Pre-Budget Submission: 2008-2009
SA State Budget

Property Council of Australia
February, 2008

The Voice of Leadership
# Table of Contents

Executive Summary ........................................................................................................ iii
The Property Council in Brief ................................................................................ iv
Recommendations ....................................................................................................... v
A Guide to Reading this Submission ........................................................................ vii

1. Climate Change and Environment ................................................................. 1
   1.1 A climate change policy for the built environment .................. 2

2. Governing Smarter .................................................................................. 4
   2.1 A streamlined and coordinated planning system ................. 5
   2.2 Further development assessment reform ....................... 6

3. Fairer Taxes ......................................................................................... 9
   3.1 Broad tax review .................................................................... 10
   3.2 Land tax ................................................................................. 11
   3.3 Stamp duty ............................................................................. 12

4. Policies for the Future .......................................................................... 13
   3.1 Urban Renewal ...................................................................... 14
Executive Summary

This submission focuses on the contribution of the property investment and development sectors to the broader community.

The Property Council supports a budget that delivers:

- strong ongoing economic growth of three to four per cent;
- a public policy reform framework for long-term sustainable growth; and
- programs that build community capacity and better balance the social, environmental and economic targets of South Australia’s Strategic Plan.

The Property Council contends that a new approach to setting fiscal policy – based on the following concepts – should inform the design of the 2008 budget:

- **Key performance indicators** – greater clarity about the measurable goals of all budget programs;
- **Community capacity building** – greater emphasis on lifting the ability of individuals, families and firms to make the most of their relative talents and opportunities;
- **Sustainability** – a clearer commitment to optimising governance, economic, social and environmental assets for the long-term benefit of the community;
- **A war on red tape** – more efficient regulation, less duplication and minimal conflict of policy settings;
- **Tax reform** – lower taxes achieved through more efficient tax design that also delivers lower compliance costs and promotes a competitive economy;
- **Modern policy assessment instruments** – adoption of methodologies that better allocate scarce resources (such as capital spending on infrastructure) on a triple bottom line basis, and allow for more effective assessment of regulatory impacts;
- **Accounting for spatial implications** – a better understanding of the spatial consequences of all policies and programs; and,
- **Incentives** – the use of incentives to transform market behaviour to meet community goals as an alternative to regulation.

These concepts are not all directly addressed in this submission however the Property Council (SA Division) will be releasing detailed policies and submissions on each of these areas throughout 2008. The Property Council is available to discuss each of the areas outlined above.
The Property Council in Brief

The Property Council represents the property investment sector in Australia.

Its members include every major property investor in the State.

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

- dimensions of property activity (financing, funds management, development, ownership and asset management);
- major property types (offices, shopping centres, residential development, industrial, tourism & leisure, aged care & retirement and infrastructure);
- major regions of Australia and international markets; and,
- four quadrants of investment – public, private, equity and debt.

Some key statistics:

- The market value of all commercial, industrial and retail buildings in South Australia is about $35 billion;
- More than half a million South Australians collectively own the State’s most valuable commercial property assets through superannuation;
- Total construction spending across South Australia in 2008 is forecast to be $9.4 billion, comprising $6.3 billion in buildings and $3.1 billion in infrastructure;
- Super funds worth approximately $61 million flow into the national property sector in an average week; and,
- Almost $2.5 billion in property-specific taxes are paid annually.
Recommendations:

**Climate Change and the Environment - Recommendations:**

First: Develop **voluntary interim performance targets across all eco efficiency categories** – energy/greenhouse gas abatement, water, waste and indoor environmental quality – to enable to achievement of targets in *South Australia’s Strategic Plan*.

Second: Implement and fund a **Green Building Tune-ups Program**.

Third: Provide $300,000 over two years to the Property Council to lead the greening of the built environment. This Program will develop and disseminate information such as a **tune-up and retro-greening toolkit** and help to **build industry capacity**.

Fourth: Cut environmental red tape.

Fifth: Establish a **State demonstration program** that makes the **business case for green development/buildings** and promotes innovative practices.

Sixth: Develop a One Stop Shop for all water, waste and energy reduction financial and non-financial incentives for building owners.

**Governing Smarter - Recommendations:**

A strategy for a better planning system – Recommendations

First: Remove Planning SA from Primary Industries and Resources SA and form a single, well-resourced department with responsibility for planning, strategic infrastructure and strategic economic development.

Second: Implement reforms to the State Planning System including regulated complying development, greater alignment between state and local development plans and introduce a spatial planning strategy aligned with *South Australia’s Strategic Plan*.

Third: Ensure all activities of the department responsible for planning and development align to *South Australia’s Strategic Plan*

Fourth: Establish benchmarks for turn-around times on development and planning activities, regulation and legislation.
Streamlining Development Assessment – Recommendations:
First: Complete the development assessment reform process by introducing the full DAF model.

Fairer Taxes: A Competitive South Australia – Recommendations:
A broad tax review – Recommendations:
First: Immediately undertake a broad review of South Australia’s taxation base with a view to developing an innovative new taxation model to make South Australia the most tax competitive place to do business.
Second: Examine and remove other financial disincentives to skilled employees and investors considering South Australia as an employment or investment destination.
Third: Ensure that existing and proposed tax measures do not constrain the ability of the property industry to adjust to environmental demands.

Tax Reform – Recommendations:
First: Introduce a flat rate of land tax at 1.7c per dollar at a threshold of $250,000.
Second: Immediately abolish Stamp Duty on Non-Residential Conveyances.

Urban Renewal Commission – Recommendations:
First: Establish an Urban Renewal Commission, incorporating Government, Councils and the private sector representatives.
Second: Empower the Commission to undertake a broad audit of the State’s infrastructure with a view to bidding for funding from Infrastructure Australia.
A Guide to Reading this Submission

This submission provides recommendations on four policy topics:

1. Climate change and the environment
2. Governing smarter
3. Fairer taxes
4. Policies for the future

This submission focuses on policy issues with implications for the 2008 State budget.

In general, one to two pages of commentary and recommendations are provided for each topic.

As each section has been written to assist the State to meet targets in South Australia’s Strategic Plan, each applicable target is identified.
1. Climate Change and Environment

This chapter recommends:

- an overarching strategy for dealing with climate change and the built environment; and
- the extension of the Green Buildings Tune-Ups Program.

The Property Council commends the State Government on its forward-thinking legislation to establish targets aimed at reducing greenhouse gas emissions. The Property Council is in the advanced stages of negotiating a Sector Agreement with the State Government as established under the Legislation.

We see programs that focus on broad-scale improvements in the energy efficiency of the built environment (and building users) as the optimal approach for achieving deep cuts in greenhouse gases and water use.

Fiscal Implications – 2008 State Budget:

*Climate change and the built environment* – repackaging of existing programs.

*Green Buildings Tune-Ups Program* – minimal fiscal impact.

*Property Council Green Buildings Refurbishment Initiative* – $300,000 over two years.

South Australia’s Strategic Plan Targets:

T1.1, 1.5, T1.14, T2.11, T3.5, T3.6, T3.7, T3.8, T3.9, T3.12, T3.13, T3.14, T4.7
1.1 A Climate Change Policy for the Built Environment

The Property Council proposes the South Australian Government work with the Property Council to deliver a greener built environment. The Property Council is working towards signing a Sector Agreement with the Government to provide a structure for this work program.

The Facts

Buildings account for 23% of Australian’s greenhouse gas emissions (GHG).

A focus on building energy efficiency can:

- halve electricity use in commercial building stock by 2030 and 70% by 2050;
- reduce GHG emissions by 30% within two decades;
- cut the cost of carbon abatement by 14% or $30 per tonne by 2050;
- add back $38 billion each year to the GDP compared to conventional GHG abatement programs by 2050;
- provide breathing space for the development of clean energy alternatives; and,
- help the country reduce its carbon footprint faster and with less fuss.

Picturing a Greener Built Environment

Here is a snapshot of the potential for greener buildings in Adelaide in the medium term:

- new commercial buildings and their occupants could use around 50% to 70% less energy (with equivalent reductions in greenhouse gas emissions), around 60%-70% less water, generate 40% less waste and deliver higher indoor environmental quality;
- new dwellings and their occupants could halve their eco footprints compared to business as usual performance; and,
- retrofitted existing commercial buildings could achieve at least half the efficiencies of new buildings over the next decade.

The recommendations outlined below will enable South Australia to achieve significant social and economic benefits while also ensuring we meet our national and international obligations.
The requested funding of $300,000 over two years will enable the Property Council to deliver education programs and materials that encourage the property sector to refurbish existing buildings as well as facilitate the success of any Green Buildings Tune-Ups Program.

Specifically, the **Property Council asks the South Australian Government to:**

---

**A Strategy for Transforming Market Behaviour**

The Property Council proposes the following package of measures:

**First:** Develop voluntary interim performance targets across all eco efficiency categories – energy/greenhouse abatement, water, waste and indoor environmental quality – to enable to achievement of targets in *South Australia’s Strategic Plan*.

**Second:** Implement and fund a **Green Building Tune-ups program**.

**Third:** Provide $300,000 over two years to the Property Council to lead the greening of the built environment. This Program will develop and disseminate information such as a **tune-up and retro-greening toolkit** as well as help to **build industry capacity**.

**Fourth:** Cut environmental red tape.

**Fifth:** Establish a **state demonstration program** that makes the **business case for green development/buildings** and promotes innovative practices.

**Sixth:** Develop a One Stop Shop for all water, waste and energy reduction financial and non-financial incentives for building owners.
2. Governing Smarter

South Australia has moved forward in its development assessment processes but much more work is needed to if we are to create a world-class planning system that will meet the demands of the State’s growing economy. The key actions are continued development assessment reform and a streamlined and coordinated planning system.

Two issues are addressed in this chapter:

- A streamlined and coordinated planning system
- Further development assessment reform

Fiscal Implications – 2008 State Budget:

Improved planning – minimal fiscal impact.
Further development assessment reform – minimal fiscal impact

South Australia’s Strategic Plan Targets:

T1.1, T1.2, T1.5, T1.7, T1.21, T2.3, T2.4, T3.5, T3.7, T6.7, T6.8
2.1 A streamlined and coordinated planning system

South Australia’s planning system currently lacks the simplicity, clarity and certainty initially promised by the State Government’s commitment to South Australia’s Strategic Plan. Planning powers and responsibilities are spread among government agencies and Ministerial portfolios.

The Property Council recommends that the planning system be brought clearly under the auspices of one super department which has the sole responsibility for ensuring the Planning Strategy and South Australia’s Strategic Plan targets are aligned in a spatial plan.

Specifically, the Property Council asks the South Australian Government to:

<table>
<thead>
<tr>
<th>A strategy for a better planning system – Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First:</strong> Remove Planning SA from Primary Industries and Resources SA and form a single well-resourced department with the responsibility for planning, strategic infrastructure and strategic economic development.</td>
</tr>
<tr>
<td><strong>Second:</strong> Implement reforms to the State Planning System including regulated complying development and greater alignment between state and local development plans, and introduce a spatial planning strategy aligned with South Australia’s Strategic Plan.</td>
</tr>
<tr>
<td><strong>Third:</strong> Ensure all activities of the department responsible for planning and development align to South Australia’s Strategic Plan.</td>
</tr>
<tr>
<td><strong>Fourth:</strong> Establish benchmarks for turn-around times on development and planning activities, regulation and legislation.</td>
</tr>
</tbody>
</table>
2.2. Further development assessment reform

There is a leading practice guide to world-class development assessment. The guide was developed by the Development Assessment Forum (DAF), which includes all states, territories, local government, property sector industry associations, professional organisations and the Australian Government.

The DAF model outlines ten elements of an efficient development assessment process that will:

- depoliticise assessment;
- reduce development delays;
- increase certainty;
- clarify the community’s requirements up front; and
- reduce costs and waste.

South Australia has already introduced independent experts onto Development Assessment Panels; now is the time to complete the job of implementing the 10 point best practice plan.

The DAF Leading Practice Model

Stage 1: Policy

1. Effective policy development

   Elected representatives should be responsible for the development of planning policies. This should be achieved through effective consultation with the community, professional officers and relevant experts.

2. Objective rules and tests

   Development assessment requirements and criteria should be written as objective rules and tests that are clearly linked to stated policy intentions. Where such rules and tests are not possible, specific policy objectives and decision guidelines should be provided.

3. Built-in improvement mechanisms

   Each jurisdiction should systematically and actively review its policies and objective rules and tests to ensure that they remain relevant, effective, efficiently administered, and consistent across the jurisdiction.
Stage 2: Assessment

4. Track-based assessment

Development applications should be streamed into an assessment 'track' that corresponds with the level of assessment required to make an appropriately informed decision. The criteria and content for each track is standard.

A track-based assessment approach provides greater certainty for all stakeholders. The rationale for the different tracks should remain consistent with the model if used.

5. A single point of assessment

Only one body should assess an application, using consistent policy and objective rules and tests.

Referrals should be limited only to those agencies with a statutory role relevant to the application. A referral authority should only be able to give direction where this avoids the need for a separate approval process.

Referral agencies should specify their requirements in advance and comply with clear response times.

6. Notification

Where assessment involves evaluating a proposal against competing policy objectives, opportunities for third-party involvement may be provided.

7. Private sector involvement

Private sector experts should have a role in development assessment, particularly in:

- Undertaking pre-lodgement certification of applications to improve the quality of applications.
- Providing expert advice to applicants and decision makers.
- Certifying compliance where the objective rules and tests are clear and essentially technical.
- Making decisions under delegation.

Stage 3: Determination

8. Professional determination for most applications

Most development applications should be assessed and determined by professional staff or private sector experts. For those that are not, either:

Option A – Local government may delegate determination power whilst retaining the ability to call-in any application for determination by council.
Option B – An expert panel determines the application.

Ministers may have call-in powers for applications of state or territory significance provided criteria are documented and known in advance.

**Stage 4: Appeals**

9. Applicant appeals

An applicant should be able to seek a review of a discretionary decision.

A review of a decision should only be against the same policies and objective rules and tests as the first assessment.

10. Third-party appeals

Opportunities for third-party appeals should not be provided where applications are wholly assessed against objective rules and tests.

Opportunities for third-party appeals may be provided in limited other cases.

A review of a decision should only be against the same policies and objective rules and tests as the first assessment.

Specifically, the Property Council asks the South Australian Government to:

<table>
<thead>
<tr>
<th>Streamlining Development Assessment – Recommendations:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First:</strong> Complete the development assessment reform process by introducing the full DAF model.</td>
</tr>
</tbody>
</table>

1Sources:

*A Leading Practice Model for Development Assessment in Australia* (Development Assessment Forum), March 2005
3. **Fairer Taxes**

This chapter addresses the need for local tax reform in the areas of:

- A broad tax review
- Stamp duty
- Land tax

The State Government adjusted Payroll Tax rates in the 2007/2008 State Budget and it is now time for property tax reform – reforms that will deliver the greatest economic benefit for every South Australia.

**Fiscal Implications – 2008 State Budget:**

Tax review – minimal fiscal impact in year one.

Land tax - $72 million in year one

Stamp duty on non-residential conveyances – $250 million in year one.

**South Australia’s Strategic Plan Targets:**

T1.1, T1.2, T1.5, T1.7, T1.8, T1.9, T1.10, T1.11, T1.13, T1.17, T1.18, T1.19, T1.20 T1.5, T1.22, T1.23, T1.24, T6.7, T6.8
3.1 **Broad Tax Review**

If you keep doing the same things you will get the same result

As South Australia gears up for the booming mining and defence industries, it is in competition with other states and jurisdictions for investment, jobs and population. Our major competitors have all recently instituted or foreshadowed tax reform measures to enhance their competitive positions. Despite commitments within South Australia’s Strategic Plan, this State seriously lags in instituting a competitive taxation regime that balances fairness, social and economic needs and the demands of a growing economy. The Property Council recommends that South Australia initiate a taxation review such as that completed in Western Australia and implement a broad tax review as a matter of urgency.

Specifically, **the Property Council asks the South Australian Government to undertake:**

A broad tax review – Recommendations:

- **First:** Immediately undertake a broad review of South Australia’s taxation base with a view to developing an innovative new taxation model to make South Australia the most tax competitive place to do business.

- **Second:** Examine and remove other financial disincentives to skilled employees and investors considering South Australia as an employment and investment destination.

- **Third:** Ensure that existing and proposed tax measures do not constrain the ability of the property industry to adjust to environmental demands.
3.2 Land Tax

Land tax in South Australia is the most uncompetitive State tax, impacting on South Australian businesses and private land investors.

Almost every other State included reform of their land tax regimes in the last budget round, leaving South Australia in a precarious situation. As can be seen from the graph below, the land tax bill on a property worth $25 million in South Australia is about $283,000 more than the same scenario in Tasmania, the next highest, about $385,000 more than in Western Australia and around $500,000 more than in Queensland. This is clearly uncompetitive and urgent action is required.

The Property Council believes that in order to achieve an efficient and competitive land tax regime, the State Government must introduce a flat rate of land tax at 1.7c per dollar at a threshold of $250,000. A report prepared for the Property Council by Hudson Howells indicates that this reform is estimated to cost $72 million in year one, and would deliver an additional 2,400 jobs within the State. It would also increase state incomes in real terms by 0.33 per cent as a result of new build activity.

This clearly demonstrates significant benefits of reducing land tax; through increased investment, increased jobs and increased state incomes.

Specifically, the Property Council asks the South Australian Government to:

**Land Tax – Recommendations:**

**First:** Introduce a flat rate of land tax at 1.7c per dollar at a threshold of $250,000.
3.3 **Stamp Duty**

Stamp duty on non-residential conveyances continues to impact on investment in South Australia.

This is the most inefficient state tax and has the greatest economic benefit from reduction or abolition than any other state tax.

Economic modelling commissioned by the Property Council indicates that the cost of this reform is in the order of $250m per year. The principal benefits of this reform are the creation of an estimated 6,900 jobs within the State and an increase of state incomes, in real terms, by 0.9 per cent. This is clearly the most beneficial property tax reform and should be adopted by the Government.

The advantage of this reform is that it will make South Australia the only jurisdiction to abolish this tax – thereby making it attractive to invest in the State.

Specifically, **the Property Council asks the South Australian Government to:**

<table>
<thead>
<tr>
<th>Stamp Duty on Non-Residential Conveyances– Recommendations:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First:</strong> Immediately abolish Stamp Duty on Non Residential Conveyances.</td>
</tr>
</tbody>
</table>

**References and Sources:**

4.  Policies for the future

This chapter addresses the need for an urban renewal program in South Australia to revitalise Adelaide and provide a diverse range of housing products to meet growing demand.

**Fiscal Implications – 2008 State Budget:**

Urban Renewal Commission – minimal fiscal impact in year one.

**South Australia’s Strategic Plan Targets:**

T1.1, T1.5, T1.6, T1.7, T1.8, T1.21, T2.2, T2.3, T2.4, T3.5, T3.6, T3.7, T3.9, T3.12, T6.7, T6.8
4.1 Urban Renewal Commission
Delivering a brighter future for Adelaide

With the growing State population and changing household structures, there is greater pressure on housing supplies. While the Government has implemented policy changes that will have a medium term impact on this, such as the expansion of the Urban Growth Boundary, it is now time to look towards other policy measures.

Urban design strategies focusing on infill along transport corridors have long been recognised for their capacity to deliver a range of social, economic and environmental benefits.

There is a great opportunity for the State Government to take the lead in urban renewal through the establishment of an Urban Renewal Commission. Such a Commission would bring together Government, Councils and the private sector in identifying and delivering significant urban infill to meet future demands.

This is a model that has proven success in Western Australia, having assisted that State achieve the recent economic outcomes they have enjoyed.

This Commission should also be responsible for identifying and bidding for infrastructure project funding from the new Federal Infrastructure Australia body.

Specifically, the Property Council asks the South Australian Government to:

Urban Renewal Commission– Recommendations:

First: Establish an Urban Renewal Commission, incorporating Government, Councils and private sector representatives.

Second: Empower the Commission to undertake a broad audit of the State’s infrastructure with a view to bidding for funding from Infrastructure Australia.