



PROPERTY COUNCIL OF AUSTRALIA

**SUBMISSION TO THE PARLIAMENTARY
INQUIRY INTO THE LONG-TERM
FINANCIAL SUSTAINABILITY OF LOCAL
GOVERNMENT**

INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES COMMITTEE

26 May 2017

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The Property Council is the leading advocate for Australia's biggest industry – property. We are a national not-for-profit organisation established to promote the work of the property industry in delivering prosperity, jobs and strong communities to all Australians.

Here in Queensland, the Property Council represents over 360 member companies across residential, commercial, retail, retirement living, industrial, tourism and education sectors.

EXECUTIVE SUMMARY

The Property Council welcomes the opportunity to provide input into the Infrastructure, Planning and Natural Resources Committee's investigation of the long-term financial sustainability of local government.

Serious concerns have been raised by the Auditor-General (Reports 2 & 13) about the ability of councils to accurately determine whether their current levels of revenue and expenditure are financially sustainable.

While the capability of local governments to fund their operations should be of concern to all Queenslanders, the state's property industry – the largest contributor to state and local government taxes, fees, rates and charges – is primarily affected by the revenue side of the equation.

In considering the financial viability of local governments, the Property Council contends that the Committee must not simply consider if revenue can match expenditure, but how local governments collect their revenue, whether it is consistent with the principles of fair and equitable taxation and whether it undermines the economic competitiveness of a local government area.

As the Auditor-General has noted, across Queensland's 77 local governments the underlying financial positions, resources and capabilities vary widely. It is important to note that, while the areas of concern outlined in this submission are widespread, they are not uniformly applicable to all councils.

The Auditor-General has concluded that most Queensland councils are working to restrain expenditure and increase own-source revenue from rates, fees and services.

Given there is currently no constraint upon the power of local governments to levy rates the property industry is concerned that any moves towards greater fiscal responsibility will result in an extension of current inequitable revenue practices.

Queensland's system of minimum and differential rating has enabled local governments to target certain properties with severe rate increases that are far beyond those experienced in other rating categories, and bear no correlation to services provided by council for those property types.

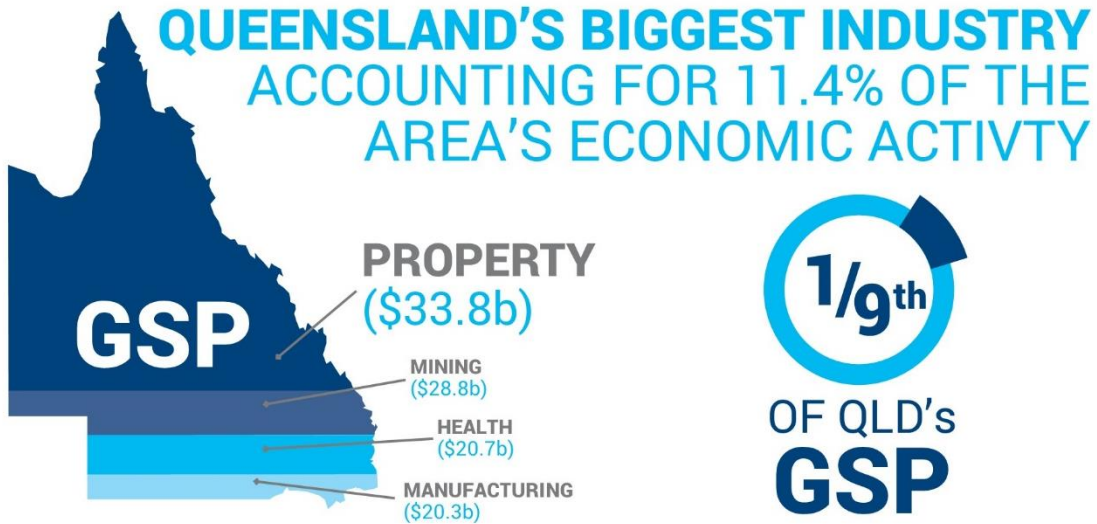
To ensure that local government revenue is collected in a fair and equitable manner a State Government rating practice guideline, similar to one used by the Victorian Government, should be implemented in Queensland.

The Property Council supports the Auditor-General's recommendation that local governments should maintain complete and accurate asset condition data and asset management plans.

By developing a greater understanding of their asset base, the Property Council contends that local governments will be in stronger position to make informed choices about creating alternate revenue streams through the disposal of surplus land.

Many local governments have a latent base of land assets that could be better utilised to the benefit of their bottom line, and the wider community.

THE PROPERTY INDUSTRY'S CONTRIBUTION TO THE QUEENSLAND ECONOMY



CREATING JOBS - PROPERTY IS QLD'S SECOND LARGEST EMPLOYER

240,000 JOBS

PROPERTY INDUSTRY



147,000 JOBS
MANUFACTURING



70,000 JOBS
MINING



The property industry employs more people than mining and manufacturing combined

BUILDING PROSPERITY BY PAYING \$22.3 MILLION IN WAGES & SALARIES

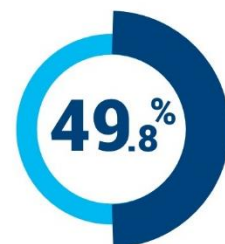


1 IN 6 PEOPLE

IN QUEENSLAND DRAW THEIR WAGE DIRECTLY AND INDIRECTLY FROM PROPERTY

\$9.9 BILLION IN TAXES

PROPERTY IS THE LARGEST SINGLE INDUSTRY CONTRIBUTOR PAYING 49.8% OF QUEENSLAND TAXES, LOCAL GOVERNMENT RATES, FEES AND CHARGES



RATING PRACTICES

Rates are the major recurrent source of finance available to councils. However, the way in which this revenue is collected from properties within a local government area can have a serious impact on property owners and the economic health of the jurisdiction.

Local governments in Queensland have different levels of revenue and expenditure and are therefore afforded the discretion of setting minimum and differential rating categories with no State Government 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.

Following the Supreme Court's *Paton v Mackay Regional Council* decision, which found that councils could not levy a differential rate that took into account "characteristics personal to the owners of the land", the Newman Government made amendments to the legislation to protect the existing rating practice of local governments.

The subsequent *Ostwald Accommodation Pty Ltd v Western Downs Regional Council* decision has provided clarity around local government's true powers under the new legislation.

The Court confirmed that there is no constraint upon the power of local governments to levy differential general rates, and there was no obligation on local governments to provide justification for their rating decisions.

THE PROBLEM

Drastic differences in rating increases have been seen across Queensland. These changes do not relate to an increase in local government services, but instead reflect a political imperative to keep residential rates as low as possible and force other sectors to cross-subsidise services provided to residential rate payers.

As local governments can legally determine minimum and differential rating categories without constraint or a requirement to provide reasoning, there is now no avenue for appeal for entities unfairly targeted by significant rate rises. Some examples of inequitable rating practice include:

- » Gladstone Regional Council has targeted the rating categories related to the gas industry with rate hikes 6 to 13 times higher than other non-gas industrial land categories
- » Separate but parallel rating categories were established by Mackay Regional Council with the expressed purpose of charging owner-occupiers a lower rate than property investors, despite the equal impact and service provision between these property types.
- » Somerset Regional Council introduced of a new rating category for 'Commercial and Industrial land with a rateable value of \$1 million or greater' which saw the rates of Fernvale Shopping Village (the only property in that category) increase from 0.4 cents to 2.2 cents in the dollar – a 470% increase.
- » In 2014 the Ipswich City Council established a differential rate for 'Sector A' – an area defined by a list of gazetted suburbs deemed to be areas of future development. The Council set significantly

different rates for 'Sector A' with the clear intention to target individual landholders on their perceived capacity to pay – speculating on the future potential of the land instead of the current usage.

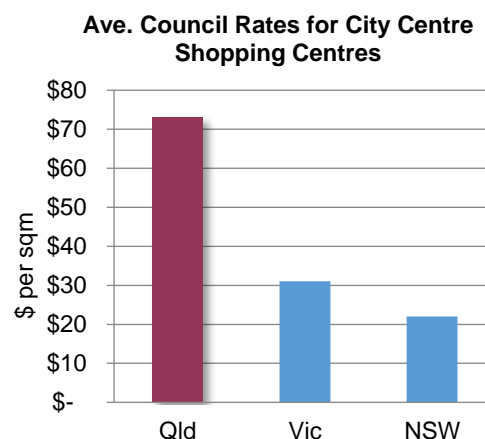
Key equity principles need to be applied to the collection of differential rates to ensure that revenue is not collected in a manner which unfairly targets any particular sector, or undermines confidence to invest in a local government area.

Two comparable properties should always be treated comparably for taxation purposes. Similar properties used for similar purposes should not be differentiated based on their landowner, their geographic location, or their perceived income generating ability. Council perceptions of 'capacity to pay' can often be misguided and should not be used in determining rating schedules.

If a local government can demonstrate that certain land uses, or property types, require more resourcing to service, a separate service charge or fee should be developed. This will not only result in greater transparency, but will ensure that the revenue local governments receive for delivering that service is secure despite potential shifts in land valuation.

For many retail centres in Queensland the minimum amount in their differential rating category has effectively become their rate, with a significant disparity between the minimum rate and how their rate would be calculated through their land valuation.

By removing the link between land valuation and rates, the fairness and equity of the system is compromised. This is particularly the case where a rating category applies exclusively to an individual property. By effectively setting a fixed charge on a single owner with no requirement to justify or explain the decision, many local governments have established a rating practice that is clearly inequitable.



Property Council of Australia, 2015 Benchmarks Survey of Operation Costs (Retail and Office)

Predictability of rates should also be a reasonable expectation. This principle is widely ignored under current local government rating practices, with both radical shifts in the definition of the rating categories, and the rates themselves, commonly experienced.

When making financial decisions, both individuals and businesses must consider their expected future liabilities. Significant unexpected increases to local government rates create financial strain on many landowners.

By creating differential rating categories that only apply to a small number of landowners, or a single entity, it becomes impossible for a local government to consider a fair rate for that category without consideration of the attributes of the landowner.

THE SOLUTION

To address the issue of rating fairness, the Victorian Government introduced a guideline for differential rating in 2013. The guideline provides a clear set of principles on the suitable use of differential rating and aims to promote good practice and greater consistency across the State.

Victoria's guideline outlines that rating categories should not be used as a policy lever to prevent, mitigate, or discourage legitimate land uses. The need for transparent decision making is also articulated in the guideline, with instruction given to provide evidence for council rating determinations as part of budget documentation.

The Property Council has recently worked with the Department of Infrastructure, Local Government and Planning on the development of a guideline on equity and fairness in rating for Queensland local governments.

While this initiative is welcome, unless the final document is adhered to by local governments it will have no impact on rating practices in Queensland.

Any guideline should also be accompanied by a formal right of appeal for ministerial intervention in situations where it can be demonstrated that a rating is 'unfair' and particular land uses or owners are being targeted in contravention of the guideline's principles.

The Property Council strongly encourages the Committee to recommend that the Queensland Government develop a mechanism that will compel local government to report on how their rating schedule reflects a State Government fairness guideline.

Undertaking this action would be in line with recommendations 3, 4 and 8 of the Auditor-General's Forecasting long-term sustainability of local government Report (Report 2: 2016–17), which are aimed at increasing the transparency of local government finances.

ALTERNATE REVENUE OPPORTUNITIES

The Auditor-General has noted that “Councils are able to sell their assets as another source of finance, but most of their public infrastructure assets typically have little or no end-of-life market value.”

While this is true of many local government assets, the sale of council-owned land represents a significant alternate source of revenue that can improve a local government’s financial outlook both immediately and over the long term.

Many local governments own multiple parcels of land which would be of significant interest to the property industry as redevelopment opportunities. Where appropriate, this land could be up-zoned by local governments prior to sale - creating even greater value.

Aside from the initial proceeds of selling surplus land, local government also stand to benefit financially from the increased number of rate payers on the redeveloped site, and the economic uplift that the development and construction activity brings to the area.

The Auditor-General has rightly identified the need of local government “to generate extra future recurrent revenue to meet annual interest charges and pay down ... debt.” By adopting a strategic approach to the disposal of surplus land, a local government could establish a long-term revenue source.

Local governments should work with the local property industry to determine which potential sites can derive the maximum benefit, both for the council and the local community.

By establishing better asset management plans, local governments can accurately determine what are surplus and underutilised sites, and activate these to improve their financial sustainability.

The Property Council strongly supports the Auditor-General’s recommendation that

councils should maintain complete and accurate asset condition data and asset management plans.

A key area of concern to the property industry has been continual delays in the creation of the Local Government Infrastructure Plans – a legislative requirement under 2014 amendments to the *Sustainable Planning Act 2009*.

These planning documents should form a critical component of long-term strategic asset management by local governments. Successive State Governments have sent the wrong message to local governments by continually delaying the deadline to produce these plans back to 1 July 2018.

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