PROPERTY COUNCIL of Australia

PROSPERITY | JOBS | STRONG COMMUNITIES

Pre-Budget Submission

20 April 2016

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1. Introduction

Since the Palaszczuk Government's election in 2015, the Property Council, along with other industry associations and the wider community, has provided input on many government policy reviews and opportunities for legislative reform.

This period has enabled industry to put forward new solutions and to discuss the benefits of maintaining many of the reform initiatives introduced by the previous Government.

It is now critically important for the Queensland economy, and future job prospects, that the myriad plans underway are finalised and implemented in 2016.

The Palaszczuk Government's second budget provides an opportunity to invest in those initiatives that will attract investment and create jobs in Queensland.

As the representative of one of the few sectors of the economy that is currently driving growth in Queensland's economy, the Property Council encourages the Government to focus on:

1. Sustainability and adaptation
2. Infrastructure investment
3. Investment attraction
4. Reform
5. Supporting local governments

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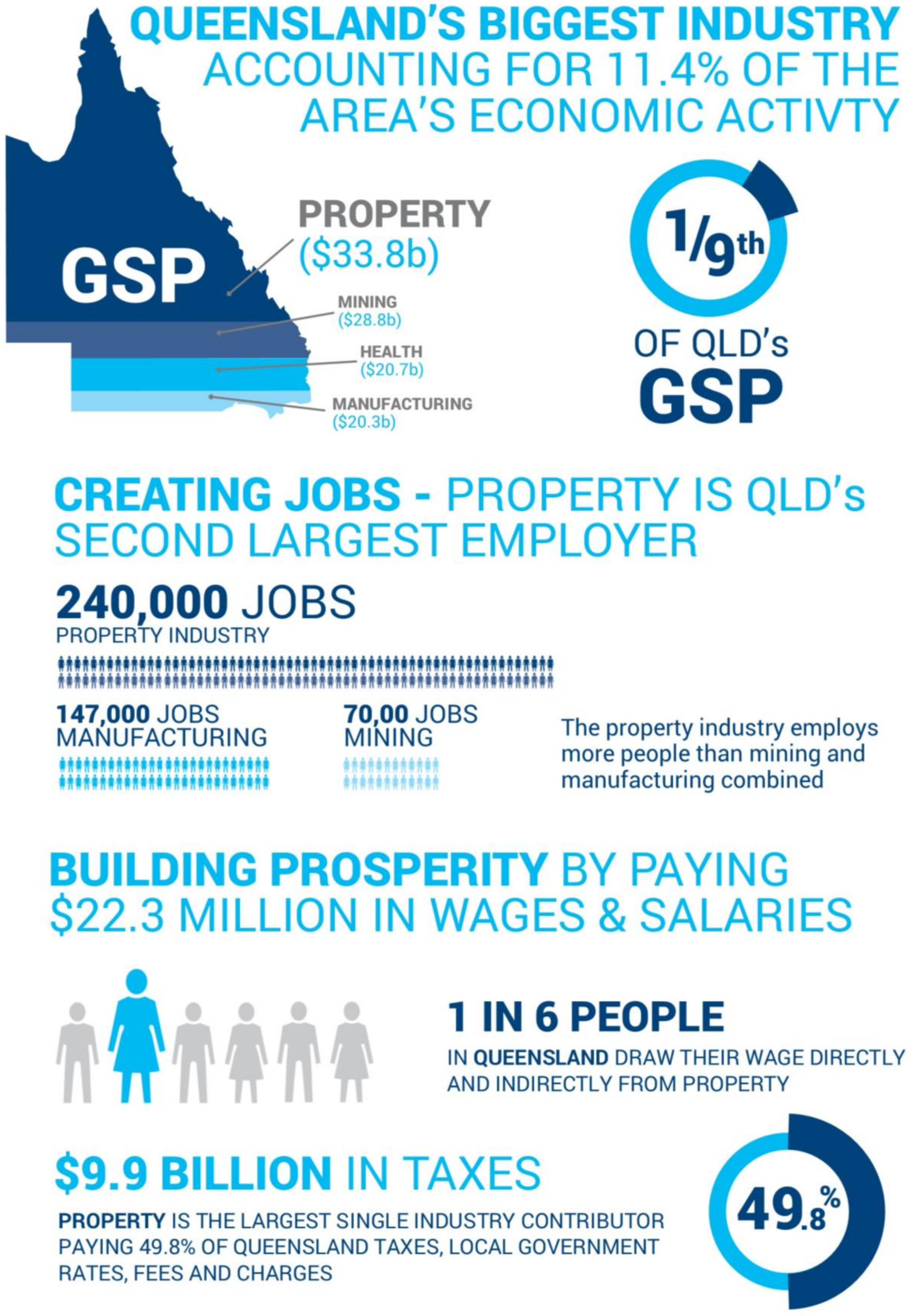
Recommendation 32: Introduce independent reviews for local government planning schemes

Recommendation 33: Undertake legislative amendments to the *Local Government Act 2009* to ensure development assessment fees are limited by cost-recovery

3. Property industry's contribution to the Queensland economy



4. Sustainability and adaptation

The Property Council supports action to build resilience in communities in response to the risks presented by climate change and sea level rise. Unfortunately, in the past we have seen Government take a piecemeal, ad hoc approach to adaptation, which fails in delivering on the broader objectives of preparing for climate change.

For example, the Queensland Coastal Plan focused on retreat and avoidance of the risks associated with climate change, rather than allowing for the development of innovative processes to adapt to and mitigate the risk.

Knee-jerk changes to the mapping associated with storm tide inundation and erosion prone areas, in the absence of a broader policy framework to address the issue, do nothing other than put a handbrake on development and unnecessarily increase the costs for today's homeowners.

In its 2015-16 Budget, the Government committed $12 million to local governments to undertake individual climate hazard adaptation studies, acknowledging that councils are often best placed to undertake this work.

What remains unclear is how local governments are expected to fund and implement the mitigation strategies highlighted as necessary through their local area studies.

An additional $3 million was allocated in the 2015-16 Budget to the development of a Climate Adaptation Strategy for Queensland. The Property Council welcomed this commitment as a first step towards developing a holistic adaptation strategy for the state.

Unfortunately, this strategy has once again focused on individual and isolated programs, at the expense of a holistic, overarching, strategic vision for how the state plans to adapt to our changing climate.

Recommendation 1: Continue to fund the development of a Climate Adaptation Strategy, with a focus on holistic, long-term outcomes

The property industry will be a significant contributor to achieving Australia's 26-28 per cent emissions reduction targets to 2020 and the more ambitious targets likely to be set beyond that.

The property industry is already actively implementing a variety of measures to achieve better environmental outcomes – and that work is paying off.

Australia and New Zealand have ranked first for the last five years running in the leading international sustainability survey for the built environment (GRESB).

In Australia, commercial buildings alone account for approximately 9.4 per cent of national emissions and 7.2 per cent of energy consumption.

As the largest tenants in the state, the Queensland Government must play its part in supporting the industry's commitment to the environment, by ensuring the new commercial buildings they choose to lease are designed to the highest 'green' standards available.

Recommendation 2: Ensure any newly constructed building to be tenanted by the Queensland Government has received a minimum 5 Star Green Star rating

Queensland is lagging behind other states when it comes to retrofitting existing commercial buildings to make them more energy efficient.

The current high vacancy rate of B, C and D Grade buildings in Brisbane's CBD provides an opportunity to explore ways to retrofit this older commercial stock.

Environmental Upgrade Agreements (EUAs) are used extensively interstate as a way for building owners to recoup some of the costs of upgrading their assets, as it is ultimately the tenants who benefit from lower energy costs.

To facilitate the alternative financing behind an EUA, there must be an agreement between the local government and the building owner, as upgrades are paid back via an environmental upgrade charge levied through a council's rating mechanism.

While the property industry and Brisbane City Council have expressed their willingness to explore EUAs, it will require the involvement of the Queensland Government, as the *City of Brisbane Act 2010* must be amended to allow the agreement to be enacted.

Recommendation 3: Work with Brisbane City Council to facilitate the legislative amendments necessary to allow for Environmental Upgrade Agreements

Proposed amendments to the State's vegetation management framework have recently been introduced into the Parliament.

The Property Council supports action to protect the Great Barrier Reef and reduce carbon emissions in Queensland, however the amendments as proposed will have severe and unintended consequences for urban development throughout the state.

As further articulated in Recommendation 25 below, there is a real and demonstrated need to undertake a strategic assessment of environmental matters in Queensland, rather than responding to individual concerns with knee-jerk reactions.

In particular, increasing offset requirements for development in areas within the urban footprint within South East Queensland will do little other than increase the cost of housing and further constrain housing availability.

Recommendation 4: Undertake holistic consultation to better understand Queensland's existing vegetation management framework before finalising proposed legislative amendments

5. Investment in infrastructure

While the $10 billion allocated to infrastructure in the 2015-16 Budget was welcomed by the property industry, it is still far short of the investment needed in order to deliver the infrastructure our state needs, rather than the infrastructure Queensland can afford.

In order to maintain reasonable levels of service, the Queensland Government should invest a minimum of 7 per cent of Gross State Product in infrastructure (CCF, 2009).

Recommendation 5: Invest a minimum of 7 per cent GSP in infrastructure

The delivery of infrastructure is a key component of industry confidence. Our state needs an infrastructure plan that business and the community can rely on to make informed investment and purchasing decisions.

The release of the State Infrastructure Plan in March provided the property industry with a clearer vision of the opportunities and challenges facing Queensland, however, it provided little in the way of certainty regarding funding for many future infrastructure projects.

The Property Council supports governments in the long-term lease, public floating or sale of assets that can be more effectively operated by the private sector, particularly where the funds raised are directed into new, productivity generating assets.

Recommendation 6: Investigate the long-term lease, public floating or sale of assets to fund investment in new infrastructure

In the absence of asset leasing, sales, or public floating to fund investment in new infrastructure, the Property Council encourages the Government to further investigate new infrastructure funding and financing models.

Reviewing the myriad, fragmented grant programs available to local governments, as outlined in the SIP, is supported and encouraged by the Property Council. Research undertaken by Integran in 2016- on behalf of the Property Council- reinforces the millions of dollars in funding that could be better utilised to deliver on established regional infrastructure priorities.

Recommendation 7: Undertake a review of local government infrastructure grant programs

In addition to examining how to make better use of existing funds, the Property Council encourages the Government to investigate how to better leverage investment from other levels of Government and the private sector in delivering infrastructure.

Work undertaken by KPMG in 2014 on behalf of the Property Council, Council of Mayors (South East Queensland) and the Queensland Government, examined how the UK ‘City Deals’ model of infrastructure investment may work in South East Queensland.

The Property Council has welcomed the Queensland Government’s commitment to partner with the Property Council and Council of Mayors (SEQ) to fund a new ground-breaking study into next generation models of infrastructure funding.

Stage 1 of the research project- to be undertaken by KPMG- will see the development of a strategic business case for City Deals in a South East Queensland context, and a definitive 'proof of concept'.

Recommendation 8: Jointly, with the Property Council and Council of Mayors, fund the next stage of investigation into the City Deals model

Major inner-city infrastructure projects, such as Cross-River Rail, provide an opportunity for Government to look beyond traditional Public Private Sector Partnerships (PPPs) and examine new and different ways to leverage the public sector to fund a proportion of investment in infrastructure.

The Property Council supports the smarter use of taxation, whereby the uplift in value is allocated to paying for investment in catalytic infrastructure, such as through Tax Increment Financing (TIF), or the greenfield example of Growth Area Infrastructure Contributions (GAIC) utilised in Victoria.

We **do not,** however, support 'value capture' whereby an additional tax is imposed on the private sector in addition to the uplift in rates, land tax and economic activity that is already delivered to the Government by an increase in land values.

Recommendation 9: Investigate new models of partnering with the private sector to jointly invest in the provision of infrastructure

The Property Council acknowledges the Government's commitment in the 2015-16 Budget to $100 million for the Townsville Stadium. Regionally significant infrastructure investments such as this provide a catalyst for communities to further leverage private sector investment.

In supporting this investment, the Property Council encourages the Government to begin planning for the stadium immediately, so that works on the project can begin as soon as final funding is secured.

Recommendation 10: Work with Townsville City Council to begin planning work for the Townsville Stadium now

6. Investment attraction

In 2013-14, the Queensland Government and local councils received $9.9 billion from the property industry in taxes such as stamp duty, payroll tax and rates.

It is vital that the Government continues to promote investment in property in Queensland so that it can utilise these taxes to further fund investment in infrastructure.

The Property Council has long-advocated for the establishment of a formal market-led proposals framework in Queensland, and welcomed the introduction of this framework in the 2015-16 Budget.

With a number of job-creating opportunities being identified through the framework, it is vital that the Government maintains its commitment to this avenue for the private sector to bring unsolicited proposals forward for consideration.

Recommendation 11: Retain the Government's commitment to the market-led proposals framework

Property Queensland provides a unique opportunity for the Government to leverage its 'lazy' land and non-income generating assets for use by the community.

There are many opportunities for the Government to attract investment in Queensland through better use of its land assets.

Where assets that are not being fully utilised have been identified, responsibility for planning their reuse or recycling should be transferred to Economic Development Queensland to determine their highest and best use.

Recommendation 12: Further leverage Property Queensland to identify 'lazy' assets that can be transferred to Economic Development Queensland

The Government's retention of the *Great Start Grant* in its 2015-16 Budget was welcomed by the property industry both for supporting first home buyers, and for directing further activity into the new housing market.

With dwelling approvals falling in 2016, it is important that the Government continues to support investment in the new housing market through the retention of the *Great Start Grant* in this year's budget.

Recommendation 13: Retain the *Great Start Grant* in its current format

As one of its election commitments, the Palaszczuk Government committed to no new or increased taxes, fees or charges. The Property Council supported this initiative as a positive move that would attract greater investment in the state, through providing certainty to investors.

We are pleased to note the Government maintained this commitment in its first Budget, and are keen to ensure that it is maintained for the duration of the Government's term.

Recommendation 14: Maintain the Government's commitment to no new or increased taxes, fees or charges

The Commonwealth Government is undertaking a review of the nation's tax settings, with the aim of delivering a more efficient system.

Through the Government's *Re:Think* discussion paper, stamp duty was highlighted as the most inefficient tax in the country, reducing economic welfare by 73 cents for every dollar raised (Commonwealth Government, 2015).

Given its impacts on mobility, disincentive to 'right size' and increased costs to business, stamp duty has the potential to significantly impact investment attraction.

As Queensland draws 20 per cent of its revenue from stamp duty (Deloitte, 2015), it is vital that the Queensland Government works with the Federal Government to develop a strategy to remove stamp duty from the tax framework.

Recommendation 15: Work with the Commonwealth Government to develop a strategy to remove stamp duty

Led by the Federal Government, there is currently a significant level of focus on growing North Australia. As the most decentralised state in the country, Queensland is in a unique position to use its regional cities to leverage the Commonwealth's commitment to the North to attract further investment in the state.

Recommendation 16: Leverage the Commonwealth Government's commitment to growing North Australia

Much like personal income tax, land tax thresholds are subject to ongoing bracket creep.

Land tax thresholds have not been reviewed for many years, meaning that more and more landholders in Queensland are being captured as property values continue to rise.

Additionally, a 0.5 per cent 'temporary' land tax surcharge was introduced in 2009 as a 'stop gap' to fill a hole in the Government's budget.

This 'temporary' surcharge is still being paid by landholders.

Recommendation 17: Review out-dated land tax thresholds and remove the 'temporary' land tax surcharge from 2009

7. Reform

As noted, over its first year in office, the Palaszczuk Government has worked closely with stakeholders to identify and investigate potential areas of reform. As many studies and investigations draw to a close, this year will require a commitment to implementation.

The Property Council has worked closely with the current and former Government in reviewing the *Retirement Villages Act 1999* and *Manufactured Homes (Residential Parks) Act 2003.*

Ministerial working groups were appointed for both Acts, and with both now reporting back, it is time for the recommendations to be implemented.

By implementing changes to legislation that encourage investment in seniors' housing, the private and not-for-profit sectors can play a much greater role in meeting the needs of our ageing population. This in turn will assist the Government in lowering the reliance on the public health care system.

Recommendation 18: Implement the findings of the reviews of the Retirement Villages Act 1999 and Manufactured Homes (Residential Parks) Act 2003

As the voice of the retirement villages sector, the Property Council is involved in the Government's Advisory Taskforce on the Residential Transition for Ageing Queenslanders and its Housing Affordability Expert Reference Panel.

In addition to the work being undertaken as part of these, the Property Council encourages Government to consider further opportunities to facilitate the delivery of dedicated seniors' housing.

Positively, land tax arrangements in Queensland provide for exemptions when a retirement village has been developed, which assists in reducing the cost of delivering this housing typology.

However, retirement villages are often developed in stages over a long period of time, which means that any undeveloped land is subject to the full rate of land tax that is subsequently passed on to consumers.

To further assist in reducing the costs of delivering seniors' housing, further reform of Queensland's land tax arrangements is necessary. A starting point would be to extend the land tax exemptions from only developed villages to those developed *or* under construction.

This would then allow all stages of a partially-completed village to be taken into consideration as being 'under construction', while removing the potential for landholders to receive an exemption for a development approval they do not intend to pursue.

Recommendation 19: Investigate further land tax exemptions to promote the development of retirement villages

For many years, the Property Council has advocated for Government to harmonise its landholder duty framework and corporate reconstruction exemptions with other states.

Many of our members invest across several jurisdictions- and because they invest for the long-haul, they place a high priority on those elements of the tax system that impact their ability to coordinate efficient, long-term investment strategies across jurisdictions.

In practice, property investors often forgo investment in states where landholder duty provisions inhibit investment, or where corporate reconstruction exemptions impose high compliance/structuring costs.

The Queensland Government is out of step with other State Governments in these two areas, and until the rules are brought into line, Queensland will lose property investment opportunities and revenue to other states.

The landholder duty regime must be updated to include unit trusts (as private landholders), and set a 50 per cent threshold on interests held by landholders in property- owning subsidiaries (which are unit trusts).

Separately, unlisted unit trusts must also be included under the State's 'corporate reconstruction' exemption, to allow those businesses using such structures to re-organise for more efficient purposes.

Recommendation 20: Harmonise Queensland's landholder duty regime and corporate reconstruction exemption with other states

Property-related taxes, fees and charges affect everyone, and for too long, governments have been targeting property as an easy source of revenue.

To ensure the amount we are paying Government reflects the services we receive, the Property Council would like to see greater transparency in the setting and administration of Government fees and charges.

While some departments have undertaken considerable work to ensure their fees reflect cost recovery, others still use the fees paid by the property industry to cross-subsidise other operations.

We are aware of the *Principles for fees and charges* guideline administered by Queensland Treasury, however this is not a publicly available document. Through making it available to Queenslanders, those using Government services will have a benchmark by which to determine whether or not the fees and charges being paid have been arrived at in a fair and transparent manner.

Recommendation 21: Publicly release the *Principles for fees and charges* guideline

Queensland is home to almost 45,000 community title schemes, accounting for approximately 421,000 lots (over 95 per cent of which are residential). From the 1970s to 1990s, on average 1,000 schemes per year were registered in Queensland. In the past 25 years, this has increased to 1,400 schemes per year, and with the recent spike in multi-residential dwellings, it is expected to increase further (Griffith University, 2016).

While many new apartment buildings continue to be developed, many others are reaching the end of their economic life. Factors such as concrete cancer or improved land values mean that the current use is no longer safe to reside in, or is no longer the highest and best use of the land.

Under the *Body Corporate and Community Management Act 1997*, unanimous owner consent is required to wind up any community title scheme- a near impossible threshold to meet.

To align with international and interstate best practice (NSW and WA), the Property Council recommends the threshold be reduced to 75 per cent, which would allow for the will of the majority to direct the outcome, while still providing significant protection for individual landholders.

Recommendation 22: Review the *Body Corporate and Community Management Act 1997* to reduce the termination threshold to 75 per cent

Prior to being absorbed into Queensland Treasury's Office of Economic and Statistical Research unit in 2009, the former Planning and Information Forecasting Unit (PIFU) allowed the Government to make informed land use planning policy decisions, based on accurate and relevant data.

PIFU was responsible for the collection of data relating to planning matters and produced regular reports relating to land activity, housing approvals and growth projections.

Since PIFU's disbandment, the quantum of meaningful planning data has decreased considerably. The re-establishment of a dedicated Queensland Government planning data unit would allow for more informed public debate and policy making, as well as allowing for closer monitoring of local governments in meeting land supply targets established through regional plans.

Recommendation 23: Re-establish PIFU within the Department of Infrastructure, Local Government and Planning

The current review of the South East Queensland Regional Plan (SEQRP) provides a unique opportunity for the Queensland Government to build on the positive elements of previous iterations of the SEQRP through incorporating best practice from interstate.

The Property Council notes that through the SIP, the Government proposes to establish an Infrastructure Portfolio Office to ensure that infrastructure planning better aligns with land use planning. We are very supportive of this initiative as it will further the linkage between the plans, while also drawing in the experience and local knowledge of the regional planning committees.

Recommendation 24: Adequately resource the Infrastructure Portfolio Office to deliver greater alignment between land use planning and infrastructure planning

South East Queensland is subject to environmental legislation administered by all three levels of government, however there is no overriding strategic approach to the protection of significant flora and fauna.

What has undergone a rigorous assessment process and been identified as urban land by one level of government is able to be overridden by the vegetation protection requirements of another level.

This is leading to a patchwork approach to environmental protection, and is having a significant impact on the escalating cost of housing in SEQ.

The Government must work with the Commonwealth and councils to undertake a strategic assessment of the environmental values of the region, and deliver an urban footprint that separates developable land from areas of environmental protection.

This is not a short-term project, but is one that all levels of government must commit to delivering over the medium-term.

Recommendation 25: Allocate funding to take the lead on delivering a strategic assessment of environmental values in SEQ

While previous iterations of the SEQRP had many positives, one of the biggest downfalls has been the lack of integration with local government planning schemes.

Although the SEQRP identifies an urban footprint, there is currently no mechanism to ensure that local governments reflect this in their planning scheme.

Building on the best practice re-zoning process undertaken by the Metropolitan Planning Authority in Melbourne, the new SEQRP must include a mechanism to ensure that local governments give effect to State Government planning requirements.

Recommendation 26: Introduce a legislative mechanism to ensure the SEQRP is reflected in local planning schemes

8. Supporting local governments

The success of many State Government reform initiatives will ultimately depend on their implementation at a local government level.

While many local governments are ready and willing to positively contribute to reform, they may need further support from the Government in order to deliver meaningful outcomes.

In other areas, greater guidance is required from the Government to ensure that councils are acting in good faith.

For example, local governments in Queensland are afforded the discretion of setting minimum and differential rating categories with no ministerial oversight.

As some land uses will draw on local government resources more than others, it is fair to allow the establishment of different rating categories to reflect this.

What is not fair, however, is the current practice of targeting particular rating categories for increases, in order to maintain lower rates for other categories.

These drastic increases in ratings do not reflect an increase in services or the underlying land valuation, but rather a political imperative to keep residential rates as low as possible. The Local Government Association of Queensland (LGAQ) last month even noted that "… there is no direct link between land valuations and council rate rises," (LGAQ, 2016).

The Property Council would therefore like to see the introduction of 'fairness principles' in the form of a statutory guideline that would assist local governments in setting minimum and differential rates. Local governments would still be able to set differential rates, however they would be required to explain why rates have increased or decreased for a given category in any year.

Recommendation 27: Implement a statutory guideline outlining 'fairness principles' to assist local governments in setting minimum and differential rates

Over the past three years, the Property Council has been working closely with the State Government on its planning reform agenda.

New legislation is expected to be finalised shortly, and with it, a range of supporting planning instruments.

Now that the State's agenda is nearing completion, attention must turn to local governments and how they will give effect to the new framework.

Considerable funds were allocated to planning reform in the 2015-16 Budget, and rather than providing this directly to local governments, the Property Council is keen to see the introduction of an incentives program administered by the State.

Where councils have demonstrated their willingness to undertake innovative reform, then funding should be forthcoming- which may be at the expense of councils that are unwilling to participate in the reform process.

Recommendation 28: Establish a funding program to incentivise local government planning reform

Within South East Queensland (SEQ) there are 12 local government areas. To the ongoing frustration of the property industry- and cost to end consumers- each of these local governments' planning schemes includes different standards for the delivery of infrastructure.

In a region subject to the same environmental conditions, it is questionable why a road designed for the same carrying capacity would require different pavement depths or road reserves, based solely on which area it is in.

In the early 1990s, the Institute of Municipal Engineering Australia (now IPWEAQ) joined with the then Queensland Department of Housing, Local Government and Planning, to develop *Queensland Streets: design guideline for subdivisional streetworks*.

For many years, this guide ensured a level of consistency for road design across local government areas in SEQ, demonstrating that the differences between design requirements reflected policy positions, rather than environmental or technical variances for road design.

While this guide is now out-dated, a refreshed local government road design guideline administered by the Queensland Government would go a long way towards resolving many of the industry's concerns regarding 'gold-plating' and discrepancies in local government infrastructure requirements.

Recommendation 29: Work with the Property Council and IPWEAQ to develop standard infrastructure requirements for SEQ

For many years, the Queensland Government's department of planning oversaw the local government Development Assessment and Monitoring Performance Program (DAMPP). This program provided all stakeholders with a clear view of the performance of each local government against the KPIs established in the Integrated Development Assessment System (IDAS).

Unfortunately, DAMPP has not been undertaken (or released) since 2010-11, removing much of the transparency that existed in the monitoring of local government performance. This means that while those councils not meeting their KPIs are unable to be identified, those local governments exceeding theirs are also unable to be acknowledged.

As part of the planning reform process currently underway, the Property Council is keen to see this transparency returned to development assessment reporting in Queensland.

Recommendation 30: Reinstate the DAMPP to monitor local government performance

Along with monitoring performance against development assessment benchmarks, there is a need for the Queensland Government to take a greater role in monitoring and compliance with regard to the State's infrastructure charges framework.

Introduced in 2014, Queensland's infrastructure charges framework was refined through considerable consultation with all key stakeholders.

It is the experience of the property industry that the legislation is not being accurately implemented by local governments, with many intentionally acting against the desired outcomes of the legislation.

At present, there is little the property industry can do to rectify the situation, as the Department of Infrastructure, Local Government and Planning, is not adequately resourced to monitor local government implementation of the framework, and is not authorised to force compliance.

Greater resourcing would allow the Department to review local government infrastructure charges resolutions and assist in providing guidance for stakeholders seeking to better understand the legislation.

Recommendation 31: Provide further funding to DILGP to allow monitoring of the infrastructure charges framework

To ensure that Queensland's planning schemes provide an accurate reflection of the community's expectations for the growth of their local area, the Property Council would like to see the introduction of an independent scheme review prior to the current State Interest Check and public notification process.

Local government planning schemes are at times upwards of 4,500 pages in length. The sheer size of planning schemes means it is increasingly difficult for those outside of the planning profession to understand the implications of specific planning provisions.

The State undertakes its own check of State Interests, however resource limitations and pressure to reduce timeframes for review expose the Government to the possibility of missing potentially damaging provisions in poorly drafted schemes.

Schemes often take years to prepare, costing local governments millions of dollars. An independent review process would provide greater returns on this initial investment by ensuring schemes facilitate the council's desired outcomes.

Recommendation 32: Introduce independent reviews for local government planning schemes

As previously noted, property-related taxes, fees and charges affect everyone, and for too long, governments have been targeting property as an easy source of revenue.

Like State Government departments, some local governments have undertaken considerable work to ensure their development fees reflect cost recovery, while others still use the fees paid by the property industry to cross-subsidise other operations.

Under section 97(2)(e) of the *Local Government Act 2009*, local governments may fix a cost-recovery fee for 'the performance of another responsibility imposed on the local government under the Building Act or the Plumbing and Drainage Act'.

It is notable that the *Sustainable Planning Act 2009* is missing from this list, as development assessment applications are often subject to substantial taxes based on total project costs that well exceed the cost to local government of undertaking the assessment.

Recommendation 33: Undertake legislative amendments to the *Local Government Act 2009* to ensure development assessment fees are limited by cost-recovery

9. Conclusion

The Property Council would like to again thank the Government for its consideration of our pre-budget submission

If you have any further questions about the Property Council or the detail included in this submission, please contact Chris Mountford on 07 3225 3000, or cmountford@propertycouncil.com.au.

Yours sincerely

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