PROPERTY COUNCIL of Australia

Australia's property industry
Creating for Generations

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5 August 2019

Mr Jeremy Conway
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20-Year State Infrastructure Strategy Discussion Paper – Property Council Submission

Dear Mr Conway Jeremy

Thank you for the opportunity to provide a written submission on the 20-Year State Infrastructure Strategy Discussion Paper.

The Property Council supports the creation of Infrastructure SA, and has long called for an independent infrastructure body in this State to de-politicize how infrastructure is prioritised and committed to by government. The importance of having a long range strategic pipeline to prioritise productive infrastructure that has a real impact on the economy and jobs, is not lost on Property Council members.

The discussion paper prepared by Infrastructure SA was comprehensive, and our members did not disagree with the board's agenda nor plans to create a meaningful body driven by the need to grow the State's economy. The paper showed an understanding of the importance of planning and bringing the community and private sector 'along for the ride' when it comes to future infrastructure projects, and we support and applaud this.

The Property Council believes, however, that there needs to be more focus given to the role that the private sector can play in the future infrastructure plans of our State. The private sector is, in many cases, willing and able to identify infrastructure shortfalls, plan, fund and build the necessary projects, without the need for government to fund the entirety of the project. This not only saves taxpayers' funds, but in many cases leads to efficiencies of time and outstanding project delivery.

One notable example of how the private sector can provide major infrastructure is the recently completed 400 bed Calvary Adelaide Hospital development, delivered for approximately $1 million per bed. Health infrastructure, as you rightly point out in the discussion paper, 'is increasingly difficult to plan," and "new infrastructure should be flexible, scalable, adaptable and consider whole of life sustainability." The Property Council would argue that the Calvary Adelaide Hospital development is all of these things – and one of the reasons it has been able to achieve these objectives is due to the private sector-led development of the project.

The Government has long argued that health tourism is a potential driver of the South Australian economy going forwards. We would argue that responding to the health needs of private patients from international markets can only be achieved through the private sector identifying and developing significant health infrastructure projects. For example, the SAHMRI 2 project, once completed, will be at capacity for proton therapy treatment for public patients – including a significant number of paediatric patients. However, proton therapy treatment will be of signirfcant interest to private patients and is likely to be a massive driver of inbound medical tourism, both domestic and international. There is no reason that a private developer should not be able to pick up this shortfall and deliver additional vital health infrastructure at their own risk.

The private sector is willing and able to provide financial guarantees to public projects across all sectors – they just need to be included at the beginning of the conversation, rather than tendering for projects at the end. Put simple, the lens of infrastructure delivery needs to be switched from 'public funding necessity' to 'private sector opportunity.' Infrastructure SA could play an important role here by identifying those projects within its priority list that could potentially be delivered by the private sector.

Infrastructure SA could examine appropriate government levers that, if triggered, could facilitate private companies to deliver public infrastructure to lessen the burden on taxpayers. For example, these levers could include things like tax holidays, rezoning, lease backs, payroll tax exemptions etc. Once a project has been identified by Infrastructure SA as being appropriate for private sector delivery then government levers could be pulled to incentivise and encourage the sector.

The Property Council would like to see Infrastructure SA commit to working with the private sector in a formal and ongoing manner. It is important that those who design, construct and manage major projects are able to engage in a meaningful way with Infrastructure SA where appropriate. For example, perhaps a bi-annual round table for stakeholders could be included in the forward schedule, in order that industry is able to provide feedback and identify infrastructure shortfalls that could be plugged with private projects.

In a similar vein, the Property Council would encourage Infrastructure SA to work with the sector to identify barriers to private sector involvement in major infrastructure projects – and to identify mechanisms to allow the private sector to raise project ideas with the government.

Land tax – the impact on investment

It should also be noted that the government's recent changes to land tax aggregation pose a very real risk to private sector investment (in infrastructure and the property sector more broadly) in South Australia. Whereas previously a property held in trust was only liable to pay land tax on the value of that individual site, the Government will now establish a body to 'look through' ownership structures to find the eventual beneficiary. This means that owners with multiple holdings will now be aggregated together and their land tax bill will be calculated on the entire value of their portfolio.

The impact of this policy change should not be underestimated. The $40 million per annum estimate contained in the Budget is significantly soft. This measure takes a wrecking ball to property owners' balance sheets and investor confidence.

Property owners have been playing by the rules for years – they've paid their unfair share of taxes, and they've structured investments to lessen their risk. This risk is necessary only because South Australia has the highest land tax rates in the nation (i.e. SA's top rate of 3.7 per cent against 2 per cent in NSW and 2.25 per cent in Victoria). This measure shifts the goal posts on investors, which threatens to take a wrecking ball to our state's investment attractiveness.

Combined with the Valuer-General's program to revalue all property in South Australia (which could see property values increase by 40 per cent or more), the sector is facing a painful and perfect storm of land tax hikes.

As the Government body entrusted with ensuring that South Australia has a pipeline of productive infrastructure going forward, it is important that you also understand how government policy settings can act as a handbrake on the very infrastructure investment you are seeking to encourage.

The Property Council has and always will continue to advocate for a competitive and fair taxation environment. This latest Budget measure will make South Australia's investment circumstances immeasurably more difficult.

If you have any questions in relation to this submission, please don't hesitate to contact my office on 8236 0900.

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Daniel Gannon | SA Executive Director