THE VOICE OF **LEADERSHIP**

Tasmania in Transition

2015-16 Budget Submission

Property Council of Australia
February 2015

2015: Tasmania in Transition - Executive Summary

This submission focuses on the contribution of the property industry to the broader community.

The property and construction industries employ 16.7 per cent of Tasmania's workforce, are the state's largest single contributor to gross state product at 10.9 per cent, and pays over $800 million in property-specific state and local taxes.

Tasmania is in transition.

The Property Council has commissioned significant research concerning the state of the Tasmanian economy and subsequently, as a result of this commitment we have confidently ascertained that a budget which both continues the positive progress while also delivering structural reform is desperately required.

Recent quarterly results from the ANZ/Property Council survey were outstanding and demonstrated that Tasmania has a significant opportunity as a result of consistent and increased confidence across the economy. Respondents indicated their optimism through a number of measures such as forward work schedules and state economic growth. A shift in sentiment during the past 12 months was also particularly encouraging with Tasmania recording the only positive result in the country.
http://www.propertyoz.com.au/tas/Article/NewsDetail.aspx?p=16&id=10444

This sentiment has been reinforced by ABS statistics where Construction Work Done in Tasmania (September 2014) has risen for four quarters worth $600,000,000. However population growth continues to remain a significant issue with Tasmania recording the lowest growth of all States and Territories.
http://www.abs.gov.au/websitedbs/D3310114.nsf/home/home?opendocument#from-banner=GT

Regrettably, our latest member survey regarding Hobart's CBD office market vacancy rate highlighted an increase from 7.3 per cent to 8.9 per cent, due to supply addition and negative demand.

Concern was also evident in the Property Council of Australia's planning system survey. Respondents who normally conduct their business in Tasmania provided the following feedback:

- Only 50% of Tasmanian respondents rated their planning system structure/framework as satisfactory or better.
- The 3 most popular descriptions of the Tasmanian system were:
  - Overly cautious – with respect to new development forms;
  - Not clear or precise;
  - Outdated and lacking in market awareness.

To achieve economic reform, urgent action is needed across the board, particularly in relation to:

1. **Local government;**
2. **Planning;**
3. **Taxation & Rates;**
4. **Utilities;**
5. **Red & green tape reduction; and**
6. **Population.**

The Property Council is willing to discuss each of these concepts and their integral role in improving the economic and social prosperity of our State.

1. Local government reform

The structure and activity of local government requires serious and sustained reform which focuses on improving outcomes for the Tasmanian community.

This has not changed since 1997, when the Local Government Review Board found that there would be 'considerable benefits' from reform through lower debt, higher reserve funds, a drop in administrative expenses, and improvements to the skills base of council employees.

The Property Council recently released EMRS figures from polling conducted in November 2014. The survey results showed that three quarters of Tasmanians thought there were too many councils, too many councillors and alderman, but just as importantly that money could be saved by council mergers. Since 2010 there has been a continual increase in support for council reform in Tasmania and the figures continue to hold up.
http://www.propertyoz.com.au/tas/Article/NewsDetail.aspx?p=16&id=10355

29 councils and 263 councillors service a population of just half a million Tasmanians – that's one councillor for every 1,900 people.

In comparison, Brisbane City Council, with its population of 2.15 million (4 times larger than our whole State), has only 26 councillors.

The large number of councils and councillors means that good money has to be wasted on duplicated services, over governance, and poor decision making, all subsidised by State and Federal Government funding, and an ever increasing burden of rates.

23 of our 29 councils represent only 47 per cent of the population (an average of around 10,000 residents per council).

If the Government is serious about kick-starting the economy, reducing the cost of living, and improving conditions for business, it must act urgently to reform the local government sector.

The Property Council is extremely pleased that the Treasurer, the Hon. Peter Gutwein MP has engaged in public discourse about the benefits of local government reform, consequently we believe the State Government should:

a. acknowledge that without significant local government reform and restructuring other necessary micro-economic reforms are unlikely to occur;
b. actively support any councils who wish to pursue voluntary amalgamation including financial assistance for the implementation of reform measures;
c. Legislate for a reduction in the number of councils to coincide with the 2018 local government elections.

2. Planning reform

The Property Council remains extremely supportive of the planning reforms initiated by the State Government and particularly the work of the Planning Reform Taskforce.

The move to a single state-wide planning scheme is acknowledged, although without structural reform of local government this will remain a very difficult task. Any single scheme must be flexible enough to cater for those large-scale, longer-term, complex developments and therefore it will be important that the development of proposed site specific schedules is well-considered and any subsequent implications well understood.

Recent amendments to planning legislation in late 2014 were appreciated and we look forward to the momentum continuing with a raft of legislative changes proposed for 2015.

There remains too much regulation and duplication in the planning area. Industry and the community want certainty from their planning systems. The State Government should:

a. maintain funding to the Planning Reform Taskforce;
b. finalise legislative processes required to introduce private certification of routine, small scale development;
c. expand land use types categorised as 'permitted' development and subject to code assessment procedures;
d. continue progress and resourcing of announced reforms well ahead of the next state electoral cycle;
e. define what can be built and where it can be built;
f. ensure that land released for construction is properly connected to water, waste, and power services.

3. Taxation & Rates reform

Tasmanian Governments have known for a very long time the importance of taxation reform.

A healthy property sector has particular relevance to the Tasmanian economy, with 60-70 per cent of the state's investment being in property.

The property sector is shouldering the lion's share of the tax burden, paying a much higher than average rate of tax compared with all other sections of the community.

For Tasmanian businesses to thrive, the community to prosper, and investors to commit their capital, a more practical approach to micro-economic reform is required.

If our state is to become efficient, competitive, and attractive to investors, Tasmania urgently needs property tax reform.

The State Government needs to show leadership, by urgently reinstating the Review of State Taxation and directing it to examine property taxes as a central element of its investigation, specifically stamp duty, land tax, developer charges, and fire services levies.

Now more than ever the Government needs to show commitment and leadership by reviewing all of its inefficient property taxes and fees and charges including:

Stamp duty

In almost every review of taxation conducted throughout Australia, stamp duty has been recognised as the most inefficient of all taxes. It increases the cost of business, decreases competitiveness, and makes new residential developments less affordable than existing housing.

In the residential sector developments are double-taxed, being hit with both GST and stamp duty.

In the commercial sector, the removal stamp duty in line with the growth in GST revenue should be strongly considered before becoming even further entrenched in the Government's budgeting.

Rates, fees and charges

Ten per cent of the total cost of commercial and residential construction is directly attributable to state and local government fees and charges.

Furthermore, industry is concerned that there are moves afoot to base rates on capital values rather than unimproved land values which together with potential rate hikes due to inflated valuations may deliver significant investment barriers. The consequence will be an increased rates burden on the property sector and the undermining of profitability.

Tasmania's residents need to know that council rates and levies and water, waste, and electricity charges are being determined according to realistic needs and within acceptable bounds.

To reduce inappropriate cost increases for rate-payers, the State Government should:

a. require councils to identify and declare publicly their core business and their strategies to deliver efficiencies and improvements;
b. tie any changes to the rating formulae to unimproved land value not capital value;
c. ensure that differential rating is used as a tool of last resort;
d. ensure that rate-payers are provided with clarity and transparency about the methodology for setting rates and are able to challenge decisions;
e. require any increases, post rate fixing, to be linked directly to improvements in service delivery or the provision of infrastructure, and to be capped to CPI or less similar to NSW with an IPART Review - if councils want higher rates they need to justify the increase.

The State Government should direct a Review of State Taxation to consider other taxes and levies and their impacts on business and the community, including:

a. the need for transparency and consistency in the charging of council rates across the state; and
b. the appropriateness and applicability of development charges and levies.

4. Utilities reform

Tasmania should aim to be a low cost provider of services in order to be competitive and address the cost of living.

The Property Council of Australia has held discussions with both TasWater and TasNetworks and we have been pleased with their willingness to engage and consider suggestions and areas for improvement.

TasWater

From our recent interactions we understand the "Headworks Holiday" has seen a doubling in permits and labour for TasWater and the State Government should be congratulated for this initiative.

Most importantly The Tasmanian Division of the Property Council of Australia continues to express dismay at TasWater paying dividends to 29 Councils across Tasmania.

By way of background, on 6 November 2013 the Board of TasWater approved the payment of an interim dividend of $5,934,403 from 2013-14 estimated profits. This interim dividend was paid on 13 November 2013. Subsequently on 25 June 2014 the Board approved the payment of a further dividend of $12,712,699 which was paid on 27 June 2014.

The current TasWater Corporate Plan indicates that $45m will be paid in dividends over the next three years. The Property Council of Australia (TAS) firmly believes that the estimated profits should be re-invested into infrastructure development and not used to deliver "reward payments" to councils who failed to upkeep services over many years.

The State Government should reform the Water and Sewerage Industry Act 2008 to:

a. quarantine any efficiency savings for use by the Corporation to fund infrastructure improvements; and
b. change the dividend, income tax equivalents, and guarantee fees policies, to ensure that revenue for the next five years goes to the Corporation for the provision of infrastructure and/or pricing relief, rather than providing windfall funding to councils.

TasNetworks

The Property Council supports an effort to re-establish industry and invigorate business in our state by making use of its resources. Once considered the envy of the country with clean and inexpensive energy supply, the Government should be diligent in its efforts to restore this position of economic strength.

By creating a more efficient energy sector, businesses will be stimulated and households will be delivered lower costs of living.

Though linking this strategy to state growth, industry is likely to migrate, making use of the lowest electricity prices in the country.

The State Government should restore energy as a competitive advantage for Tasmania by:

a. delivering affordable energy at competitive and predictable prices that are amongst the lowest in Australia;
b. empowering consumer choice;
c. ensuring an efficient energy sector that is customer focussed;
d. utilising energy to facilitate state growth; and
e. maximising Tasmania's renewable energy opportunities.

5. Red and green tape reduction

A continued focus on red and green tape reduction will be critical to encouraging investment in the state.

The property industry is one of the most heavily regulated industries in Tasmania.

Federal, state, and local regulations abound, dictating how the built environment is planned, constructed, managed, occupied, taxed, and even demolished.

These rules frequently overlap, conflict, create confusion, and add to the financial burdens being placed on investors through an escalating cost of compliance.

Red tape significantly increases the cost of business, and these expenses eventually flow through to the general community in the form of higher costs of goods and services.

The property sector knows that some regulation is necessary for the efficient operation of any industry and the wider economy, and to protect our resources for future generations.

The Property Council seeks more sensible, integrated regulation, which reduces duplication and balances the expectations of an industry with the needs of its participants.

Regulation in Tasmania is a considerable burden on business, undermining productivity and efficiency, and reducing profitability.

The State Government should continue to work towards delivering a process which examines regulation and identifies cost and compliance burdens for business. Through this, it should:

a. immediately conduct a review of regulations and associated assessments to ensure that:
    - all duplication, unnecessary cost, and lack of clear and enforceable timelines are eliminated; and
    - remaining regulations are streamlined, with appropriate resourcing allocated for their management.
b. introduce a requirement for all proposed new legislation to be subjected to cost-benefit analysis to ensure that everyone is aware of the potential impacts;
c. submit an annual report to Parliament from the Premier outlining targets and timelines for regulation reduction from each department;
d. deliver the resources needed to police essential safety certification rules effectively.

6. Population growth

The Property Council supports the State Government's target of 650,000 people by 2050.

Economic growth which provides young people with a "reason to stay" is critical for the success of this target.

For generations, young people have left Tasmania in their early 20's to pursue opportunities on the mainland and overseas. However, these people often return to live and work in the safe and supportive communities found throughout Tasmania.

The challenge remains to both retain those who do not return and attract more working families to our state. This will be achieved through leadership which demonstrates an ability to conquer economic challenges, most particularly job creation, and through showcasing the State's ability to generate its own wealth.

The State Government should:

a. Adequately resource the development and implementation of a Population Strategy which is underpinned by sustainable economic growth.

Key facts about the Tasmanian property sector

The Property Council

The Property Council represents the biggest private sector industry in Tasmania, which is part of the $600 billion Australian property industry.

Property Council members include major property owners in Tasmania, who operate across the sector in:

- all types of property activity – financing, funds management, development, ownership, and assets management;
- all asset classes – office; retail; residential development; industrial; tourism & leisure; aged care and retirement living; and infrastructure;
- every major region of Australia and various international markets; and
- the four quadrants of investment – public, private, equity, and debt.

Key facts about the Tasmanian property sector

- The property sector:
  - covers building and construction, the private and institutional investment community, and a suite of supporting professions and trades;
  - constitutes 16.7 per cent of the state's workforce – some 39,000 Tasmanians – are directly or indirectly employed by this sector (the largest private sector employer in the state);
  - contributes 10.9 per cent of Gross State Product or $2.5 billion directly, and a further $3.1 billion indirectly – the largest single contributor in Tasmania;
  - pays a further $500 million in local government rates and fees annually;
  - pays approximately $1 billion in property specific taxes annually to state and local government in Tasmania.

- The value of investment grade stock under management in Tasmania is approximately $11.2 billion, a significant proportion of which is owned by superannuation funds that invest the retirement savings of Tasmania's workforce.

- The market value of foreign assets owned by Australians is $50 billion.