SHOPPING CENTRE COUNCIL OF AUSTRALIA

SUBMISSION TO THE QUEENSLAND PARLIAMENT'S INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES COMMITTEE:

INQUIRY INTO THE LONG-TERM FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT

SUMMARY

The Shopping Centre Council of Australia (SCCA) represents Australia's major owners, managers and developers of shopping centres.

We welcome to opportunity to comment on the Queensland Parliament's Infrastructure, Planning and Natural Resources Committee's (the Committee) inquiry into the long term financial sustainability of local government.

In our experience, Queensland has the **worst local council rating framework in Australia**, particularly in regional areas.

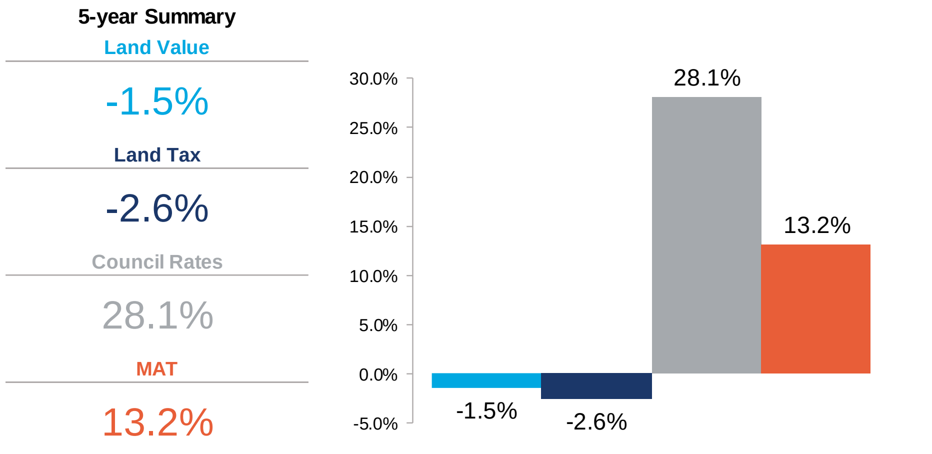
We believe rating issues are relevant to the Committee's Terms of Reference such as (a) financial planning and long-term forecasting, (h) budget transparency and (k) other matters.

In Queensland, our members have around **170 assets**, more than half of which are located in non-metro locations, and are spread across **33 local government areas** as far north as Smithfield Shopping Centre in Cairns Northern Beaches or as remote as Mt Isa Village or Westlands Plaza in Roma. These centres house over **8600 tenants**.

We have been active participants in recent reviews of local government systems in Queensland and Australia more broadly, including the recent consultation on the Department of Infrastructure, Local Government and Planning's *Draft Guideline on equity and fairness in rating for Queensland local government.*

Whilst we cannot make judgement on the extent to which the 'financial stability' of local governments has directly impacted council rates, our members are continually facing exorbitant rate increases.

Below is a snapshot of statutory charges for a sample pool of our members for a five year period from 2011 to 2016, highlighting that **council rate growth has vastly outstripped land valuation, retail sales and land tax**.



Source: SCCA Research

Notwithstanding the Terms of Reference, we have three key issues with the local government rating framework in Queensland which we raised in the above mentioned Draft Guideline review:

- The **de-linking of rates from statutory land values**, where either higher differential rates or minimum rates are applied. This ultimately results in our members being charged significantly higher rates than they otherwise should be.
- **Increased rate volatility is causing excessive increases in council rates** for our members, making it difficult to undertake annual budgeting (under the *Retail Shop Leases Act 1994* our members are required to provide annual estimates to their retailers).
- The **imposition of minimum rates**, which had been implemented to ensure that properties benefited from the provision of council services, but are being used to avoid the need to make adjustments when valuations are corrected, (due to uncertainty about the correctness of land valuations issued by the Valuer-General), which we understand the Act expressly requires.

Getting this issue addressed structurally has proven difficult. We respectfully urge the Committee to make recommendations to ensure a **fair** and **equitable** rating framework.

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CRITICAL ISSUES

The Auditor-General's reports highlight there is a serious lack of long-term financial planning and forecasting by councils, causing inaccurate and poorly judged estimated revenue and expenditure. Reckless financial planning not only affects the standard of service delivery that is expected by the community the council services, but it "***limits the ability of councils and the community to understand the effects of rate increases***" (Report 2, page 21).

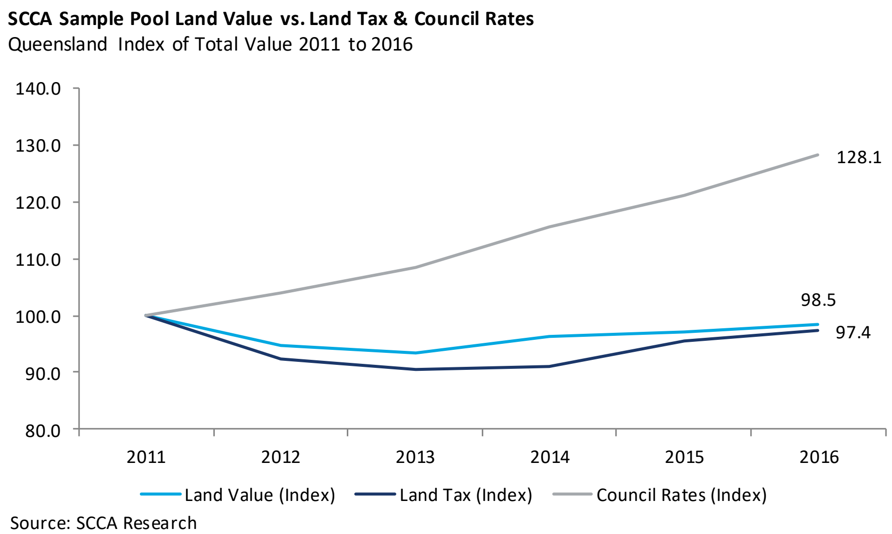
It is disappointing that only 10 out of 77 councils have prepared a long-term financial plan, and that only 49 of the remaining 67 councils have the 'building blocks' in place to achieve long-term financial stability, which has the ability to cause reactionary rate setting to make up for unplanned expenditure.

The impact of poor financial planning

The main issue highlighted by the Auditor-General is the 'lack of long-term financial forecasting' and asset management by councils. It is noted that without a 'clear understanding' of revenue, debt and asset values, a council cannot 'appropriately judge if they are financially sustainable'.

> *"…most councils simply plan to spend over the short-term what they believe they can afford today, without understanding how much they need to spend now and in the future to maintain their roads, water and sewerage networks, and other infrastructure at a level acceptable to their communities." (Report 2*, page 3)

The potential risk of the above statement is that if councils do become financially unstable (where they are appropriately able to recognise when this is the case) high value properties such as shopping centres could become a 'go-to' for revenue raising in the form of increased council rates.

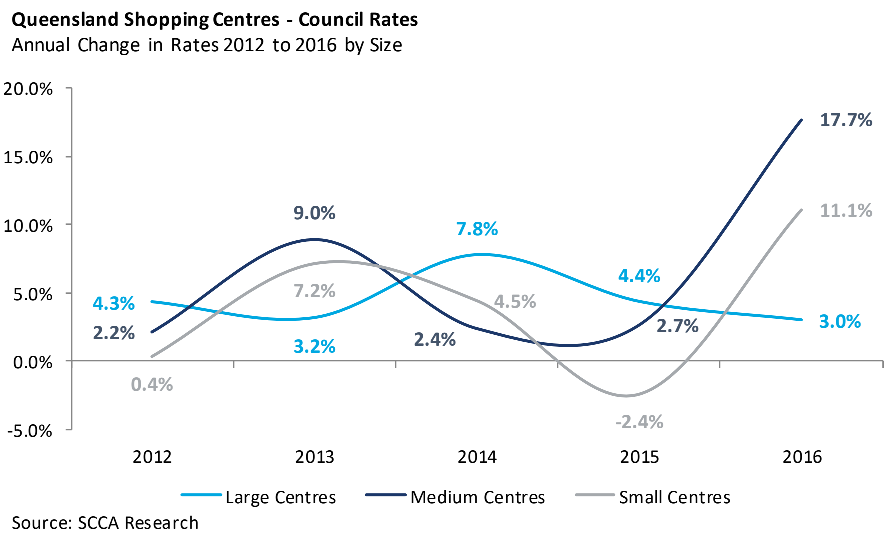


To the left is a snapshot of land value verse land tax and council rates for a sample pool of our members' centres. There is an **increasing separation** between increases to council rates and relatively stable land value. Even in circumstances where **land values were in decline** for a period of three years, **council rates continued to rise exponentially**.

Regardless of the financial stability of councils, our members are **still** facing exorbitant council fees and we believe the rating framework should be part of a broader review into local government.

Extreme rate volatility

Council rates are extremely volatile in Queensland. This does not just impact major shopping centres in metropolitan areas of South East Queensland, this issue is affecting our small and medium sized centres in remote and regional Queensland. The graph to the right highlights the instable and highly volatile council rates in small, medium and large centres.



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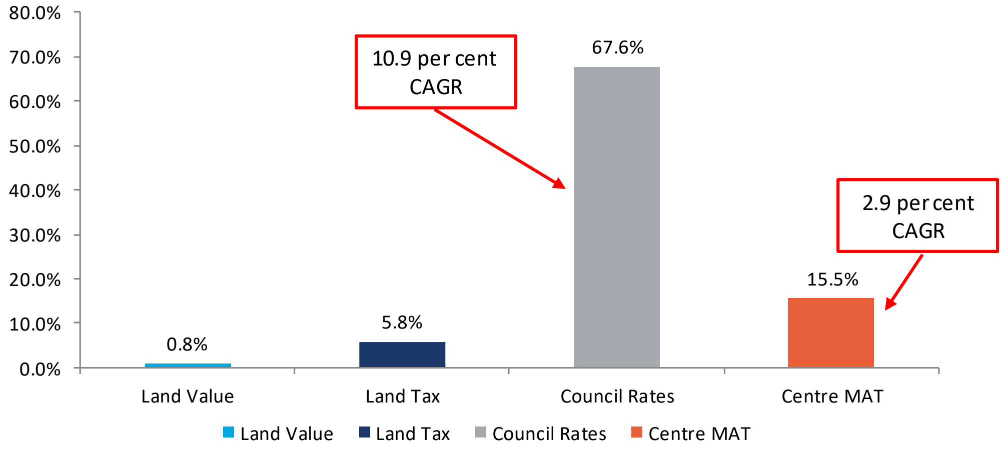
Under the *Retail Shop Leases Act 1994,* our members are required to provide annual estimates to their tenants. This becomes an arduous process in an environment of intense volatility of council rates where landowners may not be able to accurately budget for annual statutory charges.

This is further highlighted below through an analysis of one of our members 'medium-sized' centres in regional Queensland. Over a period of five years, **council rates have increased at a much faster pace than increases to land value and the centre's moving annual turnover** (MAT). The compound average growth rate (CAGR) for council rates between 2011 and 2016 was 10.9 per cent, compared with centre MAT which was just 2.9 per cent over the same timeframe.

Queensland Shopping Centre Case Study
Land Value, Land Tax, Council Rates and MAT - 2011 to 2016



Source: SCCA Research

The inconsistency between councils could affect our members

The Auditor-General notes there is inconsistency between variables used by councils in financial planning, affecting long-term forecasts. Report 2 notes that many councils could not show that their financial planning considered changes in variables in developing their 2016-17 Budget:

> *"…this has resulted in long-term financial forecasts lacking important information to help councillors and council staff understand the impact of changes in key variables on the budget and long-term financial forecasts."* (Report 2, page 24)

As we understand this includes the application of indices to predict increases in operating costs over time. We are concerned that this could possibly flow on to cause inconsistency between rate setting for our members.

Previous recommendations to reform the local government rating system

As mentioned previously, we have made representations previously addressing what we believe to be flaws with the current local government rating framework in Queensland. In our experience, it is one of the, if not the worst rating framework in Australia.

In our response to the *Draft Guideline on equity and fairness in rating for Queensland local governments* we raised a number of key issues affecting our members.

Whilst these issues are outside the terms of reference of this inquiry, we suggest that the Committee address these issues, and or, includes commentary to the effect of 'issues in the local government rating system' in their report and findings. In doing so, we would like to highlight to the Committee our recommendations made previously in the Draft Guideline review:

- There should be a **differential rating cap of 1.5 times** (maximum variance between the lowest and highest ad valorem rate) – including on the real effect of minimum rates - across all rating categories. This is similar in-principle to policies in Victoria, West Australia and as proposed in NSW for elements of their rating framework (N.B. *IPART Review of Local Government Rating System – Draft Report*, August 2016).
- There should be **no differential rating category** (e.g. 'drive-in shopping centres', 'large regional shopping centre') **with less than 50 properties**. This would avoid the 'singling out' of either a single shopping centre, or a collection of shopping centres (e.g. those with certain physical characteristics, or those owned by particular companies).

- Any **annual rate increase greater than 10% (outside valuation increases) should be the subject of a separate approval process by the Queensland Competition Authority (QCA)**, with relevant justifications as to the cost and demand of services, and equity and fairness.

RECOMMENDATIONS

1. That the Committee makes a recommendation that the Government further investigates the local government rating framework to ensure equity and fairness.
2. That the Committee includes a specific section in their final report and findings on the rating framework, addressing the three key issues mentioned in our submission and acknowledges our recommendations made previously (listed above), including:
    a. The de-linking of rates to statutory valuations,
    b. Increased rate volatility, and,
    c. Minimum rates.
3. That the Committee notes our previous recommendations made to the Government:
    a. There should be a differential rating cap of 1.5 times.
    b. There should be no differential rating category.
    c. Any annual rate increase greater than 10% (outside valuation increases) should be the subject of a separate approval process by the Queensland Competition Authority (QCA).
4. That the Committee acknowledges the shopping centre industry's concerns with the local government rating framework.
5. That the Committee investigate the progress of the *Draft Guideline on equity and fairness in rating for Queensland local government* and make commentary on this in their report and findings.
6. That the Committee recommends that the Government engages with our sector to ensure a fair and equitable local government rating system.

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ABOUT US

The SCCA represents Australia's major shopping centre owners, managers, and developers.

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