T R A N S C R I P T

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into the proposed long-term lease of land titles and registry functions of Land Use Victoria

Melbourne — 5 July 2018

Members

Mr David Davis — Chair	Mr Nazih Elasmar
Mr Cesar Melhem — Deputy Chair	Mr Daniel Mulino
Ms Melina Bath	Ms Huong Truong
Mr Richard Dalla-Riva	Mr Daniel Young

Participating Members

Mr Jeff Bourman	Mr Simon Ramsay
Ms Samantha Dunn	Dr Samantha Ratnam
Mr James Purcell	Ms Jaclyn Symes

Witnesses

Mr Karl Fitzgerald (affirmed), Project Director, and

Mr Jesse Hermans (affirmed) Administrative Assistant and Researcher, Prosper Australia.

The CHAIR — I welcome Jesse and Karl as the representatives of Prosper Australia. Can I ask you to give a short presentation, and then we will follow up with some questions.

Mr FITZGERALD — Certainly. Thanks for this opportunity. It is fantastic that we are finally seeing some detail on what is happening with this privatisation, something that we are very concerned about because for a property-owning democracy this is akin to privatising the police force. We have real concerns because it makes no sense economically and no sense in terms of our sovereignty, nor in terms of political vision.

We were struck by the fact that the land title registry privatisation was announced at the same time as the need for $2 billion for the domestic violence program, which is very important. But when you consider that so much financial pressure comes from the cost of housing, we feel there are some concerning possible loopholes in this privatisation that may well act as a barrier to further analysis of housing affordability pressures. That is why I was very impressed that you finally got some detail from DELWP and Ian Ireson, the CEO there, on whether or not they had really considered the future potentials of data aggregations. We see billion dollar companies like CoreLogic charging a fortune for aggregated data. What we can understand so far is that, sure, the statutory fees have a government approval rating and non-statutory fees are linked to CPI, but there is a lack of detail surrounding whether the sort of state-wide cost of data analysis will be turned into some sort of product that will be sold at exorbitant costs.

At the moment CoreLogic charges us $3500 for six lines of data and $6000 for a spreadsheet with 387 rows of data on it. The Victorian housing affordability policy wonks, if you like, are already concerned about the incredible cost of data, and we are having to rely on second-rate data providers. Basically the housing community is reliant on one university-funded organisation which is paying six-figure sums for access to this data. Everyone is relying on this Australian Property Monitors-type data, which is not as good as CoreLogic's, but we wonder what the flow-on is going to be of further privatisations.

We would really like to see whether there is some sort of public interest scope for affordable data access. When I saw Mr Ireson talking about the Valuer-General's data being possibly made available to LANDATA I thought that was an extra half a billion dollars' worth of value being added onto this sale. Was that incorporated into the clauses of this contract? We have seen many past privatisations, such as the pokies, where the system has been gamed and the public interest has lost out.

Our core concern is that the public interest access to this data will not be pushed up even higher so that as we enter this era of geospatial analysis — we had visions that we would be able to animate flyovers of the Western Distributor, for example, showing which landholders were set to gain from this infrastructure project. With processes like this and the lack of detail right from the business case onwards, it really does not fill us with confidence that the government is acting in the public's best interest when every day we are seeing new stories of computer algorithms delivering all sorts of analytical options for property investors to make use of but the general public and universities are probably all struggling to afford this. It is akin to putting a pot of gold on the table and looking the other way — saying that the government does not know whether they are including the Valuer-General's data to the LANDATA website. So we are very concerned about that.

When it comes to our sovereignty, of course ensuring that the Victorian public controls that data, whilst we understand that with the privacy rights there will be strong overviews there from government, it is the economic value of that data that has been turned into multimillion-dollar products by this California-based company, CoreLogic — a multibillion-dollar company WHICH HAS grown in the last 15 to 20 years, so who knows what potentials there will be in the future. To talk about the economics of this sale, I will hand it over to Jesse.

Mr HERMANS — Thanks, Karl. In terms of the commercialisation or the concessions, based on what we have seen from the Department of Treasury and Finance presentations and I think something from DELWP, as I understand it the government has sort of put forward two main reasons — the first one being it wanted to rationalise this balance sheet, so to speak, through asset recycling, and then the other reason being it wanted to get more private sector innovation into the land titles office, which is not necessarily a bad thing. It sounds reasonable. But in terms of the former, it needs to be made clear that commercialising even this very small portion of the land titles registry — it is not a funding exercise, it is a financing exercise, because the government is sacrificing a revenue stream for an up-front lump sum. When we looked at the estimates, which we know are just rough estimates because they cannot put it out what they expect it will be — from what I have seen from presentations, in the estimates there is just like a rough number — based on an estimated value of maybe $1.5 billion to $2 billion or something as a sale value, and they are handing out about $120 million in annual revenue, I think it is like 30 per cent based on the DTF estimates. We are looking at a yield of about 6 per cent, whereas the government can borrow at a rate of about 3 per cent over 10 years for 10-year bonds, so that is a difference of about $60 million per year. We are not even counting in future revenue growth as well for potential innovations that the public ownership of the —

The CHAIR — Only CPI increments, I think.

Mr HERMANS — Okay. Only CPI, all right; fair enough. But even so we are looking at about $60 million, conservatively, of forgone revenue every year that the government could have retained if it had not leased the land titles registry but retained it and issued bonds instead. So that then begs the question: is this exercise really worth $60 million every year? I am not sure if that has been justified.

In terms of achieving maybe extra innovation and so on through private sector engagement, that could be a possible argument, although I do wonder if this is the case or this is a good reason considering the length of the lease is 40 years. I wonder if that is really necessary. A 40-year lease is a long time because a lot can happen in the world of data and information technology within the space of 10 years, let alone 40 years. A 40-year length of a lease — considering that New South Wales had only a 20-year lease and I think South Australia had a longer lease, over 30 years, but then they had the hidden provision in the business case that was not revealed until after the sale. We do not know what is going to be in this because we cannot see the actual business case that was being proposed and whether or not something similar is going to be put in for either first dibs on the motor vehicle registry or an extension of up to 40 years as in the South Australian example. These lease term periods are incredibly long for something that just seems to be an exercise of, 'Oh, we can just get the private sector to come in and maybe make some innovative product changes and stuff and optimise the use of the data'. That seems like way too long a period for something as simple as that. So there is definitely a problem with the length of the lease, from what I can see, and also the financing argument of saying, 'Oh, we need to rationalise the balance sheet' and essentially give up $60 million in revenue.

On top of that, as Karl has mentioned, we have got the free access to data or public interest of data, so the cost of data to universities and other organisations. Only the government can use the data for free itself within its own departments, yet other I guess research bodies outside the government will not be able to do that as far as I have been able to see. That brings in I guess other costs, if other public entities want to use that data. That does not seem to have been taken into account. That is probably in the consultation process and is ongoing, but so far I have not seen significant discussion around that.

Also, with the South Australian model, we know that they arranged some sort of royalty regarding the profits made from innovation by the private operator. As I understand it, they get I think it is 12.5 or something per cent royalty from any profits made by the private company in innovating within the land titles office new products and so on.

We do not have any transparency around what the fees are that the private company is going to be charging the government. We know that the consumers will pay whatever the government sets the statutory fees at and the non-statutory fees will be indexed to the Melbourne CPI, but we do not know what the private company is going to be slapping the government with and whether or not those fees are going to gouge the public and then put pressure on the government to pass on the fees to the public in higher fee increases.

We do not know that because we do not know what the fees will be because of commercial in confidence and we do not know what, I guess, the profit-sharing arrangements will be regarding any new data products that emerge out of the private operator running the land titles registry. The DTF did say that if the private operator creates new products, the government will have to approve them and then they cannot do discriminatory pricing off that. They have to do, as I understand it, the same sort of pricing based off previous products. But we do not know whether or not those new products or the revenue from those products will go to the private company through subsequent fees paid by the government or if there is some sort of cut the government gets out of it or who is getting what. There is no transparency around that.

All we know is that we are losing about $60 million a year in revenue because of the way this commercialisation is happening — assuming that the government is only getting $2 billion. If they get more for it, then the yield difference is less but it still has to be taken into account the opportunity cost of the government just issuing bonds at 3 per cent for 10 years relative to doing a 40-year lease of a state asset that it itself could potentially be doing innovation in. That counterfactual is not taken into account. So we would have liked to have seen more of that and I guess this inquiry opens up that opportunity.

The CHAIR — Can I thank you for your useful contribution. It seems to me that you make three key points, two of which are new areas for us to discuss and I am going to step through these. The first one is innovation. I think you have conceded that there might be some innovation inside a commercialised operation and potentially that is an advantage. There might be some efficiencies, there might be some innovation inside that office. I think you were at the end there alluding to the fact that there could be innovation inside a government body.

Mr HERMANS — Yes.

The CHAIR — Although it is true, I think — you may have a different view and I am playing a devil's advocate role here just to test your views — that sometimes those sorts of private bodies actually do innovate and have an incentive to innovate and look at things afresh. Is that a fair description?

Mr HERMANS — I think that is reasonable. I mean, the counterfactual of the state might have been able to do it as well is something that we do need to consider but then, yes, it is true that with the private sector there is a possibility of it having a fresh view. That then I guess leaves the question of why not a 10-year lease if we just want a fresh view — why 40 years if a fresh view is all we are looking at? It seems like an incredibly long period of time to shield the incumbent from potential competitors.

The CHAIR — So the time length is also important when you come back to your point about the yield as against what is on the government's balance sheet already?

Mr HERMANS — Yes.

The CHAIR — So there is a revenue flow that comes to government from these activities and in one sense it is a simple financial calculation. Perhaps in another sense it is not. If the government were to reinvest — again I am playing devil's advocate here — that money in another activity, there is an opportunity cost there too.

Mr HERMANS — But the point is it is raising capital through this process.

The CHAIR — Yes, that is right.

Mr HERMANS — And it can do the same thing by issuing 10-year bonds at 3 per cent or less, which is, as I understand, some of the cheapest borrowing cost we have ever had nationally. So I do not think it is a reasonable argument to say, 'Oh, well, we could be raising the capital this way through the asset commercialisation and then that is an opportunity cost because we could have used that money elsewhere'. We could have just issued the 10-year bonds. No-one has proposed that as a counter possibility.

The CHAIR — It may add to net state debt and that may have other consequences.

Mr HERMANS — Well, considering that the state is giving up its asset for 40 years, that is almost like taking the asset off the balance sheet for that entire period. I mean, it stays on there in name but in principle it has given up the revenue stream. So in effect the government's balance sheet is actually worse off by $60 million every year. That is what matters financially in terms of revenue, so it is still a cost to the government to do this. If it were the case that the commercialisation resulted in a lower yield than the government's borrowing cost, then sure that would make sense. That would be okay. You can do that and you will be saving costs and so on through a cheaper way of raising capital, but in terms of the opportunity costs of different methods to raise capital, it seems a bit I would say almost ideological to say, 'We shouldn't let the net debt increase for the sake of the net debt not increasing, even if it's going to cost us $60 million every year to do so'. That seems a bit strange.

The CHAIR — I am just testing your views as a devil's advocate here.

Dr RATNAM — Sorry to interrupt, but just in terms of the revenue from Land Use Victoria, we heard this morning from the CPSU and they were quoting a $380 million Land Use Victoria revenue fee. Is that comprehensive, the differentials? Are they taking into account other things, do you believe? Your figure is slightly different.

The CHAIR — It might just be the wedge that —

Dr RATNAM — The component, that is right.

Mr FITZGERALD — That is what we have been trying to find out the details on, and it was not until Treasury produced this chart that we saw it was only 30 per cent of the revenue, so we brought that back to 120, just being conservative, so the full detail is not there. But when it comes to the benefits of this sale we have not been told the full story. When you weigh up those financial costs we are playing out versus the innovation issue you raise, Mr Davis, we only have to look at what the LANDATA-type websites in New South Wales and Queensland are operating like, and they are actually screeds ahead of what is happening here in Victoria. We can actually access for free the median land values per suburb online for free, whereas here in Victoria the Valuer-General has made that incredibly difficult. There is something in that culture here in Victoria, which is a pity, but for our sake we do not believe that privatising it is the best answer. In this era of transparency and open data —

The CHAIR — Perhaps I can shed some interesting light on this. I was part of a much earlier parliamentary committee that looked at government data, the economic advantages of government data being made available at low or no cost and the advantages from innovative commercial uses and non-commercial uses of that data. I think you are correct. Across the Victorian public sector over a longer period there has been a challenge in encouraging agencies to provide data that they hold which in my view is public information that ought to be in the public domain, with suitable privacy protections. Especially aggregated data ought often to be in the public domain. The recommendations of that committee, partially implemented only, said that that data should be out there for the economic benefit that would be created from that data, and it is in that context that a private operator might be more effective. Again I am challenging you to say that it might be more effective in putting data into the public domain because they might have an interest in doing so rather than the alternative, which might be government offices sitting on data because they have got some proprietorial attitude towards it.

Mr FITZGERALD — If we look internationally, the UK government has been very good at opening up the data and allowing the analysis to flow from there. Going back centuries virtually there is the issue with understanding who owns England. There is not a public record of effective land titling in that nation, but still they have opened up all this data which is encouraging analysis of the costs of sprawl, who benefits when high-speed rail comes through, all these things we are talking about like value capture. How are we going to get this up if the public is not brought along to understand that those who own the land nearby, who get the big rezoning windfalls are the ones who should pay something back over the next 20 years to fund that? That is the message Malcolm Turnbull has been giving us. That is what we are seeing internationally all around the world — the income tax, the company tax rates get wound back. Somewhere along the way we are going to have to bite the bullet and recognise the intergenerational inequity, the need for revenue sources from land. So many issues are coming through the housing affordability-type framework that locking up this data and not ensuring a public interest provision within it is the wrong message to be sending in this digitised age.

The CHAIR — So what you would see as an advantage in this process is if we were to add a long list of data that ought to be available routinely.

Mr FITZGERALD — That is right. And it is not a huge labour-intensive job — a couple of software gurus. We are already collecting the data. We have now got this annualised land valuation system coming through, which is a good development, but what we are hearing on the ground is that international property valuation companies are coming to Victoria and undercutting local providers just so they can get first bite on that data so they can then give insights to their clients. That is how valuable this data is. Out of all of the data we have, land and real estate data is the most valuable. That is where the greatest margins are. I just think the government owes us a better business case for why they are selling this. We have heard it does not add up economically. It does not provide us with anything further for the future data vision that our Silicon Valley entrepreneurs are leading the way in.

Dr RATNAM — Can I ask a follow-up question to that. Can you expand on what we are seeing potentially internationally or domestically around the privatised use of that data? Because I recall CoreLogic do get access to our data, some parts of it.

Mr FITZGERALD — Yes, they buy it off the Valuer-General. It is one of those questions I would love to know: how much money does the Victorian government earn for the sale of that data to CoreLogic and to Australian Property Monitors and others? It is a valuable stream —

The CHAIR — I should add that there is nothing wrong with firms packaging up data and making it more accessible and, frankly, more useful in many cases. A printout of data in a dump out of a computer is something that consumers and others would find difficult to personally access.

Mr FITZGERALD — You should see what the students are doing at Melbourne University, at the Australian Urban Research Infrastructure Network. They use open data there. All you need is the spreadsheet and then it is open to anyone's analytical capabilities as to how to put it together. But what is really worrying me is that out of Wall Street they are now buying up quarter-acre homes in this build-to-rent revolution we are hearing about. They are buying according to what they call strike zones. It is when the household formation rate is 90 per cent above average and the household completion rate is 30 per cent below average. That is the core data point they are looking for. Then they are looking at demographics, local employment, infrastructure plans, rezoning capabilities in those areas. You just have to go to the property spruiker-type sessions that are held all around the country to hear about how easy it is to use your iPad and Google Earth to search for any property above 800 square metres. You find it, look at the council overlay, see that there is already medium density approved for that area, go and knock on the old pensioner's door and say, 'Look, we'll give you 150 grand more than it is worth now as long as you sign this property option'. They then on-sell it out for 400K to a builder and they do not put any money down and they take away all this money. That is the potential that is being handed to the development industry and those who representing the public interest are nowhere to be seen.

The CHAIR — To be fair to the development industry, they will obviously be building to a market and actually information is part of an industry meeting its market. So provision of information may not be a negative thing. In one sense it is a positive advantage.

Dr RATNAM — Unless it is an exploitation of the holder of that information.

The CHAIR — Indeed, but the non-provision of information would make it much harder to meet that market.

Mr FITZGERALD — Sure. The thing with open data is it would be available, but at the moment what we have seen a groups like Oliver Hume, which produced a $6000 report in late 2012 showing how the housing supply levels and land sales up in the growth areas of Wallan through to Tim Pallas's seat had been pulled by 30 per cent at the depths of the GFC. You had to pay six grand to get access to the analysis and with that the accompanying price affects that cause. So there is this barrier to entry for anyone trying to keep —

The CHAIR — Which is the current system now is what you are saying, but the point is —

Mr FITZGERALD — Yes, so it is going to get worse.

The CHAIR — Or there is an opportunity to actually have some greater amount of data in the public domain.

Mr FITZGERALD — Well, we would love to see that. It is really important because we know that these algorithms are only going to grow in complexity. The big company out of America, Blackstone Capital, have 64 data points they are using when they draw up this strike zone where they are going to buy. They go in and spend $150 million a week buying up communities. That is what we are seeing that is going to come to. Whether it is local superannuation companies or whatever there is just so much money in real estate. We are now told that millennials do not want to buy housing, we have got to build them rental property. It is like, 'Well, hang on. It's actually because it is too costly for them to buy a house. That's the real reason why they're being forced into dogboxes in the city'.

Mr HERMANS — Just to sort of sum up that issue, it is really just that at the moment the data is paywalled. When it is privatised, the data will still be paywalled but there will be an incentive to keep the paywalls in place and possibly raise the paywalls because the company is trying to make a profit.

The CHAIR — Whereas actually at the moment the government is making a profit out of the paywall, to be absolutely fair.

Mr FITZGERALD — Yes.

The CHAIR — There has been a longstanding issue with getting data out of government.

Mr FITZGERALD — Is it actually profitable for the Valuer-General? Have you seen those numbers?

The CHAIR — I think there are fees charged, and I direct you back to the Economic Development and Infrastructure Committee inquiry a relatively few years ago and its set of recommendations about more data being put into the public domain across the whole front of government, not just property.

Dr RATNAM — Perhaps they are questions that we can take back to the Valuer-General as well. I mean, that is an option as well, to take those questions back to them.

Mr FITZGERALD — That would be good.

The CHAIR — Have you got more questions?

Dr RATNAM — I was just going to go back to the point, and you have sort of talked about this a little bit, in terms of the value of the data and particularly you were talking about housing affordability in terms of the capabilities that we might have should the data become more available and we stop it becoming less available. Is there anything you want to further add in terms of how that data can be used, particularly on issues around housing affordability and analysing particularly the sort of circumstance we find ourselves in in Australia at the moment?

Mr FITZGERALD — Well, I mean, there is just so much potential in this area. The people at AURIN, their general go-to explanation of how valuable this geospatial data is is to show the incidence of diabetes. You see that on the screen and the second layer comes on of where the diabetes treatment centres are and they are over here. So obviously the public policymakers within a second or two can figure that out.

The CHAIR — That is a good thing, to be able to match need with the ability to supply and provide services.

Mr FITZGERALD — That is a great thing, yes. But the issue we are having is that the general public are not getting that through their *Herald Sun* newsfeed. We need a way to be able to build their economic literacy to make sense of these public policy decisions. So whilst the government could provide that sort of information, I think that NGOs are going to be at the forefront of trying to really push that up because, to be fair, the Victorian government has not been so good at providing that sort of long-term vision of where our policy frontiers are really needed and where the public need to get up to speed on things.

The CHAIR — I should say on a lot of that health data as health minister I made a very determined effort to put a lot of that in the public domain — including through the *Herald Sun*, I might say — with large maps and atlases published for precisely this reason that actually making that data available has a public policy significance but also an informative approach for communities and individuals.

Mr FITZGERALD — Yes. So for us, we do the report into vacant homes, the Speculative Vacancies Report, which led to the vacant residential land tax. The access to that vacancy data is a challenge for us to get but also the access to the land data in SA1 and SA2 data grids is also very important. We did it a few years ago and found that the incidence of vacancies was a lot higher in the western suburbs where the land tax threshold of $250 000 meant that property investors were paying a lot less in land tax, barely anything, because most land at that point was sort of 300K, so they would be paying barely $200 in land tax for a $40 000 to $60 000 a year capital gain. Now, to have that animated and the everyday person in the western suburbs to understand, 'Hang on a minute; what do we do about this?' would be a really powerful mechanism, particularly as this commodification of housing seems like it is only going to increase. So for us it is those sorts of potentials that need to be built upon so that we can help the everyday person understand what is happening in their own community. That is where geospatial data is just so powerful, and that is where that disjoint is between the reality of people's wallets and what they see going on in the press.

The CHAIR — But the information is also on a much broader front, the linking of geospatial data across to health or education or a whole range of different policy areas.

Mr FITZGERALD — Yes, but in particular when it comes to this and the fact that we do not know with the land titles registry long-term lease whether the non-statutory fees apply to data aggregations. That is something I would really like Mr Ireson to give you more detail on — anyone in Treasury — to find out whether that potential is where they are going to make their money, whoever buys the LTR. That is the key point for us.

Dr RATNAM — I have just a few more questions. I just want to go back to the example you gave a little while ago, just to complete that story for my information. You were talking about the GFC and you used an example of data on land that was pulled. Can you finish that off in terms of what you mean by that?

Mr FITZGERALD — Twelve years ago I went and did a search on a property on Punt Road. To find out the sale price of that over the last three owners cost me $480. So to do that analysis on a suburb-wide type framework is a huge, huge cost. Anyway, Oliver Hume could afford to do that. They basically saw that there was a lot of land on the market, probably using some sort of algorithm that was scraping the real estate websites, packaged it all together and showed that there had been a 30 per cent drop in the amount of land on offer during that point in time. So when there is enhanced scarcity on the market, that puts a floor under the price of real estate.

Our great question at the moment is: what is the public policy return for so many rezonings, both in the city with all these towers going up and on the sprawl? You would like to think that there would be a 20 to 30 per cent drop in property prices in order to get anywhere near the reality of what people can afford through their wages. We would love to see a lot of researchers working in this space but we hear stories all the time of PhD candidates and the like wanting to do work in this space but knowing that the data is costly and hard to find. AURIN has outdated data I think now as well.

The CHAIR — And that is the current situation, to be clear.

Mr FITZGERALD — And it is only going to get worse.

The CHAIR — Well, maybe, maybe not. We will see.

Dr RATNAM — Are there any examples you can point to in other jurisdictions of what impact that has had on land prices?

Mr FITZGERALD — Well, we saw some scaremongering headlines in the *Daily Telegraph* recently regarding the New South Wales privatisation, but certainly in Canada — I think it was in the jurisdiction of Manitoba — there was a 30 per cent increase in land title search fees, which funded a $12 million increase in executive pay for that company in that first year. It is good that there are some restrictions in Victoria tied to CPI with the pricing points, but it is those loopholes with these geospatial developments that are going to be where, I dare say, this land titles privatisation is going to be most valuable. So what could well be the case is that CoreLogic says, 'Wow, we've got some possible competition coming up here in Victoria, so we'd better get in there and bid for this and move further up the data chain'. If that is the case, then the $2 billion price tag that we are hearing about is nowhere near high enough.

Dr RATNAM — Do you have any concerns about data security and the impact that commercialising such valuable and big sets of data could have?

Mr FITZGERALD — We certainly do, but for us the economics is the big issue. A lot of people have talked about security and employment issues, but it is the fact that we are $60 million in the red with limited benefits for the public that really concerns us. To think that the innovation argument is pulled out, that goes against what we have learned through the online commons all around the world, where we are seeing if jurisdictions open up their data, that allows people to work on it around the clock in their various little clusters, whatever little passionate —

The CHAIR — You will enjoy our report. Go and read the Economic Development and Infrastructure Committee report; you will enjoy it.

Mr FITZGERALD — I am pleased you have looked into that, because it is one of the most exciting spaces in the new economy. We keep hearing about this sharing economy. Well, so much of that is about locking up the data and on-selling it and making the most of everyone's attention but, yes, this property data is really the one that is so valuable.

The CHAIR — Can I thank you for your submission. It has been helpful. We may well have the secretariat come back to follow up with a few questions. Thank you.

Committee adjourned.