

South Australia Pre-Budget Submission

MARCH 2023



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Introduction

The South Australian Government's policy and spending prioritises over the next 12-months are critical to South Australia's success.

In the wake of the announcement of the largest single investment into South Australia's economy – the AUKUS submarine agreement - our State is on the brink of writing an exciting new chapter in its history. What we do next matters.

South Australia has emerged strongly from the most severe impacts of COVID and while business confidence remains high, this is not a time for complacency. The environment in which employers operate is volatile, uncertain and highly vulnerable to external pressures.

From fears of a looming recession to rising inflation, skills and labour shortages, major industrial relations shifts, soaring energy costs and geopolitical and technological changes that are reshaping South Australia's trade and business relationships with the world, employers are facing a delicate balancing act.

The chequered history of submarine project announcements has led to an understandable degree of cynicism among local industry and it will be incumbent on governments to alleviate concerns and provide clear timelines to maximise participation and take full advantage of this historic opportunity.

Ensuring Government programs and spending create environments that help businesses – across multiple industries - operate sustainably and competitively to provide goods and services, generate wealth and create rewarding work opportunities will not only benefit South Australian employers, but the entire community.

This paper sets out how higher living standards in SA can be achieved under five key headings:

1. Growing South Australia's population
2. Creating a skilled future workforce
3. Increasing global connectivity
4. Empowering industry and strengthening supply chains
5. Creating fair business environments

Summary of Recommendations

Growing SA's population

- Developing a population strategy

Creating a skilled future workforce

- Mapping skill needs over the short, medium and long terms
- Expanding the apprenticeship system
- Committing to long-term funding of South Australia's Defence Industry Scholarships,
- Investing in Industry Workforce Advisers (IWA)
- Increasing funding for the expanded development of new and emerging skills, in line with labour market directions
- Constructively engaging with the establishment of Jobs and Skills Australia, the Jobs and Skills Councils and the proposed National Skills Agreement
- Actively supporting key national reforms that aim to shift our training system to become fit-for-purpose for the skill demands in the future
- Implementing initiatives to achieve apprentice, trainee, Indigenous and long-term unemployed targets on major State Government infrastructure projects
- Developing a digital capability plan for South Australia.

Increasing global connectivity

- Supporting Adelaide Airport's ambitious network Vision 2050 plan
- Investing in export capability programs

Empowering industry and strengthening supply chains

- Ensuring South Australia implements a bold and visionary manufacturing strategy
- Fostering and driving initiatives to speed up the State's transition to a fuller deployment of digital processes
- Driving the general uplift of the cyber-security skills of businesses and their employees
- Developing policies and programs that support SMEs' transitions to net zero
- Ensuring that public policies to promote low emissions energy options including hydrogen distribute costs fairly and avoid compromising vulnerable energy users
- Underpinning local hydrogen demand while prioritising opportunities to decarbonise industry
- Considering targeted action to stimulate markets for local recycled products
- Working proactively with other States and the Commonwealth on a long-term road pricing approach in relation to electric vehicles
- Driving circular economy transitions via State purchasing decisions
- Ensuring that the frustration caused by red-tape measures at both state and local government levels is a focus for action
- Empowering local defence suppliers in building resilient supply chains

Creating fair business environments

- Working closely with employers on workplace relations reforms
- Holding firm to the national workplace relations system
- Ensuring that Return to Work premiums remain stable
- Improving the efficiency of service delivery as well as the rigorous assessment and careful prioritisation of recurrent spending and investment
- Easing tax burdens to accelerate recovery, including easing conveyance duties on commercial property transfers and providing payroll tax relief
- Adopting a leading role in promoting much-needed reform of federal financial relations as fundamental to greater efficiency in service delivery and more efficient and fair taxation

Growing South Australia's population

Key Government Departments / Agencies:

Department of Premier and Cabinet

Department for Infrastructure and Transport

SA Housing Authority

Department for Industry, Innovation and Science (incl skilled and business migration)

Population growth is a key issue for South Australia to achieve economies of scale, maintain and grow the tax base, achieve economic complexity and counteract the economic impacts of an ageing population.

There have been calls to grow Adelaide's population to two million people by 2030 but to achieve this, an increase of 600,000 people (based on June 2021 data¹) is needed. This is a growth rate of 4.02% which is ambitious given that between 2011 and 2021, Adelaide grew by an annual rate of 1.04% or by 138,302 people.

While Premier Peter Malinauskas has backed population growth, he has declined to set a specific target, instead backing policies to underpin growth.

Ai Group believes South Australia requires a population strategy that maps out suburbs and towns where housing and industry growth can occur, strategies for achieving sustainable increases and associated infrastructure needs.

While an industrial expansion policy is essential, it must be done in tandem with infrastructure planning so that future workforces can be accommodated in functioning, healthy communities.

Issues such as housing, for example, are major barriers to business growth. While this has long been an issue in South Australia's regional areas, it is now impacting the metropolitan area as well.

Ai Group acknowledges and applauds the State Government's recent release of metropolitan land to help tackle Adelaide's housing crisis although we note that issues around required infrastructure need to be resolved. We also acknowledge the Government's rental reforms and pilot Regional Key Worker Housing Scheme, which will deliver 30 homes in the initial phase to help attract and retain police, teachers and healthcare workers in key country areas.

However, much more needs to be done and issues such as public transport, road corridors, medical services and schools also need to be addressed to drive and accommodate sustainable population growth.

Ai Group recommends:

- Developing a sustainable population growth strategy for South Australia

¹ ABS, Regional Population, 26 July 2022

Creating a skilled workforce of the future

Key Government Departments / Agencies:

Department for Education (Skills SA)

Department for Industry, Innovation and Science

Defence SA

Skills and labour shortages remain one of the key issues impacting South Australian businesses. Ai Group's 2023 Australian CEO Survey² found that almost all businesses (90%) expect to be impacted by skills shortages this year.

In this environment, most companies are implementing both human resources strategies and operational changes while others have abandoned plans to expand and grow, negatively impacting the economy.

Developing a pipeline of future workers for South Australia's key industries is critical and we applaud the State Government's focus and investment into early childhood education as well as the establishment of the five Technical Colleges, which will help lift the profile and attractiveness of traineeships and apprenticeships.

In addition, we understand that work has begun on addressing the disconnect between the careers students are pursuing and the future workforce requirements of South Australia employers.

Ongoing and dynamic research that maps state-wide skills shortages over 3, 5 and 10 year horizons - based on robust, forward-looking data – to inform strategic planning is critical to our State's success and we look forward to seeing work on outlook forecasts unfold. This skills plan should be undertaken in collaboration with and benefit from the work of Jobs and Skills Australia and the relevant Jobs and Skills councils.

The recent AUKUS submarine agreement has created enormous opportunities for our State as well as enormous challenges, with skills development required on a massive scale.

As the project ramps up and competition for talent intensifies, there is no doubt that employees in small to medium enterprises – the bulk of South Australia's businesses – will provide fertile recruitment opportunities. Ensuring these smaller enterprises can continue to compete for talent in what is likely to become a tighter labour market is just one of the many issues that will need to be addressed.

Given this, we would like to see a commitment to long-term funding of South Australia's Defence Industry Scholarships - three quarters of which were taken up by SMEs - which have been copied by Victoria and are the template for Western Australia's \$4.05 million defence workforce program.

² <https://www.aigroup.com.au/news/reports/2023-economics/australian-ceo-survey-2023/>

Funding for South Australia's program runs out at the end of this calendar year (December 2023) and this program has already benefited 64 students and 17 companies with a further intake to occur mid year.

With a stated ambition to create a complex economy for South Australia, Government investment in a highly skilled defence industry workforce is an essential. The program also has the potential to become a key plank of the State-Federal Defence Industry Workforce Development plan, which Ai Group welcomes.

We encourage the Government to consider the broader impacts on building this capacity for other sectors of the economy.

We also believe the apprenticeship system needs to be expanded to include higher qualification levels, including degree apprenticeships, especially in paraprofessional and technology-based occupations.

Together with BAE Systems the University of South Australia and other South Australian businesses, Ai Group is developing a software engineering degree apprenticeship program which will allow high-level learning to be combined with practical studies.

A format common across Europe, this form of education is resulting in better outcomes, producing highly skilled, workforce-ready employees. However, the system needs to be expanded to accommodate this new model.

In addition, we believe investing in Industry Workforce Advisers (IWA) will help address the loss of about 20,000 manufacturing jobs in South Australia – due to market forces and international investment decisions - since the global financial crisis.

According to the Department for Industry, Innovation and Science, South Australia still has the largest manufacturing share in its economy of any other jurisdiction in Australia and has strong foundations to reindustrialise through areas of strength. Professor Roy Green from the University of Technology Sydney, states that manufacturing:

- Accounts for more than 70 per cent of world trade
- Drives innovation and productivity, contributing the largest share of R&D
- Creates high skill, high wage jobs

Yet the manufacturing industry has a poor perception amongst school students, career advisers, parents and teachers whose views are outdated and do not reflect the modern technologies and equipment used in advanced manufacturing and industry 4.0.

Ai Group's Apprentice and Trainee Centre has forwarded a proposal to the Education, Training and Skills Minister to tackle this critical issue and help strengthen manufacturing in South Australia.

Ai Group recommends:

- Mapping skill needs over short, medium and long term
- Expanding the apprenticeship system to include higher qualification levels

- Committing to long-term funding of South Australia's Defence Industry Scholarships
- Investing in Industry Workforce Advisers (IWA)
- Increasing funding for the expanded development of new and emerging skills, in line with labour market directions
- Working constructively with Jobs and Skills Australia and the Jobs and Skills Councils to both avoid duplication but also benefit from a joined-up system while constructively working towards finalisation of a new National Skills Agreement that genuinely delivers both reform and growth
- Actively supporting key national reforms that aim to shift our training system to become fit-for-purpose for the skill demands in the future. This will involve supporting full implementation of the recommendations of the Noonan Review of the Australian Qualifications Framework and the current work on VET Qualification Design.
- Implementing initiatives to provide a pipeline of workers and support apprentice retention rates to achieve apprentice, trainee, Indigenous and long-term unemployed targets, as well as local worker targets, on major State Government infrastructure projects
- Developing a digital capability plan for South Australia

Increasing global connectivity

Key Government Departments / Agencies:

*Department for Trade and Investment
South Australian Tourism Commission
Department for Infrastructure and Transport*

During COVID, South Australia's air access to the world collapsed and while many international flights have resumed, others such as those operated by Emirates and Cathay Pacific have not.

This lack of access – both direct and indirect - is a roadblock to trade, driving up prices and resulting in delays. To fly to North America, a trip to another Australian capital is usually required.

Ai Group supports Adelaide Airport's ambitious Network Vision 2050 plan to achieve direct flights to 37 world major cities and encourages the State Government to support this plan, particularly through work undertaken by the Department of Investment and Trade as well as the South Australian Tourism Commission.

Likewise, port access is also critical and in December 2022, the Productivity Commission found that inefficiencies at Australia's major container ports were directly costing the Australian economy about \$600 million a year.

While air and sea access are critical to trade success, so too is educating local businesses around export opportunities.

From April 2021 to July 2022, Ai Group ran the highly successful SA Export Fundamentals program on behalf of the Department for Trade and Investment.

During this time, Ai Group delivered 39 training workshops and more than 190 one-on-one coaching sessions (both online and face-to-face) and engaged with more than 400 businesses including those new to exports, emerging exporters and those who are already exporting.

Despite the enormous success of the program and obvious demand among businesses, the program has not yet been renewed; a short-sighted position which frustrates the ambitions of new and emerging South Australian exporters. With many wine and seafood exporters suffering from the Chinese import bans, they need practical support and advice to secure new markets.

Ai Group recommends:

- Supporting Adelaide Airport's ambitious network Vision 2050 plan
- Investing in export capability programs

Empowering Industry and Strengthening Supply Chains

Key Government Departments / Agencies:

Department for Industry, Innovation and Science

Department of the Premier and Cabinet

Defence SA

Green Industries SA

Department for Mining and Energy

Cyber security

Cyber security concerns remain a key issue for businesses, fuelled by publicity over high-profile data breaches involving well-known brands such as Optus and Medibank.

Driving the general uplift of business cyber security skills should be a priority, helping avoid major economic losses while protecting the reputation of businesses and our State.

Advanced manufacturing

Another industry development priority should also be the advanced and traditional manufacturing sectors which have an essential role to play when it comes to achieving economic complexity. Since 1990:

- Manufacturing employment in South Australia has declined from the low 100,000s to only 64,000 today, and fallen from 17.6% to 7.0% of the state workforce.
- Manufacturing value-add has risen modestly (from \$6.0 to \$7.5 billion), but its share of state value-add has declined from 20.4% to 6.3%.
- Private capital expenditure (capex) in manufacturing has remained stable – oscillating between \$150-\$300 million p.a. – but its share of state capex has declined from around a third to 10%.

The Department for Industry, Innovation and Science is developing a manufacturing strategy which will need to be bold and visionary, addressing opportunities and Australia's sovereign capability needs.

Energy

Energy is another key issue and while it impacts every employer, it also strikes narrow and deep causing immense pain to high-energy use businesses, many of which are unable to pass costs on.

The potential of a hydrogen export industry remains tantalising, though complicated by overseas policies including the US Inflation Reduction Act. Fostering local demand is important alongside export promotion, but while producers need revenue certainty, any costs need to be fairly distributed.

While natural gas will remain important for many years, transitioning gas use to hydrogen, biogas, other low emissions options and electrification as appropriate for different users is increasingly important due to global price volatility, challenges keeping the Eastern market in balance later this decade, and the intensification of emissions targets well beyond what the electricity sector can deliver alone.

SA's progress on its electricity sector transition is encouraging, but managing an increasingly renewable grid is complex and demands continued reform. SA's position in an interconnected National Electricity Market provides great benefits in shared resources and the ability to realise greater value from local generation, while also complicating the ability of businesses and others to account for their emissions and renewables goals.

Smart charging and well-timed use of major appliances are important, and require continued work with appliance suppliers, energy networks and energy users. Export tariffs for solar users are important to ensure that the costs of the electricity network are borne by all users who derive value from that network.

Ai Group welcomes the State Government's investment in Business Model Innovation for the Green Economy workshops run by international innovator and strategist, Professor Goran Roos. As well as putting a focus on opportunities presented by the green economy, this will also help lift supply chain capability to ensure businesses deliver on global emissions standards and regulations.

Defence

Like many sectors, the Australian defence industry has faced supply chain pressures in recent years; given the mission-critical nature of our defence platforms, and an increasingly challenging geopolitical environment, national security depends on strong defence supply chain resilience.

As strategic risks to supply chains increase, stronger governance structures are required. These should set core concepts and definitions for supply chain security, provide risk assessment frameworks, and identify options for interventions to address identified vulnerabilities.

With the transport barriers outlined above, South Australian firms are disproportionately impacted by supply chain challenges which may jeopardise their ability to fully engage with the significant opportunities presented by Australia's big defence procurement strategy. We encourage the Government to focus on improving the ability of local firms to build resilient supply chains.

Ai Group recommends:

- Ensuring South Australia's implements a bold and visionary manufacturing strategy
- Fostering and driving initiatives to speed up the State's transition to a fuller deployment of digital processes
- Driving the general uplift of the cyber-security skills of businesses and their employees
- Developing policies and programs that support SME's transition to net zero, including in relation to industrial and commercial heat requirements
- Ensuring that public policies to promote low emissions energy options including hydrogen distribute costs fairly and avoid compromising vulnerable energy users

- Underpinning local hydrogen demand while prioritising opportunities to decarbonise industry
- Considering targeted action to stimulate markets for local recycled products, including identifying cost gaps between recycled and raw materials and the barriers to use this creates
- Working proactively with other States and the Commonwealth on a long-term road pricing approach in relation to electric vehicles
- Driving circular economy transition via State purchasing decisions
- Ensuring that the frustration caused by red-tape measures at both state and local government levels is a focus for action
- Empowering local defence suppliers in building resilient supply chains

Creating fair business environments

Key Government Departments / Agencies:

Attorney General's Department

Department of Treasury and Finance

A national workplace relations system governed by the Fair Work Act helps ensure employers and employees have clear entitlements and rules to follow, removing complexity, particularly for organisations with cross border operations.

Yet in recent years, the national system has been eroded as some state governments reassert a state role in regulating matters related to the employment conditions of private sector employees.

The South Australian Government has a lengthy workplace relations reform agenda which includes the broadening of the portable long-service program and labour hire licensing scheme as well as so called "wage theft" and industrial manslaughter legislation.

It is essential that the State Government avoids duplication and continues to work closely with industry to avoid unintended consequences.

We also urge the Government to hold firm to the national system and encourage other states to do so in the interests of a single national system.

While Ai Group recognises the damage to the state's fiscal position from the COVID-19 pandemic, we also caution against raising tax rates or broadening tax bases in the present environment of continued uncertainty and fragility.

Ai Group encourages the SA Government to take a leadership position in opening up consideration of options for improving Australia's taxation and intergovernmental financial arrangements.

Ai Group recommends:

- Working closely with employers on workplace relations reforms
- Holding firm to the national workplace relations system
- Ensuring that Return to Work premiums remain stable, particularly in light of the Summerfield decision that will result in South Australia having some of the highest premiums in the country unless legislative changes are made
- Improving the efficiency of service delivery as well as the rigorous assessment and careful prioritisation of recurrent spending and investment

- Easing tax burdens to accelerate recovery, including easing conveyance duties on commercial property transfers and providing payroll tax relief
- Adopting a leading role in promoting much-needed reform of federal financial relations as fundamental to greater efficiency in service delivery and more efficient and fair taxation

About Ai Group

Australian Industry Group (**Ai Group**) is a peak industry association that has been representing business for 150 years. Along with our affiliates, we represent the interests of thousands of businesses across the nation, with nearly 600 of them operating in South Australia, employing almost 100,000 South Australians.

Our membership includes businesses of all sizes, from large international companies operating in Australia and iconic Australian brands to family-run SMEs. Our members operate across a wide cross-section of the Australian economy and are linked to the broader economy through national and international supply chains.

A for-purpose organisation, Ai Group is committed to creating a better Australia by empowering industry and employer success.

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