Business SA 2020/21 pre-budget submission to the State Government

March 2020

Business SA
Chamber of Commerce
and Industry South Australia

Executive Summary

Business SA expects the next South Australian State Budget will be finely balanced, particularly with growing pressure on GST returns. However, there remains a need for the State Government to support initiatives which can help it deliver on the Growth State agenda to ultimately reach an ambitious 3 per cent per annum economic growth target. The Government's budget strategy is important, particularly in the medium to long-term, but needs room to adapt to external threats such as bushfires and COVID-19. Business SA supports a sound strategy that ensures the Government is always in a position to adequately respond to crisis situations and agrees that these responses will ultimately come from being in a position of financial strength.

While Business SA eagerly awaits the release of the State Government's 20-year Infrastructure Strategy delivered through Infrastructure SA, and we welcome the Government's existing $12.9 billion broader infrastructure spend over coming years, we are mindful of the need to ensure a pipeline of major economic infrastructure projects. This includes the next stage of the North-South Corridor. We understand the need to adequately explore all tunnelling options, but that must come with a plan to commence other projects which have strong economic development potential and can serve to act as both a fiscal stimulus and keep major construction crews active in South Australia. This should include regional projects such as the Augusta Highway duplication, the sealing of the Strzelecki Track, as well as shovel ready road maintenance projects. The next wave of innovation within South Australian businesses, particularly in manufacturing, will not come easily and while there are many businesses already developing niche products, industry would benefit from a more dedicated focus from the State Government on enhanced university/industry collaboration. For example, through removing payroll tax for employment of STEM PhD graduates.

South Australia has led Australia in ambitious climate change related policy and Business SA supports the Government's recently announced interim target for a 50% reduction in carbon emissions by 2030 on a path to net zero carbon by 2050. In light of the 'Growth State' agenda being centred on a partnership between the Government and Industry, the State Government also needs to consider a suite of underlying policies that can practically assist businesses, particularly SMEs, to adapt to climate change, benefit from South Australia's world leading position in renewable energy and capitalise of emerging opportunities in the sustainable and circular economies. Such policies should also work to ensure our value adding economy can not only survive, but thrive in a low carbon environment, beginning with incentives and programs to encourage local businesses to explore options for the future uptake of hydrogen within their operations.

Business SA is focused on how the State can leverage its strengths and acknowledges our advantage in producing great food, wine and fisheries while creating an enviable environment for sport and leisure activity. Consequently, we urge the State Government to explore all options for a new City/Adelaide Park Lands running and cycle pathway (loop) proposal. This could potentially include an Indigenous theme, along with a fully integrated cycling trail linking to the key wine regions of the Clare Valley, Barossa Valley, Adelaide Hills and McLaren Vale. A continuous CBD running/cycle path could leverage off our unique park lands and strengthen the foundations for their long-term preservation, while the regional wine cycling trail could highlight the proximity of our major wine regions which are unparalleled in Australia and beyond. In addition, South Australia's visitor economy could benefit from an increased focus on attracting business events, including incentive groups, and hosting a Formula E motorsport race which could leverage off South Australia's world-recognised renewable energy credentials. In a transforming economy, skills shortages are a significant challenge for employers and the Government must facilitate the required skills across a range of sectors from those that have significant existing needs, particularly human services, to those with growing potential such as the space sector; all of which are equally deserving of a dedicated Government focus.

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Introduction

Business SA, South Australia's Chamber of Commerce and Industry, was formed in 1839 and has more than 3,000 members and several thousand clients across every industry sector, from micro businesses through to listed companies. We are a not-for-profit business membership organisation working on behalf of members and the broader business community in pursuit of economic prosperity for both South Australia and the nation. Funded by member subscriptions and the provision of products and professional services, we are independent of any government or political party.

As the recognised voice of business in South Australia, we constantly communicate with members to ensure our advocacy speaks to their collective needs and those of the broader business community. This occurs through day-to-day conversations, various online communication mediums, and more formally through member reference groups, topical roundtables and seminars.

After a drawn-out land tax debate which took a significant toll on confidence, 2019 was a year that many in the South Australian business community would prefer to forget. This resulted in the September Quarter Business SA Survey of Business Expectations (SOBE), the state's most regular and comprehensive business survey, falling to a record low. While the final outcome of the land tax changes was more palatable to many SMEs than the original proposal, and some of those disadvantaged will receive a degree of compensation, the process was not one we ever want to see repeated. Moving on, thus far, 2020 has begun with a renewed sense of confidence amongst the business community despite new challenges arising from devastating bushfires and the presence of COVID-19. The improved confidence shown in our December Quarter SOBE is fragile though and the 2020/21 State Budget is an opportunity for the State Government to reset its relationship with the business community following highly contentions land tax reforms exacerbated by the concurrent property revaluation process. In framing our pre-Budget submission, Business SA is mindful of the Government's broader financial position and reductions to forecast GST revenues that have occurred in recent years. However, we also remain mindful that should external threats like COVID-19 worsen, the State Government may need to consider a short-term stimulus approach.

COVID-19 aside, there are various structural reforms which the State Government should ultimately pursue, particularly to achieve a genuine step change in South Australia's economic growth trajectory. However, we accept that the current tentative financial situation of the State Government may not allow for say, wholesale reforms to payroll tax or the public sector. It is important to note however, that while these matters may not be off the agenda of the South Australian business community, Business SA's recommendations for the current Budget cycle are equally designed to be realistic within current financial constraints. We also wish to see the return of a fiscal strategy that is linked to tangible targets and not reworked to match contemporary budgetary outcomes. A path back to AAA should also not be off the table, even if it is recognised at present not to be the most pressing priority of Government.

Business SA encourages the Government to be open to less conventional ideas to bring about increased economic activity in South Australia, particularly via the visitor economy. The State Government should also be laying the groundwork for medium to longer-term projects to grow the economic capacity of our regions, including through key highway duplications. Businesses need to be assured that there is a long-term plan to grow the regions and we expect this will become evident in the pending 20-year South Australian Infrastructure Strategy.

One of the most consistent concerns amongst the business community relates to skills shortages across a wide range of industries. Despite South Australia again returning to the top of the national unemployment pile, businesses are still challenged with accessing the skills they need in an evolving economy.

All efforts need to go into the adequate training and education of South Australians to meet the economy's needs, but the Government must also work to facilitate the necessary flow of skilled migrants to plug any gaps, particularly when those businesses' existence is equally critical to the fortunes of local workers and the local economy.

The upheaval in energy markets over the last five years has left an indelible mark on local businesses and while prices have eased somewhat over the last 12 months, we are a long way from historic averages. In respect to other utility costs, the market for potable water may have experienced its sharpest rises until 2013, but South Australian businesses are still paying well in excess of fair value and the recommendations of the Independent State Water Inquiry must be implemented as soon as possible, concurrent with SA Water's current regulatory determination.

Business SA recognises the need for South Australia to play its part in a national commitment to reducing carbon emissions and we welcome the State Government's recent bold interim target to keep track with growing international momentum. At a high level, the industries which can reduce and capture carbon at least cost should be appropriately incentivised to do so but we should seek to avoid the sudden cost shocks like that which impacted South Australian businesses after the loss of the coal-fired Northern Power Station. On this front, the State Government has been proactive in facilitating a path for the development of green hydrogen in South Australia, but more can be done to translate that work to a competitive advantage for existing businesses which may have future opportunities to adopt hydrogen in place of natural gas.

The State Government's Growth State agenda provides a welcome focus on accelerating economic growth and is rightly predicated on being a partnership between Government and Industry. Business SA accepts the business community has a key role to play in driving the outcomes of Growth State, while the Government provides the necessary environment for those businesses to succeed. Business SA has long argued that South Australia needs a specific population growth target. In the absence of one, the Government should remain cognisant that with the State's population growth only nudging above half the national average, and exhibiting the highest median age on the Mainland, that more must be done to ensure the competitiveness of businesses selling into both interstate and overseas markets. That may require working with other states to cut red-tape involved with trading across state boundaries, for example payroll tax remittance, to ensuring that key costs for exporters are as competitive as possible and access to required infrastructure is world class. In the 12 months to December 2019, South Australia's goods exports fell 8.6 per cent and with exports of $2.8 billion to China comprising 25% of our goods export profile[1], the next Budget must be clearly orientated towards export related outcomes. This extends to services which are dominated by higher education and tourism, and again where China is the dominating partner.

As part of the export related growth story, South Australia has undergone a major structural economic change in recent years following the closure of Holden's (and Toyota and Ford in Victoria) auto-manufacturing operations. While the onset of major defence projects including the Future Submarines and Future Frigates projects has provided some impetus to local manufacturing, many auto-component manufacturers have either scaled back or closed. What the transition has highlighted is that are the immense challenges in developing competitive new products in global markets and a distinct need for both the State and Federal Government to effectively facilitate increased innovation within industry. A significant aspect of this should include increased university/industry collaboration to assist local businesses to better leverage from South Australia's world class universities.

[1] ABS, International Trade release, December 2019

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Summary of Recommendations

Introduction

Energy/Water/Sustainability

1. Implement a ‘Hydrogen for Business’ program to enable small to medium sized South Australian businesses to begin scoping out the future use of hydrogen within their operations, and to position South Australia to employ hydrogen within its domestic economy as a compliment to any future export operations.

2. Implement the findings of the Independent State Water Price Inquiry which found SA Water’s assets were materially overvalued and extrapolate those findings to the sewerage assets omitted from the Inquiry’s terms of reference.

3. Provide broader engagement and support for South Australia’s business community, particularly SMEs, as they face both challenges and opportunities in transitioning towards a net zero-carbon and increasingly circular economy.

Infrastructure

4. Acknowledging ongoing preliminary works to ascertain a viable tunnel option for the remaining North-South Corridor completion, and the associated budgetary relief from a delay in a major capital drawdown, look to fast track other economic infrastructure projects that are further advanced in scope and can act as a much needed fiscal stimulus.

5. Develop a marketing and communications campaign to promote the wide range of internet capability options available to businesses considering moving or expanding operations in South Australia, including Gig-City, Ten Gigabit Adelaide and other wireless options all of which are complimentary to baseline NBN services.

6. Fund a feasibility study into the development of an internationally recognisable City-Loop path that provides an uninterrupted walk, run and cycle experience that circumnavigates the Adelaide Park Lands. The path will include bridges or underpasses at major roads and provide a globally unique tourist attraction around the CBD.

7. Assist local councils in developing the Adelaide Wine Capital Cycle Trail, connecting a broader network of cycling paths linking key regionals tourist destinations from the Clare Valley through to McLaren Vale, and promoting South Australia as Australia’s premier cycling tourism destination.

Visitor Economy

8. Through increasing the Event Bid Fund to build on the exemplary work of the Adelaide Convention Bureau, ensure relative support for the Bureau’s business development efforts and focus increased funding on attracting smaller business events and corporate incentive groups which can provide more direct benefits to regional South Australia.

9. Prioritise efforts to attract a Formula E motorsport event to South Australia which could serve as a major visitor drawcard and catalyst for our State’s willingness to embrace greater innovation, new technologies, low emissions transport, and leverage from our strength as a leading renewable energy jurisdiction.

Skills & Training

10. Continue to fund workforce growth strategies for the care industry, to assist South Australian businesses dealing with the structural changes in the disability sector and high needs in the aged care and community service sectors to encourage innovation and expansion, set up businesses and grow and train their workforce.

Taxation

11. To increase collaboration between businesses and universities, introduce a payroll tax incentive for Science, Technology, Engineering & Maths (STEM) PhD graduates, with a rebate equivalent to 200 per cent of wages.

12. 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 with the aim of a national payroll tax clearing house.

Population & Migration

13. Following the recent decision for regional public schools, abolish the requirement for temporary working visa holders to pay additional student contribution fees in South Australia's metropolitan public schools.

Work, Health & Safety

14. Provide increased funding for SafeWork SA's educational functions with consideration of high risk and regional employers. Funding should provide employers with greater opportunity to train staff in WHS matters and provide safer South Australian Workplaces.

Public Sector

15. Commit to a nationally consistent redeployment timeframe for surplus public sector workers.

Fiscal Strategy

16. Restore a net debt target and develop a plan to return South Australia to a AAA credit risk rating.

Energy/Water/Sustainability

1. **Implement a 'Hydrogen for Business' program to enable small to medium sized South Australian businesses to begin scoping out the future use of hydrogen within their operations, and to position South Australia to employ hydrogen within its domestic economy as a compliment to any future export operations.**

The increasing interest in the hydrogen economy is promising for a state like South Australia with growing renewable energy generation and limited domestic demand. While SA Power Networks grapples with how to accommodate the growth of rooftop solar which is fast heading towards satisfying South Australia's entire electricity demand in the middle of the day, the State Government is rightly focused on other options to generate value from renewable energy generation. Considering the modest water required[2] for electrolysis to generate hydrogen, South Australia is well placed for competitive advantage in hydrogen production which relies on access to a low marginal cost source of energy generation, enabled by excess renewables.

It is important to remember that electricity consumers have subsidised the vast amount of renewable energy in the current market. This has primarily been through the Federal Government's Renewable Energy Target, plus the now closed State Government solar feed-in-tariff payments. Consumers have also paid indirectly through the wholesale market chaos experienced over the transition to a low-carbon electricity market following a realisation that intermittent renewable electricity generation could not continue to be subsidised by the RET with no offsetting allowance for the grid's base-load generation needs. Business SA does not seek to dwell on the past, but given South Australian electricity consumers have already paid a high price for the existing renewable energy generation in the market, it is now time to ensure the local economy can leverage all the possibilities that generation brings to an increasingly carbon constrained economy.

Around Australia, State Governments have been launching various versions of a hydrogen economy policy framework which has been supported by a concurrent national approach. Over the past several years, the South Australian Government has been active in pursuing all opportunities to position this state to be a leader in hydrogen production and Business SA commends the current Government for continuing this focus through its own Hydrogen Action Plan and recent investment in the Australian Hydrogen Centre.

While the bright lights of export market opportunities to Asia, particularly Japan and Korea, cannot be ignored and South Australia should continue positioning itself to exploit them, local businesses equally want to see how they can directly benefit from the increasing availability of hydrogen as a zero carbon source of energy. Afterall, it is the local businesses themselves whose ongoing viability in an increasingly carbon constrained economy will continue to provide the value-added goods and services needed to ensure South Australia's economy is sustainable. Exporting hydrogen is a fantastic opportunity, but if it only ends up as another commodity to export, we will miss a much greater and more economically sustainable opportunity to grow value-added opportunities for local businesses.

Business SA is the first to recognise that the reality of local businesses being able to adopt hydrogen at scale even if it was readily available and price competitive at present is still low. This is due a wide range of factors, including delivery constraints and the ability of appliances and other plant and equipment to run on hydrogen. There are of course some exceptions such as where brown hydrogen is already used as an input, for example in ammonia production, or where companies like GFG Alliance are looking to utilise hydrogen in steel production.

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[2] Hydro Tasmania, 'Just add water – generating Tasmanian hydrogen opportunities with clean energy', November 2019

Australian Gas Infrastructure Group, the company that operates South Australia's gas distribution network, will soon finish construction of a pilot hydrogen production plant with State Government support to deliver a very low, up to 5% blend of hydrogen with natural gas to a finite part of its network near Tonsley. This is a promising development which is forecast for completion by June 2020 and will eventually include a refuelling facility for hydrogen delivery to industrial customers by tube and trailer.

Many major manufacturers such as Siemens are working on commercially viable hydrogen powered turbines, and the piloting of hydrogen for use in boilers is occurring in the UK. Hydrogen powered forklifts are also in the market, as are hydrogen fuel cell vehicles. While some of these options still face other barriers to mass adoption, for example re-fuelling stations, it is increasingly likely that hydrogen will play a much greater role in the future economy, particularly for heavy vehicle transport. On this basis, Business SA encourages the State Government to give effect to the 'Industry & Agriculture' focus within its Hydrogen Action Plan by providing some small grant incentives to enable local businesses to employ expert energy consultants to scope up a range of options to utilise hydrogen in their operations and ensure their readiness for the time when hydrogen is both available at scale and can be cost-effectively adopted. This would allow businesses to consider say, how their future capital equipment purchases should be decided upon to potentially take advantage of equipment or vehicles which run on hydrogen or some blend thereof. Such a grant program would also assist to enable the local energy consulting industry to become leading advisers on how Australian businesses can be first adopters of hydrogen within their existing operations – or in new developments which centre around the use of hydrogen as a zero carbon energy source.

As the State Government proclaims through its Growth State agenda '*Industries and businesses must continue to do the heavy lifting and the government will encourage them to do so by providing much more effective cooperation and support. We need to equip our businesses with tools and the confidence to grow their operations, create jobs and sell their products on the world stage.'* Relatively low-cost initiatives like a 'Hydrogen for Business' program will provide businesses with the tools and confidence to encourage businesses to innovate and grow their export potential.

2. Implement the findings of the Independent State Water Price Inquiry which found SA Water's assets were materially overvalued and extrapolate those findings to the sewerage assets omitted from the Inquiry's terms of reference.

Business SA recognises the cost of potable water in South Australia has levelled off in recent years while other utility costs have increased materially, and we acknowledge the Essential Services Commission of South Australia (ESCOSA) and SA Water's efforts to contain price increases since 2013. Notwithstanding, the standard potable water price at $3.41 per kilo-litre (KL) remains approximately triple the rate of just over a decade ago, $1.16 in 2007/08, prior to major cost increases being imposed through factors including the RAB calculation methodology and construction of the Adelaide Desalination Plant (ADP) and associated pipeline infrastructure.

Business SA had long called for an independent review of SA Water's regulated asset base (RAB) and we welcomed the State Government's recent State Water Price Inquiry led by Mr Lew Owens. Our primary submission highlighted the cost impact of an artificially inflated asset base, particularly on South Australian businesses, and we implore the State Government to fully implement the Independent Inquirer's recommendations at no less than the conservative upper bound of reduction, including for the waste-water asset base. For no valid reason, waste-water assets were excluded from the Inquiry's terms of reference but water bills include sewerage charges and SA Water customers expect an inquiry into water prices would not exclude a service which comprises a third of the bill.

Business SA recognises the decision on implementing the Inquiry findings lies outside the Essential Services Commission of South Australia (ESCOSA)'s process for its current regulatory determination on SA Water's 2020-24 revenue proposal, but the State Government has had over 6 months to consider Mr Owen's report and a decision needs to be made to ensure businesses have certainty about water prices from 1 July 2020.

Expert independent analysis prepared for Business SA by CEPA Economic Policy Associates found the value of SA Water's regulatory 'water asset' base, their water RAB, to be approximately $1.5 billion higher than a conservative estimate of the value calculated through the best practice deprival value approach. CEPA also found SA Water's waste-water assets to be over-valued by approximately $500 million, and when the two are combined, SA Water's total RAB is over-valued by $1.96 billion. For water related charges alone, the subsequent reduction in SA Water revenues should be approximately 13% (or an equivalent of 40 cents/kilolitre (KL) if applied to water usage charges only). However, when combined with waste-water related charges, the over-valuation of SA Water's total RAB represents 12% of SA Water's revenues in the reference year, 2012/13, and when addressed, should result in an approximate 12% reduction to the average customer's total bill.

Business SA recognises the final report of the State Water Price Inquiry was more conservative in its findings than our independent expert analysis, and while we do not necessarily agree with all its conclusions, we accept the process was robust and the Inquirer genuinely considered a wide range of perspectives, including that of SA Water who argued strongly to maintain the existing asset values. Subsequently, the State Government's adoption of the Inquirer's findings is much less a task than what Business SA's expert analysis showed, and we see the adoption as a minimum expectation of South Australian businesses to be implemented as soon as possible. Furthermore, the conservative reductions applied to the water asset base should be extended to the waste-water asset base. We estimate that this would result in a further 5-6% reduction in water and sewerage prices beyond what is already likely to occur through SA Water's lower cost of debt next regulatory period which impacts its weighted average cost of capital.

As part of the Government's Growth State Plan, it acknowledges its role to '*foster sector wide growth by establishing and maintaining a competitive business environment.*' Subsequently, implementation of the State Water Price Inquiry recommendations is a good place to start in providing a more competitive business environment.

3. Provide broader engagement and support for South Australia's business community, particularly SMEs, as they face both challenges and opportunities in transitioning towards a net zero-carbon and increasingly circular economy.

In a 2018 survey of Business SA members, 69% believed human activity had led to climate change, a further 12% were unsure and 19% disagreed. Accordingly, for the overwhelming majority of businesses, there is little to be gained by arguments about climate science and instead they want to see Australia adopt a sensible carbon emissions reduction strategy. In fact, 84% of surveyed businesses thought this was important to varying degrees.[3] Businesses, including SMEs, are also very mindful of the competitive climate in which they operate in and do not want to see Government policy enacted in absence of an adequate understanding of related cost impacts which can be crippling for businesses either trading interstate or overseas. With population growth only just beginning to move off a very low base in South Australia, many SMEs have had to look beyond the state's borders for opportunities, so relative competitiveness is particularly important here.

Business SA takes a pragmatic approach to climate change adaptation and is primarily concerned with ensuring that as Governments at both a State and Federal level adopt policies with the ultimate goal of a net zero carbon economy, that businesses and particularly SMEs are adequately supported in that transition. Subsequently, we

[3] Business SA, Survey of Business Expectations, September Quarter 2018

support the State Government's recent announcement of an interim 50% carbon reduction target on the path to a 2050 net zero carbon goal and highlight the importance of associated policy measures to ensure as each sector of the economy transitions, SMEs are appropriately considered for. It is often the case that larger businesses have more resources to deal with laws or regulations imposed to control negative externalities like carbon emissions, but SMEs do not necessarily have this capacity and can find it challenging to deal with such matters which are often not considered part of their core business. In recent years, this has practically meant dealing with rising electricity prices that occurred as result of Government policies ultimately aimed at reducing carbon emissions, but which had a very blunt impact on many SMEs much less able to cope with the impact.

In 2019, the Joyce Review identified 8 key sectors as forming the basis of South Australia's competitive advantage in the future. With sectoral goals for each, these industries will do much to underpin the state's innovation agenda, investment attraction, employment and Growth State ambitions. Pivotal to the growth of each sector identified in the Joyce Review is the foundation of a clearly articulated sustainability agenda.

The global pressure to drive sustainable business practices has never been greater. From the international commitment to action on climate change under the Paris Agreement to the pressures of electricity and water prices felt by thousands of SMEs across South Australia, this trajectory is only set to continue to rise. Whether it is the increased competition from global players, growing consumer demand for sustainable products, the disruptive nature of technology or preparedness for extreme weather events, every business is exposed to the interplay between environmental, social and economic factors.

While the State Government cannot protect all businesses against climate change related impacts, it does have a role to provide adequate information and opportunities to assist with the economic transition to ensure, as much as possible, that existing businesses are able to cope. Ultimately, the State Government should manage the transition to a low carbon economy in a way which harnesses the strengths of our underlying competitive advantages and provides capacity for local SMEs to adapt quickly and capture new market opportunities. The Growth State initiative rightly has Land, Water and Environment as a key platform to underpin economic growth but the new opportunities in a world moving towards 'clean and green' products within a climate-transition will require underpinning policy support, particularly to support SMEs.

Infrastructure

4. **Acknowledging ongoing preliminary works to ascertain a viable tunnel option for the remaining North-South Corridor completion, and the associated budgetary relief from a delay in a major capital drawdown, look to fast track other economic infrastructure projects that are further advanced in scope and can act as a much needed fiscal stimulus.**

Business SA has had a long-standing position recommending an independent infrastructure authority to assess all infrastructure proposals and rank them in order of cost-benefit analysis to the state. We have always recognised that the decision on each project would ultimately rest with the Government of the day, but there is a material need to at least ensure transparency around how competing projects compare to mitigate against politicised outcomes. To the State Government's credit, Infrastructure SA was established to fulfil an election promise and has been working towards delivering South Australia's first 20-year infrastructure strategy. Infrastructure SA, led by an independent board, has consulted with a wide range of stakeholders in order to shape this strategy and, while the process has taken considerable time, Business SA accepts the need to get it right and not rush advice on such critical projects. Notwithstanding, we expect the report will be delivered soon to meet the early 2020 timeframe.

Concurrently, after receiving a substantial $1.5 billion funding commitment in last year's Federal Budget, the State Government has been working on a range of options to complete the North-South Corridor, including to potentially tunnel the remaining sections. The initial business case for this project was initially set for completion by mid-2019 and by December, the Government announced that after having received the business case, it had moved to a secondary stage of preliminary investigations to scope out a potential design for tunnel options. Business SA recognises the complexity of this project, and the need for adequate geotechnical and hydrogeology investigations.

With other major North-South Corridor projects, namely the Darlington Upgrade and Northern Connector, near completion in coming months, aside from medium sized economic infrastructure projects including the $354m Regency Road to Pym Street upgrade underway and regional projects including the $122m Port Wakefield bypass and $200m Joy Baluch Bridge in train, there is a growing need for the Government to be mindful of South Australia's major construction pipeline. Business SA does acknowledge and welcome the State Government's broader infrastructure spend at present, including hospitals and schools, which was just confirmed at $12.9 billion over the next four years. However, our comments remain in relation to major economic infrastructure projects, a lack of which was highlighted in Infrastructure Australia's February 2020 Priority List which only had one South Australian priority project, the Eyre Infrastructure Project; dependent on the Iron Road mine proposal.

Business SA expects Infrastructure SA's 20-year infrastructure strategy will be prepared in time to inform the upcoming State Budget, and in the absence of this we can only comment on projects we have previously supported in terms of broader economic development outcomes. We would consider projects which have stronger long-term economic development potential to include both the duplication of the Augusta Highway between Pt Wakefield and Pt Augusta, the sealing of the Strzelecki track and the Dukes Highway duplication. Business SA has previously backed these projects and in our recent submission to the Government's Regional Development Strategy, we argued the need to move away from regional projects having to fit in the 'all or nothing' category but start to consider staged projects which may in some cases take longer but at least provide confidence to the investment community as to which direction the Government is heading. If we consider Victoria, there long been a policy aim to continue duplicating the Western Highway towards the South Australian border, but we lack a sense of what the South Australian Government's long-term aspirations are. These types of regional highway duplications are also important to bring greater economic opportunities to South Australia's often underdeveloped regional centres when compared with those in the Eastern States.

The State Government should also consider how it can increase support for local road maintenance funding, particularly in regional areas where there is otherwise a focus on growing tourism in line with the Growth State Agenda. With major capital projects like the North-South corridor taking funding pressure off the Government while preliminary works continue, now is the time to look at other shovel ready projects which can both provide an economic stimulus and ensure continuity of available work for the local construction sector. In the Business SA 2018 Regional Voice survey[4], when asked what businesses thought the Government could do to better support them, the clear priority was investment in economic infrastructure (34%), followed by investment in social infrastructure (16%), then investment to retain or attract business to regions (13%).

[4] Elicited over 450 responses from regional businesses across South Australia

5. **Develop a marketing and communications campaign to promote the wide range of internet capability options available to businesses considering moving or expanding operations in South Australia, including Gig-City, Ten Gigabit Adelaide and other wireless options all of which are complimentary to baseline NBN services.**

Considering the National Broadband Network (NBN) is expected to reach the volume rollout of its network by June 2020, the majority of the nation and particularly metropolitan regions will have some level of base-line internet connectivity. In its latest update, NBN advised that 10.5 million households and businesses were now able to access the NBN, with the network volume build more than 90 per cent complete. Of those able to connect, just over 61 per cent had done so[5].

While the NBN was always intended to provide a base-line level of internet connectivity, up to 100 megabits-per-second, various jurisdictions and private operators have been building additional networks in recent years to provide for commercial, governmental and educational uses which can require significantly higher internet capacity. In South Australia, this has largely been achieved through the State Government and university sector's development of its Gig-City network and the Adelaide City Council'(ACC)s Ten Gigabit Adelaide network. The physical structure of these finite complimentary networks also provides an increased level of network security which is important in an environment of increasing cyber-crime concern. Various wireless internet providers have also entered the market with a range of commercial offerings.

The Gig-City network was enabled through a non-profit company, SABRENet, with founding members being the University of Adelaide, University of South Australia, Flinders University and the State Government. Established in 2005, SABRENet is an optical fibre network which extends approximately 400km through metropolitan Adelaide and was formed to interconnect South Australia's research, education and innovation sectors. Gig-City is the trading name given to the 10-gigabit network enabled through SABRENet and managed by private internet service provider Escapenet. In short, Gig-City enables business customers in the key innovation precincts and co-working spaces across Adelaide to access internet with up to 10 gigabit per second capacity. Two new locations in Whyalla and Mount Gambier will also be available soon to businesses within 350 metres of wireless base stations. At present, there is no mandate to extend Gig-City beyond its existing footprint which already covers key tertiary education and innovation precincts, mostly in metropolitan Adelaide.

To complement existing offerings of Gig-City, the ACC entered into a contract with TPG to deliver a similar capacity internet service known as Ten Gigabit Adelaide. This involved an initial capital investment with payback over a decade. The ACC was able to undertake this project ahead of other Australian capital cities with the advantage of maintaining ownership of telecommunication pits which had already been sold off elsewhere. The goal of Ten Gigabit Adelaide is to have a 10 gigabit per second service connected to 1,000 city buildings by the end of 2020 and delivery is on track with almost 700 buildings now complete. Ten Gigabit Adelaide is not a direct competitor to Gig-City, rather it extends a higher internet capacity offer more broadly in the CBD than what was available through Gig-City with some technical differences in network limits. Both services are not meant to replace NBN, rather provide solutions for business customers which require much higher than base level internet capacity whether that be for industries such as post-production, or even surgeons and architects who have recently bought these services.

Considering NBN is a Federal Government company, Gig-City is associated with the State Government and local university sector and Ten Gigabit Adelaide was established by Local Government, there has been little coordination to promote the broader internet capacity of South Australia, and particularly Adelaide, to a wider audience. From Business SA's perspective, we are technology agnostic and unconcerned with which level of government initiated various services, but we know the whole state could benefit from coordinated marketing to promote the entire range of services and how they can collectively work to attract new businesses to South Australia, or encourage existing

[5] NBN Co media release, 'NBN Co achieves targets for revenue, network rollout and activations', 11 Feb 2020

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ones to expand. Such a marketing campaign should be led by the State Government, perhaps with a co-contribution by the ACC, but we encourage both levels of Government to work together on the greater aim of positioning South Australia ahead of its interstate rivals as the best connected state for enhanced internet capacity. Adelaide's CBD vacancy rate at 14.0%, is amongst the highest of all mainland capital cities and compares with Melbourne at 3.2% and Sydney at 3.9%.[6] As the State Government continues to explore options to attract more businesses in innovative industries like space, it must look to how it can firstly promote the technological advantages it has whether they be as a result of Local, State Government or university sector initiatives. With the office space available and a leading level of internet connectivity, South Australia, would benefit from a coordinated marketing and communications campaign to join the two together to help realise the Government's Growth State objectives for innovation.

6. Fund a feasibility study into the development of an internationally recognisable City-Loop path that provides an uninterrupted walk, run and cycle experience that circumnavigates the Adelaide Park Lands. The path will include bridges or underpasses at major roads and provide a globally unique tourist attraction around the CBD.

The Adelaide Park Lands are globally unique and provide an opportunity to attract visitors and tourists to the Adelaide CBD and any plan to develop the Parklands must be in keeping with the natural environment and enhance, rather than change what is currently available. Business SA is calling on the State Government to fund a feasibility study into a concept plan for an uninterrupted walk, run and cycle circuit around the Adelaide Park Lands. A proposal presented to Business SA is for a globally unique pathway that utilises recycled materials, luminous surfacing treatments, is in harmony with the existing parklands and leverages established pathways and infrastructure where possible.

In order for this to be truly unique, major roads will be to need to be by-passed with bridges and/or underpass crossings included to ensure a truly uninterrupted circuit. Although the construction of major bridges and underpasses around the city will be a significant infrastructure cost, the construction does not need to be undertaken consecutively, which will also reduce the adverse impact on traffic entering and exiting the city.

Although directly, this is a non-commercial venture with the goal of encouraging an active healthy lifestyle, it will help to build Adelaide's reputation globally as a destination for sports and leisure tourism, offering an inner-city experience for locals and interstate/ international visitors alike. This is a project that cannot be replicated in any other major city in the world.

The pathway will provide tourists and locals alternative access to major icons including the Adelaide Zoo, River Torrens Precinct, Tree Climb and Pakapakanthi Sports Park (Victoria Park) and link significant historical sites. It provides the opportunity to develop new visitor attractions such as public art for discovery, inspiration and play as well as interactive sites to educate on Aboriginal and colonial history.

The proposal is for a 4-metre-wide track to allow for traffic in both directions and will also include drink fountains, benches and barbeque facilities, shelters, toilets, lighting and shelters. In addition to the typical facilities, in order to make this a truly unique path, technology such as technologically advanced lighting and recycled, interactive surfaces will make this a truly unique experience.

[6] Property Council, Office Vacancy Rate data, Jan 2020

Business SA believes the pathway provides an opportunity for this government to utilise the parklands to create an iconic tourist attraction that will celebrate the uniqueness of the City of Adelaide. The first step to creating this iconic attraction is funding a feasibility study and we call on the Government to provide funding for the study leading to the timely commencement of the project.

7. Assist local councils in developing the Adelaide Wine Capital Cycle Trail, connecting a broader network of cycling paths linking key regionals tourist destinations from the Clare Valley through to McLaren Vale, and promoting South Australia as Australia's premier cycling tourism destination.

South Australia has a unique environment perfect for the development of cycling trail that links the Clare Valley through to McLaren Vale. In Business SA's 2019/20 State Budget submission, we called for funding of a trail that utilises abandoned railway tracks and existing bike infrastructure such as the Amy Gillett Bikeway.

With the success of the Tour Down Under (TDU), South Australia is seen as a premier cycling destination, however we have not sufficiently capitalised on this and risk other states such as Victoria pushing for the status of the 'cycling state'. Business SA calls on the South Australian Government to implement a state-wide cycling strategy that increases regional cycling infrastructure in order to attract more cycling tourism. A track connecting our most iconic wine regions has the potential to become a globally recognised cycling destination, attracting sports and leisure tourists from around the world.

The funding for the trail will also be used for complementary cycling infrastructure in key tourism areas such as McLaren Vale, modelled on the successful Barossa Cycling Hub. These hubs will provide a starting point for cyclists and provide services outside 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.)

Six regional councils along the proposed path have already invested $135,000 in planning for the trail and are currently seeking Federal Government funding through Infrastructure Australia, however this funding is not guaranteed. Business SA calls on the State Government to publicly back the project and guarantee the State Government's co-funding if the project is approved.

In addition to supporting and co-funding the proposed trail, Business SA recommends the Government allocate funds to develop a complimentary interactive website and app that shows all the tracks available as well as businesses that support the cycling community.

There is no doubt the financial benefit cycling already brings to the State. In 2019 the TDU generated an economic benefit of $70.7 million[7] to the State economy and, according to a 2015 Roy Morgan poll, South Australia has 5 out of the top 9 cycling destinations in Australia. However, we are competing with other cities both nationally and internationally and need to ensure that we remain on top and capitalise on existing developments. With the appropriate funding and support, this project can be completed in as little as 3 – 5 years providing South Australia with a unique, inspiring and innovative opportunity that will benefit not only the State as a whole, but the business community through increased tourism, bike retail and associated technology.

[7] https://tourdownunder.com.au/media/media-centre

Visitor Economy

8. Through increasing the Event Bid Fund to build on the exemplary work of the Adelaide Convention Bureau, ensure relative support for the Bureau's business development efforts and focus increased funding on attracting smaller business events and corporate incentive groups which can provide more direct benefits to regional South Australia.

The previous State Government established the Convention Bid Fund (CBF) in November 2013 with an initial $2 million contribution allocated over two financial years. The basis of this funding was to support Adelaide when competing in the globally sought after business events market where financial support as part of convention bids is considered the norm. With a change in Government in 2018, the CBF was bolstered through a renamed Event Bid Fund which incorporated both a leisure and business events component.

The business event component of the EBF has been used by the Adelaide Convention Bureau, a small stand-alone entity which operates through a combination of State Government and Adelaide City Council funding as well as membership contributions from 180 businesses and service providers. The Adelaide Convention Bureau has existed for over 45 years and successfully competes against 16 other convention bureaus around Australia alone in a market which targets 80% national / 20% international events. It is critical that South Australia is able to remain competitive in this sector.

In order to execute the mandate of the EBF to increase event visitor numbers, particularly business-related visitors, the Adelaide Convention Bureau also requires adequate operational support to ensure it can effectively position South Australia to develop bid opportunities in the business events market which requires boots on the ground.

The current State Government support for both the EBF and Bureau is wrapped up into a $5m per annum fund which includes both the Bureau operational/marketing support, $1.25m, and the business event incentive component of the EBF itself, $3.75m.

Unlike some Government grant programs, the nature of how EBF payments flow for business events is predicated on an outcomes based framework whereby only a relatively small upfront payment is made but subsequent payments are staggered based on the relevant event achieving key milestones related to delegate attraction and various other metrics. The final component of any bid payment to a business event organiser only occurs post event once predicted visitor numbers are substantiated. This approach ensures that the Government invests for economic benefits the State actually receives from business events attracted through the EBF, not just for securing major business events which may not deliver upon expected outcomes.

To ensure the State Government obtains value for money from the EBF, the Bureau tracks economic outcomes quite closely and uses industry standard reporting methodologies to avoid overstating benefits. Over 2018/19 alone with the support of the EBF, the Bureau was able to secure business events which brought 50,000 delegates to 154 events in South Australia staying for a collective 235,000 nights and contributing $260 million in economic benefit.[8] Of note is that 3 incentive groups secured last year alone will deliver $90 million in economic benefits. The corporate incentive market, which is particularly prevalent and growing in Asia, involves companies rewarding their sales force with an all-expenses paid business tour in attractive destinations around the world. Not only is this market growing, but the spend per visitor is much higher than average. This is a product of the company funding the trip which leaves attendees with more capacity to spend their own money in the local economy.

It is important that the Bureau is able to maintain an ability to attract major conventions like the 2017 International Astronautical Congress held in Adelaide which attracted 4,500 delegates alone. The pre-work on attracting this event commenced nine years prior which demonstrates the longer-term view that State Governments much take in order to

[8] Adelaide Convention Bureau, 2018/29 Annual Report, P3

successfully position for major business events. Subsequently, it is important that funding of both the EBF and the Bureau is predicated on long-term certainty to enable the Bureau staff to work with confidence on expanding South Australia's visitor economy. This will ensure the State Government can realise its Growth State objective of increasing the business events contribution to visitor expenditure. There has also been a significant uplift in new hotel rooms in Adelaide in recent years with 1,328 built between 2014-18, construction underway on an additional 700 rooms and a further 635 rooms set for construction starts in the next 12 months.[9] Furthermore, with the Adelaide Oval Hotel coming into the mix, it is even more important to see an increased effort to attract the necessary business events to support the broader accommodation sector.

From a regional South Australian perspective, the attraction of major business events to Adelaide has a flow on benefit with many international attendees including trips into the regions as part of their itinerary. However, considering many event venues in the regions are typically not of equivalent capacity to those in metropolitan Adelaide, nor have capacity of nearby accommodation to host major conferences, the State Government also needs to have regard to how the EBF is structured to support the Bureau attracting smaller events as well. Again, this will deliver on the Growth State objective of increasing the frequency and impact of regional business events.

Business SA suggests that through the State Government building on the success of the EBF, that it looks at part of a funding increase being allocated specifically to attracting regional business events and Asian corporate incentive groups which are more likely to disperse to the regions. While the return on investment may be lower than for a major conference held in metropolitan Adelaide due to economies of scale, the State Government should still play a greater role in developing the regional visitor economy, particularly following recent bushfires.

The benefits business events bring to South Australia often extend far beyond 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 'open for business'.

9. Prioritise efforts to attract a Formula E motorsport event to South Australia which could serve as a major visitor drawcard and catalyst for our State's willingness to embrace greater innovation, new technologies, low emissions transport, and leverage from our strength as a leading renewable energy jurisdiction.

The Formula E (FE) championship for electric vehicles commenced in 2011 and has been growing rapidly in recent years, with the global TV audience reaching 411 million in 2018/19[10], only marginally behind F1 at 471 million[11]. While the total FE spectator numbers were just over 400,000 over 2018/19[12], compared to over 4 million for F1[13], the online audience is growing rapidly with video views up 61% in 2018/19 to over 850 million[14]. This accords with the prime audience for FE currently being in the 13-24 year old range versus 40 and over for F1. Formula E's popularity with the younger demographic is partially explained by the interactive aspect of the sport that enables the online audience to race the drivers in real time. Major auto-manufacturers including Audi, BMW, Jaguar, Mercedes and Porsche have also joined FE and with mandates increasing to phase out new petrol and diesel vehicle sales in Europe and beyond, it is likely that FE could eventually take over F1 with growing market relevance.

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[9] South Australian Tourism Commission, Adelaide Accommodation Pipeline, November 2019
[10] Autosport, 2018/19 FE Annual Report summary, 12 September 2019
[11] FI website, 'F1 broadcast to 1.9 billion total audience in 2019, 21 January 2020
[12] Autosport, 2018/19 FE Annual Report summary, 12 September 2019
[13] FI website, 'Grand Prix attendance surpasses 4 million in 2019', 21 January 2020
[14] Autosport, 2018/19 FE Annual Report summary, 12 September 2019

There are currently thirteen races on the FE calendar across 11 cities including:

- Diriyah (Saudi Arabia)
- Santiago (Chile)
- Mexico City
- Marrakesh (Morocco)
- Rome (Italy)
- Paris (France)
- Seoul (South Korea)
- Jakarta (Indonesia)
- Berlin (Germany)
- New York (USA)
- London (UK)

With no race as yet in Australasia, albeit Auckland chasing one, the State Government needs to be positioned to ensure it can adequately leverage both South Australia's proud automotive manufacturing history, the gaming sector, Lot Fourteen and the State's reputation as a leading jurisdiction on renewable energy penetration. Adelaide has an enviable track record in running a range of world class motor sport events, including the Superloop 500, and while Business SA understands the need for the State Government to undertake the necessary due diligence on attracting an FE race, we have a strong competitive advantage to work from.

Major private backers including Sanjeev Gupta have publicly advocated for a FE race in Adelaide and economic impact studies from a range of host cities to date put the economic benefits of these races in the range of $35 to $45 million which compares to the F1 grand prix in Melbourne. However, the cost to Victoria to run the F1 race was $60.2 million in 2019[15], which we understand would be considerably less for FE, with host cities paying approximately $10 million to host versus circa $30 million for F1. Set-up/down logistics are also much better for FE with considerably less impact on host cities. With FE is still very much in a growth stage compared to F1 from a spectator perspective, the costs of attracting a race are only likely to increase in time as it becomes more popular and by that stage, the likelihood of South Australia being able to afford to attract an FE race here will likely diminish.

Skills & Training

10. **Continue to fund workforce growth strategies for the care industry, to assist South Australian businesses dealing with the structural changes in the disability sector and high needs in the aged care and community service sectors to encourage innovation and expansion, set up businesses and grow and train their workforce.**

Health and Social Assistance in South Australia contributes 9.5 percent to our Gross State Product[16], more than manufacturing, agriculture or construction and the Care Sector (Aged Care, Disability and Community Services) is forecast to grow by 14.9 percent by 2023 creating more jobs than any other sector. Unlike other industries, the impact of failure in the care sector more directly affects our most vulnerable citizens and the risk of this occurring in regional South Australia is real. Vacancy rates for healthcare and social assistance industry jobs increased by 23 percent across regional Australia compared to seven percent in metropolitan areas[17].

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[15] Australian Grand Prix Corporation, 2019 Annual Report, P24

[16] ABS, Australian National Accounts: State Accounts Release, November 2019

[17] http://www.regionalaustralia.org.au/home/wp-content/uploads/2019/03/2019_RAI_HealthyCheckUp_Final2.pdf

The South Australian Government has recognised the increasing workforce requirements the NDIS and ageing population has created and has assisted the sector in meeting these workforce needs. Entrepreneurial programs and Skilling SA projects assist the NGO's and South Australians setting up businesses to meet the various needs in the home care industry in particular, across both metropolitan and regional South Australia.

However, the sector is yet to adequately position to meet the requirements of the community and Business SA urges the Government to continue to focus on the needs of this industry by providing support and funding for training and ongoing support to South Australian businesses operating in this sector.

Individuals establishing their own businesses to cater specifically to the aged care and NDIS requirements, from personal care to home maintenance to allied health, in particular those in the regions, continue to require assistance tailored to ensure their success in a challenging industry. For example, to ensure their business can adequately interface with the specific requirements of NDIS.

The maintenance of a regional workforce in these industries is critical and strategies such as the Spencer Gulf Uni Hub must continue to be encouraged to maintain the workforce in the regions and to ensure ongoing training and support for these workers.

Business SA continues to call for:

- funding of roles within South Australia focussed on coordinating required work across the State in the care industry; such as the Disability Industry Development and Market Coordinator General role
- Continued funding for required research providing data for the sector to inform service delivery, and support for new and developing businesses to ensure business success; and
- Continued facilitation of industry collaboration to maximise the social and economic benefits of the state's disability sector and to avoid market failure. (The Designing a Disability and Workforce Strategy which now includes the broader care industry, is a good example of this. Business SA urges its continued funding).

Taxation

11. To increase collaboration between businesses and universities, introduce a payroll tax incentive for Science, Technology, Engineering & Maths (STEM) PhD graduates, with a rebate equivalent to 200 per cent of wages.

OECD data shows that Australia's percentage of PhD graduates employed in manufacturing, agriculture, mining and other industry sectors is 33 per cent below the OECD average.[18]

PhD graduates are trained to problem solve and think critically, and through their extensive studies have a solid understanding of the expertise and technology available within universities. Embedding more PhDs into SME industry is a direct way to help with imparting those skills and knowledge. Furthermore, those PhDs will be better able to support SMEs to form partnerships with universities to assist them with potential R&D projects.

The Growth State agenda is predicated on '*accelerating our economy and retaining and attracting the best and brightest to live and work in South Australia'*. However, work needs to be done to facilitate businesses, particularly SMEs, being able to access the required skill sets to support the innovation which will ultimately help to achieve the Government's Growth State goal.

[18] 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.

Business SA has long called for a tax system which better incentivises collaborations between universities and business. While the Federal Government's 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 businesses at an SME level.

For most SMEs, the concept of taking on a STEM PhD graduate is not business as usual. From Business SA's experience, the most attractive incentive to encourage SMEs to employ a STEM PhD graduate would be via some form of payroll tax break. Payroll tax is continuously raised by Business SA members as a key disincentive to employment. While such a policy need not require a permanent change to South Australia's payroll tax structure, implementing a 200 per cent payroll tax rebate based on company turnover less than $100m would be an Australian-first incentive. This would 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 rebate should apply to the first five years of employment.

Since 2012, an average of 330 STEM PhD students have commenced each year at South Australian universities while annual completions have increased by 45 per cent, from 125 to 181, over the same period[19]. If the payroll tax rebate 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 $2m per annum by year five.[20] For South Australia more broadly, this policy would also help to limit the brain drain of our most educated young people to the eastern states. Trailing this type of incentive is relatively low cost for the State Government and provides employers who employ a STEM PhD a payroll tax rebate for the full five years of employment.

If the State Government wants to reach its desired outcomes from 'Growth State', it will not happen through 'business as usual' and removing existing barriers is far more effective than trying to achieve an equivalent outcome through a grant program which could unnecessarily tie employers up in red-tape.

12. 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 with the aim of a national payroll tax clearing house.

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 markets to grow demand for their good and services. From Business SA's latest Survey of Business Expectations[21], approximately 34 percent of respondents operated both inside and outside of South Australia (either interstate or internationally or both).

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.

[19] Federal Government, Department of Education and Training - customised data set, December 2017
[20] Based on assumed starting wage of $80,000 per annum.
[21] Business SA, 'Survey of Business Expectations December Quarter', 2019.

Business SA recommends the State Government support a proposal we first raised ahead of the 2018 election to align "wages" reconciliations and payments across states and the Federal Government for the purpose of payroll tax first, and potentially to extend to Return-To-Work-equivalent premium calculations. In short, we propose a common employer portal operated by the Australian Tax Office (ATO) which disseminates all wage information and payments back to individual state revenue agencies. In this way, employers only have to submit payroll related information and payments via one interface and not deal directly with various state governments.

In one example recent example provided to Business SA by a member business in the interstate transport industry, the business had all its physical operations based in South Australia, with a handful of drivers residing across several states. However, the business was still required to pay payroll tax in each jurisdiction where an employee resided, which meant separate interactions with each state's payroll agency despite the business being based in South Australia with no interstate depots. While Business SA recognises that each state is likely to maintain a different payroll tax structure for the foreseeable future, there should at least be a central portal to allow businesses, particularly SMEs, to effectively just remit payroll tax to one agency that acts as a clearing house for all jurisdictions. If the State Government wants to support local businesses expanding interstate, these types of initiatives will help reduce the associate red-tape.

Population & Migration

13. Following the recent decision for regional public schools, abolish the requirement for temporary working visa holders to pay additional student contribution fees in South Australia's metropolitan public schools.

Business SA's 2019 submission to the Federal inquiry into regional migration called for the South Australian Government to recognise the issue of increasing migration doesn't rest solely with the Federal Government. While we need to work within the federal framework, there are opportunities for the South Australian Government to implement changes at a state level.

The current State Government policy requires families of all Temporary Skill Shortage (subclass 482) and subclass 457 visa holders who send their children to a public school, to pay an additional contribution fee of up to $6,500 per child depending on gross income.[22] This policy was extended in 2018 to include all 457 visa holders, regardless of when they arrived in South Australia.[23]

The contribution fee is applied once the visa holder's gross income reaches $61,000 and is scaled upward until gross family income reaches $81,000, when the maximum fees apply for the eldest child in the family, either $5,400 to attend primary school, or $6,500 to attend secondary school. Considering families where both parents work, are a regular occurrence, breaching the $61,000 threshold is not at all difficult.[24]

While Business SA recognises the fees for children attending regional public schools were abolished, we recommend the fees also be abolished for children attending metropolitan public schools. These fees are not universally applied across Australia and make South Australia a less attractive option for migrant families.

Considering these migrants are only able to enter Australia because of an identified skill need within local industry, it seems counter intuitive to make them pay for the privilege of meeting our local economy's needs, particularly when they are subject to the same income tax structure.

[22] Subclass 457 visas are closed to new applicants; however, the policy continues to apply to current visa holders
[23] Shamsher Kainth. *"New rules require 457 visa holders to pay for their children's education."* SBS News, 02/01/17. <https://www.sbs.com.au/yourlanguage/punjabi/en/article/2017/01/02/new-rules-require-457-visa-holders-pay-their-childrens-education>.
[24] According to the Department for Education's student contribution fee calculator 2020, (as at 28 February 2020) <https://www.education.sa.gov.au/parenting-and-child-care/your-childs-education/457-and-482-visa-holders/457-and-482-visa-student-contribution-fee-calculator-2020>

Business SA
Chamber of Commerce
and Industry South Australia

Previously, all of South Australia enjoyed the benefit of being classified as a designated regional area for the purposes of migration. As the regional zoning was extended to include all of Australia except Sydney, Melbourne and Brisbane, this benefit has been significantly diminished. We must now be proactive in introducing policies that encourage rather than dissuade families from choosing South Australia. Business SA calls for all temporary working visa public school contribution fees to be abolished, sending a strong message that we welcome migrants and value their contribution to our local economy.

Work, Health & Safety

14. Provide increased funding for SafeWork SA's educational functions with consideration of high risk and regional employers. Funding should provide employers with greater opportunity to train staff in WHS matters and provide safer South Australian Workplaces.

SafeWork SA has received considerable funding cuts that have impacted on their educational arm. The number of inspectors has not been reduced which has led to cost savings in other areas. Business SA is concerned that the focus on inspectorial roles and ignoring workplace education will lead to reduced safety in workplaces, especially in regional areas. Business SA does not recommend reducing the number of inspectors however is concerned about the focus on this role instead of providing workplaces with information an education on how to prevent incidences.

During a three-year term, elected Health & Safety Representatives (HSRs) within a business are entitled to 10 days training with course costs and time off paid for by the employer. The initial 5 days of training must be completed in the first year of office, and then HSRs can select from 3-day and 1-day course options in subsequent years or terms of office. This can be a significant cost imposition on small businesses.

Under previous budget cuts, all subsidy categories were discontinued except for very limited funding for remote participants. Business SA is calling for funding to be re-instated that provides a Persons Conducting a Business or Undertaking (PCBU) who organises training for HSRs in a high-risk industry, or from an SME with less than 100 workers, a training subsidy of up to $100 per day for each HSR attending approved training. Both high risk and small businesses must continue to be incentivised to send employees on HSR courses. It is only through continued education of employers and workers that safety standards in workplaces will continue to improve.

As regional areas have increased costs due to travel and accommodation expenses, Business SA argues the current subsidies are inadequate for regional areas. Participants in courses are only provided with a subsidy if the work is more than 100km from one of the regional training centres. For businesses that are within the 100km zone this can still result in workers travelling long distances to and from the course each day. Also, in many situations it will be more cost effective to subsidise a single trainer to travel to a location, rather than subsidise multiple participants.

Without continued funding to send trainers to regional areas, it has not been viable for training organisations to service regional areas. Regional courses are already difficult to fill and for many providers, even with funding, are cost neutral. More funding rather than less should be provided to encourage greater participation in regional HRS training.

Public Sector

15. Commit to a nationally consistent redeployment timeframe for surplus public sector workers.

The State Government must address the excessive period its departments take to deal with surplus employees. The current system allows excess workers to languish in redeployment pools for up to a year, with full pay; an extended duration for a public servant deemed by their employer as excess to requirements. In fact, South Australia's public sector redeployment system is the longest of all states. As a basis for comparison, the other states' redeployment pools last for the following periods:

- New South Wales: 3 months (maximum)
- Victoria: 3 months (maximum)
- Western Australia: 6 months (maximum)
- Tasmania: 6 months (maximum)
- Queensland: 4 months (minimum)

Where a public sector employee has been declared surplus to requirements, a 12-month period will commence during which retraining and redeployment are sought.[25] During this time the employee continues to draw a salary, despite being considered redundant. This period effectively brands the employee as unnecessary. The impact such designation would have on the employee's self-esteem and general mental health is significant, particularly considering that person must stay in their current position in their current department. Beyond the negative psychological impact on the employee, this also impacts the State Budget. As at 30 June 2019, there were 11 excess employees across the public sector.[26] With an average public sector salary of $83,854 these 11 employees represent a $922,394 cost to South Australia.[27] While Business SA acknowledges these figures are at record lows (compared to 419 excess employees as at 30 June 2011), a reduction in the timeframe would bring further improvements and savings.

The public sector's 52-week notice period goes far beyond expectations applicable to the majority of South Australian employees. In the private sector, the maximum time an employee is entitled to when given notice of termination by reason of redundancy under the *Fair Work Act 2009* (Cth) is 5 weeks.[28]

The relevant minister should exercise his or her 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 the entitlement gap between the public sector and private sector employers, while still 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.

Business SA welcomes recent announcements by the Government to create a more efficient public sector. This demonstrates to Business a preparedness to ensure public sector is more aligned with the private sector. An efficient public sector provides the platform for efficient state taxes and charges and supports business competitiveness. Moreover, businesses will have confidence that the Government has the capacity to complete projects while keeping fees and other costs to a minimum. Additionally, this sends positive signals to interstate and international business about the environment for doing business in South Australia.

Fiscal Strategy

16. Restore a net debt target and develop a plan to return South Australia to a AAA credit risk rating.

Business SA welcomes the Government's commitment and drive to bring about continual surpluses now and into the future. Strong fiscal strategy is fundamental for good economic management. Having set targets and limits allows planning and stability for the economy. Importantly it allows South Australian businesses to have confidence in the state's finances.

With South Australian experiencing reductions in GST share over the past few years it's more important than ever to maintain sound fiscal management. Business SA welcomes the Government target on operating expenditure growth

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[25] Office of the Commissioner for the Public Sector, 'Determination 7: Management of Excess Employees – Redeployment, Retraining and Redundancy', Government of South Australia.
[26] Office of the Commissioner for the Public Sector, 'Workforce Information Report 2018-19, Government of South Australia, 4.
[27] Office of the Commissioner for the Public Sector, 'Workforce Information Report 2018–19', Government of South Australia, 40.
[28] *Fair Work Act 2009* (Cth) s117(3).

not exceeding trend growth in household income. However, with GST contributing significantly to South Australian revenue it might be more appropriate to use a new target such as household consumption growth. This would more closely align with South Australia's GST share and consequently, better prepare the budget balance for GST changes.

The removal of a specific limit on net debt in the 2018-19 Budget enabled an increase in the level of net debt over the previously established limit of 35% net debt to revenue over the forwards estimates. In the latest Mid-Year Budget Review, there were further increases to net debt over the forward estimates, primarily to allow for an increase in productive infrastructure investments.

Despite contemporary circumstances which may necessitate a higher level of borrowing, Business SA still recommends the Government re-establish a target to return South Australia to a AAA credit rating, even if that needs to be a medium to longer term aspiration. Currently only Victoria and New South Wales hold AAA credit ratings. Comparably South Australia, Queensland, and Western Australia hold an AA(+)/Aa1 credit rating. In fact, NSW values it's triple A credit rating so highly that the Fiscal Responsibility Act 2012 made it a legislated requirement for NSW to maintain a AAA rating. While strong credit ratings in the current low interest environment may not seem as significant, low interest rates cannot be relied upon to last forever and when interest rates do rebound, low borrowing costs will be crucial to maintaining capital expenditure requirements.

In 2009, the previous 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[29] before losing it again in 2012.

While Business SA recognises the state's, economy is structurally different 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 such as the recent bushfire crisis and continuing coronavirus outbreak. The ability to withstand future economic shocks will also be assisted through restoration of South Australia's AAA credit rating.

END:

[29] Sustainable Budget Commission, 'Sustainable Budgets: Principles and Processes', p 15.