

South Australia Pre-election Statement

DECEMBER 2021



Executive summary

At no other time in recent memory will an incoming South Australian Government have a more challenging and important role to play in promoting and stimulating economic activity.

While business and industry have shown enormous resilience to meet the challenges during COVID-19 and stand prepared and determined to drive rebuilding efforts, they require the support of a State Government committed to creating an environment for strong economic growth.

The next South Australian Government needs to be business friendly; working to support organisations as we learn to live with COVID-19 while realising the opportunities of the underlying transformational forces of globalisation, digitalisation and advanced technologies and environmental protection.

This paper provides recommendations as a framework for economic success under four key focus areas:

- Industry development
- Skill shortages
- Budget policy and taxation
- Energy and climate

While not exhaustive, these recommendations address some of the most pressing issues facing local businesses today and provide a pathway of support for an industry-led recovery.

Contents

Executive summary	2
Recommendation summary	4
Industry development	4
Addressing skills shortages	4
Budget policy and taxation	5
Energy and climate.....	5
Four focus areas	6
Industry development	6
Skill shortages	8
Budget policy and taxation	10
Energy and climate.....	12
About Australian Industry Group	14

Recommendation summary

Industry development

- Appoint a senior Minister for Industry
- Develop a bold vision and strategy for manufacturing to address future opportunities and address Australia's sovereign capability needs
- Foster and drive initiatives to speed up the State's transition to industry 4.0
- Drive the general uplift of the cyber-security skills of businesses and their employees
- Maintain and strengthen the emphasis on local capacity, capability, skills and supply chains
- Continue to support the Industry Advocate and the work he does

Addressing skills shortages

- Place a greater focus on expert careers counselling in middle and senior schools with a key focus on trades and including an up-to-date source of careers options
- In conjunction with industry, evolve VET and education offerings to deliver innovative, short, focussed training programs aligned with specific job opportunities
- Provide free, high-quality careers counselling to adults
- Implement initiatives to support apprentice retention rates
- Continue to support the Higher Apprenticeship Program
- Develop a digital skills workforce plan for South Australia
- Work closely with the Federal Government to ensure Australia's visa settings meet the need of South Australian industry
- Ensure migration skills lists are current and future focussed, developed in conjunction with industry

Budget policy and taxation

- Strive for improvements in the efficiency of service delivery as well as rigorous assessment and careful prioritisation of recurrent spending and investment
- Ease tax burdens to accelerate recovery, including easing conveyance duties on commercial property transfers and providing payroll relief
- Implement legislative changes to prevent soaring Return to Work premiums
- Adopt 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

Energy and climate

- Work with stakeholders including the other states and the Commonwealth to agree a NEM-wide approach to resource adequacy that is efficient, protects consumers from unnecessary costs, and helps keep the NEM on the path to its role in net zero
- Consult closely with industry and the community over further moves in distributed energy resource controllability to support the growth of national consistency, even where new approaches are applied first in SA
- Ensure that public policies to promote hydrogen distribute costs fairly and avoid compromising vulnerable energy users
- Prioritise opportunities to use hydrogen to decarbonise industry
- Work proactively with other States and the Commonwealth on a long-term road pricing approach

Four focus areas

Industry development

As South Australian industry continues to evolve, both through the emergence of new industries and transformation of traditional industries, the State has an opportunity to position itself as a dynamic and innovative producer of goods and services.

Opportunities such as high-tech manufacturing have the potential to be leading contributors, capitalising on the recent spotlight on sovereign capability as well as the weaknesses in Australia's supply chains and manufacturing capacity as revealed by the COVID-19 crisis.

South Australia's rich industrial legacy means it is well placed to address these gaps and take a lead role in the development of new and established industries such as high-tech, defence, space, mining and renewables.

We call on the incoming government to publicly commit to the importance of industry development and take concrete steps to build a diverse industrial future for South Australia. This should start with the appointment of a senior Minister for Industry who is a part of Cabinet, reflecting the importance of the portfolio.

This new Minister should be tasked with creating a bold vision and strategy for industry in South Australia to take advantage of opportunities revealed by COVID and fostering industry activity and collaboration.

While precincts such as the Tonsley Innovation Precinct and Lot Fourteen are increasingly being recognised globally for their curated collaboration between educators, researchers, the private sector and government, the incoming Government needs to adopt a state-wide precinct approach to create similar opportunities at scale for businesses across South Australia.

In addition, while the focus on start-ups is important, perhaps even more essential is the focus on established businesses and their ability to understand and adopt new approaches – including those available by the adoption of digital technologies and processes. Improving industrial capacity and capability and providing tools for industry to improve their business models will result in advances that will speed up the State's industrial transition.

A key part of the development of digital capabilities relates to the need to uplift the cyber security skills of businesses and their employees.

In addition, the next South Australian Government needs to leverage its financial position by inviting greater private sector involvement in the provision of traditional government services and programs.

While Ai Group does not advocate favouritism for local suppliers, South Australia businesses should be given equal access to tender and fair and equitable consideration to ensure capacity and capability continues to grow in local supply chains.

Initiatives such as taking a whole-of-life approach to costs rather than the lowest cost, which ensures factors such as maintenance and through-life support are regarded, generally advantage

local suppliers. Other ideas such as reducing product liability and professional indemnity where appropriate and monitoring and publishing Government purchasing accessed locally are also helpful.

The Industry Advocate is critical to helping drive reforms and the incoming Government should continue to support this office and the work he does.

- Appoint a senior Minister for Industry
- Develop a bold vision and strategy for industry development to address future opportunities and address Australia's sovereign capability needs
- Foster and drive initiatives to speed up the State's take up of digital technologies and processes
- Drive the general uplift of the cyber-security skills of businesses and their employees
- Ensure South Australia's business environment is attractive and competitive
- Maintain and strengthen the emphasis on local capacity, capability, skills and supply chains
- Continue to support the Industry Advocate and the work he does

Skill shortages

Skill shortages are a key barrier to day-to-day operations and business growth. The combination of closed borders, a rapid jobs recovery and a lack of job applicants with the required skills has meant that more than a quarter of Australian businesses are having difficulty finding suitable staff, according to the ABS.

South Australia reflects what is happening across the country and Ai Group's most recent Skills Needs Survey revealed shortages across the full skills spectrum, from community and personal service workers through to technicians, trade workers, professionals and specialists.

Locally, there is a disconnect between young people and their understanding of job opportunities across the State while numerous businesses, including Ai Group's own Apprentice Training Centre, are finding it increasingly difficult to source candidates for roles.

Careers counselling by industry-focused qualified experts who understand the workplace landscape including the benefits of a trade are urgently required across the middle and senior school education system. Students also need an up-to-date source of careers options as identified by the South Australian Commissioner for Children and Young People in her [Off to Work](#) study.

Education, training and skills development will be a crucial driver for South Australia's economic recovery as businesses seek to build new skills as they re-align their businesses or pivot into new industry areas. Others will need employees to learn new tasks or undertake completely new roles.

As South Australia moves out of the current environment, innovative, short, focussed training programs that are aligned with specific job opportunities are essential. The incoming Government needs to evolve its historic VET delivery to new and re-shaped programs and delivery models identified through consultation with industry.

Ensuring more people enter the workforce is critical and initiatives such as [Careers NSW](#) provide free access to high quality, personalised career advice and services. Such a model could be considered for South Australia.

In addition, programs are needed to support apprentice retention rates.

Ai Group has been instrumental in establishing and supporting the Higher Apprenticeship Program in advanced technologies and we ask the incoming Government to continue its commitment to the program which is highly valued by businesses, assisting industry to obtain the skills needed to operate in today's world.

The current and future South Australian workforce must be better equipped for the digitally transforming economy. Improvement is needed at all levels – digital literacy, digital fluency and digital mastery – so that basic digital skill levels are assured, and numbers of digital professionals are sufficient.

Current projections show large shortages of tech-based professionals.¹ The recent announcement of a Digital Technologies Academy, as part of the Adelaide City Deal, is a welcome and important initiative while a digital skills workforce plan for South Australia will allow mapping and alignment of education and training.

Before COVID began, the migration system was struggling to meet South Australia's industry needs and with skilled migration effectively on hold for 18 months, skills shortages have been exacerbated.

While the migration system is largely driven by the Federal Government, recent innovations such as the Designated Area Migration Agreements (DAMAs) and the New Entrepreneur Visa demonstrate the influence the incoming South Australian Government can have over visa policy settings.

Developing specific visas in conjunction with the Federal Government to address short and medium-term skills shortages and streamlining existing visa opportunities and reducing costs to ensure greater take up and bolster industry capability is paramount.

In addition, ensuring that the skills shortage list is dynamic and forward looking and developed in tandem with industry rather than reliant on historical data is also key.

- Place a greater focus on expert careers counselling in middle and senior schools with a key focus on trades and including an up-to-date source of careers options
- In conjunction with industry, evolve VET and education offerings to deliver innovative, short, focussed training programs aligned with specific job opportunities
- Provide free, high-quality careers counselling to adults
- Implement initiatives to support apprentice retention rates
- Continue to support the Higher Apprenticeship Program
- Develop a digital skills workforce plan for South Australia
- Work closely with the Federal Government to ensure Australia's visa settings meet the need of South Australian industry
- Ensure migration skills lists are current and future focussed, developed in conjunction with industry

¹ For example Roadmap to Deliver One Million Tech Jobs, Technology Council of Australia, October 2021

Budget policy and taxation

Ai Group supports a principled approach to fiscal policy. Public sector spending should be constrained by what is affordable and sustainable; governments should run operating surpluses over the course of the economic cycle; public sector debt should be kept at levels that can be serviced with comfort; and prudent fiscal buffers should be maintained to help fund a rapid fiscal response in the event of a crisis such as we have experienced over the past couple of years.

While there may be room for some refinement, South Australia's current fiscal targets are broadly in line with these principles:

- Achieve a net operating surplus in the general government sector every year
- Limit general Government operating expenditure growth to trend growth in household income
- Achieve a level of net debt that is sustainable over the forward estimates

In addition to the broad fiscal principles, governments should strive for improvements in the efficiency of service delivery as well as rigorous assessment and careful prioritisation of recurrent spending and investment. Further, Governments should strive to improve the efficiency of taxation.

These objectives should be pursued with vigour by South Australia's incoming government.

South Australia's economy is still recovering from the disruptions related to the COVID-19 pandemic and related restrictions on activity, and businesses are confronted with considerable uncertainty over the future course of the pandemic.

Against this background, and as a minimum, Ai Group cautions against any measures that would increase tax burdens until the economy recovers more convincingly.

Moreover, Ai Group believes there is scope for tax burdens to be eased to accelerate recovery by encouraging business investment and job creation, including easing conveyance duties on commercial property transfers to improve business investment decisions and providing payroll tax relief to encourage more rapid job creation.

In addition, current challenges with the Return to Work scheme need to be addressed to ensure South Australia's business environment remains attractive and competitive. While changes over the past decade to the scheme have aided this, this will be undone by a recent High Court decision unless the law is changed.

The *Summerfield* decision will impact many hundreds of claims, a number of which are before the South Australian Employment Tribunal, inevitably resulting in soaring premiums.

This will also be a flow on impact in respect of employment opportunities arising from the greater cost of doing business within South Australia.

We understand that the decision does not reflect the intent of the legislation and call for the incoming government to make the legislative changes required to address this financial impost.

More broadly, the current approach to the national division of taxation and intergovernmental financial relations in Australia leaves the states with very limited room to move to improve the

efficiency of their own taxes. At times, the approach to intergovernmental financial arrangements can inhibit sensible reform initiatives by the States and Territories.

Moreover, the current mismatch between responsibilities for service delivery and the revenue raising powers of the different levels of government in Australia is a major barrier to transparency and accountability of government across the Federation.

Consistent with what Ai Group is advocating at the Federal level and with other States and Territories, we urge the South Australia's next Government to adopt 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.

- Strive for improvements in the efficiency of service delivery as well as rigorous assessment and careful prioritisation of recurrent spending and investment
- Ease tax burdens to accelerate recovery, including easing conveyance duties on commercial property transfers and providing payroll relief
- Implement legislative changes to prevent soaring Return to Work premiums
- Adopt 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

Energy and climate

South Australia is a leader within Australia – and the world – on the successful integration of renewable energy and the pursuit of economic opportunity on the road to net zero emissions.

Continuing the State's strong climate record and accelerating the growth of our industries should go hand in hand for the incoming Government. There are several issues worth highlighting.

Nationwide perspectives: SA has a strong role to play, but there is also great benefit in bringing other States and the Commonwealth along to achieve consistent national strategies and harmonised rules. There has been a worrying trend towards fragmentation in the National Electricity Market (NEM), as each jurisdiction pursues its own policies to integrate renewables and manage generator retirements. In part this reflects a loss of confidence that the existing market design and associated policy settings are capable of bringing on the necessary investment in time.

Recently the Energy Security Board was tasked by Energy Ministers with developing options for a capacity mechanism. SA should work with stakeholders, the other states and the Commonwealth to agree a NEM-wide approach to resource adequacy that is efficient, protects consumers from unnecessary costs, and helps keep the NEM on the path to its role in net zero.

Managing the grid: SA is at the leading edge of the energy transition and will need to pioneer new ways of managing the variability of renewable supply and evolving demand. The State and the Australian Energy Market Operator have been pursuing greater capacity for remote control, when necessary and agreed, of distributed generation and energy-intensive appliances.

These efforts have the potential to reduce costs and increase system reliability for all users. But depending on how they are implemented and used, they also have the potential to anger energy users and impose costs on equipment suppliers. There is particular risk in approaches that remain unique to SA, rather than being derived from (or spread to) national or international approaches.

We therefore encourage the next Government to continue close consultation with industry and the community over further moves in distributed energy resource controllability, to support the growth of national consistency even where new approaches are applied first in SA, and to pay close attention to practicality and cost-benefit in prioritising the resources and appliances to focus on.

Hydrogen development: Clean hydrogen represents large opportunities for SA, both as a new industry and as a tool for decarbonising many other parts of our economy. Emerging developments are exciting.

The State's approach will have to combine ambition with realism. Clean hydrogen is currently an expensive fuel in most contexts – and while in others, like transport, it may be cheaper than existing fuels, usage requires new or substantially upgraded equipment. In some contexts, like steelmaking, hydrogen is very likely to be important in the medium term. In others its prospects are much more uncertain; hydrogen-fuelled peaking generators may be very useful, especially as backup, while baseload generation from hydrogen is unlikely to be cost-competitive.

The only way hydrogen will become cheaper is with continuing deployment. There will necessarily be expenses along the way. It is critical that public policies to promote hydrogen distribute any

costs fairly, and avoid compromising vulnerable energy users, including energy intense trade-exposed industries and vulnerable households.

Early uses of hydrogen may not be long-term uses, and vice versa. It is unclear whether clean gases or electrification will be the best long-term solution to home heating and cooking needs. However, the blending of up to 10% hydrogen into gas distribution networks requires little specific investment other than the hydrogen production, and does not prejudge any future decision on either ramping to 100% hydrogen or electrifying.

Opportunities to use hydrogen to decarbonise industry should be a high priority. The State should work with industry, ARENA and CEFC to identify and pursue projects that can grow local industrial demand and secure a decarbonised future for local industry.

Electric vehicles: The early adoption of distance-based road user charges for electric vehicles in SA and other States has been controversial. The long-term case for these taxes is strong, given the expected decline in the existing road tax base and the continuing need for revenue for transport infrastructure. However, in our view the very early stage of the transition to electric vehicles, and the desirability of that transition, make it preferable that these taxes were delayed. That said, the incentives that accompanied SA's EV tax are positive and useful.

Distance-based road use charging has the potential to be an important long-term reform, though the new charge is unlikely to resemble an efficient and dynamic road use pricing system. SA should work proactively with other States and the Commonwealth on the complex design, IT, infrastructure and equity issues involved in a long-term road pricing approach.

The likely take-off of electric vehicles in the next term of Government could either reduce or increase electricity system costs depending on how it is managed. The Government will need to work with AEMO, vehicle and charger suppliers, the electricity sector and many other stakeholders to encourage the best use of the network and the opportunities for grid management that EVs offer.

- Work with stakeholders to agree a NEM-wide approach that protects consumers from unnecessary costs, and helps keep the NEM on the path to its role in net zero
- Consult closely with industry and the community over further moves in distributed energy resource controllability to support the growth of national consistency, even where new approaches are applied first in SA
- Ensure that public policies to promote hydrogen distribute costs fairly and avoid compromising vulnerable energy users
- Prioritise opportunities to use hydrogen to decarbonise industry
- Work proactively with other States and the Commonwealth on a long-term road pricing approach

About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging South Australian industry sectors. We have been acting on behalf of businesses across Australia and South Australia for nearly 150 years.

Ai Group is genuinely representative of South Australian and Australian industry with more than 60,000 businesses nationally employing more than one million staff.

Our members are small and large businesses in sectors including manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries.

Our vision is for thriving industries and a prosperous community. We offer strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

Ai Group – South Australian Leadership Team

Executive

Head – South Australia Jodie van Deventer

Advisory Council

President	Anthony Kittel, Managing Director, REDARC Electronics
Deputy President	Mark Nykiel, Director, Philmac
Vice President	David Heaslip, Managing Director, Century Products
Vice President	Adrian Fahey, CEO, SAGE Automation
Secretary	David McNeill, CEO, Tekelek
Councillor	Brett Lawrence, General Manager, Inترecast & Forge
Councillor	Stephen Richter, Managing Director, SJ Cheesman
Councillor	Jon Seeley, Group Managing Director, Seeley International
Councillor	Chris Stathy OAM, Director, Key Tubing and Electrical
Councillor	Alister Haigh, CEO, Haighs Manufacturing
Councillor	Chris Hartwig, Managing Director, Korvest
Councillor	Christine Katic, Head of Packaged and Special Gases, BOC
Councillor	Sue Chase, Director, Mayfield Industries

Further information

Jodie van Deventer | Head South Australia

0427 408 588 | jodie.vandeventer@aigroup.com.au

