9-point Plan to Skyrocket SA

September 2020

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Business SA
Chamber of Commerce and Industry South Australia

Executive summary

The impact of COVID-19 on the South Australian economy has been severe and is likely to continue for months and potentially years to come.

The confidence measure in Business SA's 40-year old Survey of Business Expectations (SOBE) hit a record low of 41 index points in the March Quarter of 2020 and has slightly rebounded during the June Quarter to 67 points. Unemployment also reached a two decade high of 8.8 per cent in June, moderating to 7.9 per cent in July, and with both JobKeeper and JobSeeker subsidies being progressively wound back from October, it is likely to climb further before stabilising.

The assistance from both the State and Federal Governments has played a pivotal role in supporting South Australian businesses through the pandemic period. While JobKeeper has been the most impactful policy, cashflow boosts, apprentice wage subsidies, payroll and land tax relief through waiver/deferrals and associated measures, small business emergency grants and licence fee waivers have all played a crucial role to help reduce pressure on limited cashflows. Having a code to guide commercial lease negotiations, whilst not mandatory, has also been vital to assisting business tenants to reach agreements with landlords.

Business SA recognises that understanding the need for support to keep businesses afloat is more immediate than discerning the optimum mix of policy options to engender economic growth in an economy which has structurally changed. We also acknowledge that both the State and Federal Governments have already provided an unprecedented level of peace time fiscal stimulus. Subsequently, helping to re-shape the State's economy post-COVID is not all about further stimulus, but also tackling the more challenging elements of how to recover the Government's revenue base to ensure its sustainability.

Business SA proposes several economic policy options which both vary in size and nature, but are primarily based on playing to South Australia's strengths in a post-COVID world:

Key recommendations

1. Business SA's 'State of Knowledge' initiative encourages existing education institutions, from high schools to TAFE colleges, VET providers and universities, to ensure employers' needs are met at the appropriate level of education, duplication is reduced, and opportunities are enhanced for innovation through genuine business/university collaborations.
2. Alongside promoting development of hydrogen exports, the State Government needs to make a concerted effort to assist local businesses to access all future opportunities to integrate hydrogen within their existing operations.
3. Management of the South Australian State Brand and Investment Attraction functions of Government should be reconfigured into 'Skyrocket SA' (or similar), a new administrative unit of the Department for Premier and Cabinet.
4. The State Government needs to collaborate with select Local Governments and Industry to develop a consistent marketing campaign to attract new businesses based on all existing enhanced internet capacity options available across the State, including through Gig-City and Ten-Gigabit Adelaide.
5. Kickstart the development of a comprehensive low carbon/low emissions and circular economy business/industrial park to enable local and interstate/international businesses an option to meet all aspects of their sustainability needs.
6. With continued delays on the South Road upgrade, start progressing other key infrastructure proposals to set South Australia up for future economic growth, including the Short-South link (from Mount Barker to the North-South Corridor), and duplications of both the Augusta and Dukes Highways, both pivotal regional infrastructure projects.
7. A stronger push is needed to ensure local businesses have every opportunity to not only access State Government procurement opportunities but in a manner that enables maximum leverage off any associated IP creation.
8. South Australia needs to play a leading role in wholesale tax reform to enable traction on key business tax needs, particularly payroll tax, company tax and fringe benefits tax.
9. The State Government should progress a bid for a Formula E race and associated expo of renewable energy/technology events, firstly by releasing the existing feasibility study and then commissioning an economic impact statement.

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Introduction

Business SA, South Australia's Chamber of Commerce and Industry, was formed in 1839 and has more than 3,250 members and several thousand more clients across every industry sector, from micro businesses through to publicly 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. Business SA is also associated with Regional Chambers of Commerce across South Australia, and a founding member of the Australian Chamber of Commerce and Industry (ACCI).

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, surveying, and more formally through member reference groups, topical roundtables and seminars. Business SA is also represented on a wide range of boards and committees, including the Premier's Industry Response and Recovery Council, to provide a business perspective from across 17 industry sectors.

Throughout the COVID period, Business SA has advocated for a range of measures to support businesses more broadly, particularly in relation to matters such as wage support, rental support, tax and rates relief, workplace relations flexibility, utility relief and infrastructure. Further, we have worked closely with ACCI, including to support their role in ongoing workplace relations reform discussions. We have also brought together industry associations and other key representative bodies from across the societal spectrum for a series of Virtual Summit meetings, culminating in a report published in mid-April summarising 13 key ideas to support the economy.

Over the past few months Business SA, led by our Board of Directors, has been further considering the increasingly challenged operating climate that South Australian businesses face, and how we can best play a role in supporting the economic growth opportunities required to help our economy rebound over the medium to long term. We recognise that not all of these options will be easy to implement, but provide ideas about what is needed, not necessarily what will be politically expedient. We have also sought to focus on a smaller but hopefully more effective number of policy options. We acknowledge that we have not covered the breadth of what is likely to be needed to assist South Australian businesses through the structural change our economy is going through, but Business SA's agenda is not to try and solve every economic challenge. In reality, many will simply be solved by market forces alone.

Business SA is also looking for partners to help drive some of our proposals. We bring a holistic business perspective, but we recognise that the Government needs to consider other perspectives, as it should. We have learnt through COVID that in order to advance our society and economy, we need to be more focused on the greater good which often extends beyond the primary remit of most small and medium sized businesses simply trying to survive. We are also mindful that some proposals are likely to take longer to come to fruition than others, but most things worth striving for do take time and as a peak employer body, we aim to achieve our goals and not settle for a compromised end game.

The upcoming revised 2020/21 State Budget is an ideal time for the State Government to start positioning South Australia to take steps towards real progress on what is required to assist with South Australia's structural economic adjustment. This goes beyond an economic recovery, which implies we are experiencing a temporary change, but rather readying for change that is long-lasting, and which fundamentally re-allocates demand and supply within the economy. The short-term focus on reducing costs of doing business will still be necessary, and the Government has plenty of levers here from payroll tax, land tax, fees and charges and the like, but our focus needs to extend much further to what will engender sustainable economic growth opportunities in a post-COVID world. While some may be obvious, others will come from ensuring the fundamental cost and operating environment for business in South Australia is a platform for private sector led economic growth.

Business SA welcomes feedback on this paper through our Policy Team at policy@business-sa.com.

About Business SA

Business SA is the peak independent Chamber of Commerce and Industry in South Australia. We are the State's leading voice for trade, commerce and industry, representing and providing services for thousands of businesses of all sizes and from across all industry sectors.

Our purpose

'To advocate for the economic prosperity of South Australia and support local businesses to succeed.'

What we want to be known for

Whether you are starting, managing, growing your business or planning your succession strategy, Business SA is your trusted partner, always helping you to succeed.

What we do

Advocacy

We advocate on behalf of the state's business and employer communities to achieve a more productive and competitive environment in which to engage in trade, commerce, export and innovation.

Learning

We deliver unique learning programs that help you start and grow your business locally, nationally and internationally. Our facilitators and mentors are experienced industry practitioners.

Membership

Our Members benefit from exclusive access to the popular Business Advice Hotline to support and help them meet their obligations as an employer. Members also receive discounts or exclusive access to many of Business SA's services.

Consulting & Advisory

Our consultants work closely with our members and clients to solve complex industrial relations and employment related matters. Our advisory products keep employers informed about changes to Award conditions with regular essential information.

Training

We provide market leading training in the key areas of HSR and WH&S, along with leadership, digital literacy and cyber security training.

International Trade

We help South Australian businesses to grow and trade internationally with export documentation and translation services.

Migration Services

Our Move Work Stay migration and Visa service provides our members and clients with professional, effective and trusted advice at competitive rates.

Partnerships

We partner with Federal, State and Local Governments and employers to deliver quality programs that support business. These include the Federal Government's Entrepreneurs' Programme which provides valued advice delivered by experienced advisors to businesses across South Australia.

Business Brokerage

Planning a successful succession strategy is complex. Our highly experienced employees and partners will help you plan your exit strategy, promote your business and secure the best outcome for you and the purchaser.

Our audience

As of April 2020

31,000
Website views per month

23,000
Business SA Today audience

13,500
Businesses engaged weekly

14,000+
LinkedIn followers

8,100+
Facebook followers

7,600+
Twitter followers

2,000+
Instagram followers

Our board

Nikki Govan
Chair

David O'Loughlin
Deputy Chair

Cathy Miller

Christine Locher

Dru Reschke

Joel Abraham

Justin Jamieson

Manuel Ortigosa

Robert Stobbe

Sascha Detmold Cox

Our executive team

Martin Haese
Chief Executive Officer

Jenny Briggs
Executive Director, Employer Solutions & Programs

David Slama
Executive Director, Membership & Enterprise Development

Sean Pearce
Acting Chief Financial Officer

Our policy and advocacy team

Andrew McKenna
Director, Policy & Advocacy

Estha van der Linden
Senior Policy Adviser

Karen van Gorp
Senior Policy Adviser

Jordan Smith
Policy & Trade Officer

POINT ONE

South Australia, the ‘State of Knowledge’

Business SA’s ‘State of Knowledge’ initiative is aimed at encouraging South Australia’s education institutions, from high schools to VET providers and universities to; ensure employer’s needs are met at the most appropriate level of education, reduce duplication, and enhance the opportunities for innovation which can come through genuine business/university collaborations.

Business SA asks “Is the governance of secondary and post-secondary education in South Australia structured in a way that ensures the effective use of resources, optimises the ability to showcase the very best of our education sector, is a consistent and relevant industry link; and, works together to guarantee the growth and development of our State?”.

Proposed reforms to the Training and Skills Development Act 2008 mentioned below will assist in the strengthening of relationships between secondary education, VET education and University education. This is a positive step but is not all that is required to achieve a step change in collaboration between schools and the tertiary sector. We recognise that skills are not confined to the VET sector, but are provided via high school, University qualifications, VET courses, micro skill, super skill and enterprise skills qualifications. Business SA is proposing an overarching governance structure, ‘the SA Council of Knowledge’, to provide each sector of the education system with the ability to strategically review the needs of the State and its businesses. This would go beyond reviewing what skills are needed, but how the education sector as a whole can better work with business to support economic outcomes, particularly the innovations which are likely to come from better university/business collaborations.

The SA Council of Knowledge would also encourage individual institutions within each educational sector to better collaborate, particularly to reduce duplication. It is important to remember that the State Government is the only shareholder of all three of South Australia’s public universities. While the State Government does not directly fund the universities, with South Australia facing such significant economic headwinds, it is only the State Government that can play a coordinating role to ensure our universities are working, both individually and together, to support the State’s businesses and economy. The State Government recently recognised the economic importance of South Australian Universities by providing their international students with a $13.8m support package, an indication of the Government’s recognition of the importance of ongoing collaboration with universities to address the State’s collective economic needs.

The SA Council of Knowledge could include the following representatives:

- University of Adelaide
- University of South Australia
- Flinders University
- Independent and Catholic schools
- State schools
- TAFE SA
- Private VET providers
- State Minister for Education
- Industry

Ongoing improvement in the efficiency and productivity of our education sectors is essential. Business SA recognises the many benefits that may arise as a result of university mergers and collaboration including but not limited to the potential benefits of the proposed merger of the University of Adelaide and the University of South Australia. For example, a merger between the University of Adelaide and the University of South Australia would not only provide South Australia with the 3rd largest university in the group of 8 but deliver:

- less duplication of course offerings within the South Australian market
- a more significant presence in higher education which could attract students, staff, and industry partners
- a more expansive university able to provide an increased range of curriculum offerings and improved student experience, along with further research and career opportunities for staff
- efficiencies across back-end functions to improve the financial sustainability of higher education in South Australia; and
- an uplift in South Australia’s university rankings relative to our key eastern state-based competitors.

Secondary and VET education

Considering the rate of change the South Australian economy is currently experiencing, the future ability of Government to identify and respond to trends in the skills needs of industry will only increase in importance. An alarming reduction[1] of 24 per cent of trade and 62.5 per cent of non-trade apprentice and traineeships in South Australia between 2013 to 2018 is strong evidence to act. Business SA had long called for a comprehensive review of the *Training and Skills Development Act 2008* (Act). To the State Government's credit, this has recently been reviewed to improve the regulation of apprenticeships and traineeships, and to assist employers and trainees to engage in training and skills development.

Business SA supports the passage of the Training and Skills Development (Miscellaneous) Amendment Bill 2020. Specifically, we support the establishment of the South Australian Skills Commission (SASC) to combine the existing Training & Skills Commission and the South Australian Training Advocate. The proposed SASC will reduce the confusion and duplication of roles within the apprenticeship system. The streamlining provisions proposed in the Bill should also improve the apprentice registration process for many employers, while the expansion of the scope of trades and declared vocations in the Bill will assist flexibility in the delivery of employment-based training.

Business SA also supports the introduction of the apprentice transfer fee, but a key area of concern for Business SA is ensuring both employees and employers are on an equal footing in terms of any dispute resolution process. Employers, who are often small businesses and may not be overly familiar with the system and associated risk of incurring penalties, are at a significant disadvantage when faced with an employee represented by the Office of the Training Advocate (OTA) or a replacement decided by the SASC. Business SA has previously asked for this provision of the Act to be reviewed and proposes the Bill be amended to open the options for representation of employers.

Entrepreneurial learning

Business SA members often raise the importance of entrepreneurial learning and Business SA has long called for more formal entrepreneurial education within schools, including in several recent pre-election Charters.

We commend the Education Department's Entrepreneurial Learning Strategy introduced in 2019 with the establishment of five specialist schools moving toward sharing the skills developed with other schools and introduction of SACE and VET entrepreneurial courses. SACE subject stage 1 and 2 Business Innovation assists students develop the knowledge, skills, and understandings to engage in designing, sustaining, and transforming business the modern world. We encourage further uptake and progress of entrepreneurial subjects into schools across South Australia, particularly as our economy evolves post-COVID.

[1] NCVER, 'SA Number of Contracts 2013–18'

University patent management

Feedback provided to Business SA indicates that Australian universities, including in South Australia, often over-value patents that could otherwise be commercialised. This is a significant inhibitor to developing the innovations needed to grow both the State and National economies. Universities seeking unrealistic returns from commercialised products often inhibits private sector proponents from the outset. If the private sector is not adequately incentivised to partner with universities to commercialise patents, they will not risk their own capital which ultimately results in a missed opportunity for the State.

This has been a widely held view for many years and the State Government has an opportunity to work with local universities to better position South Australia as an attractive destination for venture capital. While Business SA recognises the State Government has made good progress with Lot Fourteen, we do not see that as making traction on the more systematic barriers preventing more investment and growth in innovative companies. Incubators alone do not solve these types of challenges.

At present, given the need for local universities to consider all options for growth in the absence of international student growth, it is a prime opportunity to focus on how each South Australian based university can better leverage their own IP to assist with commercialising the innovations that will be needed to stimulate demand in a post-COVID economy.

According to the 2020 Startup Ecosystems Rankings, Australia ranked 7th overall which demonstrates that as a nation, we are doing quite well. However, at a city level, Adelaide ranks well below some of its eastern state competitors as shown in Table 1.

Table 1

National Rank	City	Global Rank	Rank Change (from 2019)	Total Score
1	Sydney	31	-12	**10.840**
2	Melbourne	40	-5	**8.262**
3	Brisbane	78	+9	**4.930**
4	Perth	136	–	**2.245**
5	Adelaide	150	-7	**1.885**
6	Canberra	207	-7	**1.154**
7	Gold Coast	224	+70	**1.015**
8	Sunshine Coast	259	new	**0.747**

Research partnerships

University and Industry joining together in high quality research partnerships must continue to be encouraged to help engender the innovation that can lead, for example, to the manufacture of new products in South Australia and the better understanding of data applicable to growing certain sectors of the local economy. Australia was ranked 11th in the world by the 2013 Global Innovation Index for innovation inputs, however, the 2019 Global Innovation Index[2] now ranks us at 22nd. When it comes to Australia's efficiency in converting research dollars into innovation and commercial success, we also perform poorly with Australia's 2018 Innovation Efficiency Ratio ranked at 76th, putting us on par with countries like Mexico, Russia, Mali and Zambia.[3]

Members' experience of collaboration with universities has been mixed; while there have been many success stories in South Australia, Business SA has also received feedback from the manufacturing sector about internal R&D being much further ahead than universities. Feedback has also revealed that, to receive help from the university sector, a business needs to have identified a very specific problem in order to approach a university and, even then, if the business does not know who to ask for or have the right connections, they're likely to have a fruitless outcome. Furthermore, feedback suggests that South Australian SMEs are considerably less likely (than corporates) to engage with universities for the purposes of R&D.

Innovation Connections is a CSIRO program providing funding and assistance to businesses to connect with researchers in Advanced Manufacturing; Food and Agribusiness; Medical Technologies and Pharmaceuticals; Mining Equipment, Technology and Services; Oil, Gas, and Energy Resources. Business SA understands the Federal Government is looking to expand this program based on some initial pilot stage success. A comparable South Australian university/business matching mechanism, ideally coordinated through a central introductory hub, should be developed here. While there are a range of individual units within the major universities pursuing such industry collaborations, there is no central mechanism for businesses to approach the university sector.

As a peak employer membership organisation in South Australia, Business SA could assist with 'meet the researcher' networking or other mechanisms for better connecting universities to businesses. We also recognise that such a service would need to be appropriately structured to ensure that businesses are matched with the most appropriate research academics and that the objectives of parties on both sides can equally be met. No other Australian city prides itself on being a mecca for business/university collaboration and Adelaide has an excellent opportunity to be the first. While Business SA acknowledges this approach has been tried in other states, including UniGateway which previously operated in Victoria, South Australia can build from previous models and develop something unique for the characteristics of the South Australian market.

We are also confident that with only three major universities in South Australia, that a similar model here has a better opportunity to ensure buy-in from the university sector, something we understand was difficult to achieve in Victoria.

According to Business NSW's 2014 report on industry-research collaboration, Australian businesses that engage in collaborative innovation are 242 per cent more likely to report increases in productivity than non-innovating businesses. A further 70 per cent of businesses which engage in collaboration are likely to develop products that are new to the world.[4]

[2] Cornell University, INSEAD, and WIPO (2019); The Global Innovation Index 2019: Creating Healthy Lives—The Future of Medical Innovation, Ithaca, Fontainebleau, and Geneva.
[3] David Braue, 'Australia drops in WIPO innovation rankings', 1 August 2019
[4] Business NSW (formerly NSW Business Chamber), Industry-Research Collaboration – Discussion Paper, July 2014

Engineering & Maths (STEM) PhD graduates

It is widely recognised that systems to encourage increased numbers of students in STEM are required to meet Australia's future employment needs. When it comes to engendering more innovation within businesses, it is often the high-level STEM graduates that are best placed to assist businesses, primarily those holding a PhD. However, at present there a few formal mechanisms to increase the hire of STEM PhDs within industry.

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.[5] 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.

For most SMEs, the concept of hiring 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 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.

Business SA has recommended a 200 per cent payroll tax exemption for STEM PhD graduate hires since our 2018 pre-election Charter, with feedback received from Government indicating a strong reluctance to provide any tax relief which would weaken the payroll tax base. Given the current environment, Business SA encourages the Government to reconsider the merits of such a proposal. There is also a preference within Government for grants to realise such outcomes, however, Business SA argues that grants are typically ineffective given the associated red-tape and reluctance of businesses to bother – particularly if businesses feel the need to engage a consultant to fill out the grant application. It is argued that most business people are more attracted by the idea of straight out tax relief, particularly payroll tax, so any policy designed to increase university/business collaboration should target the views of the businesses most likely to hire STEM PhDs.

The State Government's 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. 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. 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.[6] 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.[7] 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. Trialling 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.

[5] 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.
[6] Federal Government, Department of Education and Training - customised data set, December 2017
[7] Based on assumed starting wage of $80,000 per annum.

Regional focus

One of the most consistent findings from Business SA's Regional Voice surveys is the challenge regional employers face attracting skilled workers, even at competitive rates of pay.

A broader mix of job options is needed to encourage families to move to Regional South Australia, and one sector that could significantly help is higher education. Many key regional centres interstate have a well-established university presence, think Wagga, Ballarat, Bendigo, Toowoomba, Townsville, Armidale to name just a few. While there are some limited university courses offered in Regional South Australia, primarily in Whyalla and Mount Gambier, this is far from a holistic university presence.

The Federal Government has commenced funding Regional Universities Centres across Australia. Four RUCs have been placed in country SA including the Murray River Study Hub (A-Riverland, B-Murray Bridge), the RDA Barossa Gawler Light Adelaide Plains (Nuriootpa), Uni Hub Spencer Gulf (A-Port Augusta, B-Port Pirie) and Copper Coast Council (Kadina). The RUCs are facilities for regional students to study tertiary courses locally delivered by distance from any Australian tertiary institution. The centres will provide infrastructure including study spaces, video conferencing, computing facilities plus admin and academic support and other student support services.

While a similar centre in a city like Mount Gambier should be considered to support students in the State's South East, the State Government should also be working with local universities for options to build a much more substantive presence in the regions.

Online learning may play a greater role in future, but it is far from being able to replace a more holistic university learning experience which has long been the hallmark of university education. Furthermore, online hubs might prevent some locals from moving away for study, but they will not necessarily attract people to live in regional cities, including migrants.

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POINT TWO

Positioning South Australian businesses to take advantage of access to green hydrogen

Business SA is mindful of the increasing opportunities for South Australian companies to manufacture green hydrogen from excess renewable electricity. When used as fuel, hydrogen produces no carbon emissions and can be safely used in a broad range of applications.[8] With solar penetration across the State continuing to rise, both at a distributed household/business level (Figure 1) and via grid-scale projects (Table 2), the Australian Energy Market Operator (AEMO) and SA Power Networks (SAPN) are beginning to face substantive issues managing the electricity grid with limited domestic electricity demand at certain times of the day. In fact, AEMO now forecasts South Australia could reach zero operational demand on the grid in three to four years.[9] With quite drastic measures now being considered by the State Government to curtail excess solar exports at specific times of network instability, and the interconnector to New South Wales yet to proceed, every option needs to be explored to utilise excess available renewable electricity.

Figure 1 – Actual and projected capacity of distributed PV in South Australia [10] – MW per calendar year

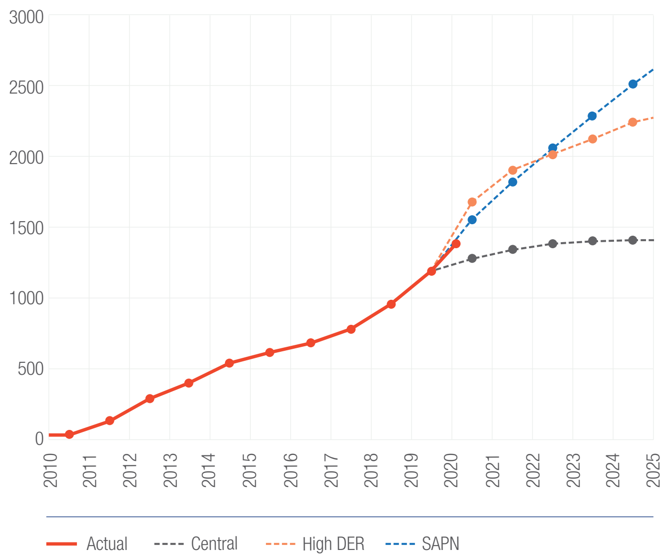

Table 2 – South Australia grid scale energy generation – Scheduled, semi-scheduled & non-scheduled generation (MW) [11]

Summary status	Fuel – Technology category										
	Coal	CCGT	OCGT	Gas other	Solar*	Wind	Water	Biomass	Battery Storage	Other	Total
Existing	–	713	1,259	1,490	366	2,053	3	18	206	181	**6,289**
Existing less Announced withdrawal	–	533	1,259	1,010	366	2,053	3	18	206	181	**5,629**
Upgrade / expansion	–	–	15	–	–	–	–	–	–	–	**15**
Committed	–	–	123	–	–	86	–	–	11	–	**221**
Proposed	–	–	897	45	2,929	3,833	995	–	1,753	–	**10,452**

* "Solar" Fuel-Technology category excludes Rooftop PV installations

[8] COAG Energy Council, 'Australia's National Hydrogen Strategy', 2019
[9] AEMO, 'Minimum Operational Demand Thresholds in South Australia Review', June 2020
[10] AEMO, 'Minimum Operational Demand Thresholds in South Australia Review', June 2020
[11] AEMO, 'NEM generation information', July 2020

South Australia has been a leader to date in positioning for a future hydrogen economy, particularly to take advantage of potential export opportunities into Asia. Most other States and the Federal Government have subsequently taken an equivalent interest in the development of a hydrogen industry. While the initial work within Government was more focused on export opportunities, the Federal Government's recent hydrogen strategy has a strong bent towards Australia developing a domestic market for hydrogen ahead of an export market. The Federal Government advises its *'strategy looks to initially concentrate hydrogen use in niche hubs that will foster domestic demand. A strong domestic hydrogen sector will underpin Australia's exporting capabilities, allowing us to become a leading global hydrogen player'*.

Considering the modest water required for electrolysis to generate hydrogen,[12] South Australia is well placed to derive a competitive advantage in green hydrogen production which relies on access to a low marginal cost source of energy generation, enabled by excess renewables. This position is likely to improve further should the interconnector to New South Wales proceed, with substantive new renewable energy proposals likely to materialise. Notwithstanding, Business SA acknowledges the existing cost of electrolysers challenges the economics of green hydrogen production albeit we expect this will be overcome as the industry develops analogous to markets for PV panels and associated batteries.

It is important to remember that electricity consumers have subsidised the vast amount of renewable energy in the current market. This has primarily occurred through the Federal Government's Renewable Energy Target, plus the now closed State Government solar feed-in-tariff payments, the costs of which are still socialised across all South Australian electricity customers. Consumers have also paid indirectly through the wholesale market chaos experienced during 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 considering 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.

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 green hydrogen as a zero-carbon source of energy. Afterall, it is the local businesses whose ongoing viability in an increasingly carbon constrained economy will continue to provide the value-added goods and services needed to sustain South Australia's economy. Business SA is also receiving feedback that an increasing number of businesses are actively pursuing zero-carbon strategies, despite the lack of a national target.

Business SA is the first to recognise the reality of local businesses being able to adopt green hydrogen at scale even if it was readily available and price competitive at present is still low. The Federal Government has set a price competitive benchmark for hydrogen production at $2/kg, the point where hydrogen becomes competitive with large-scale alternatives.[13] Business SA understands locally produced hydrogen today would be several multiples of this mark. This is due to a wide range of factors, including the general maturity of the market and its lack of scale, as well as the ability of appliances and other plant and equipment to run on hydrogen. The commercial interest to date has also been quite narrowly focused, mostly in replacing brown for green hydrogen where already used as an input, for example in ammonia or steel production.

Australian Gas Infrastructure Group, the company that operates South Australia's gas distribution network, will soon complete construction of a pilot hydrogen production plant with State Government support to deliver a very low, up to 5 per cent, blend of hydrogen with natural gas to a finite part of its network near Tonsley. This is a promising development, forecast for completion by October 2020, which will also include a refuelling facility for hydrogen delivery to industrial customers by tube and trailer. From Business SA's perspective, having green hydrogen become physically available to South Australian businesses will generate substantial interest from local companies considering future opportunities to utilise hydrogen.

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. In April 2020, UK gas distribution company Cadent issued a 500-million-pound bond, eight times oversubscribed, to fund a transition to operate its network on hydrogen.[14] This is a stark reminder that Australia, and South Australia in particular, needs to continue to push to ensure our local industries are up to competing against their international rivals for zero-carbon production credentials.

The Federal Government recently acknowledged that establishing hydrogen expertise and technical leadership in the short term will help local industry to accelerate if future conditions allow. Without such ability, the Government advised that Australia's capacity to capture a market share of future growth will be limited and investing in the skills and expertise is an adaptive pathway that is beneficial irrespective of future outcomes.[15]

Business SA calls on the State Government to begin taking substantive steps to position South Australian businesses to be world leaders in the utilisation of green hydrogen. To give this effect, we recommend a program be established to provide small grant incentives to enable businesses to engage local expert energy consultants to scope up a range of options to utilise hydrogen in businesses' operations and to 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 could 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.

[12] Hydro Tasmania, 'Just add water – generating Tasmanian hydrogen opportunities with clean energy', November 2019
[13] Commonwealth Government, 'Technology Investment Roadmap Discussion Paper', June 2020
[14] Investment & Pensions Europe (IPE), 'Transition bonds: Questions of transition', April 2020 Magazine
[15] Federal Government, 'Technology Investment Roadmap Discussion Paper', June 2020

POINT THREE

Reinvigorating the State Brand and Investment Attraction under 'Skyrocket SA'

SA State Brand

South Australia's current 'open door' state brand was initially developed by the previous Government over 2012/13 to both market local businesses and attract businesses to South Australia. Subsequently, recurrent funding up to $1.6m per annum was provided to the now defunct Brand SA to manage the use of the State brand logo by industry, while the Department of Premier & Cabinet (DPC) oversaw Brand SA and managed the brand's use within Government.

The primary aim of the State brand was to be a distinctive and recognisable brand identity to achieve three key objectives:

> Act as a strong identifying endorsement for South Australia's regions, organisations and private partnerships;

> Encapsulate the 'who we are', 'where we are' and 'what we offer', triggering positive perceptions for South Australia;

> Provide a sustainable identity to allow local businesses and organisations to use the brand in order to attract business to, and within, South Australia.

The brand design gives considerable scope for organisations, Government and private, to essentially utilise the basis of the brand to tailor to their own needs. It is not a 'one size fits all' brand, rather having multiple forms of being represented without detracting from the core message of the brand or diluting its consistency. Considerable numbers of South Australian businesses have since adopted the brand in their marketing material, particularly websites, primarily to establish their locally made/produced credentials. This has been the biggest success of the brand so far as its spread has largely been as a result of businesses viewing it as an attractive logo to enhance their marketing efforts, not something forced upon the community with scant public buy in.

In 2018, the State Government initiated the Joyce Review as an independent assessment of the Government's international and interstate engagement bodies and functions. In relation to Brand SA, which was predominantly Government funded, Mr Joyce made the point that the majority of marketing effort was being directed within the State. He recognised the broader stakeholder view that this was the wrong approach, with international marketing required to maximise the State brand's impact. Consequently, the Joyce Review recommended that the Department for Trade & Investment (DTI) take over responsibility for Brand SA from DPC, and that all Government funding should be redirected towards international branding and marketing of South Australia.

In May 2019, the State Government acted upon the Joyce Review's recommendation and discontinued funding to Brand SA, effectively returning the State's brand back within the machinery of Government. The South Australian brand is now managed by DTI, with some other associated programs of Brand SA including 'I Choose SA' also managed by DTI; they are done so with support from Food South Australia and Showcase SA. While businesses can still choose to adopt the State brand, and there are formal guidelines available through DTI to do so, there is no longer a strong impetus from the State Government effectively backing increased adoption of the brand. The prominence of the State brand has diminished and Business SA is concerned this may lead to its ultimate demise. In the end, the existing brand will only retain its relevance with a critical mass of public and industry support which cannot be assured under the current structure.

The imperative for a strong commitment to a state brand can be no better illustrated than through its relevance to South Australian businesses engaging in export activities. Business SA has long advocated that export growth is critical to the prosperity, reputation, confidence and employment of South Australians.

Business SA is not necessarily suggesting that the Government re-establish Brand SA, which was effectively a member organisation predominantly reliant on Government funding, but it needs to consider alternative structural mechanisms through which to give state branding a more dedicated place within the machinery of Government. For example, in 2018 the State Government created the SA Productivity Commission (SAPC) as an administrative unit attached to DPC, with the Premier being its designated Minister. Subsequently, a Premier and Cabinet circular (PC046) established the scope and purpose of the SAPC, arrangements pertaining to its Chair and Commissioners, processes for referrals of inquiries and reports, and provisions relating to cooperation with the SAPC across Government. The SAPC has since worked well as a quasi-independent body within Government, with a clear mandate to run inquiries associated with the priority needs of Government, most notably to date in relation to Procurement and Local Government.

While South Australia, and indeed all Australian businesses, may still primarily leverage from the collective marketing and promotional efforts of the Federal Government (via Austrade, Tourism Australia etc), and branding from the Australian Made Campaign Limited (AMCL), a strong state brand remains essential to strengthen the credentials of South Australian businesses. Further, South Australia's brand is also broadly applicable to companies and organisations with more than 30 per cent of their business operations located here, and not confined to those that physically make or produce goods which tend to have very specific needs for a credible brand to ensure recognition and authentication of origin. Consequently, this has helped to boost its adoption.

The State brand can also be used to associate with areas in which South Australia has a competitive advantage, for example through the production, utilisation, distribution and sale of renewable energy. If the State continues to shape a uniquely South Australian narrative through which to market itself, a state brand can exist alongside that narrative to enable wider adoption and promotion by the private sector.

At least within Australia, South Australia has the strongest adoption of a state brand (logo) amongst the broader community, including businesses, and this is something we should take necessary steps to protect. Business SA is not recommending that the State needs a new logo, but rather that we seek to preserve what we have and ensure that levels of adoption by the private sector do not diminish. While our ultimate success as a State will come through the substance of what we have to sell or offer, the better we can help individual businesses leverage from the strength of the entire State through collective marketing efforts including a valued State brand, the more we can tap the value of the intangible goodwill we all own.

Investment Attraction to South Australia

The former State Government commenced a more dedicated focus to broader investment attraction from the mid-2000s, while at a sub-sector level this has diverged somewhat depending on the needs of a specific sector such as Defence or Space. Defence SA was established in 2007 to drive a coordinated approach to defence industry development and likewise in 2017, the South Australian Space Industry Centre was established to drive our burgeoning space sector. There has also been moves over time to better coordinate Government decisions to facilitate new investment, particularly through the establishment of the Coordinator General within DPC from 2012 to drive Government wide decision making required to progress major projects. The most recent iteration of Government support for attracting investment was via the creation of Investment Attraction SA in 2015 as a division of the former Department for State Development.

Since the State Government abolished Investment Attraction SA in 2018, the responsibility for this function has been shared across the various sectorial focus areas within DTI. Consequently, it is now much less visible and transparent as to what the State Government's investment attraction activities are, and how other organisations can work in with the Government to facilitate new investment into the State. South Australia needs to have a clear channel and accountability for investment attraction, not only from the perspective of potential investors, but to enable parties outside Government, including Business SA, to have confidence to send potential clients in the Government's direction.

Promoting locally made

In the wake of COVID-19, there has been an increased focus on buying local, exacerbated by constraints in international supply chains. Business SA has played its role promoting what local businesses have to offer through our 'Buy Local to Save Your Local' campaign launched in May 2020. While this has primarily been targeted towards the wider population understanding the importance of supporting local businesses during the pandemic period, we have also been matching any business expressing a need with a solution from our vast membership base. What has become increasingly apparent to Business SA over recent years is the need for broader education of what is actually made and created in South Australia. Notwithstanding the public has reasonably strong awareness of what is grown here, once we extend beyond that to sectors like niche manufacturing or say gaming and post-production, awareness quickly diminishes. As a business membership organisation, we are cognisant that despite the loss of sectors like major auto-manufacturing, that South Australia still has considerable manufacturing and creative capacity, even if predominantly at a smaller scale.

Promoting what is made, designed or created in South Australia post major auto-manufacturing is an important part of the State's future economic narrative but to date, it has not necessarily formed part of any formal function of Government. Further, a more structured approach to marketing what is made or created in South Australia would help to promote careers for our children, particularly those more interested in practical pursuits. It would also help to encourage young people to be more confident about remaining in South Australia to commence their careers, rather than seeing their available options as being limited. With the latest ABS labour force statistics showing South Australia's youth unemployment (15-24 year olds) at 14.3 per cent, above the national rate of 13.1 per cent,[16] the Government must be squarely focused on providing young people opportunities to get their career started.

Establishment of Skyrocket SA

Business SA recommends a small administrative unit be established, Skyrocket SA (or similar), attached to DPC and specifically charged with responsibility for governance and marketing of the State's brand as well as Investment Attraction. With a (suggested) name indicative of the space sector, but by no means exclusively aligned with it, this could be supported by a volunteer committee of local marketing and investment sector professionals. While Skyrocket SA would need to work closely with both DPC and DTI, particularly in so far as interstate and international marketing efforts, it is ultimately going to be the South Australian companies that adopt South Australia's brand being its best ambassadors. Consequently, having marketing efforts that also focus on wider adoption of the brand may still be well placed as a conduit to assisting with its interstate and international recognition.

In terms of the ongoing management of the State's brand, Skyrocket SA could also focus on ways in which to educate the public on what does get made or created in South Australia, for example through the marketing vehicles of #MadeinSA or #CreatedinSA.

Skyrocket SA could also play a targeted role in marketing/events aimed at luring highly skill workers to the State, effectively acting as a brand ambassador. This could assist to improve perceptions about living and working in South Australia and be a conduit for South Australian companies looking to attract interstate and overseas talent. Many members of Business SA convey the challenges of trying to attract the best talent to a smaller state such as South Australia, often due to a lack of awareness of what life here offers, and a broader more coordinated marketing effort by the State Government would help overcome some of the misconceptions.

[16] ABS, 'Labour Force, Australia' July 2020

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POINT FOUR

A marketing campaign to leverage each element of South Australia's enhanced data network capability

With the rollout of the National Broadband Network (NBN) effectively completed in June 2020, most of the State now has a base-line level of internet connectivity. While the NBN was always intended to provide a minimum standard 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 the Gig-City network and the City of Adelaide's (CofA's) Ten Gigabit Adelaide network. The State Government has also gone further with providing high-speed fibre connections to 500 public schools under its $80m Schools With internet Fibre Technology (SWiFT) program delivered by Telstra and completed in June 2020. A further $50m is to be spent connecting all pre-schools and children's centres, with that work to be completed by mid-2021. Several private internet infrastructure providers are also offering higher speed networks to targeted businesses and residents, including South Australia's Unity Wireless.

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 (up to) 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 are also coming online 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 City of Adelaide (CofA) entered a contract with TPG to deliver a similar capacity internet service known as Ten Gigabit Adelaide. This involved an initial $12m capital investment with payback over a decade. The CofA 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 before the end of 2020 and delivery is on track with almost 700 buildings now complete. With hundreds of active business customers already connected from professional service firms including architects and lawyers, to film production companies, Ten Gigabit Adelaide is gaining real traction. Further, it 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 but provide solutions for business customers which require much higher than base level internet capacity.

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 or the private sector 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 ones to expand.

This should include promoting the high-speed fibre connections now available to all South Australian schools. Such a marketing campaign should be led by the State Government, perhaps with a co-contribution by the CofA, 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.

High office vacancy rates have been synonymous with Adelaide's CBD for some years and as we move beyond COVID-19, that will be an increasing challenge to face, particularly with the growing propensity for employees to work from home. In a recent Stanford University survey, days worked from home is expected to at least triple across the US economy beyond the pandemic period from 6 per cent to 17 per cent of all working days. This includes an expected 10 per cent of the workforce that will be working from home five days a week.[17] Based on feedback from local businesses, we expect similar outcomes in South Australia.

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 Government, State Government or university sector initiatives. South Australia has the office space available and a leading level of internet connectivity but would benefit from a coordinated marketing and communications campaign to join the two together to help realise the Growth State objectives for innovation.

Regional South Australia should also continue to be a focus of enhanced internet capability to attract businesses. With migration at a standstill due to COVID-19, the State Government needs to be looking at all ways it can position the regions for future economic growth. Enhanced internet infrastructure will be a key element of achieving this, but Business SA recognises that this has to be targeted. The State Government's role is not a universal provider of enhanced internet infrastructure.

It is also important that competition for the provision of higher speed internet services to regional South Australia be central in any Government push to facilitate higher speed internet connections for businesses or other high needs institutions. With a growing private sector for enabling higher speed internet connections, including from the NBN company targeting commercial opportunities beyond its base level offering, the State Government should be working with the entire industry and local Councils to ensure that all sizeable regional centres can gain access to an enhanced level of internet capacity to attract businesses. This will also be important should the State Government take a more proactive path to decentralising relevant Government functions.

Infrastructure SA recently stated in its 20-Year Strategy Report that *'there is currently no plan that integrates the (digital) strategies at the Commonwealth and State Government level and also considers public and private sector partnership arrangements to address current and future demand and connectivity gaps'*.

Business SA recognises this gap too, and we are concerned that with a push to attract high tech industry to South Australia, including the space, gaming and cyber-security sector, that we cannot overlook positioning our regional centres for success too.

This will only come if the State Government makes a concerted effort to ensure the regions are able to offer suitable levels of digital infrastructure to encourage both the creation of more regional companies, and to play to those with a mind to relocate.

This is likely to become more important with more companies taking advantage of remote working and re-assessing the extent of their need for centralised operations post-COVID.

[17] Stanford University/Federal Reserve of Atlanta/University of Chicago, 'Survey of Business Uncertainty', May 2020

POINT FIVE

Kickstarting the development of a holistic eco-industrial park

Business SA recommends the development of a holistic low emissions industrial park (eco-industrial park) to showcase South Australia as the most environmentally and technologically advanced state in Australia. This should incorporate all features for companies seeking to differentiate themselves from a sustainability perspective, including but not limited to renewable energy, recycled water, hydrogen, maximum energy rated buildings and industrial symbiosis/circular economy. Eco-industrial parks are communities of businesses located together to enhanced environmental and economic performance through collaboration. Worldwide, eco-industrial parks (EIP) are on the rise. There are about 250 self-styled eco-industrial parks operating or under development worldwide today, while just as recently as 2000, there were fewer than 50.[18]

The businesses who choose to develop in EIPs are often a mix of manufacturing and service businesses seeking to collaborate in managing environmental and resource issues including energy, water, and materials. By working together, a community of businesses receive a collective environmental and economic benefit that is greater than the sum of the individual benefits each company would realise if it optimised its individual performance only. According to the World Bank Mainstreaming EIP report, the main drivers for eco-industrial parks (EIPs) remain grounded in business competitiveness and this should be a focus of the park's development.[19] Business SA is not advocating for the development of an eco-industrial park with uneconomical operating costs, instead, this project must be grounded with sound economic principles. We also acknowledge that tenant selection is going to drive the economies of scale for certain features.

While there are many EIPs around the world, rather than a more holistic offering, the focus to date has been on limited areas of environmental improvement. For example, the Dandenong LOGIS EIP in Victoria, includes recycled water, rainwater tanks, solar hot water, natural ventilation and the maximising of the solar aspect of the buildings.[20] Typical attributes seen in EIPs overseas and interstate include building construction with sustainable and/or recyclable materials, energy-efficient design and heating and cooling systems, "green" landscaping, and strict environmental guidelines for tenant companies.

Table 3 – Eco-Industrial Parks that have adopted selected sustainable measures

	Numbers	Percentages
Waste Management	109	51%
Energy Efficiency	106	50%
Industrial Symbiosis	95	45%
Resource Efficiency	75	35%
Renewable Energy	74	35%
Water Management	70	33%

Business SA suggests an eco-industrial park development that extends beyond the parks developed overseas and interstate and uses South Australia's environmental credentials to develop a world leading facility. In February 2020, the State Government announced its aim for South Australian greenhouse gas emissions to reduce by more than 50% below 2005 levels by 2030. The Government is aiming to achieve net zero emissions by 2050.[21] The creation of a holistic EIP will demonstrate to all businesses the environmental and economic benefits from operating environmentally sustainable businesses and help to achieve the State's zero emissions target.

A key to a unique and innovative EIP is the creation of hydrogen hubs. This incorporates locations where users of hydrogen are co-located. These hubs will make infrastructure more economic, allow for efficiencies of scale, foster innovation, facilitate the sharing of expertise and services and promote sector coupling.[22] Business SA recognises that local businesses being able to adopt hydrogen at scale even if it was readily available and price competitive is still low, but the co-location of businesses who wish to use hydrogen as an energy source will reduce and distribute such costs within the EIP.

[18] World Bank Group, 'Eco-Industrial Parks Emerge as an Effective Approach to Sustainable Growth', January 2018
[19] World Bank Group, 'Mainstreaming Eco-Industrial Parks', July 2016
[20] Premiers Design Awards, 'Architectural Design Dandenong LOGIS Eco-Industrial Business Park' 2013
[21] South Australian Government, 'Climate Change and Greenhouse Emissions Reduction Act 2007'

The State government is currently reviewing its Waste Management Strategy recognising that the industry is a major player in the State's economy with a $1 billion turnover and employing 4,800 people. South Australia has one of the highest diversion rates in the world, and the highest in Australia, meaning that South Australia diverts the most waste away from landfill. However, more can be done. The development of an EIP will demonstrate how industry symbiosis can be used to reduce the amount of waste being sent to landfill. Aligning organisations that can utilise the waste and pollution output of other organisations in close proximity will also reduce transport and dumping costs for resident businesses, improving the economic viability of the EIP.

In addition, an EIP provides an opportunity to develop technology such as the underground waste management system currently being developed in Maroochydore City Centre. This allows waste to be transported from commercial buildings through a system of underground vacuum pipes avoiding odours, vermin and the costs of cleaning streets. This system, which is used in cities such as Stockholm, Seoul, Barcelona, London, Singapore and Beijing has a track record of increasing recycling rates.[23]

Ideally, an EIP would also focus on the flow of materials and energy from local and regional South Australian economies as well as engage separate industries in a collective approach to a competitive advantage involving physical exchange of materials, energy, water, and/or by-products as well as services and infrastructures shared at the industrial park scale to reduce environmental impact and overall production cost through geographic proximity.[24]

Overseas, the involvement of governmental authorities in the park development and operation and the existence of environmental legislation facilitating eco-innovation projects in industrial/urban zones are of major importance.[25] To complement, financial incentives may help to overcome economic barriers and support planning and/or implementation of eco-innovation through development grants. For these reasons, the policy and regulation frameworks and financial incentives have been identified as key success factors.

The development of an EIP can take two forms, either embedded in the design of a new industrial zone or an existing zone may be transformed into a resource efficient hub. Business SA is not advocating for a specific location or model, rather we are encouraging South Australian businesses and Government to work together to develop a park that will assist the state in achieving its carbon neutral target and demonstrate best practice.

There are a number of sites that may be suitable including the Gillman site, due to its proximity to industry and the Barkers Inlet Stormwater Reuse Scheme, and the Adelaide Airport site due to the proximity to the City of Adelaide and potential to be part of the Airport's Glenelg Wastewater Treatment Plant output, and water collected from the Brownhill-Keswick Creek catchment stored in the local aquifer.[26]

Businesses will be willing to establish in an EIP if it can be demonstrated that the organisation can meet its interests in reducing expenses and increasing profit at the same time as meeting environmental goals. Worldwide there is a shift towards responsible and green investment with an increase of 13 per cent in 2019 to a value of $980 billion and South Australian businesses need to position themselves at the forefront in order to capitalise on this shift. Business SA recognises that an EIP is not a silver bullet to fix the economy, but it can be an important piece of the puzzle to ensure we showcase what options are available to businesses and how they can benefit by going down this path.

While Veolia purchased a portion of the Gillman site in 2017 to create an environmentally efficient logistics and employment precinct, this project has yet to materialise and though it may do in time, a holistic eco-industrial park still needs to be developed in South Australia and the State Government must make it a higher order priority.

[22] COAG Energy Council, 'Australia's National Hydrogen Strategy', November 2019
[23] Sunshine Coast Council, 'Maroochydore City Centre leads waste revolution", September 2019
[24] Pakarinen, Suvi, Tuomas Mattila, Matti Melanen, Ari Nissinen, and Laura Sokka,. 2010. 'Sustainability and industrial symbiosis—The evolution of a Finnish forest industry complex' Resources, Conservation and Recycling 54, 1393–404.
[25] David Gibbs, Pauline Deutz, 'Reflections on implementing industrial ecology through eco-industrial park development', Journal of Cleaner Production, Volume 15, Issue 17, November 2007, 1683-1695.
[26] Adelaide Airport, 'Water Conservation', website
[27] Responsible Investment Association of Australasia's (RIAA), 'Benchmark Report' September 2019

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POINT SIX

Progress the Short-South link (from Mount Barker to North-South corridor), and duplications of Augusta and Dukes Highway

In 2019, for the first time State and Federal Governments agreed to a national approach to Australia's freight and supply chains, culminating in the release of the National Freight and Supply Chain Strategy. This was driven by a recognition that Australia's economy is increasingly integrated across interstate and international markets. The Strategy also acknowledged that Australia's freight productivity has plateaued since the 1990's with little change in real (inflation adjusted) freight costs since. With the highest median age on the mainland, and meagre population growth over recent decades, South Australia's future prosperity is intrinsically tied to export led economic growth. However, being competitive in international markets requires local businesses to continuously find productivity improvements, including through freight costs.

Figure 2 – Projected freight growth by mode in Australia [28]

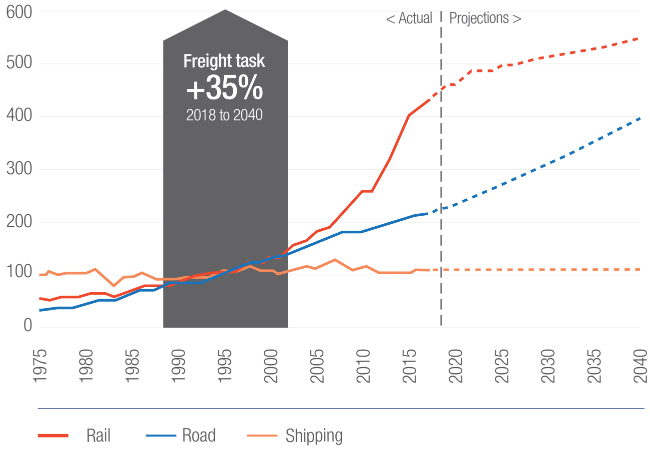


Figure 2 shows that the rate of forecast road freight growth is greater than all other modes, underscoring the need for states like South Australia to continue to progress major road improvement projects. With the Federal Government soon to develop a national framework for freight related infrastructure investment, South Australia should be positioning to ensure that major upgrades in South Australia are part of a national investment drive. This should include consideration for how any potential projects may fit with the increasing appetite of Australian superannuation funds to invest in local infrastructure.

In late 2019, the State Government released an independent study into its Globe-link proposal by KPMG. The economics of a specific freight-only airport at Monarto did not stack up, but the report helpfully analysed a whole range of alternative options to improve South Australia's freight competitiveness. The report also highlighted that two thirds of interstate freight moved in South Australia occurred between Adelaide and Victoria via the South-Eastern Freeway. With respect to rail options, KPMG found deteriorating cost benefits since the Government's 2010 rail study and for the Globelink reference case, a $4.7 billion 150 kilometre link between Two Wells and Murray Bridge delivered a negative net present value (NPV) of $3.7 billion. However, there were some more promising road options costed to improve freight connectivity into Adelaide, particularly the Short-South option of a freeway link from Mount Barker connecting to the North-South Corridor at St Marys. At $1.4 billion, this project still had a negative NPV, but only $1 billion. With the final sections of South Road now forecast to take potentially until 2030 to be completed, Business SA supports the State Government pursuing the Short-South option to ensure an east-west freight link for Adelaide does not take a further decade to come to fruition.

For many years, Business SA lobbied for the creation of an independent infrastructure authority for South Australia. We also wanted to see an independent infrastructure body have a specific regional focus. While many lament the lack of growth in regional South Australia over recent decades, in our view this can be arrested through a range of measures including a concerted drive to improve infrastructure. To the State Government's credit, Infrastructure SA was established in 2018 and has just released a comprehensive 20-Year Strategy (the Strategy), including a 5-year Capital Intentions Statement. A great deal of research and consultation went into developing both documents and they will be a useful reference point for the Government's future infrastructure decisions. We are also pleased that Infrastructure SA will provide an independent expert avenue to establish business cases for Government funded infrastructure projects, and we trust that will also extend to vetting unsolicited private sector infrastructure proposals.

[28] Transport and Infrastructure Council, 'National Freight and Supply Chain Strategy', August 2019

Infrastructure SA's first guiding principle, to 'Grow the economy and create jobs', is very much in sync with Business SA's primary charter. However, while the 20-Year strategy has established a decision making framework, Infrastructure SA needs to go further to articulate a bold economic growth strategy for South Australia, particularly in the regions. In Business SA's recent submission to the State Government's Regional Development Strategy, we clearly outlined a need to focus on bold infrastructure projects to generate economic growth across the regions, including major highway duplications such as the Dukes and Augusta Highways. In 2019, the SA Freight Council advised that the safe introduction of Triple Road Trains south of Port Augusta would offer material increases in freight productivity to communities, businesses, mines and farms in the north of South Australia.[29] According to State Government data, approximately 3,500 vehicles travel this road daily, 750 of which are commercial vehicles.[30] Business SA encourages the Government to plan a full duplication of the Augusta Highway which would not only satisfy the needs of heavy freight users, but provide safer outcomes for passenger vehicles too (including tourists).

The Dukes Highway duplication should be another key priority, with State Government data estimating 4,000 vehicles use this road each day, 30 per cent of which are commercial vehicles.[31] From Business SA's perspective, duplicating the Dukes Highway also aligns in with the Victorian Government's gradual progress in duplicating the Western Highway towards the South Australian border. We recognise that these types of projects may not necessarily be able to be completed over one or two budget cycles, but businesses, the ones that create jobs, need confidence from understanding what the long term aspirations of a Government are. This is much clearer in neighbouring Victoria as they progressively duplicate the Western Highway towards the border and a comparable vision would benefit South Australia. Furthermore, while upgrading the Western Highway between Stawell and the South Australian border is considered a national 'Road of Strategic Importance', no such classification exists for the continuation of that highway from the border, being the Dukes Highway which runs through to Tailem Bend.

The Federal Government has a strong appetite to support State Governments in improving productivity in a post-COVID economy. In terms of available policy levers, while wholesale tax and workplace relations reforms are inherently contested processes, infrastructure spending can be progressed much faster, assisted by long-term borrowing rates for the Federal Government sitting at record lows around 1 per cent. Business SA is mindful that the Federal Government will not borrow for infrastructure investments that ultimately make little economic sense, but the Short-South link and duplicating the Augusta and Dukes highways should be no regrets investments in the long-run, particularly given each project's ability to enhance the national road network. With analysis showing each highway duplication would cost approximately $2 billion,[32] and the Short-South link $1.4 billion,[33] Business SA acknowledges that the State Government would only be required to fund 20 per cent of these projects under the convention which governs upgrades to the national road network.

As South Australia transitions to a net-zero carbon economy, this will include low-carbon transport such as heavy vehicles run on hydrogen. Subsequently, further development of our road network is consistent with a low-carbon future. The State Government can also give effect to its circular economy aspirations through increased use of recycled materials in future road projects.

Future development of our rail network should not be ruled out, but the viability of an expanded an upgraded rail network is likely to come at a later point once the State achieves more substantive population growth, particularly in the regions. In the interim, Business SA's focus is on progressing the projects most likely to shift us onto that growth trajectory.

[29] South Australian Freight Council, Moving Freight 2019 "Towards a 20 Year State Infrastructure Strategy"
[30] Department for Transport, Planning and Infrastructure, 'Traffic Volumes', Interactive map
[31] Department for Transport, Planning and Infrastructure, 'Traffic Volumes', Interactive map
[32] RAA, 7 federal election priorities 'Pushing for change: Let's keep SA moving', February 2019
[33] KPMG, 'Scoping Study Report – Globelink', December 2019

POINT SEVEN

A renewed push on local businesses benefiting from State Government procurement

The supply chain disruptions experienced during the COVID-19 pandemic period have sparked growing interest in how State Government procurement can be better utilised to engender local economic outcomes. While by no means is this a recent phenomenon, with South Australia's Industry Advocate (OIA) being established in 2013, recent changes in market dynamics have caused a re-think of risk, while a sharp economic downturn has highlighted the importance of Governments adequately supporting local businesses. Early last decade, Business SA supported the establishment of a dedicated Industry Advocate for Government procurement. At the time, we argued for a whole-of-government approach to lifting SME participation in Government tenders, which required a focus on the barriers those SMEs faced from insurance limits, onerous information requirements, lack of transparency and accountability of procurement officers to businesses to name just a few.

Over the past 7 years, there has been solid improvements on a number of these fronts, and the visibility of Government procurement staff is much higher through the OIA's 'Meet the Buyer' events.

In 2018, to the State Government's credit, it charged the newly formed SA Productivity Commission (SAPC) with a comprehensive inquiry into State Government procurement, Stage 1 of which focused on goods and services (annual $5.1 billion spend) with the following terms of reference:

a) to improve the rate of economic growth and the productivity of the South Australian economy in order to achieve higher living standards for South Australians;

b) to improve the accessibility, efficiency and quality of services delivered or funded by government;

c) to improve South Australia's competitiveness for private sector investment;

d) to reduce the cost of regulation;

e) to facilitate structural economic changes while minimising the social and economic hardship that may result from those changes;

f) to take into account the interests of industries, employees, consumers and the community;

g) to increase employment, promote regional development; and develop South Australia in a way that is ecologically sustainable.

The Inquiry was subsequently extended to cover capital projects under Stage 2 (annual $11 billion spend), with the expanded terms of reference including:

h) considering the time and costs associated with procurement;

i) assessing the level of compliance by public authorities with Government procurement policies;

j) considering the appropriateness of procurement governance and reporting arrangements;

k) evaluating the effectiveness of Industry Participation Policy;

l) examining the risk-management framework used by Government to evaluate supplier bids;

m) considering best practice procurement policies from interstate, overseas and the private sector.

Following the release of the SAPC's Stage 1 & 2 Final Reports, the State Government has subsequently responded with various timeframes around key recommendations. Business SA's arguments in relation to procurement policy consider the progress made, or expected to be made, from the SAPC Inquiry.

Unbundling of Government contracts

A key issue raised by SMEs over recent years has been the ability to access Government contracts, particularly in the construction space where the size and nature of contracts does not necessarily lend itself to SMEs being direct contracting parties. While Business SA recognises there are often good reasons for Government to pursue economies of scale with major projects, there is equally an element of maintaining competition in markets that needs to be considered for. If too few and larger contracts are awarded, the volume of competition for those contracts will be limited. Australia has well entrenched competition laws to preserve competition across the economy. In 2015, the Federal Government charged an independent panel with carrying out a comprehensive Competition Policy Review.

A key recommendation of the panel was *'that promoting competition should be a central feature of government procurement and privatisation frameworks and processes'*. Business SA understands that the Department for Planning, Transport & Infrastructure (DPTI) has made some progress on structuring contracts to better suit medium sized businesses, but this approach needs to be both transparent and extended more broadly across the State Government, including where possible to accommodate both medium and small businesses. Effectively, the State Government needs to give more formal effect to the Competition Policy Review's edict to ensure competition is a central feature in all procurement frameworks and processes.

Build on Gov2Gov with transparent seed funding to engender confidence in SMEs to deliver on procurement outcomes

One of the seemingly intractable issues with Government procurement interfacing with new and emerging businesses is the need for Government procurement officers to have confidence to use a business with an untested product, or perhaps with much less experience than a more established business. There is typically a high level of risk aversion at the procurement officer level, leading to tender decisions to select established businesses which are considered lower in risk. While in the short to medium term, this approach may appear sound, if the Government does not provide sufficient opportunity to emerging businesses, then it risks losing the value they bring to the competitive process.

In 2014, the New South Wales Government introduced a procurement innovation stream allowing Government agencies to engage suppliers through direct negotiation on short-term contracts (up to $250,000) to do proof-of-concept or outcomes-based trials. This threshold has since been raised to $1m, with an extension declared in 2019 under a revised Procurement Policy and has been used to help with innovations like trialing a new CTP insurance scheme.

The NSW scheme is more about innovation than necessarily bringing new businesses into the procurement fold, although it can equally be applied to serve dual purposes. Business SA acknowledges the State Government has just released its Gov2Gov Program which is aimed at providing opportunities for innovative start-ups to solve public sector challenges. Successful start-ups would then have the opportunity to contract directly with Government and retain their IP from the process. Business SA welcomes this initiative and views it as a very positive step forward to providing up and coming SMEs an opportunity to crack Government procurement.

Gov2Gov is a promising model, but the Government has not yet made visible any additional funding to be provided to various agencies that may otherwise look to contract an upcoming start-up but are equally having to meet limited budgets. Business SA understands there may be some grant funds attached to support this scheme, although transparency on the funding would be helpful. We recognise that the State Government cannot fund innovative start-ups at any cost, but it would help to have a transparent fund attached to the Gov2Gov program in order to ensure a wide range of Government agencies are incentivised to utilise it. This would also help to ensure expenditure and outcomes can be tracked over time to determine the effectiveness of, and any required improvements to, the program.

Increase transparency of future Government procurement needs

Business SA has previously raised issues with a lack of transparency on the State Government's future procurement plans. We have had numerous examples raised where there is a known requirement for a Government tender, for example in relation to uniforms, but the Government has just rolled on with existing contracted parties and delayed decisions on future tenders. A key factor in attracting more businesses to bid for Government contracts is predictability and confidence in the process. The State Government needs to ensure that wherever practical across its agencies, that forward procurement plans are published to the extent known at any given point in time.

The SAPC Inquiry recommended that each agency publish an annual forward procurement program setting intentions and probable timing over the next 24 months, with some indication of the probability of intended procurements. While some elements of procurement plans are public, for example DPTI's future tender plans for building projects, there is considerable room for additional transparency across the entire government, particularly where procurement decisions may not yet be certain but the Government needs to flag their level of intention to procure a good, service or capital item.

Forward procurement plans should also be simple to find, with a central link of all Government agency forward procurement plans to be made available through Tenders SA website. At the time of writing, only 3 forward procurement plans were available on Tenders SA website which is indicative of why the Government needs to up the ante on all agencies to publish future procurement plans.

Increase transparency about evaluation criteria applied to Government tenders, and feedback for losing tenderers

One of the key challenges for local businesses, particularly SMEs seeking to break into the Government procurement market, is the inconsistent approach across Government for how feedback is provided to losing bidders. Business SA members often raise their frustration about failing to know the specific aspects of their tender application which led to an unsuccessful bid. The SAPC's report placed considerable weight on building more 'match-fit' local businesses able to succeed in winning Government contracts. If the Government wants to support more local SMEs to be competitive in winning Government contracts, the most sustainable way is to help them help themselves. SMEs need feedback to improve their competitive prospects. Business SA recognises the State Government cannot simply buy local at any cost but helping local businesses to become more competitive starts with a transparent and consistent feedback process. This includes businesses understanding the relative weightings by which the Government intends to make a specific tender decision. These relative weightings should be made more transparent up front, so businesses know the extent to which they need to shape their tender to meet the Government's requirements.

Progress steps to materially reduce pre-registration information required across Government tenders

A consistent theme from Business SA members over many years relates to providing duplicate information in Government tenders. In a 2018 survey of our members, approximately 88 per cent of businesses indicated this was an issue to varying degrees. While Business SA recognises there is an element of privacy which prevents information from being easily shared between departments and agencies, there is a vast array of more general information such as company identification details, common policy information like for Work, Health & Safety, insurance coverage and more which can be stored in a central repository. Businesses will also need to have access to easily update their general information documentation.

The SAPC recommended a pre-registration system for businesses and not-for-profit organisations and Business SA acknowledges the OIA is currently managing a process to give effect to that recommendation on behalf of the Government. Business SA reiterates the importance of this process being completed in a timely manner and for testing to include consultation with industry to ensure it adequately meets businesses' needs.

Take meaningful steps to better manage Intellectual Property (IP) within Government procurement tenders

The management of IP within Government procurement is a very important feature of the tender process, particularly if Government is genuinely seeking to promote more innovation by South Australian businesses. The view of many local businesses is that the Government takes unnecessary steps to retain ownership over IP developed through a tender process but is subsequently unable to commercialise the IP itself resulting in a deadweight loss to the economy. Comparable arguments are often applied to the University Sector too, which can become so fixated on protecting IP that all parties lose out on the opportunity to commercialise it. The SAPC Inquiry considered the management of IP in tendering and recommended the Government provide better guidance on its IP policy, including a wide range of examples. The SAPC also requested the Government clarify its position on the management of IP.

Business SA recommends the Government go much further by structuring an IP policy which seeks to maximise the ability of local businesses to commercialise IP developed through its procurement processes. While we recognise the Government seeks to avoid paying for the privilege of accessing IP developed through its own procurement processes, nor does it want to give up a potential value stream, it still needs to consider how it can better engender economic growth through a more liberal approach to IP ownership.

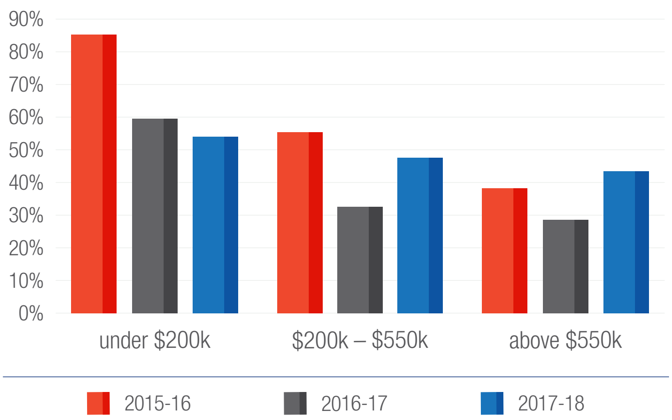
The State Government's current IP policy states *'The commercial exploitation of IP is not the primary concern of Government. Rather, the focus is to make sure the ideas, creative works, inventions and discoveries generated are used to maximise public value'*. In response to the SAPC's recommendation on IP, the State Government advised: *'The government supports adopting a fair and reasonable approach to protect the IP of businesses during tender processes and in contracts. It is recognised that implementing such an approach provides the opportunity to maximise industry participation and drive innovation'*. The Government subsequently agreed to develop improved guidance and case studies on IP implications and application across various types of procurement by March 2021.

Business SA recommends the Government play a much more active role to ensure the commercial exploitation of IP generated through Government contracts is given higher priority, particularly when the IP is developed by local businesses. The Government's response to the SAPC in relation to concerns about IP ownership lacks in ambition, particularly at a time when innovation within local businesses is, now more than ever, needed to reposition South Australia's economy post-COVID.

Ensure a more credible system of quote provision in contracts below $550,000, particularly from local businesses

The SAPC Inquiry clearly outlined the shortfalls in current practice when it comes to relatively low-value Government tenders and the number of quotes sought. Figure 3 from the SAPC highlights trends in goods and services tenders above $33,000 requesting only one quote:

Figure 3



Source: State Procurement Board Contracting Activity data, 2017-18, 2016-17 and 2015-16 (unpublished data).

The SAPC found that for 2017/18:

> For tenders valued between $33,000 and $220,000 where a minimum three quotes is required, 54 per cent of tenders only requested one quote;

> For tenders valued between $220,000 and $550,000 where a minimum of five quotes is required, 47 per cent of tenders requested only one quote; and

> For tenders above $550,000 where a public tender is required, 44 per cent of tenders only requested one quote.

Business SA recognises there may be some tenders where the use of a single supplier is justified, and additional red-tape in such scenarios should be avoided, but it hard to believe this applies to approximately half the State Government's tenders. In the Government's response to the SAPC, it agreed it was important to have a clear set of standards to define when it is acceptable to undertake single supplier tendering, but this did not seem to recognise any concerns with the status quo volume of single supplier tenders. The Government also failed to agree with the SAPC recommendation to set a target for single supplier tenders. Further, Business SA acknowledges the SAPC recommendation that agencies should report against the requirement to ensure at least one quote is from a locally based business. The Government has since agreed to this recommendation and advised it will be part of an updated reporting framework. While this is a welcome step, it is not enough to improve the general prospects of local SMEs if many low value quotes are still decided through single supplier tenders.

Ensure a series of 'Meet the Buyer' events is funded in the upcoming State Budget

One of the most valued services the OIA provides are regular 'Meet the Buyer' events which typically attract several hundred business delegates seeking to meet with State Government procurement staff. These events have been running for several years now but their future provision will rely on specific funding by the State Government. Notwithstanding COVID related restrictions have limited the ability of the OIA to run these events, they should be funded to continue as soon as easing restrictions will allow for.

8

POINT EIGHT

A bold push on tax reform to tackle the taxes that most constrain business, particularly payroll tax, company tax and fringe benefits tax

The recent round of COVID related stimulus payments and tax breaks from the State and Federal Governments have served to highlight the need for both South Australia, and the nation, to have a tax base which enables Governments to afford to support the community, and one which best engenders the growth of business. Having an efficient tax base, or one which does the least damage to economic growth for every tax dollar raised, is also critical to ensuring the economy is best placed to rebound post-COVID. This is particularly important given the economy is likely to take a very different shape post-COVID, which will also rely on Australia being in a strong position to attract international capital to help stimulate required economic activity.

Business SA has been an active participant in various tax reviews over time, most recently the 2015 State Tax Review and the 2016 Federal Tax White Paper. While both processes set out to be comprehensive reviews of State and Federal Taxation, the reality of tax reform is the inherent difficulty communicating the benefits more broadly through the political process. It can be convenient to blame media coverage of such issues, but the media will always play a critical role on matters of reform and Governments at both State and Federal levels need the fortitude to progress despite the potential for negative media coverage.

Table 4 shows South Australia's current tax and expenditure base. While based on the 19/20 State Budget prepared pre-COVID, this still provides a sense of relativity of various tax and other revenues needed to fund recurrent expenditures. (Note GST revenues are set to decline even further, and it remains uncertain as to the degree they will rebound post-COVID).

Table 4 – South Australia's current tax and expenditure

State Taxation Revenue ($ million)	19/20 Budget	% of Total SA Gov Revenue
Payroll Tax	1,282	6.7%
Land Tax	645	3.4%
Emergency Services Levy	153	0.8%
NRM Levies	65	0.3%
Property Stamp Duty	801	4.2%
Gambling Taxes	410	2.1%
Insurance Taxes		
General Insurance	369	1.9%
CTP Renewal Certificate	73	0.4%
CTP Insurance	50	0.3%
Motor Vehicle Taxes		
Registration Fees	480	2.5%
Stamp Duty on Transfers	177	0.9%
ESL on Mobile Property	44	0.2%
Total (inc. minor other)	**4,580**	**23.8%**

State Fees & Charges	19/20 Budget	% of Total SA Gov Revenue
Regulatory fees	762	4.0%
Health unit fees	456	2.4%
Guarantee fees	144	0.7%
TAFE fees	99	0.5%
Schools revenue	141	0.7%
Metroticket sales	96	0.5%
Drivers' licence fees	70	0.4%
Other user charges	872	4.5%
Total	**2,640**	**13.7%**
Dividend Income to State		
SA Water	259	1.3%
HomeStart Finance	28	0.1%
SAFA	42	0.2%
Total (inc. minor other)	**346**	**1.8%**
Other Revenue to State		
Royalties	300	1.6%
Fines and penalties	157	0.8%
Schools revenue	40	0.2%
Interest income	136	0.7%
Other	351	1.8%
Total	**984**	**5.1%**

Federal Grant Payments to State	19/20 Budget	% of Total SA Gov Revenue
GST (20/21 figure to reflect decline estimated at Jun 20)	5,800	30.1%
Ongoing tied grants	2,252	11.7%
Ongoing tied grants for on-passing	994	5.2%
National Partnership grants	788	4.1%
National Partnership grants for on-passing	172	0.9%
Other Federal grants	541	2.8%
Other contributions & grants	144	0.7%
Total	**10,691**	**55.6%**
Total SA Gov Revenue	**19,241**	
SA Government Expenses		
Employee expenses	8,522	42.4%
Superannuation expenses	1,122	5.6%
Depreciation & amortisation	1,302	6.5%
Interest expenses	518	2.6%
Other operating expenses	5,832	29.0%
Grants	2,808	14.0%
Total	**20,104**	

What is crystal clear from Table 4 is the State Government's heavy reliance on the GST to fund its budget. This one tax alone provides approximately one third (30.1 per cent) of all State Government revenues. To put this into further perspective, payroll tax is the largest single own source revenue for the State Government and only accounts for 6.7 per cent of total revenues. The State Government is also predominately reliant on the Federal Government for revenue, with only 44.4 per cent coming from its own sources.

There is an abundance of literature and modelling on the efficiencies of various state and federal taxes. This is usually measured based on marginal excess burden, or the reduction in economic output for every tax dollar raised. Figure 4 from the 2016 Tax White Paper measures the relative efficiency of various taxes; the lower the marginal excess burden, the more efficient the tax.

Modelling also released in 2016 by KPMG showed that the marginal excess burden of payroll tax to be 14 per cent, twice that of the GST at 7 per cent but ahead of personal income tax at 30 per cent and company tax at 39 per cent.

For a more recent comparison, Figure 5 shows comparable marginal excess burden modelling from the New South Wales Government's Draft Report for its 2020 Federal Fiscal Relations Review.[34]

Figure 4 – Relative efficiency of various taxes – marginal excess burden $

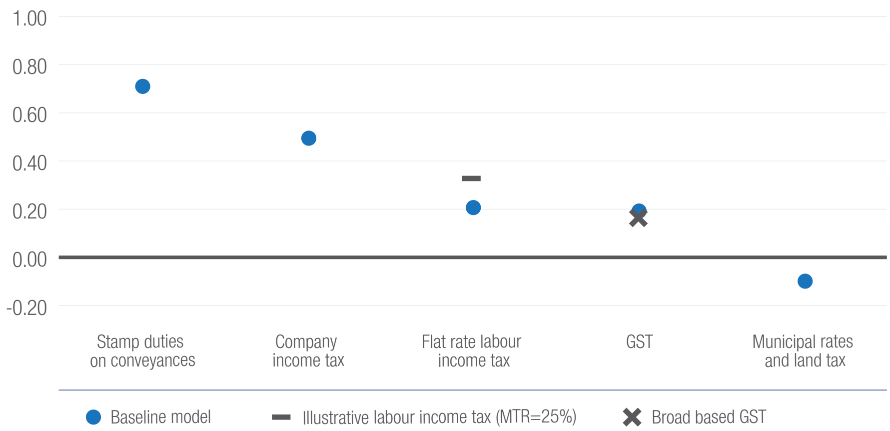
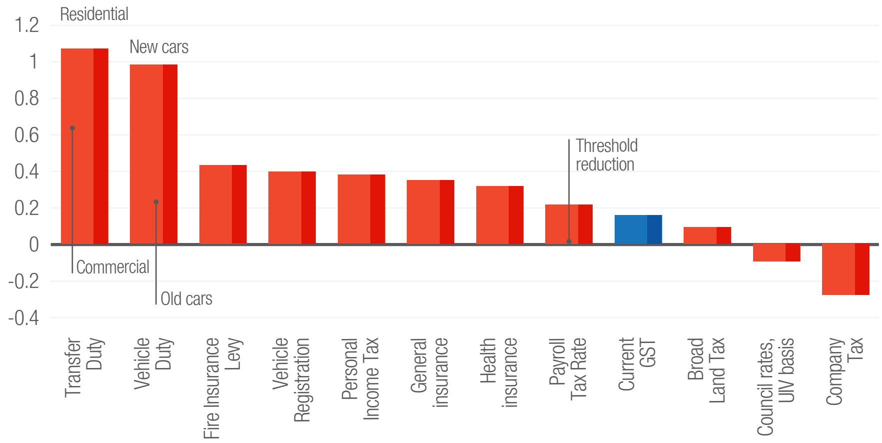


Figure 5 – Marginal Excess Burden – cents per $ of tax raised



Source: Nassios et al. (2019)
Note: Marginal excess burden refers to the economic value destroyed for every additional dollar raised, resulting from individuals and businesses making less than ideal choices. The negative marginal excess burden on company taxation and council rates reflects an increase in national income associated with taxation of foreign owned capital and land holdings respectively.

[34] Noting the Federal Government's modelling of company tax in Figure 4 only found a negative marginal excess burden for company tax when the rate was below 10 per cent. Furthermore, KPMG's 2015 modelling also found a high marginal excess burden for company tax at 39 per cent.

Payroll tax and the GST

Payroll tax is inherently a narrow tax, being levied on labour and not capital, and consequently is less efficient than a broad-based consumption tax such as the GST. Payroll tax also penalises businesses that make things in Australia, as opposed to importers who are not subject to any additional tax on the labour cost component of the import. Australia has a myriad of payroll tax structures across the States and Territories which are summarised below:

Table 5

State / Territory	Payroll Tax			Payroll Tax Threshold			
	2010 Rate	Current Rate	Difference	2010 Threshold	Current Threshold	Difference	
New South Wales	5.50%	**5.45%**	0.05%	$658,000	**$1,000,000**	$342,000	*
Victoria	4.90%	2.02% to **4.85%**	varies on location	$550,000	**$650,000**	$100,000	**
Queensland	4.75%	3.75% to **4.95%**	varies on location & size	$1,000,000	**$1,300,000**	$300,000	***
Western Australia	5.50%	5.5% to **6.5%**	varies on size	$750,000	**$1,000,000**	$250,000	****
Tasmania	6.10%	4.0% to **6.1%**	varies on size	$1,010,000	**$1,250,000**	$240,000	*****
Australian Capital Territory	6.85%	**6.85%**	0.00%	$1,500,000	**$2,000,000**	$500,000	******
Northern Territory	5.90%	**5.50%**	0.40%	$1,250,000	**$1,500,000**	$250,000	
South Australia	4.95%	**4.95%**	varies on size	$600,000	**$1,500,000**	$900,000	*******

While South Australia now has a relatively competitive primary payroll tax-free threshold following changes introduced by the State Government in 2018 abolishing payroll tax for employers with payrolls below $1.5m, employers with payrolls over $1.7m remain subject to the pre-existing $600,000 payroll tax threshold. With respect to South Australia's payroll tax rate, again when compared to standard rates interstate South Australia is relatively competitive, but Victoria and now Queensland have recently introduced low regional payroll tax rates. With Victoria's regional payroll tax rate set to drop to 1.2 per cent by 2022, and Queensland's at 3.75 per cent, this is an increasing threat to South Australia's overall payroll tax competitiveness.

* NSW also has payroll tax rebate for specified apprentices & trainees determined by Training Services NSW

** VIC regional payroll tax threshold introduced in 2018 at 3.65% rate only applies to regional businesses (ie those who pay 85% of their payroll to employees in Regional Victoria) - scheduled to decrease to 1.62% in 2020/21 and 1.2125% in 2022.

*** The tax-free threshold for QLD businesses, $1.3 million, gradually diminishes until a business reaches a $6.5 million payroll. Businesses below a $6.5 million payroll are also subject to a 4.75% payroll tax rate. Regional QLD businesses pay 3.75% payroll tax if they have a $6.5m payroll or less, or 3.9% above that level - effectively a 1% payroll tax discount up until June 2023.

**** WA employers with payrolls of $7.5m or more are liable for payroll tax on their entire taxable wages. For employers above $100m payroll, payroll tax is levied at 6%, and over $1.5 billion payroll, 6.5%.

***** TAS employers pay 4% payroll tax for wages between $1.25m and $2m. A 3 year payroll tax exemption is available where interstate business relocates operations to regional Tasmania prior to June 2021. New youth employees (between 15 & 24) also receive a payroll tax rebate for first year up to 31/12/20; and businesses in building & construction, tourism & hospitality and manufacturing receive a rebate for apprentices and trainees employed up until June 2021.

****** ACT employers are exempt for payroll tax for new starters receiving eligible training

****** For SA businesses over $1.5m payroll, transitioned up to $1.7m, the effective tax-free payroll tax threshold is only $600,000.

The overarching reality is that the State and Federal Governments need to recommence a process of wholesale tax reform which can eventually enable the abolition of inefficient state-based taxes like payroll tax. Without a coordinated national approach to this problem, states and territories will increasingly compete on existing rates and thresholds which serves to make payroll tax even more inefficient. This also adds increased complexity for businesses operating across state borders, particularly when there is no clearing house to enable businesses to only remit payroll tax once. Business SA continues to call for a national payroll tax clearing house to ensure businesses with employees in various jurisdictions can submit payments via a central source which then distributes to States and Territories accordingly.

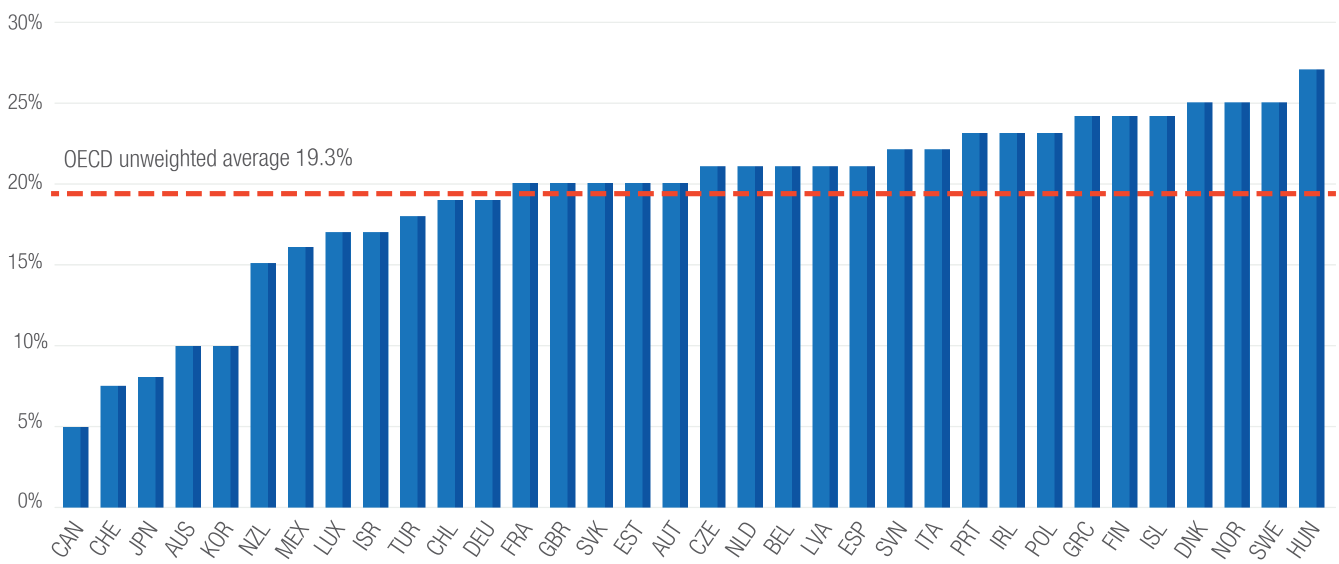
Considering payroll tax is the State Government's largest component of own source revenue, Business SA recognises that only a reform process that includes the GST will enable its ultimate abolition, even if that is done via stages. Business SA acknowledges the NSW Government Review of Federal Fiscal Relations recommendation that *'State governments, in consultation with the Commonwealth, should assess and agree options for lifting the GST rate and/or expanding the base over the medium to longer-term to offset base erosion and move away from more harmful taxes. Some of the revenue gained should be transferred to lower income household to maintain equity'*.

The 2015 Federal Tax White paper process highlighted that only 47 per cent of Australia's national consumption is subject to GST, falling from a peak of 56 per cent in 2005/06. In 2015, this was just below the OECD average of 55 per cent and well short of New Zealand's coverage at 96 per cent. The primary GST exemptions in Australia are for fresh food, healthcare and education expenditure, which Business SA recognises would all be inherently challenging to tax. In 2009/10, the State Government's healthcare expenditure exceeded $4 billion for the first time, at the time having risen 93 per cent since 2001/2. Ten years later in 2020, healthcare spending is over $6.6 billion, having risen by an average of 6.5 per cent per annum over the last decade. Health spending is by far the largest single operating expenditure in the State Budget, accounting for over 32 per cent of total operating expenditure in 2019/20 versus education's share of 18 per cent.[35]

Governments still need to pay for growth in their own expenditures which have primarily related to rising health costs for many years now. Consequently, while it may be politically challenging to consider applying the GST to healthcare, what is the alternative plan to ensure the revenues needed to fund healthcare are not continuously eroded?

Australia's rate of GST at 10 per cent is also well below international comparisons. As per Figure 6, Australia's GST is approximately half the OECD average. Further, even though New Zealand has almost universal GST coverage, its rate remains 15 per cent where it has been since 2010.

Figure 6



PWC recently released modelling on the likely revenue raised from an increase in the GST to 12.5 per cent, applied to both the existing, and an expanded base which is outlined below:

Table 6

	Broaden base by removing main exemptions	Increase rate to 12.5% on current base	Broaden base and increase rate to 12.5%
Increase in GST collections ($ billion in 2018-19 terms)	20.7	14.5	40.0
Increase in GST paid by households	31.7%	22.2%	61.5%

Subject to current GST relativities, South Australia would expect to receive an additional $1.46 billion in GST payments based on a GST increase to 12.5 per cent applied to the existing base only. This would increase to $4 billion if both the base and rate was increased. While PWC's recent report did not model an increase to 15 per cent on the current base, past modelling indicates this would likely raise another $14b in total, or approximately $1.4b for South Australia.

While an additional $1.46 billion in GST for South Australia seems substantial, it is expected that South Australia could lose up to $1.2 billion in GST from the COVID pandemic period alone. These types of shocks to the economy are further reason why broader tax reform including the GST can no longer be ignored.

Business SA recognises that if the GST were to increase to 12.5 per cent alone, that the State Government would be unable to abolish payroll tax, but we expect it would be able to make a substantive reduction in the rate. However, it would likely take increasing the rate to 15 per cent and some broadening of the base to enable the ultimate abolition of payroll tax. With legislated personal income tax cuts to come into effect over the next three years, now is an opportune time to more seriously consider reforms such as a GST expansion or increase, even if staged in tranches over several years. Business SA recognises that a GST increase right now would be counterproductive, but this does not preclude agreement on a scheduled increase even if to commence in two or three years' time. We also accept that low income earners may need some additional tax relief which could be provided via a rebate. If the Government was to permanently increase the rate of JobSeeker, deciding it now would be much more productive than seeking to increase the GST later and subsequently having to revisit unemployment benefits.

Company tax

Business SA has long argued for a more competitive company tax rate for all sized businesses. While we have welcomed the recent phased reduction from 30 per cent to 25 per cent for SMEs with up to $50m in revenue, which will be fully in effect for the 2021/22 financial year, we still need to pursue a universal company tax rate of 25 per cent at a minimum. Table 7 shows the current OECD corporate tax rates, including to show where countries also levy company tax at a state/provincial level.

Table 7

	Combined national and sub-central corporate income tax rate	Central Government Corporate income tax rate	Sub-central Government corporate income tax rate
Australia	30.0	30.0	..
Austria	25.0	25.0	..
Belgium	25.0	25.0	..
Canada	26.5	15.0	11.5
Chile	25.0	25.0	..
Colombia	32.0	32.0	..
Czech Republic	19.0	19.0	..
Denmark	22.0	22.0	..
Estonia	20.0	20.0	..
Finland	20.0	20.0	..
France	32.0	32.0	..
Germany	29.9	15.8	14.1
Greece	24.0	24.0	..
Hungary	9.0	9.0	..
Iceland	20.0	20.0	..
Ireland	12.5	12.5	..
Israel	23.0	23.0	0.0
Italy	27.8	24.0	3.9
Japan	29.7	23.2	7.4
Korea	27.5	25.0	2.5
Latvia	20.0	20.0	..
Lithuania	15.0	15.0	..
Luxembourg	24.9	18.2	6.8
Mexico	30.0	30.0	..
Netherlands	25.0	25.0	..
New Zealand	28.0	28.0	..
Norway	22.0	22.0	..
Poland	19.0	19.0	..
Portugal	31.5	30.0	1.5
Slovak Republic	21.0	21.0	..
Slovenia	19.0	19.0	..
Spain	25.0	25.0	..
Sweden	21.4	21.4	..
Switzerland	21.1	8.5	14.4
Turkey	22.0	22.0	..
United Kingdom	19.0	19.0	..
United States	25.8	21.0	6.0
OECD MEDIAN	**24.0**	**22.0**	
OECD AVERAGE	**23.5**	**21.8**	

Based on combined corporate tax rates, Australia's 30 per cent rate for companies with revenue greater than $50 million is 6 percentage points (pp) or effectively 25 per cent higher than the OECD average. Australia's 25 per cent corporate tax rate for SMEs is quite competitive against the OECD average, although it remains above both the OECD average and median rates. Business SA recognises that Australia cannot enter a race to the bottom on company tax rates, but we have to recognise that company tax is quite inefficient, and we need to at least stay competitive with the OECD for all sized companies. We also need to be mindful that many of our competitor nations, particularly the UK and US, have aggressively cut company tax over recent years. In 2006, the UK's headline company tax rate was 30 per cent, which has been progressively reduced since 2007 to just 19 per cent. In a more recent reform, the central US company tax rate was 35 per cent until 2017 when the Trump administration implemented a reduction to 21 per cent. Even when considering for state income taxes in the US, the combined average US company tax rate of 25.8 per cent remains well below Australia's at 30 per cent.

Business SA recommends that a comprehensive tax reform process consider how Australia's corporate tax rate can be reduced to 25 per cent for all sized companies. Many small businesses benefit from the investment and economic activity generated by larger businesses, and this is particularly relevant when we consider how reliant Australia is on international investment. South Australia is no exemption, and the recent loss of major auto-manufacturing is a stark reminder of the need to continue to attract international capital. In many respects, the primary importance of Australia having a universal 25 per cent corporate tax rate is the need to continue attracting international capital. While industry often bemoans Australia's high labour and energy costs, the Federal Government has much more capacity to control rates of corporate taxation. Post-COVID, Australia will have to be positioned to attract necessary capital to enable structural economic adjustments, and we need to ensure that all our tax and cost parameters are competitive. The debate on reducing company tax for large corporates often centres around how that saving will be passed onto workers. However, if the investments do not come to fruition, there are simply no wages to debate over. Furthermore, companies pay corporate tax on profit, not losses, so tying future company tax cut to wages would invariably mean wage reductions in years of loss, a proposition most likely to be opposed by unions.

Fringe benefits tax

The 2010 Henry Review Final Report recommended all income should be taxed consistently, including wages and salaries, fringe benefits (where they are a direct substitute for salary and wages), employer superannuation contributions, and the returns from self-employment. In relation to fringe benefits on food and beverage expenditures, Business SA argues this is less a substitute for salary and wages, but more a cost of doing business which employees would not typically accept in lieu of a lower wage or salary. For example, entertaining clients is often part of an employee's role in various industry sectors and accordingly, while meals and entertainment may appear on face value to be a perk, employees are still working. As the adage goes, "there is no such thing as a free lunch".

Subsequently, our recommendation to remove FBT on meals and entertainment expenses would not conflict with the policy intent of the Henry Review that fringe benefits in lieu of salary and wages should be taxed appropriately. We also recognise that any exemption aimed at the hospitality sector may need to be appropriately targeted such as not to cover workplaces which may otherwise provide meals to staff as part of their overall remuneration package (notwithstanding exemptions already in place such as for remote primary production workers).

Abolishing the fringe benefits exemption for meals and entertainment expenses would also save on compliance costs associated with apportioning the value of fringe benefits to employees, and between individuals; including instances where several employees attend a business lunch. It is widely understood that calculating fringe benefits tax for meals and entertainment is inherently complex and small to medium sized businesses typically incur a relatively higher red-tape impact. It is essentially a tax with an administrative cost that unequally burdens small businesses.

There are already a range of tax concessions involving exemptions from FBT. According to the 2015 Tax White Paper (Discussion Paper), the two largest groups of tax concession involve exemptions from FBT for public benevolent institutions, health promotion charities, public and non-profit hospitals and public ambulance services. A range of NFP entities are also exempt from paying FBT up to a monetary limit per employee.

Business SA acknowledges that the total taxable value of meals and entertainment expenses subject to FBT was $397.5m for the 2017/18 financial year. This represents only about 5 per cent of the total taxable value of items subject to FBT. While there is no publicly available state by state breakdown, we estimate approximately $14m in FBT revenues associated with meal and entertainment expenses are collected in South Australia each year.

With the hospitality and wider corporate events sector likely to take some time to recover with ongoing COVID-19 restrictions in place, including travel bans, now is an opportune time to abolish FBT on meals and entertainment expenses to stimulate domestic demand.

POINT NINE

A Formula E race and associated Festival of E-motion for Adelaide

In researching initiatives to revive the South Australian economy post pandemic, Business SA considered South Australia's competitive advantages in assessing opportunities. To this end, the growth of Formula E (FE), the electric vehicle (EV) format of the world renown Formula 1 (F1), presents a unique opportunity to leverage South Australia's proud automotive manufacturing history, growing gaming sector, Lot Fourteen and the State's reputation as a leading jurisdiction in renewable energy penetration.

Adelaide has an enviable track record in running a range of world class motor sport events, including the Superloop 500 and Australia's most successful F1 race. Business SA understands the need for the State Government to undertake the necessary due diligence on attracting a FE race, but we have a strong competitive advantage to work from. With no race yet in Australasia, albeit Auckland, Perth and the Gold Coast chasing one, the State Government needs to be positioned to ensure it can adequately leverage the state's strengths to attract a FE race to Adelaide.

The FE championship viewership has been growing rapidly in recent years, with the global TV audience reaching 411 million in 2018/19, only marginally behind F1 at 471 million. While total FE spectator numbers were just over 400,000 over 2018/19, compared to over 4 million for F1, the online audience is growing rapidly with video views up 61 per cent in 2018/19 to over 850 million. 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.

The championship now includes 12 teams with 24 cars and drivers competing in thirteen races on the FE calendar across 11 cities including:

> Ad 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)

FE is still very much in a growth phase when compared to F1 from a spectator perspective, but the costs of attracting a race are only likely to increase in time as it becomes more popular. By that stage, the likelihood of South Australia being able to afford to attract an FE race will likely diminish. 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, which we understand would be considerably less for FE. Contributing to the reduced cost is the lower host cost, with many host cities paying sub $5 million to host versus circa $30 million for F1. Additionally, the cost of operating the event is equal to if not less than the operating cost of the Adelaide 500. While the operational costs for the Adelaide 500 have not been publicly disclosed since 2015, the operating costs from 2011 to 2015 were on average $30.9m a year.[36]

[36] South Australian Motor Sport Board, 'Overview South Australian Motor sport board 2015 results', June 2015

Crucially, an FE race is the drawcard for a week-long festival, proposed as the Festival of E-motion, which aims to generate collaboration between industry, education, and government to promote sustainability, STEM, and the high-tech capabilities of South Australia. Furthermore, the Festival of E-motion plays an important role in creating a narrative of modernisation, as South Australia recovers from the economic impacts of COVID-19. The demonstration effect can also be used to increase consumer demand for EVs. For example, in the 2018/19 FE season, battery capacity nearly doubled allowing drivers to remain in one vehicle for the entire race instead of using two cars per race, as was the case for previous seasons. In short, developments like this can demonstrate to consumers that EV 's are becoming more practical as technology advances. If South Australia wants to position itself for future electric vehicle manufacturing, demonstration events like FE will be crucial to stimulate local demand.

A FE race has considerably less impact on host cities compared to traditional motorsport events. Firstly, the set-up/down logistics are much faster for FE which is likened to that of a music tour, with race infrastructure coming in and out in less than two weeks. This is due to the inherent nimble operating nature of FE. The reduced need for barriers of a specific strength due to the car's design and operating capacity also supports the efficiency of installation and removal of race infrastructure.

FE cars are also significantly quieter compared to regular F1 and V8 supercars. At approximately 80 decibels, the sound of an FE car is only ten decibels louder than a regular car.

In the 2020/21 FE season, Adelaide has a prime opportunity to bid for the 5 June 2021 round 9 race which is yet to be confirmed on the race calendar. With round 8 of FE taking place in Seoul, South Korea, an Adelaide race is well placed to capitalise on reduced logistic costs and creating greater regional diversity for the championship. Moreover, a 5 June event is well timed to diversify the timing of events over the calendar year for Adelaide, an important consideration for the supply chain including such accommodation, tourism, and event hire, those sectors hardest hit by COVID restrictions.

Business SA understands there is investor interest to privately fund a FE race for Adelaide. While this is still likely to require some limited Government support, for example to cover host rights and policing and emergency services, the Government is unlikely to need to bankroll the operational cost of the entire event. This should make a significant difference in a period of unprecedented fiscal challenges for the State Government.

A feasibility study for FE has been provided to the State Government but is yet to be publicly released. Business SA acknowledges the Government has been overwhelmed dealing with a wide range of matters related to COVID-19, but we request the feasibility study be released for public comment. This would also assist with progressing an economic impact statement. If a FE race in Adelaide could be funded privately, as has been mooted, this is only likely to progress once the Government's feasibility study is made available and necessary budgeting can proceed. Business SA is also conscious that a decision on an FE race for next June would need to be made by December at the latest.

FIND OUT MORE

T 08 8300 0000

E policy@business-sa.com

W www.business-sa.com

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