Tasmania in Transition

Submission to the Legislative Council Select Committee

GROWING TASMANIA'S ECONOMY

Property Council of Australia

1 May 2015

Thank you for the opportunity to comment on the Legislative Council Select Committee - **GROWING TASMANIA'S ECONOMY.**

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

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

The need to implement a raft of changes which will *"ultimately deliver a longer term internationally competitive framework,"* is both obvious and necessary.

Tasmania is at a unique point in its history with significant prospects to generate local economic activity through capitalising on the opportunities which have presented. It is now a time for boldness and leadership which breathes oxygen back into a recovering state. The Property Council is adamant in its belief that Tasmanian must continue to run hard and fast in an effort to drive economic growth.

The south of the state continues to prosper off the back of government infrastructure development, tourism, and hospitality and service provision. The north and north west of the state must now be the central focus of decision makers in an effort to strengthen and drive a transitioning economy, with utility improvement and the University of Tasmania an ideal place to begin.

The Tasmanian Division of the Property Council is clear in its view regarding the need to continue reforms that strengthen the state's economy and we are pleased to outline our vision.

Tasmania is in transition.

Recent quarterly results from the ANZ/Property Council survey continued a positive and upward trend as a result of consistent and increased confidence across the economy. Respondents to the survey indicated their confidence through a number of measures such as house capital growth and retail growth. An increase in state economic growth expectations was also particularly encouraging with Tasmania recording a substantial increase when compared to the December 2014 quarter. The demand for hotel investment and development remained streets ahead of the rest of the country which will drive further economic growth.
http://www.propertyoz.com.au/tas/Article/NewsDetail.aspx?p=16&id=10837

The latest ABS Building Activity data showed that 2014 was a bumper year for new residential construction in Tasmania with the value of work and number of building starts both recording double digit increases in the year to December, seasonally adjusted. Tasmania saw new residential dwelling commencements skyrocket by 32.3 per cent year on year hitting 2,324 in seasonally adjusted terms for 2014. Off the back of these outstanding results Tasmania has a significant opportunity to become a desirable and affordable residential market encouraging families to migrate and purchase homes, an Australian tradition which has become out of reach to younger people on the mainland. We have given them a reason to visit, now let's give them a reason to stay.
http://www.propertyoz.com.au/tas/Article/Resource.aspx?p=21&media=2664

Regrettably, our latest member survey regarding Hobart's CBD office market vacancy rate highlighted an increase from 7.3 per cent to 8.9 per cent, due to supply addition and negative demand. However, it must be stated that this result was the second best in the country.
http://www.propertyoz.com.au/tas/Article/NewsDetail.aspx?p=16&id=10541

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

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

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

1. Population growth

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

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

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

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

The Property Council acknowledges the recent release of the Population Discussion Paper by the State Growth Minister, the Hon. Matthew Groom MP and looks forward to providing a response. There is no doubt that the current affordable residential market in Tasmania provides opportunity for both the Property Council and the State Government to promote and facilitate mainland migration as families locked out of the market look to cheaper alternatives, which when combined with outstanding lifestyle potential, offers significant opportunities.

Consequently the Property Council believes that the following should occur to grow Tasmania's economy:

a. Adequately resource the development and implementation of a Population Strategy which is underpinned by sustainable economic growth. This contribution should be in line with the recurrent investment in the tourism industry.

2. Planning reform

The Property Council remains extremely supportive of the planning reforms initiated by the State Government and particularly the work of the Planning Reform Taskforce in introducing a single state-wide planning scheme known as the Tasmanian Planning Scheme.

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

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

There remains too much regulation and duplication in the planning area. Industry and the community want certainty from their planning systems. Consequently we believe that the following should occur to grow Tasmania's economy:

a. maintain funding to the Planning Reform Taskforce;

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

3. Regulation reduction

The Property Council is extremely supportive and appreciative of efforts to reduce duplication, simplify processes and make regulations more easily understandable and user friendly.

The Tasmanian Division is cognisant of the need to protect the safety of employees and the environment while also acknowledging the rights of property owners and practitioners.

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

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

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

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

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

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

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

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

Consequently the Property Council believes that the following should occur to grow Tasmania's economy:

a. immediately conduct a review of regulations and associated assessments to ensure that:
    - all duplication, unnecessary cost, and lack of clear and enforceable timelines are eliminated; and
    - remaining regulations are streamlined, with appropriate resourcing allocated for their management.
b. introduce a requirement for all proposed new legislation to be subjected to cost-benefit analysis to ensure that everyone is aware of the potential impacts; and

c. submit an annual report to Parliament from the Premier outlining targets and timelines for regulation reduction from each department; and
d. deliver the resources needed to police essential safety certification rules effectively.

The Property Council acknowledges the work of the Department of State Growth and in particular, the Coordinator General and the Regulation Reduction Coordinator. We are extremely supportive of the current survey in the field gathering data regarding regulation impediments to business, investment and development in Tasmania. The Property Council remains hopeful that this will lead to a 20 per cent reduction in Red and Green Tape as promised by the State Government.

4. Utilities reform

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

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

TasWater

To be frank, the creation of TasWater was as a result of ageing and neglected water and sewerage infrastructure which failed to meet the standards required by everyday Tasmanians. Raw sewage, inadequate drinking water, failing pump stations and a general lack of regulatory compliance was the legacy of the local government sector who historically managed the infrastructure.

The issues that we face as a state with regard to utility provision should be viewed simply and directly – it's not good enough.

Salamanca, Battery Point, the Tamar River, the East Coast and the North East are all examples of communities experiencing either sewerage system malfunctions or drinking water issues which directly impact upon health, tourism and business opportunities.

Historically, too many council municipalities, too many pump stations, a dual system, ageing pipes and poor planning processes have delivered a disconnected spider web of infrastructure that neither delivers compliance nor creates confidence.

However, the streamlining of a unified TasWater should be viewed as a significant opportunity for our state with the development of world class infrastructure not simply a goal, but a priority.

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

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

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

Regulatory compliance improvement

It is both embarrassing and dangerous that 20 TasWater Waste Water Treatment Plants do not meet compliance standards. Further as at June 2014, only 4% of these plants complied with discharge limits. The issues facing TasWater and the broader Tasmanian community can not be made any clearer.

There exists a significant opportunity for TasWater to immediately invest additional funds in capital infrastructure in order to speed the process of improvement. Council dividends should be quarantined and combined with the aggregated revenue forecast from 2012/2013 to 2014/2015 of $80.54 million, ($28.98 million for 2012-13, $17.14 million for 2013-14, and $34.42 million 2014-15) and invested in infrastructure improvement of the highest priority.

The Property Council of Australia also understands that the debt profile of TasWater is significantly lower than other like organisations around the country. Further, it is our belief that this is as a result of TasWater's owners, the Councils preventing required borrowing from occurring, thus diminishing the opportunity to significantly improve infrastructure. If this is indeed the case, business decisions should be made by TasWater and not restricted by owners who aren't held to account and who continually fail to contribute to an equity drive which is desperately needed.

Consequently the Property Council believes that the following amendments to the Water and Sewerage Industry Act 2008 should occur to grow Tasmania's economy:

a. quarantine any efficiency savings for use by the Corporation to fund infrastructure improvements; and
b. change the dividend, income tax equivalents, and guarantee fees policies, to ensure that revenue for the next five years goes to the Corporation for the provision of infrastructure and/or pricing relief, rather than providing windfall funding to councils; and
c. expand the debt profile of TasWater to bring more into line with like utility providers across the nation.

Structure of water and sewerage prices

It is laughable that due to the abundance of council municipalities, customers with the same connection size and residences less than 1500 metres apart would be paying different prices for water and sewerage provision. Not only is that extremely difficult to understand and plainly unfair for home owners, it also creates a level of red tape for developers and investors which is an inhibitor to economic growth in Tasmania. This issue further supports the Property Council of Australia's push for significant structural reform of the local government sector in the state.

If TasWater, the Economic Regulator or the State Government remains concerned about the viability of the capital infrastructure program into the future, they should consider the debt profile of the organisation along with the irresponsible provision of dividends.

Hydro, Aurora & TasNetworks

The "Hydro" has been integral to a sense of community in Tasmania since 1914 with villages housing families of workers who developed a unique connection to our environment and landscape. Once delivering Tasmania the opportunity to compete as an industrial powerhouse, attracting and retaining jobs in our state, the undeniable contribution of electricity generation to economic prosperity has lessened in influence. And while simple messaging concerning the price of clean, green watergenerated power has been difficult to convey, Hydro Tasmania maintains the ability to deliver jobs, innovation and significant engineering accomplishments making it the "people's power" and a key component of Tasmania's sustainable economic revival.

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

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

Consequently we believe that the following should occur to grow Tasmania's economy:

a. deliver affordable energy at competitive and predictable prices that are amongst the lowest in Australia;
b. empower consumer choice;
c. ensure an efficient energy sector that is customer focussed;
d. utilise energy to facilitate state growth; and
e. maximise Tasmania's renewable energy opportunities.

Efficiency in Public Transport and System Infrastructure

The improvement of road infrastructure and smarter traffic management has the capacity to considerably reduce the fuel and time cost for all Tasmanians. Smarter traffic management includes the introduction of networks of real-time traffic sensor technology and algorithms to facilitate efficient traffic flow across a city. This initiative is overdue and will not only save time and energy, but also better utilise existing road infrastructure, without the need for clumsy, reactive and costly road works.

Environmental Upgrades

The Property Council fully supports the concept of Environmental Upgrade Agreements to provide a mechanism to offer business access to a funding source for energy efficiency upgrades of building stock. A funding source that enables building owners to share costs with tenants which overcomes what is currently a significant barrier in delivering energy efficiency will see the benefit flow to the tenant through efficiency opportunities.

The Property Council recommends the development of a recurrent centralised Sustainable Energy Fund from Treasury that can be utilised by government departments and state owned businesses to obtain funding for implementation of energy efficiency projects. Such a fund would seek bids for projects and be linked to requiring the department requesting funding to release 50% of the nominated energy savings back into the Sustainable Energy Fund. This would provide a shared benefit with internal savings achieved for departments and an opportunity for the Sustainable Energy Fund to increase significantly over time with energy savings further delivering on the original investment.

Included under this arrangement should be the issue of PV Solar. Businesses and residences alike have responded to price shocks and increases in electricity supply through their own investment in energy generation. These investments have been made against a pricing regime and sound economics. It is considered unfair to change the pricing regime, including network pricing, in response to attempting to address the loss of revenue from properties with these investments. The claim that non solar generators are subsidising the network cost is unfounded. Network charges are based on the amount of power purchased and therefore a variable cost which the user pays.

Further, it is hoped Government does not encourage the establishment of tariff impediments that make the take-up or continued use of technology by Tasmanian energy users unviable.

Transparency in Network Price Setting

The cost increases in network charges have in the past increased at a much higher rate than CPI, justified by the Networks and approved by the Regulator as necessary to maintain and improve aging infrastructure. The issue of aging infrastructure seems to be one that the Regulator has agreed with across not only the energy sector but also water.

During 2014/2015 we have be made aware of increased profits from both sectors and their enhanced capacity to pay dividends, and in fact pass on reduced prices. Investing in improved and technologically advanced infrastructure should remain a focus of Tasmania's utility providers. The Property Council of Australia continues to advocate strongly for transparency in tariff setting.

Predictable pricing is something Tasmania has not enjoyed. While contestable customers are able to contract the energy rate for up to three years, the network tariffs are kept secret until released. The consequence of this secrecy is unfairness as accurate budgeting is made extremely difficult.

Transmission

There is considerable debate that historical investment in the state's poles and wires has been "gold plating" and is a considerable component of the 65% increase in electricity prices over the past seven years.

TasNetworks should fully implement contestability in the delivery of infrastructure following the recent trial involving Megavar which the Property Council understands was highly successful. TasNetworks doesn't need to be in the business of residential and commercial reticulation.

A number of providers could be accredited to assist service delivery by TasNetworks, thus reducing the wait time that developers and investors experience due to plan design becoming stuck in over-bureaucratic, duplicated and inefficient processes. Accredited companies would have access to HV and LV cables far more readily, removing the current and completely ridiculous impediment where developers have to wait for cables to be manufactured and delivered from Victoria, along with the delays experienced when ordering substations themselves. For example, there were no LV cables available until late March 2015, consequently a number of our members stopped work until they were manufactured and delivered from the mainland.

TasNetworks will continue to play a critical role in delivering affordable infrastructure that supports development.

The Property Council understands that TasNetworks aims to meet stringent regulations for critical supply standards compliance. The costs of such investment are borne by the developer, notwithstanding that the upgrade benefits the entire zone as part of the public infrastructure network. This is a significant impost on the development, and currently more expensive than anticipated or previously experienced. Prior to 2012 the connection to a suburban block cost approximately $1800, that has now ballooned to more than $8000 which combined with the gradual reduction of the First Home Builders Grant, the increase in engineering, and materials and construction costs, and the cessation of the Headworks Holiday will continue to drive increased development costs.

TasNetworks has a crucial role to play in understanding the commercial reality of increased costs to the viability of developments. Consequently the Property Council believes that the following should be considered to grow Tasmania's economy:

- the 'standards' to which TasNetworks are obligated to deliver and the significant developer investment as a result; and
- ensure that the policy settings which allocate an appropriate proportion of such costs are readily understood and clearly articulated.

Positioning Tasmania for the Future
The Tasmanian Division of the Property Council of Australia remains clear that the following question should be answered to grow Tasmania's economy:

- Does the state have a contingency plan in place should one of the four key industrial consumers leave?

5. Local government reform

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

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

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

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

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

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

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

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

The Property Council is extremely pleased that the Treasurer, the Hon. Peter Gutwein MP has engaged in public discourse about the benefits of local government reform, which has encouraged councils to act. Consequently we believe that the following should occur to grow Tasmania's economy:

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

6. Taxation & Rates reform

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

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

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

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

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

Leadership must be shown by urgently reinstating the Review of State Taxation and directing it to examine property taxes as a central element of its investigation, specifically stamp duty, land tax, developer charges, and fire services levies. Tasmania, which was once ahead of the national debate concerning taxation reform, fell into the trap of partisanship and now South Australia has taken the opportunity to drive significant state based amendments and changes to their taxation structure, leaving our state once again appearing reactive.

Now more than ever there needs to be a commitment to reviewing inefficient property taxes and fees and charges including:

Stamp duty

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

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

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

Rates, fees and charges

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

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

Tasmania's residents need to know that council rates and levies and water, waste, and electricity charges are being determined according to realistic needs and within acceptable bounds. Consequently we believe that the following should occur to grow Tasmania's economy:

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

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

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

Key facts about the Tasmanian property sector

The Property Council

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

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

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

Key facts about the Tasmanian property sector

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

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

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

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