the Coalition’s pre-election Plan for Planning policy document.
Successful implementation of these commitments will be vital if Victoria is to have a planning regime that delivers planning outcomes quickly.

2.1. Victorian Planning Authority

The Property Council first advocated the introduction of a Victorian Planning Authority in 2006. Since then a number of interested parties have discussed the concept of a body with the specific task of managing planning as a way of ensuring that there is a focus on the city as a whole.

The Property Council believes that Victoria needs a body that is separated from the day-to-day political manoeuvrings and is focused on the long term delivery of a sustainable and efficient state. Planning decisions across Victoria are being delayed which significantly adds to the cost of building and development. We call for a Victorian Planning Authority which would adequately and efficiently oversee the delivery of strategic projects and infrastructure for metropolitan Melbourne and regional Victoria.

A Victorian Planning Authority should focus on all areas of planning including:

- tax arrangements;
- public transport;
- infrastructure; and
- infill development.

Increasing infrastructure, creating a competitive tax environment and encouraging appropriate development in infill areas are all part of implementing a strategic plan for Melbourne and Victoria.

The Property Council considers that establishing a Victorian Planning Authority is of the utmost importance. The delivery of Victorian Government policy and Melbourne’s future liveability rests heavily on such a body being able to adequately and efficiently deliver the projects and infrastructure required to make the plan a reality.

Recommendation 6: The Victorian Government must establish a Victorian Planning Authority to manage the planning process, the overall implementation of key policy and the planning process in regional Victoria ensuring a coordinated approach across the whole of Victoria.

The Coalition’s Plan for Planning outlines a broad range of governance initiatives in the planning and infrastructure sectors. On the surface, these initiatives are positive for Victoria and if achieved, will greatly benefit communities, industry and business alike.

The Property Council urges the Victorian Government to consider the interplay between the governance initiatives proposed and how these could best form a Victorian Planning Authority with the aim of delivering Victorian Government policy.

2.2. The Liveability of Australia’s Cities

In 2010, the Property Council of Australia commissioned Auspoll to undertake research to better understand the attitudes that Australians have towards the cities in which they live.

In particular, the Property Council was interested in measuring the “liveability” of Australia’s capital cities. We were also interested in understanding the community’s attitudes to the:

- various options for housing a growing population;
- role of the Federal Government in managing population growth and developing Australia’s capital cities; and
• performance of state governments in planning and managing urban growth.

The report presents the results of a large-scale survey that addresses each of these objectives. It is anticipated that this survey will be the first in a series of annual studies which will track the liveability of Australia’s cities though time.

In Melbourne, 638 people were surveyed between 29 September 2010 and 5 October 2010, this being prior to the 27 November 2010 Victorian state election.

Melbourne was awarded an overall liveability index of 60.9% and is the third most liveable city in Australia according to the results of the Poll behind Adelaide and Canberra.

2.2.1. Negative Performance

Melbourne-specific analysis indicates four areas (in order of importance) that received negative responses from those surveyed:

1. Congestion and transport

   Just 22% agreed that Melbourne has a good road network and minimal traffic congestion, lower than the national average response of 39%.

   37% of those surveyed agreed that Melbourne has good public transport, just higher than the national average of 36%.

2. Housing affordability

   Only 31% of those surveyed agreed that Melbourne has a good range of quality affordable housing, matching the national average of 31%.

   Melbourne residents rated the performance of the Victorian Government as ‘poor’ when asked to assess its performance in making housing more affordable.

   The Victorian Government’s performance was rated as just ‘fair’ in terms of releasing land for new homes and planning and managing urban growth.

3. Fairer taxes

   Respondents rated the performance of the Victorian Government as ‘poor’ in setting a fair level of taxation to be applied when people buy or sell properties.

   While the questionnaire did not specify whether or not this question was applicable purely to residential or commercial property taxes, it can be taken to apply to residential property in the context of ‘liveability’, therefore having a direct impact on housing affordability.

   Just 9% of respondents indicated that the Victorian Government sets a fair level of taxation applied when people buy or sell property with 31% of people rating performance as ‘very poor’.

4. Climate change and sustainability

   Melbourne residents were least likely to agree that the city has a good approach to environmental sustainability and climate change. The view expressed is that the Victorian Government has a poor record in this area and there is a desire from residents that performance be increased.

   Only 33% of respondents agreed that Melbourne has good approaches to environmental sustainability and climate change, matching the national average of 33%.
2.2.2. The ‘Good Story’

The positive story emerging from the Poll with respect to those surveyed in Melbourne, is that Melbourne residents are more likely to support, rather than oppose, housing development to support growth. The highest level of support was for the following activities:

- new neighbourhoods of free standing houses built on the outskirts of the city close to jobs;
- the conversion of old industrial sites to apartments and town houses; and
- more medium density housing, such as town houses, in middle and outer suburbs.

These results indicate that Melbourne residents support activities that will manage the growth of Victoria and the Victorian Government should conduct these activities in an accelerated and simultaneous manner.

Previous Victorian governments have undertaken these activities in isolation. However, the results of the Poll indicate that Melbourne residents will embrace the accelerated and simultaneous development activities outlined above.

2.2.3. Other Results

The Poll indicated that most Melbourne residents are supportive of greater Federal Government involvement with capital cities, particularly in the following areas:

- developing a population plan to manage growth; and
- taking a greater role in planning and investing in Australia’s capital cities.

Analysis contained in the Poll of the overall view of the performance of the Victorian Government states that:

Overall, Melbourne residents rated the performance of their State Government quite poorly in terms of making housing more affordable and setting a fair level of taxation to be applied when people buy or sell property. They were also most likely to believe that the State Government was doing a fair job in terms of releasing land for new homes and planning and managing urban growth. A full copy of The Liveability of Australia’s Cities is at Appendix D.

Recommendation 7: The Victorian Government must undertake a programme of accelerated and simultaneous development activities in the following areas:

- new neighbourhoods of free standing houses built on the outskirts of the city close to jobs;
- the conversion of old industrial sites to apartments and town houses; and
- more medium density housing, such as town houses, in middle and outer suburbs.

2.3. Planning for Melbourne

The Property Council supports the Coalition’s concept outlined in its Plan for Planning to identify areas for substantial change. However, this should not just revert back to the concept of activity centres as there are activity centres which have not delivered on the objectives of Melbourne 2030 and may not do so in the future.

Recommendation 8: Any review of Melbourne 2030 and Melbourne @ 5 Million must consider the option of a single planning authority as part of the best model for metropolitan and regional planning.
2.4. Development Assessment and the Planning Referral Process

The Property Council worked closely with the previous Victorian Government to remedy the problems in the current structure planning process being implemented by local councils. The Coalition’s Plan for Planning outlined its intention to establish Planning Referral Authorities to assist local governments in planning decisions and to legislate that Development Assessment Committees be replaced by the proposed Planning Referral Authorities.

The Development Assessment Forum (DAF) Leading Practice model has been designed to promote efficient, effective and nationally harmonised development assessment systems across Australia. This will deliver significant cost and time savings to a wide range of stakeholders in the creation, assessment, and determination of development applications.

**Recommendation 9:** The DAF Leading Practice model should be adopted to ensure the attainment of a planning system that is efficient, transparent, and provides certainty and fairness.

**Recommendation 10:** The Victorian Government should allocate funds to determine the requirements for the DAF Leading Practice model to be adopted as Victorian Government policy in the establishment and implementation of the intended Planning Referral Authorities.

The Property Council has long advocated for the allocation of additional resources to the Victorian Civil and Administrative Tribunal (VCAT) in order to assist in the reduction of the time taken for planning matters to be addressed and resolved.

**Recommendation 11:** That the Victorian Government provide ongoing resources and funding to VCAT to ensure the continuation of recent highly successful VCAT pilot projects with respect to the Major Projects List, the Small Projects List and the Mediation-Based List.

**Recommendation 12:** That the Victorian Government provide resources and funding for the reform the planning approval process so as to reduce the number of applications going to VCAT and speed up the process which is currently severely backlogged.

2.5. Infrastructure Delivery and Debt Capacity

The Property Council recognises the major commitments made towards infrastructure development by the previous Victorian Government in the $38 billion Victorian Transport Plan.

This plan was supported by the Property Council and recommendations have been previously made that the priority must be on the implementation of these initiatives.

The Property Council commissioned the Allen Consulting Group to prepare a report of the Victorian Government’s capacity to debt fund major infrastructure projects in late 2008. A number of options were outlined in the report highlighting that the Victorian Government has the capacity to increase its debt, even in the current economic climate, to fund major infrastructure projects.

With the current negative investment and employment outlook additional borrowing of between $2 billion and $7 billion could be accommodated. If policy decisions were made by the previous Victorian Government to apply user charges and modest tax increases that would not materially reduce Victoria’s relative tax competitiveness, borrowings in excess of $7 billion to finance new infrastructure investment could potentially be accommodated without threatening the State’s AAA rating.

The table below outlines the Victorian Government’s borrowing capacity based on two models; GSP 1 indicates growth at 2% and GSP 2 indicates growth at 1.5%.
The Executive Summary of the *Optimal Debt Level for the State of Victoria* report is at Appendix E.

**Recommendation 13:** The Victorian Government must consider responsibly increasing their current debt levels to fund urgently required infrastructure projects to underpin future growth.

### 2.6. Public Private Partnerships

A relatively simple and immediate measure that could be adopted is to create one-stop-shop for PPP applications; that is, give the PPP function to a single government department or agency. This would alleviate the current web of confusion that allocates responsibilities to individual government departments, each with their own set of cultures.

**Recommendation 14:** The Victorian Government should develop a PPP framework that maximises competition in the market, which has the potential to drive further efficiency and innovation, by initiating a single government department to manage the whole of the bid and delivery process. This department would act as the government’s project manager. This would provide for consistent quality documentation and requirements in both outputs from government and response from industry.

The need for agreed industry/government base contracts, bid requirement and a risk template would represent a time and cost saving to both parties to have a standard base contract for each...
particular deal style. It will also reduce the costs incurred post-bid in “educating” project financiers and investors as to the contractual framework and resultant risk profile.

2.7. Population Planning

The Property Council continues to advocate the positives of growth in Victoria to government on behalf of the industry and wider community. In response to the Coalition’s proposed initiatives, we make the following recommendation:

Recommendation 15: The Coalition Government must establish an Employment and Business Investment Strategy as part of its approach to planning in Victoria. Any strategy or policy for planning in Victoria must be applied across government and must incorporate all aspects of social, economical and environmental aspects of planning.

Without jobs many people will not be attracted to Victoria’s regional centres and without services and amenities businesses will not invest in those centres. A planning policy and/or strategy must be a proper analysis of business investment and employment opportunities in Victoria’s regional centres as well as in the growth corridors of metro Melbourne.

3. Sustainability

Existing buildings constitute 97% of the built environment, and buildings and their occupants contribute to around 23% of Australia’s greenhouse gas emissions (GHGs). Advancement in sustainable development requires a shared responsibility between governments and industries. However, despite a growing commitment from the property industry to pursue environmentally sustainable initiatives, financial and structural barriers impede its ability to achieve this aim. A series of economic reforms are required to break these barriers.

3.1. Victorian Building Energy Efficiency Partnership Scheme (VBEEPS)

The Property Council’s VBEEPS is an incentives package that calls for joint funding between building owners and the Victorian Government. The financial requirement of the Victorian Government would be $10.4 million over four years, with the other contribution coming from building owners on a dollar for dollar basis.

A matched funding scheme will ensure that the Victorian Government is not being asked to put funds into any project the private sector is unwilling to support and allows for a higher degree of ownership from property owners. The allocation for administration costs would go to hiring a full time employee to coordinate the scheme, and run seminars and workshops to promote the initiative.

This funding would be targeted to reach a minimum of 100 building owners in Melbourne and large regional centres through grants of up to $100,000 per sustainable retrofit.

It is important that these buildings are not just located in Melbourne CBD, but applications are received from a large range of areas of the state. However, there should be a minimum net lettable area of 2,000 square metres to ensure that buildings involved are delivering reasonable outcomes. This would be suitable for the Victorian market and enables the Victorian Government to assist buildings which would otherwise sit outside the Federal Green Building Fund.

The VBEEPS incentives program will deliver a measurable decrease in Victoria’s GHG emissions inline with the Victorian Government commitment to reduce emissions by 20% by 2020.
Similar schemes are in place in South Australia and the Australian Capital Territory (ACT). The South Australian Government’s Building Innovation Fund offers grants to owners of office buildings for initiatives that demonstrate new and leading edge approaches to retrofitting existing buildings. The grant is offered in two streams: Capital Works and Feasibility; and Case Study. The Building Innovation Fund is successfully operating in its third round with measurable results being delivered.

Similarly, Tune Up Canberra is a two stage ACT Government grants program that offers financial incentives for commercial buildings to make their buildings more energy and water efficient, which has now opened round four for applicants.

**Recommendation 16:** Establish a $20.4 million VBEEPS incentive program for Melbourne’s CBD and large regional centres for building owners to retrofit their buildings.

**Recommendation 17:** Provide assistance and incentives for building retrofits including grants, subsidies, accelerated project approvals and rebates for improvements undertaken by households and the commercial sector.

### 3.2. Gross Feed in Tariff

The Victorian Government has announced the Victorian Competition and Efficiency Commission (VCEC) inquiry into the features that a market-based gross feed in tariff scheme should have. This inquiry will focus on promoting the take up of lower emission generation and ensuring economic responsibility and sustainability and will apply to feed in sources installed anywhere, including businesses, farms, community organisations and all residential premises - even vacant land so long as there is a connection point.

The Property Council encourages the Victorian Government to implement this inquiry as a matter of urgency to show their commitment to a market-based gross feed in tariff (FIT) scheme.

The Property Council supports a gross FIT model to provide greater financial incentive for the take up of renewable energy sources. A gross FIT should also not be limited to the residential sector. For instance, if applied to the commercial property sector, this would reduce financial barriers that building owners face in implementing solar PV systems. In addition, to maximise GHG abatement opportunities, a gross FIT could be applied to other micro generation sources, such as wind and co/trigeneration systems.

Gross FITs are already in place in other countries, such as Germany, which have contributed to an accelerated take up of solar systems by households. For example, despite having only half as much sun as Australia, Germany has 40 times more solar PV panels installed and an industry which employs more than 57,000 people. Hence, the success of Germany in creating a renewable energy industry is attributed to the implementation of a gross FIT scheme.

The renewable energy industry has huge potential in Australia. Large scale systems must be included in any future gross FIT scheme. This would increase the commitment to renewable energy and would also support households and businesses.

**Recommendation 18:** Change the Victorian net FIT to a gross FIT to increase the implementation of renewable energy systems. Victoria should introduce a gross FIT that is not limited to systems under 10 KW. This will encourage building owners to invest in microgeneration systems.
3.3. Co/Trigeneration

The Property Council believes the Victorian Government needs to go further in the development of a comprehensive cities strategy which takes into account smart grid and cogeneration technology to fully integrate the social, water and transport needs of a community hub.

Tri/cogeneration represents the most cost effective means for building owners to improve energy efficiency and reduce greenhouse gas emissions indicating tri/cogeneration plants can reduce building greenhouse gas emissions by about 50%.

If building owners cannot connect their planned tri/cogeneration plants to the power grid, then they will find it extremely difficult to meet local, state and federal government targets for greenhouse emissions reduction.

Despite the opportunities offered by tri/cogeneration, barriers exist that prevent building owners from connecting tri/cogeneration plants to the grid network. Building owners need to connect their plants to the grid network in order to ensure that plants can be reliably operated and are financially viable.

At present, the most significant barrier is the inability of building owners to be given an approved connection for their tri/cogeneration plants into the network due to limited fault current head room within their power grid. Significant regulatory hurdles also exist. In order for Citipower to improve capacity within the grid, they will need to levy additional costs from their customers. This will require a regulatory intervention from the Australian Energy Regulator.

The Property Council provided a submission to the Australian Energy Regulator in August 2010 which supported the approach adopted by Citipower in its original Regulatory Proposal 2011-2015 for the proposed Fault Level Compliance Service fee: scalable charge for connecting co-generation and tri-generation to Citipower’s network.

Alternatively, doing nothing to resolve this problem would place more than $600 million of green investment at risk, as well as potentially damaging Victoria’s reputation as an innovative and environmentally sustainable state in which to do business.

**Recommendation 19:** The Victorian Government should intervene to facilitate a solution to remove hurdles for building owners to connect their embedded (co/trigeneration) systems to the grid network.

**Recommendation 20:** The Victorian Government should support an annual Fault Level Compliance Service fee that would minimise the barriers to optimal use of installed tri/cogeneration for network support and opportunistic sales to the wholesale market with a defined timeframe for processing applications for connection.

4. Housing Affordability

Housing affordability and living options for Victoria’s growing population are critical issues impacted by the success of infill development as part of the solution to Melbourne’s growing population.

For infill development to work, two key barriers need to be urgently addressed – commercial viability of building apartments and unfounded community opposition to infill development.

Growth is important for Melbourne’s future prosperity but it must be managed effectively. Growth means more employment opportunities, more revenue to provide much needed community infrastructure, and more choices for all Victorians.
4.1. Delivering on Melbourne’s Population Plan

The Property Council of Australia commissioned Urbis to undertake a body of research in order to provide a base on which to monitor Melbourne’s growing population. This base will provide an indication of how Melbourne is tracking in providing accommodation for the city’s growing population, especially in established suburbs.

Melbourne is currently experiencing a higher rate of growth than was anticipated in the Melbourne 2030 policy and the city is expected to accommodate five million people by earlier than the original forecast of 2030.

Victoria must engage in the dialogue and discussion around a sustainable population. Melbourne is experiencing hyper growth, but there is no certainty this will go on forever. What we must do as a state, and in turn a nation, is develop policy and implementation processes which ensure Victoria’s growth is sustainable and well managed into the future. Victoria is well placed to lead the nation on this issue and all levels of government must increase their engagement with community and industry bodies to ensure this is the case.

Recommendation 21: Victorian state and local governments must undertake to develop a clearly defined and consistent method of determining local government housing targets to ensure responsibility across all municipalities.

Clear housing targets at the local government level are essential to inform the strategic planning for the future development of Melbourne at both the metropolitan and local level. Without a clear understanding of the population that is being planned for, including its trends and desires, government cannot hope to establish logical plans for where additional housing can be accommodated, the level of services and facilities that will need to be provided for the future population and the infrastructure this requires.

A copy of the Executive Summary of Delivering on Melbourne’s Population Plan is at Appendix F.

Recommendation 22: Victorian state and local governments must acknowledge and identify key strategic goals in order to address key infrastructure implications of population growth.

Projections indicate that Melbourne’s population will surpass earlier estimates. It is essential that planning for Melbourne’s growth and investment in major infrastructure projects keeps up with the pace of population growth. Failure to provide sufficient and appropriate infrastructure will undermine the competitiveness of Melbourne and its social, economical and environmental sustainability.

Recommendation 23: A committed programme of public education must be undertaken at the state and local government level to inform the general public of the benefit of proactive planning for population growth as well as the possible consequences of not responding in a structured way to this growth.

The concept of “protecting our current amenity” is misplaced, as what is clear from Delivering on Melbourne’s Population Plan, is that population growth is continuing even though housing provision is not keeping up with it.
Recommendation 24: A Victorian Planning Authority must be established to drive metropolitan policy and hold both state and local governments, services and agencies, accountable for implementation.

Clarity is required in relation to the agency or authority that is responsible for driving the delivery of the metropolitan policy and for holding both local government and infrastructure and service agencies accountable for the implementation strategies such as Melbourne 2030 and Melbourne @ 5 Million. This cannot be left to each of the local governments to deliver its piece of the puzzle, firstly because not all local councils share the metropolitan vision, and secondly because it is beyond their charter as it inevitably involves the delivery of metropolitan facilities, services and infrastructure. The delivery of any vision requires a champion of the vision, and the vision for the future of Melbourne is central to the continued progression of the metropolitan community going forward.

4.2. Infill Development

The Coalition’s commitment to undertake a State Government Land Audit to ascertain the status of all government owned land and its potential to be used for future development will assist in relieving pressures of land supply and housing affordability.

The Property Council views this initiative as a top priority for the Coalition Government to implement.

Recommendation 25: A sound set of criteria to determine which sites are deemed as suitable for future development must be developed and applied as part of the State Government Land Audit.

4.3. Land Supply and the Urban Growth Boundary

The Property Council has welcomed the Coalition’s initiatives to decrease the pressures of land supply in Victoria. These actions must be undertaken by the Victorian Government as a high priority.

Recommendation 26: That the Victorian Government makes use of the data base that is already in existence through programs such as the Urban Development Program (UDP) so as to ensure productivity and progress this as fast as possible.

It is often the case that these parcels of land remain outside the boundary without any real strategic justification as to why this is the case. The consideration and review of these examples would significantly assist in relieving pressure on land supply and housing affordability in Victoria.
FURTHER CONTACT

The Property Council looks forward to meeting with the Treasurer to discuss the proposals in this submission.

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## Appendix A - Reconstruction Relief Model

<table>
<thead>
<tr>
<th>Issue</th>
<th>Proposed Model</th>
<th>Rationale</th>
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<tbody>
<tr>
<td><strong>Corporate group</strong></td>
<td>The Property Council recommends that the corporate group be defined to include:</td>
<td>(a) There is no policy justification for differentiating between bodies corporate or unit trusts. The choice of investment vehicle is often influenced by commercial and income tax issues, rather than stamp duty. This is consistent with the Property Council's policy on harmonising the application of land-rich provisions to companies and unit trusts.</td>
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<td></td>
<td>o Bodies corporate and unit trusts (not just companies).</td>
<td>(b) The choice of a stapled structure is often influenced by commercial and income tax issues, rather than stamp duty. Where corporate groups operate through stapled entities, they should not be disadvantaged against those that can operate through a single entity.</td>
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<td></td>
<td>o Stapled entities, listed and unlisted.</td>
<td>(c) Group control is generally regarded as a majority interest (cf the concept of subsidiary in the Corporations Act, and accounting consolidation for subsidiaries).</td>
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<td>o Group control at &gt;50% beneficial ownership.</td>
<td>(d) The Property Council's policy on harmonising the application of the land-rich provisions recommends that land rich duty is applied to acquisitions of 50% or more in a land holding entity. Treating subsidiaries as group members for corporate restructures is consistent with this, since lesser interests in dutiable property could leave a corporate group without incurring land rich duty. With the consolidation of the duty base to land, this consistency is significant.</td>
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<td><strong>Pre-association requirements</strong></td>
<td>The Property Council recommends no pre-association period.</td>
<td>(a) The absence of a pre-association period is consistent with the existing requirements for relief in Western Australia, Victoria, the United Kingdom and Hong Kong. Pre-association unnecessarily prevents group restructuring, particularly following the acquisition by a group of new entities that have assets better held elsewhere in the group.</td>
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<td></td>
<td>If some pre-association period must be adopted then it should be no greater</td>
<td>(b) Dormant entities have (by definition) not been active in any other operations and therefore present no avoidance threat.</td>
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<td>than 12 months from when the entities become members of the group and subject to the following exclusions:</td>
<td>(c) Newly formed companies and trusts should be treated in the same manner. As mentioned above, the choice of investment vehicle is often influenced by commercial and income tax issues, rather than stamp duty. There is no policy</td>
</tr>
<tr>
<td></td>
<td>o Dormant company/trust.</td>
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<tr>
<td></td>
<td>o Newly formed company/trust.</td>
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</table>
Entities which become associated before the property was acquired.

(d) Where entities became associated before the transferring property was acquired, the potential existed for the property to be acquired elsewhere in the corporate group. The restructure is therefore related to group benefits rather than avoidance associated with acquiring or holding the property.

### Permitted transactions

The Property Council recommends that relief should be available for all duties, including:

- All dutiable transactions / conveyances as defined by legislation (e.g., declaration of trust).
- Land rich duty.
- Interposition of new head entities (cf CGT).
- Demerger of a group entity.
- Motor vehicle registration.

(a) There is no policy justification for limiting relief to only particular kinds of dutiable transactions. The form of the transaction is often determined by commercial and income tax issues, rather than stamp duty (particularly where an alternative form of transaction would be exempt from stamp duty).

(b) Land rich duty should be included as a direct statutory exemption rather than depending upon any other provisions. The very policy rationale for imposing land rich duty is that the interest in the land holder is a substitute for direct land holding; therefore the transfer of an interest in a land holder should be subject to the same relief as a corresponding transfer of an interest in land would be. The same degree of certainty of relief should be provided.

(c) Relief should be provided for interposing a new head entity in situations where the ultimate group ownership remains the same. The availability of this relief is consistent with rollover relief for capital gains tax. It will be particularly important given the introduction by the Federal Government of CGT relief for interposing a new head entity above stapled entities.

(d) A demerger is a logical corollary of interposing a new head entity. Ultimate ownership of the new separate groups is widely spread but retains common ownership.

(e) Although charged on a different basis, motor vehicle registration duty is no different in principle from a transfer of other kinds of assets. Therefore relief should be available on the same basis as for transfers of other kinds of assets.

### Degree of relief

The Property Council recommends that relief should be:

- Statutory and not ex gratia
- Proportionate to the

(a) It is important that taxpayers have certainty in their taxation affairs (including stamp duty). Therefore relief should be based in statute and should not depend on acts of grace.

Although having a statutory basis, jurisdictions may choose to have relief guidelines with statutory effect, as this can give greater flexibility to amend
percentage of group ownership

the guidelines in future to adapt with changes in commercial practices or perceived avoidance issues.

(b) Extending relief to a broader concept of 'corporate group' could result in duty leakage if full relief is available. If relief is provided based on the percentage of common group ownership between transferor and transferee then this will facilitate relief while protecting the revenue base.

For example: a parent company holds 60% of the shares in a subsidiary. Land transferred from the subsidiary to the parent would be exempt from duty on 60% of the value, representing the economic interest retained in the corporate group.

**Clawback**

(a) Post-association unnecessarily hinders group restructuring since groups must preclude the potential for certain transactions within any clawback period. Revenue protection could be achieved by precluding relief only where there is some present intention (at the time relief is obtained) for that part of the group holding the transferred property to be separated (other than in the circumstances described below), similar to Western Australia.

(b) The Property Council recommends no post-association period.

If some post-association period must be adopted then it should be no greater than 12 months and subject to the clawback exclusions that follow.

**Exclusions for clawback**

The Property Council recommends the following exclusions from any clawback provision:

- Float on ASX or recognised stock exchange (by issue of new securities or sale of existing securities).
- Liquidation/deregistration/termination of trust.
- Becomes widely held.
- Demerger.
- Transferor leaves the corporate group.
- Scrip for scrip exchanges.

(a) Any clawback should focus on the transferee entity remaining part of the corporate group. In particular, it should not be concerned with retaining the underlying property within the group since any transfer of dutiable property outside the group will attract duty.

(b) Float is already a recognised exclusion from clawback in most jurisdictions. This should not be limited to ASX. With increasing involvement in global capital markets, float should be allowed on any recognised stock exchange.

(c) These are already a recognised exclusion from clawback in most jurisdictions. Where one of the entities ceases to exist by virtue of the liquidation, deregistration or termination, it does not facilitate avoidance opportunities since the other entity would remain in the group.

(d) Some widely held groups are not listed on an exchange. This is particularly so with retail investment funds which will typically involve widely held trusts. These widely held groups should not be disadvantaged compared with listed groups, given that the diversity of public participation can be equivalent.

(e) In determining whether a group is widely held for...
this purpose, certain entities should allow a look-through to determine the spread of ownership. The nature of these look-through entities can be defined in a limited way (eg CSFs, PSTs, widely held trusts, WFE listed entities) to prevent avoidance but assist groups that are genuinely widely held.

(d) Float is already a recognised exclusion from clawback in most jurisdictions. Demerger is similar to a float, except that the ultimate ownership remains the same rather than being offered to the public at large. Maintaining the ultimate ownership in this way is consistent with the policy underlying the ‘group’ concept of relief.

(e) The policy behind corporate reconstruction relief is to enable movement of assets within a corporate group without hindrance by transaction costs. Once property has been transferred within a group, ultimate ownership is retained by the transferee within the corporate group. It is not necessary for the transferor to remain within the group in order to protect this continuation of underlying ownership of the transferred property. Therefore clawback should not apply where the transferor leaves the group.

(f) With the consolidation of the duty base to land, any remaining land in the transferor will attract duty under land rich provisions so that there will be no revenue leakage.

(g) Scrip for scrip exchanges are subject to relief from capital gains tax in certain circumstances. That relief is allowed in circumstances where the investor maintains its economic interest in the underlying entities, which are therefore part of an overall corporate group. A clawback in these circumstances is inappropriate because the corporate group retains the same entities but expands to include others.
## Appendix B - Unit Trust and Land Rich Duty Model

<table>
<thead>
<tr>
<th>Issue</th>
<th>Proposed Model</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Landholder</strong></td>
<td>Unlisted company or unit trust. Unit trusts are treated as entities (similar to the treatment under the GST Act).</td>
<td>Companies and unit trusts should be treated the same, as there is no policy justification for differentiating – the choice of investment vehicle will often be influenced by commercial and income tax issues, rather than stamp duty. Also, having the same regime for companies and trusts significantly reduces complexity, and provides more certainty to the tax, whilst also removing the need for various classes of 'wholesale' or widely held trusts.</td>
</tr>
<tr>
<td></td>
<td>Listed companies or unit trusts are entities in which any of its securities are quoted on a World Federation Exchange or in which any of its securities are stapled to securities of another entity or entities, which stapled securities are quoted on a World Federation Exchange.</td>
<td>The treatment of unit trusts as entities removes the existing tension in most land rich legislation between taxing the trust and taxing the trustee or acquisitions by a trustee or a beneficiary, again simplifying the rules and adding robustness to the revenue base.</td>
</tr>
<tr>
<td></td>
<td>&quot;Quoted&quot; includes suspended from quotation but only if the entity or entities whose securities are involved, are still included in the official list of a World Federation Exchange.</td>
<td>Listed entities should be excluded on the basis of the provisions of the Intergovernmental Agreement and on the basis that an investment in a quoted security is a significantly different investment than an investment in land (for example, the liquidity that is provided by acquiring interests in a listed entity).</td>
</tr>
<tr>
<td></td>
<td>Landholdings of more than $2 million unimproved value, subject to indexing at CPI.</td>
<td>This has the effect of removing nuisance transactions from the base (and effectively keeps the threshold consistent with the current NSW provisions).</td>
</tr>
<tr>
<td></td>
<td>Land must comprise 60% (80% for primary production land) or more of the unencumbered value of all of its property.</td>
<td>The policy justification for land rich duty is to tax acquisitions of marketable securities which are in economic substance an acquisition of an interest in land. However, whilst many companies have significant land holdings, (such as hospitals and other infrastructure assets), the land is simply one of the capital items which allows the business to generate revenue</td>
</tr>
</tbody>
</table>
from other means. An investment in marketable securities of this type of business is not, in economic substance, and investment in land. Accordingly, it is appropriate that a land rich threshold be set at 60%. It is also appropriate to set a higher threshold for primary producers.

Despite some jurisdictions moving to a landholder model, keeping a land-rich threshold of 60% remains best practice and is based in sound policy.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Proposed Model</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thresholds</td>
<td>Relevant acquisition – 50% or greater interest (legal entitlement) of a landholder.</td>
<td>An investment in marketable securities can either be a passive investment, or if control of the entity is acquired, can involve active management. The risk and investment profile of these two types of investment are very different. Accordingly, it is appropriate that duty only be payable where the investment is in the nature of an active investment, and so where there is a 50% or more acquisition.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In this regard, there is no policy justification for any difference between a company and a unit trust. This is supported by the High Court decision in <em>CPT Custodian Pty Ltd v Commissioner of State Revenue; Commissioner of State Revenue v Karingal 2 Holdings Pty Ltd</em> [2005] HCA 53. Also, by the removal of any distinction between types of unit trusts, the model is significantly more simple.</td>
</tr>
<tr>
<td>Associated</td>
<td>Companies if they are related bodies corporate</td>
<td>This maintains the status quo.</td>
</tr>
<tr>
<td>Persons</td>
<td></td>
<td>Recognises trusts as entities, and effectively mirrors the position for companies.</td>
</tr>
<tr>
<td></td>
<td>Trusts if they have more than 50% direct beneficiaries (including their associated persons) in common</td>
<td>Companies acting as trustees do not invest for their own benefit, and are bound by fiduciary and legal obligations to act on behalf of their beneficiaries. Accordingly, it is necessary to</td>
</tr>
<tr>
<td>Issue</td>
<td>Proposed Model</td>
<td>Rationale</td>
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<tr>
<td>-------------------------------</td>
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<tr>
<td></td>
<td>make it clear that trustees should not be aggregated simply because they are</td>
<td>make it clear that trustees should not be aggregated simply because they are related bodies corporate. Also, it would be inconsistent with the treatment of trusts as entities for land rich purposes if they were treated as associated persons simply because of the ownership of the trustee.</td>
</tr>
<tr>
<td></td>
<td>related bodies corporate. Also, it would be inconsistent with the treatment of</td>
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<td></td>
<td>trusts as entities for land rich purposes if they were treated as</td>
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<tr>
<td></td>
<td>associated persons simply because of the ownership of the trustee.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other tests are as per current rules in NSW, save for the fact that any</td>
<td>Provides for uniformity in the rules by adopting a standard set of provisions, whilst recognising trusts as entities.</td>
</tr>
<tr>
<td></td>
<td>relationship must be of 50% or more (e.g., a trust and a company are</td>
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</tr>
<tr>
<td></td>
<td>associated if the company (and its associated persons) have a 50% or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>greater interest in the trust)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provides for uniformity in the rules by adopting a standard set of</td>
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</tr>
<tr>
<td></td>
<td>provisions, whilst recognising trusts as entities.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tracing A landholder is entitled to the land and assets of a linked entity</td>
<td>Ensures that only assets in controlled entities are included as assets in the landholder, and is consistent with the policy approach of land rich duty</td>
</tr>
<tr>
<td></td>
<td>to the extent of the relevant percentage entitlement (directly or indirectly)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>of the landholder in the linked entity.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A linked entity is one in which there is a 50% direct or indirect</td>
<td>On the basis that land rich duty is payable only on an acquisition of 50% or more, then the same test should be used for tracing. If a lower percentage tracing threshold is used, it creates an anomaly that an equivalent investment directly in the entity would not be subject to duty, but that an indirect investment would be. It also ignores the fundamental nature of an investment in marketable securities being a passive investment.</td>
</tr>
<tr>
<td></td>
<td>interest.</td>
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<td></td>
<td>Duty is only payable if the target is a landholder, and is not payable on</td>
<td>It is not appropriate to tax an investment in a target entity if the entity itself is not land rich. Simply because a corporate group organises its structure so that all of its land holdings reside in a single entity should not necessarily cause that investment to be subject to land rich duty. Such a taxing policy would discourage appropriate and efficient corporate.</td>
</tr>
<tr>
<td></td>
<td>the indirect acquisition of a linked entity which may be a landholder.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sell-down of new trusts No duty on the sell-down of equity interests in a</td>
<td>There is no policy reason why the unitisation of property into the hands of investors should be subject to two rounds of duty. The</td>
</tr>
<tr>
<td></td>
<td>landholder (by way of transfer or issue) if ad valorem duty was paid on the</td>
<td></td>
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<tr>
<td>Issue</td>
<td>Proposed Model</td>
<td>Rationale</td>
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<tr>
<td>acquisition of the property within the previous 5 years, and the sell-down occurs under an offer document open to the public (being 5-10 or more non-associated persons), provided no one investor (together with its associated persons) acquires a 50% or more interest.</td>
<td>purpose of this provision is to promote and facilitate the public ownership of land in a tax efficient manner. If land is acquired to be sold down to the public, then it should not be taxed twice, subject to avoidance considerations, and an investor taking control of the relevant land.</td>
<td></td>
</tr>
<tr>
<td>If the above does not apply, then duty will only apply if a person (together with its associated persons), or persons acquiring under one arrangement between the acquirers, acquire a 50% or more interest.</td>
<td>Where the land does not fall into the above category, it still remains appropriate that it can be sold to investors without double duty. Also, current practice has shown that the greatest certainty arises from adopting the test in the NSW Duties Act of “one arrangement between the acquirers”.</td>
<td></td>
</tr>
<tr>
<td><strong>Other/general</strong> Pre-land interests in a landholder are quarantined.</td>
<td>Investors who acquire their interest in a landholder before the landholder has land bear the economic cost of the duty paid on the acquisition of the land. Therefore, it is appropriate that this interest be quarantined from further duty.</td>
<td></td>
</tr>
<tr>
<td>Interests acquired before the introduction of land rich duty are quarantined</td>
<td>Retains the status quo.</td>
<td></td>
</tr>
<tr>
<td>Aggregation of interests acquired for the purposes of a relevant acquisition within 3 year period</td>
<td>Retains the status quo (currently found in some jurisdictions) and recognises that acquisitions which are more than 3 years apart are the subject of separate and distinct investment decisions and are not part of the same arrangement to acquire control.</td>
<td></td>
</tr>
<tr>
<td>Excluded assets of a landholder only include assets which the have been acquired to defeat the ratio</td>
<td>It is inappropriate for assets to be excluded for the purposes of the 60% ratio simply because they are current assets. Certain business are required by law (such as certain APRA regulated entities) to retain certain cash and other liquid investments. It is, however, appropriate to exclude assets which are acquired for an avoidance purpose.</td>
<td></td>
</tr>
<tr>
<td>Issue</td>
<td>Proposed Model</td>
<td>Rationale</td>
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</tr>
<tr>
<td>Custodians are ignored – ie any bare trust or custodian relationship is ignored for the purposes of relevant thresholds, provided that the custodian does not make investment decisions.</td>
<td>To avoid the uncertainties and complexities found in current provisions, it should be clear that custodians and bare trust arrangements are ignored. This is also consistent with the overall policy of looking to economic equivalence, and treating unit trust as entities. In addition, it also recognises that it is the beneficiary of a bare trust or custodian relationship who directs all investment decisions, and will bring the legislation up to date with current investment trends, including accommodating certain investor directed investment platforms such as IDPS schemes. Finally, this accords with the approach of treating a unit trust as an entity.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exemptions</th>
<th>CRE from land rich duty as per the PCA Model</th>
<th>An exemption from land rich duty is consistent with an exemption from land transfers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retain all other existing exemptions</td>
<td>Maintains the status quo.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix C - Reforming Victoria’s Property Taxes 2010 (Executive Summary)

Geoff Carmody & Associates (GCA) has been commissioned by the Property Council of Australia (PCA) to examine the Budget feasibility of, and economic benefits from, reforms to Victoria’s current land tax (LT) and stamp duty on commercial property transfers (SDCP).

In large part, this report updates a similar report, confined to restructuring of land tax in Victoria, prepared by Access Economics for the PCA in 2004 and, in 2008, a broader Access Economics report canvassing reforms both to LT and SDCP. It also extends the analysis of the latter report in some areas.

As was the case with the 2004 and 2008 reports, we are grateful to the Victorian Department of Treasury and Finance and the State Revenue Office for providing some of the data required to undertake the analysis in this report.

**KEY RESULTS**

As has been the case for over a decade, the Victorian Government has a strong Budget position and prospects. As a result, there is considerable scope for tax reform as outlined below.

**The key findings of this report can be summarised as follows:**

- There is an efficiency-based case for reducing Victoria’s reliance on land tax and especially SDCP, and reforming the tax rate structures applying in both cases.

- Victoria’s continuing strong general government Budget position would permit useful reforms either to land tax and/or SDCP while maintaining the Victorian Government’s long-standing Budget objective of a net operating surplus of $100 million per annum.

- Based on the latest official Forward Estimates, useful reforms costing of the order of $740-$790 million per annum would be feasible in coming years.

- This Budget ‘feasible envelope’ suggests that the Victorian Government could, for example, (i) reduce the top land tax rates to 1%; or (ii) cut the top rates of SDCP to 3%; or (iii) reduce the top land tax rates to 1.5% and reduce the top SDCP rates to 4%.

- The three reform options noted above would garner significant net economic benefits for Victoria, in the longer term amounting to (in current dollars) real GSP, real consumption and employment increases of $215 million, $180 million and 510 full time equivalent persons, respectively, for option (i); or real GSP, real consumption and employment increases of $460 million, $370 million and 1,060 full time equivalent persons, respectively, for option (ii); or real GSP, real consumption and employment increases of $375 million, $308 million and 885 full time equivalent persons, respectively, for option (iii).

**TAX REFORM FINDINGS**

For land tax, a key imperative is to move as soon as possible to a single rate above any tax-free threshold, and to lower the top tax rate to 1.0% - 1.5%. Over time, indexing the tax-free threshold, as is currently the case in NSW and South Australia, is also desirable.

For SDCP, which is amongst the most inefficient state taxes applying in Australia, complete abolition is highly desirable, as was envisaged under the initial version of the InterGovernmental Agreement as part of the introduction of the GST. While the subsequent deal between the Democrats and the (then) Commonwealth Government compromised and modified that arrangement, over time it remains a desirable efficiency-promoting objective.

However, abolition of SDCP does not yet seem to be feasible within the previous Victorian Government’s Budget constraints.
VICTORIAN BUDGET SCOPE FOR TAX REFORM

Since the Bracks/Brumby Government was first elected, Victorian fiscal policy has been conducted to ensure, amongst other things, a net operating surplus of at least $100 million per annum.

In practice, Budget policy decisions and a solid economy, combined with benefits from a strong property market, have meant that this policy benchmark has been easily exceeded for the last decade. Looking forward, current official projections have that situation continuing. Official general government sector debt as a share of GSP is low and, while forecast to increase in future years, is expected to remain so.

This strong Budget position and prospect provides scope for tax reform on a revenue-negative basis of between $740 and $790 million from 2011-12 to 2013-14.\(^{10}\)

In considering property tax reform options for Victoria, GCA has confined its analysis to packages costing no more than $740-$790 million per annum (or less), or thereabouts, in the Forward Estimates period.

TAX REFORM OPTIONS

Based on the costings presented in this report, a wide range of reforms both to land tax and to SDCP, or some combination of the two, would be feasible.

Consistent with the ‘feasible budget envelope’ noted above, for modelling purposes, GCA has concentrated on three illustrative packages chosen from within these options:

- Cutting the top rates of land tax to 1% (‘first round’ cost of $449 million in the 2011 tax year).
- Cutting the top rates of SDCP to 3% (‘first round’ cost of $556 million in 2010-11).
- Cutting the top rates of land tax to 1.5%, plus cutting the top rates of SDCP to 4% (‘first round’ costs of $254 million in tax year 2011, and $350 million in 2010-11, respectively).

NET ECONOMIC BENEFITS OF REFORM FOR VICTORIA

There are significant net economic benefits to be garnered by Victoria from each of the three tax reform options noted above. The net economic benefits of similar reforms were quantified by Access Economics using its AE-GEM model in its 2008 report. They have been extrapolated to the reforms proposed in this report, as applied to the current PEBU-based Forward Estimates period, by GCA.

Cutting the top land tax rate in Victoria to 1% results in an estimated year-on-year increase in real Gross State Product (GSP) of $215 million in 2009-10 dollars. Real household consumption increases by $180 million. Real investment increases by $133 million. Employment increases by 510 persons (full-time equivalent basis).

Cutting the top rates of SDCP to 3% also increases output, welfare and employment, but by proportionately more. GSP is projected to increase by $460 million in 2009-10 dollars. Real consumption increases by $370 million, while real investment and employment increase by $285 million and 1,060 persons (full-time equivalent basis), respectively.

Reducing the top land tax rate to 1.5% and reducing the top SDCP rate to 4% results in benefits to the Victorian economy that lie between those achieved by targeting either tax individually. Real GSP is projected to increase by $375 million in 2009-10 dollars. Real consumption increases by $308 million,...

\(^{10}\) The incoming Government has announced significant new revenue and expenditure commitments since the release of the 2010 PEBU. To the extent that these initiatives are not financed by increased revenues or new cost savings, they will reduce Budget capacity to finance revenue-negative tax reforms. Such reductions have not been explicitly allowed for in this report (not least because firm costings of these commitments – gross or net – are not yet available). That said, the options emphasised in the following sections of this report have estimated costs less than the $740-$790 million per annum range noted in this section of the report. To that extent, implicit allowance for some net new spending and revenue concessions has been made.
while real investment increases by $230 million. Employment increases by 885 persons (full time equivalent basis).

**REFORM PHASING OPTIONS**

The options presented in this report provide a ‘smorgasbord’ of choices for a phased approach to property tax reform in Victoria. One broad option is to work through the options presented in the report as overall Budget circumstances permit.

GCA suggests, however, that *significant* property tax reforms, implemented as soon as possible, bring forward the time when the economic benefits flow through to the Victorian economy. As a starting point for reform, given current Budget forecasts, GCA would start with a combination of SDCP and land tax reforms costing up to $740-$790 million per annum (‘first round’ cost), and push forward from there.
Appendix D – The Liveability of Australia’s Cities (Melbourne)

Summarising the attitudes of Melbourne’s residents

The liveability of Melbourne

- With a Liveability score of 60.0 this made Melbourne Australia’s third most liveable city according to its residents.
- The attributes that Melbourne residents felt were most important in making a city a good place to live were:
  - Being a safe place for people and their property;
  - Having good healthcare services;
  - Being an affordable place to have a good standard of living; and
  - Having good employment and economic opportunities.
- Compared to residents in other cities, Melbourne residents are also relatively more likely to believe it is important for a city to:
  - Have a good look and design;
  - Have a diverse range of people who get along well;
  - Have a wide range of recreational outdoor environments; and
  - Have good schools and other educational facilities.

- Key factors leading to Melbourne’s good performance compared to other cities were relatively high levels of satisfaction with Melbourne:
  - Having a wide range of cultural entertainment options;
  - Having a good look and design to the city, and
  - Being an affordable place to have a good standard of living.
- However, compared to other cities, Melbourne performed relatively poorly in terms of:
  - Having a good climate; and
  - Having a good road network with minimal traffic congestion.
Summarising the attitudes of Melbourne’s residents

Preferred housing types to manage growth
- Melbourne residents were more likely to support, rather than oppose, a series of housing developments to support growth.
- The highest level of support was for:
  - New neighbourhoods of freestanding houses built on the outskirts of the city close to jobs;
  - The conversion of old industrial sites to apartments and townhouses; and
  - More medium density housing (like townhouses) in middle and outer suburbs.

The Role of the Federal Government
- Most Melbourne residents are also supportive of greater Federal Government involvement within capital cities in terms of:
  - Developing a population plan to manage growth; and
  - Taking a greater role in planning and investing in Australia's capital cities.

Performance of the State Government
- Overall, Melbourne residents rated the performance of their State Government quite poorly in terms of:
  - Making housing more affordable; and
  - Setting a fair level of taxation to be applied when people buy or sell properties.
- They were most likely to rate the performance of their State Government as fair in terms of:
  - Releasing land for new homes; and
  - Planning and managing urban growth.
The most important attributes in making a city a good place in which to live

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Average Rank of Attribute Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is a safe place for people and their property</td>
<td>4.7</td>
</tr>
<tr>
<td>There are good healthcare services</td>
<td>6.2</td>
</tr>
<tr>
<td>It’s an affordable place to have a good standard of living</td>
<td>6.7</td>
</tr>
<tr>
<td>There are good employment and economic opportunities</td>
<td>6.7</td>
</tr>
<tr>
<td>The city is clean, well maintained and unpolluted</td>
<td>8.9</td>
</tr>
<tr>
<td>There is a good public transport service</td>
<td>7.1</td>
</tr>
<tr>
<td>There are good schools and other educational facilities</td>
<td>8.2</td>
</tr>
<tr>
<td>There is a wide range of cultural entertainment options (like cafes, restaurants, markets, theatres, nightspots, and sporting...)</td>
<td>9.3</td>
</tr>
<tr>
<td>There is a good range of quality affordable housing</td>
<td>9.3</td>
</tr>
</tbody>
</table>

The attributes that Melbourne residents felt were most important in making a city a good place to live were being a safe place for people and their property, having good healthcare services, being an affordable place to have a good standard of living and having good employment and economic opportunities.
Other attributes in making a city a good place in which to live

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Average rank of attribute overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a good road network and minimal traffic congestion</td>
<td>8.5</td>
</tr>
<tr>
<td>There is a wide range of recreational outdoor environments (like parks and playgrounds, cycle paths...)</td>
<td>8.9</td>
</tr>
<tr>
<td>The natural environment is attractive</td>
<td>10.8</td>
</tr>
<tr>
<td>The climate is good</td>
<td>11.3</td>
</tr>
<tr>
<td>There is a diverse range of people who get along well</td>
<td>11.5</td>
</tr>
<tr>
<td>The look and design of the city (the buildings, streetscapes and cityscapes) is attractive</td>
<td>11.7</td>
</tr>
<tr>
<td>There are good approaches to environmental sustainability and climate change</td>
<td>12.4</td>
</tr>
<tr>
<td>There is a good balance of different housing types (e.g., houses or units)</td>
<td>13.0</td>
</tr>
</tbody>
</table>

The attributes that Melbourne residents felt were least important in making a city a good place to live were: having a good balance of different housing types, having good approaches to environmental sustainability and climate change, having an attractive city look and design and having a diverse range of people who get along well.
The attributes on which Melbourne performs best

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a wide range of cultural entertainment options (like cafes, restaurants, markets, theatres,...)</td>
<td>39</td>
<td>49</td>
<td>10</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>There is a wide range of recreational outdoor environments (like parks and playgrounds, cycling tracks,...)</td>
<td>25</td>
<td>58</td>
<td>14</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>There are good schools and other educational facilities</td>
<td>13</td>
<td>59</td>
<td>22</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>The natural environment is attractive</td>
<td>10</td>
<td>61</td>
<td>25</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>There are good employment and economic opportunities</td>
<td>9</td>
<td>55</td>
<td>26</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>There is a good balance of different housing types (e.g. houses or units)</td>
<td>9</td>
<td>55</td>
<td>23</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>The look and design of the city (the buildings, streetscapes and cityscape) is attractive</td>
<td>11</td>
<td>53</td>
<td>27</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>There are good healthcare services</td>
<td>7</td>
<td>51</td>
<td>26</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>There is a diverse range of people who get along well</td>
<td>7</td>
<td>48</td>
<td>32</td>
<td>13</td>
<td>3</td>
</tr>
</tbody>
</table>

Melbourne residents were most likely to agree that Melbourne has a wide range of cultural entertainment options, a wide range of recreational outdoor environments and good schools and other educational facilities.
Melbourne’s performance on other attributes

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The climate is good</td>
<td>6</td>
<td>47</td>
<td>34</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>The city is clean, well maintained and unpolluted</td>
<td>6</td>
<td>45</td>
<td>35</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>It is an affordable place to have a good standard of living</td>
<td>5</td>
<td>45</td>
<td>30</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>It is a safe place for people and their property</td>
<td>4</td>
<td>40</td>
<td>34</td>
<td>17</td>
<td>5</td>
</tr>
<tr>
<td>There is a good public transport service</td>
<td>6</td>
<td>32</td>
<td>27</td>
<td>25</td>
<td>11</td>
</tr>
<tr>
<td>There are good approaches to environmental sustainability and climate change</td>
<td>3</td>
<td>33</td>
<td>48</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>There is a good range of quality affordable housing</td>
<td>3</td>
<td>28</td>
<td>33</td>
<td>27</td>
<td>9</td>
</tr>
<tr>
<td>There is a good road network and minimal traffic congestion</td>
<td>2</td>
<td>20</td>
<td>33</td>
<td>35</td>
<td>11</td>
</tr>
</tbody>
</table>

Melbourne residents were least likely to agree that Melbourne has a good road network and minimal congestion, a good range of quality affordable housing, or that it has a good approach to environmental sustainability and climate change.
Preferred housing types to manage growth

- New neighbourhoods of freestanding houses built on the outskirts of the city close to jobs: 16% strongly support, 59% support, 19% neither support nor oppose, 4% oppose, 2% strongly oppose.
- The conversion of old industrial sites to apartments and townhouses: 13% strongly support, 57% support, 19% neither support nor oppose, 8% oppose, 3% strongly oppose.
- More medium density housing (like townhouses) in middle and outer suburbs: 10% strongly support, 45% support, 29% neither support nor oppose, 12% oppose, 5% strongly oppose.
- More apartments in inner city neighbourhoods: 9% strongly support, 45% support, 27% neither support nor oppose, 14% oppose, 5% strongly oppose.
- More apartments at major transport and retail centres: 8% strongly support, 47% support, 31% neither support nor oppose, 11% oppose, 4% strongly oppose.

Melbourne residents were more likely to support, rather than oppose, a series of housing development to support growth. The highest level of support was for: new neighbourhoods of freestanding houses built on the outskirts of the city close to jobs; the conversion of old industrial sites to apartments and townhouses; and more medium density housing (like townhouses) in middle and outer suburbs.
The role of the Federal Government

Most Melbourne residents are also supportive of greater Federal Government involvement with capital cities, particularly in terms of: developing a population plan to manage growth; and taking a greater role in planning and investing in Australia’s capital cities.
## State Government Performance

<table>
<thead>
<tr>
<th>Task</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
<th>Very Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Releasing land for new homes</td>
<td>3</td>
<td>21</td>
<td>43</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td>Planning and managing urban growth</td>
<td>2</td>
<td>16</td>
<td>42</td>
<td>28</td>
<td>12</td>
</tr>
<tr>
<td>Making housing more affordable</td>
<td>3</td>
<td>9</td>
<td>31</td>
<td>34</td>
<td>23</td>
</tr>
<tr>
<td>Setting a fair level of taxation to be applied when people buy or sell properties</td>
<td>2</td>
<td>7</td>
<td>26</td>
<td>32</td>
<td>31</td>
</tr>
</tbody>
</table>

Overall, Melbourne residents rated the performance of their State Government quite poorly in terms of making housing more affordable and setting a fair level of taxation to be applied when people buy or sell properties. They were also most likely to believe that the State Government was doing a fair job in terms of releasing land for new home and planning and managing urban growth.
Appendix E - Optimal Debt Level for the State of Victoria (Executive Summary)

Optimal Debt Level for the State of Victoria

Executive summary

The Brief

The Property Council of Australia engaged the Allen Consulting Group (ACG) to identify the optimal level of debt financing that could prudently be undertaken by the Victorian Government, while maintaining its current AAA credit rating, in order to achieve the goals set out in the 2008-2009 Victorian state budget. The brief required ACG to:

1. Identify the issues and challenges faced by the State of Victoria in the current economic climate.
2. Set out the State’s intended strategy in pursuing its goals as stated in the 2008-09 State budget.
3. Perform an analysis of the maximum debt level the State can obtain without affecting its AAA credit rating.

In our analysis we assume that any new debt raised by the Victorian Government is applied to fund capital items for economic and social infrastructure with a high rate of return on society’s investment.

Analysis

Background and credit rating methodology

ACG’s methodology was first to review the economic circumstances surrounding the loss and restoration of Victoria’s AAA credit rating during the 1990s. When Victoria was downgraded to AA by Standard & Poor’s in 1992 in the aftermath of the recession of 1990-91, its total net debt had reached 23 percent of Gross State Product (GSP). The State’s budget strategy during the mid-1990s centered on debt reduction financed by the sale of the restructured businesses from the State Electricity Commission of Victoria and the Gas and Fuel Corporation. By 1998 net debt as a percentage of GSP had fallen to 5 percent, and the State’s credit rating was restored to AAA.

We considered the credit rating methodology applied to regional governments by Standard & Poor’s and Moody’s, and met with executives of Standard & Poor’s to discuss their approach. Standard & Poor’s assesses the ‘likelihood that a particular obligor or financial obligation will timely repay owed principal and interest’. The analysis covers eight analytical categories:

- Economy
- System support and predictability
- Management capacity and institutional legitimacy
- Financial flexibility
- Budgetary performance

Standard & Poor’s (15 March, 2002), ‘Standard & Poor’s Submission to Select Committee on State Government Financial Management’, p.1
Optimal Debt Level for the State of Victoria

- Liquidity and debt management
- Debt burden
- Off-balance-sheet liabilities.

For each of the above analytical categories, Standard & Poor’s ranks the regional government on a scale of one (best) to five (worst), and there is no exact formula for combining scores to determine the ranking. However, an important determinant is degree of support provided by the wider Federal budgetary system.

Our approach was to establish a set of constraints that would need to be accommodated for the Victorian credit rating to comfortably satisfy the AAA criteria. The AAA-rated State of New South Wales is the best comparator for Victoria given its relative size, however Victoria is in a relatively stronger position due to Victoria:

- Having higher forecast growth in GSP than New South Wales;
- Not sharing the capital expenditure burden of New South Wales, particularly with respect to the relatively high risk (generation and retailing) electricity sector; and
- Having a net financial liabilities/operating revenue ratio of 59 percent in 2008/2009 compared with 32.4 percent for New South Wales.

Standard & Poor’s has stated that New South Wales must maintain its net financial liability/operating revenue ratio below a level of 120-130 percent in order to maintain its AAA rating. Given Victoria’s relative credit risk advantages, setting a similar constraint for Victoria to retain its AAA rating could be considered conservative.

Challenges facing Victoria

In recent years, Victoria has enjoyed a period of sustained economic growth and high levels of employment that have seen a concomitant rise in population, which has in turn placed pressure on Victoria’s transport, health and education infrastructure. A major challenge facing Victoria’s Government in the 2008-09 Budget was to address Victoria’s recent strong population growth and the infrastructure investment required to support that and maintain strong economic growth and a high standard of service delivery. The 2008-09 Budget announced net infrastructure investment of an average $4.3 billion in each of the next four years.

Victoria’s budget strategy

For the past 8 years Victoria has delivered a budget surplus of at least $100 million per annum. As outlined in Budget Paper No. 2, Strategy and Outlook 2008-09, the State has been pursuing a number of major objectives, which include the maintenance of a substantial budget operating surplus, targeted to be at least 1 percent of operating revenue, and maintenance of the State’s AAA rating.
Under the 2008-09 Budget, which was issued in May 2008, Victoria’s borrowings were expected to double in the four years to June 2012, increasing by $16.6 billion to a total of $30 billion. More than half of the new borrowings will be incurred by the public non-financial sector (PNFC), with sales revenue funding most of the service costs. Net debt was projected to rise from $5.7 billion in June 2008 to $22.9 billion in June 2012, which is expected to constitute 7.1 percent of GSP. In the absence of an updated Budget outlook, we have relied upon projected fiscal magnitudes set out in the Budget, but did consider changed economic assumptions and their implications.

On 6 May, 2008 Standard & Poor’s Ratings Services announced that the Victorian Budget 2008-09 was consistent with its AAA credit rating. Standard & Poor’s noted that Victoria’s target of maintaining a surplus target of 1 percent of operating revenue is more stringent than its previous target surplus of $100 million. In a submission to the Senate Select Committee on State Government Financial Management Standard & Poor’s also noted while Victoria’s moderate increase in debt over the next four years can be comfortably accommodated, it cannot indefinitely increase net debt levels without affecting its AAA rating, and when debt levels rise it is more important that an adequate operating surplus is maintained.

Sensitivity and scenario analysis

The sensitivity and scenario analysis is based on ACG’s high level preliminary modelling using the forecasts contained in the Victorian Budget 2008-09. The modelling approach maximised new State debt subject to:

- 1 percent ratio of operating surplus/operating revenue (Victorian Government self-imposed constraint), with a sensitivity showing outcomes for a 0.5 percent ratio in the presence of lower than expected growth;
- Net financial liabilities/operating revenue ratio less than 120 percent (Standard & Poor’s NSW constraint), and
- State tax/GSP ratio of no more than 4.75 percent (2006-07 Australian average).

In view of the uncertainties surrounding current estimates of Australia’s GDP growth over the next few years, and consequently the GSP growth rate for Victoria, we have estimated outcomes based on two alternative GSP growth scenarios, as shown in Table E5.1. The ‘Base Case’ growth scenario (GSP1) averages at 2 percent over the next three years. The ‘Low Case’ growth scenario takes a half a percent away from each ‘Base Case’ year’s growth rate.

<table>
<thead>
<tr>
<th>Fiscal years ending 30 June</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Budget (May 2008)</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>GSP 1: Current Base Case</td>
<td>2.0%</td>
<td>1.5%</td>
<td>2.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>GSP 2: Current Low Case</td>
<td>1.5%</td>
<td>1.0%</td>
<td>1.5%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Source: State Budget (2008-2009) and Allen Consulting Group based on various market sources.
Optimal Debt Level for the State of Victoria

The main results of our estimation procedure are displayed in Table ES.2. Every scenario presented in the table the active constraint was the maintenance of the required percent ratio of operating surplus/ operating revenue, with the net financial liabilities/ operating revenue constraint remaining inoperative throughout. However, the maintenance of a relatively constant State tax/GSP ratio was applied in the choice of 4.5 percent growth in State tax revenue. Naturally, all the scenarios involving additional debt result in a higher net financial liabilities/ operating revenue ratio.

Table ES.2
VICTORIA: RESULTS OF SENSITIVITY AND SCENARIO ANALYSIS

<table>
<thead>
<tr>
<th>GSP</th>
<th>minimum surplus/ revenue</th>
<th>new debt $m</th>
<th>net financial liabilities/ operating revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Base Case</td>
<td>1.32%</td>
<td>0</td>
<td>59.6%</td>
</tr>
<tr>
<td>Base case &amp; additional debt</td>
<td>1.00%</td>
<td>7.4</td>
<td>59.6%</td>
</tr>
<tr>
<td>GSP1: No new debt</td>
<td>1.00%</td>
<td>0</td>
<td>59.6%</td>
</tr>
<tr>
<td>GSP1: New debt</td>
<td>1.00%</td>
<td>2.4</td>
<td>59.6%</td>
</tr>
<tr>
<td>GSP1: 50% User Charge</td>
<td>1.00%</td>
<td>3.8</td>
<td>59.6%</td>
</tr>
<tr>
<td>GSP1: 4.5% Tax &amp; User Charge</td>
<td>1.00%</td>
<td>16</td>
<td>59.6%</td>
</tr>
<tr>
<td>GSP2: No new debt</td>
<td>0.47%</td>
<td>0</td>
<td>59.6%</td>
</tr>
<tr>
<td>GSP2: 50% User Charge</td>
<td>0.50%</td>
<td>0</td>
<td>59.6%</td>
</tr>
<tr>
<td>GSP2: 4.5% Tax &amp; User Charge</td>
<td>0.50%</td>
<td>11.8</td>
<td>59.6%</td>
</tr>
<tr>
<td>GSP2: 4.5% Tax &amp; User Charge</td>
<td>1.00%</td>
<td>7.2</td>
<td>59.6%</td>
</tr>
</tbody>
</table>

Source: Allen Consulting Group

The ‘Base Case & additional debt’ scenario indicates that $7.4 billion of additional debt could be raised under the 2008-09 Budget assumptions (including 3 percent GSP growth) within all the modelling constraints. Under the 2008-09 Budget, the minimum operating surplus/ operating revenue buffer would be 1.32 percent in 2008-09 and this would rise to 2.3 percent in 2011-12. This would provide an opportunity to undertake significant infrastructure spending if the growth rate initially forecast in the May 2008 Budget was expected to be achieved.

With a downward revision of the growth rate to the scenario presented by our revised ‘Base Case’ (GSP 1), however, the scope for raising new debt to finance new infrastructure is reduced significantly. Our estimates indicate that an additional $2.4 billion could be raised without the need to apply user charges or raise State taxes. However, this additional infrastructure spending would be available only at the end of the period (in the fiscal years 2011 and 2012), not at the beginning, when it is more likely to be needed.
OPTIMAL DEBT LEVEL FOR THE STATE OF VICTORIA

We have assumed that half of the infrastructure spending is for social infrastructure, which would not have user charges applied to it, and the other half is for economic infrastructure, which could. Under the revised 'Base Case' growth assumption the application of user charges increases, we estimate that $3.8 billion could be borrowed whilst maintaining a 1 percent operating surplus/operating revenue buffer. Again, the constraints would only allow increased infrastructure spending at the end of the period.

However, a major impact on potential infrastructure spending could be achieved by increasing State taxes by 4.5 percent. Under this scenario, in which user charges would fund half the new infrastructure spending, and the other half would be funded by a 4.5 percent increase in State taxes, an additional $1.6 billion could be raised without tripping any of the constraints. In contrast to the previous scenarios, most of the borrowing could be undertaken in the 2009 and 2010 fiscal years, when it can address current infrastructure needs, and potentially provide some stimulus to the economy of Victoria.

Under the still lower growth forecast contained in the ‘Low Case’ scenarios we find that a 1 percent operating surplus/operating revenue buffer would already be likely to be unsustainable. Even under the ‘no new debt’ scenario (apart from that already envisaged in the Budget) there would be no scope to raise new debt, as the operating surplus/operating revenue ratio would already be 0.47 percent. Similarly, a 50 percent user charge strategy could not be applied, as any new debt raised would only add to the State’s revenue half of the additional interest rate burden that would be subtracted as an additional expense.

However, we find that even in this extreme low growth scenario, $11.8 billion could be applied to infrastructure spending, most of it at the beginning of the period. This could be achieved with a policy that included:

- Slightly higher State taxes (4.5 percent higher than at present, which would not raise the State tax/GSP rate appreciably over time);
- Sourcing 50 percent of the funding required with user charges (100 percent on the economic infrastructure); and
- A reduced operating surplus/operating revenue buffer (to 0.50 percent compared with the current target of 1 percent).

Reducing the size of the operating surplus/operating revenue buffer could be justified in view of the need to undertake essential infrastructure providing a high social rate of return in a weaker economic period, with its lower private investment levels. On the other hand, the final scenario in Table ES.2 shows that under the ‘Low Growth’ case the maintenance of an operating surplus/operating revenue buffer of 1 percent could be accommodated by reducing the infrastructure spending (financed by a combination of taxes and user charges) to $7.2 billion.
**Optimal Debt Level for the State of Victoria**

In summary, the State's ability to borrow to fund infrastructure investment is sensitive to the rate of GSP growth, and the impact that this would have on the State's revenue. We have not assumed that additional Federal funding would be made available in the event that additional spending were undertaken by Victoria. We have also ignored any stimulus that such spending might have on attracting private investment and increasing the GSP growth, as well as the negative impacts that might result from increases in State taxation. We have also ignored the potential impact on the State of a decline in the valuation of the State's investments that have been made to cover its superannuation liabilities.

**Conclusions**

The Victorian Government has established as one of its key objectives the maintenance of a AAA credit rating for the State. Another key objective is the achievement of prudent fiscal management through maintenance of a self-imposed target of an operating surplus of at least 1 percent of operating revenue. At the same time, the Government has recognised the challenges posed by Victoria’s rapidly growing population and the strains that this is imposing on the State’s infrastructure.

The results of our preliminary modelling analysis indicate that under the reduced ‘Base Case’ (GSF 1) growth conditions, the State could potentially raise an additional $2.4 billion to $16 billion in debt over the period to June 2012 without breaching the target of maintaining the net financial liabilities (net debt and unfunded superannuation)/operating revenue ratio at less than a range of 120 percent to 130 percent. Under the modelling assumptions, the active constraint would be the operating surplus/operating revenue target of 1 percent, as the net financial liabilities/operating revenue target would not be breached. It is highly likely that the State would maintain its AAA rating under such a policy in these circumstances.

We also examined a more pessimistic ‘Low Growth’ scenario, under which it would be necessary to increase taxes marginally and institute a user charge for some infrastructure. We found that even in this situation potentially up to $7.2 billion in infrastructure spending could be funded without posing a significant threat to the State’s AAA rating.

In short, if policy decisions were made by the State Government to apply user charges and modest tax increases that would not have a material impact on Victoria’s relative tax competitiveness, additional borrowings in excess of $7 billion, and potentially up to $16 billion could be accommodated without threatening the State’s AAA rating.
Executive Summary

The Property Council commissioned Urbis to undertake research in order to provide a basis on which to monitor Melbourne’s growing population. This base will provide an indication of how Melbourne is tracking in providing accommodation for the city’s growing population, especially in established suburbs.

Melbourne is currently experiencing a higher rate of growth than was anticipated in the Melbourne 2030 policy and the city is expected to accommodate five million people by earlier than the original forecast of 2030.

The Melbourne @ 5 Million policy which underpinned Melbourne 2030, committed to providing 240,000 additional dwellings in Melbourne’s growth areas, and a further 316,000 dwellings in Melbourne’s established areas.

Victoria must engage in the dialogue and discussion around a sustainable population. Melbourne is experiencing hyper growth, but there is no certainty this will go on forever. What we must do as a state, and in turn a nation, is develop policy and implementation processes to ensure Victoria’s growth is sustainable and well managed into the future. Victoria is well placed to lead the nation on this issue and all levels of government must increase their engagement with community and industry bodies to ensure this is the case.

Delivering on Melbourne’s Population Plan will focus on the following key questions:

- Can Melbourne accommodate an additional 600,000 dwellings within 20 years?
- Is growth delivering a more compact city?
- What are the market and equity issues and obstacles to delivering Melbourne’s growth agenda?
- What are the public policy obstacles and potential solutions to delivering Melbourne’s growth agenda?

A sustainable, liveable Melbourne will require all levels of government to work together to cater for Melbourne’s growing population. A vibrant city, where people have employment opportunities close to home and access to a reliable and safe public transport system is the direction Melbourne should be heading.
FINDINGS

As demonstrated in the Research Summary and throughout Delivering on Melbourne’s Population Plan, the establishment of a base upon which to monitor how Melbourne’s growth can be accommodated particularly in established suburbs, was an easy exercise. Key findings however include the following.

1. Melbourne is not building enough dwellings to meet the Melbourne @ 5 Million targets. Between 2006 and 2009, an average of approximately 23,000 net new dwellings per year were approved, this being 19% less than the 27,692 additional dwellings per year required to meet the Melbourne @ 5 Million targets.

2. Melbourne’s pattern of new residential development appears to be delivering a slightly more compact city, as evidenced by the higher share of new dwellings in established areas in 2007-2008 of 50%, relative to 2004-2006 of 38%.

3. There is a strong inconsistency in the methods used by municipalities to set housing targets which has in turn led to a trend of both over and under performance by local governments.

4. The key planning obstacles to delivering Melbourne @ 5 Million include:
   - Definitive targets for delivering dwellings at the municipal level do not exist.
   - Disparity between the localised delivery of metropolitan issues.
   - Lack of a body to drive inner urban area residential development.
   - Public attitudes.
EXECUTIVE SUMMARY

RECOMMENDATIONS

The findings and outcomes of Delivering on Melbourne’s Population Plan have shaped four key recommendations:

1. **VICTORIAN STATE AND LOCAL GOVERNMENTS MUST UNDERTAKE TO DEVELOP A CLEARLY DEFINED AND CONSISTENT METHOD OF DETERMINING LOCAL GOVERNMENT HOUSING TARGETS TO ENSURE RESPONSIBILITY ACROSS ALL MUNICIPALITIES.**

   Clear housing targets at the local government level are essential to inform the strategic planning for the future development of Melbourne at both the metropolitan and local level. Without a clear understanding of the population that is being planned for, including its trends and densities, government cannot hope to establish logical plans for where additional housing can be accommodated, the level of services and facilities that will need to be provided for the future population and the infrastructure this requires.

2. **VICTORIAN STATE AND LOCAL GOVERNMENTS MUST ACKNOWLEDGE AND IDENTIFY KEY STRATEGIC GOALS IN ORDER TO ADDRESS KEY INFRASTRUCTURE IMPLICATIONS OF POPULATION GROWTH.**

   Projections indicate that Melbourne’s population will surpass earlier estimates. It is essential that planning for Melbourne’s growth and investment in major infrastructure projects keeps up with the pace of population growth. Failure to provide sufficient and appropriate infrastructure will undermine the competitiveness of Melbourne and its social, economical and environmental sustainability.
A COMMITTED PROGRAMME OF PUBLIC EDUCATION MUST BE UNDERTAKEN AT THE STATE AND LOCAL GOVERNMENT LEVEL.

A programme of public education is needed to inform the general public of the benefits of proactive planning for population growth as well as the possible consequences of not responding in a structured way to this growth. The concept of “protecting our current amenity” is misplaced, as what is clear from Delivering on Melbourne’s Population Plan, is that population growth is continuing even though housing provision is not keeping up with it.

Clarity is required in relation to the agency or authority that is responsible for driving the delivery of the metropolitan policy and for holding both local government and infrastructure and service agencies accountable for the implementation strategies such as Melbourne 3030 and Melbourne @ $ Billion. This cannot be left to each of the local governments to deliver its piece of the puzzle, firstly because not all local councils share the metropolitan vision, and secondly because it is beyond their charter as it inevitably involves the delivery of metropolitan facilities, services and infrastructure. The delivery of any vision requires a champion of the vision, and the vision for the future of Melbourne is central to the continued progression of the metropolitan community going forward.