PROPERTY COUNCIL of Australia

WESTERN AUSTRALIA

# 2014-15
# PRE-BUDGET
# SUBMISSION

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## Executive Summary

The Property Council is pleased to lodge its 2014-15 Pre-Budget submission with the Treasurer of Western Australia.

The Government's 2013-14 Budget papers detail the extent of WA's precarious financial position. The actions needed to repair the Budget and regain the State's AAA credit rating limit the fiscal options available to manage the Budget as the resource sector investment boom recedes. The Property Council's submission identifies a raft of initiatives in the property sector that both support the Government's Fiscal Action Plan as well as encourages WA's continuing growth.

A bold, yet fiscally-responsible State Budget is necessary to guide the economy through the forecasted period of below-average revenue growth and ballooning recurrent expenditure, while servicing unprecedented demand for public services and infrastructure.

As a significant economic contributor to the State's prosperity, the property sector has the potential to lead a new wave of investment-led growth. Economic diversification provided by a strong, prosperous property sector will help to insulate the State from the full impacts of declining resource sector investment. There are, however, preparatory budget measures that need to be implemented to activate higher levels of property industry growth and investment.

Our submission is underpinned by a series of recommendations that enable the preparation of a bold, yet fiscally-responsible 2014-15 State Budget. The Property Council's recommendations focus on three key areas of the Budget:

- Government revenue as it relates to property taxes;
- Government expenditure initiatives in property related portfolios, including planning, lands, regional development, and the environment; and
- Government asset management initiatives to involve the property sector in more efficient use of government property assets.

A notable recommendation of the Property Council's 2014-15 Pre-Budget submission is that infrastructure investment, including those investments deferred in the 2013-14 Mid-Year Review, need to be funded regardless of the pressure to reduce government expenditure and return the Budget to surplus. This will be achieved through a fiscally-responsible strategy to raise revenue through the sale of underutilised government assets.

Incorporating the Property Council's recommendations into the 2014-15 State Budget will activate higher levels of property investment and growth through a fairer taxation system, prioritised infrastructure delivery, planning reform and the sale of underutilised assets.

The Property Council of Australia looks forward to working with the State government to achieve these outcomes.

## Property Council in Brief

The Property Council of Australia is the peak body representing the property sector. Our members include the broad spectrum of businesses that own property, property developers, building managers and property service consultants. The Property Council's members include 2,200 companies throughout Australia and represents property assets worth over $600 billion.

The WA property sector is the second biggest contributor to the gross state product, the largest full time equivalent employer and funds more than 30% of the State's tax revenue[1]. The Property Council is actively involved in public policy development and participates in a range of government and industry stakeholder consultation processes across urban planning, taxation, environment, construction and sustainable development. Pertinently, the Pre-Budget submission is of significant priority to the Property Council and is prepared to reflect the views of some 300 Western Australian members.

[1] Property Council of Australia. 2012. Economic Significance of the Property Industry to the Western Australian Economy. AEC Group.

## A Guide to Reading This Submission

This submission contains three sections.

The first section focuses on government revenue and it outlines initiatives to make property taxes fairer and more sustainable over the longer term.

The second section focuses on government expenditure initiatives across a raft of agencies to deliver more efficient outcomes in the property sector and drive state growth.

The third section deals with Government asset management reforms and, in particular, initiatives around the orderly disposal of land and property assets to support the Government's Fiscal Action plan.

Each section contains recommendations pertaining to Government revenue and expenditure and the management of Government land and property assets. Cumulatively these recommendations aim to deliver a bold, yet fiscally-responsible State budget strategy from the property sector's perspective. For reflective ease, a summary of these recommendations opens the submission.

## Summary of Recommendations

### 1. Government Revenue

#### Stamp Duty

1.1 Engage with the Federal and state governments on genuine tax reform, including the GST framework, to eliminate inefficient state taxes.

1.2 Provide a full stamp duty exemption relating to the land component in off-the-plan residential dwelling purchases where building has not commenced.

1.3 Provide a partial concession of 25% of duty payable on new homes or off-the-plan purchases where construction has commenced.

1.4 Provide a full stamp duty exemption for eligible seniors purchasing a new home for use as principle place of residence.

1.5 Phase out stamp duty on commercial property transactions.

#### Land Tax

1.6 Implement an urgent review of the land tax system to broaden the land tax base and distribute the land tax burden more equitably. The tax review would include:

- a reassessment of land tax thresholds,
- the abolition of land tax aggregation at the entity level,
- capping land tax assessments, and
- re-examining land tax exemptions.

1.7 Extend the land tax exemption for retirement villages to include land on which a retirement village is being constructed.

### 2. Government Expenditure

#### Administration Reform

2.1 Continue to curb the growth of public sector expenditure as outlined by the Government's Fiscal Action Plan.

2.2 Support more private sector involvement in approvals processes in the property sector, including full private certification of building permit applications and the introduction of private certification of planning approvals.

2.3 Support the introduction of a full electronic processing and approvals system for the lodgement and processing of development applications to be determined by the WA Planning Commission.

#### Planning Reform

2.4 Support the establishment of an independent body to provide advice on priorities for the delivery of statewide and regional infrastructure that is aligned to WA's strategic land use planning frameworks.

2.5 Prioritise the funding of the State's Economic and Employment Land Strategy.

### Strata Reform

2.6 Support the modernisation of WA's strata titles laws by Landgate to enable the introduction of layered schemes and leasehold strata titles over freehold land.

### Regional Development Reform

2.7 Amend the Royalty for Regions arrangements to support more funding of state-wide economic infrastructure.

2.8 Support the involvement of the Infrastructure Coordinating Committee of the WA Planning Commission in infrastructure investments made by the Royalties for Regions program.

2.9 Review the need for a state Future Fund by doing a study to determine if the Fund's investments would be better served by directly supporting the WA's immediate infrastructure shortfall.

### Environmental Efficiency Reform

2.10 Support the establishment of a state-based Green Forecast Fund to provide industry incentives to scope environmental upgrades to older commercial buildings.

## 3. Asset Sales

### Underutilised Land and Property Sales

3.1 Support the urgent introduction of a strategy to sell government owned land and property assets in line with the Fiscal Action Plan announcements in 2013. The strategy would include participation of the private sector around private investment opportunities and the timeframes for the disposal process. The strategy would also be aligned to the funding of WA's infrastructure program.

# 1 Government Revenue

*'We contend that for a nation to try and tax itself into prosperity is like a man standing in a bucket and trying to lift himself by the handle.'*

*Winston Churchill*

## Revenue Context

The 2013/14 Budget papers demonstrate the structural imbalance between WA's revenue and expenditure growth. The State's budget is in a vulnerable position with limited fiscal options to influence revenue. The loss of the AAA credit rating during a time of unprecedented investment and general economic prosperity indicates that the Government cannot rely solely on economic growth and royalty incomes to solve its budgetary constraints.

## Revenue Strategy

Any meaningful attempts to address the structural imbalance between WA's revenue and expense growth need to incorporate strong policy reforms. The Grattan Institute argues that tax reform is the most effective tool to rectify public sector budgets. Fiscal discipline is required in the current financial context; however it should not be used as an excuse against well-targeted reform. Instead, it should be the catalyst. The Property Council supports the Government's Fiscal Action Plan but strongly recommends that tax reform be considered as a prerequisite to the Plan's success.

It is generally accepted that tax reform should begin with State taxes, as most recently highlighted in Australia's Future Tax System Review (Henry Review), which concluded that the most inefficient taxes were those levied by States. The Henry Review stated that by replacing inefficient taxes, individual States will benefit from better access to sustainable tax revenue to fund their expenditure.

The worsening revenue position in WA highlights the importance of raising economic resilience through reform and ensuring that taxes are collected at the lowest economic cost with minimal distortionary effects[2]. Following the loss of the AAA credit rating, the Premier correctly called for leadership from the Federal government in tax reform in September 2013 specifically calling for GST reform. The call for tax reform has to be led by the States and, given WA's declining share of GST, the Premier should provide the leadership necessary to drive tax reform through COAG.

[2] The Allen Consulting Group. 2011. State Tax Reform: A practical Approach to Drive Sustainable Gains. Report to Business Coalition for Tax Reform.

## Stamp Duty

***Stamp duties are consistently rated poorly against efficiency criteria due to their distortionary effect on decisions to buy, rent, move or renovate. Stamp duty is highly inefficient, costly to administer and can prevent land from being put to its most valuable use. We acknowledge that from a government revenue perspective, stamp duty cannot be reformed until such time as the State government has successfully called for GST reform. Until then stamp duty will continue to impact the stability of government revenue and is detrimental to achieving desired policy outcomes.***

Stamp duties are widely recognised to be one of the most distortionary state taxes. Generally, narrow based transaction taxes are subject to more volatility and provide less predictable revenue than broad-based taxes. The 2013/14 Mid-Year Review demonstrated the volatile impact on revenue streams where downward revisions had to made by more than $125 million as a result of weaker than expected activity in the housing market and lower than anticipated collections from large property transactions.

The dominance of transaction-based stamp duties in the state tax mix has import implications for the stability of state revenues. The volatility of stamp duty receipts is driven by the cyclical nature of the property market and subsequently impacts the predictability of the State government finances. As illustrated in Figure One the volatility of state taxes highlights that its current structure is not the ideal to provide a stable revenue source for government:

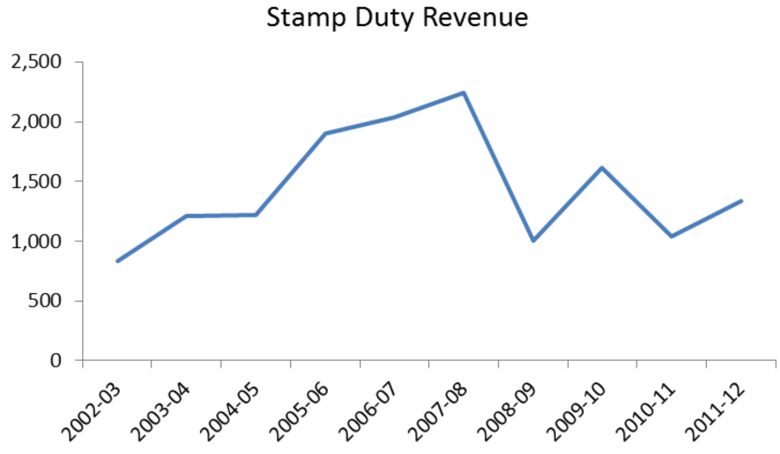


**Figure 1 ABS Taxation Revenue 2011/12- WA Stamp Duty**

Given WA's current fiscal position, sourcing predictable revenue streams should be of paramount priority to the 2014/15 Budget. Stamp duties not only deliver a volatile revenue stream, but also inefficient market outcomes in both the residential and commercial property sectors as a result of distortionary impacts.

### Property Sector Impacts

At the margin, transaction-based taxes lock people into inappropriate housing and discourage mobility. Against efficiency and equity criteria, stamp duty artificially penalises the movement of people into accommodation that best suits their needs. A disincentive such as this leads to an inefficient use of the housing stock at a time where unprecedented population growth as well as an ageing population demands an efficiently operating residential market.

Stamp duty detrimentally impacts the delivery of government policy objectives due to the inconsistency and inequity of its structure. Notably, the success of Directions 2031 WA's urban growth policy to realise a more sustainable metropolitan region in the face of strong population growth, will be determined by the current stamp duty tax structure. The policy stipulates that 47% of new dwelling to be created in the Perth area should be located in the Perth suburbs. However, the current stamp duty structure discourages infill development in favour of land purchases with separate building contracts.

*'The Australian Capital Territory has initiated a process to eliminate stamp duty on residential and commercial property over a period of ten years. The revenue will be replaced by a broad based land tax. The ACT Taxation reforms will increase the overall economic efficiency of the ACT taxation system by an estimated $14.5million in the first year, increasing to $57 million in 2016-17'*

*ACT Government: A Fairer, Simpler and More Efficient Taxation System: Fiver Year Reform Plan*

In relation to the commercial property market, stamp duty essentially is a tax on business inputs reducing business flexibility and competitiveness. Stamp duty reduces the attractiveness of commercial property as an investment as the cost decreases the return. The commercial property sector is as price-sensitive as any market focused on capital attraction and retention. Overtime, the actual burden of stamp duty in the commercial sector is shifted forward to business customers including commercial tenants and investors. Increasingly commercial tenants and investors are everyday Australians saving through superannuation funds.

## Implications for the Budget

Given the State's limited revenue growth opportunities through to 2015/16, it is imperative that any expenditure should demonstrate the highest possible returns. The distortionary impacts of the current stamp duty tax system detrimentally impacts Government expenditure to deliver policy outcomes.

Notably, in the 2013/14 State Budget the Housing Supply Package was introduced to help alleviate the gap between housing supply and demand in the State. The Package aimed to stimulate the supply of new affordable rental dwellings at the total cost of $268 million through to 2027/28, stimulate demand for newly built houses through changes to the first homeowners grant and reform the approvals process to ensure adequate housing supply responses. The Property Council strongly supports this Package.

In opposition, the Henry Review found that stamp duties reduce the effective supply of housing, discourage the development of new housing stock and increase cost of housing The Review concluded that reforms to stamp duty could play a significant role in improving housing affordability.

It is nonsensical that at a time of fiscal constraint, the Government's own tax structures act contrary to their own policy priorities.

Furthermore, stamp duty attracts significant economic costs to government in respect to its administration and economic efficiency per dollar of tax. The 2013/14 Budget allocated more than $5 million through to 2016/17 in a Taxation Administration Package aimed at increasing revenue collection. Given that analysis conducted in the Australian Capital Territory puts stamp duty as the most expensive tax to administer after duty insurance, at 38 cents per dollar of tax raised, tax reform provides the opportunity to reduce and simplify the compliance and administrative cost of collecting stamp duty revenue.

Given that the current tax structure not only limits revenue, but minimises the impact of policy expenditure, reform is a necessity.

***Recommendations:***

***1.1 Engage with the Federal and state governments on genuine tax reform, including the GST framework, to eliminate inefficient state taxes.***

***Until such time when Federal and State taxes have been reformed, the following changes must be implemented to minimise the tax's distortionary effects:***

***1.2 Provide a full stamp duty exemption relating to the land component in off-the-plan residential dwelling purchases where building has not commenced.***

***1.3 Provide a partial concession of 25% of duty payable on new homes or off-the-plan purchases where construction has commenced.***

***1.4 Provide a full stamp duty exemption for eligible seniors purchasing a new home for use as principle place of residence.***

***1.5 Phase out stamp duty on commercial property transactions.***

## Land tax

***The current land tax structure is unfair and inequitable. The current structure is inefficient and distorts the property market as the tax is not underpinned by a broad tax base. The taxable base is further eroded by numerous exemptions and aggregated tax liability at an entity level. Should the land tax remain a viable and relevant source of government revenue, particularly in a challenging economic and budgetary environment, then the land tax structure needs to be reviewed.***

Land tax is a significant contributor to WA tax revenue, raising an estimated $657 million in 2013/14 budget and some $2.4 billion in current forward estimates[3]. In WA, land tax is an annual tax based on the aggregated taxable value of all land owned at the entity level.

When applied uniformly across a broad base, land tax is cited as the most efficient tax structure from which governments can raise revenue[4]. It is considered efficient as the land asset is immobile and has a fixed supply and as a result of these characteristics land tax is less distortionary than other tax structures. The land tax structure in WA, however, does not live up to this expectation and as a result is highly unequitable.

### The Diminishing Tax Base Results in an Unequitable Land Tax System

Ultimately, how land tax is structured will determine its efficiency and equity. The WA land tax structure is inefficient and inequitable as it does not cover all types of land, all ownership structures and incorporates tax-free thresholds as well as numerous exemptions that continually diminish the tax base.

In 2011, the Property Council conducted research to investigate the impacts of WA's current land tax structure. In the last ten years, total land tax revenues have doubled but the number of land tax payers has declined by 50%. This has resulted in the average land tax assessment in WA growing twice as fast as the growth in total tax revenue.

The research concluded that the number of land tax assessments in WA has narrowed by 41%. Within this narrow group of tax payers paying the State's land taxation, an even smaller group of 6.2% pay an estimated 79% of the total land tax. These finding were reconfirmed in the WA State 2013/14 Budget, where around 80% of taxpayers paid less than $700 in land tax – accounting for only 3.67% of total land tax revenue. Furthermore, the 2013/14 State Budget demonstrated that 1.7% of tax payers accounted for more than 60% of the total land tax revenue:

[3] Western Australian State 2013-14 Budget
[4] Treasury.2010. Australia's Future Tax System: The Henry Review. www.taxreview.treasury.gov.au

| State Budget 2013/14 Land Tax by Amount and No. Land Tax Payers | | | | | |
|---|---|---|---|---|---|
| **Tax Threshold** | **Number of Tax Payers** | **Land Tax Fee** | **Percentage of Tax Payers** | **Total Land Tax Paid** | **Percentage of Land Tax Paid** |
| $300,000 | - | $0 | 0.0% | $0 | 0% |
| $400,000 | 31,957 | $100 | 28.5% | $3,195,700 | 0.49% |
| $500,000 | 18,981 | $200 | 16.9% | $3,796,200 | 0.58% |
| $600,000 | 12,748 | $300 | 11.4% | $3,824,400 | 0.58% |
| $ 700,000 | 9,843 | $400 | 8.8% | $3,937,200 | 0.60% |
| $800,000 | 6,778 | $500 | 6.0% | $3,389,000 | 0.52% |
| $900,000 | 5,079 | $600 | 4.5% | $3,047,400 | 0.46% |
| $ 1,000,000 | 4,176 | $700 | 3.7% | $2,923,200 | 0.44% |
| $2,000,000 | 14,933 | $6,000 | 13.3% | $89,598,000 | 13.64% |
| $3,000,000 | 3,687 | $18,020 | 3.3% | $66,439,740 | 10.11% |
| $4,000,000 | 1,447 | $31,720 | 1.3% | $45,898,840 | 6.99% |
| $5,000,000 | 711 | $45,420 | 0.6% | $32,293,620 | 4.92% |
| $10,000,000 | 1,238 | $126,070 | 1.1% | $156,074,660 | 23.76% |
| $ 10,000,000+ | 676 | $126,070 | 0.6% | $ 242,582,040 | 36.92% |
| **Total** | **112,254** | | **100.0%** | **$ 657,000,000** | **100%** |

**Table 1: State Budget 2013/14**

A second issue that arises with an inequitable tax system is that the administrative costs of collection became a far greater proportion of the taxation generated. Taxes with the highest efficiency costs are characterised by narrow tax bases, high tax rates and exemptions. These features are dominant in the WA land tax structure.

## Property Sector Impacts

The above research clearly supports the assertion that land tax in WA is indeed applied unequally and unfairly resulting in a disproportional system of land taxation where a small minority of generating a majority of land tax receipts. The narrowing tax base has increasingly shifted the burden of land tax onto larger landholders – mostly owners of multiple properties and their tenants. Over the long-term the sustainability of tax revenue is threatened as the tax base narrows.

The inequity and unfairness of the current land tax system is magnified by the practice of aggregation at an entity level where owners of multiple properties are required to pay up to three times more land tax than a system that does not apply aggregation. Ultimately, the current land tax structure makes property a less attractive investment as it is usually highly geared and significantly affected by tax policy particularly for institutional investors[5]. The economic incidence of this tax is passed on to the tenants or reduces investor returns, which distorts the WA property sector and erodes its efficiency.

[5] Property Council of Australia. 2001. Land Tax Hikes- A Cost to Jobs: An Information paper for the WA State Government. 26th October 2001.

WA's unequitable tax system has spurred the Property Council to launch the "Make Land Tax Fair" Campaign. The Campaign advocates that the current system of land tax is unfair and calls on the State Government to review the land tax system to make it fairer by broadening the land tax base and more equitable distributing the land tax burden. The Property Council believes that WA is long overdue for tax reform and land tax should take highest priority on a tax reform agenda. A new system of land tax will provide an efficient, predictable and sustainable source of revenue to government without distorting the market.

The recent amendments to the *Land Tax Assessment Act 2002* to overturn the State Administrative Tribunal's decision concerning retirement village exemptions provides strong evidence of the urgent need for a tax review in Western Australia. The inconsistent use of exemptions is not only detrimental to the property sector, but decreases the availability of affordable housing options for senior Australians.

Land used as a retirement village is exempt from land tax provided the residential premises in the village are occupied, or available for occupation, under a residence contract, and all necessary Building Act approvals for the village are in force. The land tax exemption is intended to support the retirement village industry. However, due to its limited scope, it does not cover the period where a retirement village is being constructed. The liability for land tax during the construction phase adds to the costs of construction, which is ultimately passed onto the residents in the retirement village, through more expensive entry costs.

The Victorian government has taken the initiative to widen the land tax exemption for retirement villages. Since 1 January 2011, the land tax exemption for retirement villages in Victoria has applied to land on which a retirement village is being constructed (see section 78A, *Land Tax Act 2005* (Vic)). Under section 78A(2), the exemption applies up to the earlier of the date of completion of construction, or the expiry of two tax years following the date of commencement of construction.

The Property Council therefore recommends the extension of the land tax exemption to cover land on which a retirement village is being constructed be included as a specific area of focus in tax reform agenda. This would ensure a more consistent application of exemption policies and a more equitable land tax system.

## Implications for the Budget

Land tax contributes 20% of total property tax revenue and therefore has a significant role in determining the success of the State's Fiscal Action Plan. Given that the 2013/14 Budget forecast 'underlying' revenue growth to increase at just 5%, a rate of growth insufficient to meet the growth in demand for key government services, a review of land tax is necessary maintain the viability of taxation revenue.

The Productivity Commission states that land tax is one of the most expensive taxes to administer as the land needs to be valued[6] and that there is considerable scope to lower the cost of collecting revenue. Significant cost savings are possible through a redesign of the tax structure and simplifying

[6] Gabbitas, O. and Elderidge, D. 1998. *Directions for State Tax Reform*. Productivity Commission Staff Research Paper. Ausinfo, Canberra

compliance procedures. The current approach of administering land tax based on the Valuer-General's unimproved valuation and the ability to appeal the land tax assessment is effective, particularly when compared to other states. Land tax assessments, however, can escalate widely year-on-year as the current 50% cap is capable of pushing entities into higher tax brackets and therefor liable for significantly higher tax rates. This creates uncertainty, not only for the taxed entity, but for government's own revenue and administrative cost when entities appeal their tax liability.

Changing how the tax is administered, such as by introducing a single rate system and reducing the number of thresholds, would bring administrative costs savings and may also produce wider benefits, such as improved efficiency, equity and, in most cases, compliance. The initial administrative reforms would make inroads into the distortionary effects of land tax and would lay the foundations to reform the land tax system so that it generates more sustainable and efficient revenue with minimal market distortions.

***Recommendations***

***1.6 Implement an urgent review of the land tax system to broaden the land tax base and distribute the land tax burden more equitably. The tax review would include:***

- ***a reassessment of land tax thresholds,***
- ***the abolition of land tax aggregation at the entity level,***
- ***capping land tax assessments, and***
- ***re-examining land tax exemptions.***

***1.7 Extend the land tax exemption for retirement villages to include land on which a retirement village is being constructed.***

# 2 Government Expenditure

*'Over the economic cycle of boom and bust, balanced budgets are much better than the alternative…Yet in good times it is hard for governments to run a surplus. They are invariably tempted to spend money. Many voters prefer outcomes with no identifiable losers.'*

*- The Grattan Institute: Budget Pressures on Australian Governments*

## Balanced Budgets throughout the Business Cycle

A period of strong economic growth, high private investment and low unemployment, coupled with strong population growth and growing demand on government services, encouraged the WA Government to increase expenditure.

The Property Council recognises the need for the Fiscal Action Plan in 2013/14 and expects that into the future recurrent expenditure discipline will be the norm irrespective of the State's economic outlook. However, the Government's decision under the Fiscal Action Plan to temporarily freeze non-essential procurement expenditure to the value of $92 million and review major capital works programs to the tune of $1.9 billion is a short term, reactive attempt to balance the books. The Fiscal Action Plan does not introduce an effective long term strategy to manage the State's expenditure. Notwithstanding the temporary fiscal measures introduced in the 2013/14 Budget, the Mid Year Financial Projection Statement noted that General Government Expenditure had been revised upwards by $238 million to a total of $2.7 billion. This increase equated to an annual growth of 9.3% relative to the 2012/13 Budget[7].

## Strategic Expenditure to Fulfil Policy Objectives

The ability of the 2014/15 Budget to deliver key policy objectives will depend on how the Government allocates expenditure. The Property Council believes that the loss of the AAA credit rating should serve as a reminder to reduce the growth of government expenditure.

However, the downgrade in the credit rating should not distract the State from strategically employing expenditure to drive policy outcomes. The WA property sector is one of the primary conduits through which the Government of Western Australia can deliver policy outcomes.

The Property Council recommends that the expenditure reforms in key property-related Portfolios be introduced so as to activate higher levels of property industry growth and investment. Expenditure reforms in property-related portfolios would deliver a return to Government's investment, particularly in relation to policy outcomes delivered through the property sector. The following sections make comment on Government expenditure and potential reforms in property-related portfolios that would activate growth and investment in the property sector.

[7] Western Australian government.2013. Mid- Year Financial Projections Statement. pp. 16.

## Administrative Reform

***WA public sector expenditure has grown at an unsustainable rate, which the Fiscal Action Plan has sought to address through involuntary severance and other strategies. However, the demand for government services will continue to grow and as such measures need to be taken reduce the cost of public sector service delivery and revaluate whether the services could be more efficiently provided by private sector.***

The Property Council recognises the decision made in the Fiscal Action Plan to better manage public expenditure by curbing the growth of expenditure. This support is conditional to service delivery standard being improved or at the very least maintained.

The Government needs to ensure that only core services are funded by the WA tax payer. Further to this, the Government needs to explore opportunities to cost-effectively assign the delivery of these core services to the private sector.

Two such examples of private sector delivery of Government services are available within the property sector: the management of government office space and the administration of regulation.

The Government Office Accommodation branch is a prime example of a public sector service that could be cost-effectively delivered by the private sector. The Government manages an estimated 555,000 square metres of office accommodation across the state, coordinating business premises through 500 leases and across 20 Government owned buildings.

A research study by Deloitte “Office Politics: Improving Public Sector Property Management” stated that as public sectors around the world attempt to reduce spending, ‘…the need to tackle one of its largest spending areas, governments around the world are starting to take steps to better manage their property…’ The Fiscal Action Plan would be amiss if it did not address the public sector cost of building management and question whether it is appropriate for the Government to manage its own property.

The Property Council suggests that the management of property services would be more efficiently and cost-effectively delivered by the private sector. Property management is not Government’s core business and therefore should not be treated as such. This is approach is not simply good management, but is considered business-as-usual for large companies that operate in a manner similar to a bureaucracy. Large companies lease office space as building management is not their core business.

*The UK National Audit Office (2007) reports that if the government could bring the performance of individual buildings into line with the private sector building benchmark buildings, that is comparing with the private sector average space and operating cost for the same type of building in the same location, the government would reduce gross expenditure on offices by £326 million per annum.*

*UK National Audit Office*

A second example of where public services could be more cost-efficiently delivered is in the administration government's own regulations.

The Fiscal Action Plan needs to focus on how regulatory services can be better delivered at a reduced cost. This position is supported by the Economic Audit Committee in the 2009 report "Putting the Public Sector First: Partnering with the Community and Business to Deliver Outcomes", which concluded that the public sector will increasingly have to act as a facilitator of services rather than a direct provider. The Property Council believes that the administration of certain regulations can delivered at a more cost-effectively by the private sector by introducing private certification and by introducing electronic processing of application.

A prime opportunity for the private sector to deliver regulatory services is through private certification. Private certification is when private certifiers can act as permit authorities without reference to public authorities. This ultimately reduces the cost to the public sector. Cost-efficiencies through private certification can be gained in the WA property sector in two instances.

Firstly, cost- efficiencies can be gained by introducing full private certification of the building approvals process. The State Government, through its agency the Building Commission introduced private certification of building permit applications in 2012. Full private certification exists in most other states. Unlike other states however, the WA model still involves local governments. The involvement of local government in this process adds cost to the process of issuing building permits.

Secondly, cost- efficiencies can be gained by introducing private certification in the planning approvals process. Private planning practitioners are already heavily involved in the preparation of development application and there is potential for private sector assessment and certification of development applications. Introducing private certification of development would reduce the cost to Government while maintaining policy outcomes as suggested by the Department of Planning in 'Planning Makes It Happen: Phase II'.

Private certification can be supported through electronic processing of approvals as some regulations require government decision making for example in the lodgement, referral and sub-division clearance of development applications. Administering regulations of this nature could be conducted more cost-efficiently through the introduction of electronic processing systems. Current (predominately paper based) administration does not reflect industry best practice. The Department of Planning highlighted the efficiencies of introducing an electronic processing system in 'Planning Makes It Happen: Phase II'. The Budget should provide funding to advance electronic processing systems as it is a key area where government's core services; the administration of regulation, can be operated more cost-effectively.

The Property Council advocates that the Department of Finance's Regulatory Gatekeeping Unit considers and adopts an alternative service delivery models across the public sector to deliver cost effective government administration of regulations and more practical for regulations to be delivered by the private sector.

## Implications for the State Budget

The Government has committed to the Fiscal Action Plan which outlined a strategy to deal with the Public sector's ballooning expenditure. Reducing the sheer size of the public sector payroll coupled with introducing private sector delivery of core government services will minimise public sector expenditure growth. To deliver more cost-effective government services it is necessary to investigate alternative delivery models such as private sector management, privatizing regulatory administration and electronic processing.

***Recommendations:***

***2.1 Continue to curb the growth of public sector expenditure as outlined by the Government's Fiscal Action Plan.***

***2.2 Support more private sector involvement in approvals processes in the property sector, including full private certification of building permit applications and the introduction of private certification of planning approvals.***

***2.3 Support the introduction of a full electronic processing and approvals system for the lodgement and processing of development applications to be determined by the WA Planning Commission.***

## Planning Portfolio Reform

***Perth has a strong urban growth strategy and industrial lands strategy however there is a concerted need for better effort to implement the plan. Furthermore urban growth needs to be supported by efficient infrastructure delivery. Currently infrastructure coordination and delivery is loosely planned in WA and no single agency has responsibility for prioritisation or coordination of infrastructure delivery. The only group with oversight is the Infrastructure Coordinating Committee of the WAPC.***

Perth has the best urban growth strategy in Australia. *Directions 2031: A Draft Spatial Framework for Perth and Peel* identifies key policy and planning actions required to support new, balanced growth around a diverse activity centres network, linked by a robust movement network and supported by a green network of parks, conservation and biodiversity areas. The plan emphasised the need for more efficient use of land and infrastructure as well as the need to provide a mechanism for coordinating infrastructure provision and land development.

The State's unprecedented growth and strong urban growth strategy needs to be supported by efficient, coordinated and prioritised infrastructure delivery. Currently infrastructure in WA is loosely planned and no single agency is responsible for its coordination. This situation has follow-on impacts for the State's ability to secure Federal funding and WA's ability to seriously entertain private sector investment in key community infrastructure such as the MAX Light Rail project.

The Infrastructure Coordinating Committee within the WA Planning Commission [WAPC] is the only group with oversight of infrastructure provisioning WA. The Committee advises the WAPC on planning for the provision of infrastructure throughout the State and is tasked with promoting inter-agency cooperation in decision making. Unfortunately, the Committee has no mandate to direct government agencies to coordinate their long-term infrastructure needs nor does it have the authority to prepare long term infrastructure plans.

Some government agencies, including the Office of Strategic Projects, play a coordinating role. However the lack of a single, independent infrastructure coordinating authority is a key weakness. Instead WA has a system of annual agency-by-agency bidding for Capital funds, which is not always conducive to delivering the desired strategic outcomes. This has been particularly evident in the implementation of the State's key strategic growth plans *Directions 2031*, *Transport 2031* and Economic and Employment Lands Strategy.

According to a recent State Government report card which rates the success of implementing Perth's growth plan *Directions 2031*, targets have not been achieved for maximising essential urban infrastructure efficiency and equity, nor have they for developing a coordinated approach to infrastructure and land use planning and development.

As part of the Government's response to a recognised shortfall in industrial land supply, the Economic and Employment Land Strategy (EELS) was prepared to focus on general and light industry needs. This Strategy will require long term investment in both the delivery of the Strategy's key implementation actions and the infrastructure to service new employment lands on the outskirts of Perth. The Property Council understands that planning for infrastructure prioritisation has commenced and strongly urges that the State Government to prioritise and coordinate the funding of the key implementation actions of the Economic and Employment Lands Strategy.

The WA State Government should implement a State infrastructure strategy to complement *Directions 2031* and the EELS strategic plans to clarify infrastructure prioritisation, coordination, funding and delivery for the private sector.

New South Wales has a 10 year rolling State Infrastructure Strategy which establishes priorities for government investment, including Federal investment from infrastructure Australia, on the basis of 14 long-term goals and 34 priorities for action. The Plan is refreshed every two years. Targets allow for reporting and set out how State agencies will deliver.

The WA Government should have a similar long-term strategy that looks at key drivers of infrastructure demand at an intra-government level and develops a strategy to prioritise projects and invest, define sources of funding and align WA prioritises with infrastructure Australia.

It is imperative that at a time of constrained budget and unprecedented commitments to infrastructure spending that the Budget should provide for a whole-of-government response to the State's infrastructure challenges. Early findings from the soon-to-be released Property Council research has determined that providing for a body with the legislative power to focus on funding and delivery of infrastructure which operate under a WA Infrastructure Strategy would actively improve the functioning of ICC and the coordinated delivery of infrastructure in WA.

## Implications for the Budget

As the Government has committed to unprecedented levels of infrastructure spending over the coming years it is necessary that this spending delivers to the growing needs of the State in an efficient and coordinated manner. Investing Government resources in delivering the urban growth strategy as well as the coordinated supply of infrastructure will deliver high returns to both the Government and the private sector.

***Recommendations:***

***2.4 Support the establishment of an independent body to provide advice on priorities for the delivery of statewide and regional infrastructure that is aligned to WA's strategic land use planning frameworks.***

***2.5 Prioritise the funding of the State's Economic and Employment Land Strategy.***

## Lands Portfolio Reform

***Western Australia strata title laws are outdated and restrict the property development sector in its capacity to offer flexible planning and built form outcomes to support the State's growth.***

Western Australia strata title laws are outdated and restrict the property development sector in its capacity to offer flexible planning and built form outcomes to support the State's growth. The review of WA's land tenure legislation (led by Landgate) would allow for increased capacity to deliver to the State's growth through the creation of raft of reforms to the State's strata laws in WA. The creation of layered schemes and leasehold strata over freehold land.

### Implications for the Budget

The future success of the WA property industry requires a supportive policy framework that has been adequately provided for in the Budget. The Property Council believes that reforms to strata title laws; particularly introducing layered schemes and leasehold strata over freehold land, would allow the property sector to support the State's growth at minimal cost to the budget.

***Recommendations:***

***2.6 Support the modernisation of WA's strata titles laws by Landgate to enable the introduction of layered schemes and leasehold strata titles over freehold land.***

## Regional Development Portfolio Reform

***Given the current fiscal challenges faced by the State as well as the severe infrastructure bottlenecks that constrain productivity and competitiveness, the allocation of Royalties for Regions funding; with respect to project prioritisation, accountability and return, needs to be of utmost priority.***

The Royalties for Regions program is a $6.5 billion program to invest in the economic development of regional Western Australia. Capturing 25% of mining and onshore petroleum royalties into regional WA to fund build capacity, improve services, expand opportunities and grow prosperity[8]. The Royalties for Regions fund is dedicated to expenditure in the State's regional areas. In 2013/14 $1.5 billion will be appropriated into the fund, where $1.3 billion is earmarked expenditure and $263 million is to be transferred into the Future Fund.

The Property Council supports the decision to invest in regional WA, particularly with the Pilbara Cities initiative. However, the availability of infrastructure to support regional economic development, including the Pilbara Cities project, is proving difficult for the development sector. In the Pilbara it is common for development businesses to be required to contribute funding to support infrastructure like connections to the electricity grid and water supply that cannot be justified, in comparison to projects in the South-West of the state. This is an opportunity for the State to

[8] Department of Regional Development www.drd.wa.gov.au

intervene through the Royalties for Regions fund to provide key economic infrastructure to support development in the regions.

The Royalties for Regions fund is dedicated to fund infrastructure in regional areas however there is no discernable infrastructure investment strategy or prioritised pipeline. Until an independent body is capable of coordinating and prioritising infrastructure investment in WA, the Property Council urges the Government to better integrate the funding of regional infrastructure with the early involvement of the WA Planning Commission's Infrastructure Coordinating Committee [ICC]. The ICC, as a body of Director-Generals, brings together all the relevant policy, planning and operational agencies that are best placed to establish short, medium and long-term infrastructure needs across the State in response to growth scenarios. The Regional Planning and Infrastructure Frameworks provide context for strategic infrastructure needs. However, the infrastructure needs of regional WA require more than just a planning perspective. At the minimum, consultation with the ICC prior to the commitment of Royalties for Regions funds will ensure that the infrastructure investment allocated to infrastructure priorities in the Regions increase overall regional business attractiveness and encourage private sector investment.

Western Australia more generally has a significant infrastructure gap that is constraining growth, productivity and competitiveness. A debate is required as to how the long term prosperity for future generations can be secured. As part of the Royalties for Regions fund, the Future Fund was committed to in the 2012/13 Budget and quarantined a $1 billion of royalty revenue as seed capital to for future infrastructure requirements. The Future Fund, admirable in its objective, needs to better demonstrate why it is the most suitable vehicle to secure the future infrastructure for the next generation of West Australians. The Property Council advocates that future generations would be better supported through a strong economy, a vibrant capital city with by strong employment and housing options and an integrated public transport system. The Property Council believes that investments in key infrastructure in current budget estimates would ultimately provide a greater return than the average 5.2% return targeted by the Future Fund through the State's Public Bank Account.

## Implications for the Budget

The Property Council urges the government to review the effectiveness of the Royalties for Regions Fund and the Future Fund. The Royalties for Regions Fund has been operational since 2008 and as such, its ability to deliver regional development outcomes through infrastructure and service investment needs to be independently reviewed. The Property Council urges the government to demonstrate how the invested projects have driven productivity improvements and delivered long term efficiency gains and how infrastructure projects are prioritised across the Royalties for Regions portfolio. Furthermore, the decision to set aside $1 billion for the next 15-20 years requires debate. The Property Council asks how, with a declining State revenue context constrained by infrastructure bottlenecks, allocating 25% of royalty income is delivering long to gains to the State.

*Recommendations:*

***2.7 Amend the Royalty for Regions arrangements to support more funding of state-wide economic infrastructure.***

***2.8 Support the involvement of the Infrastructure Coordinating Committee of the WA Planning Commission in infrastructure investments made by the Royalties for Regions program.***

***2.9 Review the need for a state Future Fund by doing a study to determine if the Fund's investments would be better served by directly supporting the WA's immediate infrastructure shortfall.***

## Environmental Reform

***The low energy efficiency of Perth's ageing stock of commercial buildings leads to poor environmental outcomes.***

Creating an appropriate incentive mechanism to deliver positive environmental outcomes is particularly difficult. The limited uptake of the Federal Government's Green Building Fund in Western Australia demonstrates that a poorly designed incentive mechanism will deliver poor environmental outcomes. Encouraging energy efficiency investment in WA while leveraging Federal government funding during a period of slow revenue growth should be priority in the 2014/15 Budget.

The Property Council urges the Government to establish a Green Forecast Fund to provide financial support to building owners to fund the studies necessary to forecast energy savings from capital works. Typical building-upgrade forecasting studies, range between $5,000 and $30,000 depending on the size of the building. The capital works investment would aim to increase energy efficiency and lower greenhouse gas emissions. Government support of the forecast studies would allow WA commercial property owners to leverage the Federal Government's Green Building Fund, from which they are otherwise prevented by the prohibitive costs. The Green Forecast Fund will bridge the gap between preplacing old buildings with new, or less than full retro fits of existing buildings. The Fund would effectively drive improved energy efficiency in buildings that are not due to for replacement or substantial retrofits. The Fund is a cost-effective abatement of greenhouse gas emissions which numerous other Government policies are trying to deliver.

The efficiency audits are a one-off service for the purpose of delivering a scope of work. They can deliver anywhere from conceptual solutions and budgets to formal scopes and costs, depending on the complexity of the existing building configuration. Return on investment and indicative NABERS outcomes are also included. Industry commentators anticipate an uptake in the vicinity of ten to twenty applications per annum in WA.

The total cost to Government for the Green Forecast Fund is estimated to be $200,000, based on 15 applications per annum with an average outlay of $20,000. This takes into account a 50% contribution by the private sector.

## Implications of the Budget

Minimal government funding commitments will drive significant, positive environmental outcomes in shared contribution with the private sector allowing the Government to achieve a reduction in greenhouse gas emissions at minimal cost.

***Recommendations:***

***2.10 Support the establishment of a state-based Green Forecast Fund to provide industry incentives to scope environmental upgrades to older commercial buildings.***

# 3 Asset Management

> *"The Government should not act as some sort of compulsive hoarder…"*
>
> *Danny Alexander*
> *UK Chief Treasury Secretary on the selling of £337 billion of government-owned land and buildings*

## Context

***The downgrade of the AAA credit rating has since delayed or cancelled key infrastructure investments needed to support the State's growth and economic activity. The Government needs to raise revenue, pay-down debt and invest in strategic infrastructure to return to a fiscally responsible position while driving economic growth.***

In the 2013/14 the State Government committed $7.5 billion in infrastructure investment and a total of $26.9 billion to 2016/17. However, a significant portion of the infrastructure commitment had been reduced, delayed or removed by the release of the Mid-Year Budget Review due to the downgrading of the government's converted AAA credit rating. The State's credit rating was downgraded as a result of declining revenue, increased debt and a lack of political commitment to address structural budget issues. The sale of underutilised government land and asset holdings would assist in addressing these issues.

## Asset Strategy

It is simply good public policy for governments to implement an asset management model that makes better use of scarce, new capital and to recycle existing capital. A significant portion of the State's existing capital is tied up in land and property assets. Unless the Government demonstrates a greater commitment to paying down debt and reducing expenditure through measures such as asset sales, there is limited opportunity for the State's credit rating to be revised upward.

The debate to privatise assets has gained traction at both State and Federal government levels. The issue of asset sales in previous years has typically focused on the economic efficiency and productivity gains attributed to private ownership. The debate has since focused on how the sale of public assets can reduce debt and fund much needed infrastructure.

The sale of public assets is often faced with opposition as the public is concerned about job losses, higher prices and quick profits at the cost of service provision. Debate surrounding sales is particularly vocal around those government-owned assets that demonstrate monopoly characteristics that, when left unchecked, would be abused by the private sector. More importantly, however, not all government-held assets can be sold as they do not realise any significant private return. The sale of underutilised government land and property holdings would allow the Government to realise the revenue of public assets sales without unnecessarily triggering public

> *"From January 8th, under a new Treasury scheme, members of the public and businesses will be allowed to buy government land and buildings on the open market. A website will shortly be set up to help potential buyers see which bits of the Government's £337 billion-worth of holdings might be surplus."*
>
> *The Economist*
> *State Owned Assets: Setting Out the Store*

fears, introducing new regulation to control private sector monopolies or having to examine the suitability of public assets for sale.

In the 2013/14 Mid-Year Financial Projections Statement (Dec 2013), the Treasurer introduced a new raft of corrective measures under the Fiscal Action Plan which included a review of the Asset Investment program. The Treasurer specifically stated that:

*"…the government has commenced a structured and coordinated process of asset sales, initially focussed on underutilised land holdings…" (Mid-Year Financial Projections 2013/14 pp. 2)*

The Property Council acknowledges that an Asset Sale Taskforce has been established, but little to no information has been provided to the private sector. The property sector is still specifically waiting for details about the process of assets sales and the identification of the land holdings as committed to in the Mid-Year Review.

In the 2013/14 Budget, the Government correctly identified the sale of underutilised assets as a key strategy to raise revenue and reduce operational expenditure. As a result of the credit rating revision, strategic infrastructure investments to support the State's growth and development, such as the MAX light rail, have been deferred until the budget is in a more flexible position.

The Property Council believes that land and asset sales supported by bold, strategic assets investments will not only drive economic growth and productivity but improve the Budget's performance to regain the AAA credit rating.

The Property Council urges the Government to use the May 2014/15 Budget to announce the list of government owned land and property assets to be sold under its Fiscal Action Plan. At the very least, the Property Council would expect the Government to announce the process for identifying the land and property assets to be sold and a timeframe for the disposal process. The Property Council advocates that the process for identifying the land and property assets should be led by the Department of Lands; with supporting financial analysis by Treasury, as it already responsible for the disposal of surplus government land and buildings.

The sale of land and property assets requires favourable market conditions to ensure that the Government receives a fair return of its assets. It is therefore crucial that the Government acts with haste to take advantage of the currently favourable land and property market conditions.

The favourable market conditions have attracted numerous national and international investors actively seeking investment opportunities in WA today. Commercial property asset sales can take up to 18 months to finalise a sale. Therefore, it is imperative that the Government capitalises on the strong commercial sector to maximise the sale price of its land and property assets. The sale of land

and property assets, particularly commercial buildings, is a significantly quicker process to raise revenue than selling off a port or electricity assets.

Based on evidence of recent CBD sales, the Property Council estimates that up to $0.5 billion of established government owned land and property assets can be realised in the Perth CBD alone. This is in addition to the land sales occurring at Elizabeth Quay and the City Link, where it is estimated that up $1.4 billion of land assets will be sold.

| Government-Owned Buildings CBD | Building No | Building Address | Net Lettable Area |
|---|---|---|---|
| Albert Facey House | 469 - 489 | Wellington Street | 9,343 |
| Police Headquarters | 2 | Adelaide Terrace | 7,800 |
| Gold Corp House | 300 | Hay Street | 1,159 |
| Perth Mint | 310 | Hay Street | 1,100 |
| Homewest Centre | 99 | Plain Street | 5,600 |
| Mineral House (South) | 100 (South) | Plain Street | 4,989 |
| Mineral House Stg2 (North) | 100 (Stage 2) | Plain Street | 9,548 |
| Western Power Head Office | 363 | Wellington Street | 14,073 |
| Western Power Head Office | 365 | Wellington Street | 9,142 |

**Table 2 PCA Calculations**

The Property Council is not advocating that these should be the land and building assets to be sold, but have used the above government-owned buildings to illustrate the revenue potential of underutilised land and property holdings.

Outside the CBD, in suburban Perth and regional WA there are even larger tracts of Government land and property assets that would eligible for assets sales. On the 30th of June 2013, the 2013/14 Budget identified more than $55 billion worth of land assets owned by the total WA public sector and more than $2 billion of land inventories. This includes approximately 555,000 square metres of office space across the state.

The decision to raise revenue through the sale of land and property is consistent with the Government Office Accommodation Master Plan, which has so far relocated up to 5,000 public servants from 18 locations and 23 agencies into 80,000 sqm of co-ordinated office accommodations in Perth, West Perth, East Perth and Osborne Park. In 2012, the State Government revealed its intention to decentralise and relocate about 10,000 sqm of State Government office space to Joondalup. These moves are expected to save $25 million a year in office accommodation. This saving does not include the office space currently occupied by the head offices of the Department of Commerce, the Department of Housing and the Corporate Service and Crime and State Intelligence function of the WA Police, which are also being decentralised.

*In the United States, where the Federal Government owns more than a million properties, the White House estimates that it could generate US$22 billion in the next decade by selling off underutilised property. -Deloitte*

The sale of property assets does not mean that all public sector employees currently located in the building would have to relocate. Rather, asset ownership would be under the control of the private sector, which typically delivers more efficient and cost effective services than the public sector. Multi-national companies follow this model to manage their office accommodation needs, so that resources are focused on their core business. A prominent example of this model in the Perth CBD would be Brookfield Place and its major tenant BHP, with Brookfield Asset Management (and its subsidiaries) owning and operating the commercial development.

The State Government owns even more substantial land and property assets in suburban Perth. This includes large vacant land holdings adjacent to railway stations and rail lines which are ideally suited for the development of higher density housing projects to meet the City's infill housing requirements. Furthermore, the State committed to investing more than $234 million in the 2013/14 Budget to the new, purpose-built Department of Food and Agriculture headquarters in South Perth. This land could potentially recognise greater value through private sector developments, given that it is prime residential land close to main transport corridors.

## Implications for the Budget

The Government's underutilised land and property holdings have the potential to return the WA State budget to a fiscally sound position while still supporting growth and drive productivity through strategic investment of the revenue raised into infrastructure.

The need to reduce budget deficits and debt has provided a strong impetus for governments to shed non-core activities in order to reduce expenditures arising from subsidies, to pay down debt and to realise potential future tax revenues arising from improvements in corporate efficiency and performance[9].

***Recommendations:***

***3.1 Support the urgent introduction of a strategy to sell government owned land and property assets in line with the Fiscal Action Plan announcements in 2013. The strategy would include participation of the private sector around private investment opportunities and the timeframes for the disposal process. The strategy would also be aligned to the funding of WA's infrastructure program.***

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[9] OECD. 2003. *Privatising State-owned Enterprises: An Overview of Policies and Practices in OECD Countries*. OECD Publications, Paris.

## Further Contact

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

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