Submission to the Victorian Parliamentary Economic Development and Infrastructure Committee

Inquiry into Local Economic Development Initiatives in Victoria

October 2012
INTRODUCTION

The Property Council of Australia (Victoria Division) welcomes the opportunity to make this submission to the Economic Development and Infrastructure Committee of the Victorian Parliament.

We believe that the Committee’s Inquiry into Local Economic Development Initiatives in Victoria (the Inquiry) is timely and important for Victoria’s economic future. We look forward to future engagement on this important subject.

About Us

The Property Council of Australia is the largest and most influential advocacy organisation for the property industry. We have 2,200 member companies throughout Australia that represent property assets worth over $600 billion. Approximately 500 of these members are part of the Victorian Division.

Members of the Property Council represent the entire property investment cycle: finance, design, development, property maintenance, and the services that underpin the industry.

Overview

The Property Council recognises that there is significant work underway at all levels of government with respect to Victoria’s economic development. In recent years, economic development initiatives have largely sat with local government and regional groups of councils. The Property Council believes there is an important and growing role for the State Government to align existing local government economic development initiatives with an overarching strategy for Victoria’s economic future.

The Property Council believes there is a lack of awareness within Victoria’s property industry and broader business community, of the State’s economic priorities, particularly with respect to maximising sustainable economic growth and job creation. In 2012 the Property Council established a Taskforce to review the existing economic development opportunities for Victoria. We hope to increase the property industry’s understanding of the State’s economic priorities and the role that the private sector can play to ensure that Victoria achieves the greatest potential growth in coming years.

Attracting investment and creating employment opportunities in Victoria requires a multi-dimensional approach, involving all levels of government and the private sector. The Property Council believes that Victoria requires the establishment of a state-wide economic strategy that creates a robust framework for regional and local economic development initiatives.

We do not need to start from scratch. There is already a range of well-conceived economic development initiatives in place that need to be considered collectively and brought together to deliver on Victoria’s strategic economic development priorities.
The Property Council looks forward to the public debate about Victoria’s economic future and views the Committee’s inquiry as a valuable part of this discussion.

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Property Council of Australia

**Further Information**

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1. **Victoria’s Current Economic Context**

In 2011-12, Victoria’s economic growth slowed to 1.5 per cent. It is forecast to stay in the range of 1.5 - 1.75 per cent in the short term which is below the long term national and state average.¹

Prospects for the Victoria property industry in particular, as well as conditions in broader markets, are inherently affected by a weaker Victorian economic outlook. The Victorian property industry is one of the State’s most important economic sectors and a major driver of Victoria’s success in the 2000s.

The Property Council’s report *The Facts Are Black and White* (Appendix A) demonstrates the importance of the property sector. According to our research, the property sector:

- Contributes approximately $36.9 billion to Victoria’s gross state product being 12.2 per cent of total GSP;
- Is the largest contributor of state taxation revenue (40 per cent of the total); and
- Directly employs 312,165 full time employees.²

The Victorian economy needs a prosperous property industry to service the needs of other industry sectors. The Property Council’s most recent *Property Council of Australia - ANZ Property Industry Confidence Survey* (September 2012) demonstrated that the business outlook for the Victorian property sector had worsened as sentiment continued to decline amongst property and construction sector professionals.³

![Property Council/ANZ Property Industry Confidence Survey September 2012](image)

**Figure 1 – National Property Industry Outlook for the September 2012 Quarter**

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Consequently, there is a perception in Victoria that the economy is slowing after a long run of population driven growth. Cracks have begun to appear in the strength of Victoria’s property industry which has diluted future confidence in our State as a place to grow a business and invest.

Strong property sector confidence remains vital to Victoria’s prosperity given the industry’s size and economic significance.

**Government Strategy**

The Victorian Government was elected in 2010 pledging to reduce debt and stabilise government spending. Since then, it has overseen two budgets which reflect these ambitions and has maintained its AAA credit rating.

As outlined in the 2011-12 and 2012-13 State Budget papers, the Government’s focus continues to support Victorian business during challenging economic times, to drive economic activity, to boost productivity and to generate jobs.

To this end, the Victorian Government’s economic reform strategy focuses on four pillars:

1. Create budget capacity to fund infrastructure, maintain quality services and keep taxes competitive;
2. Improve productivity through investment in skills, economic infrastructure, creating competitive markets and public sector reform;
3. Grow export markets to support Victorian business; and
4. Support industries and employees in transition.

In its 2012 Priority Infrastructure Submission to Infrastructure Australia, the Victorian Government reiterated this strategy and emphasised the importance of these pillars to its economic management activities.4

Victoria faces significant and undeniable fiscal challenges which are restricting its capacity to invest. This has been acknowledged by the Government and underpins much of its activities as well as its overarching economic strategy.

In April 2011 an Independent Review of State Finances was delivered to the Government.5 Chaired by Michael Vertigan AC, the Panel advised that over the decade to 2011, growth in expenses had outpaced revenue growth and that Victoria’s operating position was unsustainable in the medium term. The Panel also identified Victoria’s finances as being vulnerable to change in economic conditions and believed at the time that Victoria was not well placed to withstand another material financial shock as the global financial crisis.

The Property Council believes that the State Government is acting responsibly and commends the actions taken to date to future-proof Victoria’s economic position. However, we believe that more should be done to promote Victoria’s economic strengths, identify high growth industries suited to Victoria’s attributes and provide greater certainty to the business community about the direction of Government investment and priorities.

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4 Priority Infrastructure Submission, Victorian Government Submission to Infrastructure Australia, 2012
Much has been said about the diminishing prospects of Victoria’s traditional economic base but comparatively little about Victoria’s opportunities to participate in, and benefit from, the spill over effects of the global knowledge economy and other emerging growth industries that are highly suitable to Victoria. As we move away from traditional employment generating industries such as manufacturing, we need to better understand the sectors that will generate and secure employment and economic development opportunities for Victoria’s future generations.

**Recommendation:**

That the Victorian Government invest in research and analysis to understand the:

- Current status and prospects of Victoria’s employment generating industries;
- Emergence of growth sectors within Victoria’s economy; and
- Potential benefits and impacts upon private and public sector investment from attracting growth industries.

Government priorities need to be outlined according to a proper understanding of Victoria’s future economic development and employment opportunities. Governments have a number of levers to encourage and facilitate economic growth.

**Recommendation:**

Local and state governments need to better outline and communicate investment priorities and activities to the private sector and increase certainty for those investing in Victoria’s economy.

**Importance of Leadership**

For Victoria’s economy to prosper in the long term, the State Government must provide strong leadership and a vision that will support sustainable and enduring economic growth. For Victoria to retain its competitiveness, strong and clear messages must be sent to investors by government at both the state and local levels that they are committed to attracting and facilitating economic growth.

To achieve this, Property Council recognises that significant reform will be necessary to:

- Deregulate Victoria’s investment environment;
- Actively target organisations of significant value in terms of employment creation, global status and productivity; and
- Fully understand the opportunities emerging from the current and future high growth sectors.

The Victorian Government’s activities and trade missions overseas will go part of the way to achieving these objectives. The Property Council has also undertaken significant research to highlight that the benefits of utilising Government capacity to invest in city-shaping infrastructure that will underpin future economic prosperity.6

In order to maximise the opportunities opened up by the Victorian Government’s activities, an appropriate economic development strategy is required to translate these opportunities into investment and job creation.

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Without clear direction from the State Government as to its economic growth agenda, it will remain difficult for investors to fully understand Victoria’s investment priorities and long term aspirations and reach properly informed investment decisions.

**Recommendation:**

The Property Council believes there is an opportunity for the Victorian Government to develop and introduce an overarching economic development strategy and associated infrastructure program. Such a program would support other economic and fiscal policies and that will provide insight and certainty to existing and potential investors.

Such a strategy should seek to understand and set policy in the following areas:

- Victoria’s existing economic position;
- Opportunities for economic growth by sector (health, education, professional services);
- Priorities for state investment;
- Partnerships with other levels of government and the private sector; and
- An implementation program with key performance indicators.

### 2. Existing Economic Development Initiatives in Victoria

There are a number of competing policies and objectives between various levels of government in Victoria. For the private sector, this lack of coordinated policy creates uncertainty about Victoria’s economic development and investment priorities.

Victoria’s primary local economic development policy is contained in Clause 17 of the Victoria Planning Provisions which represents a very broad series of statements about the spatial elements of economic policy. There appears to be an over-reliance upon strategic planning policy to deliver economic development.

The delivery of the proposed Metropolitan Planning Strategy (MPS) will be an important part of an overall economic development framework. The MPS should respond to overarching economic policy direction by establishing the spatial dimension and ensuring the levers available to government within the planning system are properly utilised to achieve economic objectives.

**Local**

The Property Council has, with Charter Keck Cramer, undertaken a desktop analysis of the local government economic development initiatives in 38 municipalities *(Appendix B).*

Whist these initiatives are highly valuable and demonstrate the capacity of local government to contribute to Victoria’s overall economic development, they largely operate in isolation without overarching coordination and direction from State Government. This approach has resulted in a duplication and inefficient allocation of resources to policy development and implementation, as well as a loss of potential opportunities between local governments.
In a national survey commissioned by the Economic Development Association in 2011, the Victorian councils surveyed identified a number of opportunities for further collaboration between local and state government structures. These included:

- Assistance with investment attraction;
- Infrastructure development and delivery; and
- Provision of investor certainty and clarity around future planning and investment strategies.

The Property Council believes that local economic development initiatives should be better informed by, and appropriately aligned to, clearly outlined priorities and objectives of State Government policy.

**Regional**

Regional Development Australia (RDA) is an initiative of the Australian Government and aims to bring together all levels of government to enhance the economic development of specified regions across Australia.

In Victoria, nine RDA Committees cover the following regions:

- Eastern Melbourne
- Northern Melbourne
- Southern Melbourne
- Western Melbourne
- Loddon Mallee
- Barwon South West
- Gippsland
- Grampians
- Hume

The Property Council’s understanding of the Victorian RDA Committees is that they are extremely effective at bringing together various economic interests at a regional level. We are concerned however that there is limited support and involvement by State Government agencies which limits the ability of objectives and priorities to be delivered at the local and regional level.

**State**

Currently, an overarching, defined and clear state economic strategy does not exist in Victoria, nor does a state economic development policy exist. These defined strategies have existed in the past, but in recent years, other government policies such as planning strategies and transport strategies have been left to fill this void.

The current strategies and policy direction outlined by the Department of Business and Innovation (DBI) provides limited insight into the priorities of the Victorian Government. The strategic initiatives outlined in DBI’s 2011-2012 Annual Report are more historical than forward looking. References to the economic climate in 2011 are now dated and an update of DBI’s priorities in response to the significantly changing economic landscape is urgently needed. As a vitally important tool of investment attraction in the current environment, the DBI’s website could be substantially improved to act as a portal for important information being sought by prospective investors.

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A recent report into DBI’s operation and effectiveness by the Victorian Auditor General’s Office (Appendix C) highlighted a number of systemic problems impacting on the ability of DBI to deliver on its limited objectives. In a media release accompanying the report, the Victorian Auditor General said,

*DBI does not clearly define objectives for investment attraction and does not have a comprehensive strategic plan governing the various activities it performs to attract investment to Victoria. Without a strategy, DBI does not have the information it needs to improve the effectiveness of its investment attraction activities.*

The Property Council has in earlier submissions, outlined a number of concerns regarding DBI’s operation and approach to economic development. In our submission to the Growth Area Corridor Plans in 2011 our position was made clear that,

*The Property Council supports the Victorian Government’s intent to plan for employment and industrial opportunities in the growth areas. We are concerned however that there has not been sufficient work undertaken to establish a framework for economic development in these areas, and instead, a simple and somewhat dated approach to employment planning has been applied.*

The Property Council continues to hold this view and believes it characterises DBI’s approach to employment planning more broadly than just in Melbourne’s growth areas. There is minimal public information available about growth industries that are being targeted to match Victoria’s competitive advantages. As the State Government’s responsible agency for investment attraction, DBI should be doing more to understand what the future of Victoria’s economic identity could look like.

There is an opportunity now for the Victorian Government to outline its strategic objectives and for DBI to be directed to align its policy and operations to deliver upon meeting these objectives.

3. **Barriers to Doing Business in Victoria**

The Property Council has consistently advocated for increased certainty for organisations doing business in Victoria. Increased certainty refers to:

- Transparent and clear government priorities, initiatives and investment activities;
- Minimal regulation, taxation and red tape burden on business; and
- Timely and equitable compliance processes.

Local governments play a significant role in the operation of Victoria’s business sector but are often directed by State Government policy and regulation. This tension is most apparent in Victoria’s planning systems.

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Lack of Certainty for Investors

Government at all levels need to better understand the information required for investors to make investment decisions. Time and cost are two of the biggest factors that the private sector seeks to be assured of when making investment decisions. If these factors are seen to be high risk, investment will not be directed to Victoria.

Transparent and clear government priorities are needed to provide investors with insight into the direction of government activities. Again, investment decisions rely on information from government to establish risk parameters that affect the viability of all projects.

The Property Council has closely examined market drivers of property investment with particular focus on urban renewal and residential projects. The Property Council’s report *Making the Numbers Stack Up* provides insight into the realities of property development with respect to cost and time pressures, finance availability and other market drivers (*Appendix D*).

The Property Council has consistently argued for greater transparency in regard to planning and funding infrastructure in Victoria. The Property Council’s report *Securing Victoria’s Future – A Program to Plan, Fund and Deliver Infrastructure* (*Appendix E*), argued that if Victoria is going to remain internationally and nationally competitive, an infrastructure pipeline must be established that:

- Outlines government priorities;
- Provides investor and market certainty;
- Instils confidence in the private sector to invest in Victoria; and
- Is updated and reviewed regularly by government to be well integrated within government processes so as to deliver short, medium and long term outcomes.

Whilst these issues may be regarded as establishing the macro context, and out of the direct control of local government, the activities and messages sent by all levels of government do in fact impact the attractiveness of Victoria as an investment destination. The importance of a clear message about Government direction should not be underestimated.

Victoria’s Taxation System

The Property Council has consistently argued for a fair, equitable and broad-based taxation system in Victoria. Whilst we acknowledge that the Terms of Reference of this Inquiry does not look in detail at Victoria’s tax regime, the following key points should be noted:

- The high cost of land tax is a serious disincentive to property investment compared with other asset classes, and impacts on small to medium businesses as well as housing affordability;
- Stamp duty is an inefficient tax which impedes the flow of capital into Victoria, and ultimately, it should be abolished over the long term in the interests of promoting economic growth; and
- Lack of harmonisation between jurisdictions leads to unhelpful tax based competition and complexity for those entities which operate across state borders.
Victoria’s Planning System

The Property Council’s submission to the Victorian Government’s Ministerial Advisory Committee’s Review of the Victorian Planning System in 2011 highlighted systemic problems within the planning system faced by Victoria’s property industry (Appendix F).

The Property Council’s recommendations were based on the following key principles we believe are vital to the effectiveness of the Victorian planning system:

1. Clarity, consistency and simplicity;
2. A clear vision to inform future planning and development relevant to geographic considerations and effective spatial perspectives;
3. Appropriate timelines within the planning system;
4. Identification of key targets to drive future growth and development;
5. Clarity of relationships between the different levels of policy to demonstrate how state policy is to inform regional and local policy; and how regional and local policy is to reinforce state policy; and
6. Accountability at all levels of government in the planning process.

Higher costs and longer timeframes to gain planning approval may ultimately render a project to unfeasible (due in part to higher holding costs) or cause a project to miss an opportune time within the market cycle to respond to supportive demand conditions which allows the supply to be facilitated.

The development industry requires certainty around planning outcomes and processes so that it can apply appropriate allowances at the acquisition stage to the price it must pay for a site to secure a future opportunity. All too often, planning risk is underestimated and causes project scale and intensity to be further increased to offset the greater costs resulting from planning related delays and to restore feasibility parameters to a project.

The State Government has embarked on a program of reform which includes an overhaul of Victoria’s planning zones and the introduction of VicSmart to speed up planning permit applications.

The Property Council believes there is still work to be done but is encouraged by the Victorian Government’s appetite for continuing reform and activities to date.

Barriers to Housing Victoria’s Population

The Property Council has consistently advocated for the review of Victoria’s development contributions system and the financial implications of policy and regulation imposed on the State’s housing sector. The Victorian Government has been proactive on this point and a reform process is currently underway.

Victoria’s economy is in a transition period and activity in the housing sector has notably receded. In the past twelve months, Victoria’s land development and housing construction industries, especially those operating in Melbourne’s designated growth areas, have experienced an increased level of regulation through new government policies. This regulatory burden is in addition to the standard developer charges formally levied through mechanisms such as the Growth Areas Infrastructure Charge, local government infrastructure charges and the Community Infrastructure Levy.
The impact of increased regulation includes but is not limited to:

- Ever increasing development contributions;
- Bearing the cost of implementing bushfire building response regulations;
- Bearing the cost of implementing the GAA’s Engineering Standards; and
- Significantly increasing drainage costs.

Industry is also faced with new policy initiatives which will alter the operating environment and pose increased regulatory burden:

- Proposed framework for New Customer Contributions for water infrastructure;
- Increased burden of environmental regulations and offset charges through the Biodiversity Conservation Strategy; and
- Passenger Rail Infrastructure Noise Policy implementation.

These increasing costs and regulatory burden reduces the yield from developable raw land implying that development is less efficient and each block of land in new estates is smaller and more expensive than they would otherwise be.

The Property Council believes that government policy should be developed and implemented with housing affordability at the forefront. The cumulative effects of government policy on one of Victoria’s most vital industries and the State’s home buyers must be taken into account whenever any new cost burden is contemplated.

**Summary of Key Recommendations**

1. **The Victorian Government should invest in research and analysis to understand the:**
   - Current status and prospects of Victoria’s employment generating industries;
   - Emergence of growth sectors within Victoria’s economy; and
   - Potential benefits and impacts upon private and public sector investment from attracting growth industries.

2. **Local and state governments need to better outline and communicate investment priorities and activities to the private sector and increase certainty for those investing in Victoria’s economy.**

3. **The Victorian Government should develop and introduce an overarching economic development strategy and associated infrastructure program.**