South Australia 2014-15 Pre-Budget Submission

Property Council of Australia, South Australian Division

Contents

FAST FACTS

on the South Australian property and construction industry

11.5%

of the State's workforce

The largest private sector employer in the State

10%

of the Gross State Product

The largest contributor in South Australia

40%

of the State's taxation revenue is paid by the property industry

This equates to about $2.4 billion in property specific taxes paid annually to State and Local Government in South Australia; this is expected to grow to more than $3 billion by 2015/2016

$35 billion

the value of investment grade stock under management in South Australia

MORE THAN 500,000

South Australians collectively own major segments of the State's most valuable commercial property assets through their superannuation funds

$50 billion

the market value of foreign assets owned by Australians

$20.7 billion

the forecast for total construction spending across South Australia in FY13 and FY14

Comprising $7.1 billion in residential construction, $4.2 billion in commercial construction and $9.4 billion in infrastructure

$61 million

flows in to the property sector from super funds in an average week

About the Property Council

The Property Council represents the property investment and development industry in South Australia covering all asset classes including; commercial office, retail, industrial and retirement.

Our members include major property investors, developers and contractors across Australia.

Members are engaged in the entire property investment universe, which includes:

- All sectors of property activity (financing, funds management, development, ownership, assets management, transaction and leasing).
- All major property types (offices, shopping centres, residential development, industrial, infrastructure, tourism, leisure, aged care and retirement).
- All major regions of Australia and international markets.
- The four quadrants of investment – public, private, equity and debt.

Executive summary

As the largest private sector employer in the State, the property and construction industry is a key driver of economic activity and job creation. Any government policy that impacts on the property and construction industry has a consequential impact on the State's economy and the community.

The Property Council acknowledges that the South Australian Budget is in a difficult fiscal position. It is in this context, coupled with the soft economic conditions the State is currently experiencing, that the Property Council has framed its 2014-15 Pre-Budget Submission. We have taken a targeted approach, reiterating many of the policy positions outlined in our pre-election platform *Igniting Our Economy* and *SADecides2014*.

This submission focuses on the following three areas of reform that we believe are vital to improving the State's long-term economic wellbeing: **efficient expenditure**; **strengthening the revenue base**; and **boosting economic growth**.

The 2013-14 Mid-Year Budget Review (MYBR) projected that on current policy settings the Budget will remain in deficit for the 2013-14 and 2014-15 financial years. The Government's election commitments are yet to be factored in to the Budget's forward estimates, and these expenditure commitments will place additional pressure on the fiscal position if they are not offset by adequate savings in expenditure.

It will take considerable fiscal discipline from the Government to maintain a budget surplus from 2015-16 onwards. The Property Council recognises that bringing the Budget back to surplus and maintaining it in surplus is no simple task. It will require significant structural and long-term reforms to achieve required savings and strengthen the State's revenue base.

The recommendations in this submission provide the Government with a series of reform options and policies that have the potential to significantly increase productivity and economic growth, particularly over the medium and long-term.

This State Government must look at serious reforms to achieve a long-term, improved and sustained budgetary position. Achieving a balanced budget across the economic cycle is critical to putting the Budget in a strong position to respond to economic shocks. To achieve this, this submission outlines the following recommendations:

Efficient expenditure

- Take stock of current projects and spending by initiating a line-by-line review of all state government programs and projects.
- Promote financial integrity and efficiency by offsetting election commitment expenditure by adequate savings measures.
- Appoint an independent Audit Commission to examine the role, structure and culture of the public service.

Strengthen the revenue base

- Conduct an independent 'root and branch' review to reshape the State's taxes and design a sustainable system.

- Work with the Federal Government to design the Financial Independence Program.

Boosting economic growth

- Repeal a prioritised list of out-dated legislation and regulation, and adopt a one-in, one-out rule.
- Fully liberalise trading hours and allow business to respond to demand.
- Adopt the Property Council's Nine Point Plan to increase the number of skilled migrants settling in South Australia.
- Implement policies that help retain and attract young professionals.
- Establish Infrastructure SA to identify and prioritise key infrastructure projects.
- Charge infrastructure SA with recommending and implementing the financing and funding of infrastructure projects.

In short, of the remainder of this submission outlines policies that promote healthy macroeconomic outcomes by **improving efficiency**, **strengthening the revenue base**, and **boosting economic growth**.

Finally, the Property Council is calling for the returned Labor Government to continue an open and transparent dialogue with the business community, including the property and construction industry.

We welcome any opportunity to assist the Government in delivering the State's 2014-15 Budget.

1. Efficient expenditure

To achieve a sustainable budgetary position in the long-term, the State Government must **deliver services in the most efficient manner**. Service delivery must follow free market principles, as far as possible, to drive innovation and to ensure the most productive use of tax payers' money.

Further measures should be employed by the State Government to drive efficiencies in all state-based agencies and departments.

This is why, as part of the Property Council's pre-election platform we called for the newly elected State Government to enact cultural change through **a lean but capable public service**.

1.1 Independent Audit Commission

Recommendation: **Appoint an independent Audit Commission to examine the role, structure and culture of the public service.**

Action

- Appoint an independent expert to head up the Audit Commission to identify waste and deliver better tax payer value-for-money.
- The Audit Commission to deliver its findings by the end of 2014.

Why is this important?

An independent and objective reform process that seeks to eliminate waste while changing the internal culture of the public service will result in increased efficiency, productivity, and improve tax payer value-for-money.

An independent Audit Commission will advise on ways to make the public service more proactive and less risk averse. It will also examine ways of promoting efficiency and rewarding hard work through employment terms and conditions and career pathways.

A lean and proactive public service that is focused on solutions and willing to engage with the private sector, will result in tax payers' money being used more efficiently and effectively, with better outcomes for the community overall.

1.2 Offsetting savings measures

Recommendation: **Promote financial integrity and efficiency by offsetting election commitment expenditure by adequate savings measures.**

Action

- The Treasurer to work with other Ministers to identify required savings for inclusion in the 2014-15 Budget.

Why is this important?

To preserve the Budget's bottom line and promote financial responsibility, the Government should offset all election expenditure commitments by equal savings in expenditure (not revenue).

1.3 Line-by-line review

Recommendation: **Take stock of current projects and spending by initiating a line-by-line review of all state government programs.**

Action

- Draw staff from the Department of Treasury and Finance and the private sector, and establish a Reforms Unit by July 2014.
- Provide the Reforms Unit with a clear mandate and a finite term.
- The Reforms Unit to work collaboratively with agencies and departments to examine projects and programs line-by-line. The Reforms Unit to report to the Cabinet on key program and project reform opportunities by December 2014.

Why is this important?

Too often it is easier for government to create a new program than it is to identify and remove those that are wasting taxpayers' money.

By reallocating appropriate resources to a Reforms Unit the State Government can achieve savings and efficiencies while engaging public servants and external advisors in the process.

A line-by-line review will identify short, medium and long-term savings. Without pre-empting any recommendations, short-term savings are likely to be achieved through the consolidation and rationalisation of existing programs. Medium and longer-term savings are likely to only be achieved through structural measures to retain expenditure growth, and through better targeting of programs and services to the community.

Reviewing all programs and projects will allow the Government to optimise its role in the economy, achieving value-for-money, while also providing community services.

2. Strengthening the revenue base

A competitive taxation system coupled with prudent fiscal reform is vital to a healthy and growing economy. It is also essential to attracting global capital and encouraging domestic investment in property.

An efficient and equitable taxation framework will enhance community wealth and prosperity, strengthening the revenue base for future generations.

The urgent need to independently review South Australia's taxation system was highlighted in the Economic and Finance Committee's Inquiry into the State's Taxation System. The Committee found that the overarching themes brought to their attention by witnesses included:

- **"the need for the State to transition to more efficient and stable sources of taxation revenues**;
- **the importance of equity and fairness of the tax system; and**
- **South Australia's perceived unfavourable tax settings compared with other jurisdictions."**[1]

The interim report also stated that "The Committee acknowledges structural reform is a long-term process and views this report as a foundation document to guide more detailed review on implementing tax reform in South Australia"[2].

These are the key reasons why redesigning and rationalising the State's current taxation and transfer system should be a focus of this re-elected Government and more broadly the Parliament.

2.1 Recommendation: Conduct an independent 'root and branch' review to reshape the State's taxes and design a sustainable system.

Action

- Conduct an independent 'root and branch' Taxation Review with all state-based taxes and charges on the table for analysis.
- Appoint the best and brightest minds drawn from the private sector to independently conduct the Taxation Review.
- Call a forum of business, industry, government, and community groups within 30 days of the new financial year to set the terms of reference.
- Commence the Taxation Review within 60 days of the new financial year.
- Complete the Taxation Review no later than December 2014.

[1] Page 209 *Interim Report South Australian Taxation System, Eighty-third Report of the Economic and Finance* Committee.

[2] Page 209 *Interim Report South Australian Taxation System, Eighty-third Report of the Economic and Finance Committee.*

Why is this important?

The South Australian taxation system is anti-growth and is inefficient. Land tax, stamp duty, payroll tax and other headline state-based taxes have been tinkered with, adjusted, shifted sideways, and rebadged.

South Australia has the most punitive land tax regime in the Country, as depicted at Chart One, inhibiting our ability to compete for business and investment dollars.

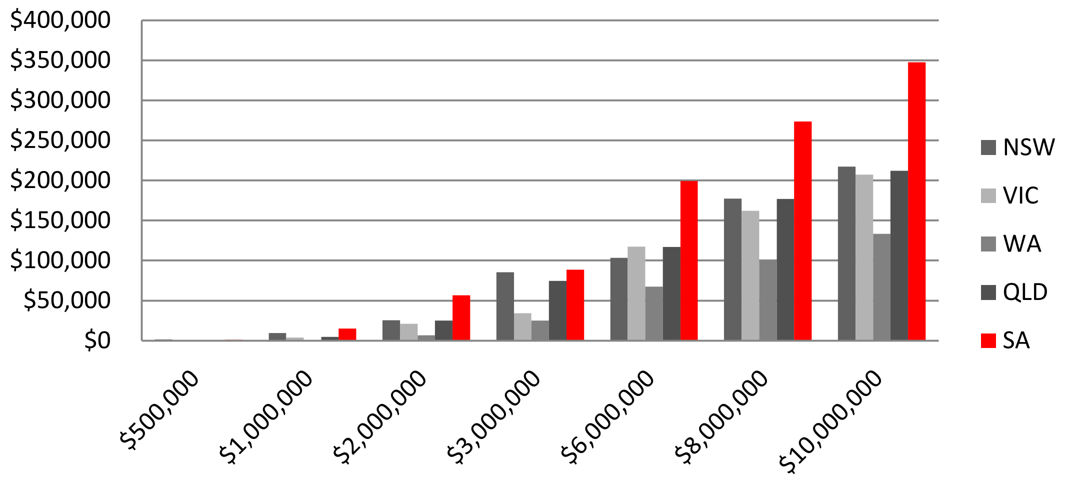

Chart One: **Land Tax Payable on Eligible Property Value by State**

Source[3]

As recommended in the Commonwealth Government's Henry Review, a land tax base should be broad and include all land[4]. Broadening the taxation base in South Australia will allow for adjustments to the rates achieving a more equitable and flatter schedule.

For example, in its 2012-13 Budget the ACT Government commenced significant reforms to its taxation system designed to increase its competitiveness. The ACT Government abolished a number of inefficient taxes, including commercial land tax, and replaced them with a fair, efficient and simple general rates system.

It is models like these that an independent review should examine in the context of South Australia and, if appropriate, recommend.

Another example of a highly inefficient and unequitable tax is stamp duty. As stamp duty is a transaction based tax, it encourages property owners to hold on to existing properties rather than invest in new ones – distorting the market and reducing its ability to allocate scarce resources to their most efficient use.

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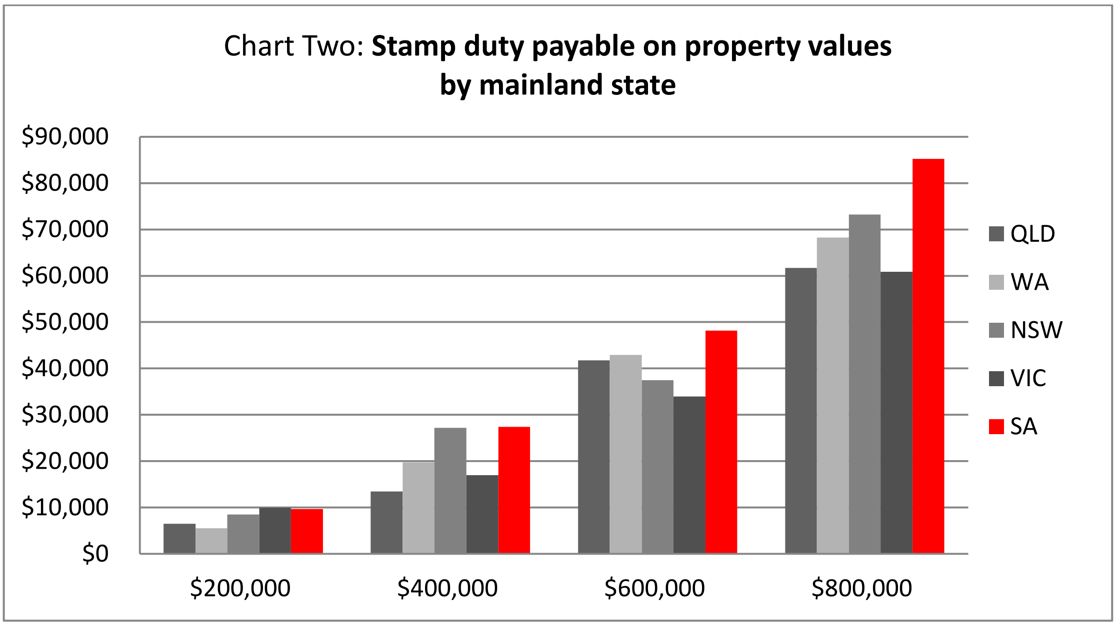
[3] http://www.finance.wa.gov.au, http://www.osr.nsw.gov.au, http://www.sro.vic.gov.au, http://www.revenuesa.sa.gov.au, https://www.osr.qld.gov.au

[4] Commonwealth of Australia, *Australia's future tax system – A report to the Treasurer*, 2009.

To compound the distortion, South Australians pay the most in stamp duty relative to any other mainland state. Chart Two depicts a comparison of the total land tax liability payable for various property values for all mainland states. South Australians pay the most land tax for every property value.



Source[5]

Contrary to some viewpoints, abolishing stamp duties on property transactions will create a more efficient market rather than a speculative market because prices will tend to reflect economic value and not be driven by a restrictive transaction tax.

In our 2013-14 Pre-Budget Submission we recommended the following changes to stamp duty:

Reform stamp duty on non-residential conveyances in the:

- Short-term adjust rates and thresholds to bring South Australia into line with New South Wales; and long-term abolish (on non-residential conveyances).
- Exempt genuine corporate reconstructions from stamp duty.
- End the tax on tax effect by exempting the GST component relating to the scale of a commercial property or business.
- Commit to implementing the Property Council's Nation Harmonisation program for corporate reconstructions and land holder provisions.

Once again, it is recommendations like these an independent review should examine.
The Property Council supports a broader, strategic response to the State's taxation malaise. Structural reform to the State's revenue base can only be achieved through a bipartisan conversation that engages industry and the community at large.

[5] http://www.finance.wa.gov.au, http://www.osr.nsw.gov.au, http://www.sro.vic.gov.au, http://www.revenuesa.sa.gov.au, https://www.osr.qld.gov.au

The independent review and its recommendations will inform this conversation. However, we recognise that any transition to significant structural changes to the State's taxation system would need to occur over the medium to long-term.

Further evidence

Over the past twelve months the Property Council has prepared an extensive submission on taxation related matters. In conjunction with this submission we have also provided submissions on:

Stamp Duties – Exemption for Corporate Reconstructions Amendment Bill 2013
In short, this submission outlines that while the Property Council supports increasing the relief available from the stamp duty payable arising from corporate reconstructions from 95 per cent to 100 per cent; it is our view that the proposed Bill and its rules are so restrictive and uncertain that they will only be used rarely. In our submission we proposed a model that will help to facilitate business efficiency and ensure that the operation of the exemption is best practice.

Transport Development Levy Bill 2013
The Property Council has some serious concerns about the practical operation of the Transport Development Levy Bill 2013 as it is presently drafted. should it be passed in its current form and become legislation. Specifically, we have concerns in regards to the definition of a leviable parking space, exemptions, what car parking spaces are leviable and who is liable to pay the levy.

Submission to the Parliament of South Australia Economic and Finance Committee's Taxation Review
In this comprehensive submission the Property Council proposes a number of reform options that will reduce inequalities in the taxation system, and facilitate more efficient generation of revenue for the State.

2.2 Recommendation: The State Government to negotiate a new Financial Independence Program directly with the Federal Government.

Action

- Negotiate financial and other incentives with the Federal Government to be provided when the State Government meets agreed performance targets such as; reduced taxes, reduced red tape, improved competitiveness, greater government efficiency, and better infrastructure delivery.

Why is this important?

Once a financially self-sufficient state that boasted a history of pioneers and innovators, South Australia has inadvertently become a welfare state. The Property Council believes we need to wean ourselves from our dependency.

South Australia’s budget is somewhat reliant on fluctuating distributions of the GST from the Federal Government. For instance, in the 2013-14 MYBR GST grant revenue was revised down by a total of $303 million across four years from 2013-14.

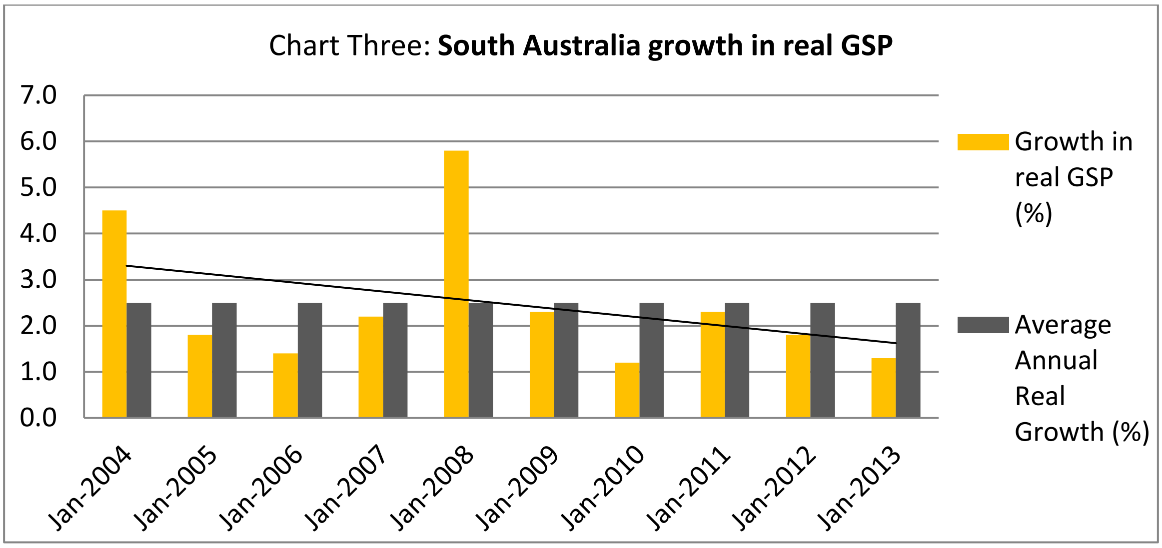
Our dependence on federal distributions underlines the need for comprehensive taxation reform, jobs growth, population growth and an effective structure to deliver the most productive infrastructure projects.

The Property Council has long advocated for a competitive state-based and self-reliant taxation system. Economic independence can be achieved by negotiating a Financial Independence Program with the Federal Government.

3. Boosting long-term economic growth

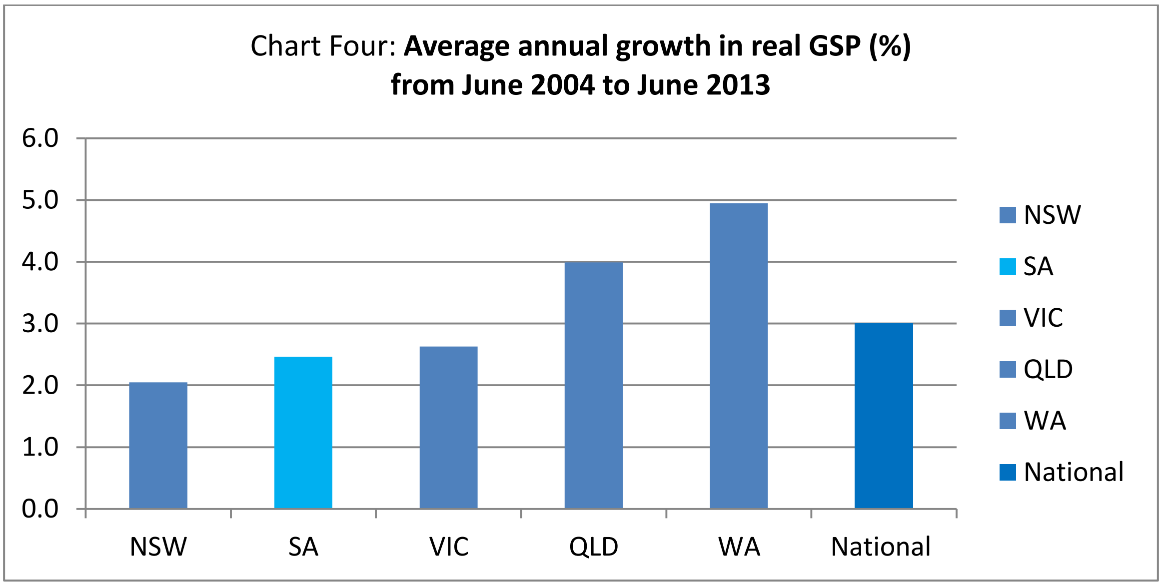
South Australia's economy is moving through an important period of transition as the inputs of production; technology, labour, and capital are shifted away from low value industries to higher value industries. The State Government already plays and will continue to play an important role in supporting a smooth transition.

Chart Three (below) shows that growth in South Australia's real Gross State Product (GSP) in eight of the past 10 years has been below the State's average annual real growth rate.



Source: ABS National Accounts: State Accounts, Series 5220.0

As depicted by Chart Four (below) relative to the other mainland states, over the past decade South Australia has experienced the second to lowest levels of average annual growth in real GSP (2.5%), which was below the national average (3.0%).



Source: ABS National Accounts: State Accounts, Series 5220.0

Sustained real economic growth creates jobs and lifts living standards. This Government can boost economic growth by focusing on how South Australia can become more productive through deregulation and improved delivery of significant infrastructure projects, and how we can increase our share of skilled migration and net state migration.

3.1 Freeing up the economy and removing barriers

Economic growth is supported by the openness of a jurisdiction's market, and the quality of its governing legislation and regulation.

Removing out-of-date legislation and regulation, and liberalising trading hours will boost productivity and economic growth by reducing the time and money business spends dealing with bureaucracy, and allowing businesses to respond to demand for their goods and services.

3.1.1 Recommendation: **Repeal a prioritised list of out-dated legislation and regulation, and adopt a one-in, one-out rule.**

Action

- Establish a working party of government and industry to prioritise the top items to be repealed.
- Set aside dedicated parliamentary sitting days to repeal out-of-date legislation and regulations, until all items are eliminated.
- Adopt a one-in, one-out rule whereby no new regulation is brought in without other regulation being cut by the same or a greater amount.

Why is this important?

By reforming the legislative, administrative and regulatory system, the State Government will free business from unnecessary red and green tape so it can focus on creating jobs and economic activity for the State.

3.1.2 Recommendation: **Fully liberalise trading hours and allow business to respond to demand.**

Action

- Amend the *Shop Trading Hours Act 1977* and *Shop Trading Hours Regulations 2003* to fully liberalise trading hours, by December 2014.

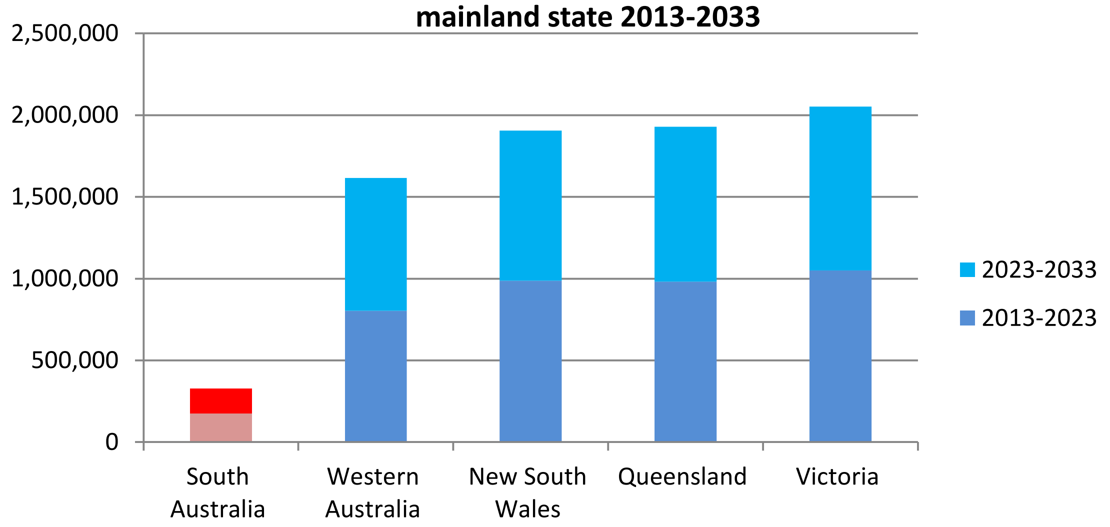
Why is this important?

By substantially liberalising trading hours, businesses will be able to supply goods and services when they are demanded, business will prosper, jobs will be created, and economic activity will increase.

3.2 Smart population growth

South Australia's slow population growth rate and its ageing population is a significant medium to long-term risk to economic growth. As depicted at Chart Five South Australia's projected absolute growth in population over the next 20 years is well below the other mainland states.

Chart Five: **Projected absolute population growth by mainland state 2013-2033**



Source: ABS Projections Series B, November 2013

South Australia's population problem is twofold: it is failing to attract the same share of international migrants as it did over the previous 20 years; and there has been an increased flow of South Australians to other states, particularly younger working age people[6].

The Property Council's *South Australia's Youth Brain Drain, Perception or Problem?* Paper, published in 2013, identified that the majority of younger people who decide to leave South Australia are moving in their early twenties. The number one reason for their departure was a combination of career and lifestyle factors. Nearly all of those who moved away said they had found more opportunities for career advancement in their new location and they believed the moved assisted with their career progression.

Policies on retaining our young professionals should focus on adjusting the economic conditions in South Australia to help drive demand, economic activity and therefore business growth. This will result in a deeper and wider job market.

Smart population growth is an economic generator. This submission outlines a two-fold approach to sustainably and responsibly growing South Australia's population – through targeted overseas migration, and by increasing interstate migration.

3.2.1 Recommendation:

- **Adopt the Property Council's Nine Point Plan to increase the number of skilled migrants settling in South Australia.**
- **Implement policies that help retain and attract young professionals.**

[6] *Trends March 2014, South Australia: The future beyond Holden*, Bank SA.

Action

- Simplify South Australia's complex and cumbersome administrative migration processes in order to attract skilled migrants into the State.
- Implement the Property Council's Nine Point Plan as soon as possible, and where necessary through direct advocacy to the Federal Government.
- Work with the Property Council and other stakeholders to create an advisory body of young professionals charged with promoting the benefits of working, investing and living in South Australia.
- Work with industry and tertiary institutions to improve the work opportunities for young professionals post-graduation.

- Engage with industry to identify future gaps in required skills and focus state migration programs on these needs.
- Create an economic migration scheme that targets skilled people offshore who would be readily employed in South Australia.
- Consider relaxing the International English Language Testing Sytem requirements for the Regional Sponsored Migration Scheme.
- Cut red tape at Immigration SA to speed up processing times.
- Introduce a Regional 457 program for South Australia, including Adelaide.
- Enable visa holders to be eligible for a second Working Holiday Visa if they work in any regional area for an additional six months.
- Run a series of public-private employment and lifestyle expos targeting European countries with high rates of skilled unemployment.
- Introduce a South Australian regional significant investor visa
- Reintroduce wider visa options for graduating international students so they stay, work and invest in South Australia. Expand opportunities for post-study employment to attract more international students.

Why is this important?

South Australia is in a talent competition with the rest of the world. Government and business must work together to ensure our state attracts the world's best and brightest and capitalises on this important economic booster.

Targeted migration will fill essential skill gaps, drive investment, create jobs and grow the State's taxation base. Importantly, skilled and targeted migration will improve the living standards enjoyed by all South Australians.

3.3 Building infrastructure

Productive infrastructure facilitates growth, increases productivity and ensures our cities run smoothly. Continued investment in public infrastructure will help South Australia to become more competitive, productive and attractive place to do business.

Providing an effective structure to deliver key infrastructure projects, and supporting alternative forms of financing and funding of projects is key to delivering economic and productivity gains to the economy.

Recently the Federal Government announced its agreement with the States, whereby if a state sells a public asset and directs the profits into productive infrastructure projects, the Federal Government will provide an additional 15 per cent of the value of the asset sale back to that state government.

The Property Council welcomes this initiative, and we support a cost benefit analysis of the sale of all of parts of SA Water's business. This Government should consider the merits of privatising SA Water to fund future productive infrastructure projects.

3.3.1 Recommendations

- **Establish Infrastructure SA to identify and prioritise key infrastructure projects.**
- **Charge Infrastructure SA with recommending and implementing the financing and funding of infrastructure projects.**

Action

- Task Infrastructure SA with the delivery of the Integrated Transport and Land Use Plan, and oversee best practice infrastructure policies, standards and procedures.

Why is this important?

The Property Council has long advocated for the creation of a body similar to Infrastructure Australia and Infrastructure NSW in South Australia.

There is an opportunity for South Australia to adopt best practice methods and follow the lead of New South Wales, with its creation of Infrastructure NSW, and the Federal Government, with Infrastructure Australia.
An independent and robust process for selecting projects led by Infrastructure SA will restore business and community confidence in the State's infrastructure strategy. It will also improve businesses' ability to plan for the future and enable them to take advantage of projects as they come online.

The Property Council recommends that Infrastructure SA should be overseen by a board with an independent chair (selected from outside government) and the following members:

- the South Australian Co-ordinator General/CEO of the Department of Planning, Transport and Infrastructure (the two roles are currently combined);
- the CEO of the Department of Premier & Cabinet;
- the Under-Treasurer;
- the Deputy CEO of the Department of Planning, Transport and Infrastructure; and five members from outside of the public sector with expertise in infrastructure.

The Co-ordinator General should be the CEO of Infrastructure SA and be responsible for the day-to-day management of the organisation.

The Co-ordinator General should report directly to the Minister for Transport and Infrastructure. In addition to the role at Infrastructure SA, the Co-ordinator General should have responsibility for special projects requiring state-wide coordination and retain development approval powers.

Infrastructure SA should be tasked with:

- preparing detailed five-year Infrastructure Plans, that support the 30 year Integrated Transport and Land Use Plan, for approval by the Minister for Transport and Infrastructure (the Minister) through to the Cabinet;
- liaising with Infrastructure Australia and the Federal Government, coordinating state agencies and departments in relation to infrastructure projects, and advising the Minister on resolving infrastructure project difficulties or impediments;
- recommending to Government alternative sources of funding and financing appropriate to each project;
- recommending long-term strategic corridor and land reservations for future infrastructure use in conjunction with the Department of Planning, Transport and Infrastructure;
- assessing which major infrastructure projects, including privately sponsored projects, should be subject to the coordination processes for major infrastructure by Infrastructure SA;
- for those projects of critical importance to the State, appointing a project coordinator and a project steering committee involving line departments plus contractors and key stakeholders to either oversee or directly manage project delivery within a project implementation plan; and
- reporting to the Minister on infrastructure project delivery and implementation, and in particular on any project delays, impediments or cost variations.

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