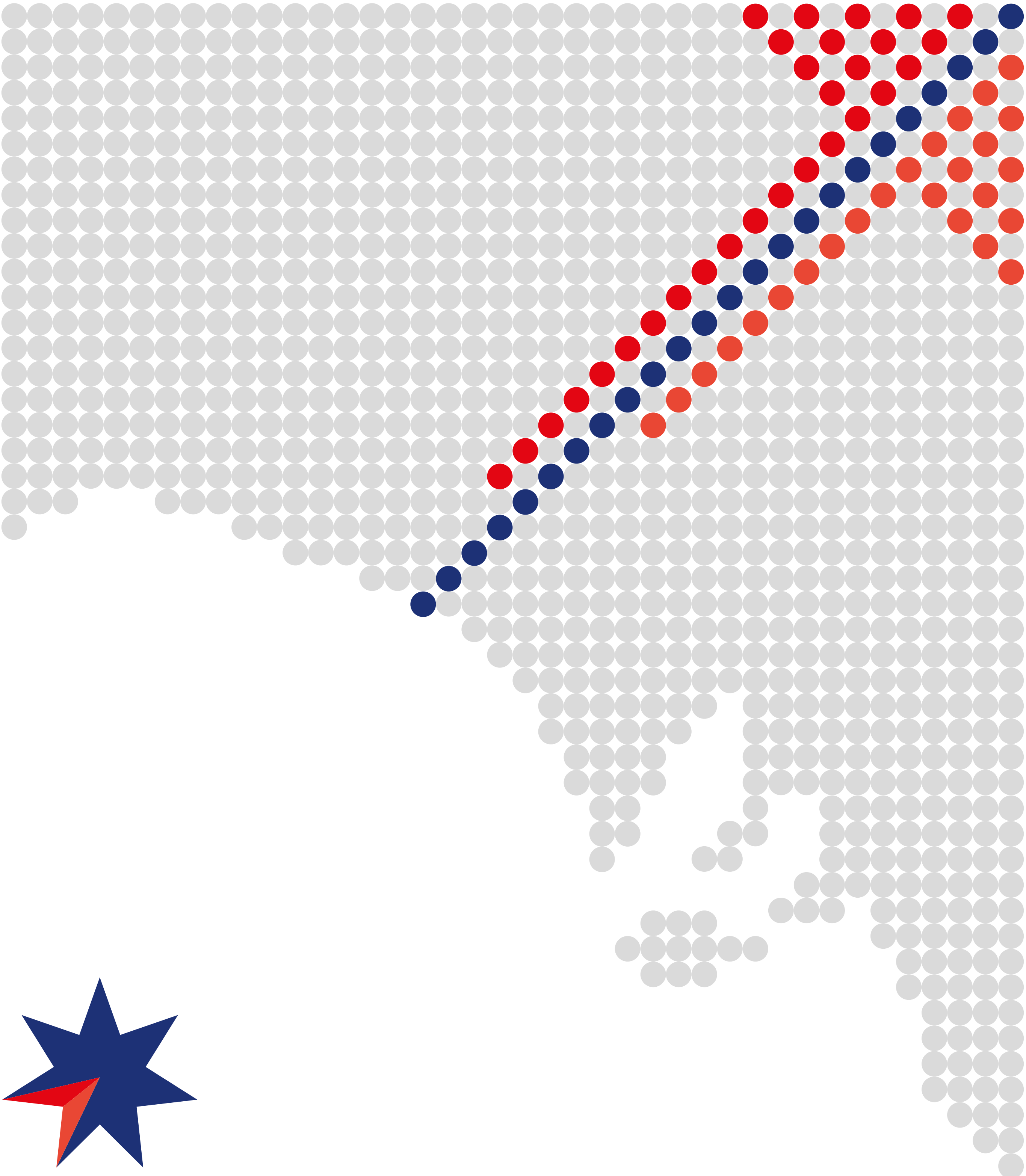
Business SA

2018 Charter for a More Prosperous South Australia



Business SA
Chamber of Commerce
and Industry South Australia

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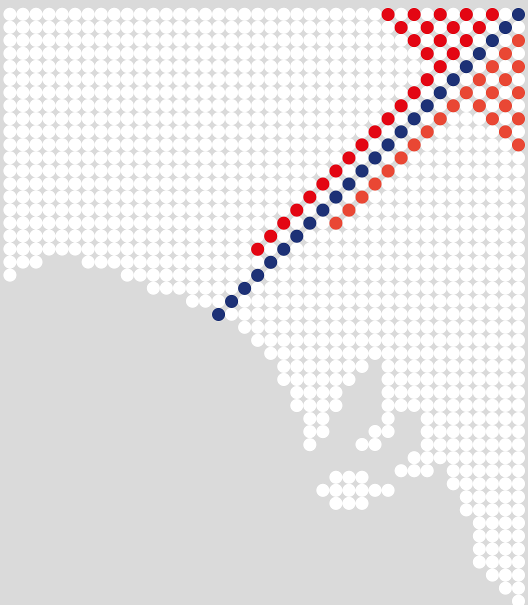

Business SA
Chamber of Commerce
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Business SA is South Australia's peak Chamber of Commerce and Industry and largest employer body, representing over 3,500 businesses and employers across every industry sector, reflecting the diverse nature of our state's economy. We have a proud history dating back to 1839, only three years after South Australia's proclamation, which began with the formation of the Adelaide Chamber of Commerce.

Our Purpose, as reflected in our Constitution, is the economic growth and success of South Australia. This means strongly advocating "without fear of favour" for the state's business and employer community to achieve a more productive and competitive environment in which to engage in trade, commerce, export and innovation—which in turn will create a more prosperous South Australia and a better future for all South Australians.

Funded mainly by our products and services to thousands of local business and employer customers alongside member subscription support, Business SA is entirely independent of the policy agenda of any government or political party. This enables us to take long term positions on policy issues in the interests of promoting a stronger business and employer community, not just to align with the political cycle at any given point in time.

As the recognised 'voice of business' in South Australia, we constantly communicate with members and the broader business community to ensure our advocacy speaks to their collective needs.

Our *2018 Charter for a More Prosperous South Australia* speaks to what South Australian businesses most need the next State Government to act on, and not necessarily what may be politically expedient or popular. We are not writing for one day of media headlines, rather to re-establish the foundations for sustainable economic growth.

We will hold ourselves accountable, not only to our members, but to the whole South Australian business community, for advocating and progressing the recommendations contained within this Charter over the next four-year state parliamentary period. While some proposals may challenge the status quo, they can all be realistically implemented in the next term of State Government.

The challenges facing South Australia's economy are diverse, and not just limited to high-profile issues like the costs and reliability of electricity, Holden's manufacturing exit or low population growth. But the current and emerging opportunities for businesses are also diverse, particularly in sectors such as defence, health, the visitor economy and renewable technology. To best position local businesses for future opportunities both here, interstate and abroad, they need to be able to operate within a cost competitive environment with access to world class infrastructure and skills.

Business SA does not oppose direct assistance to businesses in the case of market failures related to government policy interventions. However, recent growth in grants and loans has extended well beyond what is in the best long-term interests of all South Australian taxpayers, including local businesses. Since proclamation, countless hard-working South Australian business people have created the sustainable company success stories we see today.

The next State Government needs to have the confidence to back the ability of all businesses to create opportunities in the right environment, and not continue trying to engineer outcomes by picking individual winners through direct financial support. Our approach may not provide short-term positive headlines, but it will engender sustainable success, something that South Australia should aim towards.

Business SA's recent pre-election survey of local businesses ranked the most important issues to businesses to form the primary focus of the next State Government. The top four in order of priority were: energy reliability and costs, state business taxes, public sector cost and efficiency (including red-tape) and infrastructure needs. Our 2018 Charter not only covers the headline issues but delves much deeper to provide a broad perspective of the challenges and opportunities for South Australian businesses. Business SA is not suggesting 'silver bullet' solutions, rather a range of recommendations which, taken together, will set South Australia on a sustainable path of job creation and prosperity.

Many of our recommendations will take political courage. However, history shows those leaders willing to tackle challenging, but necessary reforms, leave a legacy well beyond their term of government.

Business SA implores all political parties to carefully consider the recommendations laid out in our *2018 Charter for a More Prosperous South Australia* and closely consider the legacy they want to leave for South Australia, including its future generations of young people.

Vincent Tremaine
Chairman, Business SA

Nigel McBride
Chief Executive, Business SA

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Recommendations

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1.1 Support for additional electricity transmission capacity on the Eyre Peninsula and a new interconnector to the eastern states should be subject to costs being shared as part of a national policy of renewable energy zones.

1.2 Increase funding to the existing Energy Productivity Program beyond March 2018 and extend coverage to gas to ensure appropriate assistance is available to industry to improve gas efficiency in industrial processes.

1.3 Work with the COAG Energy Council, AEMO, electricity networks and retailers to thoroughly investigate all options at redefining the existing NEM pricing jurisdictions to optimise the ability of business consumers to enter into firm contracts, and to provide cost-reflective price signals for additional generation and network upgrades.

1.4 In accordance with the Finkel Review recommendation for AEMO and the AEMC to assess the need for a strategic electricity reserve, reassess the need for South Australia to continue owning back-up generators beyond the summer of 2018/19 if the national market can provide the same reliability outcome at a reduced cost.

1.5 Subject to South Australia's unique competition issues being accounted for, ensure a future emissions reduction and reliability policy for South Australia's electricity network aligns with a national approach and produces transparent costs of meeting both target outcomes.

1.6 Future development of conventional and unconventional gas reserves in South Australia should be assessed on a case-by-case basis rather than imposing a blanket moratorium across any one particular region, including prime agricultural regions such as the South East.

1.7 Work with the COAG Energy Council, electricity networks and retailers to ensure any further move towards cost-reflective tariffs beyond 2020 sends price signals to consumers which reflect the new reality, that constraints on the network can equally come from both supply-side generation and distribution/transmission network limitations.

1.8 Work with the COAG Energy Council to streamline reliability and quality of electricity supply standards across distribution, transmission and supply side-generation to ensure the ultimate requirements on networks, including generators, meet the expectations of consumers; including the levels of reliability and quality of supply they are willing to endure in any given period, regardless of whether or not a shortfall results from a network or generation failure.

1.9 In responding to ESCOSA's inquiry into the reliability and quality of electricity supply on the Eyre Peninsula, support SA Power Networks leasing generators in the short term while strengthening the distribution network in highlighted areas of poor network performance, particularly Elliston, Penong and Cowell.

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2.1 Lift the payroll tax threshold from $600,000 to $1,500,000, and reduce the rate from 4.95 percent to 4.5 percent by 1 July 2020 to ensure South Australia has the most competitive payroll tax structure of any state.

2.2 In the process of reducing the payroll tax rate to 4.5 percent by 1 July 2020, ensure the reduced rate is only available to companies which either move to, or retain, their headquarters in South Australia.

2.3 Introduce a payroll tax incentive for Science, Technology, Engineering & Maths (STEM) PhD graduates to increase collaboration between universities and business, with an exemption equivalent to 200 percent of wages.

2.4 Re-introduce the payroll tax exemption for wages paid to apprentices and trainees.

2.5 Ensure South Australia maintains its share of GST revenue in accordance with the principles of full Horizontal Fiscal Equalisation (HFE), in place since 1981, and that any moves by the Federal Government to dilute are rejected.

2.6 Lobby the Federal Government to move Australia towards a more simple, efficient and equitable tax system which at its heart incentivises job creation, including restarting the Tax White Paper process. The GST must be part of this process and all options must be considered to enable the eventual abolition of payroll tax.

2.7 Work with other state governments through the Council of Australian Governments (COAG) to align all wage reporting requirements and wage definitions for state-based payroll tax and workers compensation premiums, together with federal PAYG income tax.

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3.2 Review the operation of the Legislative Council to ensure it operates more effectively before the next election. The term for Members of the Legislative Council should be brought in line with other jurisdictions.

3.3 Rationalise Local Government in metropolitan Adelaide through council amalgamations to reduce the overall number of councils, increasing efficiency for stakeholders and ratepayers.

3.4 Commission an independent review of the *Local Government Act (1999)* (SA) and associated regulations to ensure consistency across municipal boundaries, responsibly manage council employee wages and to ensure alleged code of conduct breaches by elected officials can be effectively managed.

3.5 Reduce the size of the House of Assembly, the Legislative Council, and the ministry to more accurately reflect South Australia's needs and population size.

3.6 Commit to a meaningful redeployment timeframe for excess public sector workers.

3.7 Actively address the significant gap between public and private sector wages. A moratorium on South Australian public sector wage increases should be imposed until the gap between private and public sector wages is at a more appropriate level.

3.8 Amend the Public Sector Regulations 2010 (SA) to restrain the ability for public sector agency heads to engage an individual without a merit-based selection process.

3.9 Establish a small and independent Sustainable Budget Oversight Unit (as recommended in the Sustainable Budget Commission's second report). This unit should be resourced to report, monitor and make recommendations regarding government savings decisions and targets and assist to track progress towards restoration of South Australia's AAA credit rating.

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4.1 Establish an Independent Infrastructure Authority to assess all infrastructure proposals, prioritising those based on a cost-benefit analysis.

4.2 Ensure the Port Adelaide Outer Harbor channel widening project is able to proceed in a timely manner and South Australian exporters are not disadvantaged in accessing the world's increasing number of Post-Panamax vessels.

4.3 Based on the volume and origin of regional and metropolitan exports, prioritise the remaining infrastructure for a seamless north-south transport corridor, with a particular focus on improving export freight routes including completion of South Road upgrades between Regency Road & Richmond Road to service Adelaide Airport.

4.4 Prioritise stages of the remaining AdeLINK Tram Network based on analysis of the likely development along each extension and to ensure all necessary links are available between existing and future tourism and sporting infrastructure.

4.5 Ensure regional infrastructure requirements are not overlooked and that various regional priority projects including Mt Gambier Airport's expansion, Port Augusta's Joy Baluch AM Bridge and the remaining Penola Bypass are appropriately funded in the 2018/19 State Budget.

4.6 Lobby the Federal Government to lift Adelaide Airport's curfew from 11pm to 12am and from 6 to 5am, with appropriate noise abatement measures in place such as limiting extended flight times to new generation aircraft, which are much quieter than past industry standards.

4.7 Conduct a strategic review of the existing public transport system with the aim to increase Adelaide's urban public transport share.

4.8 Seize the unique opportunity to redevelop the former Royal Adelaide Hospital site, which should be centred around free public access to an iconic destination to become the centre piece of Adelaide's tourism offering with one, or a combination of options including an art museum, Australian indigenous art and culture museum, recital hall, investigative science and earth museum and a natural amphitheatre.

4.9 Develop a broader network of cycling paths, particularly in areas such as the city loop, Adelaide Hills, Barossa Valley and McLaren Vale to promote South Australia as Australia's premier cycling tourism destination.

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5.1 Introduce a medical assessment panel into the Return to Work Scheme to assess 30 percent Whole Person Impairment (WPI) claims in order to reduce South Australia's Return to Work premiums and ensure all WPI impairments are objectively assessed by medical experts.

5.2 Introduce to ReturnToWorkSA a system of comprehensive investigations and administrational first review for disputed cases, that is independent and does not require lawyers.

5.3 Repeal the *Dangerous Substances Act 1979* and harmonise legislation under a notification model with other states to provide a consistent system for companies operating in more than one state.

5.4 Harness the momentum of labour hire licensing legislation and push for a national approach reducing the financial and compliance burden on labour hire businesses that operate in multiple states.

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6.3 Lobby the Federal Government to improve skilled occupation lists. These lists must recognise and accommodate the diverse range of skills and skill levels required in regional areas.

6.4 Lobby the Federal Government to review changes to the eligibility for international students to apply for skilled visas, to make it easier for international students to stay and work in Australia after completing their qualifications, particularly in industries and occupations with skill shortages.

6.5 Lobby for the creation of a new business start-up visa to retain entrepreneurial international students post-graduation.

6.6 Lobby for a caveat to the business investor visa to better enable business succession and encourage more investment in South Australian businesses.

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7.1 Continue the public debate on nuclear waste storage to allow investigation into market interest, to enable an assessment of the economic viability of a storage facility.

7.2 Ensure that PIRSA's Primary Production Priority Areas are progressively established throughout South Australia and integrated into local Development Plans to enable the ongoing productive use of prime arable lands and to ensure any decision related to rezoning of agricultural land is informed by evidence regarding its agricultural potential.

7.3 Remove the $5 million annual turnover limit of the *Late Payment of Government Debts (Interest) Act 2013* to ensure all businesses are covered and remove all government entity exemptions from the LP Act, including SA Health, Public Schools, SA Water and Return to Work SA.

7.4 Increase funding to the existing Convention Bid Fund to $5 million per annum, and extend its mandate to ensure conferences and incentive groups can be attracted to a range of venues.

7.5 Refocus limited State Government financial resources to primarily address areas of market failure, rather than grant programs to generally promote economic development.

7.6 Deregulate shop trading hours restrictions throughout South Australia.

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8. Skills & Training.......................................97

8.1 Implement a Workforce Development and Planning model approach.

8.2 Fast track opening the South Australian training delivery market to provide a competitive marketplace offering quality training to meet industry demand with a significant focus on regional training.

8.3 Commence the planned review of the *Training and Skills Development Act 2008* to identify areas for improvement. This review has been earmarked for a number of years and has not progressed.

8.4 Modernise and streamline the system of registration for employers to employ an apprentice or trainee in South Australia to reduce delays, particularly in rural areas.

8.5 Due to the focus on new and emerging industries in the South Australian economy, the secondary school curriculum must include a focus on entrepreneurship and business acumen to provide students with the skills to think innovatively and understand what is involved in starting and operating a business.

8.6 Significantly improve the process to facilitate pathways between the secondary, VET and higher education sectors to accommodate the broad scope of future skills requirements.

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10.2 Commission ESCOSA to update its 2014 Water Pricing Options Inquiry report, including a review of how SA Water's regulatory asset base (RAB) value is determined.

10.3 Ensure accountability and oversight for use of 'Waste to Resources Fund' monies collected by the solid waste levy. The solid waste levy has increased by an average of 18 percent between 2017 and 2020, generating some $85 million for the fund. No information is provided detailing how this money is being spent and what outcomes that expenditure is achieving.

10.4 Lobby the Council of Australian Governments to ensure an economy-wide emissions reduction policy results in uniform policies across states and territories, to provide future investment certainty and to enable emissions reductions at least cost, particularly for trade exposed industries.

Energy

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1. Energy

Business SA is a member of the Australian Chamber of Commerce and Industry (ACCI) and has been working with interstate colleagues under the ACCI umbrella to advance the interests of businesses across the nation, progressing towards solutions which provide reliable and affordable energy both in the existing National Energy Market (NEM) and beyond.

Electricity and gas costs have been a priority concern for Business SA's membership for many years now and, until recently, most of businesses' concerns had related to rising network and renewable subsidy costs. The recent Australian Competition and Consumer Commission (ACCC) Inquiry into electricity pricing found that across Australia, retail electricity prices had increased by 80 to 90 percent over and above inflation in the decade to July 2017, and those large increases in electricity prices had not been matched by price increases in other areas of the economy, nor in wage growth.[1] The ACCC advised that submissions from businesses to its inquiry confirmed that in the past 12-24 months they had experienced price increases, in some cases a doubling or tripling, against their most recent electricity offer.[2]

The ACCC advised that submissions from businesses to its inquiry confirmed that in the past 12 to 24 months they had experienced price increases, in some cases a doubling or tripling, against their most recent electricity offer.

In addition to regular contact with a range of members on energy-related issues facing their businesses, Business SA maintains an Energy, Water and Sustainability Member Reference Group and appointments on the following committees:

- Essential Services Commission of South Australia (ESCOSA) Consumer Advisory Committee;
- ElectraNet Consumer Advisory Panel;
- SA Power Networks Customer Consultative Panel; and
- Australian Gas Networks—South Australian Reference Group.

Business SA is also an active participant in regulatory processes pertaining to the cost and reliability of electricity, primarily through the Australian Energy Regulator (AER) and ESCOSA.

In August 2016, prior to the statewide blackout which cost South Australian business approximately $450 million,[3] a coalition of representative organisations led by Business SA called on the State Government to instigate an independent review of the electricity market's transition to low carbon to ensure reliable and affordable power. This was primarily driven by our collective distress about the impact high wholesale electricity prices were already having on the community and economy, and concerns over predicted reliability shortfalls should South Australia be unable to access sufficient baseload generation.

1 ACCC, 'Retail Electricity Pricing Inquiry (Preliminary Report)', September 2017, p 10.

2 Ibid, p 18.

3 Note the estimated result from Business SA's Blackout Survey Report has been updated to reflect additional costs reported by BHP in February 2017. Note Adelaide Brighton Cement has also reported power outage costs of $9m for 2016 but did not isolate to specific incidents. Based on the latest available information, Business SA now estimates the total costs of September 2016's statewide blackout to be approximately $450 million.

While it took a statewide blackout, Business SA welcomed the Council of Australian Governments (COAG) Energy Council's decision to instigate the Finkel Review, particularly as it was operationally independent of existing market structures and involved appropriate international expertise; both key recommendations from our original request.

In June 2017, Business SA supported all 50 Finkel Review recommendations, including the Clean Energy Target (CET). Having 49 recommendations adopted by COAG was a significant step, despite the central emissions reductions policy recommendation for the NEM not being supported. Since the Federal Government's decision in October 2017 to propose a National Energy Guarantee in place of a CET, Business SA remains open to the proposal, particularly if the outcome is adequate volume and competition for dispatchable electricity within the South Australian NEM jurisdiction, and ensuring that as a nation, we meet our Paris climate change commitments to reduce greenhouse gas emissions by between 26–28 percent of 2005 levels by 2030 at the least possible cost.

While South Australia may be doing more than twice its fair share of reducing Australia's electricity related carbon emissions, our businesses suffer from paying the nation's highest electricity prices.

From Business SA's perspective, South Australia should not continue to pay the price for having a high penetration of intermittent renewable electricity generation with limited baseload competition, while the baseload generation we do have is higher-priced gas. We have always maintained that while there might be an initial cost of going carbon neutral, if we strategically design our market and emissions reduction policy, we should pay the least cost for moving to a lower emissions NEM. South Australia has reached 50 percent renewable penetration,[4] primarily based on subsidies provided by the national Renewable Energy Target, but that energy is predominantly intermittent.

Typically, only retailers with dispatchable power based within South Australia can competitively price firm contracts to even small energy intensive businesses, classified as large market customers, consuming as little as 160 MW hours per annum (or spending approximately $60k per annum). While South Australia may be doing more than twice its fair share of reducing Australia's electricity related carbon emissions, our businesses suffer from paying the nation's highest electricity prices.[5]

This is not fair or reasonable, nor supportive of local businesses being able to price their products competitively into both interstate and overseas markets.

Our recommendations are based on our intimate involvement in a wide range of issues related to energy costs. Not only do we consistently consult across our broad membership base, but we also talk to a wide range of experts from the energy sector, both locally and nationally. This approach ensures our policy positions both reflect the needs of our member businesses primarily paying the bill, while also accommodating the market realities for the energy sector being able to deliver energy at the least sustainable cost.

4 AER, 'State of the Energy Market', May 2017.

5 ACCC, 'Retail Electricity Pricing Inquiry (Preliminary Report)', September 2017, p 16.

1.1 Support for additional electricity transmission capacity on the Eyre Peninsula and a new interconnector to the eastern states should be subject to costs being shared as part of a national policy of renewable energy zones.

If we are to develop more renewables in South Australia, the Regulatory Investment Test for Transmission (RIT-T) and Transmission Use of System (TUOS) transfer pricing mechanisms must ensure that as the benefits of more renewable energy generated in South Australia contribute to the whole country's emissions reduction task, costs should be allocated accordingly.

Business SA has long supported the need to consider the costs and benefits of increased electricity network investment on a national basis, including how renewable energy generation targeted at national emissions reduction targets can be appropriately located at least cost for the entire NEM. Our long-held view is that South Australia has done more than its share of heavy lifting on national emissions reductions by virtue of our state achieving 50 percent renewable generation in 2016. This is three times the national average of approximately 17 percent,[6] on the way to the national 2020 Renewable Energy Target (RET) of 23.5 percent. While South Australia's achievement is positive for the environment, businesses cannot typically hedge with solar or wind farms which has limited our members' ability to access firm contracts, which are typically only available through high-priced gas generators. Alternatively, businesses have been forced to manage by operating on the spot market with its inherent challenges as the most volatile commodity market in the world, and in many cases involving installation of back-up diesel generators to mitigate against high-priced events.

Prior to September 28th, 2016 statewide blackout, Business SA led the South Australian push for an independent review of the market transition to low carbon to protect affordability and reliability. The Finkel Review was then instigated post blackout. Fortunately, the Finkel Review recommended AEMO, in collaboration with network businesses, develop an integrated plan to facilitate the efficient development and connection of renewable energy zones across the NEM. In December 2017, AEMO released a consultation paper on the integrated grid plan which highlighted a range of renewable zones, including nine in South Australia alone, out of 28 across the entire NEM. Business SA acknowledges this is a disproportionate amount relative to South Australia's own electricity demand. Consequently, if we are to develop more renewables in South Australia, the Regulatory Investment Test for Transmission (RIT-T) and Transmission Use of System (TUOS) transfer pricing mechanisms must ensure that as the benefits of more renewable energy generated in South Australia contribute to the whole country's emissions reduction task, costs should be allocated accordingly.

There are two major transmission network proposals currently proposed in South Australia; a $300 million upgrade of the Eyre Peninsula transmission infrastructure between Whyalla and Pt Lincoln, including a 275 KV line between Cultana and Yadnarie; and a potential new interconnector to the eastern states, most likely to New South Wales, with costs yet to be finalised under the RIT-T process. Increasing availability of options to support grid reliability in South Australia along with enabling more renewable energy exports, provided there are suitable options for accessing firm contracts (whether they be in existing or future pricing regions), is supported by Business SA if the cost of additional network infrastructure to meet national emissions reduction targets is appropriately shared across the entire NEM. South Australia has already met more than twice its share of the national 2020 RET and South Australian consumers, particularly businesses, are no longer willing to wear all the indirect costs of hosting intermittent renewable generation.

6 AER, 'State of the Energy Market', May 2017.

1.2 Increase funding to the existing Energy Productivity Program beyond March 2018 and extend coverage to gas to ensure appropriate assistance is available to industry to improve gas efficiency in industrial processes.

In December 2016, the State Government announced it would provide $31 million to assist large market customer businesses in managing their electricity costs and contribute to energy supply benefits for South Australia. This came in response to the ongoing wholesale electricity market rises which began in mid-2015, following Alinta's announcement that the Northern Power Station would close.

Many businesses have had to contend with a doubling to tripling of the wholesale price of gas over the past five years.

Business SA welcomed the Energy Productivity Program (EPP) to relieve the cost pressure on South Australia's large market business consumers, those consuming greater than 160 MWh per annum, since most have experienced total electricity bill increases in the order of 50 to 75 percent over the past two years on the back of wholesale prices more than doubling. Unfortunately, many of those same businesses have also had to contend with a doubling to tripling of the wholesale price of gas over the past five years. This has been predominantly driven by the establishment of Australia's LNG export market and increasing levels of gas moratoria interstate, which have prevented new supply coming on stream to meet the structural shift in demand.

While the EPP has funded audits for approximately 500 businesses, Business SA understands that approximately one third will be eligible for capital project funding. Once the initial $31 million in funding expires in March 2018, there will still be significantly more opportunities to assist large market customers' businesses with energy efficiency projects. The State Government should at least double the initial funding commitment, particularly to help the many unfunded businesses with identified efficiency projects to assist with transitioning through the next few years of elevated wholesale market prices.

As the name states, the Energy Productivity Program should also look at the optimisation of all energy costs for businesses. While the State Government has already funded energy audits under this program, to ensure appropriate compliance with Australian Standards for a Level 2 energy audit, independent auditors should be assessing potential efficiencies in all aspects of a businesses' energy use, not just for electricity.

Extending the EPP to gas will create opportunities for business to invest in more gas-efficient plant and equipment, particularly in relation to heat and steam generation in a variety of manufacturing or processing businesses. For example, much can be done to improve boiler efficiency, such as installing steam accumulators. There are also many heat recovery opportunities such as installing economisers, flue gas condensers and recuperators;[7] although installations of this nature can be complex and accordingly require more investment than conventional energy efficiency options—a factor that needs to be considered in how the Government funds EPP grants.

Extending the EPP to gas may also have future relevance to the State Government's push to develop a hydrogen industry for South Australia, particularly to encourage such an industry to look specifically at how hydrogen could be used as a fuel replacement in industrial heating processes.

7 South Australian Wine Industry Association, 'Winery Energy Saver Toolkit', July 2014, p 58.

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1.3 Work with the COAG Energy Council, AEMO, electricity networks and retailers to thoroughly investigate all options at redefining the existing NEM pricing jurisdictions to optimise the ability of business consumers to enter into firm contracts, and to provide cost-reflective price signals for additional generation and network upgrades.

The Australian Chamber of Commerce, in collaboration with Business SA, recently procured independent expert advice from engineering firm Aurecon on alternative pricing models for the National Electricity Market (NEM) which might lead to more efficient and affordable pricing outcomes, particularly for small to medium sized businesses. This emanated from our collective concern about the reality for businesses, in South Australia in particular, of being unable to access firm contracts from renewable generators, and the lack of effective hedging across interconnectors. The bulk of effective competition comes from generators with their own base-load power generation within any given state-pricing jurisdiction.

To date, energy policy development in Australia has not considered how a fundamental review of the NEM's pricing structure could assist in the market transition to a low-carbon future with more intermittent renewable electricity. At present, the NEM has pricing regions which align with state boundaries, primarily a legacy feature of separate state-based markets that existed prior to the NEM's formation in the late 1990s. A recent study by the Major Energy Users group found "while, in theory, retailers can access capacity on the interconnectors through the interregional settlement residue auction process (and so "sort of" access base load hedges from Victoria), this mechanism does not provide sufficient certainty for retailers to provide firm contracts to end users."[8]

The primary objective of wholesale electricity pricing models is to produce locational pricing signals that promote:

- efficient short-term use of the existing network by delivering electricity from lowest-cost generators to customers that value it the most; and
- investment in generation and network infrastructure where it is of most valued to the system.

In contrast to the existing state-based pricing jurisdictions, Aurecon found the most efficient expression of locational pricing that could be adopted in the NEM is a nodal pricing structure. Although hundreds of nodes exist in the NEM (located at the sub-station level), the volatility of pricing impacts on consumers can be minimised through pricing hubs, as exists in other nodal markets such as the largest US electricity market, PJM, which cuts across seven states and serves 61 million customers. The PJM passes nodal pricing onto generators but otherwise averages prices across many nodes, called hubs. This shows generators have been found to be more responsive to changes in electricity prices than retail customers. The pricing hubs also help facilitate trading which increases market liquidity. Both the Californian and Texan electricity markets also price at the nodal level and both markets are much further advanced than Australia in many respects. For example, the Texas government passed a directive to establish competitive renewable energy zones in 2005, to identify areas with potential wind capacity and the necessary transmission infrastructure required to develop it.

A review of the NEM's existing pricing design and the optimum structure to transition to a low carbon future, while ensuring an adequate ability of consumers at all levels of consumption to access firm contracts, should be initiated by mid-2018. This should run concurrent with AEMO's review of renewable energy zones to determine whether a nodal market could optimise intended outcomes for consumers.

8 Major Energy Users Inc, 'Examination of the Recent and Future High Prices in the South Australian Regional Electricity Market 2016', p 25.

1.4 In accordance with the Finkel Review recommendation for AEMO and the AEMC to assess the need for a strategic electricity reserve, reassess the need for South Australia to continue owning back-up generators beyond the summer of 2018/19 if the national market can provide the same reliability outcome at a reduced cost.

Business SA recognises South Australia must have security of supply, but the cost of back-up generation must be at the market rate and we must ensure private investors continue to look at investing in South Australia, and not be deterred by government interference in the market.

Prior to the summer of 2016/17, Business SA and other concerned organisations and individuals had been raising our concerns with both state and federal governments about the predicted electricity reserve shortfalls in South Australia, outlined in AEMO's MT PASA forecast.[9] While at the time we were advised that the processes in place would work to ensure those shortfalls were met by the market, it was an unsettling time for businesses, particularly after the statewide blackout had already cost them approximately $450 million.

Unfortunately, it took another load shedding event in February 2017 to spark definitive political action to provide certainty to South Australian electricity consumers. This was the third load-shedding event in eighteen months, excluding the statewide blackout, following just three similar occurrences in the fifteen years prior. By this stage, there was little doubt there had been a step change in the reliability outcomes for South Australian electricity consumers but no change in the national electricity law, which still states its objective: *"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system."*[10]

On release of the South Australian Government's Energy Plan in March 2017, Business SA supported its 200 MW of temporary generation for the summers of 2017/18 and 2018/19. Our members needed this certainty in the short-term and in the absence of a national solution at that point, we recognised the need for the State Government to act ahead of the upcoming summer, particularly with Hazelwood Power Station's closure the following month. However, Business SA did not endorse the State Government building a permanent 250 MW emergency back-up gas-fired generator, primarily due to our concern about the signal this would send to future private investors in our electricity network. While the market may have failed due to inappropriate environmental policies which incentivised renewable energy purely to generate, but not necessarily at the times the market required, the market of its own accord did not fail. The clear evidence gauged from multi-factor productivity levels for electricity distribution network assets is that state-owned assets in NSW and Queensland are considerably more inefficient and costly than privately-run assets in other states (see table overleaf).

9 AEMO forecast of future demand/supply and any predicted shortfalls.

10 *National Electricity (South Australia) Act 1996* (SA) sch 1 (National Electricity Law) s 7.

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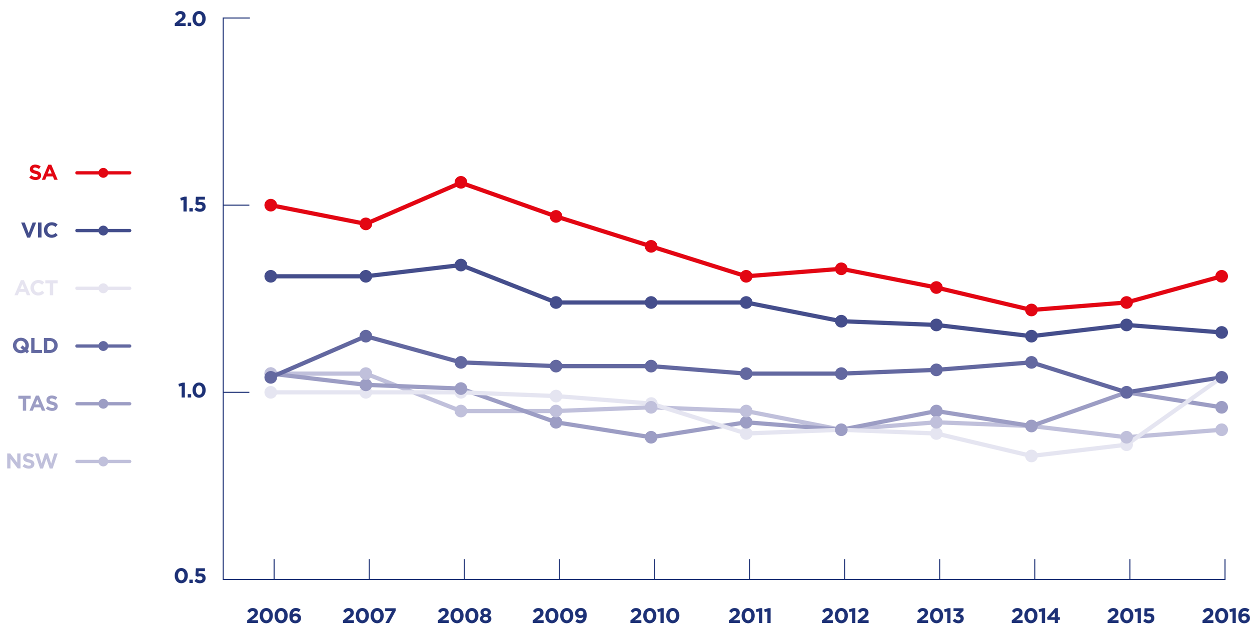
Multilateral total factor productivity
By jurisdiction 2006–16



Source: Australian Energy Regulator, Annual Benchmarking Report for Electricity distribution network service providers, November 2017.

Business SA acknowledges the Finkel Review recommended AEMO and the AEMC assess the need for a strategic reserve to act as a safety net in exceptional circumstances, and to achieve this by either enhancing or replacing the existing Emergency Reserve Trader mechanism. It is important that any new strategic reserve in South Australia is consistently implemented in line with a NEM-wide mechanism to ensure South Australian consumers do not pay any more than strictly required to have additional assurances of emergency generation support. A new strategic reserve should also be more visible to the broader market to provide improved public confidence in the market's ability to meet the needs of South Australian consumers. There are two summers to pass with temporary generation already in place which should provide ample time for the South Australian Government to work collaboratively with its COAG Energy Council counterparts, including the Federal Government, to design and implement a new strategic reserve mechanism for the entire NEM.

The South Australian Government recently exercised its option to purchase the temporary diesel-fired generators for $227.2 million,[11] against the advice of the business community. However, provided they are not permanently in place by the end of summer 2018/19, the ability to sell or lease these units should not be materially compromised. Alternatively, if the Government decided to shift the now-separate units together to form a new, permanent gas-fired generator, they would likely lose considerable money if they had to re-sell the associated connection infrastructure, which might represent approximately 20–30 percent of the total cost.

Business SA recognises South Australia must have security of supply, but the cost of back-up generation must be at the market rate and we must ensure private investors continue to look at investing in South Australia, and not be deterred by government interference in the market.

11 South Australian Government, 'Mid-Year Budget Review', December 2017.

017

1.5 Subject to South Australia's unique competition issues being accounted for, ensure a future emissions reduction and reliability policy for South Australia's electricity network aligns with a national approach and produces transparent costs of meeting both target outcomes.

We have long moved on from a disparate network of railway gauges to improve trade amongst states, and it is about time the NEM followed suit.

Business SA has long called for reconsideration of how the current NEM emissions reduction policy, the RET, operates. The RET is only incentivising the generation of renewable energy without regard to broader contract and system reliability requirements in each specific pricing jurisdiction (currently along state boundaries). Firstly, we support the need for Australia to meet its Paris climate change commitment of reducing greenhouse gas emissions by between 26–28 percent of 2005 levels by 2030, and recognise the substantive contribution made by the electricity sector, at 35 percent.[12] However, future policy to support the renewable generation required to meet national emissions reduction targets must account for the dispatchable electricity required in each state for both grid reliability and contract market depth, particularly in South Australia.

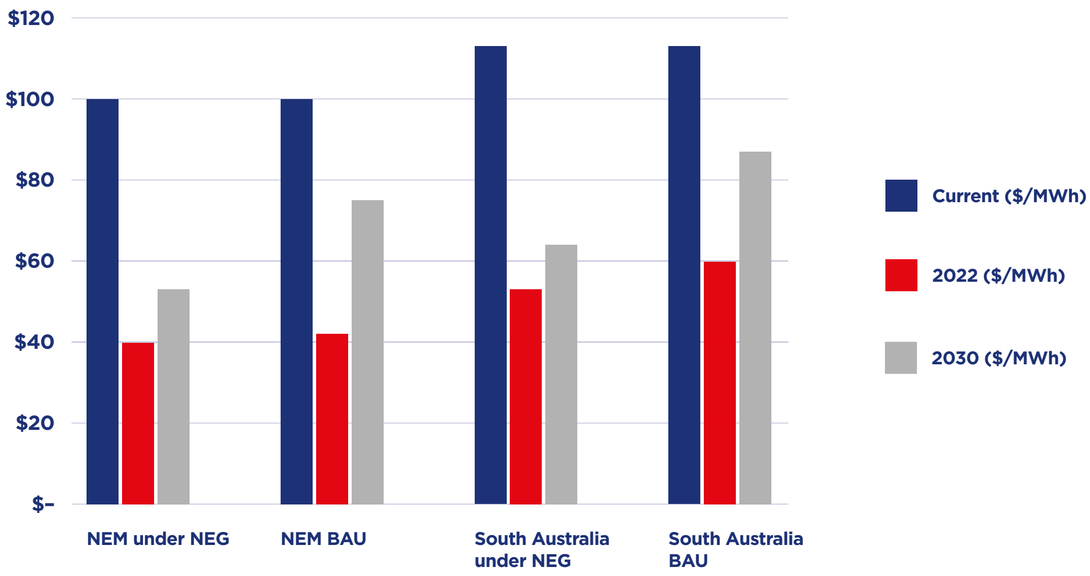
While Business SA originally supported the Clean Energy Target, which was recommended by the independent Finkel Review panel and thoroughly informed by both local and international expertise, the Federal Government's proposed National Energy Guarantee (NEG) should be considered a genuine alternative if it can meet businesses' reluctant acceptance of the need to reduce emissions, but only if delivered at least cost across each NEM pricing jurisdiction while ensuring grid reliability and security. Transparency will also be key, and having tradeable emissions reduction and reliability requirements will ensure an appropriate level of price discovery, enabling the parties best able to achieve emissions reduction and reliability at the lowest cost to do so. Whether or not there are so-called certificates is irrelevant to businesses, our members just need a framework which delivers their required outcomes at least cost.

From the preliminary Energy Security Board (ESB) advice on the NEG,[13] there is a forecast reduction in today's South Australian wholesale electricity price, $113/MWh, to approximately $53/MWh by 2022 (compared to $60/MWh for Business As Usual (BAU)) and $64/MWh by 2030 (compared to $87/MWh BAU). The majority of the impact of the NEG will come once Liddell power station in New South Wales withdraws its 2000 MW from the NEM in 2022. While the NEM average wholesale price under the NEG falls from $100/MWh to $40/MWh by 2022 (compared to $42/MWh BAU), and $53/MWh by 2030 (compared to $75/MWh BAU), the overall decline in South Australian prices is still material despite remaining the highest in the NEM. A comparison of these prices is illustrated overleaf.

12 Finkel Review, 'Independent Review into Future Security of the National Electricity Market', June 2017.
13 20 November 2017 – numbers approximate based on graphs within report.

018

Forecasted wholesale electricity price



Notwithstanding potential price benefits, it is important to note that the ESB advice on the NEG states *'effective competition in both retailing and generation is required for the NEG to achieve its policy objectives at the lowest possible cost to consumers'*. Subsequently, the ESB dedicates an entire section of its advice to competition issues in South Australia, which the independent Finkel Review described as having the least amount of competition and highest reliance on its largest generator of all NEM regions. Even when compared with Queensland, which exhibits a comparable degree of market concentration in the generation sector, the ESB finds South Australia also has a high degree of vertical integration with generators dominating the retail sector. According to the ESB, all of these factors, 'combined with lower demand and higher penetration of non-dispatchable generation, explains why South Australia's contracts market is small and illiquid relative to the other three regional contracts markets in the NEM'.

Business SA notes that options to address market competition in South Australia will play a pivotal role in determining how effective the NEG can be here, and we advise that recommendations from the upcoming final report of the ACCC's Retail Electricity Pricing Inquiry are appropriately considered for in the NEG's final design. The Federal Government has long maintained a 'four pillars policy' for the banking sector to reflect community concerns about mergers restricting competition. There is far more concentrated market power in Australia's dispatchable electricity generation sector, particularly in South Australia, and until intermittent renewables and batteries or another pairing with dispatchable generation can price competitively against base-load generators for the firm contracts businesses require, all options to protect consumer outcomes must be on the table. This could include increased transparency about the actual availability and price for renewables to access either battery or thermal generation back-up in each NEM jurisdiction.

Any future emissions reduction policy for South Australia's electricity network must also dovetail with a nationally coordinated approach to ensure South Australian electricity consumers, particularly business, are not paying the price for going it alone. We have long moved on from a disparate network of railway gauges to improve trade amongst states, and it is about time the NEM followed suit.

1.6 Future development of conventional and unconventional gas reserves in South Australia should be assessed on a case-by-case basis rather than imposing a blanket moratorium across any one particular region, including prime agricultural regions such as the South East.

Having a sufficient supply of gas available to support both electricity generation and consumption of gas, particularly for industry, is critical to the competitiveness of South Australian businesses.

Business SA supports all forms of gas extraction in South Australia, including unconventional gas extraction. Having a sufficient supply of gas available to support both electricity generation and consumption of gas, particularly for industry, is critical to the competitiveness of South Australian businesses. Unfortunately, over the past few years the expansion of the northern LNG export market has seen a tripling of the wholesale gas price.

While this does not impact very small businesses as much, wholesale gas costs as a proportion of total gas costs are typically 50 percent or higher for medium and large businesses, and for these gas-intensive consumers, total gas costs have approximately doubled over the past five years, with prices spiking even higher in 2017. It is also typically the case that gas-intensive businesses are also quite electricity intensive so have been hit with a double whammy following the Northern Power Station closure, increasing the reliance on gas for South Australian power generation.

Business SA remains firmly of the view that any gas production, conventional or unconventional, must be strictly regulated to ensure well integrity, and in the case of fracking, careful management of chemically-induced water returns. These risks have been safely managed for decades in South Australia and we need to have some perspective on the likely outcomes, as we would for any new or existing industrial process. Fracking has occurred in South Australia's Cooper Basin since 1969, and worldwide since 1947. It is not a new technology or industrial process. There have been no known aquifer contamination issues to date in South Australia. More than 700 wells have been fracture stimulated.[14] The opportunities which present in South Australia are for shale gas which is typically 2-3 km underground as opposed to coal seam gas, which is typically less than 1km deep[15] and much closer to aquifers.

All fracking activity in South Australia is strictly regulated under the *Petroleum and Geothermal Energy Act 2000* plus being subject to other acts including the *Natural Resources Management Act 2004* and the *Environment Protection Act 1993*. To ensure the adequate protection of aquifers, sampling and analysis of aquifers is required before drilling commences and prior to well completion, the licensee must also demonstrate that cement integrity behind the casing is adequate, which includes pressure testing for leak tightness. The Department of Environment, Water and Natural Resources (DEWNR) considers each application to frack on its individual merits insofar as the toxicity of the chemical mix and any potential risk to ground water resources.

The Northern Territory recently completed a comprehensive inquiry into fracking led by a NSW Judge, the Hon Justice Rachel Pepper, and a panel of eminent scientists. The Scientific Inquiry into Hydraulic Fracturing in the Northern Territory Draft Final Report was released in December 2017. This report concluded that "risk is inherent in all development and that an onshore shale gas industry is no exception. However, if the recommendations made in this draft Report

14 South Australia Government, 'The Facts about natural gas and fracture stimulation in South Australia', 2014.
15 Geoscience Australia, 'Review of Hydrofracturing and Induced Seismicity', 2016.

Business SA remains firmly of the view that any gas production, conventional or unconventional, must be strictly regulated to ensure well integrity, and in the case of fracking, careful management of chemically-induced water returns.

are adopted and implemented in full, those risks may be mitigated or reduced—and in many cases eliminated altogether—to acceptable levels having regard to the totality of the evidence". The Draft Report also concluded "while there have been more than one million fracture stimulations (fracturing) treatments in North America and more than 1,300 in South Australia's Cooper Basin, there has been no reported evidence of fracturing fluid moving from the fractures at depth to near surface aquifers."

As the state's peak Chamber of Commerce and Industry, Business SA has members across multiple sectors, including agriculture and viticulture. We are not advocating for one sector over another or wishing to downplay any legitimate concerns about any industrial processes, including fracking. Our policy position is that governments should consider all development on individual merit and not put blanket moratoria in place, such as is proposed for unconventional gas extraction in South Australia's South East. If there were a genuine threat to an aquifer from any form of industrial activity, including fracking, Business SA would support a state government blocking such development. However, we need to consider each case individually to ensure that as a state, we adequately realise the value of our natural resources and put downward pressure on both gas and electricity prices in the process.

1.7 Work with the COAG Energy Council, electricity networks and retailers to ensure any further move towards cost-reflective tariffs beyond 2020 sends price signals to consumers which reflect the new reality, that constraints on the network can equally come from both supply-side generation and distribution/transmission network limitations.

The primary push for cost-reflective network tariffs came through the COAG Energy Council "Power of Choice" reforms which mandated electricity networks to move towards cost-reflective pricing for all consumers. While in principle, Business SA supports the concept of cost-reflective tariffs, we maintain there needs to be appropriate consideration of the implementation costs and the ultimate benefits for each class of consumers. As we outlined through a 2016 study of shifting small businesses (i.e. those consuming less than 160 MWh per annum) onto cost-reflective tariffs through independent expert consultants 2XE, there are many considerations to make to ensure the outcome ends up being beneficial to the broader market. Our joint study with the SA Wine Industry Association highlighted a range of issues from proposed triggers based on amp limits of new equipment to allowing businesses to either trial smart meters, or to have access to appropriate data to understand what the likely impacts would be before being shifted onto cost-reflective tariffs which, depending on how they use power, may cost them up to $10,000 more per annum, or an approximate 17 percent bill increase. The AER supported our concerns and determined an opt-in period for small businesses until June 2020 would be the most appropriate way forward, even if businesses decided to install smart meters themselves.

Beyond 2020, while Business SA recognises potential benefits to the grid of having more smart meters, we are also concerned that we still do not have alignment in the electricity sector between peak price periods with varying timeframes for the retail market and networks. At present, the retail market for South Australia peak price time is from Monday to Friday, 7 am to 9 pm. Alternatively, SA Power Networks has several peak demand periods depending on customer type and choice:

- 'agreed maximum demand pricing' for business on workdays between 12pm and 9pm during November to March only;
- 'actual maximum demand pricing' for business on workdays between 4pm and 9pm during November to March with 'shoulder actual maximum demand pricing' year round between 12pm and 4pm; and
- 'actual maximum demand pricing' for residential customers on all days during November to March from 4pm to 9pm with 'shoulder actual maximum demand pricing' outside summer on all days from 4pm to 9pm.

From Business SA's perspective, if we are to accept that all businesses should be shifted onto cost-reflective network tariffs with the potential that many will actually pay higher charges, at least until they can moderate demand, there needs to be more clarity as to what the policy driver is for reducing demand in relation to both network capacity and supply capacity. To date, and Business SA has been raising this publicly since early 2017, there is no clarity from governments at either a federal or state level as to whether or not the push towards cost-reflective network pricing needs to be re-visited in the context of supply shortfalls; particularly those experienced in South Australia over the summer of 2016/17. Before the energy crisis hit in earnest from mid-2015 onwards, the COAG Energy Council and all related-government bodies had only been pushing cost-reflective pricing to reduce network constraints to limit further expenditure on poles and wires. Now that it has become clear that Australia has a shortfall of dispatchable generation, both state and federal governments are directly intervening to address it, including demand-response initiatives which Business SA welcomes, but there is no policy coordination on pricing structures and the signals they send to end consumers, particularly businesses.

Business SA supports government policy promoting more coordinated pricing structures which actually deliver the outcomes the market requires. This is both in terms of reducing demand where there are shortfalls of supply, and concurrently limiting demand during periods which are most likely to necessitate additional spending to mitigate network constraints. With much more intermittent renewable generation in the market, particularly in South Australia, it is now clear that peak demand issues can be correlated to both supply issues and network constraint issues, and government policy needs to catch-up to reflect this changing dynamic. This must be done before small businesses and residential consumers are forced to move onto cost-reflective network tariffs from 2020 onwards.

There is no clarity from governments at either a federal or state level as to whether or not the push towards cost-reflective network pricing needs to be re-visited in the context of supply shortfalls.

022

1.8 Work with the COAG Energy Council to streamline reliability and quality of electricity supply standards across distribution, transmission and supply side-generation to ensure the ultimate requirements on networks, including generators, meet the expectations of consumers; including the levels of reliability and quality of supply they are willing to endure in any given period, regardless of whether or not a shortfall results from a network or generation failure.

South Australian businesses and general electricity consumers have reported confusion about who is responsible when the lights go out.

South Australian businesses and general electricity consumers have reported confusion about who is responsible when the lights go out. With a range of standards and responsibilities at both a state and NEM-wide level, this confusion comes as no surprise.

The Essential Services Commission of South Australia (ESCOSA) determines SA Power Networks reliability standards for the electricity distribution network, excluding Major Event Days (such as storms and heatwaves), see graph overleaf.

In assessing SA Power Network's performance, ESCOSA also reviews the number of Low Reliability Distribution Feeders and customers affected in any given year. The review process focuses on individual feeder performance (including during Major Event Days) in poorly served parts of the network over two or more consecutive years. In 2016/17, there were 91 feeders that qualified as Low Reliability Distribution Feeders affecting 23,394 customers compared to 2013/14, where there were 145 such feeders affecting 41,776 customers.

Where a target is not met, this does not necessarily mean the standard is not met. The standard may still be met if SA Power Networks can demonstrate it has used best endeavours in trying to meet the overarching target that year.[16]

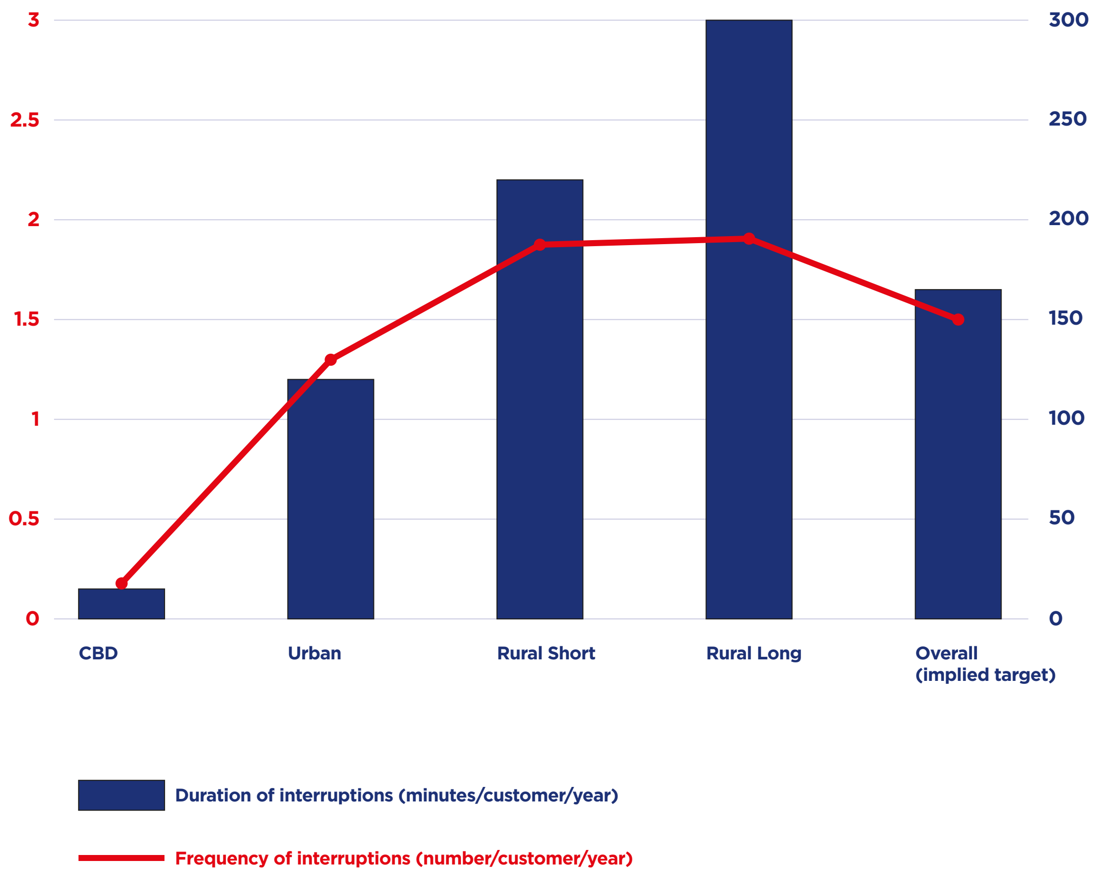
SA Power Network's reliability standards are currently under review by ESCOSA with a draft determination scheduled for March 2018.

Reliability standards for the electricity transmission network are also determined by ESCOSA and based on reliability at each exit point, i.e. connections between the transmission network and the distribution network.[17]

16 ESCOSA, 'Energy Business Regulatory Performance Report 2015-16', January 2017.
17 ESCOSA, Electricity Transmission Code TC/09, effective from 1 July 2018.

023

Reliability standards
per electricity feeder category



There are five categories of exit points on ElectraNet's transmission network, with each having a specific reliability and supply restoration standard. Category 1 has the lowest reliability and supply restoration requirements while Category 5 has the highest. The standards require, in effect, a level of security (or redundancy) to be built into ElectraNet's transmission system to ensure that, in most cases, it can maintain continuous electricity supply. The categorisation of exit points is based on periodic assessments as to whether the costs of augmenting each exit point are outweighed by the value to customers of the increased reliability that would result.

AEMO's reliability standard is the primary mechanism to signal to the electricity generation market to deliver enough capacity to meet consumer demand for electricity. This standard is set by AEMC's Reliability Panel and is currently set at 0.002 percent unserved energy per region per financial year. This means for every 100,000 MWh of demand, no more than a 2MWh outage would be allowed. In South Australia, this is equivalent to losing the equivalent of 260MW[18] for an hour, or approximately the same impact as occurred during the brownout on December 1, 2016 where South Australia lost 190MW of load from 12:16am to 1:45am.

Business SA understands the reliability standard for electricity generation is primarily for planning purposes and averaged across 300-year simulations[19] but, consumers, and particularly businesses, cannot easily translate that to the level of reliability they can expect.

The quality of power supply is another important consideration for businesses, particularly those in regional areas which are more prone to voltage disturbances which can impact their equipment. SA Power Networks recently observed a 'significant increase in customer complaints arising from voltages exceeding prescribed limits and in October 2017, experienced the largest number of customer enquiries every recorded, nearly twice the historical 10-year average.'[20]

The State Government's Office of the Technical Regulator (OTR) is responsible for ensuring electricity infrastructure providers comply with technical regulations, including the establishment and enforcement of proper standards of safety, reliability and quality of supply. However, from the KPIs the OTR impose on SA Power Networks, there is no clear importance placed on the quality of electricity supply, particularly to regional areas. In the most recent Annual Report of the Technical Regulator, quality of supply issues to regional areas were not discussed at all. While the OTR has a broad remit and is primarily focused on electricity safety issues across the economy, quality of supply standards need more specific attention, and may need to be monitored by ESCOSA, which is also responsible for monitoring the electricity reliability standard performance of SA Power Networks. Business SA is very conscious of the significant economic contribution made by South Australia's regions, particularly to exports, and as a state we should ensure that business needs in those areas are appropriately considered.

Business SA is very conscious of the significant economic contribution made by South Australia's regions, particularly to exports, and as a state we should ensure that business needs in those areas are appropriately considered.

18 0.002 percent of South Australia's current annual consumption of 12,934 GWh.

19 Clarification from AEMO.

20 SA Power Networks, 'Distribution Annual Planning Report, 2017/18 to 2021/22', December 2017, p 43.

1.9 In responding to ESCOSA's inquiry into the reliability and quality of electricity supply on the Eyre Peninsula, support SA Power Networks leasing generators in the short term while strengthening the distribution network in highlighted areas of poor network performance, particularly Elliston, Penong and Cowell.

Eyre Peninsula Unplanned Interruptions (hrs)

57

1 July to 31 Dec 2016

7

Past 3 year average

9

Ten year average

Following a significant increase in the average duration of electricity outages on the Eyre Peninsula during 2016/17, particularly events on 8 September 2016, 28 September 2016 and 23 December 2016, the State Government instructed ESCOSA to undertake an inquiry into reliability and quality of electricity supply across Eyre Peninsula. Business SA supported this inquiry following the significant impact on Eyre Peninsula businesses which became evident through our statewide blackout survey, largely emanating from the loss of supply which lasted more than two days compared to most of the state, which had supply restored the same evening.

Business SA acknowledges ESCOSA's findings that between 1 July 2016 and 31 December 2016, the Unplanned System Average Interruption Duration Index (USAIDI) for the Eyre Peninsula was nearly 3,400 minutes, or approximately 57 hours, of which generation/transmission outages comprised approximately 2,600 minutes (43 hours). This compares with the 10-year average of 530 minutes (9 hours) with an average of 400 minutes (7 hours) over the past three years.

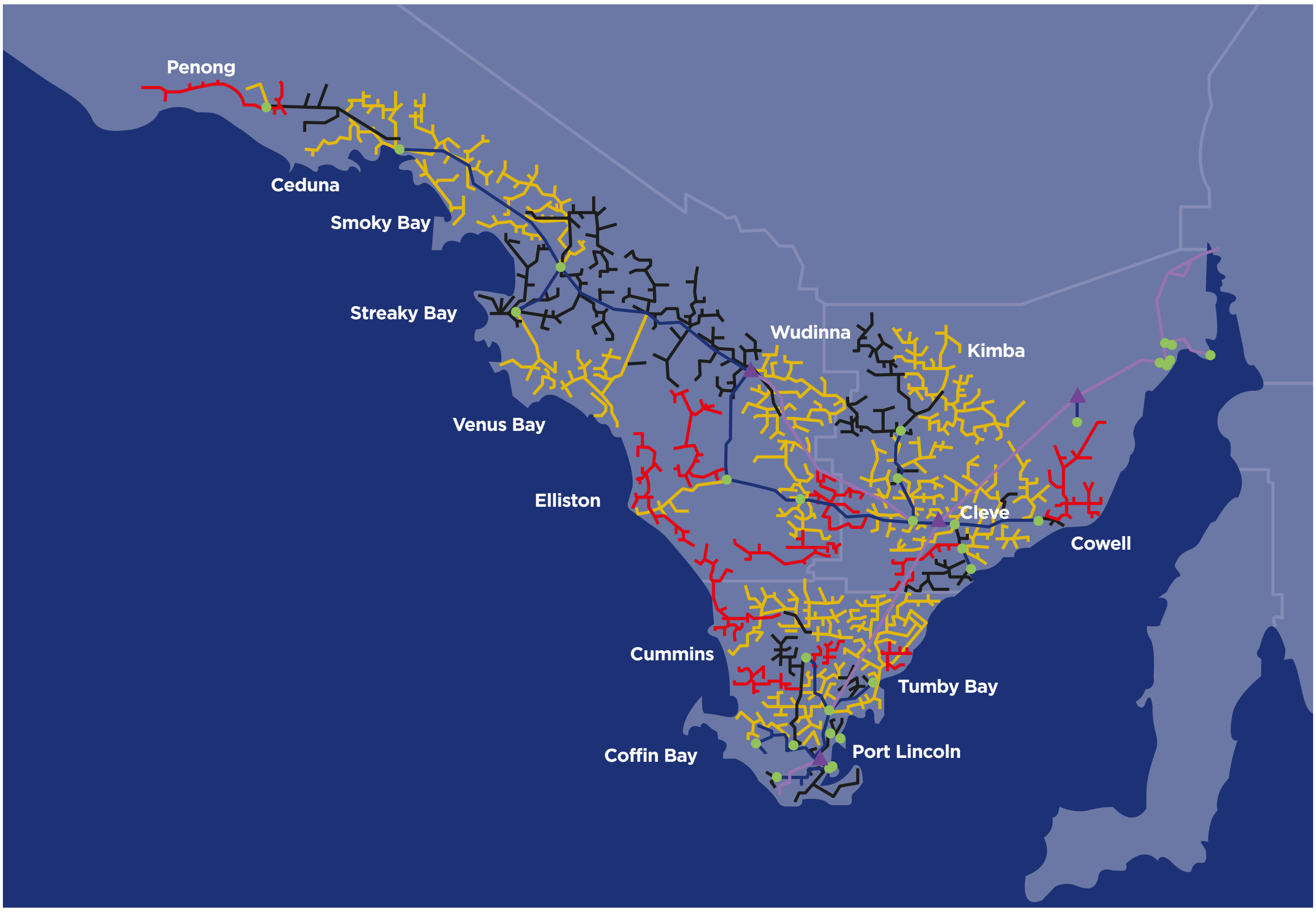
Recognising the statewide blackout was not the entire cause and even setting aside the causes of the blackout established by various inquiries, the reality is that businesses and consumers on the Eyre Peninsula have suffered immensely from unreliable electricity, particularly in the last six months of 2016, and reasonable steps must be taken to mitigate against future occurrences. While Business SA acknowledges reliability standards cannot be uniform across the entire state due to economic reasons, we also cannot accept such significant shortcomings in reliability in regional areas when those same consumers have commensurate protections under the National Electricity Law.

ESCOSA's inquiry costed both short and medium-term options for improving supply outcomes and Business SA supports short-term, leased generators being installed by SA Power Networks while medium-term distribution network hardening options can be implemented. ESCOSA's option 3 of hardening 25 percent of feeders against lightening would cover the 15 percent of worst performing feeders which includes areas around Penong, Cowell and Elliston, and at a cost $1.3 million per annum, is a relatively low-cost method to improve reliability outcomes on the Eyre Peninsula.

While Business SA is very conscious of ensuring Eyre Peninsula businesses have adequate reliability, upgrades will also be paid for by South Australian businesses more broadly and need to be carefully considered in light of recent extreme price increases, particularly over the past two years.

026

Distribution feeder reliability performance 2006–07 to 2015–16, USAIDI outcomes, including MEDs and transmission outages



ENET Transmission
SAPN Sub-TX
SAPN Substations
ENET Substations

Source: ESCOSA, Inquiry into the reliability and quality of electricity supply on the Eyre Peninsula, Final Report, October 2017.

Taxation

Business SA
Chamber of Commerce
and Industry South Australia

2. Taxation

South Australia must at least transition to offer the most competitive state-based payroll tax structure.

Business SA has always argued that South Australia must have a competitive state-based tax system and where relevant, the State Government must work collaboratively with the Federal Government and other states and territories to maximise the collection of efficient taxes such as the GST to replace inefficient taxes, like payroll tax. We recognise the need for the State Government to collect an adequate amount of revenue to fund high-quality essential services such as healthcare, education and law and order, but that revenue must be collected in a manner which has the least impact on economic growth.

The recent 2015/16 Pitchers Partners State Tax Review found South Australia is the least competitive state tax regime on the mainland for start-ups of any size looking to rent their premises, while being second last for larger businesses renting their premises. South Australia fares slightly better for businesses which own their own property, but considering the majority of businesses rent, Business SA is still quite concerned.

According to several government tax reviews, including the wide-ranging federal Henry Tax Review and the Tax White Paper, land tax and the GST are analysed as the most efficient of all state and federal taxes, with other taxes less efficient to varying degrees, particularly stamp duty and insurance taxes. For every dollar of tax raised from an efficient tax like the GST or land tax, there is less drag on economic growth compared to an inefficient tax like payroll tax. This is largely because efficient taxes are drawn from a much wider and less elastic base.

While there is a theoretical argument that payroll tax would be more efficient without a threshold, this ignores the fact that payroll tax is levied on one factor of production-labour as opposed to capital. This essentially penalises businesses which employ more people over those which employ less. Payroll tax also discriminates against local businesses. One Business SA manufacturing member recently highlighted their frustration at having to compete against importers to deliver the same products price competitively into Bunnings, with those importing businesses not liable for payroll tax by virtue of having few locally-based employees.

Business SA ultimately wants payroll tax abolished to match leading economies such as New Zealand, but in the absence of broader tax reform including the GST, South Australia must at least transition to offer the most competitive state-based payroll tax structure. South Australia should also lead on offering payroll tax relief for employers to hire STEM PhD graduates to bolster university and industry collaboration, as well as for apprentices and trainees to arrest the stark decline in recent years.

Tax compliance is also a significant issue for business, and most particularly small business. Compliance with tax accounts for between one half and two thirds of the total compliance burden on small business.[21] Business SA has been actively promoting further harmonisation in tax compliance across states, particularly to ensure that as our members expand their businesses, the additional information required by other state revenue offices is minimised.

Business SA recognises its role in promoting economic prosperity for the whole state and has a particular interest to ensure the current system of GST distribution between states and territories is maintained, and that South Australia does not lose revenues which may have to be replaced by increasing less efficient state-based taxes.

21 Hasseldine J, Evans C, Hansford A, Lignier P, Smulders S and Vaillancourt F, 'A comparative analysis of tax compliance costs and the role of special concessions and regimes for small business in Australia, Canada, South Africa and the United Kingdom', National Tax Association Conference, 2012.

2.1 Lift the payroll tax threshold from $600,000 to $1,500,000, and reduce the rate from 4.95 percent to 4.5 percent by 1 July 2020 to ensure South Australia has the most competitive payroll tax structure of any state.

All states and territories which have made improvements to their payroll tax system between 2008/9 and 2016/17 have experienced significant growth in collections, on average 50% faster than in South Australia.

Business SA welcomed the State Government's 2017/18 budget measure to permanently reduce the payroll tax rate to 2.5 percent for businesses with wages between $600,000 and $1 million, with a progressively increasing rate up to 4.95 percent, which applies to businesses with wage bills of $1.5 million and higher. If legislated, this would have been the first permanent change to South Australia's payroll tax system since 1 July 2009 when the rate was reduced from 5 percent to 4.95 percent and the threshold raised from $552,000 to $600,000. At that point in time, those changes were estimated to have saved businesses approximately $20 million a year.

Unfortunately, following the defeat of the State Bank Tax in November 2017, the State Government decided not to permanently implement its budgeted payroll tax relief to small business, committing only to enact administrative procedures to provide temporary relief for the 2017/18 financial year.

By 1 July 2018, it will be nine years since a permanent adjustment was made to South Australia's payroll tax threshold, which unfortunately is not subject to indexation. Considering South Australia's CPI inflation rate has increased by approximately 20 percent over that period,[22] even an equivalent indexed rate today would be over $700,000.

Over the past eight years, every other state and territory has increased their payroll tax threshold (see table overleaf). The average increase in payroll tax thresholds across all states and territories since 2009 has been approximately $175,000, with the Australian Capital Territory leading the charge by increasing its threshold by $500,000.

While Business SA recognises increasing the payroll tax threshold to $1.5 million and reducing the rate to 4.5 percent will cost the existing budget approximately $213 million per annum,[23] this does not accommodate the fact that such an economic policy decision will actually assist with growing tax revenues over time, including payroll tax. All states and territories which have made improvements to their payroll tax system between 2008/09 and 2016/17 have experienced significant growth in collections, on average 50 percent faster than in South Australia.

22 ABS, '6401.1- Consumer Price Index', December 2017.

23 Based on Revenue SA payroll tax collection data.

030 Payroll tax rate and threshold
Comparisons across Australia

	Payroll Tax Rate			Payroll Tax Threshold		
	2009 Rate	Current Rate	Difference	2009 Threshold	Current Threshold	Difference
NSW*	5.75%	**5.45%**	0.30%	$638,000	**$750,000**	$112,000
VIC†	4.95%	**3.65% to 4.85%**	varies on location	$550,000	**$650,000**	$100,000
QLD‡	4.75%	**4.75%**	0.00%	$1,000,000	**$1,100,000**	$100,000
WA§	5.50%	**5.50%**	0.00%	$750,000	**$850,000**	$100,000
TAS¶	6.10%	**6.10%**	0.00%	$1,010,000	**$1,250,000**	$240,000
ACT	6.85%	**6.85%**	0.00%	$1,500,000	**$2,000,000**	$500,000
NT	5.90%	**5.50%**	0.40%	$1,250,000	**$1,500,000**	$250,000
SA**	**4.95%**	**2.5% to 4.95%**	**varies on size**	**$600,000**	**$600,000**	**$ –**

* New South Wales businesses with less than 50 employees are eligible for a payroll tax rebate of up to $6,000 for new full-time employees subject to certain conditions under the Jobs Action Plan. NSW also has a payroll tax rebate for specified apprentices and trainees determined by the NSW Department of Industry.

† Victoria's new threshold is being progressively implemented to be fully in place by July 2018. New rate of 3.65% only applies to regional businesses (i.e. those who pay 85% of their payroll to employees in Regional Victoria).

‡ Queensland offers a full payroll tax exemption on trainee and apprentice wages, and a temporary (expiring in July 2018) 50% rebate on an additional worker's payroll tax when a business employs an apprentice or trainee. Furthermore, the tax-free threshold for Queensland businesses, $1.1 million, gradually diminishes until a business reaches a $5.5 million payroll such that employers with taxable wages greater than $5.5 million are liable for payroll tax on their entire taxable wages.

§ Western Australia's tax-free threshold gradually phases out for employers or groups of employers with annual taxable wages in Australia between $850,000 and $7.5m. Employers with annual Australian taxable wages of $7.5m or more are liable for payroll tax on their entire taxable wages. Western Australia also recently introduced a 5-year temporary measure to increase the payroll tax rate to 6% for businesses with payrolls greater than $100 million, and 6.5% for payrolls greater than $1.5 billion. Wages paid to all apprentices and 'new' trainees only are exempt from payroll tax.

¶ Tasmania recently introduced a 3-year payroll tax rebate for new apprentices, trainees and youth employees (up to 25 years) applicable between 1 July 2017 and 30 June 2019.

**** South Australia's temporary 2.5% rate only applies to businesses with payrolls between $600,000 and $1 million. For businesses with payrolls between $1 million to $1.5 million, that rate progressively increases back up to 4.95%.**

031

Payroll tax collections
Data from various State budget papers

	2008/9	2016/17	Growth	SA Payroll Tax collections if they grew with national average since 2009
NSW	$6,362,000,000	$8,225,000,000	29%	N/A
VIC	$4,023,000,000	$5,727,000,000	42%	N/A
QLD	$2,728,000,000	$3,667,000,000	34%	N/A
WA	$2,232,416,000	$3,255,594,000	46%	N/A
TAS	$266,000,000	$331,100,000	24%	N/A
ACT	$251,317,000	$445,357,000	77%	N/A
NT	$217,020,000	$284,239,000	31%	N/A
SA	**$913,000,000**	**$1,129,000,000**	**24%**	**$1,241,680,000**
National Total	$16,992,753,000	$23,064,290,000	36%	N/A

Even if South Australia experienced the national average growth of payroll tax since 2008/09, the State Government would have an additional $112 million in payroll tax revenue. While other factors across states and territories have also contributed to payroll tax revenues, there is a clear pattern of reforming payroll tax and actually growing collections.

We cannot continue to think about reducing the payroll tax threshold and rate as having to be revenue-neutral from day one. Business SA argues this is an economic policy choice which has been shown to improve the revenue base of all state and territory governments and South Australia must become more competitive to achieve the same growth. We will not grow our economy without making tough decisions to adjust to competitive tax settings.

Payroll tax remains the number one inhibitor of job creation for Business SA members, particularly those around the threshold, and reform can no longer be ignored. South Australia's payroll tax rate and threshold must be the most competitive of all states, particularly to help local businesses cope with the nation's highest utility costs. The State Government must be willing to make bold steps to improve South Australia's competitiveness and it must start by listening to what is impacting the decision-making of business people.

Case study

Tony Greven has been working as a bricklayer and owned bakeries for the past 20 years.

"We work on a small margin and we need to turnover as much as we can, and it's just getting ridiculous. Do we really want to grow or put prices up and hope that those who love us will stay with us?"

Tony employs 65 people at Bakery on O'Connell where he pays between $7000 and $8000 on payroll tax per month, and would like to see it completely abolished or rates cut.

"We work on a small margin and we need to turnover as much as we can and it's just getting ridiculous," Tony says. "We wonder—do we really want to grow or put prices up and hope that those who love us will stay with us."

Tony says payroll tax was supposed to be abolished after the GST was introduced but it hasn't. The more people he employs the more payroll tax he pays, and he says it punishes employers in industries like his—where he produces a low-value food product but it is labour-intensive. Tony says payroll tax and its high rate is a disincentive to employ more people, stifling the growth of his bakery.

Further case studies can be found in Business SA's *Taxation Focus Paper, Charter 2018: Payroll Tax.*

2.2 In the process of reducing the payroll tax rate to 4.5 percent by 1 July 2020, ensure the reduced rate is only available to companies which either move to, or retain, their headquarters in South Australia.

The State Government should more formally recognise the benefits long-established South Australian businesses provide.

Business SA's origins date back to 1839 and we have several members that have been with us for more than 100 years. The optimum way to attract businesses to South Australia is to focus on the actual costs and ease of doing business, including the availability of excellent infrastructure.

There have been numerous examples of the State Government paying high profile interstate businesses millions of dollars to relocate their headquarters to Adelaide. While these businesses may remain in Adelaide, there have been many examples of those which have not, including JP Morgan. What message does it send to the thousands of South Australian businesses which have built the foundation upon which the South Australian economy rests today? The State Government must value businesses that start, expand and remain based in Adelaide as opposed to just those incentivised to move here.

The definition of a headquartered business can be legally defined, and our broader proposal to reduce the payroll tax rate should be based on the requirement for suitably large businesses to remain headquartered in South Australia. This proposal will not only attract new companies to headquarter in South Australia with a lower payroll tax rate than other states and territories but will ensure existing companies which retain their headquarters here are advantaged over those which either move interstate or overseas.

The State Government should more formally recognise the benefits long-established South Australian businesses provide. If we do not appreciate and nurture the businesses which make long-term commitments to operate here, we will only have to deal with a more uncertain future as they increasingly look to move interstate or offshore.

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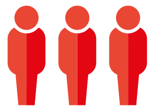
2.3 Introduce a payroll tax incentive for Science, Technology, Engineering and Maths (STEM) PhD graduates to increase collaboration between universities and business, with an exemption equivalent to 200 percent of wages.

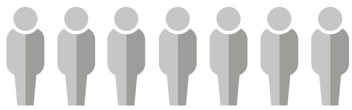
Business SA has long been calling for a tax system which better incentivises collaborations between universities and business, beyond the current research and development (R&D) tax incentive. We also acknowledge the Australian Technology Network of Universities 2016 report 'Enhancing the value of PhDs to Australian Industry' specifically recommended tax incentives to encourage businesses to engage with PhDs.

It is well known that Australia performs poorly amongst Organisation for Economic Co-operation and Development (OECD) peers for collaborations between the university sector and industry, with the most recent data placing Australia last out of 33 countries, behind Russia, Brazil and Mexico.[24] Furthermore, Australia has only 3 researchers per 1,000 workers, compared to Finland having 14 and even Canada, a country with more comparable geography, population and GDP, having 7.[25]

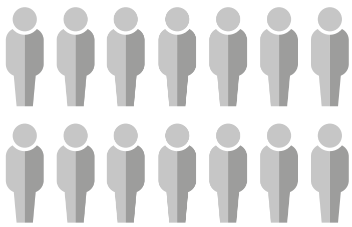
While the Research and Development (R&D) tax incentive is well placed to incentivise businesses to undertake more formal research and development projects, it is not as effective at generally improving the connectivity between universities and SMEs. Many SMEs are not even aware of the technical capability and expertise within universities and even if they did, would not know how to engage with a university. Steps need to be taken to break down those barriers to help our economy realise the benefits from collaborations, particularly to improve industrial/manufacturing processes, and to help develop new products and services.



Australia has only 3 researchers per 1,000 workers



Canada has 7 researchers per 1,000 workers



Finland has 14 researchers per 1,000 workers

24 OECD, based on Eurostat (CIS-2010) and national data sources, June 2013.
25 Office of the Chief Scientist, Speech to AMSI Accelerate Australia Conference, 2013.

This would be an Australian first incentive and send a clear signal that South Australia aims to be the leading state for university business collaboration.

As a practical start to appeal to the broadest number of suitable businesses, the State Government should focus on increasing the number of STEM PhD graduates employed by SMEs. In recent OECD data, Australia's percentage of PhDs employed in Manufacturing, Agriculture, Mining and other Industry sectors was 33 percent below the OECD average.[26]

PhD graduates are trained to problem solve and think critically; and embedding more PhDs in industry is the most direct way to impart an understanding of the expertise and technology within universities, particularly for SMEs. Subsequently, those PhDs will be better able to help SMEs form partnerships with universities to assist them with potential R&D projects, or even to simply access advanced technologies or expertise to help with reviewing existing processes with the latest technological insights.

While Business SA recognises that the university sector itself needs to be better incentivised to work with industry, improving understanding from both sides about one another's capabilities and drivers is the first bridge to cross. Having more PhDs employed in SMEs, who by the nature of their qualification have worked at an equivalent staff level within universities, will enable SMEs access to people who are strongly connected within the university sector and whose understanding of available technology and resources is high.

Business SA recommends the State Government implement a 200 percent payroll tax exemption for all SMEs which employ a STEM PhD graduate, with eligibility based on having company turnover of $100 million or less. This would be an Australian first incentive and send a clear signal that South Australia aims to be the leading state for university business collaboration. To provide an adequate enough incentive for employers who might be concerned about the cost of employing a STEM PhD graduate, the payroll tax exemption should apply to the first five years of their employment.

Since 2012, an average of 330 STEM PhD students have commenced each year at South Australian universities while annual completions have increased from 125 to 181 over the same period,[27] representing a 45 percent increase. Even if the payroll tax exemption helped encourage an additional 50 STEM PhDs per annum into South Australian industry, particularly manufacturing and agribusiness, this would only cost approximately $400,000 in year one and $2 million per annum by year five. South Australian universities could also use this policy as a marketing tool to attract new STEM PhD students. For South Australia more broadly, the policy could help limit the brain drain of our most educated young people to the eastern states.

Although the State Government could consider grants to help employers with hiring STEM PhDs, SME employers' hiring decisions are most impacted by payroll tax and subsequently, a signal through payroll tax will resonate much more broadly than any grant program and its associated compliance. Furthermore, while there may be a potential collaboration premium emanating from the Federal Government's R&D tax Incentive Review to incentivise employers to hire STEM PhDs, this will not necessarily be suitable for the broader cohort of SMEs that are not engaged with formal R&D projects. Any collaboration premium through the R&D tax incentive will also constrain SMEs to hiring STEM PhDs for specific projects, rather than investing in employing those graduates for the longer-term growth of their businesses.

26 OECD calculations based on OECD/UNESCO Institute for Statistics/Eurostat data collection on Careers of Doctorate Holders 2014; EU Labour Force Survey (micro-data) and US Current Population Survey, July 2015.

27 Federal Government Department of Education and Training, customised data set, December 2017.

2.4 Re-introduce the payroll tax exemption for wages paid to apprentices and trainees.

Prior to the 2010 election, former Premier Mike Rann announced a four-year relief plan promising to abolish payroll tax for apprentices and trainees. This tax exemption was subsequently abolished in the 2012/13 State Budget with the resultant $30 million per annum savings redirected to better target support for training in areas of critical skills under the now defunct Skills for All program.

There were several funding changes at both a State and Federal Government level across 2012–14, concurrent with material wage increases imposed by the Fair Work Commission, which impacted training and apprentice commencements. However, subsequent to the associated falls from these policy decisions, trade apprenticeship commencements in South Australia have further declined 16.7 percent from 2015 to 2017 and trainee commencements by 13.9 percent over the same period.[28]

South Australia's youth unemployment rate as at January 2018 stood at 15.2 percent, more than twice the general unemployment rate of 6.0 percent.[29] While there have been some positive signs for apprenticeship commencements, including machinery operators and drivers up 116 percent and automotive and engineering trades workers up 14.7 percent over the past 12 months,[30] there is a fundamental need to better incentivise employers to commit to hiring apprentices and trainees.

The State Government's Strategic Plan set a target of increasing apprentice completions in trade occupations by 20 percent by 2020 based on a December 2009 baseline.

However, the reported level of trade apprenticeship completions has remained flat with 2,670 for the year ending December 2009 compared with 2,665 for the year ending June 2017.[31]

Young people in particular are bearing the brunt of South Australia's weak economic performance, and the State Government must use its primary policy lever of payroll tax relief to redress this situation. Although the rate of youth unemployment will vary across regions, payroll tax relief to encourage employers to take on apprentices and trainees should not be region specific given the higher tendency of young people to move for employment.

Business SA acknowledges that New South Wales, Western Australia, Queensland, Tasmania and the Australian Capital Territory all provide varying degrees of payroll tax rebates/exemptions on apprentice and trainee wages. However, to avoid red-tape on South Australian employers, an outright exemption structure is the preferred option, following on from the example of the 2017/18 State Budget measure (still to be legislated) of the small business payroll tax rebate being converted into a permanent cut.

There has long been a rebate on 'Return to Work' premiums for apprentices and it follows suit that the payroll tax exemption should also be restored. If the State Government is willing to acknowledge through formal policy that employers should not have pay 'Return to Work' premiums for apprentices, there is no reason why payroll tax should be payable on apprentice wages.

Young people in particular are bearing the brunt of South Australia's weak economic performance, and the State Government must use its primary policy lever of payroll tax relief to redress this situation.

28 National Centre for Vocational Education Research (NCVER), Apprentices and trainees 2017: June Quarter, Australia.
29 Seasonally adjusted.
30 Ibid.
31 Ibid.

2.5 Ensure South Australia maintains its share of GST revenue in accordance with the principles of full Horizontal Fiscal Equalisation (HFE), in place since 1981, and that any moves by the Federal Government to dilute are rejected.

Business SA recognises the importance of the current system of distributing GST collections across all states and territories, which is conducted through a process termed Horizontal Fiscal Equalisation (HFE).This system was introduced in 1981, well before the GST came into being in 2000, to ensure the redistribution of federal tax revenues allows each state to deliver an equivalent standard of services based on an assessed revenue raising capacity.

The historical roots of HFE can be traced to pre-Federation when the colonies combined to form a political model, fundamentally underpinned by equal distribution of power and resources. The new Federation introduced a national aged pension in 1909, and in 1910 the Commonwealth introduced a special grant to be paid to Western Australia in recognition of its particular financial circumstances at the time. A further grant was paid to Tasmania in 1911 and South Australia received additional assistance in the 1920s.[32]

The Commonwealth Grants Commission (CGC) was established in 1933 to assess claims by the states for financial assistance in a more structured manner. As early as the CGC's third report in 1936, the principle of fiscal equalisation was espoused as a guiding principle to its assessments, and that principle is essentially unchanged today.[33] The fact that most Australians have never heard of the CGC speaks to their ability to do their job in a competent fashion and stick to their core mandated objective of recommending how revenues from the GST should be distributed to the states and territories to achieve HFE.

After a long history as a recipient state of Commonwealth funding, including from 1981 when full equalisation of Commonwealth payments to the states was enacted, Western Australia's GST relativity only began materially falling below one from the middle of last decade.[34] This was concurrent with mining royalties increasing from $685.6 million in 2000/01 to their peak at $6 billion in 2013/14, having since fallen to $5.26 billion in 2016/17.[35]

The Western Australian government has recorded 14 consecutive budget surpluses since 2000/01 and only in the past three years, as the mining boom subsided, recorded budget deficits totalling approximately $5.5 billion, significantly less than the cumulative $14 billion in surpluses over the 14 years prior.[36]

As far back as 2011/12, the Western Australian State Budget forecast WA's GST share to decline to 3.5 percent, approximately its current share of 3.3 percent which is scheduled to increase to 3.8 percent in 2017/18.[37] For 2011/12 and the following two years, the Western Australian Government achieved cumulative budget surpluses of $1.617 billion. By 2014/15, total public sector net debt of $14.53 billion in 2011/12 had increased to $23.374 billion, as the state ran its first budget deficit this century.

While Western Australia started campaigning strongly for a review of the GST HFE system in 2010, prudent planning should not have seen it depend on changes that may not occur given the consensus required from the Council of Australian Governments (COAG).

Now that the Federal Government has tasked the Productivity Commission to again review the current system of HFE after sustained pressure from the Western Australian government, it is incumbent upon the South Australian Government to continue lobbying the Federal Government and COAG to ensure our state maintains its current share of GST in line with the existing system of HFE. Even reducing equalisation to that of the second strongest state, as espoused in the Productivity Commission draft report, would cut $256 million per annum from South Australia and this shortfall cannot be replaced with inefficient state-based taxes, particularly payroll tax.

32 South Australia Centre for Economic Studies, 'Financing the Federation', 2001.
33 Ibid.
34 Productivity Commission, 'Draft Report HFE Inquiry', 2017.
35 Western Australia State Budget Papers 2017.
36 Actual recorded surpluses from Western Australia state budget papers.
37 Commonwealth Grants Commission, 'Report on GST Revenue Sharing Relativities', 2017 Update.

2.6 Lobby the Federal Government to move Australia towards a more simple, efficient and equitable tax system which at its heart incentivises job creation, including restarting the Tax White Paper process. The GST must be part of this process and all options must be considered to enable the eventual abolition of payroll tax.

It is no longer acceptable for governments at both a state and federal level to continue ignoring the reality of required reforms, regardless of how politically unpalatable they might be.

In December 2014, the Federal Government instigated a wide-ranging tax reform process with the ultimate aim of producing a Tax White Paper. An issues paper was released in March 2015 which was to be followed by a Green Paper with draft recommendations. At the time, Treasury Secretary Martin Parkinson said: *"This is not an easy task given the apparent comfort with a 1950s (tax) mix, notwithstanding the reforms introduced in 2000, but the challenges we face over the decade ahead require such change."*[38] The issues paper stated that payroll tax is the largest share of state and territory tax revenue at 31 percent and in the long run, the cost of payroll tax is likely to be passed onto employees (through lower wages) and consumers (through higher prices).

To better position South Australia to shape the national tax debate, the State Government commenced its own State Tax Review in 2015, with an issues paper released in February 2015 stating "our review of South Australia's taxation system will allow us to enter the national debate in an informed way knowing what South Australian's (sic) think and what their priorities are".

After limited public consultation by the State Government, excluding a draft report, changes were announced in the 2015/16 state budget, including the abolition of stamp duty on business transfers; a change Business SA had long argued for.

Although the abbreviation of the South Australian tax reform process was disappointing, the Federal Government's process never realised any outcomes and a Green Paper is yet to be released following an announcement in February 2016 that the Federal Government would not take a proposal to increase the GST to the following election.

In 2015, Business SA made submissions to both tax reform processes, advising that businesses are agnostic as to whether or not they pay taxes at a state or federal level, but they are demanding a system which the State Government advised needs to 'support entrepreneurship, investment and job creation.'[39] We also recommended the Federal Government prioritise a review of the GST rate, and its base, as a means of abolishing payroll tax.

Australia's GST rate is one of the lowest among developed countries and is approximately half of the average rate among OECD countries (see graph overleaf).

38 Phillip Coorey, 'Tax white paper calls for urgent upheaval', Australian Financial Review, December 18 2014. <http://www.afr.com/news/policy/tax/tax-white-paper-calls-for-urgent-upheaval-20141217-129emx>.

39 South Australian Government, 'State Tax Review Discussion Paper', February 2015.

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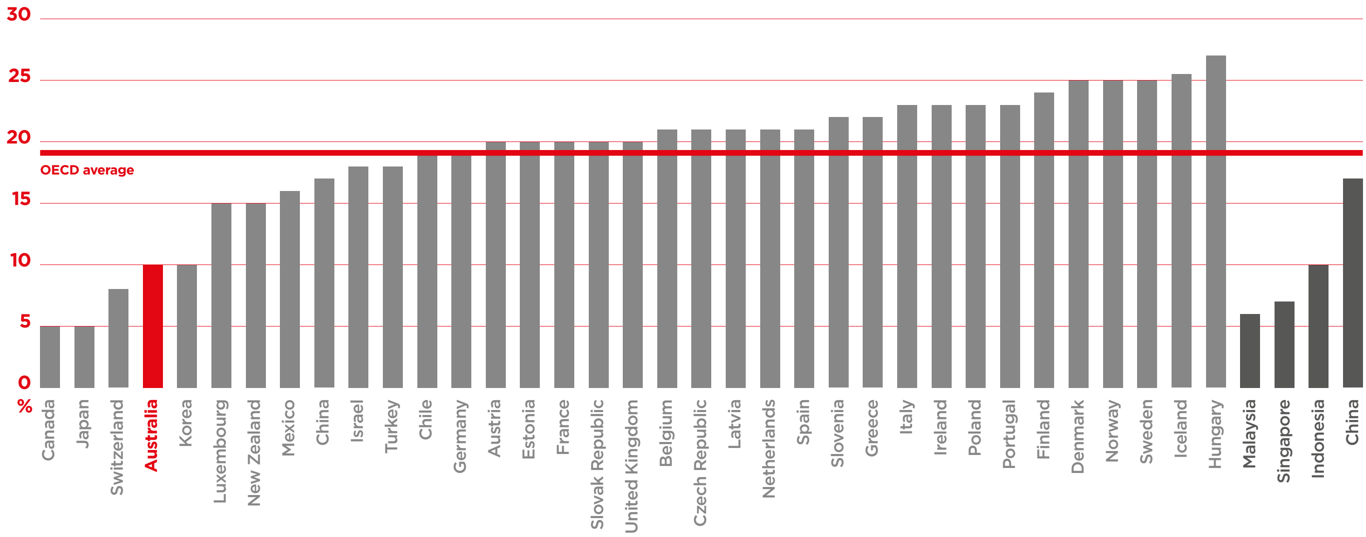
VAT rates in OECD, July 2014
Including selected Asian countries, January 2015



Of the 33 countries in the OECD that operate taxes like the GST (known more generally as value added taxes or VATs), only Canada, Japan and Switzerland have lower rates, although some Canadian provinces have higher rates than Australia when sub-central government VATs and sales taxes are taken into account.

The exemptions to Australia's GST mean it was paid on only 47 percent of the consumption of all goods and services in 2012. This was slightly less than the OECD average of 55 percent and much lower than New Zealand (96 percent), where almost all goods and services are subject to a consumption tax. Furthermore, the coverage of Australia's GST has decreased from its peak in 2005-06 when Australia's equivalent 'VAT coverage ratio' was 56 percent.[40]

In a PwC submission to the Tax White Paper process, modelling showed a 12.5 percent GST rate alone would return an additional $17.2 billion to the states, while a range of expert organisations and governments forecast raising the GST to 15 percent would collect an additional $26 to $32 billion. Based on current GST relativities, even increasing the GST rate to 12.5 percent would provide South Australia with an additional $1.74 billion in GST payments based on PwC's estimate. This should be more than enough to replace payroll tax revenue of $1.17 billion,[41] increase funding to health and education as well as allowing for compensation of low-income earners.

The 2017 Committee for Economic Development Australia (CEDA) Big Issues Survey, a snapshot of business community views, found the number one priority for tax and economic reform was broadening the base of the GST and raising its rate. It is no longer acceptable for governments at both a state and federal level to continue ignoring the reality of required reforms, regardless of how politically unpalatable they might be.

40 Federal Government, 'Rethink Tax Discussion Paper', March 2015.
41 South Australia Government, 'Mid-Year Budget Review', December 2017.

2.7 Work with other state governments through the Council of Australian Governments (COAG) to align all wage reporting requirements and wage definitions for state-based payroll tax and workers compensation premiums, together with federal PAYG income tax.

Business SA recognises that over time state governments have made moves to improve the harmonisation of state-based taxes, particularly payroll tax. Streamlining regulatory requirements, including taxation, across state borders is critical to the success of South Australia's business community. In recent years it has become increasingly apparent to Business SA that to survive South Australia's economic challenges, many businesses have relied on both interstate and export revenues for their good and services. From Business SA's latest Survey of Business Expectations,[42] approximately 36 percent of respondents operated both inside and outside of South Australia (either interstate or internationally or both).

Expanding interstate is also viewed as a pathway to export and the State Government needs to play a greater role in facilitating the interstate growth of local businesses, not just relying on direct support for export programs and other forms of facilitation such as trade offices.

While many of the issues businesses face operating across state boundaries do not necessarily rest with one particular state, there must always be a lead reformer state to ensure the Council of Australian Governments (COAG) is steadily working towards a more harmonised cross-state business environment. Business SA welcomed the State Government's Simplify Day initiative and has made submissions to both the 2016 and 2017 processes. While we recognise many of the issues we identified are not easily overcome, the reality is that the most complex red-tape concerns tend to involve other states, and South Australia cannot take an island approach to reducing red-tape for local businesses.

In both our Simplify Day submissions, we have recommended the State Government collaborate with the Federal Government and other state and territory governments to simplify the mechanism by which employers report wages and other remuneration to meet various statutory obligations. Business SA recommends the State Government support our proposal to align "wages" reconciliations across states and the Federal Government for the purpose of PAYG withholding tax, payroll tax and Return To Work-equivalent premium calculations. In short, we are proposing a common employer portal operated by the Australian Tax Office (ATO) which disseminates all wage information back to individual state revenue and equivalent Return to Work departments/authorities. In this way, employers only have to submit payroll related information via one interface and not deal directly with various state or federal government departments and authorities. This could be enabled through the ATO's new one touch payroll system in a process which the South Australian Government should champion.

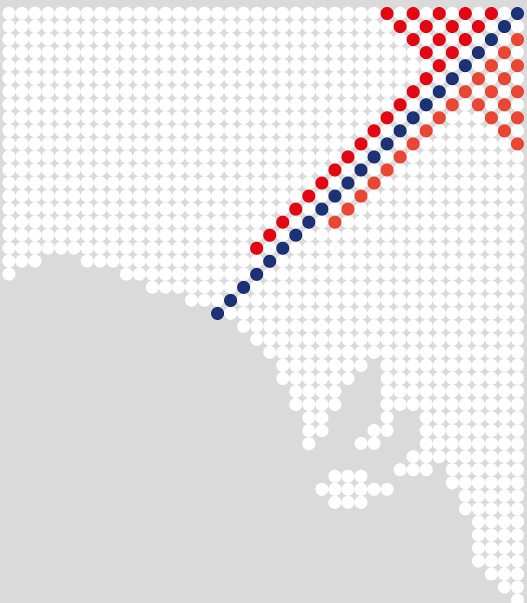
Our envisaged portal would have tabs for each state and territory, and operate to enable the least data input for businesses operating across various jurisdictions. There are a wide range of employee payments which form part of various employee remuneration calculations, for example more than 60 for Return to Work premiums in South Australia alone. For local businesses looking to expand interstate, the barriers should be reduced as much as possible.

Business SA acknowledges that the Federal Government recently developed a portal for property transfers to track foreign ownership and the State Government is streamlining data requirements between that portal and RevNet to reduce the regulatory burden on South Australian individuals and businesses. This work demonstrates the State Government is taking initiatives on red tape and we encourage further work on a similar basis in relation to employee remuneration reporting obligations.

Business SA welcomes the State Government's advice in its 2017 Simplify Day report that the Commissioner of State Taxation will work with us to investigate opportunities to ensure state and territory tax definitions are as consistent across Australia as possible. This will include reviewing relevant legislation and administration practices to identify opportunities to achieve greater consistency and less complexity.

42 Business SA, 'Survey of Business Expectations December Quarter', 2017.

Public sector



Business SA
Chamber of Commerce
and Industry South Australia

3. Public Sector

South Australian businesses are operating in tough circumstances, and too many have reported to us that South Australia's governance is letting them down. Issues go beyond simply the size of South Australia's public service which, when compared to relative populations, is the largest of all mainland states. For too long South Australian businesses have had their tax dollars spent on an inefficient public sector and have had to navigate the administrative complexity of multiple small metropolitan councils.

For some, the public sector is directly competing with their business and for many, they have had to increase remuneration packages to attract skilled employees who were offered similar roles at higher wages with government at the same time, despite facing acute and significant utility and tax cost pressures.

Business SA members consistently report concerns with South Australia's governance and the size and inefficiency of the state's public sector. As the voice of South Australian businesses, Business SA ensures the focus on South Australia's entire public service does not diminish. In our pre-election survey members ranked public sector efficiency as the third most important issue facing their business; making clear that public sector efficiency should be a focus of the State Government. As stated in Business SA's 2014 Charter for a More Prosperous South Australia: "Stable, efficient, cost-effective and transparent governance is vital to create an environment where business has the confidence to invest, expand and provide jobs." This statement rings just as true in 2018. With the exit of auto manufacturing South Australia must, now more than ever, look to make itself an attractive place to invest.

A root and branch review of South Australia's public sector should be instituted. Where it is more appropriate for elements to be considered in a separate review, this approach should be taken. These reviews must look for efficiencies and learn lessons from comparable Australian and international jurisdictions. South Australia must aim for world's-best practice in all aspects of optimised governance and public employment.

No aspect of South Australia's governance or public sector should be excluded from these reviews. The term of service for Legislative Council Members must be considered. The size of each house of State Parliament should also be assessed. Compared to the mainland state average, South Australia has too many members for our population.

Beyond State Parliament, local government and the *Local Government Act 1999* (SA) must also be reviewed. South Australia has too many metropolitan councils relative to its population and selective council amalgamations could achieve significant savings.

The public sector itself should be comprehensively reviewed. Redeployment periods for excess employees are excessive, there is too much leeway for the public sector to engage people without a merits-based selection process and the wage premium paid to public sector employees is hurting local business.

An important mechanism by which the State Government can act in the interests of South Australian businesses is to be open and consultative about proposed changes which may affect local businesses. Consultations should be made regardless of whether the change is in a bill, an amended policy or a rate change. Certainty and stability are critical for business. Business SA recognises the good work done by some aspects of the public sector in this regard. The State Government must instil this mindset in all departments and agencies.

Business SA members consistently report concerns with South Australia's governance and the size and inefficiency of the state's public sector.

3.1 Commit to an independent review to critically assess how the function of the State Government and the public sector can be optimised, including the structure of its departments and agencies, to ensure it can most efficiently deliver all services at the least cost to the community.

South Australia's burgeoning public sector has been the elephant in the room for too long. The State Government must establish an independent review of the public sector, and State Government in general, to critically assess its size, efficiency and impact on South Australia's growth. This review should consider all aspects of the State Government and public sector: the size of the sector compared to the private sector; the number of ministers in parliament compared to our population; the number of agencies which make up the public sector; and the duplication of services between public and private providers. Public employment is stifling the job market. In the financial years from 2009/10 to 2014/15 public sector positions made up nearly 75 percent of all new jobs created in South Australia.[43] South Australia, and Adelaide in particular, risks becoming a 'company town'—where that company is the State Government.

The size of the South Australian public sector as compared to total employment demonstrates a concerning difference from the Australian mainland state average. In South Australia, as at November 2017, full-time equivalent public sector employees made up almost 16 percent of all full-time work in the state, compared to an average proportion of 12.7 percent for Australian mainland states. The table below illustrates the disparity. It should also be noted that Western Australia has announced significant public sector savings with a 20 percent reduction in senior executives, a reduction in government departments and a four-year wages and policy freeze.[44] This will further increase South Australia's isolated position compared to the mainland state average (see table overleaf).

South Australia's considerable geographic size and comparatively small population does not explain this disparity. Queensland and Western Australia are much closer to the mainland state average ratio despite sharing similar size/population characteristics to South Australia. Furthermore, South Australia's proportion of residents living in its capital city, 68 percent, is the highest of Australian states; a relatively stable proportion since 1980.[45] By contrast, since 1980 both Queensland and Western Australia have experienced rapid population growth and have increased the proportion of their respective population who live outside Brisbane and Perth.[46]

In the financial years from 2009/10 to 2014/15 public sector positions made up nearly 75 percent of all new jobs created in South Australia.

43 Michael O'Neil and Darryl Gobbett, 'To Ignore Reform is to Ignore Opportunity: Creating a more effective and sustainable public sector' (South Australian Centre for Economic Studies, January 2018) p 18.

44 Government of Western Australia, 'State Budget 2017-18', 26 January 2018.

45 Michael O'Neil and Darryl Gobbett, 'To Ignore Reform is to Ignore Opportunity: Creating a more effective and sustainable public sector' (South Australian Centre for Economic Studies, January 2018) p 15.

46 Ibid p 16.

043 South Australia's isolated position
Compared to the mainland state average

Jurisdiction	FTE public sector employment*	Total FT employment (Original) (Nov 2017)†	Percentage of total employment
SA	87,432	548,600	15.94%
NSW	325,900	2,766,700	11.78%
VIC	229,507	2,189,800	10.48%
QLD	218,991	1,694,100	12.93%
WA	110,662	909,300	12.17%
Mainland state average	**194,498**	**1,621,700**	**12.66%**

* Public Sector Commissioner Reports, for the relevant jurisdiction as reported at January 2018.

† ABS, '6291.0.55.001 – Labour Force'.

With 12,400 people leaving the public sector each year, reducing the size could be achieved through natural attrition.

In 2017–18 alone the public sector's employee expenses are budgeted to cost South Australia $8.4 billion.[47] The South Australian public sector employs a disproportionate amount of people compared to the national average of mainland states. The size of the public sector must be brought in line with the national mainland state average. This target must be a term of reference for the review. Particular focus should be given to the proportion of management and administrative employees in the public sector compared to client facing public servants. Given approximately 12,400 people leave the public sector each year,[48] this target could be achieved through natural attrition.

The size of the South Australian public sector is not the only reviewable aspect of the State Government. The number of departments and agencies within the public sector must also be scrutinised. This scrutiny should be carried out in comparison with other mainland Australian jurisdictions with adjustments made for comparative population size differences. The review should consider whether the functions of departments and agencies should be combined. Unnecessary duplication of services within State Government does not ensure best practice or best use of taxpayer funds.

This review should also assess the size and structure of the South Australian parliament. The Australian Bureau of Statistics estimated South Australia's population at 1,7203,548 at June 2017.[49] With 47 seats in the House of Assembly and 22 seats in the Legislative Council, each Lower House member represents approximately 36,670 people while each Upper House member represents approximately 78,340 people. This is out of step with mainland state averages however, where each lower house member represents approximately 57,960 people and each Upper House member represents approximately 124,870 people.

Areas of State Government activity must also be reviewed and guiding principles established for future market interventions. The State Government is currently the dominant provider or funder in several sectors in cooperation, or competition, with the private sector. These sectors include: health, disability care, vocational education, public transport and infrastructure, and the arts. Business SA is not saying the State Government should not provide any services. However, the breadth and depth of State Government intervention must be examined. Intervention should address market failures, rather than breed them. Poor outcomes involving State Government activities are an unfortunate consequence of these interventions.

The State Government must commit to a thorough and comprehensive independent review. This review must consider all aspects of State Government and the public sector, it must be transparent and its findings must be released publicly. The State Government must apply recommendations from the report which will optimise the State Government and public sector's size and functions.

47 Government of South Australia, 'State Budget 2017-18, Budget Statement' p 27.

48 Office of the Public Sector, Government of South Australia, 'Workforce Information Report' for 2014-15, 2015-16 and 2016-17.

49 ABS, '3101.0 – Australian Demographic Statistics'.

3.2 Review the operation of the Legislative Council to ensure it operates more effectively before the next election. The term for Members of the Legislative Council should be brought in line with other jurisdictions.

Moving to 4-year terms will ensure all Legislative Council members are appropriately accountable to the voters.

South Australian businesses, and those looking to invest in South Australia, require certainty when making investment and expansion decisions—certainty which South Australia's current electoral system does not adequately provide. Businesses need parliamentary and governmental stability to have confidence in their decisions. This stability includes appropriate and timely scrutiny by voters. The State Government must institute a review of South Australia's electoral system and be prepared to properly debate and implement changes before the next election.

The terms of reference for this review must be broadly cast and allow the review to investigate all aspects of South Australia's electoral and parliamentary system. This review should take a comparative approach and consider the best elements and the worst elements of upper houses in all applicable Australian jurisdictions. South Australia should adopt the best traits of other jurisdictions and make any necessary changes to avoid disadvantages uncovered in other jurisdictions. At a minimum the review should consider the term of service for members of the Legislative Council.

The term served by Legislative Council members should be reviewed. Eight-year terms are anachronistic and significantly reduce the scrutiny on Legislative Council Members. South Australia is one of two Australian state jurisdictions in which Upper House members serve 8-year terms; New South Wales being the other. Tasmanian Upper House members serve 6-year terms, while Victorian and Western Australian Upper House members serve 4-year terms.

On their election, South Australian Legislative Council members wield considerable power in South Australia's legislative program but only face voter scrutiny every 8 years. This can particularly become an issue where single-issue and micro-parties obtain a seat. While these parties should not at all be precluded from participating in South Australia's Parliament, they may not consider the broader picture or bear overall responsibility for their votes. As South Australia adapts and evolves to changing market forces, important structural reforms may need to be passed through Parliament. Moving to 4-year terms will ensure all Legislative Council members are appropriately accountable to the voters.

Preference deals and the proportion of votes required for election to the Legislative Council should also be considered by the review. Should all Legislative Council members face election at once the proportion of votes required for election will be diminished, potentially allowing people to enter the Upper House carried on preferences with minimal votes in their favour. Such an outcome was evidenced in the 2013 Federal election where a party won a Senate seat representing Victoria with just a 0.51 percent primary vote. An appropriate strategy should be considered by the review to prevent this.

3.3 Rationalise Local Government in metropolitan Adelaide through council amalgamations to reduce the overall number of councils, increasing efficiency for stakeholders and ratepayers.

Local government (councils) are the aspect of South Australia's public sector that businesses and households generally have the most frequent interactions with. These stakeholders deserve efficient and appropriately-sized local governments. The number of South Australian councils, particularly metropolitan councils, is disproportionate to our population, creating duplication and driving up costs. Significant efficiency and savings gains can be achieved through council amalgamations.

South Australia has 68 local councils which serve an average of 24,790 people each.[50] This is significantly out of step with local council representation in other states. Councils in Queensland, New South Wales and Victoria serve an average of 55,100 people each.[51] The South Australian average representation is misleading however. Council sizes in South Australia can vary from 900 residents to more than 165,000 residents. When considering metropolitan Adelaide's 19 councils alone significant variations still exist. While the average population for metropolitan councils is 63,000, the smallest, Walkerville, has a population of only 7,000 while the largest, Onkaparinga, has approximately 167,659. Comparing South Australia's share of councils to our share of Australia's population results in similar disparity. While accounting for 7 percent of Australia's population, South Australia has 12 percent of Australia's councils.[52] Amalgamation of metropolitan councils, particularly smaller ones, will go towards addressing these variations.

South Australia's councils also burden their constituents to a higher degree than interstate counterparts due to their over-reliance on rates to fund activities. On average, around 63 percent of South Australian council revenue comes from rates, compared to the 38 percent national average. This overreliance is even more concerning for metropolitan councils, with rate revenue making up some 76 percent of total revenue.[53] In addition to this over-reliance on rates for revenue, South Australian councils impose the highest rates per capita, and rates per capita have grown faster than the national average. In 2013–14 South Australian council rates per capita were $774.16, compared to the Australian average of $627.4.[54]

Modelling by ACIL Allen, commissioned by the Property Council of Australia, considered a reduction of 19 metropolitan councils to 9 metropolitan councils through amalgamations. It found significant savings could be achieved and further benefits realised. Amalgamating metropolitan councils would deliver annual savings of $65 million, and further annual savings for the councils themselves.[55] These savings would be achieved, in part, by reducing the number of mayors, councillors, executives and chief executives as councils merge.

Beyond cost savings, efficiency gains were also identified. Amalgamation will increase economies of scale, will allow councils to operate more effectively and strategically as municipal boundaries are reduced, will increase potential revenue streams for councils, and will increase bargaining power for councils in procurement. These factors will improve services for the businesses and households frequently interacting with councils.

Council amalgamations are not a new concept. By 1890 there were 170 South Australian councils, this was adjusted to 140 in the 1930s. Voluntary council amalgamations in 1997/98 reduced 118 councils to 68.[56] There is no reason to shy away from further amalgamations, particularly where amalgamations will result in economic and efficiency benefits.

South Australia's councils represent too few people and charge those people too much. The potential benefits of amalgamating Adelaide's metropolitan councils, consolidating the 19 current councils to 9, will result in significant economic and non-economic benefits. These 9 councils could, for example, be made up of: an Adelaide CBD council, three northern councils (inner, mid and outer north), an eastern council, three southern councils (inner, mid and outer south), and a western council.

50 Property Council of Australia, 'An Economic Assessment of Recasting Council Boundaries in South Australia', 11 October 2016, p 6.
51 Ibid p 7.
52 Ibid p 6-8.
53 Ibid p 11.
54 Ibid p 12.
55 Ibid p 17-18.
56 Michael O'Neil and Darryl Gobbett, 'To Ignore Reform is to Ignore Opportunity: Creating a more effective and sustainable public sector' (South Australian Centre for Economic Studies, January 2018) p 27.

3.4 Commission an independent review of the *Local Government Act 1999* (SA) and associated regulations to ensure consistency across municipal boundaries, responsibly manage council employee wages and to ensure alleged code of conduct breaches by elected officials can be effectively managed.

The issues surrounding councillor misbehaviour are particularly concerning for South Australian businesses and households.

Local councils are unable to best serve their constituents due to deficiencies in the *Local Government Act 1999* (SA) (*LG Act*) and associated regulations. Local government should be allocating their resources to maximise the benefit of their constituents. The *LG Act* is hampering local council activities and must be independently reviewed. At a minimum, this independent review must consider: implementing measures to ensure consistent business policies across municipal boundaries; implementing measures to responsibly manage local government employee wages and crucially, recommend significant changes to penalty provisions for councillors under the *LG Act*.

Businesses operating in South Australia must comply with a wide range of laws and regulations. Most of these laws appropriately protect public interests and ensure businesses do not abuse their social license to operate. It is critical for both the protection of these interests and the effective operation of businesses that these laws and regulations do not vary between jurisdictions, from state and territory level to municipal level. Businesses should not be subject to varying requirements or restrictions depending on which local government area they are operating in. In reviewing the *LG Act* consideration should be given to improving regulatory consistency between councils, for example in matters relating to planning, events, and liquor licensing.

Efficient allocation of council resources is a significant issue, and the review of the *LG Act* must consider strengthening resource-use provisions. Council resources should be used to meet the current and future needs of those businesses and households in the community. Ratepayers should not see their rates spent on inflated council employee salaries instead of local community investment and development. Enterprise agreements lodged with the Industrial Relations Commission of South Australia (now lodged in the South Australian Employment Tribunal) show significant gaps between council enterprise agreement wages and the applicable private sector award wage the worker(s) would otherwise receive. The review should consider tightening provisions relating to application of council resources. Equivalent legislation in New Zealand sets an appropriate benchmark, with local government to meet the needs of their community and perform their functions "in a way that is most cost-effective for households and businesses."[57] Further steps could include the Local Government Association negotiating appropriately balanced enterprise agreements on behalf of multiple councils.

Issues surrounding councillor misbehaviour are particularly concerning for South Australian businesses and households. We often hear that a local government councillor has been determined to have breached a code of conduct. The issue less recognised however is the inadequate practical outcome of those determinations. Chapter 13 of the *LG Act* and associated provisions must be strengthened. Code of conduct complaints can arise from a range of poor behaviours,

57 *Local Government Act 2002* (NZ) s10 p 1.

from bullying and harassment through to improper management of conflicts of interest and breaches of confidentiality. Complaints may be internally investigated by the council or investigated by an external body such as the Independent Commissioner Against Corruption (ICAC) or the Ombudsman. Upheld complaints for code of conduct can lead to a variety of penalties, however these penalties are generally not enforceable unless heard in the District Court.

The time and cost associated with investigating complaints and enforcing outcomes is a significant issue for councils trying to do best by the people and businesses within their community. It has been reported to Business SA that investigating each alleged Code of Conduct breach can cost the local council between $5,000 and $10,000, and recalcitrant councillors are often subject to multiple investigations. This cost does not include the time lost during the investigation which would have been better used in serving the community. Internal investigations can permanently damage working relationships between the alleged offender and other council members. Further, resourcing constraints can limit the Ombudsman's ability to investigate allegations; forcing councils to face the financial, time and emotional costs of internal investigations. Enforcing determinations is a considerable and costly challenge, a matter should not need to be heard by the District Court for a determination to be binding on the offending councillor.

The review should consider how to strengthen Chapter 13 and associated provisions of the *LG Act*. Such options could include the creation of an independent body for local councils to refer alleged code of conduct violations. This body should be empowered to investigate and determine most code of conduct matters in an enforceable manner. ICAC matters—corruption, misconduct and maladministration should not be dealt with by the new body. Also considered should be stronger penalties to be applied to the councillor should a serious determination be made against them. This should include suspension from office, a reduction or fine applied to their council allowance, and/or being forced to pay the costs of investigating the determined breach.

South Australian businesses and households rely on their local government to operate effectively. This allows businesses to grow and households to prosper. Council resources for businesses and households must not continue to be drained by time-consuming and costly code of conduct investigations.

3.5 Reduce the size of the House of Assembly, the Legislative Council, and the ministry to more accurately reflect South Australia's needs and population size.

South Australian members of both the House of Assembly and the Legislative Council represent approximately 37 percent fewer people per seat than mainland state counterparts.

The size of both chambers in South Australia's parliament must properly reflect South Australia's population; a review should be initiated by the State Government to determine the appropriate size of South Australia's parliament compared to other mainland states. Using 2017 population data, South Australian members of both the House of Assembly and the Legislative Council represent approximately 37 percent fewer people per seat than mainland state counterparts. Reform, which would require amendment to the South Australian Constitution, will make those members more accountable to a greater number of electors. Additionally, the size of the State Government's ministry must be reviewed. Each of South Australia's 14 ministers serve significantly fewer people than the mainland state average.

South Australia's population as estimated at June 2017 was 1,723,548.[58] Our Lower House, the House of Assembly, is made up for 47 seats and our Upper House, the Legislative Council, is made up of 22 seats. This equates to 36,616 people for every House of Assembly member and 78,225 people for every member of the Legislative Council. The Australian mainland state averages for Lower House and Upper House representation are 57,762 people and 124,467 people respectively. A comparison with other mainland states appears in the table below.

As demonstrated, the number of people represented by each House of Assembly Member and Legislative Council member is significantly smaller than in other mainland state parliaments. In both cases South Australian members represent approximately 37 percent fewer people than the mainland average. Each of these elected members impose a cost on South Australia's budget. The State Government must initiate a review into the size of both houses of South Australia's Parliament.

The size of the ministry should also be reviewed. As illustrated in the table overleaf, each of South Australia's 14 Ministers serve almost 123,000 people, around half of the approximately 235,000 people served on average by each minister in other mainland states. South Australians are no more difficult to govern, our ministers are no less competent than their interstate counterparts. We also recognise a number of previously state-held powers, such as workplace relations and most taxation, have shifted to Federal Government. We are not advocating a severe cut to the number of ministers. A critical mass and sharing of responsibilities must be maintained. Instead we reiterate our call for a review to assess the appropriate number of ministers relative to our population size. Given the average cost of resources provided to each Ministerial office, $2,140,643 per minister,[59] considerable savings could be made.

58 ABS, '3101.0 – Australian Demographic Statistics'.
59 Government of South Australia, 'State Budget 2017-18', 2017.

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Mainland state parliament size and population comparison

	SA	VIC	NSW	QLD	WA	Mainland state average representation	SA difference from mainland average	SA Percentage difference from mainland average
Population (Jun 2016)*	1,723,548	6,323,606	7,861,068	4,928,457	2,580,354			
Lower house	47	88	93	93	59			
1 lower house MP per (persons)	36,671	71,859	84,528	52,994	43,735	57,957	-21,286	-36.73%
Upper house	22	40	42	NA	34			
1 upper house MP per (persons)	78,343	158,090	187,168		75,893	124,874	-46,530	-37.26%
Ministry size (as at Nov 2017)	14	22	23	18	17			
Population served by each Minister	123,111	287,437	341,786	273,803	151,786	235,584	-112,474	-48%

* ABS, '3101.0 – Australian Demographic Statistics'.

3.6 Commit to a meaningful redeployment timeframe for excess public sector workers.

The State Government must address the inappropriately long time public sector employers have for dealing with excess employees. The current system allows excess workers to languish in redeployment pools with pay for up to a year; an exceptional period of time for an employee to see themselves as excess to requirements. Particularly so given the New South Wales public service operates with a three-month retention period for excess employees.[60] The State Government must ensure South Australia's public sector is effective and efficient. Excess employees should only kept in the redeployment pool for a maximum of three months.

Where a public sector employee has been declared excess to requirements, a 12-month period will commence during which retraining and redeployment are sought.[61] During this time the employee continues to draw a wage, despite being considered redundant. This period effectively brands the employee as unnecessary. The impact such designation would have on the employee's self-esteem is significant.

The public sector's 52 week notice period does a significant disservice to the mental health of its excess employees and goes far beyond expectations applicable to the majority of South Australian employees. The maximum period a private sector employee is entitled to when given notice of termination by reason of redundancy under the *Fair Work Act 2009* (Cth) is 5 weeks.[62]

Beyond the negative psychological impact on the employee, this also impacts the South Australian budget. Excess employees remain within the public sector and continue to draw a wage. As at 30 June 2017 there were 40 excess employees across the public sector.[63] With an average public sector salary of $80,148 as at 30 June 2017, these 40 employees represent a $3,205,920 cost to South Australia.[64] The report further states 6 of these 40 employees have been declared excess for 9 months or more—costing South Australia over $480,800 alone.

The Minister must exercise their power under section 17(1) of the *Public Sector Act 2009* (SA) to direct the Public Sector Commissioner to limit the maximum redeployment period for excess public sector workers to three months. This will significantly shrink, though will not close, the entitlement gap between the state public sector, and private sector employers complying with national law. Any amendments to public sector severance pay provisions in South Australian Acts, awards or enterprise agreements should also be made by relevant bodies as necessary.

The New South Wales public service operates with a 3-month retention period for excess employees as compared to 12 months in South Australia.

60 Public Service Commissioner, 'Notification of policies regarding excess employees'; Public Sector Workforce, 'Managing Excess Employees', New South Wales Government – Premier & Cabinet.

61 Office for the Public Sector, 'Determination 7: Management of Excess Employees – Redeployment, Retraining and Redundancy', Government of South Australia.

62 *Fair Work Act 2009* (Cth) s 117(3).

63 Office of the Public Sector, 'State of the Sector Report 2017', Government of South Australia, p 27.

64 Office of the Public Sector, 'Workforce Information Report 2016-17', Government of South Australia, p 25.

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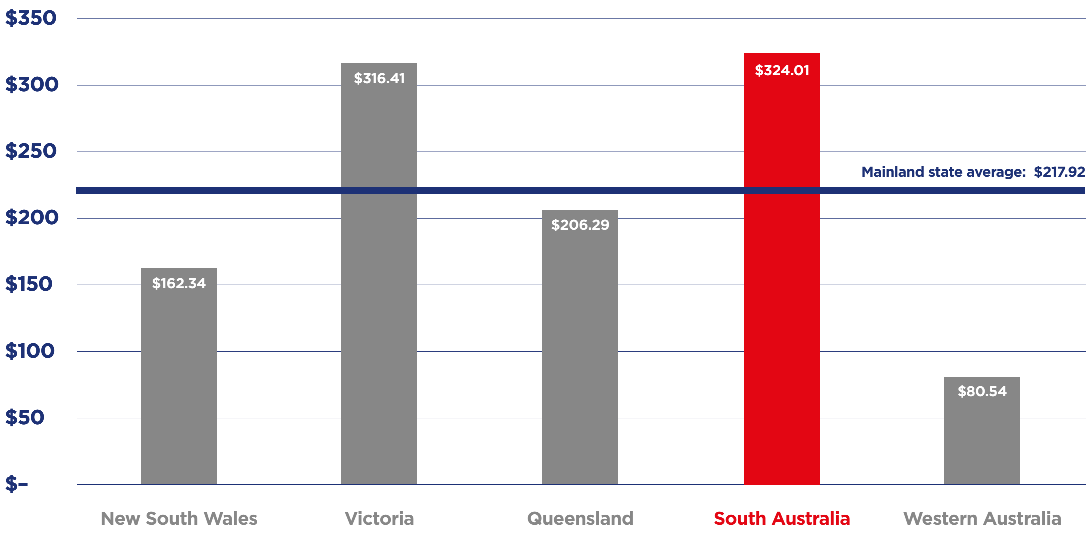
3.7 Actively address the significant gap between public and private sector wages. A moratorium on South Australian public sector wage increases should be imposed until the gap between private and public sector wages is at a more appropriate level.

Between May 2014 and May 2017, South Australia's public sector full-time workers have enjoyed an extra $324 per week on average compared to private sector workers in South Australia.

South Australia's public sector employees enjoy a considerable wage premium against their private sector counterparts. This premium not only results in a significant difference in average weekly earnings for South Australian workers, but private employers face unfair competition from public sector employers who are not subject to the same pressures in doing business. The State Government must address this inequality. Public sector wage rises must be halted until the gap between public and private sector wages at least meets the Australian mainland state average.

It is an unfortunate reality in South Australia that private employers must compete, not only with employers interstate, but also with their own State Government for skilled employees.

A primary driver for many potential applicants is earning potential, and in South Australia the best average weekly ordinary time earnings are within the public sector. The premium South Australian public sector workers enjoy is considerable and damaging. Between May 2014 and May 2017, South Australia's public sector full-time workers have enjoyed an extra $324 per week on average compared to private sector workers in South Australia; an $8.53 per hour premium.[65] This is a significant gap when compared to other mainland State public sector-private sector wage gaps, the graph below demonstrates the comparative gaps from the mainland state average.



Average weekly public sector premiums per week (May 2014 – May 2017)

65 ABS, '6302.0 – Average Weekly Earnings, Australia' and Business SA calculations.

As demonstrated above, not only are South Australian full-time public sector employee average weekly ordinary time cash earnings $324 higher than their private sector neighbours, this premium is more than $100 higher than the mainland state average. This 49 percent gap between South Australia's average public-private cash earnings premium and the average public-private cash earnings premium for mainland states must be addressed. All mainland states other than Victoria are below the mainland average gap, South Australia should aim for the same.

This gap has been further fuelled by general upwards movement of public sector employees within base salary brackets (Bands 1–5). These base salary brackets have generally increased at a greater rate than, or at least the same pace as, Adelaide CPI.[66] In 2009/10 the Band 1 grouping included all salaries up to $49,199, Band 4 included salaries from $80,100 to $100,999 and Band 5 covered all salaries above Band 4. In 2016/17 Band 1 comprised salaries up to $59,039, Band 4 from $96,145 to $121,359 and Band 5 again covering all salaries above Band 4. The proportion of public sector employees in Band 1 compared to Band 4 and Band 5 demonstrates this upward classification movement. Between 2009/10 the proportion of public sector employees in Band 1 declined from 32.5 percent to 26.7 percent, whereas the proportion in Band 4 and Band 5 together increased from 15.4 percent to 22.1 percent.[67]

This gap creates a significant pressure for local employers who must compete directly with public sector wage offerings to attract skilled South Australian workers. Members have reported considerable difficulty hiring and retaining qualified workers, accountants for example, as potential workers can be paid significantly more for doing the same work for the State Government.

Private employers must also compete with the South Australian public sector's benefits. These include salary sacrifice and salary packaging entitlements as well as generous superannuation benefits.

Superannuation scheme entitlements available for public sector employees carry a number of direct benefits compared to private superannuation schemes, including: the 15 percent contributions tax is deferred until the benefit is withdrawn (as opposed to applied to the before-tax contribution); no tax is paid on investment earnings, instead tax is deferred until benefit withdrawal; and there is no cap on salary sacrifice contributions, the $25,000 cap for most South Australian private sector workers does not apply.[68] For example, a public sector employee earning over $87,000 per annum and salary sacrificing an additional $10,000 above the standard $25,000 cap would be some $2,400 better off from salary sacrifice PAYG tax savings net of final withdrawal tax compared to private sector counterparts.[69]

Private employers may become subject to payroll tax for hiring that additional employee, a cost not borne by the public sector. These factors combine to put private employers in a significantly disadvantaged position when attracting and affording skilled workers to grow their business.

These difficulties will certainly continue following a December 2017 announcement that more than 35,000 enterprise-agreement-covered public servants will receive a 2 percent pay increase per year for two years.[70] Pay rises were initially to be capped at 1.5 percent These increases create a two-tier employment system, with those in the public sector enjoying pay and conditions well in excess of their private sector counterparts.

Public sector employee wage premiums must be scrutinised. Employee expenses in the public sector are significant. According to the 2017–18 South Australian Budget, employee expenses in the public sector cost South Australia $8.3 billion and were predicted to rise to $8.5 billion in 2019–20.[71] A blind eye must not be turned to these increases and the impact the public sector pay premium is having on local business.

66 Michael O'Neil and Darryl Gobbett, 'To Ignore Reform is to Ignore Opportunity: Creating a more effective and sustainable public sector' (South Australian Centre for Economic Studies, January 2018) p 21.

67 Ibid.

68 Ibid.

69 Ibid p 24.

70 Bension Siebert, 'Koutsantonis caves on pay cap for 30,000 public servants', InDaily (online), 11 December 2017 <https://indaily.com.au/news/2017/12/11/kouts-caves-on-1-5-pay-cap-for-more-than-30000-public-servants/>.

71 Government of South Australia, 'State Budget 2017-18, Budget Statement' p 27.

3.8 Amend the *Public Sector Regulations 2010* (SA) to restrain the ability for public sector agency heads to engage an individual without a merit-based selection process.

South Australian taxpayers are entitled to expect that the State Government would ensure the best candidate for a public sector job is the candidate recruited. However, an entitlement exists for public sector agency heads to engage a person for a position without conducting a merit-based selection process.[72] This handpicking of employees is contrary to principles in both the *Public Sector Act 2009* (SA) and the *Public Sector Regulations 2010* (SA).[73]

Specifically, this exemption allows agency heads to avoid a merit-based selection process where they feel special circumstances exist taking into account, among other things, the person's abilities, aptitude, skills, and personal qualities. The rate at which this entitlement is being exercised is highly concerning. In the 2015–16 year, 170 engagements were made without a merit-based selection process, in 2016–17 this number rose to 192.[74] On average, around 140 non-merit appointments were made each year between 2013 and 2017. Each of these handpicked appointments deny a proper opportunity to all those who do not know the right people.

In the 2015-16 year, 170 engagements were made without a merit-based selection process, in 2016-17 this number rose to 192.

This jobs for mates style of engagement is adding to the state's public sector bill. With an average public sector salary of $80,148 in 2016–17,[75] these 170 engagements added at least $13,625,160 to the State Government's public sector wage bill. In that year, 38 percent of the 170 handpicked were engaged for ongoing roles. That equates to around $5,177,560 worth of public sector wages spent on ongoing positions filled without a merit-based selection process.

We also contend that, given the considerations giving rise to this exemption, these handpicked individuals would likely be earning much more than the average public sector wage.

Credibility must be restored to public sector recruitment processes. Appointments must be made on the applicant's capability and suitability for the position as compared to the other applicants. These merit-based selection exemptions too easily allow a person to be engaged based on their political affiliations or favoured social circles. We call on the State Government to amend regulation 17(1)(i) of the *Public Sector Regulations 2010* (SA) to ensure that only specified and genuine situations, such as short-term engagements, allow exemption from merit-based selection processes.

72 *Public Sector Regulations 2010* (SA) r 17(1)(i).
73 *Public Sector Act 2009* (SA) s 46(1); *Public Sector Regulations 2010* (SA) r 16(2).
74 Office of the Public Sector, 'State of the Sector Report 2017', Government of South Australia, p 23.
75 Office of the Public Sector, 'Workforce Information Report 2016–17', Government of South Australia, p 25.

3.9 Establish a small and independent Sustainable Budget Oversight Unit (as recommended in the Sustainable Budget Commission's second report). This unit should be resourced to report, monitor and make recommendations regarding government savings decisions and targets and assist to track progress towards restoration of South Australia's AAA credit rating.

According to leading rating agency Standard and Poor's, South Australia's current credit rating is the worst of all states and territories.

If South Australia is to learn from the lessons of our interstate counterparts we must ensure government savings decisions and targets are reported and monitored. Recently we have seen Western Australia's budget situation substantially tighten under a record $3 billion deficit[76] as substantial royalties revenue was not properly managed during their resources boom, despite putting the blame on declining GST revenues. The South Australian Government should learn from these mistakes and not hide from budgetary scrutiny. While Business SA welcomed a $1.15 billion reduction in net debt at the 2017/18 Mid-Year Budget Review, the net debt peak is still forecast to be within $50 million of the same net debt peak forecast in the actual Budget forward estimates.

In the context of addressing South Australia's budget position following the Global Financial Crisis (GFC), the State Government established the Sustainable Budget Commission (the Commission) to restore financial stability to the Government's finances and to maintain its AAA credit rating.

In setting the scene to its first report in December 2009, the Commission noted:

- Sustainable government finances are important.
- South Australia would be a less attractive investment destination without them. Weaker economic and employment growth would be the result.
- Unsustainable government finances also 'cost' South Australians in the form of higher taxes and less services (e.g. for health and education).

The Commission also noted the importance of maintaining a AAA credit rating given the difficulty in firstly attaining it. South Australia learnt this lesson after the State Bank collapse and only returned to a AAA rating in 2004[77] before losing it again in 2012. According to leading rating agency Standard and Poor's, South Australia's current credit rating is the worst of all states and territories, and even below that of Western Australia, while our Moody's rating is only slightly more positive (see table overleaf).[78]

76 Estimated 2016/17 budget result from 2017/18 Western Australia State Budget.
77 Sustainable Budget Commission, 'Sustainable Budgets: Principles and Processes', p 15.
78 Government of Tasmania, 'Tasmania Budget 2017/18, Budget Paper 1' p 23.

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South Australia's current credit rating according to leading rating agency, Standard and Poors.

	Standard & Poors Credit Rating	Moody's Credit Rating
SA	**AA (positive)**	**Aa1 (Stable)**
NSW	AAA (negative)	Aaa (Stable)
VIC	AAA (negative)	Aaa (Stable)
QLD	AA + (stable)	Aa1 (Stable)
WA	AA + (negative)	Aa2 (Stable)
TAS	AA + (stable)	Aa2 (Stable)
ACT	AAA (negative)	
NT	NA	Aa2 (Stable)

As the Commission noted, "credit ratings are an external guide to the sustainability of a state's finances"[79] and Business SA encourages the State Government to continue to pursue its own Strategic Plan target of a AAA credit rating, particularly given 2017/18 should result in a third consecutive budget surplus after five deficit budgets since 2009/10.

The fact that South Australia is not experiencing a resources boom does not lessen the importance of a Sustainable Budget Oversight Unit. As recommended in the Commission's second report, the prime responsibility of the unit would be to monitor the progress of key government agencies and to proactively make recommendations to government in relation to delivery of agreed savings. Reports of the unit should include analyses of State Government spending and project announcements. For example, this could include analysing the proportion of the announcement's funding reliant on a Commonwealth grant and ensuring that budget announcements in one financial year clearly communicate whether new spending is tied in with previous announcements.

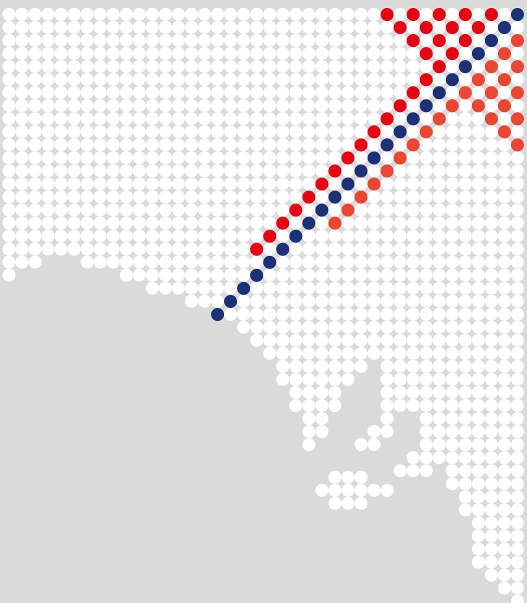
The unit could also look at decisions such as that made in the 2014/15 State Budget to transfer $2.7 billion of net debt to SA Water to reduce the level of government net debt, but which indirectly reduced the value of SA Water. At the time, the Treasurer confirmed that the regulator, ESCOSA, sets SA Water prices without reference to SA Water's debt levels, and there would be no pricing impact on end users. While that may be the case from one perspective, taxpayers should still be able to access an independent judgement on such a significant accounting transfer, particularly to include any longer term ramifications for taxpayers either directly or as SA Water customers.

The unit should be appropriately resourced to carry out its responsibilities. The unit's reports and recommendations should also be made publicly available. Transparently publishing compliance with agreed savings measures will allow voters to scrutinise the performance of government management of South Australia's limited financial resources.

Bearing in mind South Australia had zero net debt prior to the GFC, and net debt is expected to peak at $6.6 billion in 2019/20 (or $9.3 billion if the 2014/15 debt swap to SA Water is included), the state's net debt is not far short of the $7.9 billion reached in 1992/93 in the wake of the State Bank crisis. While Business SA recognises the state's economy is much larger now and interest rates significantly lower, we are still of the view that the State Government should be working to reduce debt in a structured manner to prepare the state for future economic shocks. The ability to withstand future economic shocks will also be assisted through restoration of South Australia's AAA credit rating.

79 Sustainable Budget Commission, 'Sustainable Budgets: Principles and Processes', p 13.

Infrastructure



Business SA
Chamber of Commerce
and Industry South Australia

4. Infrastructure

Infrastructure requirements were identified as a key policy priority for Business SA members in our recent State Election Survey, South Australia's future economic growth will only occur with adequate infrastructure investment, which can both alleviate existing points of congestion, such as along the north-south transport corridor, and promote future growth opportunities such as the Northern Adelaide Irrigation Scheme (NAIS). Local ports need to be able to satisfy modern shipping requirements, particularly the Port Adelaide channel widening proposal to accommodate increasing Post Panamax vessels. South Australia's regions must also form an integral part of future infrastructure planning, and key requirements such as the Port Augusta bridge duplication and Mt Gambier Airport expansion must be progressed.

Having the right economic infrastructure in place allows businesses to sell goods more competitively, not only within South Australia and interstate, but particularly into export markets. While there are a significant number of desired infrastructure improvements required in South Australia, Business SA is realistic about the current levels of State Government debt and the ability to attract Federal Government funding support when national debt is also at record levels. In fact, Federal Government net debt is forecast to peak at $275 billion next year, or approximately 20 percent of GDP, while the State Government's net debt would also be at record levels if not for the $2.7 billion debt swap to SA Water's balance sheet in 2014.

Having the right economic infrastructure in place allows businesses to sell goods more competitively, not only within South Australia and interstate, but particularly into export markets.

Business SA accepts that borrowing for productive economic infrastructure is also about growing the economy, and we need to consider each case for infrastructure investment on its merits. We cannot ignore the reality that making a case to borrow in the current climate of a continued upward government debt trajectory since the GFC will only become harder to justify, particularly if the State Government continues to reject some forms of infrastructure funding, including tolls. It is also likely that official interest rates will soon rise, which puts further pressure on governments looking to fund infrastructure, particularly in South Australia where we no longer enjoy access to a AAA credit rating.

In an era of limited public money to support infrastructure, it has become much more critical that there be an adequate level of transparency around infrastructure funding decisions, and independent assessment of the costs and benefits. While governments will always have the ultimate say, no future State Government should be afraid to take independent and transparent advice from a suitably-appointed independent infrastructure authority.

Business SA supports an attractive public transport system for Adelaide, particularly if we genuinely want to be regarded as a world class city. This needs to be a much more strategic focus of the State Government, and to begin with, the proposed tram link to Adelaide Airport must be integrated into pending South Road upgrades. While driverless cars may eventually become common, the future of public transport is far from dead.

The Tour Down Under has put South Australia on the map as a cycling destination but there are many more opportunities to grow cycling tourism with strategic investments to link and expand existing bike trail networks, particularly through the Adelaide Hills region. South Australia's tourism offering would also benefit from a more strategic look at Adelaide, in particular the old Royal Adelaide Hospital site, which is a once-in-a-generation opportunity to deliver an iconic tourist destination.

4.1 Establish an Independent Infrastructure Authority to assess all infrastructure proposals, prioritising those based on a cost-benefit analysis.

Business SA has a long-standing position recommending an independent infrastructure authority to assess all infrastructure proposals and to rank in order of cost-benefit analysis to the state. Similar bodies are already well-established interstate, with the New South Wales model the most mature after having been instigated in 2011. At the time, this was a clear recognition of the importance of strategic infrastructure investment in turning around that state's economic fortunes. It is little wonder that New South Wales now has such a strong economy with a significant pipeline of infrastructure investment in train.

Other states of different political persuasions have since followed suit, first in Queensland and then more recently Victoria, while a Western Australian version has been promised by the new Labor Government. All versions of the theme may vary, but they share a common element of bringing the best expertise from both the private and public sector together to advise state governments on what infrastructure projects should be prioritised, and possess a strong element of long term infrastructure planning.

The most recent version of a state infrastructure authority, Infrastructure Victoria, has a committed focus on soliciting infrastructure proposals directly from the community and private sector. While Business SA does not discount the ability of the State Government to generate infrastructure proposals, there also needs to be a vehicle by which private sector proposals can be assessed independently on their merit without firstly having to deal with the machinery of government. In a world where state governments are increasingly having to look beyond public funding to deliver infrastructure, it is only logical that the process for advancing infrastructure proposals be more open and less about what fits in with any particularly state government's political priorities.

In Infrastructure Australia's 2017 priority list, South Australia had no high priority projects and of the two priority projects, one was contingent on a mining proposal. As a state, we are failing to adequately make the case for federal infrastructure funding support when compared with other states possessing more sophisticated infrastructure advice models.

Considering our current economic challenges, which have been exacerbated by the exit of local auto-manufacturing, this is a shortcoming we must address.

An independent infrastructure authority could also play a strong role in working with Australia's $2.3 trillion superannuation sector and other potential private investors to explore investment models which can better incentivise their involvement in delivering infrastructure. As an organisation, Business SA's members are open to tolls or other forms of user pay schemes, provided the associated infrastructure delivers a real-cost saving to businesses. The argument around tolls is multi-faceted and the State Government should not be limited to a binary 'no' position without understanding how some form of user pays might help to get projects off the ground which may not otherwise attract, nor be eligible for, full government funding support.

In the current context, an independent infrastructure authority could have played a leading role in providing advice to the State Government on how to develop the Northern Adelaide Irrigation Scheme to best attract both local and international investment, rather than relying on a whole of Government approach comprising of no less than SA Water, Primary Industries and Regions SA, the Department of Environment, Water and Natural Resources, the Department of Treasury and Finance, Investment Attraction SA and the Department of State Development. It could also be used to assess proposal's such at the Liberal Opposition's Globelink to determine what extent public funds are suited to support its progression, including for its individual elements.

Any state government will always maintain the right to accept or reject independent advice on infrastructure, but there is a need for transparency on the advice given to governments, to ensure that South Australian businesses and taxpayers clearly understand upon what basis infrastructure decisions are made.

4.2 Ensure the Port Adelaide Outer Harbor channel widening project is able to proceed in a timely manner and South Australian exporters are not disadvantaged in accessing the world's increasing number of Post-Panamax vessels.

For several years now and corresponding with a world-wide trend towards larger container ships, the number of Post-Panamax[80] vessels calling Adelaide has steadily increased. In 2014, Adelaide handled only 37 Post Panamax vessels (the largest being around 5,100 TEU[81] capacity) but by 2017 this number had increased to 312 (the largest being around 7,800 TEU capacity). However, the largest vessels presently calling Adelaide are only able to visit under heavy operational restrictions.[82]

In line with the trend of shipping lines operating larger vessels and increasing requests for those ships wishing to call at Adelaide, it is clear that the channel at Port Adelaide's outer harbour will need to be widened. Business SA is aware that recent requests for ships up to 9,300 TEU cannot currently be handled, and we are concerned about the impact that has for South Australian exporters being able to freight at internationally competitive rates.

If Adelaide does not continue to adapt to the changing nature of world shipping markets and provide enabling infrastructure, we will likely see states such as Victoria capitalise by expanding their own port capacity. Consequently, larger ships which can offer economies of scale to South Australian exporters will bypass Adelaide for Melbourne.

If Adelaide does not continue to adapt to the changing nature of world shipping markets and provide enabling infrastructure, we will likely see states such as Victoria capitalise by expanding their own port capacity.

The shipping channel at Port Adelaide has already been subject to a major expansion which occurred at outer harbour in 2005 under strict environmental conditions, with dredged material deposited approximately 30 kilometres offshore. At the time, this project was undertaken to support Panamax sized vessels.

Flinders Ports current plan involves widening the outer harbor channel by approximately 40 metres, dredging approximately 1.55 million cubic metres of material to be placed in the same offshore area used for the 2005 channel deepening project.[83]

South Australia eventually needs to be able to handle vessels up to 14,000 TEU, the largest likely vessels to visit Australia given the capacity of other ports, and we cannot unnecessarily delay the current outer harbor channel widening proposal. Adelaide can no longer remain an outlier amongst Australian ports with respect to our ability to adequately accommodate Post-Panamax vessels.

80 Post Panamax vessels are able to fit through wider locks opened along the Panama Canal in 2016 to expand its capacity to host the world's growing use of larger vessels. The expanded locks are 70 feet wider and 18 feet deeper than those in the original Canal which opened in 1914.

81 TEU – Twenty foot equivalent unit.

82 Data supplied by Flinders Ports.

83 Flinders Ports fact sheet, 'Outer Harbor Channel Widening Project 2017', <www.flindersports.com.au>.

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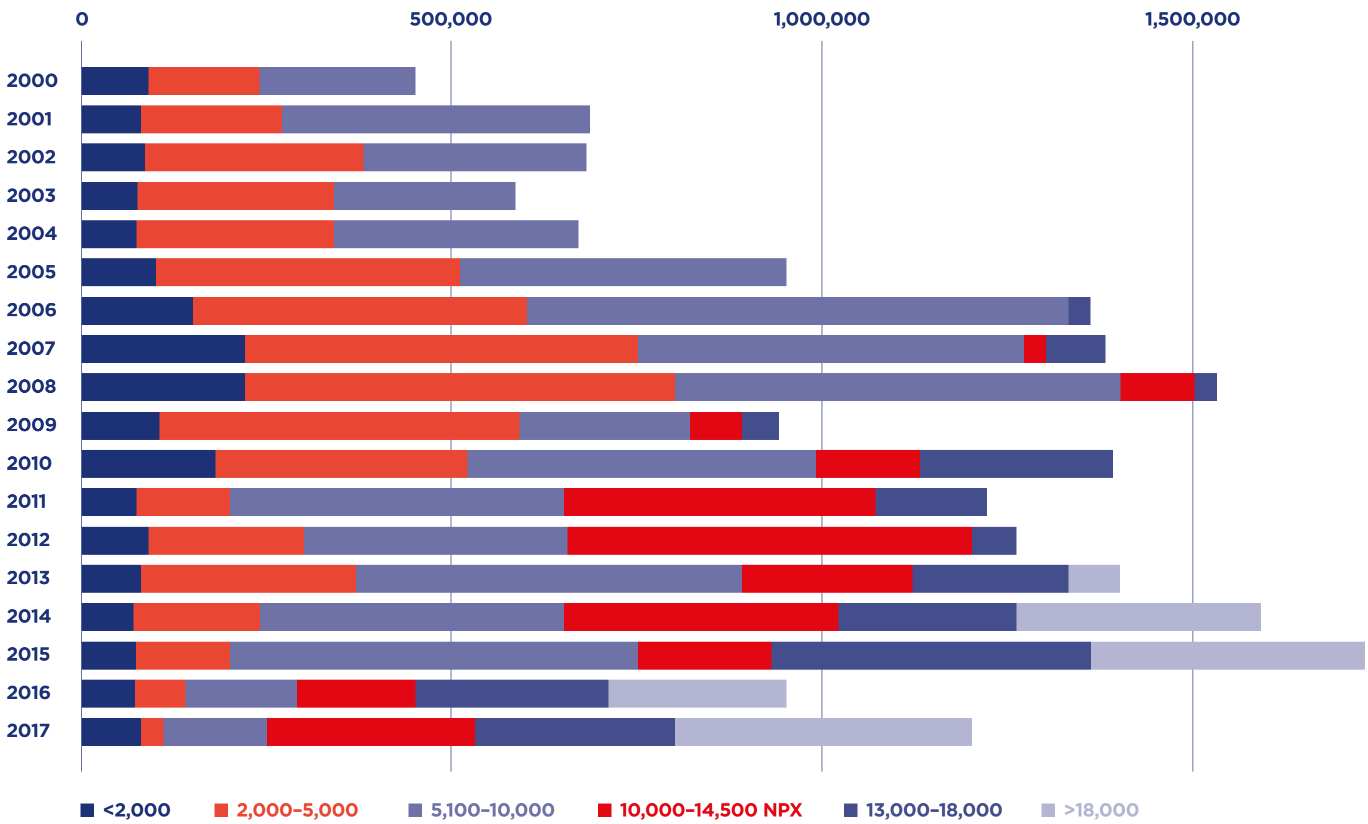
Containership deliveries by year
With size breakdown



Source: Alphaliner, 'Weekly Newsletter', (volume 2017, issue 52), 2017.

4.3 Based on the volume and origin of regional and metropolitan exports, prioritise the remaining infrastructure for a seamless north-south transport corridor, with a particular focus on improving export freight routes including completion of South Road upgrades between Regency Road and Richmond Road to service Adelaide Airport.

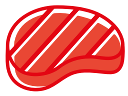
Business SA has long supported prioritising the completion of the north-south transport corridor, not only to benefit Adelaide commuters, but to ensure we have much more efficient freight paths for exporters, many of which are regionally based. With high labour costs and the most uncompetitive utility costs in Australia, the State Government needs to focus on reducing freight costs, assisting local producers to price more competitively into international markets.

Business SA was a fervent advocate of the Northern Connector project which was finally funded in September 2015, particularly as it supported the enabling infrastructure for the Northern Adelaide Irrigation Scheme, another project we backed for its strong export growth potential. However, more needs to be done to improve export freight paths, including to the Adelaide Airport which handles just 50 percent of the state's growing air-freight volumes, the balance being exported through Melbourne and Sydney.

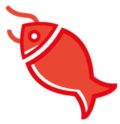
Total airfreight from South Australia was $673 million for 2016/17. The top five air-freight exports from Adelaide by volume can be seen to the right, while the top five air-freight exports by value were as follows:

1. Seafood – $45.3 million
2. Chemical Products – $39.7 million
3. Machinery and equipment – $37.7 million
4. Optical, Photographic, Precision Instruments – $32.6 million
5. Meat – $31.8 million[84]

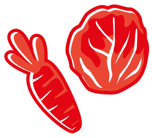
Top 5 air-freight exports for 2016/17 from Adelaide



Meat
2,509 tonnes valued at $31.8 million

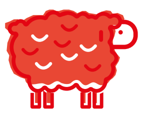


Seafood
2,100 tonnes valued at $45.3 million



Vegetables
1,582 tonnes valued at $3.1 million

Processed food and beverages
1,280 tonnes valued at $26.7 million



Live animals
831 tonnes valued at $3.4 million

84 Export figures provided by Adelaide Airport for financial year 2016/17.

Adelaide now serves nine international destinations with an average of 46 flights per week. With most airfreight aboard passenger aircraft, improving road freight access to Adelaide Airport makes sound commercial sense.

Considering a substantial portion of air-freight exports originate from the north, for example seafood trucked from Pt Lincoln and meat trucked from Pt Wakefield, the priority for providing uninterrupted freeway access to Adelaide Airport should be to complete sections providing access from the north. This also aligns with the need to provide freight support for the soon to be constructed Northern Adelaide Irrigation Scheme, which is primarily focused on export orientated horticulture, and will further bolster agricultural and fisheries airfreight which has already risen 50 percent over the past two years in terms of both volume and value.

On this basis, Business SA supports prioritising completion of the remaining South Road upgrades to provide an uninterrupted freeway from the Superway through to Richmond Road, including Regency Road to Pym Street and Ashwin Parade to Richmond Road. Ultimately unfinished sections beyond Richmond Road through to Darlington will also need to be completed by 2024, in line with the Federal Government's 10 year commitment, but in our view export volumes should be a key driver in how remaining section upgrades are prioritised, including airfreight exports from Adelaide Airport.

The current North-South Corridor 10 Year Strategy, jointly released by both the South Australian and Federal Governments in May 2015, does not define how the volume of export laden vehicles, and their forecast growth, impacts on how various remaining stages of the North-South corridor will be prioritised. As a state, we should be prioritising our infrastructure upgrades based on hard evidence in relation to how improvements relate to growing our economy, particularly our export-orientated economy.

4.4 Prioritise stages of the remaining AdeLINK Tram Network based on analysis of the likely development along each extension and to ensure all necessary links are available between existing and future tourism and sporting infrastructure.

The proposed AdeLINK tram network continues to be a viable addition to Adelaide's road infrastructure network. As the states compete for a share of infrastructure funding, South Australia must, in order to best position ourselves for future funding, ensure all projects are prioritised according to what is best for the economic development of the state and how different infrastructure will integrate in the development and implementation stages. This includes prioritising the sections of the tram network according to the greatest benefits to the state and business, not just the popular vote.

Business SA encourages the Government to prioritise the WestLINK tram project over other tram infrastructure. The North-South Corridor upgrade of South Road continues to be funded in parts and the WestLINK Tram must be given priority to ensure a seamless integration into the North-South Corridor. If the WestLINK Tram is not considered as part of the South Road upgrade, the state runs the risk of costly retrofit bridges that do not seamlessly fit into the surrounding environment and complement the existing infrastructure.

The WestLINK proposal includes a link to the Adelaide Airport, a move Business SA believes is vital to improve tourism is South Australia. The Airport link, as part of the WestLINK, is an important part of the tram network allowing tourists quick and easy access to the city as well as linking the airport to Glenelg and Henley Beach.

The AdeLINK network is considered a priority initiative by Infrastructure Australia and it is anticipated that when complete, the EastLINK and WestLINK tram service will reduce the numbers of buses from Grenfell and Currie streets by about 20 in the morning peak hour in each direction, leading to less bus stop congestion and freeing up of kerb space. This in turn will reduce noise levels with fewer bus movements, and an improvement in local air emissions.

4.5 Ensure regional infrastructure requirements are not overlooked and that various regional priority projects including Mt Gambier Airport's expansion, Port Augusta's Joy Balauch AM Bridge and the remaining Penola Bypass are appropriately funded in the 2018/19 State Budget.

Of particular concern is the 14.8 percent drop in international tourists who stay overnight on the Limestone Coast.

South Australia has significant infrastructure needs in regional areas which are regularly communicated to Business SA through our regional business visits. The state's regions are pivotal for industry and tourism and consequently the economic viability of the entire state.

Mt Gambier Airport expansion

Mount Gambier is South Australia's largest regional centre. The Mt Gambier Airport has been earmarked for expansion for a number of years and needs investment of approximately $18 million. Located in the District Council of Grant 8km north of Mount Gambier, the council already owns the adjacent properties that are currently under lease, allowing for the upgrades to occur.

A 2012 study into the contribution of regional airports stated the Mt Gambier Airport supports 126 jobs (FTEs) in the Mt Gambier region, and generates Gross Regional Product (value added) of $15.4 million annually ($6.8 million in wages and salaries and $8.6 million in Gross Operating Surplus), while at the state level it supports 233 FTE jobs and Gross State Product (value added) of $29.7 million per annum.[85]

While the number of visitors to the Limestone Coast has increased by 15.4 percent from 2008/09 to 2015/16, this is well below the state average of a 23.2 percent increase for the same period. Of particular concern is the 14.8 percent drop in international tourists who stay overnight on the Limestone Coast. The region is an important tourist destination for South Australia and the government must seek to improve the international overnight visitor numbers by increasing accessibility to the area via an upgrade to the Mt Gambier Airport.[86]

There are a number of improvements that are required to ensure the continued viability of the Mt Gambier airport. The current aircraft used by the carrier operating to Mt Gambier has not been in production since 1999 and it is feasible that these aircraft will be nearing

85 Local Government Association of SA, 'Hudson Howells Final Report', February 2012, p 20.

86 Regional Development Australia, 'RDA Limestone Coast Region Economic Profile' (as at January 2018) <https://economy.id.com.au/rda-limestone-coast/tourism-visitor-summary>.

the end of their useful life by 2025. As there are no 34-seat aircraft currently in production any replacement aircraft is likely to be larger and more than likely 50+ seats. Depending on the type of aircraft, this has implications for the runway length and depth.[87]

An increase in the primary aircraft size may also have implications under the *Aviation Transport Security Act (2004)*. Any aircraft with a maximum take-off weight of 20,000kg or greater operating in a regional passenger terminal or open charter capacity is subject to full passenger and baggage security screening. This will necessitate infrastructure development to accommodate this.

Other basic infrastructure development is also required such as improved carparking facilities, terminal upgrade, improved baggage collection area, additional hangers as the airport is a full capacity, and completion of the perimeter fencing totally approximately $18 million.

Penola Bypass

The town of Penola currently has 200 to 500 commercial vehicles, including heavy freight, travel through the town each day. The high number of commercial vehicles are a safety issue for the town and heavy vehicles are required to reduce speed to 50km per hour.

A Penola bypass was first flagged in the 1950s but it took until 2014/15 for the first stage to commence. The first stage south of the town is essentially a road to nowhere as it does not complete the bypass around the town and commercial vehicles continue to use the direct road through the town.

In the June 2015 budget, the federal government allocated $9 million of the $13.5 million cost. The Wattle Range Council has committed $2.1 million and Business SA calls on the State Government to commit the final $2.4 million to complete the project.

Overcome the impediment to getting oversized vehicles through Port Augusta

The State Government must commit to overcoming the current impediment to moving oversized vehicles through Port Augusta with an upgrade required for the Joy Baluch AM Bridge, which should also avoid further substantive work on Yorkeys Crossing. With the progression of projects including Oz Mineral's Carapateena copper mine and the Aurora solar thermal plant, there will be an increased requirement to bring oversized equipment to the region over and above existing demand from mining and agriculture.

The State Government has already committed $40 million towards the $200 million for the duplication of the Joy Baluch AM Bridge project and is seeking a contribution of $160 million from the Commonwealth.

Should the Joy Baluch AM Bridge be extended, the potential upgrade of Yorkeys Crossing Road is probably a less viable consideration. At present, Yorkeys Crossing Road is a 27km dirt ring route around Port Augusta that all oversized vehicles must use as the town's main bridge cannot shoulder the additional weight. Yorkeys Crossing Road can currently only accommodate trucks up to 25m, B-Double vehicles, and is not accessible when there is a moderate to high amount of rain. If the Joy Baluch AM Bridge is duplicated to take oversized vehicles, the estimated $60 million cost to improve Yorkeys Crossing Road to an extent where it is accessible year-round is unlikely to be a prudent use of limited government resources.[88]

87 District Council of Grant Airport Strategic Plan 2016 – 2026, 'Local Government Association of SA, Hudson Howells Final Report', February 2012, p 19.

88 Department of Planning, Transport and Infrastructure, 'Port Augusta Road Management Plan (Draft) Port Augusta: Port Wakefield Road, Stuart Highway, Eyre Highway, Yorkey Crossing', Government of South Australia, March 2012.

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4.6 Lobby the Federal Government to lift Adelaide Airport's curfew from 11pm to 12am and from 6 to 5am, with appropriate noise abatement measures in place such as limiting extended flight times to new generation aircraft, which are much quieter than past industry standards.

The curfew was formally established by the federal *Adelaide Airport Curfew Act 2000* and restricts flights landing or departing between 11pm and 6am. However, there is a formal shoulder period between 11pm and 12am and 5am to 6am where up to 8 flights per week may land, but not depart, at the discretion of the federal Infrastructure Minister (departures during this period are not allowed due to the associated noise impacts). Typically such requests are made to allow airlines flexibility to accommodate varying flight times from the northern hemisphere summer and most recently, Cathay Pacific was granted permission to land four planes a week in the early morning shoulder period based on the value of an annual $24 million tourism impact.[89]

The Federal Government's official policy is a "commitment to maintain existing curfew arrangements while recognising the value of a network of curfew free airports". Business SA has long argued that the curfew for Adelaide Airport needs to be amended to ensure South Australia is competitive with other major city airports without curfews including Melbourne, Perth, Brisbane, Darwin, Canberra and Hobart. Furthermore, construction will soon begin on a new airport at Badgerys Creek in Western Sydney, which is predicated on the expected doubling of demand for aviation services over the next 20 years and being able to operate in a curfew-free location.[90] Unfortunately, by 2026 when Western Sydney Airport is expected to open, Adelaide will be Australia's only capital city without a curfew-free international airport and South Australia further risks losing out on opportunities to fully capitalise on the opportunities for both tourism and air-freight available to other states and territories.

The Federal Government-owned Air Services Australia plays a major role in managing aircraft noise and distributing information about aircraft noise management and the Aircraft Noise Ombudsman conducts independent reviews of Air Services Australia and Defence's management of aircraft noise-related activities. It is worth noting that the Aircraft Noise Ombudsman only received 114 complaints about aircraft noise across the whole of Australia in 2016/17, with the primary issue from a South Australian perspective being related to late night flights of emergency services helicopters, with some changes already enacted.[91]

The Adelaide Airport noise amelioration program was established in 2000 to fund the installation of noise insulation for eligible residences and public buildings in the vicinity of Adelaide Airport. In consideration of future curfew changes, it may be necessary to revisit funding of this program to ensure mitigation against any material noise impacts on local residents. However, Business SA would argue the initial priority should be to only lift the curfew for new generation aircraft which are significantly quieter than their predecessors. For example, a recent Airservices Australia report showed an Airbus 380 departing or arriving from Sydney is between 2.1 and 6.7 decibels quieter than a 747–400 (decibels being a measurement of sound with a three decibel reduction in aircraft noise considered as having halved an aircraft's energy noise).[92]

89 SA Freight Council, fact sheet on Adelaide and Sydney Airport Curfews.

90 Department of Infrastructure and Regional Development, 'An airport for Western Sydney', Government of Australia, 2016.

91 Aircraft Noise Ombudsman, Annual Report 2016-2017.

92 SA Freight Council, fact sheet on Adelaide and Sydney Airport Curfews.

4.7 Conduct a strategic review of the existing public transport system with the aim to increase Adelaide's urban public transport share.

A 2016 Adelaide Metro survey, completed by 10,000 passengers stated that frequency and reliability were the biggest problems with bus, train and tram services and this needs to be addressed to encourage public transport users.

South Australia wants the State Government to undertake a strategic review of the state public transport system. Seamless and efficient public transport with a focus on reliability and frequency is essential for Adelaide's prosperity and wellbeing by helping to increase liveability, reduce congestion and increase efficiency.

South Australian commuters are overwhelmingly reliant on cars to travel rather than using the public transport system. ABS data shows that Adelaide has the nation's highest passenger vehicle travel to work rate,[93] no surprise given a recent survey found our public transport network was Australia's least popular.[94]

A 2016 Adelaide Metro survey, completed by 10,000 passengers stated that frequency and reliability were the biggest problems with bus, train and tram services and this needs to be addressed to encourage public transport users. Cost effectiveness of using public transport for consumers compared to using cars, including petrol and car parking, will also need to be front and centre to increase use.

South Australia needs an independent review of the entire public transport system to assess potential growth, efficient networks that service the metro areas of Adelaide, current infrastructure and fleet. A review should lead to proactive planning for a world class, integrated transport system that seamlessly incorporates trains, trams and buses as well as considering new technology that will move into this space such as driverless vehicles.

An excellent public transport service is the preferred choice of tourists coming into the city. Overseas and interstate tourists expect to be able to use public transport to assess tourist locations and travel seamlessly though the metropolitan area.

Public transport in Adelaide is focused on travelling to the CBD. Most routes terminate in the CBD and very few pass through or go around. Greater consideration and priority must be given to areas of growth and other key business centres outside of the CBD, and how public transport can service those areas including transport that does not terminate in the CBD.

Other areas of improvement should include the simplification of bus route numbering and the directness of travel to key destinations.

93 ABS '9208.0 – Survey of Motor Vehicle Use, Australia', 12 months ended 30 June 2016.
94 HERE Technologies, 'Where to from HERE: Mapping multi-modal movement in Australia', October 2017.

4.8 Seize the unique opportunity to redevelop the former Royal Adelaide Hospital site, which should be centred around free public access to an iconic destination to become the centre piece of Adelaide's tourism offering with one, or a combination of options including an art museum, Australian indigenous art and culture museum, recital hall, investigative science and earth museum and a natural amphitheatre.

The former Royal Adelaide Hospital site and surrounding parklands are in a prime position for Adelaide tourism and use by the general population.

The State Government has committed $96 million over 4 years for the redevelopment of the old Royal Adelaide Hospital site. These costs include demolition and remediation of the site, delivery of site infrastructure and services to new development sites and the marketing and sales of allotments and buildings. This is a considerable investment by the State Government to make the site attractive to future investors.

The site provides South Australia with a unique opportunity to create an iconic destination as the centre piece of Adelaide's tourism offering. There have been a large number of submissions by interested parties that provide many varying options for the development of the site. While Business SA is not in a position to assess and judge all of the ideas and submissions, feedback from our membership and the community show overwhelming support for a number of criteria that should be prioritised when considering the best options.

The State Government should ensure the following priorities are taken into consideration when committing to developing the RAH site:

- Be a public space and include limited, if any, private apartments/lease options
- Enhance tourism for the Adelaide CBD
- Be unique, interactive and open to all ages
- Dove tail into the university and museum precinct
- Complement the Botanic Gardens and Parklands

The site and surrounding parklands are in a prime position for Adelaide tourism and use by the general population. Significant development and construction of private apartments on a lease basis will detract from the use of the Parklands by all South Australians and tourists. While we recognise the commercial viability of the development may necessitate some residential development to attract the right investors, the focus of the site should primarily be tourism and provide accessibility to the general public.

4.9 Develop a broader network of cycling paths, particularly in areas such as the city loop, Adelaide Hills, Barossa Valley and McLaren Vale to promote South Australia as Australia's premier cycling tourism destination.

Well-planned and maintained infrastructure is necessary to attract cycling tourism.

Tourism is changing and increasingly tourists want to be stimulated, educated and inspired. Cycling tourism is an environmentally-friendly and sustainable tourism industry. The continued success of the Tour Down Under perfectly positions South Australia to capitalise on cycling's increasing popularity. If South Australia does not proactively seek cycling tourism, we risk losing the Tour Down Under to another well-positioned state. South Australia needs to cement itself as the premium cycling location in Australia through investment in cycling infrastructure, marketing and addressing the negative view of cyclists in SA.

Well-planned and maintained infrastructure is necessary to attract cycling tourism. The hundreds of kilometres of abandoned train tracks around South Australia that link up the regions are a prime opportunity. This land is government owned and, in most cases, is not being used for any purpose. The Amy Gillet Bike Path, running from Oakbank to Mount Torrens, is an example of successfully using South Australia's abandoned train lines.

Tourists want the story of South Australia, not just pedalling. It is possible to follow abandoned train tracks from Victor Harbour, through the Barossa to the Clare Valley; areas rich in South Australian history and character.

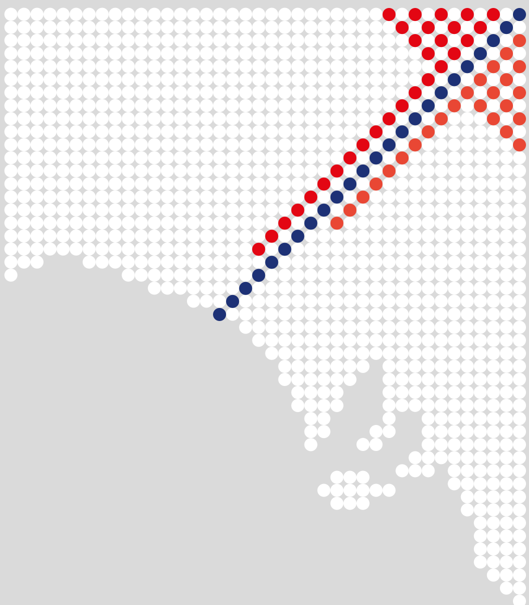
Cycling infrastructure should also include hubs in key regional areas, modelled on the Barossa Cycling Hub. These hubs will provide a starting point for cyclists and provide complementary services outside of traditional retail hours. For example: bike hire, showers, public toilets, cycle storage and lock-up, bike maintenance stands, bike accessories, drinking fountains, picnic tables, shelter and regional cycle and tourism information.

For South Australia to be a tourist destination for cyclists, city infrastructure must be improved. This will not only help tourists looking to ride around Adelaide, but also link tourists to the regional rides. Adelaide's cycling infrastructure must be improved to consider more dedicated bike roads and to guarantee bike lanes are part of any road improvement project. A city loop cycling track that links to Linear Park, the Mike Turtur track to Glenelg and to a bike path up to Mt Osmond and the Freeway ride is a promising opportunity.

Cycle tourism will bring economic benefits. South Australia must proactively market itself interstate and internationally as a cycling state offering more than just the Tour Down Under. Our mild climate allows cyclists to use our cycling infrastructure all year round. To capture this year-round tourism, an interactive website and app should be created that shows all of the tracks available as well as the complementary businesses. Increasing awareness of cycling and the benefits to the state will be crucial. This includes significantly more cyclist-awareness education for learner drivers.

While there has been significant work done on cycling trails in South Australia, the State Government should take the cycling tourist to the next level. It should fund improvements to infrastructure throughout the state and support those SMEs that can support cycling tourism.

Workplace Relations & Safety



Business SA
Chamber of Commerce
and Industry South Australia

5. Workplace Relations & Safety

The importance of fair and equitable workplace relations cannot be understated. South Australia's business community comprises of a majority small to medium enterprises that require a flexible environment to facilitate business growth and job creation.

The reduction of penalty rates in the Federal Award system for a number of industries was a positive step towards ensuring South Australia's small businesses have a fair playing field compared to larger businesses that have the financial resources to negotiate with unions and workers, but it isn't enough.

With the implementation of a national harmonised system of work health and safety in 2012, South Australia must now focus on ensuring harmonisation continues in areas where there is inconsistency with other states. It is unreasonable to expect businesses that operate across state borders to implement substantially different laws in South Australia, especially with no proven benefit to workers or businesses. The South Australian Government must ensure that laws that govern dangerous substances and future labour hire licensing are nationally consistent and do not impose additional costs on South Australian business.

The South Australian Government must ensure that laws that govern dangerous substances and future labour hire licensing are nationally consistent and do not impose additional costs on South Australian business.

Business SA recognised the significant amount of work done in recent years to reduce the future liability of the South Australian Workers Compensation Scheme. This has resulted in a more viable scheme and reduced premiums for South Australian businesses. But, there is still work to be done. The focus of the Return to Work Scheme must continue to be on returning workers to the workplace and not creating a secondary welfare system. The benefits on the physical and mental health of returning workers to the workplace cannot be disputed and must continue to remain a priority of the system. South Australian businesses still face the second-highest workers compensation premium rates of all of the states, second only to Tasmania, which has a privately insured scheme. The reduction of disputes that end up in the South Australian Employment Tribunal (SAET) and creating a less adversarial system is imperative to reducing costs for all parties and therefore reducing premiums.

It is critical to the Return to Work scheme that the clear boundaries established by the new Act are maintained. To maintain the objective of *Return to Work Act 2014* (*RTW Act 2014*) to return workers to work, it is important that the two-year cut off for non-serious injuries and 30 percent whole person impairment limit are not eroded.

5.1 Introduce a medical assessment panel into the Return to Work Scheme to assess 30 percent Whole Person Impairment (WPI) claims in order to reduce South Australia's Return to Work premiums and ensure all WPI impairments are objectively assessed by medical experts.

South Australia has the second highest Return to Work premiums in Australia at 1.8 percent of payroll, second only to Tasmania's 2.25 percent.

South Australia has the second-highest Return to Work premiums in Australia at 1.8 percent of payroll, second only to Tasmania's 2.25 percent—a privately insured scheme. The Australian average return to work premium is 1.6 percent of payroll. This represents a significant cost for local employers and while the Return to Work scheme underwent significant review in 2014, there are still areas that can been improved to provide for a better scheme.

One such area is the assessment of a person's 'whole person impairment'. Whole Person Impairment (WPI) has a determinative impact on compensation payments. This issue has been before the South Australian Employment Tribunal (SAET) with inconsistent decisions for workers. In the Return to Work SA August 2017 actuarial review, WPI assessments are identified as key area of uncertainty. The Actuarial report states *"...there are significant difference between the compensation available to claims above the 30 percent WPI and those below. This factor, combined with the new lump sum for future economic loss payable to short term claims, means there will be increasing pressure on WPI assessments. The scheme will face significant financial consequences if this leads to either extra claims getting over the WPI threshold and/or 'WPI creep'. Robustness of the 'once and for all' WPI assessment rules under the RTW Act is an important area of risk."*[95]

Business SA recommends the introduction of a Medical Assessment Panel (MAP), as an arm of SAET, to assess claims that have been referred on the basis they may reach the 30 percent Whole Person Impairment (WPI) threshold. This threshold is critical in determining the scheme's actuarial liability as a worker with at least a 30 percent WPI is eligible to remain on compensation payments for life. Those whose injury/injuries do not reach the 30 percent threshold have income support payments limited to two years and medical support payments limited to three years. Currently members of SAET decide whether the threshold has been reached, with varying results and inconsistent outcomes. The introduction of a MAP to determine whether the threshold has been reached will reduce uncertainty and disputes arising from assessing 30 percent WPI.

Medical assessment panels currently operate successfully to objectively assess the level of injury in Queensland, Victoria and New South Wales.

Regulators in other states can refer workers to assess whether employment has been a significant contributing factor to an injury or whether there is an ongoing incapacity for work because of a work injury. In South Australia, the *Return to Work Act 2014* allows the use of Independent Medical Advisers (IMA). The South Australian Employment tribunal (SAET) may refer a medical question to an IMA for an expert opinion that will help it resolve an uncertainty or disagreement. However, the SAET has been cautious using this resource and the IMA has a different purpose to the proposed MAP.

The MAP should be set up to provide independent, expert medical decisions about injury and impairment. Medical specialists will be appointed to the MAP if they have a high level of expertise in their particular field.

95 Scheme Actuarial Valuation as at 30 June 2017, ReturntoWorkSA, August 2017, p 105.

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5.2 Introduce to ReturnToWorkSA a system of comprehensive investigations and administrational first review for disputed cases, that is independent and does not require lawyers.

Business SA has received feedback from members involved in Return to Work claims of an increase in "rubber stamping" of decision by claims agents without robust and comprehensive investigations into disputed matters. The Return to Work System must be improved to require a system of good administrative decision making and practices based on comprehensive information.

ReturnToWorkSA should be required to enforce mandatory policies for claims agents to make decision on disputed matters only where all crucial background information has been provided and relied upon. The decision-making process should be more than a box tick exercise.

A robust investigation is beneficial to all parties as it provides all parties with detailed information; ensures medical practitioners are provided with all relevant information to make decisions; and, if the dispute goes to conciliation, lawyers do not need to undertake lengthy expensive investigations. Ultimately, this will lead to less decisions being appealed and better outcomes for matters that are appealed to the South Australian Employment Tribunal (SAET).

Disputes regarding claims in the South Australian Return to Work system are still heavily reliant on legal practitioners; delaying outcomes for workers and adding additional costs to the system. This leads to higher than necessary premiums—a cost imposed on all system participants. An administrative review system should be implemented to determine whether a proposed dispute has legal merit and should proceed to the SAET for determination.

Use of the SAET for reviewing disputes increases the adversarial nature of the system and creates a significant backlog in the Tribunal. According to the ReturnToWorkSA initial submission into for the review of the *Return to Work Act 2014*, since the commencement of the *RTW Act 2014*, there have been an average of 89 disputes per month (1,068 per annum) and although this is a significant reduction, it is Business SA's view that further improvements can be made to further reduce the number of disputes.[96]

The introduction of an independent administrative review process would allow a worker, claimant or employer to apply for a free review of Return to Work Corporation's initial decision based on the facts. Such a system has been successfully implemented in Queensland with administrative appeals providing a prompt and non-adversarial review of some decisions and resulting in few claims being appealed to the Queensland Industrial Relations Commission. Of the approximately 100,000 claims lodged in Queensland, 300 (0.3 percent) are appealed past the administrative review stage.[97] This is a significantly lower number of appeals compared to the SAET.

The review process would not involve an investigation or process of inquiry as a robust investigation should be undertaken for any disputed matter. Rather, it is an administrative review, on the papers, to see whether an independent review officer, given the same information as the original decision-maker, will independently reach the same or a different conclusion. This administrative review would produce a binding decision, which is then appealable to the SAET.

The typical type of decision that the independent review panel should assess is the acceptance or rejection of a claim and decisions regarding compensation payments.

It is a simple process for a participant in the matter to call for a review. Although a person may choose to engage a lawyer to assist with preparation of materials for the review, there are no costs available for lawyers. As this is not a court matter, assistance may be provided by the representative union or other support person.

Such an independent review allows issues to be resolved before they escalate to the SAET and impose lengthy and costly legal representation on the worker. The worker, if eligible, receives compensation and rehabilitation sooner and returns to work quicker.

96 Review of the *Return to Work Act* (2014) - ReturntoWorkSA Initial Submission.
97 Queensland workers' compensation scheme statistics 2016-17, p 6.

5.3 Repeal the *Dangerous Substances Act 1979* and harmonise legislation under a notification model with other states to provide a consistent system for companies operating in more than one state.

The South Australian business community does not operate in isolation from other states and the transport of dangerous substances and hazardous chemicals across jurisdictional boundaries occurs daily.

South Australia's *Dangerous Substances Act 1979* should be repealed. The current system is inconsistent with other jurisdictions, imposes higher costs on business and results in poorer safety outcomes.

The intent of developing model Work Health and Safety (WHS) laws in Australia was to ensure there were consistent workplace safety standards across all states. As part of that process there was a decision to remove the need for licensing requirements for dangerous goods, consistent with the previously agreed approach of the National Standard for the Storage and Handling of Workplace Dangerous Goods. In November 2015 SafeWork SA notified South Australian businesses that the state-based dangerous substances licencing scheme would be maintained; a step away from the nationally harmonised system.

The consequences of SafeWork SA's decision are threefold. Most simply, the need to obtain a dangerous substance licence is an additional cost imposed on South Australian businesses. Such licenses are not required by regulators in other states. South Australian businesses must already deal with the nation's highest electricity prices, the second highest Return to Work premiums and other uneven costs—they should not be subject to licensing costs for a less effective substance safety system.

A second consequence of SafeWork SA's 2015 decision is the unnecessary administrative complexity created by jurisdictional inconsistency in substance safety approaches. The South Australian business community does not operate in isolation from other states and the transport of dangerous substances and hazardous chemicals across jurisdictional boundaries occurs daily. Forcing businesses to operate in both the nationally harmonised notification framework, and South Australia's less effective licencing regime should not occur.

Thirdly, South Australia is no safer for maintaining the burdensome, costly and, arguably, riskier licence system. Part of the nationally harmonised approach is a broad definition of 'hazardous chemicals' which are subject to notification requirements. Within this system, 'dangerous substances' are a subset of 'hazardous substances'. This approach encompasses a wider range of chemicals than South Australia's 'dangerous substances' definition in the *Dangerous Substances Act*, which only covers Class 2 LPD, Class 3 Flammable Liquids, Class 6 Toxic and Class 8 Corrosive substances.[98] It is difficult to see a dangerous substances safety system which applies to fewer substances than nationally harmonised 'hazardous substances', resulting in safer workplaces.

The experience in New South Wales and Victoria of moving from a licensing system to a notification regime suggests such a change would not have adverse effects on work health and safety.[99]

South Australia should move towards a notification model based on the broader definition of hazardous chemicals, of which dangerous substances are a subset. This will provide consistent definitions throughout Australia. A consistent national approach will provide safer workplaces.

98 *Dangerous Substances (General) Regulations 2017* (SA) s 3.

99 Safe Work Australia, 'Decision Regulation Impact Statement for National Harmonisation of Work Health and Safety Regulations and Codes of Practice, 7 November 2011, p 187.

5.4 Harness the momentum of labour hire licensing legislation and push for a national approach reducing the financial and compliance burden on labour hire businesses that operate in multiple states.

Provision of labour hire services is a legitimate business model and opportunity for employment. Unfortunately for the majority of operators acting legally, a small number of operators have engaged in illegitimate or exploitative behaviours. In response, both the South Australian and Queensland parliaments passed legislation in 2017 which would require labour hire providers to hold a labour hire licence if they are providing labour hire services.[100] The Victorian Government is looking to follow suit and introduced a *Labour Hire Licensing Bill* in December 2017. If a licensing regime is required for the labour hire industry, this regime should be set at, and operated at, a national level—an approach already sought by the Victorian Government.[101] This would assist both the implementation of the system and decrease the impact on interstate and national labour hire providers.

Business SA opposed the introduction of labour hire licensing requirements. The labour hire industry does not pose a unique set of challenges beyond the capacity of existing legislation and licensing would result in an increased compliance and cost burden. However, as this legislation has passed, it is upon the State Government to ensure the impact on legitimate operators is appropriate.

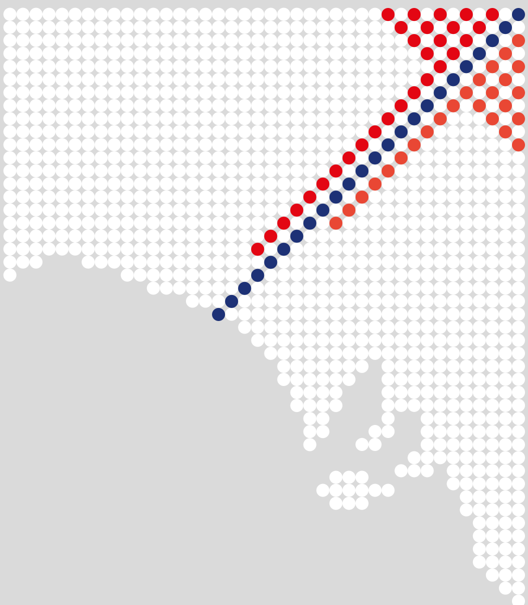
A national approach to labour hire licensing would be the most appropriate system for labour hire providers and employees. With two sets of legislation due to commence early 2018, and a third bill under consideration, we cannot risk inconsistent or ambiguous licensing requirements. The scope of the licensing system must be clear. Current South Australian definitions such as 'labour hire services' and 'worker' are inadequate and have not been appropriately clarified by regulations. This situation will only become more ambiguous as more jurisdictions develop their own labour hire licensing legislation and associated regulations. Properly drafted national legislation imposing labour hire licensing requirements will ensure all operators are subject to the same requirements. Given these definitions directly affect who will or will not require a license, it must only affect industries with recognised labour hire concerns. Properly-drafted national legislation should not cover legitimate industries or specialist labour hire arrangements.

A national approach to labour hire licensing will also ensure labour hire operators who operate in more than one jurisdiction (for example in South Australia and in Queensland) will not be required to maintain a separate license in each jurisdiction. The financial and administrative cost of obtaining and maintaining each license will simply be a cost on the business which could be put toward expansion.

100 The *Labour Hire Licensing Act 2017* (SA) will commence on 1 March 2018. The *Labour Hire Licensing Act 2017* (Qld) will commence on 16 April 2018.

101 Victorian Government Submission to the Commonwealth Black Economy Taskforce, 'Response to Consultation Paper', 21 August 2017, p 9.

Population & Migration



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6. Population & Migration

Between the September Quarter 2012 and the June Quarter 2017 South Australia had the lowest population growth rate of all mainland states.

Over the coming years South Australia will face considerable population challenges. Effective steps must be taken by the State Government to encourage population growth. Population growth is driven by three factors: natural increase, net interstate migration and net overseas migration. The State Government should better address all three drivers. Population growth, particularly of the working age population, is essential to support our state's future.

South Australia's population and migration statistics paint a bleak picture. Between the September Quarter 2012 and the June Quarter 2017 South Australia had the lowest population growth rate of all mainland states.[102] Within that same period South Australia's net interstate migration was -23,043; more people left South Australia for another State/Territory than arrived.[103] People aged 25-44 years old made up the largest proportion of this cohort leaving South Australia for another jurisdiction.[104] While South Australia, slowly, grew during this period, this was largely fuelled by international migration.[105]

Major changes to Australia's skilled migration policy were announced by the Federal Government in early 2017. South Australia will be particularly disadvantaged by the changes given our classification as a regional area for migration purposes. The proposed changes will remove or restrict much of the visa flexibility for applicants seeking to migrate to a regional area. Given South Australia's need for overseas migration, particularly skilled migration, the State Government must be an active advocate for South Australia's migration needs. Retaining visa flexibility in South Australia must be fought for.

The State Government needs to recognise that inaction is not an option; steps must be taken to increase our population. While South Australia does not need to become Australia's most populous state, a critical mass of residents must be maintained. Without critical mass the consequences could extend beyond that state's economy, and we will also lose relevance on the national stage. South Australia needs to grow. A target must be set and steps taken to reach that target. South Australia must be an attractive destination for interstate and international migrants and we cannot continue to lose working age people to other jurisdictions.

Business SA recognises that most migration policy is set at a national level. However, given the importance of migration to South Australia's population growth, the South Australian Government must be a vocal advocate and ensure national migration policies do not disadvantage, or continue to disadvantage, South Australia.

102 ABS, '3101.0 Australian Demographic Statistics'.
103 Ibid.
104 ABS, '3412.0 Migration, Australia'.
105 ABS, '3101.0 Australian Demographic Statistics'.

6.1 Commit to a State population growth target of 1.5 percent per annum.

South Australia has the lowest population growth rate of all mainland states, sitting at 0.6 percent for the year to June 2017 compared to the 1.6 percent national average.

South Australia is not growing at a sustainable rate. The State Government must set a 1.5 percent population growth target and implement practical and creative policies to reach it. A key consideration should be how to provide better opportunities, or other incentives, for young adults to remain in South Australia.

South Australia has the lowest population growth rate of all mainland states, sitting at 0.6 percent for the year to June 2017 compared to the 1.6 percent national average.[106] Long-term growth figures are also concerning. Between September 1987 and June 2017 South Australia's population grew by only 23.47 percent, Victoria grew by 49.72 percent and average growth for mainland states during this same period was 53.47 percent.[107]

Our population is also ageing, our median age is 40—two years older than the national average.[108] South Australia's workforce, the number of people between 15-64 years old, is growing at half the national rate.[109] This has significant implications for future consumption and investment, as well as the support burden facing those remaining in the labour force. Our increasing age dependency ratio[110] reflects this change. Our dependency ratio in 1981/82 was 16.5 (with Victoria at 15.4 and Australia at 15.1). By 2013/14 our dependency ratio was 26.1, compared to 22.2 in both Victoria and Australia.[111]

South Australia's concerning loss of our young adult population interstate is a significant factor in this shift. Too many young adults are leaving the state, taking fresh perspectives and new knowledge with them. Many of these young people do not return to South Australia, instead starting a family interstate and further contributing to population and growth in other jurisdictions.

South Australia does not need to become Australia's most populous jurisdiction, however a critical population mass must be maintained. If nothing is done the economic consequences will likely worsen. Life-cycle income hypothesis suggests consumption expenditure and tax contribution/demand patterns vary over time, with a greater proportion of income saved/tax dollars demanded as earners age.

If population issues continue, South Australia may also have less political relevance. The Australian Electoral Commission has already indicated South Australia will have an entitlement to 10 seats at the next Federal election, down from an 11-seat entitlement in the 45th Parliament. Population pressures are already damaging South Australia's representation in the Australian House of Representatives.

106 ABS, '3101.0 Australian Demographic Statistics'.

107 Ibid.

108 Andrew Cully and Aaron Hill, 'Make it big Adelaide' (Deloitte Access Economics, 2017) p 15.

109 Michael O'Neil and Lauren Kaye, 'The Aged Structure of the Population and Economic Growth – Does It Matter?' (Economic Issues Paper No 47, South Australian Centre for Economic Studies, February 2016) p 4.

110 The dependency ratio measures the age to population ratio for those traditionally considered outside the labour force (ie retired) compared to those within the labour force.

111 Michael O'Neil and Lauren Kaye, 'The Aged Structure of the Population and Economic Growth – Does It Matter?' (Economic Issues Paper No 47, South Australian Centre for Economic Studies, February 2016) p 11.

6.2 Continue to support South Australia's status as a regional area for employer-sponsored visas. In addition, advocate against changes which would diminish or remove benefits afforded to South Australia as a designated regional and low-growth metropolitan area for migration purposes.

The entire state of South Australia is designated a regional and low-population growth metropolitan area. This designation affords South Australian employers access to a broader range of skilled migration visas with inbuilt flexibility allowing visa requirements to adapt to local market conditions. This flexibility is a significant advantage for local businesses which would otherwise have to compete with high-wage areas such as Sydney and Melbourne. This flexibility has been threatened by changes to skilled migration announced by the Federal Government in early 2017. With overseas migration fuelling much of our recent population growth, the State Government must commit to retaining South Australia's designation as a regional area and advocate for regional visa flexibility to be retained.

South Australia has mixed performance regarding skilled migration visas. South Australia underperforms in attracting Temporary Work (Skilled) Visa (subclass 457) visa holders. The 457 visa (to be replaced with the Temporary Skilled Shortages (TSS) visa in March 2018) has been seen as the primary skilled migration visa. Despite our national population share of 7.1 percent, in 2014/15 South Australia only attracted 3 percent of national 457 visas. In contrast South Australia attracted 8.4 percent of Regional Sponsored Migration Scheme (subclass 187) (RSMS) visas during that same period.[112]

A significant factor contributing to South Australia's above average RSMS visa attraction is the flexibility afforded to sponsoring employers. Until recent proposals, employers sponsoring a skilled migrant on a RSMS visa could pay a market wage rate; allowing the employer to pay the skilled migrant an amount equivalent to what the employer would have paid a local worker had they applied for the position. Attracting RSMS visas also granted the additional benefit of the visa holder's family arriving—increasing population and demand in the area.

Changes announced by the Federal Government in April 2017 would require regional employers to pay at least the Temporary Skilled Migration Income Threshold (TSMIT) instead of simply a market salary. This wage floor (set at $53,900 as at 12 January 2018) is above market salary for many skilled occupations required in South Australia. Other changes included a significant reduction in RSMS eligible occupations and imposition of minimum work experience requirements (effectively removing the ability for international students to move into work in South Australia immediately after graduating). These changes are due to apply from March 2018.

Application of TSMIT to RSMS visas could significantly reduce the number of skilled workers coming to regional areas. If RSMS visas had been required to pay at least TSMIT since 2013/14, more than 1000 fewer skilled workers would have migrated to South Australia during that period.[113]

These changes will significantly affect South Australia's ability to attract skilled migrants. Opportunities exist in our regions, where jobs remain unfilled. Vacant positions limit an employer's ability to expand their business and slow growth in their area. With our young continuing to flow interstate and our population ageing we need to ensure every competitive advantage South Australia had as a migration destination is retained.

The State Government must be an advocate for South Australia's skilled migration requirements. The State Government must counteract directives issued by the Federal Government which will significantly damage South Australia's ability to attract skilled migrants and grow.

112 Steve Whetton and Andreas Cebulla, 'The Potential Benefits of Reforming Migration Policies to Address South Australia's Needs, Report 1: Key Challenges' (South Australian Centre for Economic Studies, 18 April 2017) p 3.

113 Steve Whetton and Andreas Cebulla, 'The Potential Benefits of Reforming Migration Policies to Address South Australia's Needs, Report 2: Areas Where the Migration System Does Not Meet South Australia's Needs' (South Australian Centre for Economic Studies, 7 June 2017) p 11.

6.3 Lobby the Federal Government to improve skilled occupation lists. These lists must recognise and accommodate the diverse range of skills and skill levels required in regional areas.

Changing the occupation lists framework would offer an effective means by which to fill regional skill shortages.

National occupation lists, the framework within which skilled visa applicants must fit, do not recognise South Australia's skill requirements; leaving behind South Australia's regions as they cannot access the skills they need. The State Government must lobby the Federal Government to revise the framework. Occupation lists should be generated based on input from states and territories, not imposed on them.

Occupation lists record Australia's medium to long-term skills requirements, allowing labour market gaps to be filled by international workers while local workers are trained. While such needs are addressed in populous regions, areas of South Australia struggle to attract local workers to fill shortages. These acute shortages limit regional businesses and impact entire communities. National lists do not consider regional South Australia's needs sufficiently.

Inaccurate or insufficient occupation list difficulties will be exacerbated from March 2018 as the occupation list for the Regional Skilled Migration Scheme visa, South Australia's most successful visa category, is replaced by the Medium and Long-term Strategic Skills List. As this list is influential in determining which skilled persons can apply for permanent residency in Australia, this change could significantly harm South Australia's growth.

The State Government must advocate for migration system changes. Skilled occupation lists should be compiled primarily from state and territory immigration department inputs. This will allow states and territories to nominate occupation shortages within their jurisdiction. Current State Nominated Occupation systems could continue within this revised framework. Such a change should see Immigration SA actively engage with industry associations and stakeholders regarding shortages within respective industries.

Changing the occupation lists framework would offer an effective means by which to fill regional skill shortages. Addressing such needs through skilled migration will allow communities to grow.

6.4 Lobby the Federal Government to review changes to the eligibility for international students to apply for skilled visas, to make it easier for international students to stay and work in Australia after completing their qualifications, particularly in industries and occupations with skill shortages.

South Australia: 6% of higher education sector overseas arrivals

Victoria: 34% of higher education sector overseas arrivals

South Australia: 3% of VET sector overseas arrivals

Victoria: 22% of VET sector overseas arrivals

International education is a pillar of our economy and creates jobs. However, the opportunities provided by education of international students are not being fully realised. The State Government must lobby the Federal Government to improve post-study work rights and entrepreneurial opportunities for international students—migrants already living in our communities.

The economic contribution and job creation outcomes of the international education and training sector in South Australia is well documented. The sector contributed $954 million in total value and added and supported over 7,500 FTE positions in 2015.[114] For each enrolment in a vocational education and training (VET) course some $16,800 in total value added is contributed and 0.13 FTE jobs are created. For each enrolment in higher education some $43,700 is added and 0.33 FTE jobs are created.[115] The international education sector should be a key consideration for the State Government, threats to the sector should be addressed, and opportunities within the sector realised.

Relative to our population share, South Australia can improve its performance in the international education sector. In 2015–16 South Australia attracted 6 percent of higher education sector overseas arrivals but only 3 percent of VET sector overseas arrivals. In comparison, Victoria attracted 34 percent and 22 percent of overseas education arrivals respectively. South Australia attracted the lowest proportion of international education arrivals of all mainland states.[116]

Changes proposed by the Federal Government in April 2017 put South Australia's already low share of international education sector arrivals at risk. Imposing a minimum relevant work experience requirement on skilled visa applicants will exclude international VET graduates from filling skilled and semi-skilled vacancies in South Australia.[117] This change will not only limit local business' ability to harness graduates with new knowledge to fill positions unwanted by local workers, but could also jeopardise South Australia's position as a destination of choice for international education.

South Australia needs to be a destination of choice for international students. The direct and indirect economic benefits of international education are clear. The State Government must lobby the Federal Government to improve international student and graduate access to local jobs, particularly in industries with skill shortages.

114 Lachlan Smirl and Aaron Hill, 'International Education in South Australia' (Deloitte Access Economics, July 2016) 5, p 24.

115 Ibid p 25.

116 ABS, '3412.0 Migration, Australia'.

117 Steve Whetton and Andreas Cebulla, 'The Potential Benefits of Reforming Migration Policies to Address South Australia's Needs, Report 2: Areas Where the Migration System Does Not Meet South Australia's Needs' (South Australian Centre for Economic Studies, 7 June 2017) p 17.

6.5 Lobby for the creation of a new business start-up visa to retain entrepreneurial international students post-graduation.

International students studying in South Australia provide considerable economic benefit and bring an array of new perspectives. The State Government should support the continued community contribution of these students and push for creation of a business start-up visa for entrepreneurial international students post-graduation.

Creating the right entrepreneurial and visa environment for international graduates is another means by which to further realise the economic potential of international education. Certain visas exist for those looking to start a business in Australia, however these often have restrictive capital and experience requirements which limit opportunities for international graduates. International students, particularly those recently graduated from our institutions have some of the newest knowledge about their occupation, are already living in the community and understand Australian business and social customs. The entrepreneurial opportunities presented by these people are clear.

While graduates may apply for a post-study work visa and start a business, this visa is temporary. These graduates may start a business, and indeed may employ multiple people by the time their visa expires. These international graduate businesses are also more able to export given family/social ties in another nation; a promising trade opportunity.

At present these graduates are unable to extend their stay to continue growing their business and providing work for their employees. Not only are entrepreneurial ideas lost to another nation, jobs may be lost locally.

South Australia needs to grow. New businesses, fuelled by fresh knowledge and with easier access to export markets are a promising opportunity. The State Government must champion a new visa stream for entrepreneurs. This will require the State Government to work with the Federal Government to introduce a new visa for graduates who are looking to, or have started a business.

Creating the right entrepreneurial and visa environment for international graduates is another means by which to further realise the economic potential of international education.

6.6 Lobby for a caveat to the business investor visa to better enable business succession and encourage more investment in South Australian businesses.

As business owners near retirement they must inevitably consider what they wish to do with their business.

South Australia's ageing population sets a dire omen for the future of small business in this state; the current migration system must be improved to help address this. Australia's migration system needs to better enable international investors to buy businesses or establish new businesses, especially in regional areas. Without flexible and responsive business investment migration streams the number of businesses in South Australia, particularly in rural areas, could dramatically decline. The State Government must drive changes to the migration system to make it easier for foreign people to invest in existing Australian businesses.

As business owners near retirement they must inevitably consider what they wish to do with their business. For some they will be able to pass on their business to the next generation. That business will then be able to continue adding value to the local community, continue contributing to South Australia's gross state product and potentially, continue to provide employment. For other business owners, succession will not be as simple. If their business, potentially a business they built from nothing but an idea, fails to find a buyer to take over operations, the business may cease to operate. This will deprive the local community, South Australia, and potentially employees of all benefits above-listed. The risk of unsuccessful succession will affect rural and regional communities hardest as populations continue to shift to metropolitan centres or interstate, making it harder to attract a buyer for the business.

For most South Australian businesses succession through an employee is not an option as the majority of South Australian businesses are non-employers. Of those that do employ, the significant majority of those employ four or fewer people. Illustrated in the table overleaf is the count of businesses in South Australia between 2012 and 2016 by number of employees.[118]

This table (see overleaf) shows both that non-employing and micro businesses (those with fewer than 5 employees) made up 88 percent of all businesses in South Australia in 2016 and that the number of businesses of all categories in this state are decreasing. An ageing population and succession difficulties are not the only factors contributing to these decreases, however these factors will make it harder to reverse the trend.

The migration system offers an opportunity to relieve the pressure imposed by the ageing population, provided appropriate changes are made at a national level. Currently the Business Innovation stream of the Business Innovation and Investment (Provisional) visa (subclass 188) allows entry for people with business skills who want to establish, develop and manage a new or existing business in Australia, where applicants must be nominated by a state or territory government.

While the Business Innovation stream visa could allow a person to come to South Australia and take over a business, the minimum asset threshold is too high. This stream requires, among other criteria, investment of at least $800,000. This significant sum is set nationally and does not vary between areas classified as non-regional and regional for migration purposes. The entire state of South Australia is classified as a regional area for migration purposes; providing South Australia a number of benefits which make it a more attractive migration destination. A similar regional caveat must be implemented for the Business Innovation stream visa.

118 ABS, 'Data by Region – South Australia (STE) (4)'.

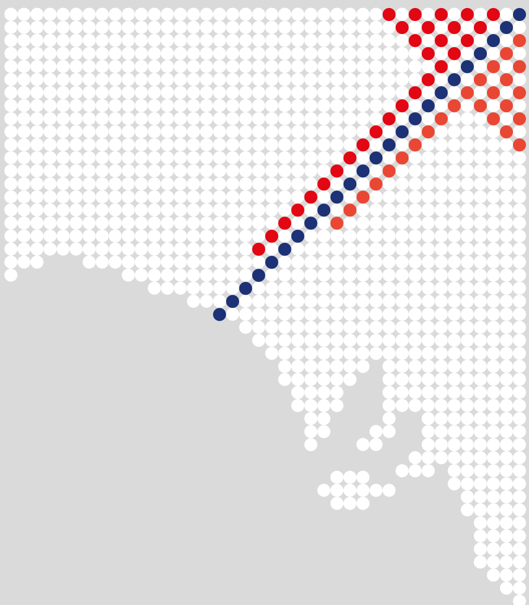
085

The State Government must recognise the difficulties business owners in South Australia will increasingly face in trying to pass on their business. As our population ages and the state's young migrate to other jurisdictions, it will become harder for non-employing or micro business owners, the vast majority of businesses owners in South Australia, to successfully sell their business. Selling the business will see the local community, South Australia, and potentially employees continue to benefit from the business' operation. An opportunity exists for the State Government to coordinate with industry associations to facilitate business investors looking to put their resources into local businesses.

The State Government must drive change to Australia's migration policy to make it easier for visa applicants to invest in this state. A caveat to the Business Innovation stream of the Business Innovation and Investment (Provisional) visa which reduces the minimum investment to $600,000, or lower, should be introduced.

Businesses in South Australia by size	2012	2013	2014	2015	2016	2016 Proportion of total businesses	Percentage change: 2012-2016
Non-employing businesses	95,834	92,705	93,252	93,301	93,980	65%	-1.93%
1-4 employees	34,610	33,014	32,782	33,202	33,519	23%	-3.15%
5-19 employees	14,067	14,003	14,019	13,590	13,564	9%	-3.58%
20+ employees	3,631	3,580	3,536	3,462	3,456	2%	-4.82%
Total	**148,142**	**143,302**	**143,589**	**143,555**	**144,519**	**100%**	

Industry



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7. Industry

State Government must primarily focus on reducing costs and red-tape (particularly shop trading hours restrictions), enabling new industries, addressing market failures and backing businesses standing on their own feet.

Following the recent closure of major Australian-based auto manufacturers, South Australia's industrial landscape is in a period of significant change and it will take some time before the final fallout for the associated auto-component sector is known. While there have been many closures in the component sector, and considerable assistance to those attempting to diversify, this is not a straightforward task and can take many years to achieve, which is not always palatable, particularly for internationally-domiciled companies with no long-term strategic driver to remain based in Adelaide.

Fortunately, South Australia winning the right to build Australia's future frigates and submarines will provide a significant boost to the state's economy over the next 30 years, and potentially beyond subject to future contract wins for both local and international defence sectors. This will eventually go some way to helping fill the void left by auto manufacturing, but by no means does it lessen the need for government to focus on attracting new industries to South Australia and lowering the cost burden for existing companies. We must continue to think laterally as a state and further exploration of nuclear waste storage should at least extend to testing the international market before any future referendum.

Business SA accepts there is a role for government in the event of market failure and we supported efforts from both the State and Federal Governments to assist with the transition of the auto-component manufacturing sector. We viewed the government's role as a corollary of the fact that Australia's auto-sector had long been supported by government subsidies.

Business SA also supported the temporary intervention of the State Government in South Australia's electricity supply to provide reliability ahead of summer 2017/18 after several load-shedding events and a statewide blackout, particularly given government environmental policies had incentivised renewable generation without regard for the cost-effective firm generation also required.

For several years Business SA has noticed a growing tendency of businesses to look for direct government support which has been available through a wide range of grant or finance programs, the majority of which are not linked to a specific market failure. South Australia needs a reset from this perspective, and the State Government must primarily focus on reducing costs and red-tape (particularly shop trading hours restrictions), enabling new industries, addressing market failures and backing businesses standing on their own feet.

Business SA has long played our role assisting the development of new small businesses, particularly through the SAYES program, the longest running young entrepreneur program in South Australia and supported by the State Government. We have also recently introduced an ENCORE program aimed at entrepreneurs over the age of 35, particularly to capture the growing interest from older Australians looking to start their own business. In fact, recent research showed the average age of entrepreneurs in Australia is 45,[119] which presents a very positive opportunity for South Australia's ageing population.

119 Eager B, De Waal A, Fisher R, Maritz A, Perenyi A, Zolin R, 'Senior Entrepreneurship in Australia: Active Ageing and Extending Work Lives', 2015.

7.1 Continue the public debate on nuclear waste storage to allow investigation into market interest, to enable an assessment of the economic viability of a storage facility.

The primary finding by the Commission was that South Australia can safely increase its participation in nuclear activities.

Prior to the 2014 election, Business SA called on the State Government to lead a public debate on the costs, benefits and risks of establishing each component of the nuclear industry from uranium enrichment through to nuclear energy and waste storage. This recommendation was enacted through the Nuclear Fuel Cycle Royal Commission which the State Government established in 2015 to undertake "an independent and comprehensive investigation into the potential for increasing South Australia's participation in the nuclear fuel cycle."

The Commission process attracted more than 430 submissions, held public hearings across the state over six months and made a concerted effort to engage with Aboriginal communities. During 37 days of sitting, the Commission heard from 132 witnesses around Australia and from overseas countries with nuclear power from North America, Europe and Asia. The Commission engaged external expertise to analyse the commercial viability in establishing each aspect of the nuclear fuel cycle and also investigated the wider economic benefits of doing so.

The primary finding by the Commission was that South Australia can safely increase its participation in nuclear activities. While acknowledging that such participation brings social, environmental, safety and financial risks, the Commission advised South Australia is already managing some of these risks and the remainder are manageable. This was predicated on social consent being fundamental to any new nuclear project, including from impacted Aboriginal communities, as well as political bipartisanship and stable government policy.

In particular, the Commission concluded that the disposal of international used nuclear fuel and intermediate-level radioactive waste "could provide significant and enduring benefits to the South Australian community". Their viability analysis determined that a waste disposal facility could generate the equivalent of $51 billion in today's dollars (discounted at 4 percent) over a 120 year project life and if all profits are invested in a State Wealth Fund, with half the annual interest reinvested, this would grow to $445 billion in today's dollars over 70 years.

The Commission specifically recommended the State Government "pursue the opportunity to establish used nuclear fuel and intermediate level waste storage and disposal facilities in South Australia" and outlined immediate steps. These included defining a concept for the storage and disposal of international, used nuclear fuel and intermediate-level radioactive waste in South Australia, for which the views of the South Australian community can be sought; and whether and on what basis potential client nations would be willing to commit to participate.

Following completion of the Commission's report in May 2016, the State Government established the Nuclear Fuel Cycle Consultation and Response Agency (CARA) to facilitate a three-month community consultation process, including a citizens jury to determine whether there was social consent to proceed further. An independent CARA Advisory Board was also established to oversee all statewide consultation activities.

The initial 50-member citizens jury was expanded during the process to over 300 people who met across three weekends in October and November 2016, informed by more than 100 witnesses. In a final report which reflected the chaotic nature of the process, two thirds of the citizens jury did not wish to pursue the opportunity to store and dispose of nuclear waste from other countries while the remaining third supported a commitment to further pursue under certain circumstances. In reaching that conclusion, the jury advised it was impossible to provide an informed response to the issue of economics because the Commission's findings are based on unsubstantiated assumptions. Specifically in relation to the Commission's recommendation to *remove section 13 of the Act*,[120] *which precludes an orderly, detailed and thorough analysis and discussion of the opportunity to establish such facilities in South Australia*, the citizens jury recommended that if any legislative change were to happen it should be incremental, and in the first instance to enable an assessment of the economic viability of the proposal.

Following the statewide consultation and citizens jury process, the State Government formally responded to the Royal Commission report on 15 November 2016. While the State Government supported continued investigation of a nuclear waste facility, it concluded the only path forward was the restoration of bipartisanship and broad social consent, secured through a statewide referendum which in of itself would require bipartisan support. It also advised it will not pursue legislative changes at this point in time but will continue to facilitate discussion and remain open to pursuing this opportunity for South Australia.

In line with the Royal Commission's recommended next steps, it is clear that before any referendum could ever gain bipartisan support, a preliminary expressions of interest process must be undertaken with potential client countries to ascertain the market worth of South Australia providing permanent waste storage and disposal facilities for used nuclear fuel and intermediate-level radioactive waste. With this information, the viability analysis should be updated to adequately inform the public before any referendum on proceeding further took place. An expression of interest process should be conducted by the end of 2018 and subject to initial estimates being validated and bipartisan support being restored, a referendum on further proceeding with developing such a facility should be held by the end of 2019.

120 *Nuclear Waste Storage Facility (Prohibition) Act 2000* (SA).

7.2 Ensure that PIRSA's Primary Production Priority Areas are progressively established throughout South Australia and integrated into local Development Plans to enable the ongoing productive use of prime arable lands and to ensure any decision related to rezoning of agricultural land is informed by evidence regarding its agricultural potential.

Prior to the 2014 election, Business SA called on the State Government to embed the Department of Primary Industries and Regions SA (PIRSA)'s Primary Production Priority Areas into development plans across the state. As part of the recent round of planning reforms which culminated in the new *Planning, Development and Infrastructure Act 2016*, the State Government implemented Environment and Food Production Areas around metropolitan Adelaide as a means to enforce an urban growth boundary.

Business SA was supportive of the move to implement an urban growth boundary, particularly due to the importance of infill development being a more efficient use of existing infrastructure. In an era of limited public funds for infrastructure development, particularly from the Federal Government which has run budget deficits since the GFC, it is more important than ever that states leverage the infrastructure already in place. Business SA is also quite conscious of South Australia's historical and growing competitive advantage in food production and associated manufacturing sectors which must be supported by a planning system which appropriately protects prime agricultural land.

However, Business SA does not support blanket restrictions on developing agricultural land, particularly as it impacts progress on important mining proposals which can deliver significant economic returns to the state, including jobs. We recognise that agricultural land can vary significantly in its productivity for a range of factors from soil types, reliability of rainfall and access to water to name a few. PIRSA have conducted a range of scientific analysis to determine PPPAs across South Australia and these should be embedded into development plans to ensure development proposals, including for mining, can be assessed with evidence-based knowledge as to what long-term value that subject land has for agriculture. Consequently, there should be clearer guidelines for farmers, property developers, miners and the broader community as to what existing primary production zoned land is suitable for other development.

There should be clearer guidelines for farmers, property developers, miners and the broader community as to what existing primary production zoned land is suitable for other development.

7.3 Remove the $5 million annual turnover limit of the *Late Payment of Government Debts (Interest) Act 2013* to ensure all businesses are covered and remove all government entity exemptions from the *LP Act*, including SA Health, Public Schools, SA Water and ReturntoWorkSA.

Two key health agencies, Central Adelaide Local Health Network and Country Health SA Local Health Network still only pay 88.7 and 87.7 percent of invoices on time respectively.

Business SA acknowledges the performance of State Government agency account payments has improved in recent years, despite the percentage of invoices paid within 30 days actually decreasing from 97.2 percent in 2014/15 to 95.6 percent in 2016/17. The Government's largest agency by aggregated invoice value, the Department of Planning, Transport and Infrastructure only paid 91.7 percent of invoices within 30 days last year.[121]

This general period of improvement for the Government coincides with the introduction of the *Late Payment of Government Debts (Interest) Act 2013* which Business SA first called for in our 2010 Charter for a Prosperous South Australia.

We acknowledge the figures above exclude exempt entities such as SA Health, and while we have observed improved performance in recent years, two key health agencies, Central Adelaide Local Health Network and Country Health SA Local Health Network still only pay 88.7 and 87.7 percent of invoices on time respectively.[122]

Business SA recommends the State Government review the excluded authority list to ensure there is a consistent approach across government to paying invoices on time. If a State Government economic priority is to make South Australia 'A global leader in health research and ageing', paying bills on time will assist with creating an environment conducive to the private sector realising this aspiration.

To date, only a handful of businesses have claimed interest for a late payment by a State Government authority under *LP Act* and the annual $5 million turnover limit for eligibility should be removed. The level of a businesses' turnover should not dictate whether or not the State Government is penalised for not paying its bills on time. Considering cashflow constraints, the late payment of bills can have a greater relative impact on small business, but by the same token, there should be no presumption that once a business' turnover reaches a specified level, they no longer require their bills to be paid on time.

Removing the annual turnover limit would also send a clear message to all businesses, and future investors into the state, that the State Government is genuine about making South Australia the best jurisdiction in Australia in which to do business.

Once the above measures have been implemented, the State Government should aim to improve its payment performance even further and follow the lead of the Federal Government, which in November 2017 committed to pay small businesses within 20 days.

While there will always be genuine reasons why an invoice cannot be paid on time, including where invoices are incorrect or disputed, State Government payment performance must be a priority.

121 South Australian Government 'Treasury, Account Payment Performance by Agency 2016/17', 2017.
122 Ibid.

7.4 Increase funding to the existing Convention Bid Fund to $5 million per annum, and extend its mandate to ensure conferences and incentive groups can be attracted to a range of venues.

Over the past 4 years, the Convention Bid Fund has helped to attract 191,000 delegates generating $725m in economic benefit.

Following a $2 million ($1 million per annum) Convention Bid Fund announced by the State Government in November 2013, the current $2.5 million per annum Convention Bid Fund was established in 2015/16, and in 2017/18 was extended to 2020/21 with a $3.5 million boost. The basis of this funding was to support Adelaide when competing in a market for globally sought-after business events where financial support as part of convention bids is considered the norm.

Among the key events recently secured for South Australia is the World Routes 2019 conference, being the world's largest aviation trade business event. More than 3,000 delegates from major airlines, airports, tourism and aviation businesses from international and interstate markets will be in Adelaide to attend World Routes. It will be the first time this event has been held in Australasia[123] and follows on from Adelaide hosting 3,000 delegates in June 2017 for Chinese Company *Perfect China's* internal event and 4,500 delegates for the International Astronautical Congress[124] in September 2017.

The benefits these events bring to the state extend far beyond the direct commercial outcomes. They help build stronger business links for South Australia with the world, showcase our intellectual and human capital, our infrastructure capabilities and highlight that South Australia is still open for business.

Business SA supports additional funding for the Convention Bid Fund, particularly to match the funding of other states. We also support opening up the fund to enable conferences and incentive groups to be held at any venue. While the State Government should obviously be focussed on leveraging its investment in the Adelaide Convention Centre, there are also other opportunities for the state to benefit from hosting business event delegates and we should have a more flexible approach to ensure we can meet the needs of potential clients.

Business SA recognises that to adequately leverage additional funding from the Convention Bid Fund, which in four years has helped the Adelaide Convention Bureau attract 191,00 delegates generating $725 million in economic benefit,[125] appropriate resources need to be available. Further funding will enable the Bureau to support a permanent business development presence in Asia to match other state and territory jurisdictions. Business SA also supports the Bureau's plans to expand its international development activities more broadly, and to develop their 'Linger Longer' initiative to ensure business delegates are enticed to extend their stay in South Australia, particularly in the regions.

123 Adelaide Convention Bureau, Media Release, 24 October 2016.
124 Adelaide Convention Bureau, 'The Billion Dollar Benefit', 2017.
125 Ibid.

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7.5 Refocus limited State Government financial resources to primarily address areas of market failure, rather than grant programs to generally promote economic development.

We need to return our mindset to backing the ability of business to create opportunities in a low-cost environment supported by adequate infrastructure, and not continue trying to engineer outcomes by picking winners through government grant programs.

Unfortunately, South Australia is already being labelled with the unwanted tag of the mendicant state, and while Business SA believes we should always defend our interests, we also need to ensure South Australia aims further than what can be achieved based on financial support from any level of government. This approach needs to start from home and the State Government must revisit all industry grant programs to ensure funding is only available in the instance of a clear market failure, with all other support for business specifically targeted at reducing costs for all businesses, particularly employers. The State Government should also focus on opening up new industry opportunities, for example, further exploration of the market for nuclear waste storage.

While programs such as the $31 million Energy Productivity Program are directly targeted to assist SMEs to cope with high power prices brought about by the failure of government climate policies to accommodate affordable electricity supply, many others such as the $200 million Future Jobs Fund have no direct linkage to market failure and while they may well assist to realise positive business investments, there is also an opportunity cost from not using that money to reduce broader costs of doing business, including payroll tax.

South Australia's long-term success has been made possible through the entrepreneurial spirit of hard-working business people, and the risks they have been willing to take. We need to return our mindset to backing the ability of business to create opportunities in a low-cost environment supported by adequate infrastructure, and not continue trying to engineer outcomes by picking winners through government grant programs. Business SA believes South Australia is better than that, and it is high time that we stop conditioning businesses to believe there is government money out there to support a whole raft of private endeavours, which is what the private banking sector is there to provide.

7.6 Deregulate shop trading hours restrictions throughout South Australia.

Deregulation would allow retailers to be more effective in servicing their customers and give people the ability shop at any time that works for them and the business owner.

Business SA calls on the State Government to join the forward-looking States and Territories of our nation by opening South Australia in reality, not just on the State logo; providing consumers, visitors, traders and retail employees with the benefit of choice by implementing a competitive retail environment through the deregulation of trading hours.

Business SA has long argued[126] that shop trading hours deregulation, while not a panacea, is a necessary step towards making South Australia the vibrant state it should be.

Regulation of retail trading hours varies across Australia. The Australian Capital Territory, Northern Territory, Victoria, Tasmania and New South Wales have almost completely deregulated retail trading hours while Queensland has made significant changes to reduce regulation and restrictions. South Australia now sits with Western Australia as the least-flexible state, half an hour and at least a decade behind the rest of Australia.

Business SA represents businesses impacted directly and indirectly by shop trading hours restrictions. 82.35 percent of Business SA members surveyed in the 2017 Survey of Business Expectations said the current shop trading hours restrictions created a negative perception of South Australia as a place to visit and 81.7 percent said deregulation of shop trading hours would have a positive impact on the South Australian economy.

Members cited reasons such as:

- *People would have greater opportunity to work and generate an income*
- *Deregulation would create a more positive perception with visitors to the state*
- *Retail would have a better opportunity to contribute toward city life and vibrancy as it does in Melbourne and Sydney*; and
- *Deregulation would allow retailers to be more effective in servicing their customers and give people the ability shop at any time that works for them and the business owner.*

The message is clear, amending the *Shop Trading Hours Act 1977* is a necessary step towards a vibrant economic environment for South Australia.

Deregulation will liberalise trading hours to enable new and existing retailers to respond to trading opportunities as they arise, consumers to shop when convenient, and make Adelaide a livelier destination for tourists. Deregulation would also remove red tape for business by removing an Act which is illogical, complex and difficult to understand for both traders and visitors alike.

126 Business SA, '2007 Budget Submission: a program for competitiveness in South Australia', 2007; Business SA, 'A Charter for a Prosperous South Australia', 2010; Business SA, 'Open All Hours: Deregulating Shop Trading Hours in South Australia', September 2011; Business SA, '2014 Charter for a More Prosperous South Australia', 2014; Business SA, 'Competition Policy Review – Submission', June 2014.

Deregulation would create working hours for those workers willing to fill non-traditional working hours, such as students. ABS data[127] shows 51 percent of sales assistants and 61 percent of checkout operators are aged 15 to 24 years or part-time workers (with women representing the largest fraction of those). This has particular relevance at a time when South Australia's average youth unemployment rate for 2017 was the highest of all states and territories.[128]

While total deregulation would be optimum, Business SA argues the minimum amendment to the *Shop Trading Hours Act* should be to reduce trading hours restrictions throughout the state by:

- removing public holiday restrictions in all areas, other than Good Friday, Christmas Day and ANZAC day;
- extending closing hours on Saturday and Sunday to 9pm to reflect those on weekdays; and
- remove Sunday morning restrictions to opening hours.

Business SA is not alone in making these recommendations. Many reviews, including those listed below encompassing competition and productivity policy and legislative simplification, have strongly recommended the urgent need for deregulation of trading hours:

- The Productivity Commission's Economic Structure and Performance of the Australian Retail Industry, 2011[129]
- The Productivity Commission's Relative Costs of Doing Business in Australia: Retail Trade, 2014[130]
- The independent federal Competition Policy Review, 2015 (Harper Review)[131]
- The Federal Government's Response to the Competition Policy Review 2015[132]

Every report and review of deregulation or liberalisation of trading hours generates emotive arguments regarding the loss of market share by small to medium retailers. However, in the four years following deregulation in Victoria, studies found deregulation of shop trading hours did not lead to the demise of strip shopping and shopping in the Central Business District of Melbourne, and Suburban retail centres (excluding planned, enclosed centres) continued to account for some two-thirds of the retail market in Melbourne with evidence suggesting sales for these retailers has increased by some 3.5 percent since deregulation.[133]

In 2017 Business SA asked its members,[134] *Should a customer's ability to shop when they want to be restricted to protect small retailers? For example, by not allowing large supermarkets to open after 5pm on a Saturday or Sunday, or before 11am on a Sunday*. 78.43 percent of members responded no. However, Business SA recognises that ultimately it will be consumer preferences that determine whether shop trading hours need to be deregulated.

To independently verify the preferences of consumers across South Australia, Business SA commissioned the world renown University of South Australia's Institute for Choice to undertake discrete choice modelling. This robust research involved a survey of over 570 South Australian consumers which was conducted in February 2018. The key findings of this research are outlined overleaf.

Deregulation would create working hours for those workers willing to fill non-traditional working hours, such as students.

127 Australian Government, 'Job Outlook', (as at 25 January 2018), < http://joboutlook.gov.au/>.

128 ABS, Labour Force, December 2017.

129 Productivity Commission, 'Economic Structure and Performance of the Australian Retail Industry', November 2011.

130 Productivity Commission, 'Relative Costs of Doing Business in Australia Retail Trade', September 2014.

131 Commonwealth Government, 'Competition Policy Review Final Report', March 2015.

132 Australian Government, 'Response to the Competition Policy Review', November 2015.

133 Tracey Atkins, 'Shop Trading Hours in Western Australia: A Research Report' (University of Western Australia, November 2011) p 107–8.

134 Business SA, 'Survey of Business Expectations September Quarter', 2017.

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Choice modelling
Survey of over 570 South Australian consumers

Do you support changes to the current shop trading hours?

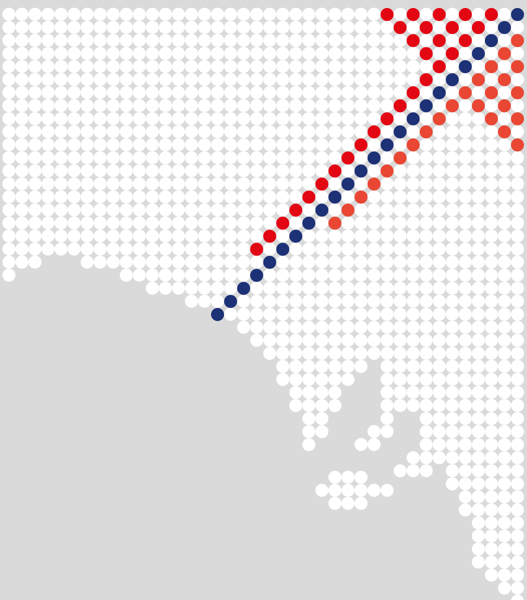
	All	Greater Adelaide	Regional Districts with Restriction	Regional Districts with NO Restriction
Yes	**73.60%**	73.06%	84.62%	71.25%
No	26.40%	26.94%	15.38%	28.75%

In your opinion would an increase in shop trading hours be positive for the South Australian Economy?

	All	Greater Adelaide	Regional Districts with Restriction	Regional Districts with NO Restriction
Yes	**75.50%**	74.44%	78.85%	76.88%
No	24.50%	25.56%	21.15%	23.13%

Source: Joffre Swait, 'Consumer Insights on Shop Trading Hours for SA Businesses' (University of South Australia Institute for Choice, February 2018).

Skills & Training



Business SA
Chamber of Commerce
and Industry South Australia

8. Skills & Training

South Australia must avoid an oversupply of skills in areas that do not meet industry skills requirements and ensure that training courses are provided to meet current and future skills and labour market needs.

Education, skills and training are the key to South Australia's future success. The State Government must ensure that any investment is strategically aligned to provide the state with a skilled workforce, in response to industry-specific workforce needs and constraints.

The state would benefit from the creation of Workforce Development Plans which consider labour market conditions and take demographic and economic factors into account when identifying skills and labour market needs.

South Australia must avoid an oversupply of skills in areas that do not meet industry skills requirements and ensure that training courses are provided to meet current and future skills and labour market needs. This can only be achieved through increasing genuine consultation and cooperation with South Australian businesses.

The State Government must focus on educating South Australians on the benefits of vocational education and training (VET) as a viable alternative to a university education. While there has been a focus on jobs in areas such as defence and the NDIS, it must be conveyed to future students that a significant number of these jobs are available through training in VET, not university.

However, for students to consider the VET system as a viable alternative, there must be trust in the system to provide the necessary outcomes. The State Government must ensure confidence in the VET sector is restored through:

- opening courses to private RTOs and providing choice to employers;
- ensuring access to training in all locations including regions;
- ensuring compliance to course criteria;
- ensuring industry is actively engaged in development of training and assessment strategies; easing the burden when registering to employ apprentices and trainees; and
- a review and modernisation of the *Training and Skills Development Act 2008*.

The State Government must seriously consider the purpose of TAFE SA, the public provider, and action quality reviews to address the lack of VET capability by including input from industry and employers.

South Australia, with its focus on small business and emerging industries, must position itself to capitalise on new sectors as they develop. The next generation of workers will be pivotal for South Australia's success in this area and a greater focus on innovation, critical thinking skills and entrepreneurial studies in the high school curriculum will provide South Australian students with an advantage as new industries emerge.

8.1 Implement a Workforce Development and Planning model approach to enable students to access and obtain skills that are relevant and linked to employment opportunities.

For the VET system in South Australia to deliver training that meets the needs of industry, planning and development for specific industries and regions based on economic modelling of labour market data and trend forecasting must be undertaken. This data can inform a workforce development and planning approach, which needs to be conducted in consultation with South Australian businesses.

The establishment of a workforce development and planning approach in South Australia will enable students to access and obtain skills that are relevant and linked to employment opportunities in the state. Through strategic planning that includes significant input from industry, the State Government can create a flexible and responsive education and training system. It will allow for cross skilling and re-skilling of workforces experiencing a downturn, and the development of a workforce capable of meeting future workforce needs in critical industry sectors.

Workforce development and planning underpins the strategic goals of the state and considers labour market conditions, demographic and economic factors to identify skills and labour market needs. Through workforce development and planning, the State Government must allow for industry and community stakeholders to inform and collaborate with government in the development of strategies and action plans and any underpinning policies to jointly attract, train and retain the workforce of the future.

South Australia must have an education and training system which is agile, flexible and responsive to the needs of industry and community to achieve economic outcomes and grow the state.

8.2 Fast track opening the South Australian training delivery market to provide a competitive marketplace offering quality training to meet industry demand with a significant focus on regional training.

Business SA strongly opposed the State Government's WorkReady policy that allocated 90 per cent of subsidised training places to TAFE SA. This decision forced some private RTOs out of business and threatened the viability of many others. A Business SA survey of its members in 2015 showed that 16.1 percent of respondents used TAFE for training, 33.9 percent used private RTOs and 20.3 percent used a mixture of both, demonstrating that employers want choice in their training providers.

Recent reviews by the Australian Skills Quality Authority (ASQA) found 14 TAFE SA Courses were not meeting compliance standards and have been suspended. The Civil Aviation Safety Authority suspended a TAFE SA aviation maintenance course earlier in 2017. While some of these failings are administrational, it has highlighted an underlying problem with the South Australian TAFE system.

VET training is fundamental to the survival of our regions with 25,662 people in the regions attending vocational and education training in 2015.

While TAFE SA has an important role to play in the South Australian training environment, the recent review by Australian Skills Quality Authority demonstrated the training provider is not meeting compliance standards. It is Business SA's view that a contestable, open and competitive marketplace will drive choice for employers in selecting training providers that deliver quality training and assessment and provide courses that comply with current industry standards and ensures that niche markets are covered. Opening the marketplace to private RTOs should be fast tracked.

Business SA believes a vital function of TAFE SA should be to operate in areas of the training market where private RTOs might not be offering services that the market requires due to lack of commercial viability and other constraints. It should be the role of the public provider, and therefore TAFE SA's role, to ensure education is available and accessible across South Australia and barriers to education are removed for people from lower socio-economic backgrounds, youth and in regional areas.

The next State Government must ensure funding is only opened to private RTOs and all providers, including TAFE SA, that are compliant. While the quality of TAFE SA courses is currently under scrutiny, a review of the types of courses provided should ensure TAFE SA primarily focuses on courses that are required in South Australia and meet a skill need or gap. In South Australia, for many, TAFE SA is synonymous with VET and as such needs to re-establish the credibility of the training system. While TAFE SA's primary role is to focus on providing training opportunities in thin markets and remote locations, it still should be able to compete for funding in other areas provided there is a level playing field with the private sector. As long as TAFE is not abrogating its primary responsibilities, it can maintain or expand some niche pockets of excellence if delivery is of superior quality and cost competitive against private providers.

VET training is fundamental to the survival of our regions with 25,662 people in the regions attending vocational and education training in 2015.[135] The most common qualification in regional areas is Certificate III and IV, compared to metropolitan areas where the most common qualification is a university degree or higher.[136]

To improve the viability of regional training, a more flexible approach to VET training should be established by TAFE SA and any future private RTOs. While improvements have been made, for apprenticeships there is still a strong focus on training in classrooms of students on block release. In regional areas, where this is not always feasible because of the number of students or other logistical reasons, workplace assessing should be conducted. This helps to ensure the apprenticeship meets the needs of the students and workplaces, not TAFE SA. A review of training courses offered in regional South Australia is critical. Courses which align with the needs of a region should be given priority and provided locally.

135 Report generated from WorkReady, 'Workforce Wizard' Government of South Australia, (as at 31 January 2018) <http://workforcewizard.skills.sa.gov.au/CriteriaSelection1.aspx>.

136 Australian Bureau of Statistics, 2011 Census of Population and Housing.

8.3 Commence the planned review of the *Training and Skills Development Act 2008* to identify areas for improvement. This review has been earmarked for many years and has not progressed.

Training and skills development in South Australia is crucial for the development of the state, and the review of the *Training and Skills Development Act 2008* (*TSD Act*) is pivotal to ensuring the sector remains relevant, appropriately funded and evolves with the needs of business. A review of the *TSD Act* has been earmarked for many years and has not yet been progressed. The State Government must commit to complete a review of the *TSD Act* by the end of 2018.

Modernising the *TSD Act* will assist in providing a more flexible environment for the VET sector in South Australia and remove the red-tape and impediments businesses in South Australia are required to deal with when taking on a trainee or apprentice. The *TSD Act* must have a greater focus on collaboration between government and industry to ensure it meets the future requirements of industry and the state. The *TSD Act* must be reviewed to deal with areas such as how an occupation is declared a trade and employer registrations.

When updating the *TSD Act*, the State Government should consider the provisions in the training legislation of other states to ensure our framework aligns nationally. This is important for South Australian businesses which have employees in other states as well as apprentices or trainees who choose to move interstate. There should not be a significant difference between gaining an apprenticeship in South Australia when compared to other states.

8.4 Modernise and streamline the system of registration for employers to employ an apprentice or trainee in South Australia to reduce delays, particularly in rural areas.

In South Australia, registration with Traineeship and Apprenticeship Services (TAS) is required to employ and train apprentices and trainees. South Australia is the only jurisdiction to require the registration of employers prior to formalising a contract of training. The current registration process is onerous for businesses, imposes excessive levels of regulation and in some cases, significantly delays the commencement of training contracts with apprentices and trainees.

The delay of engaging an apprentice results in the apprentice missing out on pay and increased difficulty for workforce planning and scheduling for the business.

The existing employer registration process should be modernised and streamlined to ensure a system that is efficient, online and does not delay the engagement of an apprentice or trainee. While it is arguable the registration system increases protection for apprentices and trainees, the system should not result in excessive delays nor provide a disincentive for employing an apprentice or trainee.

Business SA supports a modernisation of the registration system that allows for online submissions and verification of supervisors' qualifications and allows employers to save data within the system to provide for quick, easy employer registration and employment of apprentices and trainees.

One of the major issues regarding the registration of employers is the delay between the employer's application and the required site visit/s prior to approval. A system of provisional registration subject to site approval would overcome this issue. Business SA supports a system where an employer receives provisional approval once a complete application has been received and is provided full registration when the site visit has been completed. This will reduce the delay between the employer application and the employment of the apprentice or trainee and allows them to commence employment earlier.

8.5 Due to the focus on new and emerging industries in the South Australian economy, the secondary school curriculum must include a focus on entrepreneurship and business acumen to provide students with the skills to think innovatively and understand what is involved in starting and operating a business.

It is critical to ensure our school system provides students the best academic grounding to thrive in a modern economy with an increasing need for business skills. Entrepreneurship programs in high school can provide students with the skills to think as innovators, not just so they can run their own business in the future but to provide skills employers are seeking. Employers are seeking workers who can innovate, apply critical thinking skills and data led analysis to a business.

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Entrepreneurship is the underlying driver of the economy and job creation. The economy constantly relies on the next generation of entrepreneurs who are willing to take risks to start businesses which ultimately provide job opportunities for others. Although students must have a solid academic grounding, understanding how to start and operate a business is equally important to ensure the long-term growth of our economy.

Entrepreneurship courses have been available at a tertiary level for some years, but we must now embed them in the secondary school curriculum for students to understand that starting a business is also a future career option. Innovation and entrepreneurship has been successfully incorporated into the overseas curricula in a number of countries.

In 2014, Israel launched a new national curriculum, ISTEAM, that combines the perspectives of different disciplines (Innovation, Science, Technology, Engineering, Art and Mathematics) to develop a major project. The project is aimed at bridging the gap between the knowledge acquired in school and real-world knowledge outside the education system.

In the UK, through the Young Enterprise Company Programme, more than 1 million young people have set up and run a student company over the course of an academic year. This project includes creating a business plan, managing student finances and selling to the public at trade fairs.

The South Australian curriculum currently includes a Research Project as a compulsory subject, generally undertaken in Year 12. The Research Project subject should include greater opportunity for students to undertake an entrepreneurial, business-based project that encourages students to think beyond the status quo of tertiary educational pathways.

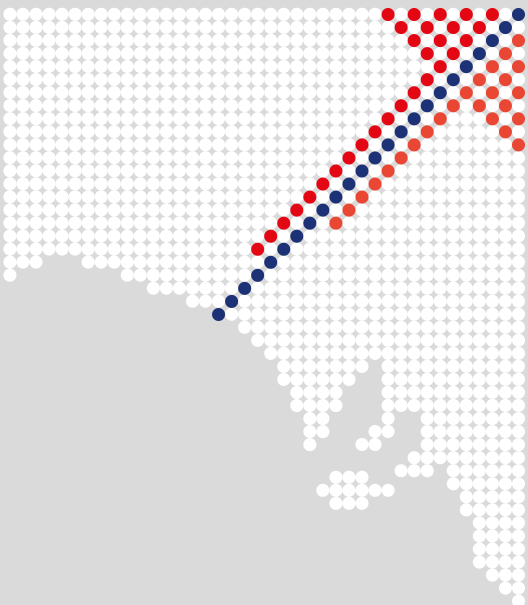
8.6 Significantly improve the process to facilitate pathways between the secondary, VET and higher education sectors to accommodate the broad scope of future skills requirements.

The State Government should be actively involved in developing clear and accessible learning pathways between the secondary, VET and higher education sectors to accommodate the broad scope of future skills requirements. Major benefits stemming from improved articulation arrangements between the sectors include:

- increased transparency and application of credit transfer and recognition of prior learning (RPL) processes;
- embedded programs and integrated pathways with the option of guaranteed entry to university;
- joint delivery of associate degrees and a greater focus on associate degrees facilitated through the university sector for advanced technical courses; and
- offering dual concurrent VET and higher education qualifications across multiple disciplines or embedded pathways resulting in both a VET and higher education qualification.

To facilitate pathways between the sectors a willing collaboration between the education sectors in South Australia must be encouraged and facilitated by the State Government.

Trade



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9. Trade

In 2004, the State Government established a $25 billion export target by the year 2014, but with exports only reaching $13.36 billion by 2011, the target deadline was postponed until 2020. By 2014 with exports still well below the 2020 target, the State Government again revised its target (through the Economic Priorities statement) to $18, billion with a new target date of 2017.

For 2016/17, and based on chain volume data which accords with the State Government target benchmark, South Australia's export trade consisted of $12.9 billion in goods and $2.72 billion in services for a total of $15.62 billion, still 13 percent short of the revised 2017 export target, 38 percent short of the original 2020 target, and amounting to only 4.6 percent of Australia's total exports of $337.02 billion.[137]

Based on our current population share of exports, 7.02 percent, South Australia's exports would be $23.66 billion for 2016/17, $8.04 billion more than our current level of exports. If the same formula were applied to every year since the GFC, South Australian export revenues over that period would have been $75.66 billion higher.

Based on our current population share of exports, 7.02 percent, South Australia's exports would be $23.66 billion for 2016/17, $8.04 billion more than our current level of exports.

Business SA recognises that incentivising growth in export sales is not a simple task, particularly when accounting for the whims of global commodity markets. It also relies more broadly on South Australia having a cost-competitive environment which then allows businesses to compete internationally. Fundamentally, the primary focus of the State Government must be on making South Australia a low-cost place to do business, then secondly to specifically structure assistance to facilitate export growth amongst small to medium-sized companies.

Business SA is also playing its part with welcome funding assistance from the State Government to run South Australia's only Export Ready Program, specifically targeted at moving SMEs into a position where they can execute and/or increase export sales. There are many elements to successfully navigate when trading beyond Australia's borders, particularly into less developed markets, and Business SA's Export Ready Program trains businesses in every facet of exporting from logistics, to currency considerations to managing counter-party risk while also providing mentoring support. After putting 29 businesses through the program in its first year of operation, Business SA looks forward to helping many more local businesses in future.

Businesses also benefit from being able to access strategically-targeted, state-based trade missions and international contacts in trade offices which have a specific focus on facilitating trade opportunities for South Australia. Funding to attend trade shows and for market research is also quite important to encourage SMEs to access new market opportunities, and the State Government's Export Partnership Program seems to be working well to facilitate this after several changes were made to the previous Gateway Business Program from recommendations outlined in Business SA's 2014 Charter for a More Prosperous South Australia.

137 All figures are chain volume, original data from ABS and Department of Foreign Affairs and Trade.

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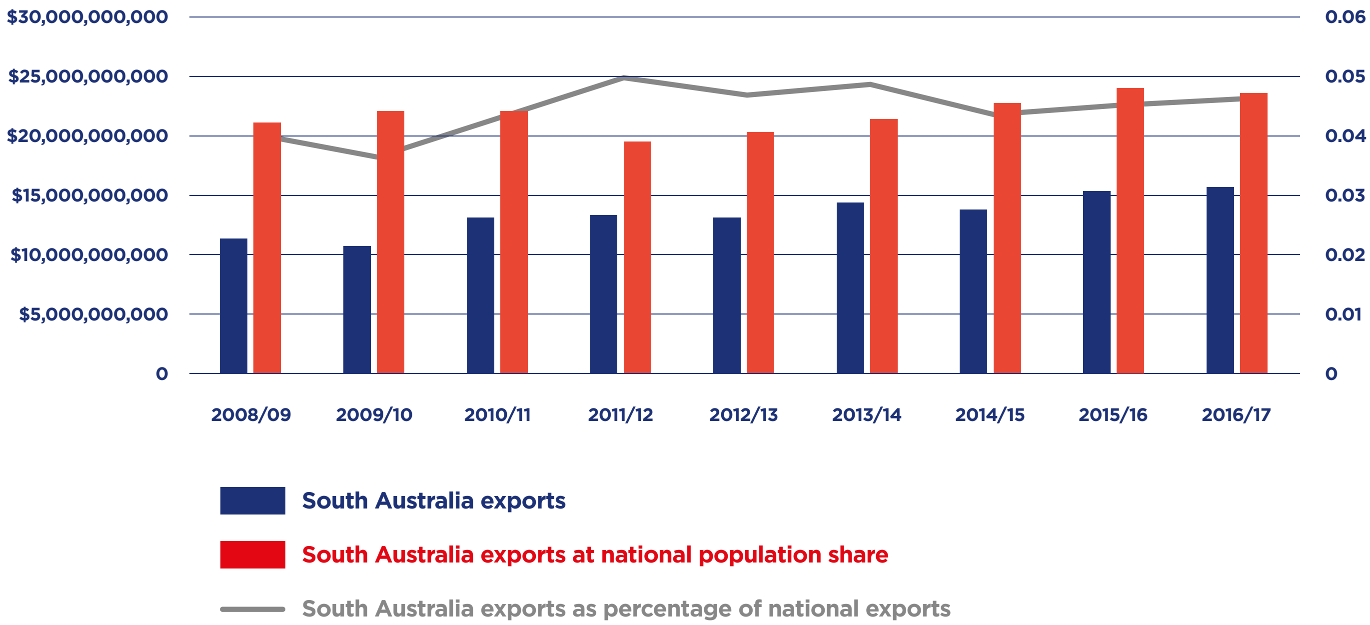
Export outcomes
Since the Global Financial Crisis



9.1 Review overseas trade representation and the need to have dedicated South Australian offices when there is an option to have lower-cost representation within an existing Austrade office, and to ensure South Australia has appropriate trade representation in both the Middle East and the United States.

Over the last five years to October 2017, South Australian merchandise exports to the United States reached almost $7 billion but this figure has stagnated, having grown only 13 percent over the previous five-year period, and actually fell 9.8 percent in the past 12 months despite South Australia's total goods exports growing 11 percent.

A similar pattern exists for the Middle East with exports over the five years to October 2017, $4 billion, being marginally down on the $4.4 billion figure achieved over the five years prior. Contrast this growth to that of China where South Australian exports of $12.7 billion for the five years to October 2017 is up 54 percent on previous five-year period.

Rank	SA Merchandise Exports by Country (12 months to December 2017)	$ millions
1	China	$2,391
2	United States	$1,241
3	Malaysia	$968
4	India	$946
5	Japan	$755
6	EU (without UK)	$766
7	Middle East	$683
8	Indonesia	$527
9	New Zealand	$399
10	UK	$364

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South Australia currently has dedicated trade offices in both Jinan (China) and London (UK) in addition to paid representatives within Austrade offices in the following countries:

When considering South Australia's top trading partners, there is a clear lack of trade representation in both the United States and the Middle East, which combined, represent $2 billion of export value.

When considering South Australia's top trading partners, there is a clear lack of trade representation in both the United States and the Middle East, which combined, represent $2 billion of export value.

While Business SA is not advocating South Australia adopt Victoria's approach of having 21 overseas trade offices, we are mindful that the State is without representation in either the Middle East or North America and recommends the State Government pay for dedicated trade representatives within both Austrade's Dubai and San Francisco offices.

It is important that the South Australian Government adequately recognises its core capabilities and not put time and resources where they are not going to their optimum use. Business SA does not believe South Australia needs a suite of dedicated trade offices, but where we can better make use of Austrade's presence in key overseas export markets, we need to ensure the state flag flies high and local exporters also have a point of reference to assist with solving trade disputes. Those overseas representatives should also be working to facilitate inbound investment missions, but they need to be appropriately targeted to match the needs of South Australian companies on the other end.

Having South Australian Government trade representatives embedded within Austrade is a more cost-effective strategy than operating separate trade offices. For one, those staff benefit from sharing Austrade support staff and Austrade also handle their direct management and oversight which is another cost and administration saving for the State Government. Being part of Austrade also helps South Australian trade representatives leverage from the Team Australia approach. It is well known that state boundaries within Australia mean little in international markets and South Australia's approach to trade promotion needs to start with Australia first, and then promoting how South Australian businesses can compete to deliver world class goods and services.

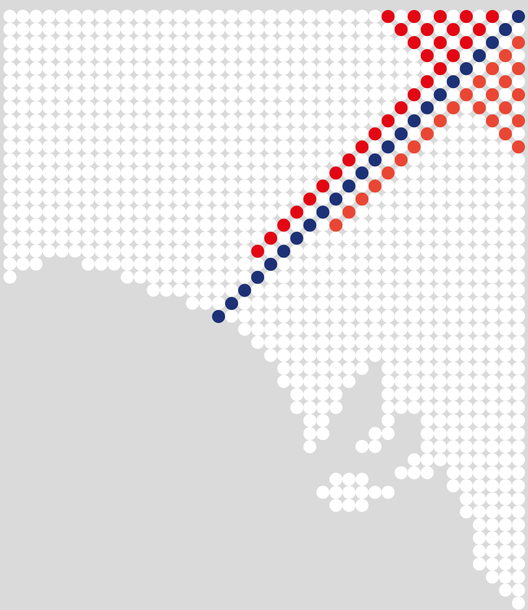
9.2 Continue State Government-led trade missions, particularly to enable opportunities for small and medium-sized businesses to access markets where they would otherwise encounter quite limited openings without the imprimatur of government.

Business SA has been involved with South Australian trade missions for many years, both organising them directly and regularly accompanying members on State Government-organised missions. Through first-hand experience, we have witnessed numerous SMEs access new market opportunities that were previously never available to them. The reality of many international markets, particularly in Asia, is a that a much closer relationship exists between government and the private sector than that which exists in Australia. Consequently, for Australian businesses to access market opportunities in those countries, attending government-backed trade missions enables doors to open much more easily and for SMEs to feel more confident in their interactions with potential customers.

Business SA is also cognisant that Austrade run trade missions and we do not advocate for duplication of those, but rather selective state-based trade missions which complement the existing opportunities available through Austrade.

The benefit of small and strategic South Australian missions is to enable a focus on one or two key sectors in a particular market specifically relevant to opportunities for local SMEs. Limited and select missions for between 10 to 20 businesses is most likely to maximise genuine new market opportunities for local SMEs without incurring an excessive cost to the State Government. Business SA is very mindful that future trade missions need to be limited in number, and attendance strictly limited to export-ready businesses along with a small core of support staff.

Water & Environment



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10. Water, Sustainability & The Environment

In Business SA's pre-election survey, approximately one third of members nominated water costs and supply, and/or environment and sustainability issues as important matters pressuring their business.

While there is an ever-increasing community expectation that businesses minimise their environmental impact, the reality is that environment and sustainability policy decisions do impact the cost of doing business. The community's expectations are not necessarily unreasonable, but it can be difficult for South Australian businesses to both manage public expectations and try to mitigate against the cost impacts of environmental policy decisions from governments, which may be direct or indirect. Businesses need to continue to reduce their impact on the environment, but they have to stay viable at the same time, and emissions reduction schemes for both electricity and beyond must ensure parties best able to reduce emissions at least cost are incentivised to do so, whether they reside locally or in overseas jurisdictions with credible environmental regulation.

Business SA is an active voice for South Australian businesses regarding water, sustainability and environmental issues. Business SA maintains an Energy, Water and Sustainability reference group of members to ensure we are aware of related matters affecting their businesses, and by extension those of the wider South Australian business community. We also advocate through our representation on SA Water's Business Customer Advisory Group.

In Business SA's pre-election survey, approximately one third of members nominated water costs and supply, and/or environment and sustainability issues as important matters pressuring their business. More specific water issues included: water usage costs, trade waste costs and supply charges, and concerns were raised with EPA operations and compliance. The State Government must be cognisant that policies and charges imposed through departments and agencies can also have a significant impact on local business.

With South Australia being the driest state on the driest continent, water is a critical resource for local businesses and households. We must see continued investment to optimise South Australia's limited water resources, particularly to mitigate against risk of ineffective operation of the Murray Darling Basin Plan. This investment must include retention, consumption and treatment measures to ensure water is used as efficiently and as effectively as possible. Minimising the cost to business of such measures must be a prime consideration of these investments. All of South Australia benefits from more efficient water use and the cost must not be disproportionately borne by business.

Considering the regulatory asset base's influence in determining SA Water's allowable revenues and consequently, water prices imposed on businesses and households, the South Australian Treasury's determination of SA Water's regulatory asset base (RAB) value should be independently reviewed.

South Australia is a nation leader in recycling and waste management, and the Solid Waste Levy was to be invested solely back into the local waste and sustainability industry. The cost imposed by this levy has increased significantly and will continue to increase to 2019/20. Funds collected by this levy must be transparently applied and used in an accountable manner. Monies supposed to be invested in South Australia's waste industry must not be applied to fill funding gaps elsewhere.

10.1 Ensure water efficiency and conservation remain a key consideration to ensure higher marginal-cost water sources, particularly the Adelaide Desalination Plant, are not as readily called on in times of drought.

Use of the ADP beyond minimum production mode increase costs for all SA Water customers and should not occur without due cause.

The State Government must always ensure appropriate and adequate policy attention is paid to optimally managing our finite water resources. Our recent fortune of avoiding drought conditions for eight consecutive years since the millennium drought broke should not result in complacent management of this resource, even with the Adelaide Desalination Plant (ADP) in place.

This issue not only affects households, but also businesses which require adequate and cost-effective water supply to enable their operations, particularly in horticulture and associated food and beverage manufacturing. Without a reliable and cost-competitive water supply, fewer businesses will invest in South Australia and those currently operating will face increasing financial pressures.

Water conservation needs to remain a policy priority even though water restrictions have been replaced by permanent water wise measures. While SA Water has useful information available to assist businesses to become more water efficient, there is no longer a broader policy drive from the State Government to promote water efficiency. Water sourced from the ADP comes at an approximate 50 percent higher cost per additional litre compared to other sources including the River Murray and Mount Lofty Ranges reservoirs. Furthermore, at $3.31 per KL, rates of water use are also more than three times higher than a decade ago when the top consumption rate was only $1.09 per KL.[138]

Use of the ADP beyond minimum production mode increase costs for all SA Water customers and should not occur without due cause. While there may be delayed impacts due to the nature of ESCOSA's regulated price determination periods, the cost impacts eventually flow through to all customers, including businesses.

If appropriate preparations are made for future droughts, South Australia can become more water resilient. Investments must continue to be made in alternative water supply infrastructure, such as wastewater recycling and stormwater harvesting. Notwithstanding, all future water-related investments must be justified through appropriate cost-benefit analysis.

Water efficiency and improved treatment options should also be considered in South Australia's regions, particularly to cater for our growing food and beverage manufacturing expansions. While South Australia should be able to rely on the Murray Darling Basin Plan, the State Government must still be focused on improved water efficiency to make more water available for productive use, regardless of River Murray allocations at any particular point in time.

138 ESCOSA, 'Inquiry into the 2007/08 Metropolitan and Regional Water and Wastewater Pricing Process (Final Report)', 2007.

10.2 Commission ESCOSA to update its 2014 Water Pricing Options Inquiry report, including a review of how SA Water's regulatory asset base (RAB) value is determined.

SA Water's RAB is a primary factor in the price households and businesses pay for water and sewerage services.

SA Water's RAB is a primary factor in the price households and businesses pay for water and sewerage services. The value of this asset base is used by the Essential Services Commission of South Australia (ESCOSA) to determine key components of SA Water's maximum allowable revenues, such as return on the RAB. The value of this asset base is currently set by South Australian Treasury and is not independently assessed by ESCOSA.

Business SA recommends the State Government commission an update of ESCOSA's 2014 inquiry into water and sewerage price reform options, including an assessment of whether SA's Water's revenue recovery is efficient. In particular, the value of SA Water's RAB should be independently assessed, including to review the full inclusion of the Adelaide Desalination Plant (ADP).

Considering Infrastructure Australia initially rejected the State Government's funding request for the ADP on the basis that it did not offer a net economic benefit, the question needs to be asked as to why South Australian consumers continue to pay for its entire cost, particularly when $328 million came from Federal Government grants.[139]

The current regulatory approach is impacting business customers of SA Water, as well as South Australian households. South Australian businesses are disadvantaged compared to interstate competitors, with South Australians paying the highest marginal price per kilolitre of water (as at December 2017).

Water usage prices 2017/18

Jurisdiction	Marginal price per unit ($/kL)	Supply pricing mechanism
SA Water	**3.308**	**Property value**
Sydney Water	2.04	Meter size
Hunter Water (NSW)	2.3	Meter size
City West Water (VIC)	2.7186	Fixed charge per property per annum
South East Water (VIC)	3.2366	Fixed charge
Yarra Valley Water (VIC)	2.8503	Fixed charge
Urban Utilities (QLD)	1.609	Fixed charge
Water Corp (WA)	2.318	Gross rental property value
TasWater	1.0202	Meter size

Source: Price pages for above companies

139 Australian National Audit Office 'Grants for the Construction of the Adelaide Desalination Plant', May 2013.

The impact of high water prices was noted in a 2016 South Australian Centre for Economic Studies Paper, with the authors stating:

The high water prices are a cost to consumers; they make South Australian industry less economically competitive; and they likely impact on location and investment decisions by enterprises and agricultural producers. Many of our principal export industries—agriculture and horticulture production, wine and food processors—face high input costs which are a clear drag on their international competitiveness.[140]

Further to substantial increases in water prices over the past decade, trade waste prices have also increased substantially and are still rising at a significant rate, rising 10 percent per annum from 2017-2020; a cost which must be absorbed by business.

Trade waste is a largely unavoidable by-product of a business' production process. These businesses must absorb increasing trade waste costs, jeopardising future investment and employment, or pass on the costs to customers, jeopardising sales and making themselves less competitive. A solution for businesses wishing to avoid these costs is to significantly invest in on-site water treatment to remove or lessen by-products in their trade waste. This is not always an efficient approach.

Numerous members have reported they feel "as if they are doing too much of SA Water's job for them". Considering the 2004 National Water Initiative agreed to by COAG promoted *'pricing policies for trade wastes that encourage the most cost-effective methods of treating industrial waste, whether at the source or at downstream plants'* and SA Water has the expertise and capacity to manage trade waste, it should do so at an efficient cost.

South Australia is an economy in transition. Local businesses, particularly some of South Australia's most productive export industries, should not be hampered by a potentially inefficient regulatory environment. The outcomes of the 2014 Water Pricing Options Inquiry Report must be reviewed. It is critical that within this review the value of SA Water's RAB is independently assessed.

140 Darryl Gobbett, Michael O'Neil and Steve Whetton, 'The Regulatory Load in South Australia and Impact on Economic Activity' (Economic Issues Paper No 46, South Australian Centre for Economic Studies, February 2016) p 7.

10.3 Ensure accountability and oversight for use of 'Waste to Resources Fund' monies collected by the solid waste levy. The solid waste levy has increased by an average of 18 percent between 2017 and 2020, generating some $85 million for the fund. No information is provided detailing how this money is being spent and what outcomes that expenditure is achieving.

The solid waste levy has increased significantly since 2014, however little transparency and accountability exists for how these monies are being allocated. The State Government must demonstrate what outcomes these significantly-increased revenues are achieving in the waste and sustainability industry.

The State Government must clearly disclose how much revenue is being generated from the solid waste levy, and crucially, how that revenue is being applied to achieve outcomes in the waste and sustainability sector.

In 2013-14 the solid waste levy was $47 per tonne. The 2016/17 State Budget announced a significant increase in the levy over four years to raise an additional $64 million. These funds were to be reinvested in the industry to grow jobs, promote recycling and lower carbon emissions.[141] In 2017–18 this levy was increased to $87 per tonne; an 85 percent increase compared to 2013-14 levels. By the 2019–20 year this levy is intended to rise to $103 per tonne for metropolitan waste.[142] A further 18 percent increase from the 2017–18 rate, and a 119 percent increase compared to the 2013–14 rate. This is a significant increase in cost for businesses in the waste and sustainability industry.

A portion of solid waste levy funds collected by the Environment Protection Authority is allocated to the Waste to Resources Fund, a fund used by Green Industries SA to support innovation and improvements in South Australia's waste industry. However, no information is being provided to detail how this money is being spent and what innovation and improvement outcomes are being achieved.

Given the significantly increased waste costs imposed on business, details of expenditure must be provided. If funds are dormant, the levy is too high and should be reduced. The State Government must clearly disclose how much revenue is being generated from the solid waste levy, and crucially, how that revenue is being applied to achieve outcomes in the waste and sustainability sector. Funds from this levy must not be used to fill gaps in unrelated State Government spending programs.

141 The Hon. Tom Koutsantonis MP, 'State Budget 2016/17: Solid Waste Reform to grow jobs and increase recycling' (News release, 4 July 2016).

142 Green Industries SA, 'Waste Levy', Government of South Australia (as at 26 January 2018) <http://www.greenindustries.sa.gov.au/wastelevy>.

10.4 Lobby the Council of Australian Governments to ensure an economy-wide emissions reduction policy results in uniform policies across states and territories, to provide future investment certainty and to enable emissions reductions at least cost, particularly for trade exposed industries.

The State Government must ensure future whole of economy emissions reduction efforts capture the ingenuity of industry and do not leave South Australia again taking a divergent approach.

The time taken for state and federal governments to agree to a national electricity sector emissions policy has imposed a significant cost on business; South Australian businesses more so than others. As state and federal governments look toward meeting Paris climate commitments beyond the electricity sector, Business SA recommends South Australia take the lead to achieve what should be an outcome best reached through collaboration at the COAG level. This will avoid potential costs on businesses of repeated divergent policies at a state and federal level on electricity costs, reliability and emissions.

Government policies should incentivise industry to become more carbon efficient and to better compete in international markets. While Business SA fundamentally prefers a more direct market approach to all emissions reduction efforts on behalf of governments, we should consider outcomes and ensure industry is being adequately incentivised.

If taxpayer funds are to be used to reduce carbon emissions, the outcomes need to ensure trade-exposed industries benefit most and the total cost to the Australian economy of competing in a more carbon-constrained world market is minimised, or even becomes a cost advantage.

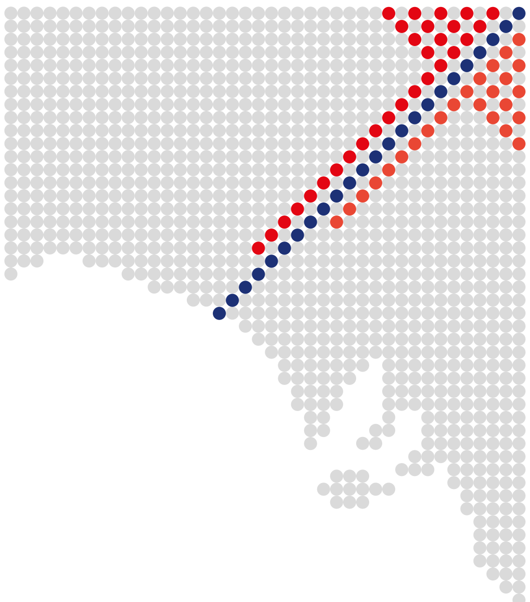
Meat and Livestock Australia (MLA) recently advised that Australia's red meat industry could be carbon neutral by 2030 through proactive industry-led strategies. These efforts should be encouraged and coordinated at a national level.

While Business SA is supportive of the State Government's work to advance the development of hydrogen production, particularly using renewable electricity for electrolysis, given hydrogen's potential to also decarbonise gas use across Australia, we need to see a nationally consistent emissions reduction policy. Having a clear carbon reduction goal across the economy will allow proponents of hydrogen production, and other forms of decarbonising industry, transport etc, to compete with one another to provide the least cost solutions to the emissions task.

The State Government must ensure future whole of economy emissions reduction efforts capture the ingenuity of industry and do not leave South Australia again taking a divergent approach. Furthermore, emissions reductions should occur where they can be achieved at least cost, regardless of the particular state jurisdiction.

Acknowledgements

Business SA would like to acknowledge and thank the countless owners, directors and managers from business of all sizes throughout South Australia, local, national and internationally recognised experts, local, state and federal politicians and government staff, regional chambers of commerce, employer and welfare associations and fellow peak bodies that have contributed to the recommendations in our 2018 Charter for a More Prosperous South Australia.



Special mentions

Our Policy and Advocacy team also deserve a special mention as they, through daily dialogue with businesses and an open ear, brought the Charter to life and provide Business SA the ability to be the collective voice of business in South Australia.

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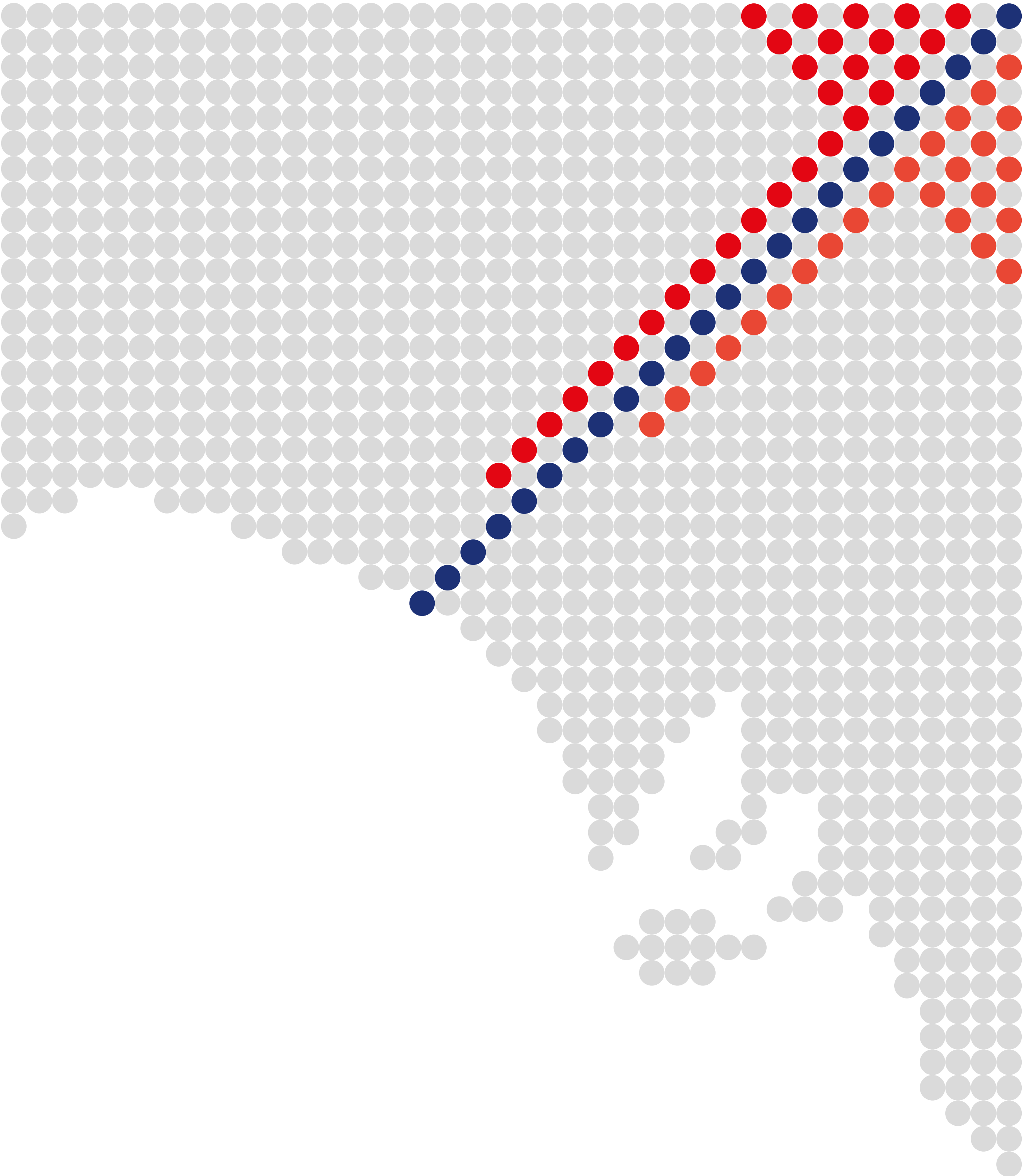

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