



Government measures for business and industry

The South Australian Budget for 2016-17 was handed down by the SA Treasurer, Tom Koutsantonis on Thursday 7th July 2016. The Budget delivers an operating surplus in 2015-16 of \$254 million with surpluses expected to continue over the forward estimates to 2019-20.

On the revenue side, the Government is changing business costs for:

- The small business payroll tax rebate will be extended for four years to 2019-20 providing a payroll tax saving for employers with taxable payrolls up to \$1.2 million. Further details on the application of the Small Business Payroll Tax Rebate are available at: <https://www.revenuesa.sa.gov.au/taxes-and-duties/payroll-tax/rebates>;
- Job creation “accelerator” grants for every new employee hired and maintained for two years by businesses with a total national payroll of \$5 million or less. For each additional position created between 1 July 2016 and 30 June 2018, the maximum grant will be \$10,000 over two years for businesses subject to payroll tax with a total national payroll of \$5 million or less, and \$4,000 over two years for small businesses and start-ups not liable for payroll tax. The grants come on top of tax reforms in the previous year’s Budget (which eliminated a suite of transactional business charges and began the phase out of commercial stamp duty) and amid significant job losses in manufacturing and high state unemployment (see charts 1 and 2);
- An increase in the metropolitan solid waste levy from \$62 to \$76 per tonne on 1 September 2016, \$87 in 2017-18, \$100 in 2018-19 and \$103 in 2019-20. A 50 per cent reduction in the current solid waste levy will apply to asbestos disposal from 2016-17; and
- Extension of the off-the-plan apartment stamp duty concession for a further 12 months to 30 June 2017 in support of the building and construction industry. The concession offers a reduction in stamp duty of up to \$15,500 for these apartment purchases.

Changes to SA Government programs that affect business and industry include:

- \$50 million in funding to support a new owner in the operations of the Whyalla steelworks;

Table 1: “The top 5 sectors in South Australia by output”

| <i>South Australia has a diverse mix of industries with output shares led by:</i> | <i>% of GSP*</i> |
|---|------------------|
| 1 Health services | 8.8 |
| 2 Manufacturing | 7.3 |
| 3 Finance | 7.3 |
| 4 Construction | 6.1 |
| 5 Public administration | 6.1 |

Source: ABS; * Gross State Product

Table 2: South Australian Government industry programs: new funding

| <i>Confirmed or additional funding: Key programs</i> | <i>\$mn,</i> |
|--|--------------|
| Jobs Creation Grants Scheme: over 3 years | +109.0 |
| Supporting Owner of Whyalla Steelworks | +50.0 |
| SA Venture Capital Fund | +50.0 |
| Tourism, Marketing & Major Events Fund over 2 years | +35.0 |
| Industry Attraction Fund: over 3 years | +26.0 |
| Supporting the Northern Suburbs | +24.2 |
| Economic Investment Fund over 2 years | +20.0 |
| Early Commercialisation Fund | +10.0 |
| Interest Free Loans For Small Business (Arrium- related) | +9.6 |
| University of SA’s Future Industries Institute | +7.5 |
| Gig-City Project | +4.7 |
| South Australia Made Campaign | +2.0 |
| Industry Participation Advocate | +1.4 |

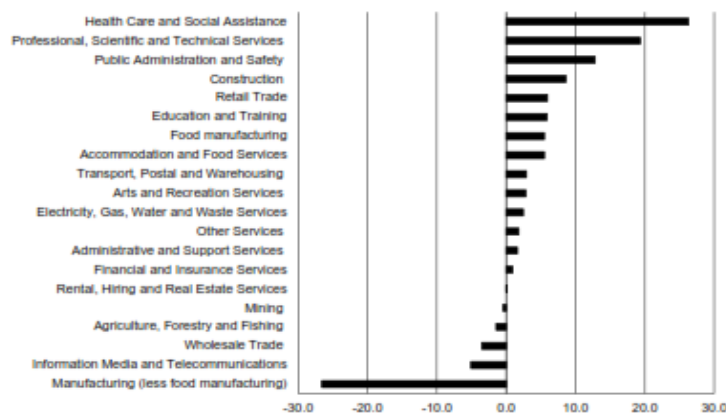
Source: 2016-17 Government Budget

- \$35 million in additional funding to encourage visitors to South Australia and attract major events;
- \$26 million over three years for industry attraction including \$20 million for the continuation of the Economic Investment Fund to secure new investment in South Australia;
- \$24.2 million in a range of initiatives to support job creation, innovation, business and industry growth and community programs in Northern Adelaide;
- \$20 million over two years for the extension of the Economic Investment Fund to support the attraction of business and industry in the state, and generate job creation;
- \$10 million for the South Australian Early Commercialisation Fund to assist start-ups at the pre-seed and seed stage of development so that they are better positioned to attract long-term investment;
- \$9.6 million in support of an interest-free loan scheme to assist small businesses experiencing cash-flow challenges as a result of Arrium entering administration;
- \$7.5 million for the University of South Australia's Future Industries Institute to encourage innovation, collaboration and new industry;
- \$4.7 million towards the GigCity project to connect existing innovation spaces within the CBD to ultra-high speed broadband, building an environment for start-ups and existing businesses to compete on a global scale;
- \$2 million to the SA Made Campaign to undertake awareness campaign to support consumers to identify and choose products which support South Australian jobs; and
- \$1.4 million to finance additional resources for the Office of Industry Advocate to assist local businesses in building tendering skills to create more jobs and support the use of local content in projects.

South Australian Government Infrastructure Program

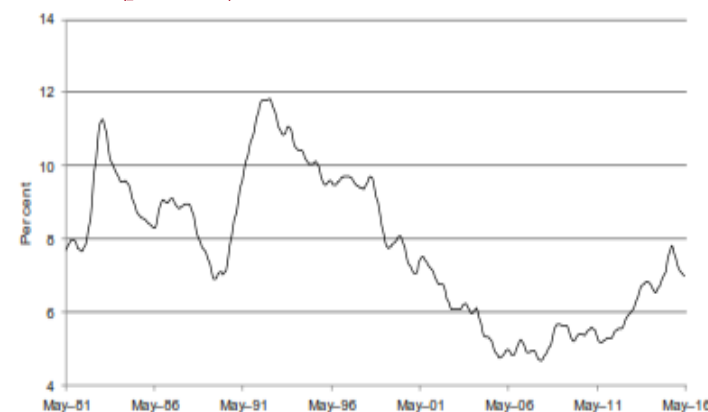
The infrastructure spend in the general government sector is expected to be \$1.8 billion in 2016-17, up from the 2015-16 estimated spend of \$1.2 billion. The Government will maintain an infrastructure investment program of around \$1.5 billion per annum in the general government sector over the three years to 2019-20.

Chart 1: South Australian Employment by Industry – Year to May 2016 compared to year to May 2006 ('000 persons)



Source: 2016-17 Government Budget

Chart 2: South Australian Unemployment Rate – trend estimates (per cent)



Source: 2016-17 Government Budget

Infrastructure spending initiatives over the next four years includes:

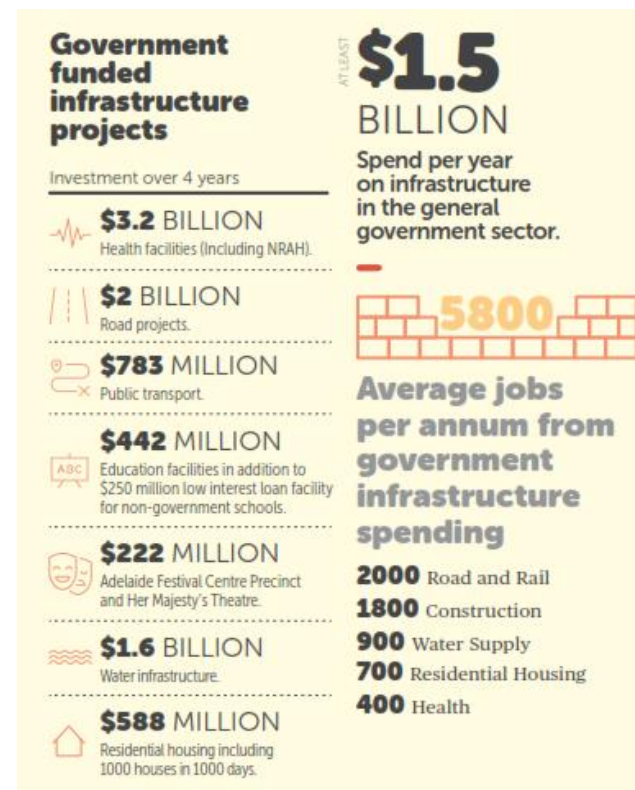
- \$3.2 billion in health facilities, including the new Royal Adelaide Hospital;
- \$2.0 billion in partnership with the Commonwealth on North-South Corridor road projects including the Northern Connector, South Road Upgrade from Torrens Road to the River Torrens, South Road Superway, Darlington Upgrade, the Goodwood and Torrens Rail Junction upgrade, the 0-Bahn extension to the city;
- \$1.6 billion on water infrastructure;
- \$783 million on public transport including extending the tram network along North Terrace to the existing Royal Adelaide Hospital site and new rail cars and buses;
- \$588 million on residential housing;
- \$442 million in educational facilities, including \$250 million for building and upgrading science and technology labs at 139 public schools;
- \$35.2 million to redevelop Her Majesty's Theatre and improve the Adelaide Festival Centre precinct;
- \$32.1 million for upgrading Mobilong, Mt Gambier and Pt Augusta prisons and;
- \$10 million for upgrades to facilities at SA sporting clubs and;

Support for Defence Industry

South Australia's reputation as a hub for naval shipbuilding continues to grow with the Federal Government's recent commitments to local manufacturing. Following completion of the air warfare destroyers, work will commence on the first of the offshore patrol vessels in South Australia from 2018 with the Future Frigates program to commence in 2020. The Federal Government has also announced the construction of 12 submarines to be built at Techport Australia, commencing in 2022.

Key Budget initiatives:

- \$6 million for the Defence industry attraction fund to secure new defence investment jobs in South Australia and ensure the future submarine supply chain is based in SA;
- \$5 million for the extension of the wharf at the Techport Common User Facility;



Source: 2016-17 Government Budget

- \$4 million to build partnerships, and stronger cultural and economic relationships with France to enhance the benefits from the submarine contracts;
- \$2.3 million to deliver programs and services that maintain and develop the state's defence industry;
- \$1 million for a masterplan design of Techport infrastructure at Osborne to prepare for future projects; and
- \$420,000 for state representation at the EURONAVAL maritime trade exhibition in France.

ASC AWD Shipbuilder Pty Ltd is also committing \$5 million over two years to extend and upgrade the Techport wharf to enable two Air Warfare Destroyers to be fitted out concurrently.

Government measures for education and skills

The Government has allocated around \$500 million towards upgrading STEM (Science, Technology, Engineering and Maths) facilities in public schools. This will help in ensure that the State has the necessary skills on hand to participate in advanced and complex manufacturing projects such as the submarine program. It will also provide support and stimulus to the construction sector in the short and medium term.

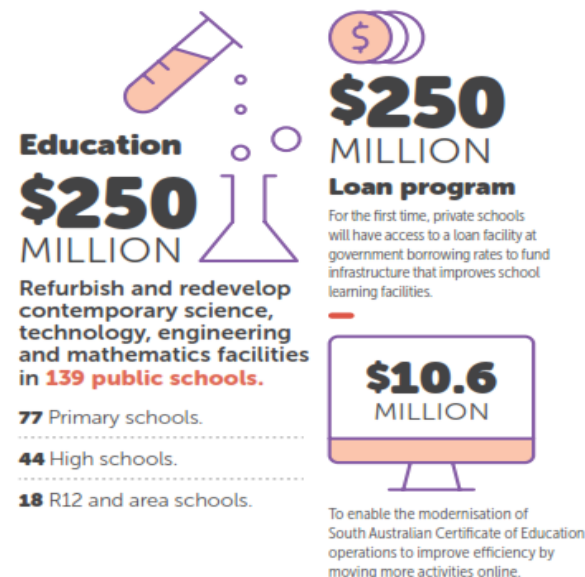
Key STEM initiatives in the 2016-17 Budget include:

- \$250 million to build and upgrade advanced technology and science labs in our public schools to ensure students have the skills for future careers;
- \$250 million for a low interest loan program for non-government schools to modernise their facilities;
- \$38 million in additional support for more educators in publicly funded pre-schools; and
- \$10.6 million to enable the modernisation of the South Australian Certificate of Education operations to improve efficiency by moving more activities online.

Investing in the regions

Regions are an integral part of South Australia's identity with regional SA producing more than half of the state's merchandise exports. In recognition of this, the South Australian Government will

Investing in Science, Technology Engineering Mathematics (STEM)



Source: 2016-17 Government Budget

Regional Development Fund Aims to Support 14,389 New Regional Jobs in South Australia

Source: 2016-17 Government Budget

maintain funding of \$15 million per annum for the Regional Development Fund. Independent analysis has predicted that a total of 14,389 jobs could be created across regions over the life of projects supported by this Fund.

New 2016-17 Budget funding initiatives for regional areas that are relevant to industry include:

- \$106 million over three years towards delivering advanced science and technology facilities in regional public schools;
- \$34.3 million over three years for Murray Futures Riverine Recovery;
- \$9.3 million over four years for Country Fire Service truck safety systems;
- \$9 million over three years for the Kangaroo Island Airport and \$2.95 million for the Mt Gambier airport upgrade;
- \$5 million towards the Port Pirie Memorial Oval development;
- \$1.9 million to upgrade tourism infrastructure in State parks;
- \$1.9 million over four years to enhance the state's clean green image to grow horticultural production and exports; and
- \$811,000 for remote airstrip upgrades.

The 2016-17 Budget also includes funding for a range of regional transport and infrastructure capital works and plans, including:

- \$10.5 million towards the \$28 million program to review strategic regional routes including Victor Harbour Road, Main South Road, and the Port Augusta to Port Wakefield Road;
- \$10 million towards the \$70 million program to improve the safety of road infrastructure;
- \$9.6 million towards the \$28.2 million refurbishment of the Port Bonython jetty;
- \$7.7 million towards the \$8.9 million Managed Motorways program on the South Eastern Freeway;
- \$6 million towards the \$27 million Mount Barker Intersection upgrade on the South Eastern freeway and;
- \$1.4 million towards the \$100 million Adelaide to Melbourne Road Corridor.



Source: 2016-17 Government Budget

Encouraging Innovation in South Australian industry

Strong economic growth necessitates continued support for innovation and industry development.

A key commitment in the 2016-17 Budget is the allocation of \$50 million to the South Australian Venture Capital Fund aimed at promoting innovation to support partnering with private sector financiers to support the growth of new businesses and to encourage businesses to re-locate to South Australia.

This is in addition to initiatives outlined earlier to assist start-up companies with pre-seed and seed stage funding, and support for the Future Industries Institute.

The 2016-17 Budget also includes \$3.6 million to develop an informed response to the Final Report of the Nuclear Fuel Cycle Royal Commission.

\$24.8 million will also be invested over four years to modernize and simplify the State's planning system so as to create jobs and strengthen the economy. A new on-line platform will give business operators and the community easy access to planning laws and regulations to cut red tape and to facilitate faster development approvals.

South Australian Budget: revenue, expenditure, balance and debt

Revenue to the South Australian Government is expected to grow by an average of 0.7% p.a. over the next four years, while expenses are expected to grow by 0.4% p.a. (real growth). On the revenue side, the South Australian state government is expecting growth in revenue from land transfer duty (up 2.6% in 2016-17) due to expected growth in land values and steady property market activity. Revenue from payroll tax is expected to grow by at a relatively modest 3.8% p.a. in 2016-17, with a low wage growth environment, a subdued employment outlook and the cessation of motor vehicle manufacturing operations weighing on payroll tax receipts. Payroll tax and transfer duties together are estimated to have accounted for around 67% of the state's total taxation revenue in 2015-16.

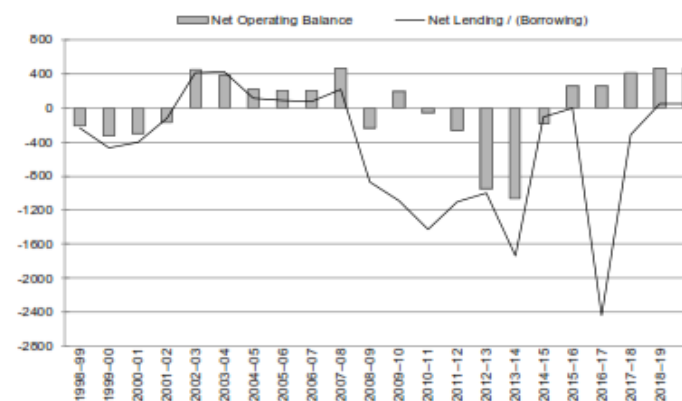
Government expenses are projected to increase in real terms by 3.9% in 2016-17 (up from 1.0% in 2015-16) due to various one-off factors including the timing of expenditure of certain Commonwealth funded programs and additional expenses due to lease payments for TAFE SA assets that have been transferred to Renewal SA. However, over the forward estimates (2017-18 to 2019-20) average expenses growth turns negative in real terms (-0.7% p.a.) due to previous Government savings measures and the Government's intention to limit public sector wages growth

Table 3: South Australian Budget Aggregates

| | 2015-16 Est Actual | 2016-17 budget | 2017-18 estimate | 2018-19 estimate | 2019-20 estimate |
|--|--------------------------|-------------------|---------------------|---------------------|---------------------|
| Operating revenue, % change (real) | 3.7 | 3.8 | 1.3 | -2.1 | -0.3 |
| Operating expenses, % change (real) | 1.0 | 3.9 | 0.5 | -2.4 | -0.3 |
| Operating balance, \$bn | 258 | 254 | 415 | 464 | 466 |
| Net debt, \$bn | 4.1 | 6.2 | 6.6 | 6.5 | 6.5 |
| Net debt ratio, % of GSP | 23.5 | 34.2 | 34.7 | 34.5 | 33.7 |

Source: 2016-17 South Australian Budget

Chart 3: General Government fiscal position



Source: 2016-17 South Australian Budget

to 1.5% p.a. over the period of the next enterprise agreement for public sector workers.

The Government expects an operating surplus of \$254 million in 2016-17, in line with the estimated result for 2015-16 (\$258 million). Operating surpluses averaging \$448 million per year are expected in each of the three years to 2019-20.

Net debt is expected to increase from an estimated \$4.1 billion in 2015-16 to \$6.5 billion in 2019-20. The increase in net debt is due to \$2.8 billion in financial obligations for the new Royal Adelaide hospital. As a percentage of revenue, net debt is expected to increase from 23.5 per cent at 30 June 2016 to a peak of 34.7% at 30 June 2018, before reducing slightly to 33.7 per cent at 30 June 2020. This is within the Government's fiscal target of a maximum ratio of 35 per cent.

South Australia economy: outlook, opportunities and risks

The South Australian Government expects growth in real state output (GSP) will strengthen to 2.0% p.a. in 2016-17 from an estimated 1.5% p.a. in 2015-16. This is due to the lower Australian dollar and low interest rates which are expected to continue to support consumer spending and emerging industries such as food, tourism, and international education. A slight step-up to 2.25% annual GSP growth is expected in each year over the forward estimates from 2017-18 to 2019-20.

State Final Demand (SFD) - a measure of total spending in the SA economy by households, business and governments - is expected to pick-up from a 1.5% pace in 2015-16 to 2.0% in 2016-17. From 2017-18 to 2019-20 annual growth in SFD is expected to remain constant at 2.25% per annum. These positive growth forecasts take into consideration the growth outlook for the national economy, increased State Budget infrastructure spending and increased activity accruing from various defence works.

South Australian employment is forecast to grow by 0.75% in 2016-17, following an estimated growth rate of 0.5% in 2015-16. The new shipbuilding program centred at Techport in Port Adelaide will contribute to expanded job opportunities from 2017, although the closure of automotive manufacturing activities over the next 18 months will weigh on the SA jobs market. Key risks and challenges to this growth outlook for South Australia are:

- The significant structural adjustment task ahead when car manufacturing ceases in 2017;
- Lower commodity prices which are affecting the resources and related industries in South Australia; and
- Uncertainty about the pace and timing of a pick-up in non-resource industry growth drivers.

Table 4: South Australian Economic Performance and Outlook

| % change p.a. | 2015-16 actual | 2016-17 forecast | 2017-18 forecast | 2018-19 forecast | 2019-20 forecast |
|---------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Real GSP | 1.5 | 2.0 | 2.25 | 2.25 | 2.25 |
| Real SFD | 1.5 | 2.0 | 2.25 | 2.25 | 2.25 |
| Employment | 0.5 | 0.75 | 1.0 | 1.0 | 1.0 |
| CPI | 0.75 | 1.75 | 2.25 | 2.5 | 2.5 |

Source: 2016-17 South Australian Budget

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