

Briefing Paper - Team: Mates Rates

Zoning restrictions on land use are a crucial element of town planning. Decisions relating to land use require the exercise of broad discretion by the relevant authorities. Such decisions are too numerous to be closely scrutinised by the public eye.¹ Nonetheless, rezoning decisions and other development approvals can grant instant windfalls to property developers of a magnitude many times the prior value of the property.² The highly discretionary nature of valuable development approvals, combined with a lack of oversight, inevitably create an incentive for both regulators and developers to collude in a manner that increases payoffs for well-connected individuals to the detriment of the community. Existing anti-corruption measures fail to capture the full scope of this behaviour, which increasingly involves the exchange of valuable non-monetary benefits.

Murray and Frijters³ analysed the relationship between land development approvals and connections between landowners and entities involved in the approval process managed by the former Urban Land Development Authority (ULDA), which managed large development approvals from 2008 to 2012. They found that:

- Well-connected landowners owned 75% of the rezoned land, but only 12% of comparable land immediately outside the boundaries of the ULDA's authority;
- The rezoning decisions increased the value of the rezoned land by \$710 million, with well-connected landowners capturing \$410 million of these gains (58%) between 2007 and 2012; and
- Hiring a professional lobbyist increased the chances of a favourable zoning outcome by 37% and being part of a 'connected' network did likewise by 25%.

¹ It is common practice for Gold Coast City Councillors to sit on approval boards despite conflicts of interest with the project in question. Australian Broadcasting Corporation, 'All that glitters', *Four Corners*, 13 September 2017 (Mark Willacy).

² For example, land prices in the Melbourne suburb of Fisherman's Bend doubled after the industrial area was rezoned to allow for residential development. Additionally, the rezoning of suburbs in Sydney's inner west quintupled the land value. Ross Kendall and Peter Tulip, 'The Effect of Zoning on Housing Prices' (Discussion Paper No 3, Reserve Bank of Australia, March 2018) 24.

³ Cameron Murray and Paul Frijters 'Clean Money in a Dirty System: Relationship Networks and Land Rezoning in Queensland' (Discussion Paper No 9028, Institute for the Study of Labour, April 2015) 23-25.

Across the country, it is likely that “many billions of dollars of economic rent are being regularly transferred from the general population to connected landowners through political rezoning decisions.”⁴ These findings indicate that these rezoning decisions were substantially driven by the relationships between landowners and politicians, rather than technical assessments of the efficiency of development.

In order to eliminate the incentive to engage in back-scratching, the value associated with development approvals must be taken out of the hands of the decision-makers. We propose to implement a betterment tax of 75% of the increase in land value that results from development approvals. This will allow development decisions to be driven more by efficiency and less by the probability of windfall gains from rezoning. In conjunction, councillors with conflicts of interest ought to be excluded from making development approvals. It is clear that public outcry and re-election pressures are insufficient to discourage this behaviour, thus it must be prohibited.

This policy will:

1. Raise \$11.6b in government revenue,⁵ making the betterment tax the federal government’s 6th largest source of revenue.
2. Promote a more efficient housing sector. Research has shown that implementing the tax may also speed up the development process.
3. Reduce income inequality by removing economic gifts given by decision-makers.
4. Have small administration costs. The ACT has an identical tax which costs \$411 in administration fees per development application to implement and 75% of cases take no longer than a few minutes to calculate the tax.⁶

⁴ Cameron Murray, *When reciprocity becomes back scratching: an economic enquiry* (PhD Thesis, The University of Queensland, 2015) 24.

⁵ *Ibid.*

⁶ Des Nicholls and Stephen Anthony, ‘Final Report on the Review of the Change of Use Charges System in the ACT’ (2010) 56.

Appendix 1: Case Studies

Tom Tate, current Gold Coast Mayor, is under investigation by the Queensland Crime and Corruption Commission for allegedly influencing council decision-making for personal benefit, failing to declare possible conflicts of interest, and not disclosing flights and accommodation received from a Chinese developer within the required timeframe.⁷ The investigation was widened in May after it was found that the free flights received were from the company contracted to build the new “spirit tower” - a \$1.3 billion, 88-storey high rise on the Gold Coast. Mr Tate is also a director and part owner of Crestden, a development company that received provisional council approval for a 60-storey development worth approx. \$300 million.⁸

Campbell Newman, former Lord Mayor of Brisbane and QLD Premier, is currently employed by Springfield Land Corporation along with Jim Varghese, former Director-General of multiple government departments.⁹ Mr. Newman failed to declare his wife’s stake in a property that received high rise development approval from Brisbane City Council at the time that he was Lord Mayor of Brisbane, providing her with windfall gains of millions of dollars¹⁰.

Terry Mackenroth: The former Planning Minister and Deputy Premier of Queensland retired from politics to become a full-time lobbyist and sit of the board of Metro, a property development company. He was investigated by the Crime and Misconduct Commission for impropriety in some of his planning decision as minister after allegations that Mr. Mackenroth had improperly influenced the zoning decisions within the South East Queensland Regional Plan because one of his clients benefited favourably from the decision.¹¹ Mackenroth promptly retired from lobbying, although he was cleared of charges some months later.

⁷ Australian Broadcasting Corporation, ‘All that glitters’, *Four Corners*, 13 September 2017.

⁸ *Ibid.*

⁹ Cameron Murray and Paul Frijters, *Game of Mates* (Publicious Pty Ltd, 2017) 15.

¹⁰ *Ibid.*, 15.

¹¹ Queensland Crime and Misconduct Commission, *Final CMC report into the 2009 South East Queensland Regional Plan, including land at Palmwoods* (2009).

Appendix 2: Further Reading

Legislation:

Planning and Development (Lease Variation Charges) Determination 2017 (No 2) (ACT)
Planning and Development Act 2007 (ACT), s276C(2)a, s276E(1)

Secondary Sources:

Andrew Heaton, 'Australia's Property Industry is Racked with Political Favouritism', *Sourceable* (online) 2017 <<https://sourceable.net/australias-property-industry-is-racked-with-political-favouritism/>>.

Cameron Murray, 'The First Interval – Evaluating ACT's Land Value Tax Transition' (Report, Prosper Australia, August 2016).

Ken Henry, Report to the Treasurer, *Australia's Future Tax System – Part 2 – Detailed Analysis*, December 2009, 424
<http://taxreview.treasury.gov.au/content/downloads/final_report_part_2/AFTS_Final_Report_Part_2_Vol_2_Consolidated.pdf>.

Leslie Stein, 'Value Capture in Australia: Ideologies, Methods, and Analysis' (2017), 12-27
<http://sydney.edu.au/halloran/publications/STEIN_ValueCaptureinAustralia.pdf>.

Willacy 2018, *CCC widens its investigation into Gold Coast Mayor Tom Tate after fresh conflict of interest allegations*, accessed 17 August 2018,
<<http://www.abc.net.au/news/2018-05-25/crime-and-corruption-commission-widens-tom-tate-investigation/9796966>>

Willacy 2018, *Gold Coast Mayor Tom Tate at center of Crime and Corruption Commission investigation*, accessed 17 August 2018,
<<http://www.abc.net.au/news/2018-03-09/gold-coast-mayor-tom-tate-at-the-centre-of-corruption-probe/9529434>>