Pre-Election Charter22

For a more prosperous South Australia

2022

Business SA
Chamber of Commerce
and Industry South Australia

Foreword

Business SA, South Australia's Chamber of Commerce and Industry, was formed in 1839 and has over 3,600 members across a wide range of industry sectors, from micro businesses through to listed companies. We are a not-for-profit business membership organisation which works not only on behalf of fee-paying members, but also for the broader business community in pursuit of economic prosperity for South Australia and the nation.

Primarily funded by membership and sale of our products and services for thousands of local businesses, Business SA remains independent of the policy agendas of government or opposition parties. We only exist to represent the interests of our membership and the broader business community. A founding member of the Australian Chamber of Commerce and Industry (ACCI), through ACCI, Business SA ensures the voice of South Australian business community is heard and acted upon at the national level.

Charter22 is the culmination of several months of work to understand the current policy priorities for South Australian businesses and the most effective options to improve the State's business environment. In March 2021, Business SA ran a survey of member businesses to gauge their key issues and test policy positions to respond to their needs. To ensure a comprehensive perspective has framed our policy thinking ahead of the 2022 State Election, we have also had discussions with a range of businesses though our member reference groups, with members more broadly, and with the wider business community.

Many of our recommendations challenge the status quo, but our role is to ensure that every possible step is taken to shift the dial of economic growth in South Australia. We are committed to achieving long-term sustainable growth outcomes on behalf of our members to position South Australia as not only a leading jurisdiction within Australia in which to do business, but a leading jurisdiction across the world. While progress is being made on many fronts, more needs to be done to set South Australian businesses up for sustainable post-pandemic period growth; not as simple as lifting all existing COVID related restrictions, including border closures.

The number one issue for South Australian businesses from our pre-election survey was skills shortages, while state business taxes and the public sector and red-tape rounded out the top three. Businesses highlighted the constraints of existing company and payroll tax rates. Not surprisingly, the strongest support for policy responses included wholesale tax reform to tackle those taxes that most restrict business (particularly payroll tax) as well as ensuring the public sector is optimised to effectively deliver services to the community at the least cost. Additional incentives for businesses to take on apprentices and trainees were also high on the priority list.

Business SA highlights the importance of ensuring South Australia's business environment is conducive for the success of all efficient and innovative businesses, particularly those who can demonstrate the ability to compete in interstate and export markets. While there will always be a place for government grants in instances of market failure, particularly where government policy has played a part, Business SA primarily backs a focus on reducing the costs for all businesses as opposed to selective grant programs which attempt to pick winners. We are inspired by those businesses which grow on the back of their own ingenuity and hard work, setting an example of what is possible for others.

Business SA looks forward to working with the next State Government to give effect to all of our policy recommendations to help elevate South Australia to be the best it can be.

Nikki Govan
Chair of the Board

Martin Haese
Chief Executive Officer

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Executive Summary

As South Australia's peak employer body, Business SA's Pre-Election Charter outlines a suite of recommendations to meet both the existing needs of businesses and generate growth opportunities in an emerging post-COVID environment. Our recommendations cut across industry sectors and respond to business priorities from taxes and levies to skills, infrastructure, red-tape, energy and sustainability, trade (including tourism), university/business collaboration, population growth, and the exit from COVID restrictions.

Recent reforms in payroll tax have supported thousands of businesses under the $1.5m wage threshold, but more needs to be done to address the general payroll tax rate which has remained stagnant since 2009. We are also calling for a new regional 50 per cent payroll tax rate to go some of the way toward address the existing imbalance with regional Victoria. While our skills challenges are temporarily exacerbated by closed borders, a more permanent payroll tax exemption for apprentices and trainees should be embedded to make step changes in how employers are incentivised to meet skills gaps. More also needs to be done to support businesses to provide up-to-date training to assist VET providers.

South Australia's gains in sustainability over recent years have set us up for significant opportunities; from hydrogen through to the circular economy. But we must be decisive in how to progress and include adequate support for a renewable energy powered public transport fleet and incentives for private and commercial vehicle purchases. The government must also consider how its own $11b per annum procurement spend can be more strategically used to support the circular economy. Further, we have considerable opportunity to grow tourism linked to sustainability, starting with a natural River Torrens pool and a push to position for major environmental related events including the UN Climate Change 'Conference of the Parties'.

Investment in economic infrastructure in South Australia is at record levels - a key enabler of future economic growth. But we cannot rest on our laurels. We must start planning for an East-West Link across Adelaide to support the flow of heavy freight and make firm commitments to full duplications of the Augusta and Dukes Highways to support regional growth. Cycling infrastructure also needs further investment, including from a tourism perspective to link key wine regions. While infrastructure typically involves substantive government investment, there equally needs to be a comprehensive review of how governments at both a state and local level are structured to ensure optimum delivery of the services residents and businesses expect at the lowest cost. This is inherently difficult reform but cannot continue to be ignored. We must also look at regulations that can impede trade in some sectors such as shop trading hours, being mindful of a transition that supports local businesses in a competitive market.

The innovation required to continue to transform South Australia's economy can be significantly enhanced with a strategic push on university/business collaboration; including a review of whether our existing 3 major universities would benefit from a merger. We also need adequate incentives to support businesses to employ STEM PhD graduates to further this goal.

Finally, South Australia must lead on the way out of COVID - from vaccination rates through to repatriating international students. The State Government has managed the public health situation well to date, while doing as much as possible to limit the economic fallout, but every jurisdiction in every country around the world is searching for the fastest way out of COVID and South Australia must be on the front foot.

Few of Business SA's recommendations are easily implemented, but they are what is needed, not what is politically expedient. Primarily, businesses want government to back them in to support the considerable risks they take to employ the vast majority of South Australians. This support is best achieved through focusing on every government imposed cost of doing business, including red-tape, and providing access to world class infrastructure and skills. South Australia is in a pretty good position right now, but markets never rest and nor should the next State Government in providing an increasingly competitive environment in which to do business.

Andrew McKenna
Director, Policy and Advocacy

Recommendations

Summary of Pre-election Survey
– State Your Opinion

To better understand the priorities and wants of South Australian businesses, Business SA surveys its members and non-members in the lead up to each State Election. The survey focusses on business constraints and the issues that businesses have consistently identified over the previous four years. We also ask several open-ended questions on what inhibits businesses to employ more people, to expand interstate and overseas, and to innovate.

Constraints to employment identified by businesses revolved around four key themes:

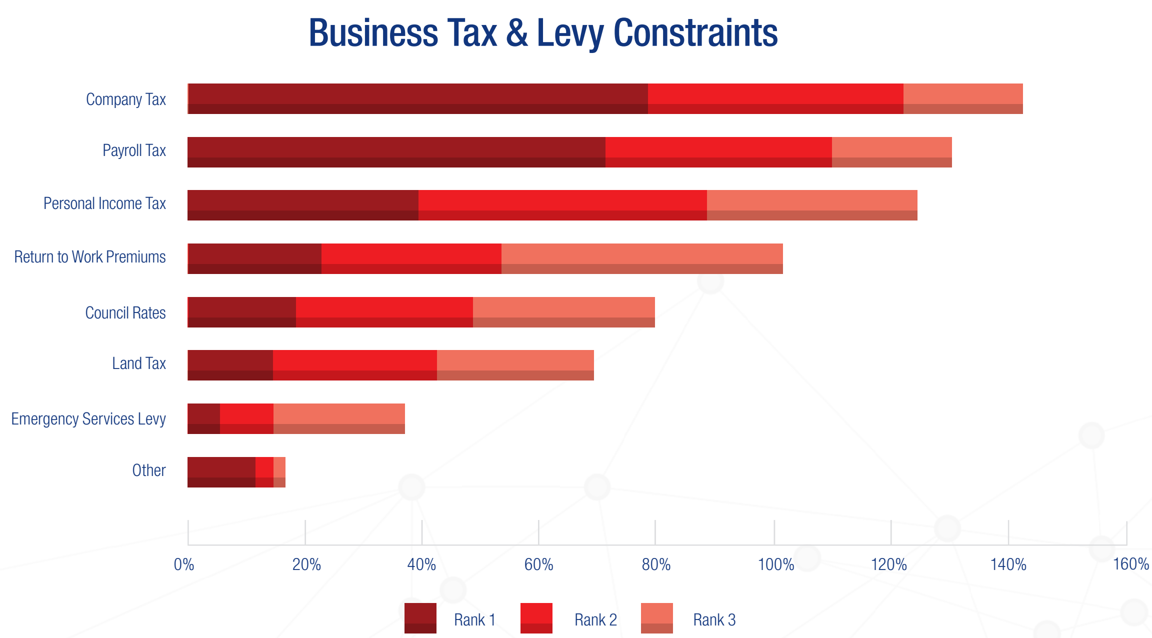
- cost of employing new workers (payroll tax, work cover, superannuation, training, wages);
- finding the right people to employ (lack of applicants, lack of required skills);
- a lack of demand in specific markets, particularly due to COVID, to take on new employees; and
- uncertainty for the future caused by COVID-19.

Limited access to capital, travel bans and lockdowns, freight issues, and red tape were also identified as standing in the way of business expanding interstate or overseas. Conversely, there were a significant number of businesses that had no desire to expand into other markets, with many happy to continue their operations in South Australia alone.

Businesses identified several limitations to considering investments in research and development for new products and services, including access to capital and/or the people to conduct research and development. In terms of engendering innovation, businesses advised us of the negative impact of government red-tape and changing policy priorities.

In our survey, we asked businesses to rank constraints placed on them by direct government taxes and fees (state and federal). The majority of businesses (53.1 per cent) found company tax was their major concern. At a state level, payroll tax and ReturnToWork premiums were found to be a constraint for 83.9 per cent of businesses. In particular, 26.4 per cent of businesses ranked payroll tax as their number one constraint.

Figure 1 *- Business Tax & Levy Constraints*



Other constraints highlighted by businesses included more industry specific charges and levies, stamp duty and capital gains tax.

The second part of our survey asked about previously identified issues facing business. These issues are regularly brought to Business SA's attention through member engagement, reference groups and surveys including the quarterly Business SA – William Buck Survey of Business Expectations and biennial Regional Voice Survey.

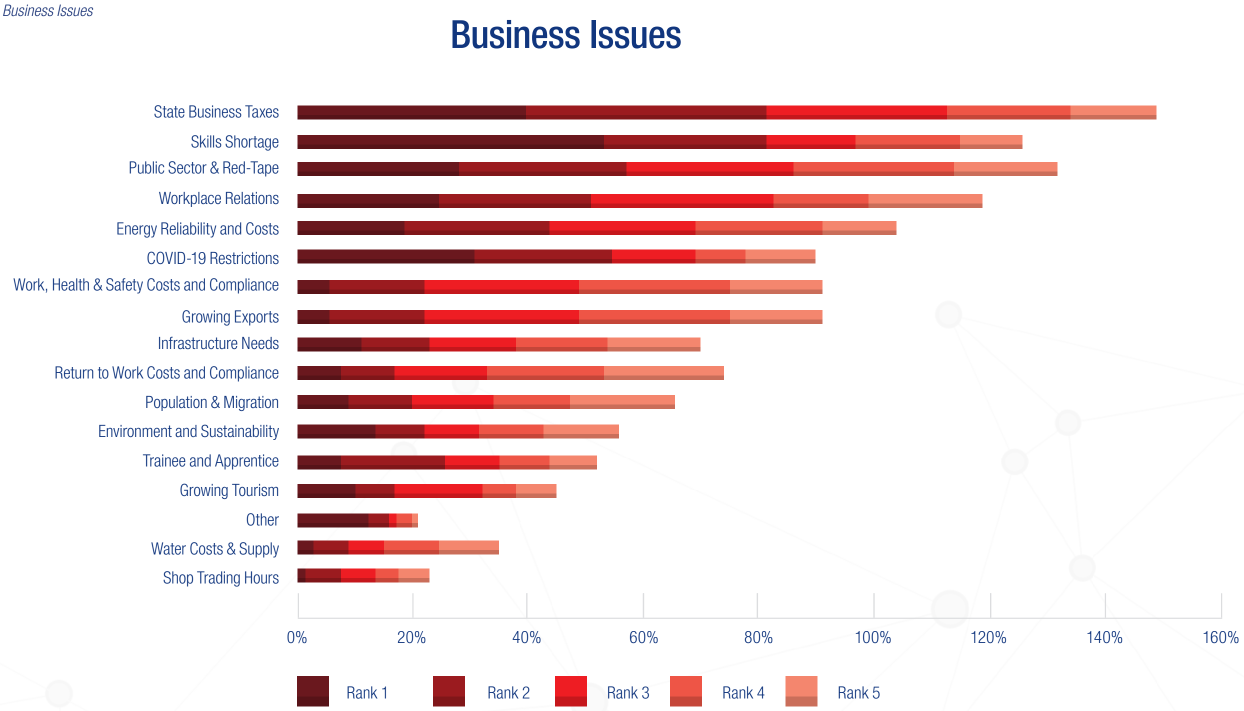
For the 50.2 per cent of businesses that identified state business taxes as one of their top five issues, two thirds identified the payroll tax threshold and rate as their top tax constraint. In fact, many businesses told us payroll tax prevents them taking that next step to employ someone once they reach the top of the tax-free threshold.

Over the last 12 months, Business SA has consistently heard from members of worsening skills shortages, so it was no surprise to find this to be the second biggest issue for business overall, with 18 per cent of respondents ranking it their number one issue the highest number one ranking of all issues. In particular, businesses highlighted the lack of specialised skilled workers and limited applicants for job advertisements compared to pre-COVID.

Public Sector & Red-Tape is always a hot button topic for businesses with many sharing their experiences of challenging interactions with government. Other consistent themes included the complexities of government regulations and tendering processes, including a lack of transparency in decision making, and sluggish response times for approvals.

The following graph highlights the overall priority businesses placed on the various issues and opportunities that are typically brought to Business SA's attention by members. While energy reliability and costs has slipped down the rankings since the 2018 election, there are some concerns about a recent lift in wholesale electricity and gas prices and businesses do not want to see a return to the crisis levels of pricing emblematic of the period between 2015 and 2018.

Figure 2 *- Business Issues*



Business Taxes & Levies

Across the board, payroll tax and company tax feature most commonly as primary constraints on business growth in South Australia. ReturnToWork premiums are also important, notably in key sectors such as manufacturing which governments of both persuasions are always eager to grow, particularly since the exit of major auto-manufacturing from South Australia in 2017.

The following tables outline key tax constraints for South Australian businesses measured through our pre-election survey.

Table 1 *- Top 3 constraints by business size*

No Employees 1. Personal Income Tax 2. Company Tax Rate 3. Council Rates	20 - 99 Employees 1. Payroll Tax 2. Company Tax Rate 3. Personal Income Tax Rates
1 - 19 Employees 1. Company Tax Rate 2. Personal Income Tax Rate 3. Payroll Tax	100+ Employees 1. Payroll Tax 2. Company Tax Rate 3. Return to Work Premiums

Table 2 *- Top 3 constraints by industry sector*

Manufacturing 1. Payroll Tax 2. Company Tax Rate 3. Return to Work Premiums	Professional, Scientific & Technical Services 1. Company Tax Rate 2. Payroll Tax 3. Personal Income Tax Rates
Construction 1. Company Tax Rate 2. Return to Work Premiums 3. Payroll Tax	Retail Trade 1. Company Tax Rate 2. Council Rates 3. Payroll Tax
Agriculture, Forestry & Fishing 1. Company Tax Rate 2. Personal Income Tax Rates 3. Payroll Tax	Accommodation & Food Services 1. Payroll Tax 2. Council Rates 3. Company Tax Rate
Health Care & Social Assistance 1. Payroll Tax 2. Personal Income Tax 3. Company Tax Rate	Property & Business Services 1. Personal Income Tax 2. Company Tax Rate 3. Land Tax

Business SA recognises that South Australia is in a much better position on state taxes than a decade ago. For a start, businesses with wages below $1.5m no longer face payroll tax and our ReturnToWork premiums have reduced from close to 3 per cent in 2015 to almost half that level today. There is also no stamp duty on business transfers or commercial property. While the reform process for land tax was far from ideal, we now have a system where the rates are far more competitive nationally. With Victoria's recent move to increase its land tax rates, South Australia is well positioned to attract business. All that said, tax reform continues to evolve and our neighbouring states and jurisdictions around the world are not slowing down their efforts to ensure their own businesses are export competitive. This is equally important for state-based taxes like payroll tax, and federal taxes, including company tax. It is also critical to recognise that South Australian businesses look to the State Government to both ensure state taxes are as competitive as possible, and to work as part of the Commonwealth for the most efficient and competitive suite of federal taxes, particularly company tax where Australia's 30 per cent general rate remains well above the OECD average of 23 per cent.

1

Introduce a payroll tax discount of 50% for businesses located in Regional South Australia

A range of major government-led tax reviews at both a state and federal level over recent decades, particularly the Henry Tax Review in 2010, have demonstrated payroll tax to be less efficient than broad-based taxes including the GST and land tax. In effect, for every dollar raised from an inefficient tax such as payroll tax or stamp duty, there is a greater drag on economic growth than for a tax dollar derived from an efficient tax. Efficient taxes are applied to a much wider and less elastic tax base, and therefore cover more taxpayers who are less likely to change a purchase decision on the basis of the tax rate alone.

Business SA has actively participated in every major tax review over the years and has consistently made the case that payroll tax is a genuine disincentive for employers, particularly around the margins of the tax-free threshold. We know from our 2022 Pre-Election Survey of members that, for businesses with more than 20 employees, payroll tax is their most constraining tax/levy. While Business SA's 2018 pre-election policy of a $1.5m threshold and 4.5 per cent rate was partly implemented, only businesses up to a $1.7m transition threshold received any payroll tax discount and beyond that, South Australian employers still pay the same rate of payroll tax as in 2009. In that time, Victoria, New South Wales, the Northern Territory, and Tasmania have all lowered their general payroll tax rates, while both Victoria and Queensland have introduced regional rate discounts.

Table 3 *- State Payroll Tax comparisons*

State/Territory	2009 Payroll Tax Rate	Current Rate	Notes
New South Wales	5.75%	**4.85%**	$1.2m threshold.
Victoria	4.95%	**1.2125% to 4.85%**	$700k threshold. **Lower rate for regional employers (if 85% of payroll regionally based).** A 0.5% Mental Health & Wellbeing Levy applies to employers with national payrolls over $10m, and 1% over $100m.
Queensland	4.75%	**3.75% to 4.95%**	$1.3m threshold. 4.75% up to $6.5m threshold, then 4.95% thereafter. **Regional employers receive 1% discount until 30 June 2023.**
Western Australia	5.50%	**5.50% to 6.5%**	$950k threshold. 5.5% for wages up to $100m. 6% for wages from $100m to $1.5b. 6.5% for wages above $1.5b.
Tasmania	6.10%	**4.0% to 6.10%**	4% rate from $1.25m up to $2m threshold. 6.1% rate beyond $2m wages.
Australian Capital Territory	6.85%	**6.85%**	$2m threshold.
Northern Territory	5.90%	**5.50%**	$1.5m threshold.
South Australia	4.95%	**4.95%**	$1.5m threshold with transition up to $1.7m, then 4.95% thereafter.

Business SA's 2020 Regional Voice Survey, the third in a biennial series established in 2016, highlighted the myriad of challenges facing individual businesses as well as the needs of their broader regions. From the 2020 survey results, the most constraining state-based tax or levy on regional businesses was payroll tax. 65 per cent of businesses were also in favour of a specific government policy to support regional population growth. While businesses are looking for a range of supports to help grow, including those that address skills shortages and infrastructure needs, there needs to be a step change in thinking about how to inspire economic growth across regional South Australia. We cannot continue with the situation where a South Australian business (over the $1.5m tax-free threshold) situated near the Victorian border pays over 3 times the rate of payroll tax of their interstate rivals. Business SA recognises that broader payroll tax reform needs to be tackled at a federal level including all states and territories and we support the current ACCI campaign, but in the interim South Australia cannot sit idle while other jurisdictions undermine our competitiveness. Business SA's recommendation of a 50 per cent discount will still not match the Victorian regional payroll tax rate of 1.2125 per cent, but goes a long way to reducing the existing disparity.

In terms of eligibility for a regional payroll tax rate, Business SA recommends the State Government primarily consider the Victorian model which requires an employer to have at least 85 per cent of their staff work in regional Victoria, as well as maintaining their principal place of business there. This same model was later adopted by Queensland through its regional payroll tax discount. Such a mechanism would be the most effective way to ensure the tax incentive not only helps maintain existing companies with regional operations, including their principal place of business, but incentivises new companies to move their entire operations to regional South Australia. However, Business SA suggests the employee test for South Australia further require that 85 per cent of employees have their primary residence in regional South Australia. This would ensure the incentive not only supports those businesses which provide employment in regional South Australia, but also those whose employees are principally based in regional communities. This is not a tax break to incentivise fly-in fly-out positions or employees living in metropolitan Adelaide working remotely as is increasingly the case in COVID times.

In terms of cost to the State Government, in 2018/19 when Victoria had only just halved its regional payroll tax rate to 2.425 per cent, the change was forecast to cost the Government approximately $80m a year through the forward estimates. At present, Victoria collects five times South Australia's payroll tax revenue and its regional payroll tax incentive benefits around 4,000 businesses. Business SA estimates an equivalent incentive for South Australia would support up to 800 existing businesses and assuming growth of 20 per cent over the forward estimates, 1,000 businesses at a cost of approximately $20m per annum.

2

Reduce the general rate of Payroll Tax from 4.95% to 4.85%

Business SA recognises that payroll tax is the largest single own-source tax for the South Australian Government, bringing in approximately $1.4b per annum, nearly 60 per cent more than stamp duty which comes in second. Payroll tax, like stamp duty, is inherently an inefficient tax and also discriminates against businesses that invest in labour, given there is no equivalent tax on capital utilised within a business. Furthermore, a range of academic literature has shown the economic incidence of payroll tax falls on employees through lower wages. South Australian businesses, particularly exporters, also carry the burden of payroll tax which is not levied on the cost of imports.

South Australia currently receives nearly $7b per annum in GST, an efficient tax, and it makes little sense for the South Australian Government, or indeed any other state or territory government, to levy an inefficient tax like payroll tax on employers. Business SA acknowledges that to entirely abolish payroll tax would require wholesale tax reform. This would necessarily involve a review of all state and federal taxes, and careful consideration of the optimum tax mix to maximise economic growth and ensure sufficient revenue for governments to deliver the standard of services Australians expect. While this process must eventually occur, it has typically fallen over with any contemplation of raising or broadening the GST, despite such a move likely including compensation for low-income earners. With the next stage of the Federal Government's tax cuts still being debated and Victoria having just introduced a mental health & wellbeing levy on employers with national wage bills over $10m, the need for wholesale tax reform across Australia to remove impediments to business is now more relevant than ever.

In light of the time frame for wholesale tax reform, the next State Government should at least reduce the general payroll tax rate to 4.85 per cent for all businesses. This would match the equivalent rate in Victoria and New South Wales, albeit remaining above the 4.75 per cent rate in Queensland (for businesses below the $6.5m wage bill threshold). At a cost of approximately $28m per annum, Business SA views this as an affordable step to ensure South Australia remains more competitive with respect to payroll tax, while complementing the exemption of payroll tax for all businesses with less than a $1.5m wage bill as introduced in 2018.

South Australian businesses with payrolls over $1.7m per annum, effectively around 21 employees on the average annual wage of $80,000 per annum, have not had a payroll tax reduction since 2009 and with cuts to both land tax, stamp duty, and the emergency services levy over that period, it is about time all South Australian employers received a direct break on the cost of job creation.

3

Lobby the Federal Government to ensure Australia's company tax is lowered to 25% for all sized businesses

From Business SA's 2022 Pre-Election Survey, company tax emerged as the tax or levy most constraining to the growth of businesses. Further, company tax was in the top two damaging taxes/levies for every tier of business from non-employing businesses through to businesses over 100 employees. Business SA has long advocated for Australia's company tax rate to keep pace with the OECD average at a minimum, noting the last cut to the general rate was in 2001 when it reduced from 34 per cent to 30 per cent to improve Australia's international competitiveness.

In 2001, the average headline corporate tax rate across the OECD was 29.31 per cent, and a combined 31.34 per cent including sub-national income taxes. By 2020, the OECD average rate had reduced to 21.49 per cent and 23.27 per cent respectively, noting Australia's existing legislation reduces the company tax rate to 25 per cent over ten years, but only for businesses with up to $50m in turnover. Ahead of this legislation being passed in 2017, Business SA strongly advocated for changes to SMEs at a minimum but also argued that Federal Parliament should recognise Australia's greater need for an internationally competitive company tax rate for 'all' businesses.

In the 20 years since Australia's last general company tax rate cut in 2001, the UK headline company tax rate has reduced from 30 per cent to 19 per cent, acknowledging the UK Government recently announced its headline rate would increase to 25 per cent with the existing 19 per cent rate to remain only for SMEs with up to approximately $500k profits. This latest move was predicated on the back of COVID related spending although the UK Government has been clear to advise that 25 per cent still remains the lowest of the G7. Singapore applies a flat 17 per cent company tax rate while New Zealand applies a rate of 28 per cent, down from 33 per cent in 2001. Business SA is not arguing Australia needs to necessarily match the most competitive corporate tax rate jurisdictions, but even when sub-national taxes are considered, our headline rate is currently 6.73 percentage points above the OECD average. Further, even our SME rate, at 25 per cent, is above the OECD average of 23.27 per cent. A balanced approach would entail shifting to a universal rate of 25 per cent. This would not only make our businesses more competitive but remove complications from Australia operating a dual-rate company tax system which only resulted from the unwillingness of Federal Parliament in 2017 to support a single more competitive rate.

4

Ensure any changes to the Return to Work Scheme will not compromise its affordability

To remain competitive on a national level and to encourage other businesses to set up, expand or move to South Australia, the State Government must ensure all costs of doing business are kept to a minimum. Return to Work premiums represent a significant cost for the vast majority of South Australian businesses.

Recognising there are no quick wins in relation to Return to Work premiums, Business SA urges the State Government continue to monitor South Australia's premium rates in comparison to other states to ensure we remain cost competitive, particularly for export oriented businesses. Further, South Australian businesses reiterate the need for the State Government to continually seek to improve cost competitiveness in a manner that does not compromise the 'return to work' outcomes of injured workers.

Acknowledging the different business mix in each state is a significant factor for premium rates, Business SA recognises that some drivers of the South Australian average premium rate are related to the structure of our economy. Nonetheless, the State Government must ensure that its scheme remains tightly managed to remain competitive in the Australian market. The cost competitiveness of South Australia's workers compensation scheme has improved significantly in recent years, from an average rate near 3 per cent mid last decade to a sustained rate around 1.70 per cent today. Should this scenario materially change for the worse, South Australian businesses could be forced to move interstate as Return to Work premium costs become unaffordable. South Australia must continue to remain a competitive choice for businesses looking to expand into and within the Australian market and the costs of Return to Work premiums are a significant component of decision making in this regard.

When the *Return to Work Act 2014* came into being, there was expected to be around 55-60 seriously injured workers each year and the Scheme was structured to manage that. In the 6 years since its inception, however, that number has increased markedly to around 80 per year - with ReturnToWorkSA's December 2020 Scheme Actuarial Report showing no likelihood of this trend abating soon.

It is anticipated that the recent review and amendment of the Impairment Assessment Guidelines will further strengthen the boundaries of the Scheme. Should these changes not have the desired effect, Business SA calls on the incoming State Government to look carefully at the whole person impairment assessment of injured workers.

Without a doubt, all seriously injured workers should be treated as such, and supported appropriately. That is not in dispute. However, the high number of claimants found to be seriously injured in recent years begs questions.

The South Australian Return To Work scheme must remain viable. This can only be achieved by ensuring that, like any insurance underwriter, the Scheme can afford its claims. Should claim costs no longer match with what is reasonably within the employers' control, the scheme will only remain viable through a material increase in premium rates – leading to unaffordable costs to business and an unsustainable scheme overall.

Infrastructure

In mid-2020 South Australia's net interstate migration became positive again after 4 decades with only 2 other 12-month periods of positive net interstate migration in 1983 and 1990/91. In fact, the last quarter of net positive interstate migration prior to 2020 was the September quarter, 2002. Given South Australia has not experienced the same population strains as the eastern states, or Western Australia at times, our infrastructure needs have sometimes been overlooked in a national context. However, South Australian businesses operating in increasingly competitive markets need improved freight access to key ports, and improved infrastructure to transport goods more efficiently around metropolitan Adelaide. There have been solid gains in recent years, particularly along the North-South Corridor, but continuously improving economic and social infrastructure is a key enabler of South Australia's future economic growth. Business SA members also need the State Government to tackle the intractable challenges too - for example, moving heavy freight through Adelaide from the South East.

South Australia's regions have fared even worse when it comes to population growth, with infrastructure a key enabler of future growth there too, particularly major highway duplications to improve road user safety and the economics of moving heavy freight. We must also make our regions more attractive to workers with families, which requires a combination of improved economic infrastructure like roads and ports, but also community infrastructure and necessary services including mobile phone coverage. In Business SA's 2020 Regional Voice Survey, when asked for the top business priorities in their region requiring additional government support, respondents ranked economic infrastructure number 1 and social infrastructure number 2.

South Australia has made significant ground on digital infrastructure in recent years, particularly in metropolitan Adelaide and increasingly across the regions, but there is room for improvement. Despite this, we must do better at marketing the infrastructure we already have, including GigCity, Ten Gigabit Adelaide and the SWiFT network across schools.

5

Progress a meaningful solution to enable the efficient and safe passage of west-bound heavy freight vehicles through and around metropolitan Adelaide

Ahead of the 2018 election, Business SA supported the (then) State Opposition's plans to investigate the viability of a freight-only airport at Monarto with associated infrastructure to improve related freight access both through and around Adelaide. Our view on GlobeLink was primarily predicated on the fact that any state government needs to investigate bold ideas to grow the economy, even if ultimately some elements of those ideas turn out to be unviable.

The recent focus on the completion of the North-South Corridor is necessary and Business SA has long supported the need to improve this vital transport passage. In particular, we strongly advocated for the Northern Connector stage to improve freight connectivity to Port Adelaide. While the original Federal Government commitment in 2013 was for the entire North-South Corridor to be completed in a decade, the latest budget estimates push that timeline out to 2030. As we move towards full completion, the connecting infrastructure to facilitate eastern access to Adelaide Airport for air-freight should also be adequately considered for, particularly as the airport itself plans to open up to the east.

Once the North-South corridor is complete, feedback from the freight industry suggests the significant volumes of heavy vehicle traffic currently using Portrush Road to access Port Adelaide will seek to cut across to South Road via Cross Road. Anticipating the potential increase in traffic volumes along Cross Road, Business SA supports the State Government investigating the grade separation of relevant intersections and the removal of the railway crossing at the intersection of South Road in line with the Freight Council's proposal in Moving Freight 2019. We are also aware of another proposal by the South Australian Road Transport Association to more substantially upgrade the existing road from Murray Bridge to Annadale to improve the outer ring route for Adelaide. Presuming that the Short-South tunnel option outlined in the GlobeLink report is prohibitively expensive, Business SA supports a combination of other viable options to reduce the impact of heavy vehicles entering and traversing key arterial routes in Adelaide, including both a substantive Cross Road upgrade and a more material upgrade of the Murray Bridge to Annadale road to better enable high-capacity heavy vehicles.

Business SA welcomes $10m in the recent State Budget for a 'Greater Adelaide freight bypass' business case. While this study is intended to investigate bypass options for the Sturt Highway, which is likely to be part of the solution, it should be extended to include all routes for more safely connecting heavy freight with and around metropolitan Adelaide, including the Port. In its 2018 study of GlobeLink, KMPG found the long distance of a Sturt Highway bypass of Adelaide would erode any time and cost savings. KPMG also found the benefits of various East-West links across Adelaide did not outweigh the costs at the time. An updated State Government freight bypass study should not be limited to solely investigating options to re-route heavy freight via an extended northern bypass incorporating the Sturt Highway. South Australian businesses do not want to find themselves with a complete North-South Corridor in 2030 and wishing the State was more advanced in finding a solution to the conundrum of how to move heavy freight from east to west in Adelaide. As KPMG stated, '*South Australia's primary road and rail freight routes traverse through the Adelaide Hills and arterial and suburban areas of metropolitan Adelaide, increasing safety risks and adversely impacting the liveability of local residential areas.*' Business SA asks, will a freight bypass via the Sturt Highway alone be the solution to this intractable challenge?

6

Commit to a plan to duplicate the entire Augusta and Dukes Highways

Regional businesses continue to flag their support for population growth, with two thirds of respondents to Business SA's 2020 Regional Voice Survey favouring a specific population growth policy.

According to State Government data, approximately 3,500 vehicles travel the Augusta Highway on a daily basis; 750 of which are commercial vehicles. 2016-20 RAA figures on the 96 casualty crashes along the Augusta Highway show:

- 16 were fatal crashes.
- 28 were serious injury crashes.
- 52 were minor injury crashes.
- 16.7 per cent of casualty crashes resulted in a fatality. By comparison, over the same period 5.7 per cent of all regional casualty crashes resulted in a fatality.
- The economic cost of crashes is in the order of $34m per year, and $168m over the past 5 years.

Business SA has advocated for the full duplication of the Augusta Highway, a key piece of infrastructure required to solve existing road safety issues, improve freight logistics, and stimulate long-term growth in the Upper Eyre Peninsula, Upper Spencer Gulf and Southern Flinders Ranges. In the era of ubiquitous remote working, it is also more important to ensure commuters feel more comfortable making the journey into this region in order to consider permanent residency. Business SA welcomes recent State and Federal funding of the first 30km of duplication between Port Wakefield and Lochiel, representing 15 per cent of the total distance required. This is a great start and South Australian businesses now want to see a commitment to duplicate the entire freeway through to Port Augusta, and potentially to Whyalla. Business SA recognises this may take up to a decade to complete, but long-term certainty about this major infrastructure project will go a long way to engendering business confidence in the region, which is also key to attracting interstate and international investment. There is also an acceptance that major projects, like the North-South Corridor, cannot be completed in a single election cycle. Akin to the North-South Corridor commitment made by the Federal Government in 2013, a long-term commitment to the Augusta Highway duplication needs to be made.

Over successive governments, Victoria has gradually progressed duplication of the Western Highway towards the South Australian border but there is no equivalent visible plan on the South Australian side of the border to duplicate the Dukes Highway.

State Government data estimates 4,000 vehicles use this road each day, 30 per cent of which are commercial vehicles. Again, 2016-20 RAA figures on the 66 casualty crashes along the Dukes Highway show:

- 10 were fatal crashes.
- 15 were serious injury crashes.
- 36 were minor injury crashes.
- 16.4 per cent of casualty crashes resulted in a fatality, compared to 5.7 per cent across regional SA.
- The economic cost of crashes was in the order of $21m per year, $104m over the past 5 years.

Again, Business SA recognises that a project of this scope, estimated to cost circa $2b, may not be able to be completed over one or two election cycles, but South Australian businesses need confidence from better understanding the long-term aspirations of State Government. Further, upgrading the Western Highway between Stawell and the South Australian border is considered a national 'Road of Strategic Importance', however no such classification exists for the continuation of that highway from the border; the Dukes Highway running through to Tailem Bend.

Education, Skills & Population

For many years now, skills availability has been a growing challenge facing regional businesses. Our 2020 Regional Voice Survey identified skills availability as the top issue facing both individual businesses and the regions overall. In our 2018 Regional Voice Survey, it was ranked second and in 2016, third. With border closures and a continued drain of younger people, the issue of sourcing labour and the necessary skills required has amplified this issue for regional businesses.

Since the onset of COVID-19, South Australia's pronounced skills shortage extends much further than the regions alone. Business SA's March quarter 2021 Survey of Business Expectations found that the Agriculture, Forestry & Fishing, Manufacturing, and Construction sectors listed skills availability as the top of five issues affecting business; Accommodation & Food Retail and Professional, Scientific & Technical Services listed it as second to COVID-19 restrictions; and Retail Trade listed it as third.

Throughout 2020, most South Australian businesses found it progressively harder to source labour as the economy slowly reopened post lockdown/s - the reasons for this have been varied. The perfect storm created by government stimulus projects, the JobSeeker COVID-19 increase and JobKeeper slowing worker circulation, all contributed to the increase in skills shortages. For the agriculture sector, the closure of international borders meant the normal supply of backpackers and foreign workers for fruit picking was significantly reduced. For manufacturers and professional services businesses, sourcing industry specialists, who in many cases can only be found overseas, has been near impossible.

The inability to attract applicants to apprenticeships and traineeships, especially in regional areas, is an obstinate problem requiring more attention. More incentives, support, and flexible methods of training delivery are all required to assist South Australian businesses to succeed in training employees.

South Australia's skills challenges are also exacerbated by our ageing population, the effects of which will become increasingly detrimental to the growth and productivity of our State unless we make a more conscious effort to overtly target population growth.

Australia has consistently ranked behind most other OECD countries in terms of innovation-related collaboration between businesses and higher education/research institutions.[1] While there have been attempts to foster collaboration in Australia, more needs to be done if Australia is to reach the level of collaboration experienced by leaders in this area. Business SA has developed five key recommendations on this front, which if achieved, will go a long way towards improving university/business collaborating to increase innovation in South Australia.

[1] (Data from 2012-14) OECD, OECD Science, Technology and Industry Scoreboard 2017: The Digital Transformation, 2017.

7

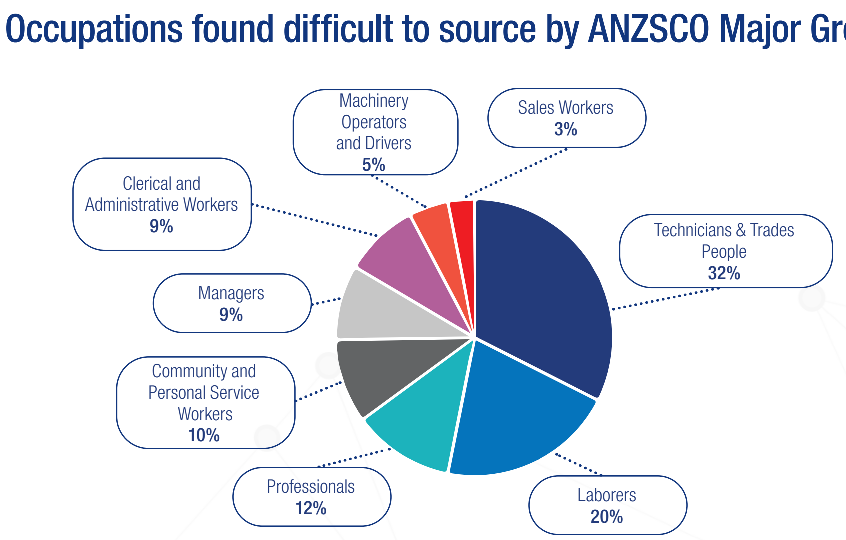
Introduce a permanent payroll tax exemption (and an equivalent cash grant support to small businesses) to incentivise businesses to take on apprentices and trainees and upskill current employees

As a result of the 2021-22 State Budget, wages paid to apprentices and trainees who commence a relevant training contract between 10 November 2020 and 30 June 2022 (inclusive) currently receive relief equivalent to a 12-month payroll tax exemption. This key policy measure, advocated by Business SA, has been extremely helpful to employers with an annual taxable payroll in excess of $1.5m, and the extension has been welcomed by businesses.

Even after nearly a year of lockdowns and restrictions on business due to COVID-19, South Australian apprentice and trainee numbers were up 22.5 per cent over the same period in 2019.[2] While Australia generally increased traineeship commencements, South Australia had almost double the commencements of all other states, apart from Western Australia (at 18.7 per cent).

According to Business SA's March quarter Survey of Business Expectations (figure 3) which asked about skill shortages in South Australia, 32 per cent of skills shortages are in technical and trades occupations and 10 per cent are in Community and Personal Services occupations. While training people to work in these areas is not a panacea to our current skills shortage, both areas of shortages could be addressed in the medium to long term by further increasing the numbers of apprentices and trainees employed by South Australian businesses.

Figure 3 - Occupations found difficult to source by ANZSCO Major Groups



Source: Business SA Survey of Business Expectations - March Quarter

[2] National Centre for Vocational Education Research (NCVER) Apprentices and trainees 2020: December quarter – Australia 2021.

Business have told us that the recent payroll tax exemption has been of significant assistance.

Making the payroll tax exemption for apprentices and trainees permanent will assist in filling the skills gap and encouraging business to both employ and train new staff, and upskill current employees in areas of need, particularly in digital skills. However, some 37,000 employing businesses in South Australia are small businesses employing less than 20 employees, most of whom do not have an annual taxable payroll in excess of $1.5m. An enticement similar in value to the payroll tax exemptions must be offered to realise this untapped potential.

Business SA recently held a workshop for businesses that had not previously hired an apprentice or had a poor experience, including regional businesses. We discovered that many small businesses were worried about managing the administrative and supervisory requirements of employing an apprentice. Businesses also reported confusion when faced with the numerous training options and processes, often to the point of not knowing who to turn to. Considering this, resources must be developed to assist small businesses to understand the benefits of taking on an apprentice or trainee and to address the perceived hurdles.

8

Provide improved infrastructure and VET delivery support for regional employers to recruit, train and keep apprentices, trainees and skilled workers

One of the most consistent findings from Business SA's Regional Voice surveys is the challenges regional employers face attracting skilled workers, even at competitive rates of pay. Training is not a quick fix, but a medium-term plan is needed to help address the skills shortage and help retain young people in the regions.

There are numerous additional hurdles to accessing training in the regions. Our 2020 Regional Voice survey showed that even if businesses chose to use online training, they were not always able to access adequate technology or mobile coverage/internet connection.

"*Providing adequate services such as mobile phone and internet connectivity will solve a great deal of problems. Economic prosperity in regions will drive employment in regions*" - **Southeast, Agricultural, Forestry & Fishing, 1-4 employees, $2m – $5m turnover**

We were also informed that 28 per cent of businesses were unable to access or afford training to upskill their existing workers. Some other difficulties faced by business training staff included:

- apprentices being away from the workplace for 2 weeks at a time and their ongoing work needing to be covered by qualified trades people;
- long training times of apprentices and trainees without businesses being able to foresee future demand; and
- once employees are upskilled, they move on from the business.

"*Training for my staff and myself always requires travel to either Adelaide or further, or minimum 200km. While the cost is not an issue the time away from work is prohibitive*"- **Eyre Peninsula, Health and Community Services, 5-9 employees, $500k - $1m turnover**

Business SA members have asked that:

- the requirement for apprentices to be sent to Adelaide or fly interstate for training be reduced to ensure they are in the workplace as often as possible;
- VET be assisted to extend the delivery of skills-based training in regional areas by ensuring accessibility and resourcing is available; and
- ensure the relationships between VET and the local employers are able to be maintained (for example, this may be accomplished by a VET centre that builds and maintains those relationships).

Business SA members are also calling for improved social infrastructure in the form of additional housing and health services to help retain current employees and attract new employees to their area.

"*Growth in our region has always been limited by lack of permanent Doctor numbers*" - **Eyre Peninsula, Agricultural, Forestry & Fishing, 1-4 employees $500k - $1m turnover**

Lack of accommodation for potential workers who would otherwise move from metropolitan to regional areas is often raised and has been particularly acute in areas such as Naracoorte, Port Lincoln, Kangaroo Island and the Riverland.

"*Skilled people cannot move to KI as there is no <rental> accommodation*" - **Kangaroo Island, Construction, 5-9 employees $5m - $10m turnover**

"*We could not find a rental property for approx. 50kms from our main business site*" – **Yorke Peninsula, Mid North & Lower North, Motor Vehicle Parts and Accessories, 20-49 employees**

Business SA acknowledges the recent work undertaken by the Department of Primary Industries and Regional Development in its Regional Development Strategy which reflects the needs identified by our regional business members and many of the solutions discussed with members.

We also recognise the Future of Work Program to promote regional skills development formed by BHP and the Federal Department of Education, Skills and Employment targeting the delivery of advanced apprenticeships and short courses in the South Australian regional areas of Roxby Downs and Upper Spencer Gulf. The State Government is encouraged to take onboard the outcomes of these types of programs to further support the regions.

9

Introduce an Industry Hosting Fund to ensure South Australian VET lecturers are the best in their field

Business SA members have repeatedly shown their support for a reliable and stable TAFE presence in South Australia and appreciate the ability to choose when private registered training organisations (RTOs) provide alternative training opportunities.

Employers, trainers and other training and skills stakeholders have identified a need for additional industry programs to be made available to VET lecturers to ensure every VET provider can meet the current industry skills requirements of the Australian Skills Quality Authority Standards for Registered Training Organisations.

Business SA proposes that an Industry Hosting Fund be developed to provide businesses with resources to take on a lecturer currently teaching VET courses in their industry. Small to medium sized businesses in South Australia would welcome the opportunity to work with VET in this way but are unlikely to be able to fund the wages and other resources to do so. The intent of the fund will be to assist VET providers to meet the current industry skills requirements, bring industry and training providers closer together, provide industry with an expert external eye, and assist lecturers to be aware of new developments and potential issues within industry. This program may also help with addressing an identified industry issue, or the lecturer might assist in the roll out of new technology.

10

Adopt a dedicated population growth target for South Australia of at least 2% per annum

While there are a range of views on population growth in South Australia, as there are at a national level, it is clear that most businesses support a reasonable increase in population, particularly in the regions.

According to the 2021 Intergenerational Report[3] the Australian economy is projected to grow at a slower pace over the next 40 years than it has over the past 40 years. Slower population growth is the main reason for the expected slowdown in economic growth. Further, the report confirms that migrants are expected to continue to be the largest source of population growth.

South Australia has the highest median age on mainland Australia, and if we do not make a more conscious effort to directly target population growth, we will become increasingly exposed to the impacts of an ageing population.

Businesses also feel the pinch of limited domestic demand, forcing them to look to interstate and overseas markets to survive. While it is naive to assume that a population growth target alone will lead to desired outcomes, it needs to form part of a comprehensive strategy as already exists under the present Government's Growth State Agenda. Although most South Australians do not want Adelaide to become the size of Sydney and Melbourne, there needs to be a reasonable degree of growth to ensure we remain relevant in a political context (having already reduced our federal electoral entitlement in the 2019 election from 11 to 10 seats), and that doing business here affords opportunities of sufficient scale to be competitive producing and servicing other markets. Business SA often receives feedback from members decrying the fact that the South Australian market is not large enough to receive sufficient service from large national players, particularly with logistics requirements. The further we slip behind the eastern states, the more real this challenge becomes.

South Australia's total population growth rate has lagged the nation for several decades. While there has been some relative improvement in recent years, at just under 1 per cent leading into COVID-19, we were still growing at a third less than the national average of 1.5 per cent. COVID-19 has had a mixed impact on South Australia with both limited interstate departures, but equally limited overseas arrivals. As a state, we have fared reasonably well, despite our population growth rate slipping to only 0.5 per cent for the year ending December 2020. South Australia recently celebrated its second quarter of net increase in interstate migration for 30 years and first net gain since 2002. But even then, the greatest gains still went to Queensland and Western Australia.

[3] The Treasury (Cth), 2021 Intergenerational Report, 2021.

While Business SA recognises that travel bans currently restrict international migration,

we encourage the State Government to look to the future to remove barriers to skilled and business migration. Business SA urges the State Government to take a strong position to the Federal Government on:

- ensuring visa fees and arrangements are internationally competitive. For example, we encourage the State Government to pursue a policy of reducing the Skilling Australia Fund levy, which Business SA and ACCI have argued should be halved for both temporary and permanent skilled employer nominated visas and that the refund criteria should be expanded to include any unsuccessful applications;
- ensure sufficient resources are allocated to address the extensive delays in the processing of visa applications, in particular in the labour agreement stream; and
- advocate for improved, more flexible migration processes and skilled migration occupation lists for permanent and temporary migration that are more responsive to industry needs.

"*We need better programs to source international workers. The current government scheme/working visa to hire international workers is too complicated and there is a lack of guidance in the process.*" - **Metropolitan Adelaide, Marketing/Communications/Events, 1-19 employees**

In January 2014, then opposition leader Steven Marshall outlined a plan to increase migration to help South Australia reach 2 million by 2027. In November 2017, Deloitte Economics released its final report in the Shaping Future Cities - Make it Adelaide series which supported this claim. The Adelaide City Deal, which commenced in 2019, without setting a population target, recognised the need for population growth, and focused on the changes and growth factors required to obtain growth such as encouraging migration of workers, entrepreneurs and start-up companies, as well as focusing on improving amenities, services and urban renewal.

We are unlikely to meet the 2 million by 2027 target now and it is understood that simply setting a target will not lead to outcomes. Business SA also recognises that an increase in population requires a holistic focus by the State Government including infrastructure, migration, and affordable living. While such factors have been a focus of successive South Australian Governments, it is time to accelerate these changes, delivering what is needed to ensure we have a State that people line up to live, work and grow businesses in.

It is also time to develop a marketing campaign to complement a proactive and competitive population growth policy. Western Australia has just initiated one of its own and we can't be left flat footed.

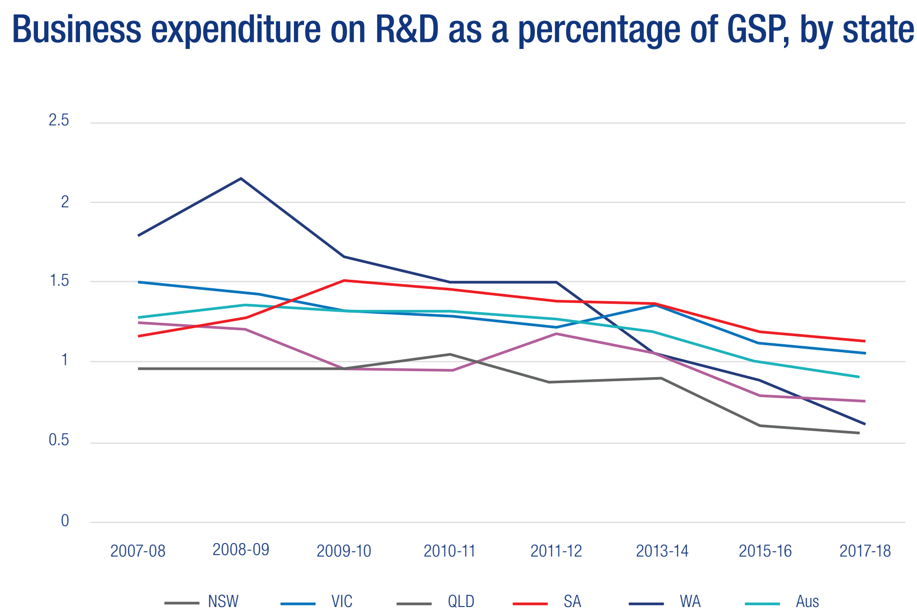
Now we have the opportunity to genuinely leverage Adelaide's superior liveability to interstate and international businesses, and skilled workers.

11

Take meaningful steps to improve university and business collaboration

Business SA's 9 Point Plan (September 2020) encouraged South Australia's education institutions, from high schools to VET providers and universities to ensure industry's needs are met at the most appropriate level of education, to reduce duplication, and enhance the opportunities for innovation which can come through genuine business/university collaborations. A focus on innovation within businesses is of particular importance in South Australia with Business Expenditure on Research and Development in decline since 2011-12.[4] The COVID-19 pandemic has also caused disruptions to supply chains underscoring the need for greater innovation in manufacturing and industry.

Figure 4 *- State Business expenditure on R&D as a percentage of GSP*



Source *- ABS 8104.0*

The following recommendations overleaf are proposed to develop South Australia as a world leading jurisdiction for university/ business collaboration leading to the creation of innovative products and services:

[4] As a proportion of Gross State Product; South Australian Productivity Commission, Inquiry into Research and Development, Draft Report (Adelaide: Government of South Australia, 2020), 85.

11.1

Trial an independently led program dedicated to facilitating university-business collaboration

to ensure South Australia leads the nation

One of the key barriers to university-business collaboration is the difficulty in bringing researchers and businesses together. Finding a suitable research partner is especially difficult for SMEs which often lack the knowledge, time and resources to develop research networks. Although there are already initiatives which aim to bring researchers and businesses together, such as the Federally-funded Innovation Connections program and the Cooperative Research Centres (CRC) program and the State Government's Innovation and Translation Intermediaries initiative (part of the EXCITE Strategy), more work needs to be done to facilitate this process. To address this problem, Business SA recommends an independent program dedicated to facilitating collaboration be established.

A primary aspect of the program would be for an independent industry body to hold regular workshops for members of the research and business communities. The workshops would aim to educate both parties about various aspects of the collaboration process, such as how to negotiate intellectual property agreements. This would address a key knowledge gap in terms of understanding how collaboration works; a problem which is most evident within the business community. The workshops could also be used to teach both parties about successful strategies for collaboration, such as effective communication strategies and the setting of mutual objectives. Finally, the workshops would provide a space for researchers and businesses to come together to learn from one another and to discover opportunities for collaboration.

A lack of awareness about the value of collaboration is another one of the key factors which prevents greater collaboration in Australia. An independent program could address this issue by educating both researchers and businesses about the benefits derived from collaboration. It would be particularly useful if the program was used to inform both parties about the various kinds of collaboration which exist. For example, while collaboration typically consists of joint involvement in R&D, it can also occur in other situations, such as consulting and hiring of graduates. Understanding the various possibilities and benefits of collaboration will help to incentivise researchers and businesses to pursue such partnerships.

The program would ultimately act as a marketplace from which to establish collaborative networks or a conduit to business. As part of this, the program should incorporate a number of facilitators dedicated to facilitating linkages between researchers, business and funding sources.

The independent program would likely require a financial seeding commitment, including support from local universities.

11.2

Introduce a 200% payroll tax exemption for South Australian SME's to encourage them to hire STEM PhD graduates

Ensuring that postgraduates have a clear pathway into industry is one of the key avenues to facilitate greater university-business innovation in South Australia. Australia has consistently ranked below the OECD average when it comes to the number of researchers employed in industry, although this has been rising in recent years.[5] Facilitating the hiring of PhD graduates by industry is an important step in being able to address the general lack of mobility between industry and academia in Australia.[6]

In order to encourage businesses to hire advanced research graduates, Business SA recommends the State Government provide a 200 per cent payroll tax exemption to SMEs which hire STEM PhD graduates. Considering the commercial viability of research in STEM-related fields, we recommend that the exemption should, at least initially, be restricted to STEM graduates. The exemption also needs to be restricted to PhD graduates to ensure an appropriate level of expertise. SMEs with a turnover of less than $100 million would be eligible to receive the 200 per cent payroll tax exemption. This rate takes into account the higher wages associated with a PhD-level of education. As such, the tax exemption is designed to take away some of the financial pressure experienced by businesses in choosing to hire PhD graduates.

While the payroll tax exemption would go a long way towards embedding graduates in industry, more work still needs to be done to educate businesses on the value of hiring PhD graduates. There continues to be a general perception within the business community that PhD-level research is too academic to translate into an industry context. On the contrary, PhD graduates bring with them advanced technical and analytical skills as well as in-depth knowledge of current practices in their field. As such, businesses need to be more aware of the skills that PhD graduates possess, including how these can applied within an industry context. PhD graduates can also help to facilitate links with university researchers by taking advantage of the local, and in many cases global, networks they have developed through studying. Therefore, hiring graduates can be advantageous for those businesses which are interested in developing further networks with university researchers.

On one hand, universities should bear some of the responsibility for promoting STEM PhD graduates. They can do this by ensuring that graduates are industry ready. Independently run workshops, as mentioned in our recommendation regarding university-business collaboration above, would also be a useful avenue through which to educate businesses about the value of PhD graduates while helping to facilitate employment opportunities. By encouraging businesses to hire PhD graduates, South Australia can start to emulate countries like Germany where PhD graduate employment in industry is commonplace or like Sweden, where the PhD is treated as a job position embedded within industry. Ensuring that PhD graduates have a clearer pathway into industry will also help to retain young talent, intellect, and knowledge in South Australia.

[5] Department of Industry, Innovation and Science, Australian Innovation System Report (2016).
[6] Innovation and Science Australia, Australia 2030, (2017).

11.3

Lobby the Federal Government to provide SMEs, as part of the R&D Tax Incentive, with a 10-15% premium for R&D projects undertaken in collaboration with universities

The R&D Tax Incentive is one of the primary ways through which R&D is supported in Australia. The tax incentive is a Federal Government initiative which provides businesses with a tax offset on eligible R&D. In order to improve R&D spending by SMEs and to help facilitate collaboration, we recommend a collaboration premium be introduced to the R&D Tax Incentive. This should involve a 10-15 per cent premium on R&D projects which are undertaken in collaboration with universities.

In 2016, the Review of the R&D Tax Incentive recommended that a collaboration premium of up to 20 per cent should be introduced as part of the non-refundable offset.[7] Alternatively, Business SA proposes a 10-15 per cent premium be applied to refundable offsets. This lower rate acknowledges the wider scope of the refundable option which is available for all businesses with an aggregated turnover of under $20m. The creation of a collaboration premium would ultimately incentivise businesses to invest in R&D. As mentioned previously, Business Expenditure on Research and Development has been declining in South Australia since 2011-12 and must be addressed.[8]

Improvements to the R&D Tax Incentive is an ideal avenue from which to encourage greater spending on R&D by SMEs. For example, the Centre for International Economics found that SMEs achieve a greater return on investment from the tax incentive than large businesses. In other words, for every dollar of forgone tax, SMEs contribute between 0.9 and 1.5 additional dollars of R&D compared to large businesses that contribute 0.3 to 1.0 dollars.[9] Therefore, if the goal is to achieve a greater degree of additionality from the tax incentive, then the collaboration premium should be targeted at SMEs through the refundable offset.

Finally, by providing an incentive to collaborate with universities, SMEs gain access to a research environment they are not ordinarily exposed to. This exposure will, in turn, help to drive a culture of collaboration and innovation within the SME community. In order to ensure an effective delivery of the initiative, the Federal Government needs to provide clear rules around what counts as eligible collaboration. For example, situations may arise in which the collaboration premium can only be claimed for a particular component of a larger project. Clear guidelines around which types of projects will be eligible for the collaboration premium will ultimately ensure that the delivery of the initiative is both straightforward and equitable.

[7] Bill Ferris, Alan Finkel, and John Fraser, Review of the R&D Tax Incentive, 2016.
[8] (as a proportion of GSP); South Australian Productivity Commission, Inquiry into Research and Development, Draft Report, 2020.
[9] Ferris, Finkel, and Fraser, Review of the R&D Tax Incentive, 2016.

11.4

Introduce a South Australian Council of Knowledge

Reforms to the Training and Skills Development Act 2008 leading to the development of the new South Australian Skills Commission and the supporting Industry Skills Councils will assist in the strengthening of relationships between secondary education, VET, university education and business. These reforms were a positive step but not all that is required to achieve a step change in collaboration between schools and the tertiary sector. Various other expert boards also exist to incorporate both academic and business perspectives including the TAFE SA Board, Education Standards Board, the SACE Board.

To bring all existing forums of expertise together to best match the needs of our economy with our education sector, Business SA proposes the development of an SA Council of Knowledge, an overarching resourced governance structure to include each sector of the education system to strategically review how the education sector can better work with business to support economic outcomes, particularly the innovations which are likely to come from better university/business collaborations.

The SACoK would encourage individual institutions within each educational sector to better collaborate, particularly to reduce duplication. Organisations which do not usually collaborate would be given to opportunity to do so in an open and encouraging environment. The SA Council of Knowledge should include representatives from the following:

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

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, only the State Government can play a coordinating role to ensure our universities are working, both individually and together, to support the State's businesses and economy.

11.5

Continue to investigate options to merge local universities

It is recognised that world competition and ongoing improvement in the efficiency and productivity of our higher education sector is essential. The impact of COVID-19 has offered digital opportunities to universities, but the second year of the virus is having a significant impact on the financial positions of all universities. Due to the benefits of size on scale and therefore efficiency, university mergers and alliances are likely to become an increasing focus to deliver more effective and efficient organisations that better meet the need of students and industry. Other proposed changes to university structures are based on changes in the use of digital technology and taking advantage of the impact of COVID-19 on the delivery of education. Various contemporary discussions also highlight the need for future universities to prioritise an increase in commercial research amidst changes to funding models.

Business SA recommends the State Government, as the only shareholder of all three South Australian public universities, to encourage them to take advantage of the disruption created by COVID-19, reaching toward a vision of universities for the second half of this century and beyond. This must include further investigation and the possible merger or consolidation of at least two of our state universities, if it can be justified that a new combined university would lead to a substantive uplift in student, research and commercialisation outcomes.

From recent investigations on this proposal, a South Australian University merger should lead to:

- less duplication of course offerings within the South Australian market;
- less resources wasted on competition within the State;
- 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.

A well-led and governed merger of University of Adelaide and University of South Australia has been investigated in the past and must now be revisited, particularly in the light of recent challenges faced by a reliance on international students.

Trade & Tourism

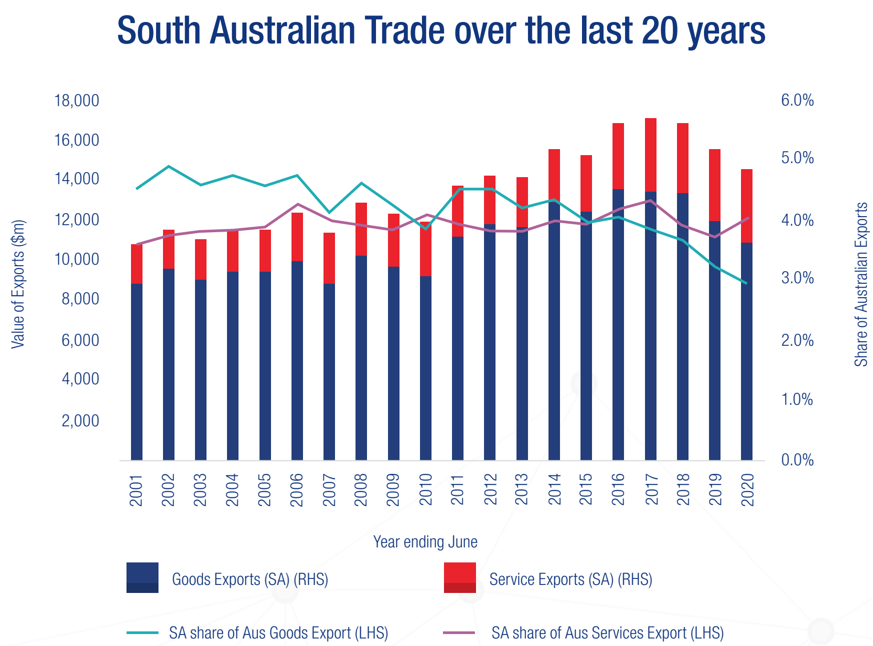
One of the key conditions for the continued economic prosperity of South Australia is a strong export sector, particularly in the absence of material population growth to drive domestic demand. Over the decade to 2020, the State's economic growth averaged 1.3 per cent[10] and population growth averaged 0.8 per cent.[11] South Australia must keep encouraging export growth as a key pillar of economic growth, ensuring we do not fall behind other states.

For the 2019/20 financial year, the export sector accounted for 13.5 per cent of South Australia's GSP[12], down 2.6 percentage points from its high in 2016/17. While the March and June quarters of 2020 saw significant disruption in trade due to COVID-19, exports were seen trending downwards pre-COVID. Business SA acknowledges that while South Australia has experienced an uptick in goods exports for 2020/21, it also comes off the back of strong commodity prices and demand, as well as a bumper grain crop. We celebrate a strong export year for South Australia, but urge caution in viewing this result as an inflection point for future growth. With 6.9 per cent of Australia's population and 3.2 per cent of Australian exports in 2019/20, South Australia continues to be under-represented in the population and export ratio.

Business SA recognises that simply incentivising businesses to seek export opportunities is not the ultimate solution for increased export flows, especially when you consider the fluctuations of international demand and foreign exchange rates. Crucially there needs to be a continued focus on ensuring that South Australia is cost competitive for exporters. On the other hand, governments can also play a key role in assisting businesses looking to export through activities including State organised trade missions.

Tourism, including major events, also needs to be a continued focus of a State Government's export growth strategy. Business SA proposes a focus on cycling tourism to leverage off our world class wine regions, and positioning South Australia to host major sustainability related business events, including the UN Conference of Parties (COP).

Figure 5 *- South Australia Trade over the last 20 years*



[10] Australia Bureau of Statistics, 2019-20 financial year 'Table 1. Gross State Product, Chain volume measures and current prices', Australian National Accounts: State Accounts,accessed 2 August 2021.

[11] Australia Bureau of Statistics, 2019-20 financial year 'Table 4. Estimated Resident Population, States and Territories', National, state and territory population, accessed 2 August 2021.

[12] The last full financial year we have a GSP figure for, noting the national accounts will not be released until November 2021

12

As part of growing Adelaide as a globally competitive business event destination, the State Government should position to host a UN Conference of the Parties (COP) climate change conference

It is no surprise that Adelaide was recently crowned the third most liveable city in the world (after Auckland and Osaka). Over the years, Adelaide has also proven itself an outstanding destination for world class conferences, including the 68th International Astronautical Congress in 2017 - an event that attracted nearly 4,500 delegates to the (then) newly expanded Adelaide Convention Centre, and more recently, the 4th Meeting of the Federation of Neurogastroenterology & Motility - the first held in the Southern Hemisphere.

Adelaide has shown that it is has the expertise to host world class events - but could it manage something the size of the annual United Nations Conference of the Parties (COP) climate change conference that attracts between 20,000 and 30,000 people to its host city. Business SA believes so.

What sets Adelaide apart when it comes to conference visitors is its connectedness. Along North Terrace, the BioMed Precinct (Royal Adelaide Hospital, South Australian Health and Medical Research Institute (SAHMRI), UniSA Cancer Research Institute, and University of Adelaide Health and Medical Sciences building) links up with the Convention Centre, the Festival Centre, State Library of South Australia, University of Adelaide and a little further down the road, Lot 14 - our new innovation hub, and the Australian Wine Centre. Easily accessible across the river we have the world class Adelaide Oval. While all these sites are recognised centres of excellence in their own right, they are also an incredible draw card when sold as a package for international conferences. The State Budget announcement of the $662m Riverbank Arena, due for completion by 2027, is a step in the right direction to assist Adelaide to be a serious contender globally for major conferences.

In a review of the 68th International Astronautical Congress, the Adelaide Convention Centre found delegates recognised Adelaide's accessibility and compact nature lends itself well for business events with little need for transportation; award-winning restaurants, wineries, world-class tourism regions within easy reach and was ideal for pre- and post-conference travel; not to mention its reputation as a safe destination.

Since its first meeting in Berlin in 1995, the largest of all United Nations annual meetings, COP, has only been held 4 times in the Southern Hemisphere and never in Australia (Nairobi 2006; Bali 2007; Durban 2011; Lima 2014). Lead time for hosting COP is 18 months - while the UN secretariat visits the potential host city and venues ahead of time. An official announcement of the host city typically occurs 12 months prior to the conference.

To host COP, the host country must first hold the COP Presidency, which rotates among the United Nations regional groups:

- African States
- Asia-Pacific States
- Eastern European States
- Latin America and Caribbean States
- Western European States

Australia has never held the COP Presidency, but with the right approach, this is eminently achievable. With South Australia's global renewable energy leadership, a unique natural environment and world class conference track record, we are the logical choice for a future Australian COP. But we have some work to do.

A delegation the size of COP requires a significant range of venue options - including a specific space for plenary sessions (formal seating for 197 member parties, representatives of international organisations, United Nations specialised agencies and observer organisation and additional participants, interpreter booths, significant IT and security infrastructure, and facilities for registration, meetings, observers, media, catering, offices and VIPs.) As outlined above, Adelaide's existing and planned venue infrastructure would lend itself well to host an event of this size.

Transportation is a major factor given the number of delegates. Needing to be safe, reliable and convenient - with planning, Adelaide could manage this. Further, and in line with the purpose of reducing environmental impact, delegates would have the option to access venues along the River Torrens.

Given COP's focus on reducing greenhouse gas emissions, the event must meet sustainability standards (ISO 20121), which outlines the potentially negative social, economic and environmental impact of an event, including venue selection, transport, waste management and creating skills, employment and business legacies.

Possibly the most significant hurdle for Adelaide would be hosting the expected volume of delegates within a reasonable distance of the Conference. At present, Adelaide has approximately 6,700 hotel rooms available each night, with a further 1,900 in the pipeline due to recent announcements and hotels under construction. With an event the size of COP - expecting tens of thousands of visitors, Business SA encourages the State Government to consider what other options exist - apart from simply approving more hotels to be built. For example, perhaps glamping in the Adelaide Hills and Park Lands or utilising our first-rate boarding schools and university residences should the timing allow.

According to the Adelaide Convention Bureau, business event delegates spend $632 per day, compared with leisure tourists who spend $179 daily.[13] Translating that to a conference the size of COP represents in excess of $200m injected into the South Australian economy.

[13] Adelaide Convention Bureau, Annual Report 2019/20, 2020

13

Prepare SA businesses for future trade opportunities by planning targeted trade missions with existing and new trade partners ahead of international borders reopening

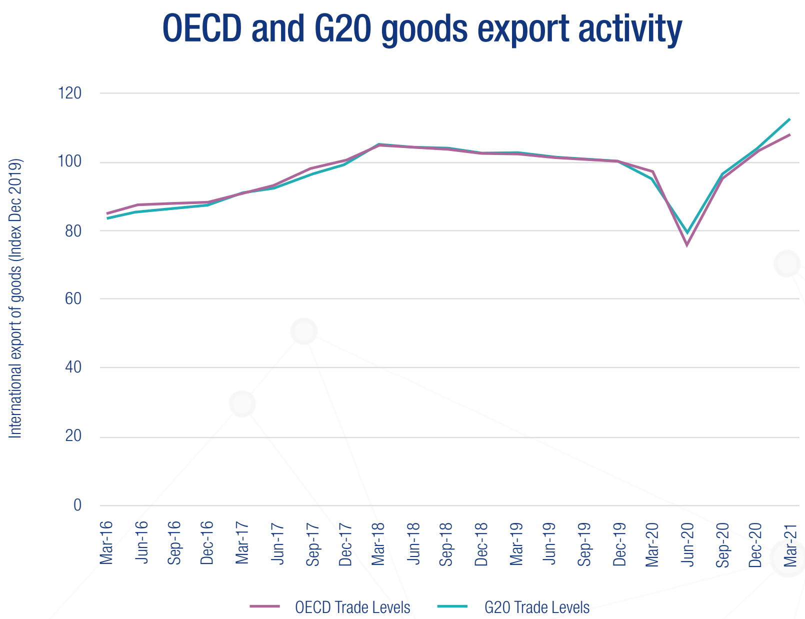
The closure of international borders has halted the normal flow of business travel, which in turn has impacted businesses' ability to develop new international markets and maintain existing markets and operations. With the vaccine rollout well underway, the need to begin planning trade missions upon the resumption of hassle-free international travel is crucial to realise South Australia's export potential.

Business SA acknowledges recent State Government supported trade endeavours including the New to Market Wine Entry, FOODEX in Tokyo and the many other virtual events, but we know more will need to be done to plan in-person missions in the future. Business SA is also concerned that the current scope of future trade missions is limited to sectors with heavy government involvement, these include:

- 36th Space Symposium 23-26 August 2021 (virtual)
- Defence and Security Equipment International UK 14-17 September 2021
- 72nd International Astronautical Congress 25-29 October 2021
- UN Climate Change Conference (COP26) 1-12 November

With international trade activity returning to normal, South Australia is at risk of losing future opportunities. As shown in Figure 6, international trade took a dive at the beginning of COVID, however has quickly rebounded.

Figure 6 *- Level of International Trade*



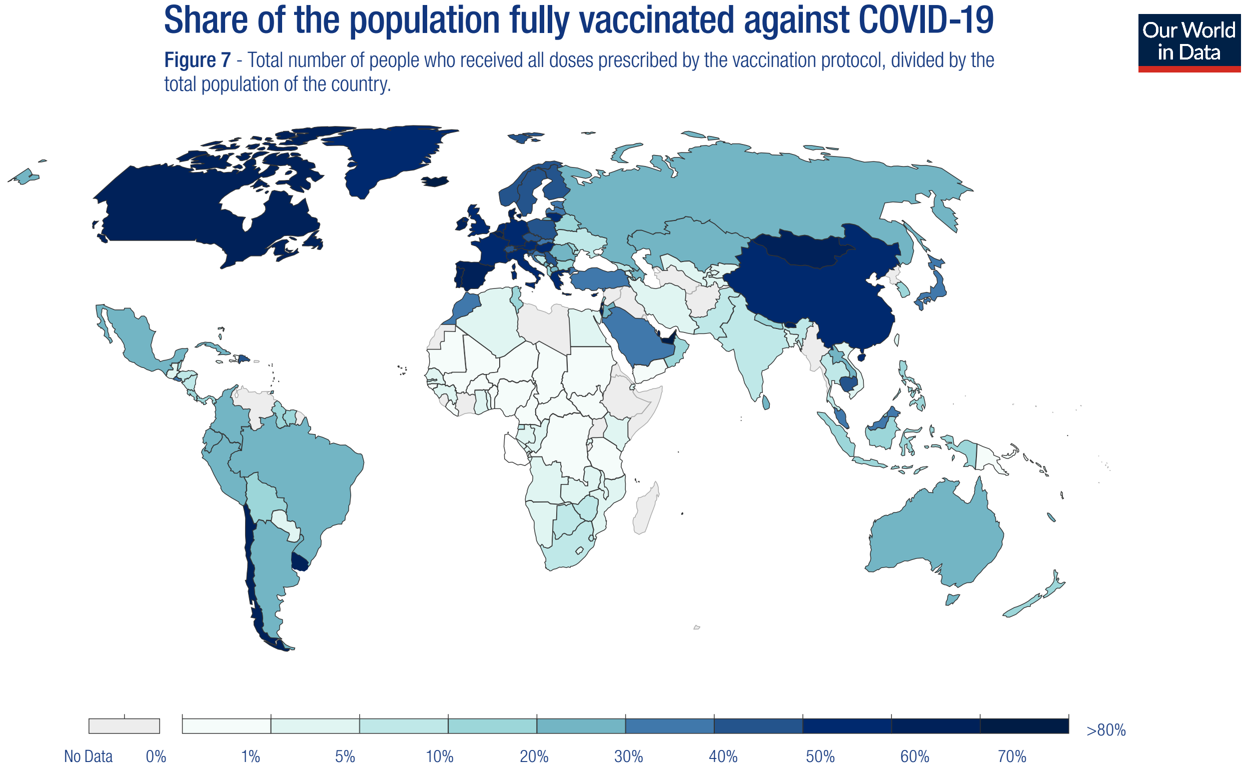
Source: OECD

While the vaccine rollout was initially quite sluggish in Australia, the rollout internationally has occurred much faster. With this in mind, Business SA recommends targeting countries further ahead on vaccination rates, keeping in mind whether the markets are right for South Australia exporters. As shown in Figure 7, many countries are already starting to achieve levels of vaccination that Australia itself has set as targets for safe international travel.

With Australia currently in the process of securing free trade agreements with the UK and the EU, there is a genuine opportunity to prepare for trade missions to capitalise on future agreements coming into place.

Share of the population fully vaccinated against COVID-19

Figure 7 - Total number of people who received all doses prescribed by the vaccination protocol, divided by the total population of the country.



Source: Official data collected by Our World in Data. This data is only available for countries which report the breakdown of doses administered by first and second doses. Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.
CC BY

Business SA has been involved with South Australian trade missions for many years, both organising them directly and regularly accompanying members on State Government-organised missions. Through first-hand experience, we have witnessed numerous SMEs access new market opportunities that were previously never available to them. Business SA is aware that Austrade also runs trade missions and we do not advocate for duplication of those, but rather selective state-based trade missions which complement the existing opportunities available through Austrade.

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

14

Deliver a step change in cycling tourism infrastructure projects, including the Adelaide Wine Capital Trail

Hosting a flagship race like the Tour Down Under has put South Australia on the map as a premier cycling jurisdiction, but we cannot rest on our laurels. Many other Australian states are progressively developing cycling tourism infrastructure, including for mountain biking, and realising the benefits of increased connectivity as a selling point to tourists. Business SA always considers what South Australia can do which cannot be easily replicated elsewhere. For one, no other State has four world-class wine regions within 90 minutes' drive of its capital city. South Australia still holds the mantle of the nation's wine state, which extends to the presence of the major national statutory bodies including Wine Australia. But other states have fine wine regions too and we need to better leverage what we have to ensure we maintain a competitive edge.

The Adelaide Wine Capital Trail proposal developed by a range of Regional Councils and Regional Development Australia SA sets out a plan for a 250km trail to link up to 200 cellar doors and more than 500 businesses between the Clare Valley and McLaren Vale. The project is estimated to cost $60m and aims to deliver a significant private co-investment too, with local businesses along the trail indicating their intention to provide complementary services such as tours, accommodation, bike hire and facilities, hospitality opportunities and links to niche South Australian visitor experiences.

Given the 2020 Santos Tour Down Under alone attracted 44,801 visitors from interstate and overseas, and generated an economic impacted of $66.4m, a capital investment of this quantum in cycling tourism infrastructure is well justified.

Public Sector & Red-Tape

Public sector efficiency and red-tape remains a pervasive issue for businesses in South Australia. Red-tape was ranked third in our State Your Opinion: State Election survey, closely following State Business Taxes and Skills Shortages. The focus for Business SA extends beyond the size of the State public sector but to procurement policy and Local Government efficiencies.

The operation of the public sector will always be a concern for the business community. As the largest single employer in the State, the size of the public sector is an influential factor to the direct and indirect impacts upon business.

For many businesses, the size of the public sector is not just a matter of where their tax dollars are spent, but how the size of the public sector impacts the local market. The above market wages and benefits offered by the State Government unfairly compromises the ability of businesses to compete for talent when they pay for it through their taxes.

As highlighted by the 2021 Intergenerational Report, Business SA's goal is to ensure that South Australia's Public Sector is world class in the delivery of critical services to the community at the optimal cost.

"*Governments will also need to manage spending pressures by improving the efficiency of service delivery and ensuring support is targeted to those who need it most, particularly within the key areas of future spending such as health and aged care. It will also be critical that essential government services are funded by taxes that are as fair, efficient and low as possible.*"

15

Ensure more local South Australian businesses have a genuine opportunity to benefit from State Government procurement

Business SA understands the realities of government procurement from both sides. Obtaining the optimum value for money and keeping South Australian businesses competitive in the procurement process are simply different sides of the same coin. Both intend to benefit the wider community and businesses. Business SA does not advocate for South Australian businesses to have an embedded advantage over interstate businesses, but we recommend making the process transparent and less costly to ensure South Australian businesses can better compete against what are often larger interstate competitors.

In particular, Business SA recommends:

15.1 Build on Go2Gov to engender SME confidence - Continue funding the Go2Gov program to build the confidence of procurement officers in using emerging SME's and start-ups. The program introduces businesses to government procurement through two pathways, the first pathway includes businesses pitching for already identified projects. The second pathway includes pitching to government departments ideas or solutions to gain their interest.

Overall, the program has achieved solid progress in both pathways. The first pathway which issued 2 rounds of challenges issued has seen 12 businesses participated/participating to the feasibility phase. Of those businesses that participated in round 1, 3 have progressed to a pilot proof of concept phase to develop their solutions to government department challenges. Businesses choosing to take the second pathway have also found success with 6 progressing to a pilot proof of concept phase.

15.2 Increase transparency of future government procurement needs – With only the Department for Transport and Infrastructure having a readily available forward looking procurement plan, the Government should be promoting this for all agencies as recommended by the South Australian Productivity Commission (SAPC). By publishing forward looking procurement plans, SMEs are able to have confidence and predictability to meet future Government procurement needs.

15.3 Increase transparency on evaluation criteria applied to government tenders, and feedback for business on why they lose tenders - Criticism consistently provided to Business SA by members speaks to the lack of transparency on losing tender bids. While businesses understand that the procurement process is competitive, not knowing why they lost is a constant source of frustration. Without feedback as to why businesses lose tenders, the ability for South Australian businesses to become more competitive is significantly constrained.

15.4 Progress to reduce pre-registration information required on government tenders - Business SA understands that the Department of Premier and Cabinet, with support from the Office of the Industry Advocate, is currently developing a system for not-for-profits and businesses to pre-register the details required for government tenders. Businesses consistently tell us that providing the same details repeatedly for government tenders utilises too many resources that could ultimately account for nothing. Business SA recommends that this process is completed in a timely manner which includes industry consultation and testing.

15.5 Take meaningful steps to better manage Intellectual Property (IP) within government tenders - Government retention and management of IP created in the tender process has consistently been raised as stifling innovation by SA businesses. With government departments often unable to commercialise IP in their own right, the result of not sufficiently leveraging IP is ultimately a deadweight loss to the economy. While the SAPC recommended that the Government clarify its IP policy, the Government responded promising further guidance and examples by March 2021 which is yet to happen. Ultimately, Business SA recommends that the Government takes a much more active role to ensure local businesses are better able to commercialise IP generated through government contracts.

A recent example of potentially how successful this could be is the spin-off of AddInsight to SAGE Group. AddInsight, a real-time traffic intelligence software, is already utilised in all Australian states and New Zealand. With SAGE Group acquiring the software, the opportunity to broaden the use of the software and enable greater returns from its development will be significantly enhanced.

15.6 Ensure a more credible system of quote provision in contracts below $550,000, particularly in local businesses – The SAPC recently found that almost half of Government tenders below $550,000 were not sourcing the required number of quotes to keep the process competitive. This needs to be addressed through a more prescriptive requirement to garner required quotes, particularly from local businesses.

15.7 Introduce an Exception Notice written by Chief Executives of Government agencies for the selection of non-South Australian businesses in State Government tenders - Business SA members consistently report missing out on State Government tenders to businesses based outside South Australia. While this in of itself can be attributed to fair competition, it is often viewed as a lack of confidence in local suppliers, or in many cases a lack of knowledge of local market capability.

This recommendation simply puts the onus on Government Chief Executives to ensure their procurement staff have followed due process to ensure local suppliers are provided with fair consideration. Coupled with our recommendation for increased transparency of why businesses lose tenders, South Australian businesses will be much better placed to increase their competitiveness in State Government tenders.

Business SA understands the need for government to ensure tender processes result in an optimum outcome for taxpayers. However, requiring a Chief Executive to sign off on why a non-South Australian business was successful in a tender, is a light touch process to focus the minds of State Government agencies on the need to give local suppliers a fair go.

With over $11b spent by the State Government on procurement of goods, services and construction per annum, ensuring South Australian business is competitive is crucial and these recommendations will enable a step change in opportunities for local businesses to grow.

16

Expand shop trading hours to enable an appropriate balance between serving consumers needs, supporting locally owned businesses and maintaining a competitive retail environment

Business SA has previously advocated for an appropriate extension of metropolitan Adelaide's shop trading hours (STH). Adelaide is a modern city, the third most liveable in the world, and needs to provide consumers, visitors, traders, and retail employees with the benefit of choice while ensuring a competitive retail business environment.

In 2018, Business SA commissioned the University of South Australia's world renown Institute of Choice to conduct a study of consumer preferences on shop trading hours. The results found that 73.6 per cent of consumers wanted further deregulation of STH.

Table 4 *- Consumer views on Shop Trading Hours*

	All	Greater Adelaide	Regional Districts with Restrictions	Regional Districts with no Restrictions
Yes	73.6%	73.1%	84.6%	71.3%
No	26.4%	26.9%	15.4%	28.8%

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

In Business SA's 2021 *STATE Your Opinion: Pre-Election Survey*, businesses gave the deregulation of STH a weighted average score of 3.05. Of the 12 policies tested, this policy was ranked 8th most important. Moreover, when we asked businesses what was most important in terms of deregulation: 43.5 per cent favoured Saturday evenings, 73.9 per cent Sunday mornings and 52.2 per cent Sunday evenings. Following further consultation with the independent grocery sector, Business SA recognises the potential impact that full deregulation would have, especially the possibility of not being able to compete fairly on labour costs and economies of scale. We have also considered how unique the sector is in the broader Australian context. With almost 200 independent grocery retailers in South Australia, this represents almost a third of market share, compared to 19 per cent nationally.

South Australia's independent grocers are also intrinsically tied to our strong food and beverage manufacturing sector, providing many of our iconic brands their start on the shelf. Business SA members also highlight the relative ease of doing business with independents over national chains in areas including order sizes and sales margins. As a result, this allows many local food and beverage manufacturers to get their foot in the door and subsequently scale up to national or international markets.

Food and beverage manufacturing accounts for $7.1b - 3.2 per cent of total State output. ABS data has also shown in South Australia, retail accounts for 5.8 per cent of the economy vs the Australian average of 5.2 per cent. Further, as evidenced below, SA has a far higher proportion of local food and beverage manufacturers than the other States. Moreover, the number of people employed in this sector is considerable, with over 23,000 in work.

Table 5 - State food manufacturing businesses by business size

	% of non-employing of total food manufacturers	% of 1-19 employees to total food manufacturers	% of 20-199 employees to total food manufacturers	% of 200+ employees to total food manufacturers	Total Food Manufacturing businesses	Total number of businesses	% of Total Businesses
SA	48.7%	41%	10.2%	0.6%	1,794	154,375	1.2%
NSW	36.8%	52%	9.9%	1.2%	4,284	820,375	0.5%
QLD	38.2%	50%	10.2%	1.3%	2,227	464,990	0.5%
VIC	38.7%	48%	12.6%	1.1%	4,093	660,214	0.6%
WA	37.2%	50%	12.3%	0.7%	1,356	234,103	0.6%

Source: ABS, Business Counts 2019/20

For the 2022 election, Business SA is calling for an extension of STH to enable:

- Saturday afternoon closing times to move from 5pm to 6pm;
- Sunday morning opening times to move from 11am to 9am; and
- Regular trading hours for Boxing Day.

As South Australia's peak employer body, Business SA is of the view that firstly, our position contextualises STH deregulation in the current economic landscape where local businesses are facing a raft of pressing issues dealing with challenges associated with COVID-19. While further liberalisation would undoubtedly benefit consumers, in the current environment there also needs to be a balance to ensure local independent retailers and their supply chains can remain viable against national and multi-national players which are better placed to absorb the higher costs of weekend and public holiday penalty rates.

17

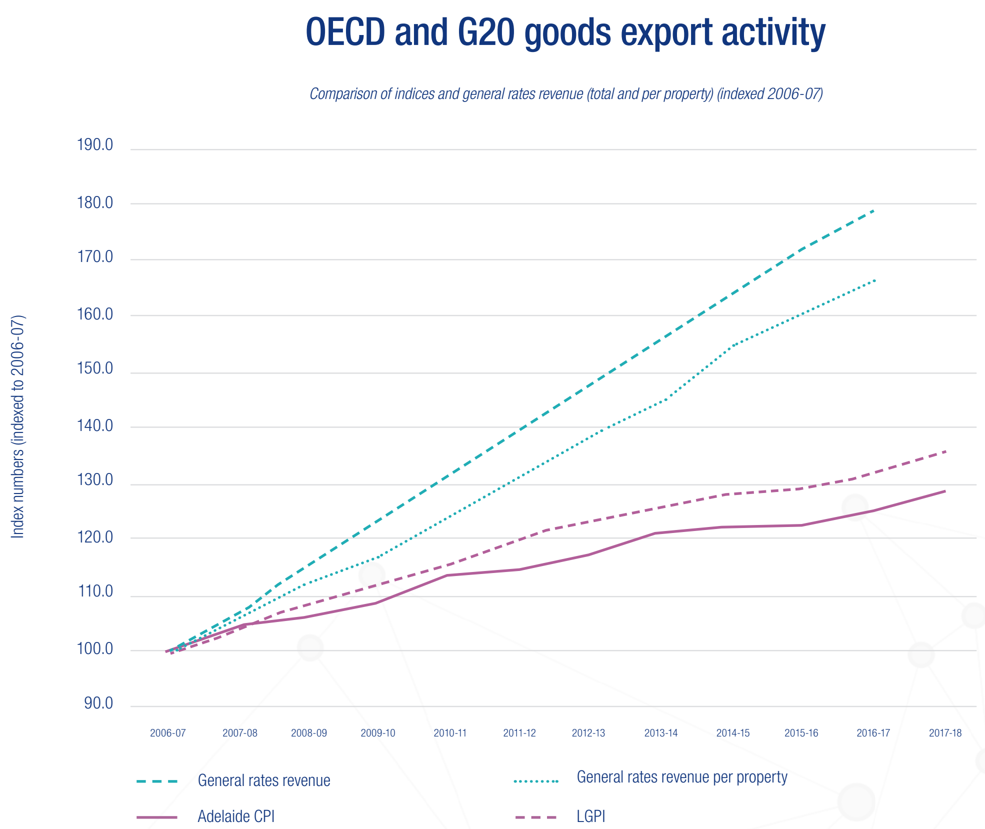
Rationalise Local Government in metropolitan Adelaide through targeted council amalgamations

to introduce economies of scale and increase efficiency for stakeholders and ratepayers

Local Government is the branch of government businesses and households interact with most frequently, and businesses requires them to be efficient and appropriately sized. The number of South Australian councils, particularly metropolitan councils, is disproportionate to our population, creating unnecessary duplication. While Business SA's Regional Voice Survey has found some degree of similar issues outside Adelaide, the majority of regional businesses are not supportive of further council amalgamations.

Some councils are already combining forces to deliver key services, particularly waste, which demonstrates the efficiency and savings gains that could be achieved through targeted council amalgamations. South Australia currently has 19 metropolitan councils with disparate populations ranging from 8,000 (Walkerville) to 172,000 people (Onkaparinga), with an average sized council serving a population of 70,000. An amalgamation of councils would likely lead to efficiency gains, increased economic benefits and potential savings for ratepayers. An economic assessment completed by ACIL Allen for the Property Council in 2018 found that an amalgamation of 19 metropolitan councils to 9 is estimated to produce cost savings of $34.8m per annum.[14]

***Figure 8**- Level of international Trade*



***Source data** - ABS for Adelaide CPI; South Australian Centre for Economic Studies for LGP; Local Government Grants Commission for general rates revenue*

[14] ACIl Allen & Property Council SA, An economic assessment of recasting council boundaries in South Australia.

A 2018 ESCOSA report on rate capping showed that local government rate revenue had been increasing significantly more than Adelaide CPI and the Local Government Price Index (LGPI).[15] Considering this disparity, the increase in rate revenue seems unjustified and not sustainable in the long-term.

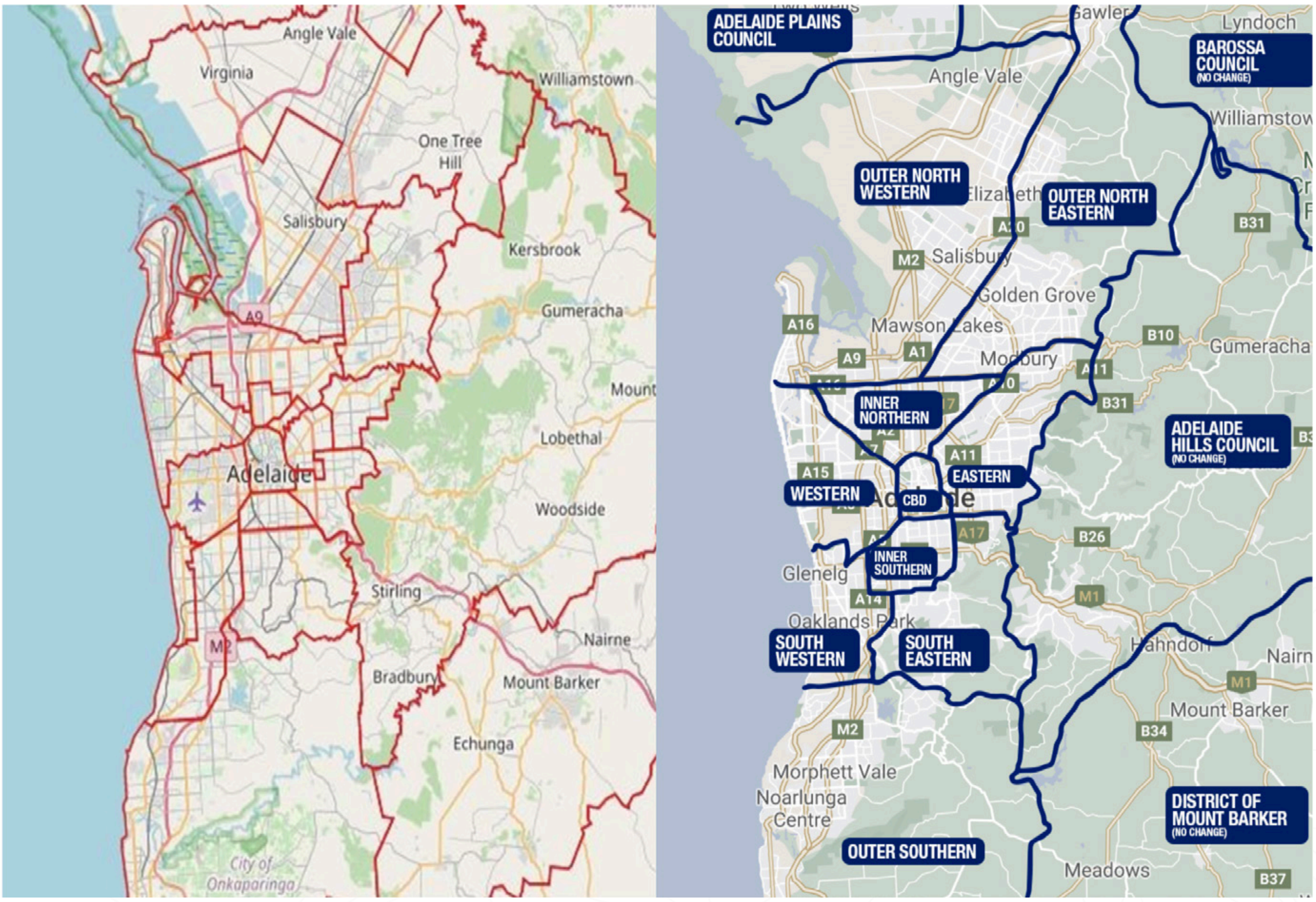
By no means is this the first time South Australia has undertaken council amalgamations. Amalgamations occurred in the 1930s, reducing the number of councils from 170 to 140 and then again in 1997/98, which, through voluntary council amalgamations, saw a reduction from 118 to today's number of 68.

Carefully considered amalgamations would increase economies of scale, allow councils to operate more effectively and strategically as municipal boundaries are reduced, and would increase bargaining power for councils in procurement. Several local councils already recognise the need to operate more efficiently and band together on waste collection to achieve greater economies of scale. For example, East Waste currently has the contract for waste management and recycling services for seven councils: Adelaide Hills; Burnside; Campbelltown; Mitcham; Norwood Payneham & St Peters; Prospect; and Walkerville.

Business SA is not arguing that forced amalgamations are the only option. An equivalent outcome could be achieved through appropriately incentivised voluntary amalgamations. This would require sufficient financial support though to enable councils to conduct necessary due diligence on potential merger proposals. From feedback provided to Business SA, there is an appetite amongst some councils to consider mergers that are likely to benefit ratepayers but the cost of due diligence to investigate mergers is usually the limiting factor.

Business SA proposes the logical construction of 10 councils to comprise of: Adelaide CBD council, three councils to the north (inner, out north-east and outer north-west), four southern suburbs councils (inner, south-eastern, south-western and outer south), an eastern suburbs council, and a western suburbs council.

***Figure 9** - Before and after map of Council Amalgamations*



[15] ESCOSA 2008, South Australian Local Government rate oversight scheme.

18

Optimise the size and efficiency of the South Australian Parliament

As at 2020, South Australia was estimated to have a population of 1,770,790 people. The South Australian Parliament is made up of 47 members in the House of Assembly (Lower House) and 22 members in the Legislative Council (Upper House). This equates to a 37,275 people per Lower House Member and 79,634 per Upper House Member. When we compare this to other mainland states, it become apparent that South Australians are overrepresented in both Houses.

Table 6 *- State Parliamentary size and population comparison*

	SA	VIC	NSW	QLD	WA	Average Mainland	SA difference with Mainland	SA % difference
Population (Dec 2020)	1,770,790	6,661,736	8,172,505	5,194,879	2,670,041	-	-	-
Lower House	47	88	93	93	59	-	-	-
Persons per MP	37,276	74,955	86,987	54,780	44,432	59,686	-22,410	-37.5%
Upper House	22	40	42	N/A	36	-	-	-
Persons per MLC	79,635	167,901	192,615	N/A	72,820	127,493	-47,858	-37.5%
Ministers	16	22	23	18	17	-	-	-
Persons per Minister	109,498	299,820	351,731	283,028	154,206	239,657	-130,159	-54.3%

Consequently, Business SA's calculations indicate that both Upper and Lower Houses MPs represent on average 37.5 per cent less people than their mainland counterparts. Business SA recommends that a review into the size of both houses be conducted to determine the effective number of representatives needed in South Australia.

Over the past 30 years, we have seen the legislative responsibility of State Governments progressively shift towards the Commonwealth. In the 90's, the Federal Government took on responsibility for workplace relations and then in 2001, Corporations Law. Moreover, more and more state responsibility has become federally harmonised including workplace health & safety and key elements of the education system including the national curriculum. We have also had a national energy market for over two decades, with most energy law effectively governed at a federal level.

Business SA also questions the size of the Legislative Council when we consider the size of the South Australia Parliamentary Committee system. In our submission to the 2020 Select Committee reviewing the effectiveness of the current system of Parliamentary Committees in supporting the South Australian Parliament, we found that South Australia had the highest number of standing and select committees of any state. While we support the Parliament's efforts to review and understand policy, we find hard to reconcile why there are so many committees and a Legislative Council. When Business SA reviewed reports from the Public Works Committee over the past 10 to 15 years, we noted a marked decline in the analysis and reporting outcomes highlighting a more check box approach rather than substantive independent analysis

19

Undertake an independent review of Public Sector efficiency and value

Business SA has long advocated for a holistic review into the size and efficiency of the South Australian public sector. While this recently occurred in part through the Joyce Review, it was not a comprehensive review of the entire public sector and whether it was optimally structured to deliver required services at least cost. Over 1 in 8 employed South Australians work for the State Government. When compared to the other mainland states, it is apparent that the employment share of the public sector in South Australia is out of kilter.

Table 7 *- State public sector size and workforce comparison*

Jurisdiction	FTE Public sector employment (June 2020)	Headcount Public Sector Workforce	Total employed people (Seasonally adjusted)	Public Sector Headcount proportion of Total employed
SA	89,696	107,434	821,012	13.1%
NSW	384,508	413,567	3,492,108	11.8%
VIC	266,272	322,605	3,272,429	9.9%
QLD	234,142	280,047	2,426,150	11.5%
WA	114,734	145,067	1,304,931	11.1%
TAS	25,288.84	31,998	246,645	13.0%
NT	21,836	28,000	128,900*	21.7%

**Not seasonally adjusted*

When compared to similar geographically-sized states such as Queensland and Western Australia, it is hard to justify the size of South Australia's public sector, especially considering our state population is more concentrated in our capital city compared to other states with more broadly distributed populations .

Business SA's pre-election survey found 46 per cent of businesses took issue with the size of the size and cost of the public sector, including red-tape, with a lack efficiency being the principle concern. Businesses told us that the time taken for government to provide approvals, for example, was disappointing and frustrating.

While Business SA acknowledges the government's latest Public Sector Workforce Rejuvenation Scheme to reduce the number of long-term public servants on the payroll, it does not address the inherent structural inefficiencies in the public service as a whole.

Consequently, Business SA recommends the State Government conduct an independent and transparent review of options to improve efficiency of the public sector. This is not primarily about reducing head-count, but determining if the current structure is optimal to efficiently deliver required services at a high standard at the least cost to taxpayers, including businesses.

For example, management of payroll, invoicing and accounts payable in the South Australian Public Service is provided centrally via Shared Services SA. This is a good example of how centralising a service can provide a more cost effective, efficient and consistent public service. With this approach in mind, Business SA calls on the State Government to assess whether centralising other business support services (e.g. human resources and ICT) would lead to greater alignment, efficiency, consistency and cost savings throughout the public sector.

A recent Auditor General's report into ICT vulnerability management in South Australian public sector entities, identified government attracting and retaining skilled ICT staff to be a major challenge.

This challenge will likely worsen, with Hays Technology identifying cybersecurity experts as their in-demand tech jobs for 2021 beyond.[16] Centralising this service for departments could realise efficiencies and reduce the number of professionals needed to manage government cybersecurity.

Centralised alignment of policy setting across government departments may also lead to further efficiency and cost saving. Business SA understands that policy development – including subsequent procedural guidance – is not uniform across the public sector. While appreciating that each department best knows its subject matter, a high-level framework to ensure a consistent approach to ensuring policies and procedures do not conflict with one another should be considered. A tiered approach could be adopted to align similar departments – e.g. 'social' departments like Education, Human Services, Child Protection, Health – which could be grouped together. Further, ensuring consistent language is used across the public sector would lead to greater understanding and appreciation of whole of government direction.

Finally, South Australian public servants' workplace relations matters being managed through a separate system in the South Australian Employment Tribunal no longer makes sense, especially when the private sector has long been subject to a national framework under the *Fair Work Act 2009* and its associated regulator. Business SA would like to see this approach reviewed to determine its consistency and cost effectiveness.

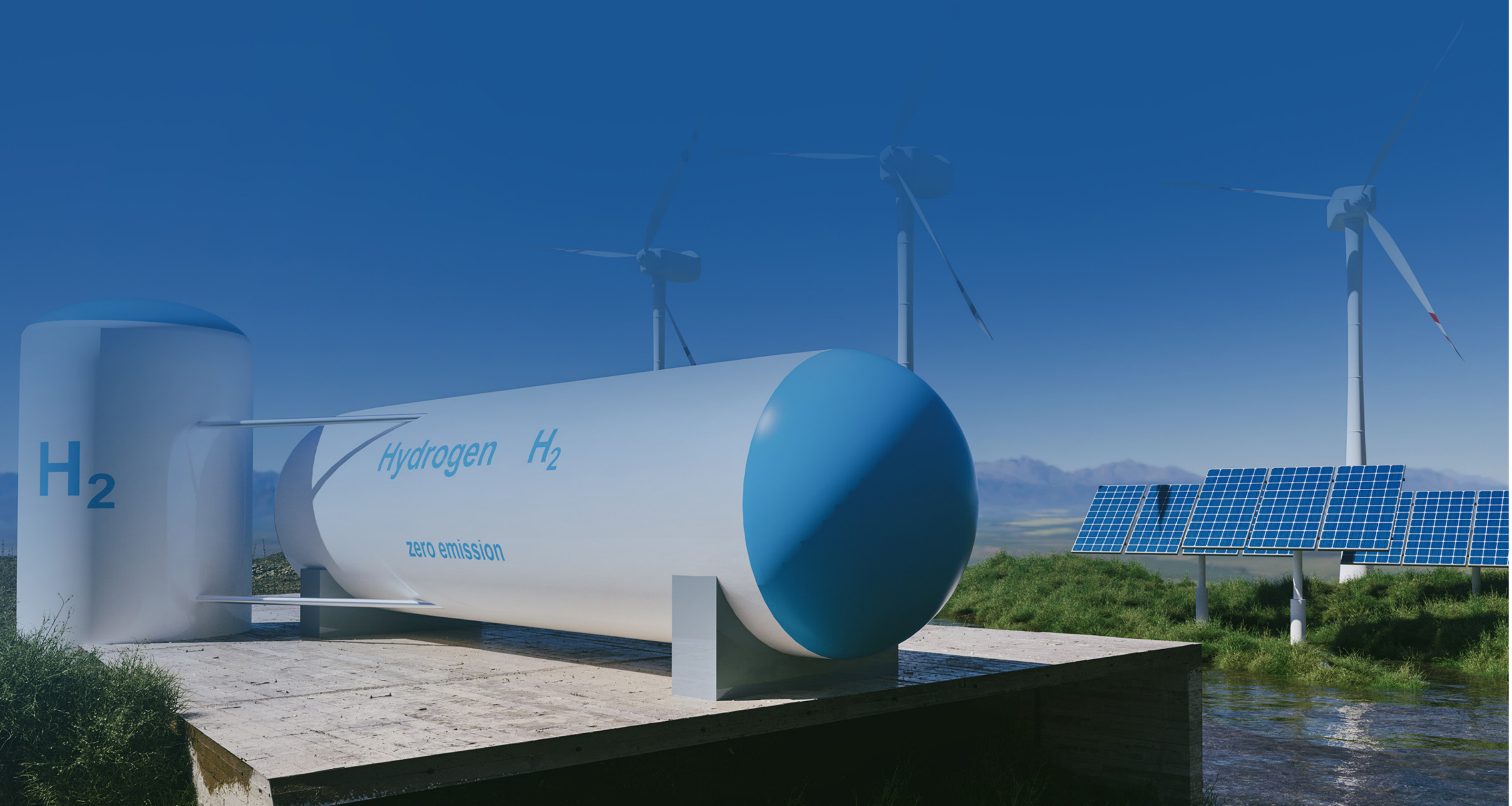
[16] Hays, Introducing the top tech jobs of 2021, accessed 4 August 2021.

Sustainability and Energy

South Australia has made considerable strides with respect to carbon emissions and broader environmental sustainability in recent decades, often being the leading jurisdiction within Australia and, in some fields, the world. While at times this has placed a significant burden on the business community, particularly through the wild ride of electricity prices from 2015-2018 as a result of losing a major baseload power station, we are at a point where we need to leverage the status quo to positively impact business. South Australia must continue to lead the nation in its support for renewable energy solutions.

With South Australia's renewable energy production on average now circa 60 per cent of demand and growing, there are increasing opportunities to monetise excess renewables, particularly with the advent of a new interconnector to NSW expected by 2023. Business SA has long supported the development of a local hydrogen sector to take further advantage of our renewable energy as a precursor to leveraging its export potential. From a demand perspective, scale needs to be built up to engender more production and refuelling stations, and public transport is the most efficient and realisable option the State Government has to kick things off. Incentives for both electric and hydrogen vehicle owners are also needed. Similarly with the circular economy, South Australia has made great strides in legislation banning various plastics, but more can be done to develop circular economy markets in high value-added products that can be competitive in world markets. A substantive State Government procurement fund is an ideal place to start to shift the dial.

To round out South Australia's sustainability credentials, Business SA's River Torrens Natural Pool proposal is an opportunity to boost city visitation at a time when it is most needed and a unique opportunity to create a pathway to finally restoring Adelaide's flagship river to a swimming standard.



20

Develop an all-electric or hydrogen public transport fleet
with supporting infrastructure

In 2015, Australia, as a party to the United Nations Framework Convention on Climate Change, agreed to keep the increase in global average temperature below 2°C above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels (the Paris Agreement). South Australia must ensure it maintains its national leadership as a key input into national achievement of agreed climate targets.

While green hydrogen production is in its infancy in South Australia, with Australian Gas Infrastructure Group's (AGIG) Tonsley plant commissioned in May 2021, government support for public transport utilising hydrogen can be a catalyst to both further investment in production and charging stations; both of which are needed to engender serious uptake of hydrogen vehicles more broadly. Given only around 10 per cent of AGIG's hydrogen production will flow to the local grid, there is considerable scope to look at broader use. For example, if trucks and cars in industrial areas were able to access hydrogen re-fuelling stations established for public buses, this would be an efficient means to kickstart the domestic uptake of hydrogen as a pre-cursor to an export market.

Acknowledging the chicken and egg dilemma, fleets are likely to be viable first as has occurred in WA via ATCO and Fortescue Metal Group, supported by government funding.

CSIRO's National Hydrogen Roadmap states potential demand for imported hydrogen into China, Japan, South Korea and Singapore could reach 3.8 million tonnes by 2030, the equivalent of nearly $10 billion; with Australia poised to play a key role in this export market. Business SA supports every effort to explore the export potential of hydrogen, but we recognise a market for domestic use is first needed to develop the skills and expertise required to begin exporting. Further, we remain clear-eyed about the higher value-added opportunities of enabling local businesses to switch from gas, petrol, diesel, and other non-renewable sources over time against pure commodity exports. In the more immediate future, domestic hydrogen use for businesses might include hydrogen powered forklifts and eventually heavy transport, while running boilers on hydrogen a further potential use.

In its recent Australian hydrogen market study for the Federal Government, energy and infrastructure consultants Advisian stated:

'*The realisation of a vibrant hydrogen economy will require early intervention and significant government investment. Australia's opportunity to gain comparative advantage of our local industry requires progressive development of domestic end-use rather than waiting for industry and exports to drive the development of the industry.*'

If we are to utilise hydrogen to its full potential, and we will certainly see more hydrogen vehicles on the road in future, the State must lead by example beginning with a commitment to move its entire public transport fleet to electric/hydrogen run vehicles. Likely an iterative process, as vehicles are decommissioned, they should be replaced with electric or hydrogen fuel cell alternatives.

Hydrogen bus fleets are becoming commonplace. In June 2021, London rolled out its first fleet of hydrogen powered double-decker buses (20 in total). With more than 500 electric buses already running, and a further goal of 3000 zero-emission buses on the road by 2024, London is fast moving towards meeting its 2030 zero-emission target. Similar approaches are being taken all across Europe.

Back to Australasia, last year the University of Queensland announced its intention to introduce the state's first 2 hydrogen powered buses, using solar energy to produce the hydrogen in the first place. In March this year, Auckland introduced its first hydrogen bus to the streets along with then City of Auckland's commitment to no longer purchase diesel buses. This further solidifies Auckland's move to zero-emissions at tail pipe by 2030, as outlined in its Low Emission Bus Roadmap.

Charging station infrastructure is imperative to support the community to choose electric or hydrogen run vehicles. Hydrogen charging stations should be built with dual purpose to not only charge the public transport fleet but also service privately run vehicles.

Business SA recognises the upfront capital costs of hydrogen refuelling facilities currently sits around $3m, but several strategically located stations could provide real momentum to the sector more broadly. Subsequently, the economics of more efficient methods of transporting hydrogen, including liquid hydrogen, are likely to become more viable as the underlying demand for this carbon free fuel source increases.

South Australia's Electric Vehicle Action Plan outlines the State Government's shift from the use of fossil fuels to greener electric and hydrogen driven vehicles. While a welcome policy, the recent State Budget was silent on further advancements on this front. Aside from retrofitting hybrid energy systems to existing diesel trains, nothing additional was announced to leverage off the impressive work done in the South Australia to date with renewable energy development. Business SA would like to see the future deployment of hydrogen trains to replace remaining diesel trains considered as an alternative to continued electrification of the train network as this technology matures and becomes more affordable.

In 2018 Germany launched the award winning iLint, the world's first passenger train powered by a hydrogen fuel cell, providing clean, sustainable transport.[17] iLint's manufacturer Alstom said that hydrogen trains offer a cost-efficient alternative to mainline tracks in the EU that aren't yet electrified.[18] Production of the series of hydrogen-powered trains is now underway and tipped to be in regular service in Germany from 2022. This same model is currently being demonstrated in Poland after the Polish Government recently announced its National Recovery Plan, which includes introducing 30 low-emission trains for regional operators by 2026.

[17] European Railway Award 2021.

[18] Matalucci S, The Hydrogen Stream: Alstom moves forward with world's first hydrogen train, Chile seeks proposal for hydrogen projects - PV Magazine, April 2021.

21

Introduce a registration incentive for hydrogen and electric vehicles

Business SA's 2021 Pre-Budget Submission advocated for the introduction of stamp duty waivers for hydrogen fuel cell or electric vehicles, but to date there are no incentives for the uptake of zero-emission vehicles in South Australia. While progress has been limited in South Australia, we've seen other jurisdictions make headway. The ACT announced that from May 2021, it will offer 2 years' free registration for zero-emission vehicles along with up to $15,000 interest-free loans to assist with purchase. NSW, from September 2021, will offer a $3,000 rebate for the purchase of battery-electric or hydrogen fuel cell cars (under $68,750 inc GST) - and will also waive stamp duty on new and used electric and hydrogen fuel cell vehicles (under $78,000 inc GST). Tasmania too has introduced a two year stamp duty waiver on new and used electric vehicles.

The European Commission recently proposed to amend regulations which would see no new petrol or diesel passenger or light commercial vehicles on the market by 2035. A range of factors played into this decision - most notably being the failure of the market to respond to emission reduction targets. A move of this nature is set to significantly stimulate zero-emission technology, dramatically increasing purchases of zero-emission vehicles and, in turn, appropriate refuelling stations.

Related to the EC's move, the United States announced in August 2021 that half of all US vehicle sales must be electric by 2030. In 2020, electric cars only accounted for 2 per cent of all sales in the US. At the same time the US's Environmental Protection Agency announced that starting in 2023, all new cars must emit 10 per cent less greenhouse gas emissions compared to 2022, and 5 per cent less each year until 2026.

Unfortunately, in Australia the present uptake of electric vehicles is also lacking. According to Australia's Electric Vehicle Council, there were 6,900 electric cars sold in Australia in 2020 (0.7 per cent of all cars sold), a meagre 2.7 per cent increase from the 6,718 sold in 2019. The South Australian Government agrees there is a problem:

'*While the benefits of electric vehicles have been long recognised, Australian uptake has been slow due to limited model choice, high purchase price, restrictive driving range and a lack of visible public charging infrastructure.*' (State Government, 'Electric Vehicle Action Plan', 2020)

The Hyundai Nexo is tipped to be the first hydrogen fuel cell vehicle in Australia. The Nexo is currently being loaned to various entities for feasibility testing, including the Queensland Government, with consumer purchase not taking place until a later date. Toyota is primarily making its hydrogen-powered Mirai available for fleet customers bundled with infrastructure access.

The State Government has been proactive in releasing its $18.3m Electric Vehicle Action Plan in 2020, the anchor pillar being a state-wide fast charging network for public use which also relies on $25m of private investment; prioritising highway destinations that facilitate long-distance travel and tourism. Further, the government has intimated that hydrogen refuelling stations may also be co-located with EV charging stations.

Business SA strongly encourages South Australia to join with other States and Territories to agree to a nationally consistent incentive to purchase both hydrogen and electric vehicles. As an example, Business SA has proposed a time-limited stamp duty rebate incentive for electric and hydrogen vehicles, perhaps for the first five years to align with fleet requirements. In effect, providing a stamp duty waiver through a progressive registration rebate would halve registration costs each year over 5 years. This is based on waiving the $1,940 stamp duty for a passenger vehicle purchase price of $50,000 through an annual 50 per cent registration rebate commencing in year 1 (assuming an $790 per annum registration cost). Progressively rebating stamp duty against registration would also ensure the vehicle owner only receives the full rebate provided the vehicle continues to be registered in South Australia.

Australia's tax structure is not designed to hypothecate road funding to reflect the hydrogen and electric vehicles not paying fuel excise. This reality must be overcome at some stage, ideally through nationally consistent legislation. Victoria has recently introduced a distance-based road-user charge for zero and low emissions vehicles, including hydrogen, with a levy of 2.5 cents/km on zero emissions vehicles and 2 cents/km on plug-in hybrid vehicles. Regardless of how South Australia and the nation ultimately tackle future road funding, if the State Government wants to reduce transport emissions, which account for 30 per cent of the State's total greenhouse gas emissions, incentives will likely be required to increase the penetration of zero emissions vehicles.

22

Fund a feasibility study for a natural swimming pool integrated into the River Torrens as an opportunity to boost city visitation, and a catalyst to improving river water quality to swimming standard

There is no doubt the Adelaide CBD has suffered an extremely heavy toll through COVID-19, from a lack of international and interstate tourists and business travellers, to international students stopped from returning, and various work-from-home directions keeping employees out of the office. As South Australia's peak employer body, Business SA recognises the need for lateral thinking to reignite economic growth post-COVID 19, particularly in regions like the CBD which need a sustainable boost to visitation numbers. And such proposals need to play to South Australia's strengths.

South Australia rightly prides itself on leading the nation in many aspects of sustainability, from renewable energy through to recycling and the circular economy. Businesses are increasingly adopting environmental, social and governance (ESG) policies to remain competitive in a commercial environment where expectations from customers and governments continue to grow. Business SA acknowledges significant progress has been made in improving River Torrens water quality over the past 20 years, although we remain some distance from a point where swimming could typically be accommodated in the River at large (acknowledging the 2018 Australian Barefoot Waterski Championships took place adjoining the CBD riverbank amid daily water quality testing). Reaching this point is not insurmountable for a State that leads in so many other aspects of environmental progress, but we need a transparent debate about the viable options and associated costs and benefits. This is occurring in part through the River Torrens Water Quality Improvement Project, but it is not ambitious to the point of realising a time when swimming could generally be made safe and attractive, even at designated locations.

The River Torrens has been artificially altered several times over the past two hundred years, most notably through the construction of a weir and later a channel to enable an outlet to the sea between West Beach and Henley Beach. Upstream, various water flows into the Torrens have also been dammed to provide drinking water for Adelaide. In recent years the State Government, in conjunction with SA Water, has implemented an ambitious plan to open up several Mt Lofty Ranges reservoirs for recreational use, including but not limited to those on the doorstep of Adelaide such as Myponga, Mount Bold, and Hope Valley. The success of this endeavour demonstrates the public's appetite to engage with water-based activities in previously inaccessible water ways and highlights the achievement of reintroducing native fish species to enable recreational fishing.

While there has been tremendous development along Adelaide's Riverbank precinct over the past decade, including the Convention Centre, Adelaide Oval, Memorial Drive and Festival Centre, Railway Station and Casino upgrades, and potentially a major new multi-purpose sports stadium, there has been no equivalent focus on improving water quality to make the River Torrens the jewel in the crown of this flagship precinct.

There are various elements to achieving this, including the removal of pest fish species including carp and goldfish, already being done safely and effectively on a small scale through electrofishing methods. There would also need to be some substantive investments in UV filtration treatment facilities at appropriate locations to generally facilitate swimming. As a preliminary step, Business SA recommends consideration of a separate designated swimming area with an adjoining channel to treat water. While this introduces a material capital expenditure spend, a focus on a targeted area for swimming first could be a more practical catalyst to restoring the river more broadly to a swimming standard, also providing the city with an iconic tourist attraction.

Business SA proposes a natural 50m swimming pool integrated into the existing River Torrens on the edge of Elder Park, in a similar location to that occupied by the festival season pontoon. A concrete pool would be fed by a treated channel direct from the river, including multiple layers of treatment, both natural and mechanical. Our modelling of the cost of the pool itself is based on the ocean pool proposal at Hallett Cove, expected to cost circa $5.5m, including an allowance for circa $100,000

[19] The mechanical treatment facility is based on shipping container sized treatment plants used to treat ballast water in ships which can be purchased for circa $3m.

per annum in maintenance and pumping costs. We have also allowed an additional $250,000 per annum to provide for lifeguards. Similar to the Hallett Cove project recently put to the State Government, Business SA's proposal is for a walled pool fed by pumped water. In total, Business SA estimates the project would cost circa $10-12m, including the natural treatment channel works, acknowledging this would need to be subject to a formal feasibility study.

Importantly, key stakeholders of the River Torrens would need to be consulted to ensure the project best meets their interests, including the local Kaurna people for whom the 'Karrawirra Parri - River Red Gum Forest' holds significant cultural importance.

Technology for natural swimming pools is already well-established and could easily be replicated for a River Torrens swimming pool. Natural swimming pools work on the basis of having chemical free pools that use the principles of nature to filter out harmful microorganisms. Essentially, a natural swimming pool has two distinct parts; a swimming area and a separate regeneration area which features a range of plants that feed hydroponically on the water. Additionally, there are aerobic and anaerobic bacteria which act as a biological filter in the regeneration area to further purify the water. Once water has been treated in the regeneration zone, it flows back into the swimming area. In Business SA's proposal, having an additional layer of mechanical treatment and a separate connection to mains water would ensure the River Torrens natural swimming pool is completely safe and attractive to locals and tourists alike.

The running costs of this flow through pool should, once constructed, also be well below conventional swimming centre running costs which use mains water as their source and are chemically expensive. Regardless of the water quality in the Torrens, an SA Water feed would enable the system to be 100% manipulatable and usable 24 hrs/365 days per year. Evaporation loss of this pool is technically zero whenever it uses Torrens River water, a feature overcoming one of the largest costs in other public pools in Adelaide. A solar array to power the pumps, treatment and filtration plant, and primary debris collection system will also bolster the river pool's sustainable credentials.

While the swimming pools adjacent to the Brisbane River are quite popular, they are separate from the river and do not reinforce any concept of the river and pool being intertwined. If South Australia wants to ultimately restore the River Torrens to a swimmable river, Business SA's river pool proposal provides a significant bridge towards that goal. It would also be quite attractive for locals on the eastern side of the city who often have a long commute to the beach and otherwise seek to go somewhere to cool off with a similar atmosphere.

The closest comparable facility is the Cataract Gorge on the edge of Launceston which is very popular with locals and tourists, featuring a conventional swimming pool adjoining the nearby gorge where swimming is also possible. However, there is no other comparable naturally fed pool right on the doorstep of an Australian CBD and South Australia should take the opportunity to be a first mover. Munich in Germany has river surfing and South Australia should be ambitious with what is possible to make the River Torrens more desirable for leisure activities, and to leverage off the extremely successful work recently done to open up SA Water reservoirs to visitors.

23

Introduce a Circular Economy Procurement Fund to drive development of markets

for high value-added recycled products within South Australia

'*Governments' climate change strategies have focused on renewable energy, energy efficiency and avoiding deforestation but they have overlooked the vast potential of the circular economy. They should re-engineer supply chains all the way back to the wells, fields, mines and quarries where our resources originate so that we consume fewer raw materials. This will not only reduce emissions but also boost growth by making economies more efficient.*' (United Nations Climate Change, 2019)

South Australia has long been a leader in the promotion of recycling; a hallmark most often associated with our early introduction of a Container Deposit Scheme (CDS) in 1977, shortly after the US State of Oregon passed its Bottle Bill in 1971. While many other Australian states and territories took time to follow suit, over the last decade several jurisdictions have either introduced a CDS or have made commitments including the Northern Territory, New South Wales, Queensland, Western Australia and the ACT. In 2009, South Australia was also the first Australian jurisdiction to introduce a ban on supermarket plastic bags, and in 2020 our Single-Use and Other Plastic Products (Waste Avoidance) Act 2020 again led the nation as the first of its kind. Last year Aldi stopped selling single use plastic tableware across Australia and only recently, Coles announced the phase out of single use plastics across all supermarkets.

South Australia performs quite well on waste diversion, with 83.8 per cent of waste currently diverted being the highest rate across the nation. However, waste generation per capita continues to grow, up 4 per cent from its 2015 baseline and is the highest per capita in Australia. Overall, the resource recovery sector is currently worth $348m per annum, predominantly comprised of metals ($174m), organics ($96m), cardboard & paper ($39m) and masonry ($15m). While Business SA acknowledges that as a State, we do quite well on resource recovery, there is still a way to go. South Australia has significant unrealised potential to maximise the value of high value-added recycled products made here.

The State Government spends approximately $11b annually on the procurement of goods and services, or around 10 per cent of Gross State Product, and in the years leading up to COVID-19 averaged approximately $2b more on capital expenditure; which has since doubled to $4b over the current forward estimates period. The opportunity for the State Government to lead on its own sustainable procurement agenda cannot be overstated. Despite this, it was not a substantive focus of the 2019 Independent Inquiry into State Government Procurement undertaken by the South Australian Productivity Commission (SAPC). This is not to detract from the recommendations reached by the SAPC, but the terms of reference were focused on a range of other important factors pertaining to procurement processes, industry participation, value for money and intellectual property (IP).

There are many examples of state and local governments utilising recycled materials in procurement, particularly for making roads, but there lacks a broader impetus for the State Government to use its procurement spend to materially leverage the adoption of high value-added recycled or compostable products. There is no silver bullet, but if government agencies are to be pushed on sustainable procurement, there should be an appropriate recognition of the higher cost which may prevail for the short to medium term.

The State Government should commit to a sustainable procurement fund to allow government entities to access additional financial support to purchase recycled products and materials as a stimulant of demand. This nation-leading fund would again set South Australia apart as a leading developer of the circular economy. No differently to its recent investments in renewable energy, particularly big batteries, there is a role for the State Government in growing the penetration of recycled and compostable products across our economy. The State Government's recent commitment to material financial support to enable local mask production is a great example of how a step-change in government procurement policy can lead to policy outcomes that may have previously been thought unattainable.

Using $78m in the Green Industry Fund as at 30 June 2021, Business SA urges the State Government to establish a $50m Circular Economy Fund to provide procurement opportunities for businesses who manufacture products that:

- contain a certain per cent of recycled content (eg paper, plastic, textiles); and/or
- have an extended useful lifetime (re-use, refurbishment, re-manufacturing); and/or
- are compostable and avoid the use of virgin resources.

Again, the South Australian Government must be the exemplar - and to further encourage South Australian businesses to do their part, could also stipulate sustainability specifications and criteria for use in all State Government procurement. As part of this scheme, and to encourage innovation and best practice for manufacturing and resource recovery, a Circular Economy Campaign could be established to encourage South Australian businesses, and the community as a whole, to find their place in the circular economy and determine best practice to ensure we all do our best.

24

Establish a permanent mechanism whereby the Adelaide De-salination Plant can be used to provide temporary water into the irrigation market

when there are sufficient reserves in existing storages and other water entitlement holders have 100% allocations

In 2019, the State Government reached agreement with the Federal Government to deploy the idle Adelaide De-salination Plant (ADP) to provide additional water into the Murray Darling System which could then be purchased by East Coast irrigators suffering the effects of a debilitating drought. The 100GL Water for Fodder Agreement was very popular upon its announcement, although ultimately only Round 1 (40GL) was delivered as the need began to dry up following substantial autumn rainfall in the Southern Murray-Darling Basin in 2020. However, 800 irrigators in the Southern Basin still received 50ML parcels of water each at a discounted rate to grow fodder or pasture. This was primarily aimed at enabling livestock farmers to sustain breeding stock. While the agreement did not directly assist South Australian irrigators, it did so indirectly by providing support to the broader water market.

What this agreement proved was that when South Australia has sufficient reserves in both the Mount Lofty Ranges reservoirs, and in upstream storage, the ADP can be safely operated for irrigation customers (including those interstate) provided local water entitlement holders have 100 per cent allocations. Water for Fodder was generously provided by the State Government at a rate which only covered marginal costs of operating the ADP, but there is no reason why the ADP could not be operated in future for commercial customers should they be willing to contribute towards both the fixed and marginal cost components. This would also ensure that SA Water customers more broadly do not pay the current minimum production mode costs of $8.5m per annum for the ADP (which recently doubled in the 2020-24 regulatory period). These costs accrue to SA Water customers, including businesses, to essentially run the ADP when it is not otherwise required to avoid high re-start costs. This is on top of the $24m per annum in fixed costs - which results in an annual average cost of $32m per annum to run the ADP paid for by SA Water customers.

Should such a commercial arrangement come into play, it would be ideal to offer the water to South Australian customers first, recognising water is traded in a wider market which does not guarantee it being utilised in South Australia. The State Government needs to continue to find ways to enable South Australian businesses to become more competitive, particularly exporters, and if SA Water has another commercial revenue source that can be used to reduce water prices for customers more broadly, including businesses, this option needs to be further explored.

Business SA's recommendation in no way prejudices the existing 50GL improvement in dry year water availability for South Australian River Murray irrigators which has already been agreed to by the State Government. During the consultation phase of this arrangement, Business SA was supportive with the caveat that no additional costs of operating the ADP would be passed back directly to SA Water customers, including businesses, to which the State Government agreed and committed to.

In 2016, the previous State Government commissioned Marsden Jacob to run a cost-benefit analysis for using the ADP to offset reductions in South Australian irrigators' allocations during dry periods. While that analysis found no economic benefits to South Australia for running the ADP to support irrigators in 2016/17, temporary water prices were also considerably lower in 2016 than the highs reached in 2019. Business SA requests the State Government leverage from the cost-benefit analysis model already undertaken by Marsden Jacobs, and that which has been undertaken but not yet released by ESCOSA for the Water for Fodder Agreement, to put a more permanent mechanism in place to commercially operate the ADP should it otherwise sit idle costing SA Water customers in excess of $8m per annum in additional operating costs, on top of $24m per annum in fixed costs.

While temporary water prices in the Murray-Darling Basin are now substantively less than in 2019, circa $100/ML versus $500/ML, and consequently the economics of running the ADP for commercial gain may not stack up immediately, a transparent mechanism should be put in place to be ready for a time when broader market dynamics make running the ADP for commercial benefit to SA Water customers advantageous. This would also provide confidence to the broader water market that additional supplies will come on line should market dynamics tighten. For example, the ADP comes online at $250 per ML. Based on 330 ML of production per day, this could earn SA Water approximately $27m per annum. Such a mechanism would only ever be deployed on the basis that South Australia has sufficient water reserves to cover both existing SA Water customer needs and those of irrigators and environmental needs. As at 1 July 2021, South Australia held 285.5 GL of deferred entitlement flow for critical human water needs interstate, including:

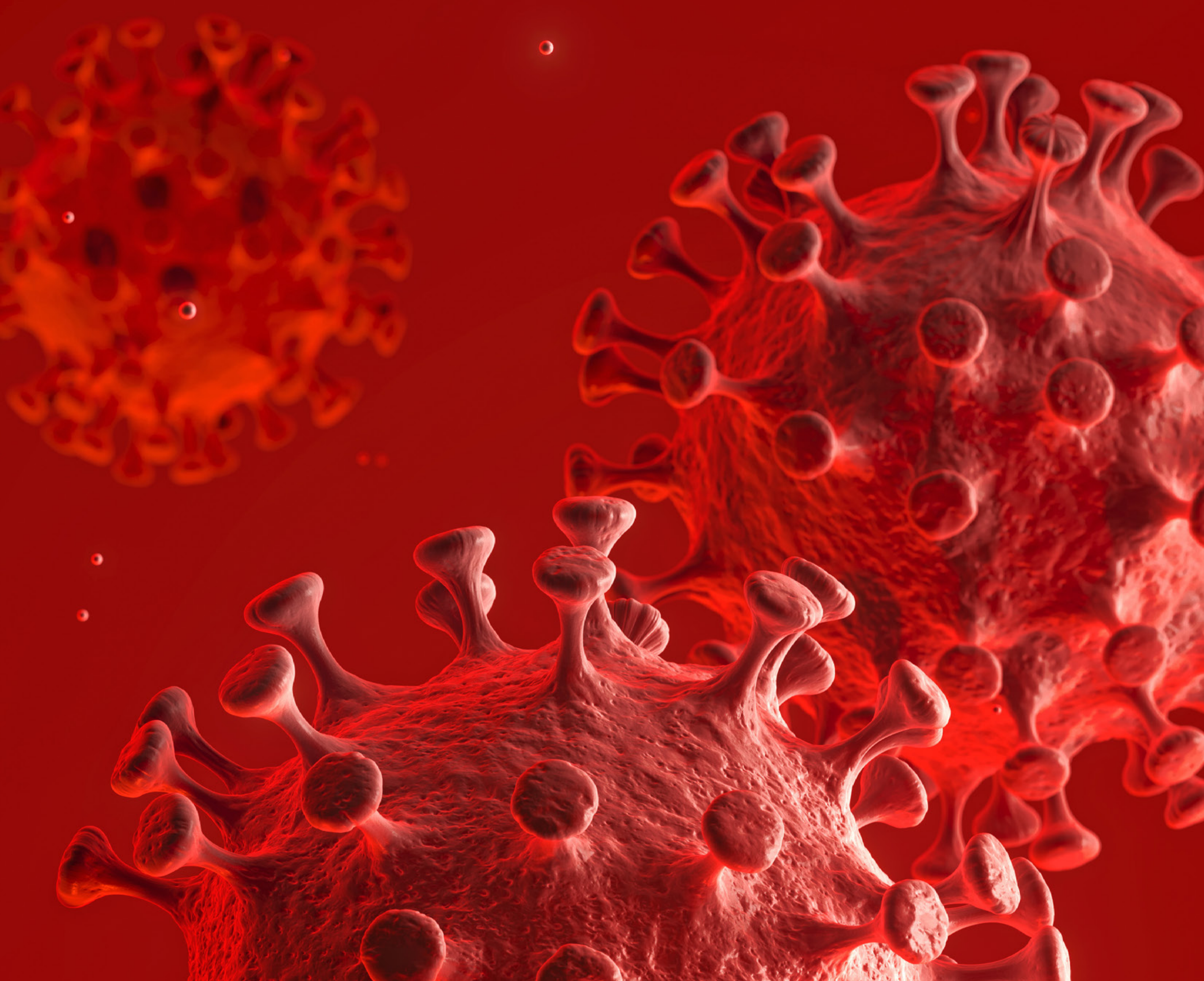
- 9.5 GL in Lake Victoria, NSW
- 40.0 GL in Hume Dam, NSW
- 236.0 GL in Dartmouth Dam, Victoria.

This is on top of 95GL held in South Australia reservoirs (approximately 50 per cent capacity). With substantive supply held upstream by SA Water now in excess of annual critical water needs, 204GL, and the effective drought minimum of 131GL, the State Government is in a position to consider Business SA's proposal noting any water sold under such a commercial arrangement would only ever be on a temporary basis and should not jeopardise the critical water needs of South Australia.

COVID-19

The COVID-19 situation is ever evolving. Media reports are updated every few minutes and it is impossible to say what the situation will be in the coming months, let alone by election time 2022. What we do know, however, is the best approach to returning to 'normal' (what should perhaps be referred to as 'living with COVID normal') is via vaccination. The rate of vaccination in Australia has been quite slow when compared to other countries - for a range of reasons. Attributing blame at this time is unhelpful, particularly when others are doing that already. Business SA simply wants to see the South Australian business community better supported to get through this once in a century pandemic.

A May 2021 report by the Imperial College London's Institute of Global Health Innovation, Global attitudes towards a COVID-19 vaccine, shows that of nearly 5000 Australians surveyed between March and May 2021, only 59 per cent 'trust' COVID-19 vaccines. Only Japan and South Korea (47 per cent) and France (56 per cent) were less trustful. This attitude was in stark contrast to the majority of other wealthy countries surveyed. Other than the US and Germany, who recorded 62 and 63 per cent respectively, all other countries (n = 9) surveyed recorded between 70 per cent (Singapore) and 87 per cent (UK).



25

The State Government must continue to work collaboratively with the South Australian business community to manage the COVID response

Business SA developed a strong relationship with SA Health from early on in the pandemic to ensure our members were kept up-to-date on key developments, and clear on how changing requirements impact their businesses. Through coordination with Business SA, SA Health has also met directly with groups of businesses to discuss common topics in an attempt to ensure workable solutions to requirements such as COVID-19 management plans and the potential for workplace vaccinations. Business SA has also ensured messaging is consistent with government advice and has hosted several webinars with SA Health as circumstances have evolved and new rules have been extended to businesses, including QR codes.

Business SA has also been represented on the State Government's Industry Response and Recovery Council, an important mechanism to provide direct feedback to the Premier on COVID related matters.

Government must continue to maximise partnerships with the South Australian business community and actively engage meaningfully on decisions that impact business. For example, many businesses have long term operational expertise and connections that can provide access to existing distribution channels and solutions to new issues faced by government. This will be of value for the balance of the vaccine rollout and needs to be kept front of mind by SA Health and the State Government more broadly.

A 2018 Deloitte Access Economics report found the average international student enrolment in South Australia contributes $36,600 in value added and 0.25 FTE jobs. With international education previously South Australia's biggest export ($2.2b in 2019), the tertiary education sector in particular is suffering. Along with that are the numerous local businesses that support this sector and the students themselves.

The Federal Government previously announced a pilot program to return international students to Australia; tipped to begin in South Australia soon by incorporating a number of students into the general cap of returning citizens allowed into the State. As evidenced by Business SA's June quarter 2021 Survey of Business Expectations, a significant majority (82.9 per cent) of the South Australian business community believes that international students and workers should be allowed into Australia if they are vaccinated. Business SA reiterates our call on the government to recommit to returning international students to South Australia.

Despite an optimum response to any outbreak, there is an imperative to address support for density restricted businesses in the future. The business community absolutely wants to continue playing its role in the road to COVID-19 recovery but there must be a fair level of recognition of how the financial burden of that pathway is distributed amongst all South Australians. This is particularly relevant for regional South Australian businesses who continue to carry a disproportionate burden for a virus that, to date, has primarily spread throughout metropolitan Adelaide.

While the State Government's recent COVID-19 Business Support Grant for the July lockdown was welcomed, as was the follow up grant for businesses including hospitality and gyms which faced ongoing restrictions, the $3,000 maximum grant was a far cry from the losses experienced by many businesses during the lockdown. Business SA's recent Lockdown Survey showed the median business below $2m in annual turnover lost $11,000 in revenue and incurred $3,500 in non-recoverable costs during July's week-long lockdown – and for businesses above the $2m threshold, those figures were $72,000 and $25,000 respectively.

Business SA reiterates our recent calls for a scalable support mechanism for businesses to fairly assist the range of business sizes across the economy. This is to help businesses endure any future lockdown or period of other severe restrictions, including 25 - 50 per cent capacity limits.

As the COVID-19 vaccine rolls out, we must continue to plan for the next stage. Mindful that the situation changes as new virus variants raise their ugly heads, businesses are crying out for some semblance of certainty.

Professor Nicola Spurrier, the State's Chief Public Health Officer, has admitted that opening up our borders to the world will inevitably lead to increase in COVID-19 cases. How government prepares for this likelihood and how they respond materially affects the business sector. Consequently, Business SA is calling for a clear path to reopening our international borders that appropriately manages the health risk, including commencement with controlled groups such as international students.

In May, the Australian Chamber of Commerce and Industry (ACCI) released its four-staged plan centering around the principle that Australia's reopening to the rest of the world be a risk-managed, staged process that is interoperable with other national systems. ACCI's plan overlayed the three dimensions of risk:

- traveller vaccination status,
- level of risk of the country the traveller is visiting/ returning from, and
- the status of Australia's vaccination program.

In July, the Federal Government released its own 4 Phase plan with changing goals from 'suppression' to 'managing the virus' to 'back to normal'. This approach is a start, but little detail has been provided about timings for such phases. Primarily contingent on the completion of vaccination, it appears we will be in a holding pattern for some time.

Based on discussions with our members and quantitative data from our Survey of Business Expectations (members and non-members) Business SA understands that uncertainty and mixed messaging continues to influence the general sentiment towards the vaccine. In response to the Modbury Cluster, Business SA played a strong part in getting messages out to the broader business community. This was made possible through a trusted relationship with SA Health and SAPOL. It is imperative that this effective working relationship continues.

26

Introduce an Events, Arts and Live Performance COVID De-Risk Fund to support business development across the sector

According to the South Australian Tourism Commission, the events sector generates more than $392m per year to the South Australian economy. While the businesses and organisations operating in this sector may not be as visible as others (e.g. hospitality and tourism), the value they bring to the Festival State cannot be underestimated. Furthermore, South Australia needs a strong events, arts and live performance sector to aid recovery from the broader economic impacts of the pandemic.

The resilience of events, arts and live performance sectors shone brightly with successful 2021 seasons for the Adelaide Festival and Fringe, Cabaret Festival and more recently Illuminate Adelaide. With ongoing social distancing and border restrictions, however, this sector will continue to face heightened restrictions and losses associated with future snap lockdowns (in South Australia or interstate). The significant business risk to run such events continues while Australia gets vaccinated.

The vaccine rollout has began much slower than originally anticipated, and planning future events or performances, remains very complex and risky, particularly when they rely on having speakers/performers come to South Australia from interstate or, indeed, overseas. The recent cancellation of the Royal Adelaide Show is a case in point. One key risk is border closures or outbreaks across the country. Should events be cancelled entirely, promoters still need to cover a range of costs including marketing, salaries, venue and equipment hire - not to mention customer refunds.

For the past 6 months, Business SA has encouraged the State Government to introduce a specific fund to insure the events, arts and live performance sectors against the increased financial challenges of generating economic activity in the current climate of ongoing COVID-19 restrictions.

Western Australia has introduced a $9m Getting the Show Back on the Road Fund providing a risk share arrangement where 50-75 per cent of box office losses up to $150,000 for eligible performing and live music venues, festival organisers and commercial event companies which suffer a negative impact due to changes in COVID-19 restrictions. Businesses are assessed on their financial responsibility, planning to mitigate risks, quality of the activity and reach into the community. Importantly, this Western Australian scheme does not seek to compensate businesses, rather 'mitigate some of the financial risks involved in the production of live performance and events due to the impacts associated with COVID-19.' Business SA understands that without the Getting the Show Back on the Road Fund neither the Fringe Festival or Perth Festival would have occurred and that due to the program's success, eligibility is now being considered to extend the Fund to tourism events and regional agricultural shows.

Tasmania also has a $2m Live Performance Support Program where arts organisations, festival organisers, cultural producers and performing arts venues can apply for guarantee on box office risk of $10,000-$100,000 to manage the cost of cancellations should another period of strict COVID-19 restrictions be re-introduced.

In response to the restrictions that began in late May 2021, the Victorian Government introduced its Sustainable Event Business Program. Providing grants of up to $250,000 to major event organisers, hosts, and suppliers who event or business was significantly affected by the restrictions. To be eligible, applicants must have most of their operations in Victoria and be of strategic significance to the state's events sector. Further, applicants must have experienced a minimum 50 per cent or more decline in annual turnover in the three months prior to 27 May 2021 - compared with the same period in 2019 – and have had an annual payroll of more than $1.5m in metropolitan Melbourne or $500,000 in regional Victoria in 2019/20.

While the recent major event support grants of up to $25,000 for South Australian event organisers are a good start, without a dedicated Events, Arts and Live Performance COVID De-Risk Fund, event organisers either risk being significantly out of pocket – or choosing not to go ahead at all. A tailored Fund that recognises large scale events are planned at least 12 months in advance and has the capacity to pay out grants rapidly is imperative. With continued outbreaks and a challenged vaccine rollout, South Australia's iconic events sector remains at significant risk. The UK has only just introduced a $1b plus government backed insurance fund for live events which indicates this need is unlikely to disappear soon, even with increasing rates of vaccination. We can hardly refer to ourselves as the Festival State without the businesses, right through the supply chain, having confidence to plan ahead and bring those events to fruition.

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