



Government Budget measures for business and industry

The 2018-19 South Australian Budget (4 September 2018) delivers an operating surplus of \$48 million in 2018-19 with modest surpluses expected over the four years to 2021-22. This has enabled the South Australian Government to reduce payroll tax liabilities and increase funding for a range of business and industry support measures.

For businesses operating in South Australia, the Government will:

- Raise the payment threshold for state payroll tax to \$1.5 million in payroll from 1 January 2019.
- Introduce ‘phased relief’ in payroll tax for South Australian businesses with national annual taxable wage bills of between \$1.5 and \$1.7 million.
- Increase the tax-free threshold applying to land tax from the current level of \$369,000 to \$450,000 from 1 July 2020. The top marginal tax rate for land tax will be reduced from 3.7% to 2.9% for properties valued between \$1.2 million and \$5 million.
- Reduce the fixed property Emergency Service Levy by a total of \$360 million over four years.
- Place a cap on annual land and water levy rises at a rate set by an independent body or according to the consumer price index from 1 July 2019.
- Spend \$150 million over 10 years to advance economic opportunities for regional South Australia and regional communities.
- Spend \$100 million over four years to expand the Economic and Business Growth Fund, which supports initiatives to introduce significant new technologies, capabilities, capacity and expertise in industries that align to the state’s competitive advantages.
- Spend \$43.9 million over two years for an Innovation and Commercialisation Precinct to be established on the former Royal Adelaide Hospital site.

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

<i>South Australia has a diverse mix of industries with output shares led by:</i>	<i>% of GSP* 2016-17</i>
1. Health services	9.2
2. Finance	7.5
3. Manufacturing	6.5
4. Agriculture	5.9
5. Construction	5.9

Source: ABS; * Gross State Product

Table 2: SA Government Programs: New Funding

<i>Additional funding</i>	<i>\$mn,</i>
Regional roads and infrastructure fund:5 years	315.0
Skilling South Australia:4 years	202.6
Country health:10 years	192.0
Energy solution initiatives:4 years	184.0
Regional growth fund: 10 years	150.0
Additional TAFE funding support	109.8
Economic and business growth fund:4 years	100.0
Innovation and commercialisation precinct:2 years	43.9
The research, commercialisation and start-up fund:4 years	27.9
Event bid fund: additional funding over 4 years	21.5
Globelink:4 years	20.0
Tourism marketing	10.0
Trade offices:4 years	9.3
Changing attitudes towards skilled careers: 4 years	3.9

Source: SA Treasury

- Spend \$27.9 million over four years through the Research, Commercialisation and Start-Up Fund to support businesses to collaborate with researchers and universities to solve business problems, commercialise new products and services, attract research infrastructure investment into SA and encourage the establishment and growth of start-ups.
- Spend an additional \$21.5 million over four years (taking the total to \$40 million) to secure and bid on additional major events and conventions.
- Spend \$20 million over four years to develop “Globelink” which will be a masterplan for identifying improvements to freight export infrastructure and access to export markets.
- Spend an additional \$10 million in 2018-19 on tourism marketing (international and domestic).
- Spend \$9.3 million over four years to establish new overseas trade offices in the USA, Japan, Malaysia and the United Arab Emirates in order to boost SA exports and international trade. A further \$3.5 million will be spent over four years to establish a new business and investment hub in Shanghai.
- Spend \$5.2 million over four years to establish a South Australian Productivity Commission to advise the Government on economic reform, industrial growth and job creation.
- Spend \$1 million over four years to establish an Australian Space Innovation Precinct. This will house the Australian Space Agency as well as other key space sector organisations.

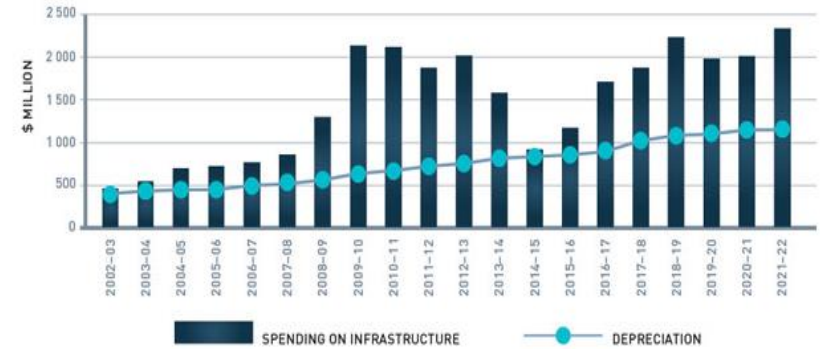
Government Infrastructure Program

Infrastructure spending in the general government sector is expected to grow to \$2.2 billion in 2018-19, up from \$1.9 billion in 2017-18. The Government will subsequently maintain a general government investment program of around \$2.1 billion per annum over the three years to 2021-22.

New infrastructure spending over the next four years and more will include:

- \$615 million in total for the Gawler Rail Line Electrification project with \$578 million allocated over the four years to 2021-22;
- \$354 million for the Pym to Regency Road section of the North-South Corridor;

Chart 1: South Australian Infrastructure Spending*



Source: SA Treasury, *General Government sector

Table 3: Transport Capital Spending – the Key Projects

Transport capital spending in SA Budget: key projects	\$mn,
Gawler line electrification	+615.0
North-South Corridor Pym Street to Regency Road	+354.0
Duplication of Main South Road and Seaford to Aldinga	+305.0
Joy Baluch AM Bridge	+200.0
Port Wakefield overpass and Augusta Highway widening	+88.5
Tram right hand turn onto North Terrace	+37.0
O’Bahn Park “n” Rides	+33.5
Mitcham Hills road corridor improvements	+16.5
Southern expressway safety screens	+15.0
Penola bypass	+14.6

Source: SA Treasury

- \$305 million over five years from 2018-19 to duplicate the Main South Road from Seaford to Aldinga;
- \$200 million for the duplication of the Joy Baluch AM Bridge;
- \$88.5 million over three years for the construction of an overpass at the intersection of Copper Coast Highway and Augusta Highway at Port Wakefield;
- \$37 million to install a right-hand turn as part of the city tram extension;
- \$23 million over four years for a high dependency unit at the Modbury Hospital;
- \$18.5 million for park “n” ride sites along the O-Bahn network, in addition to \$15 million previously provided;
- \$16.5 million over four years for the staged upgrade of infrastructure around the Mitcham Hills network;
- \$15.0 million for the installation of Southern Expressway safety screens and safety camera upgrades;
- \$14.6 million over two years for the completion of the Penola bypass (in partnership with the Federal Government);
- \$11.7 million for the city south tram renewal and stop upgrade;
- \$9.9 million over four years to maintain the Queen Elizabeth Hospital as a key cardiac centre; and
- \$8.2 million over four years to establish ‘Infrastructure SA’, which will be a new body to provide advice on transparent and infrastructure decision making.

Government measures for education and skills

The Government has allocated:

- \$692 million over six years to upgrade public primary and high schools, with a focus on upgrading and modernising their facilities. This will provide additional work for the local construction sector in the short to medium term;



- \$261 million for the construction of two new “birth to year 12 schools” in the northern and southern suburbs delivered via a public-private partnership;
- \$100 million for a new secondary school in Whyalla;
- \$5 million over two years to construct at least one new technical college in the Western suburbs with a focus on encouraging students to prepare for work in the defence sector;
- **\$202.6 million over four years for the Skilling South Australia initiative to create up to 20,800 additional apprenticeships and traineeships** through subsidised training and support services developed in partnership with employers, training providers and individuals;
- **\$110 million over five years in providing additional support for TAFE SA**, including continued delivery of a new quality system and completion of remediation of qualifications in response to the audit by the Australian Skills and Quality Authority; and
- \$3.9 million will also be invested over four years for a campaign aimed at changing attitudes towards skilled careers. This revolves around improving community understanding of the opportunities available through apprenticeships and other Vocational Education and Training Pathways.

Government measures for regions

South Australia’s regions produce more than half of the state’s merchandise exports. In recognition of this, \$773 million has been invested over five years for regional support initiatives. New 2018-19 Budget funding initiatives for regional areas that are relevant to business include:

- \$315 million over four years for the Regional Roads and Infrastructure Fund. 30% of mineral and petroleum royalties will be paid into the fund. It will be used to maintain and improve the performance of regional and remote transport networks;
- \$150 million over 10 years for a Regional Growth Fund to unlock new economic activity in the regions and deliver critical economic infrastructure;
- An additional \$192 million over 10 years for country health services, including new and upgraded infrastructure and aged care services;
- \$10 million over three years to address mobile phone black spots across the state;

Chart 2: Employment Growth in South Australia by Industry – Year to May 2018 compared to May 2008 (‘000 persons)

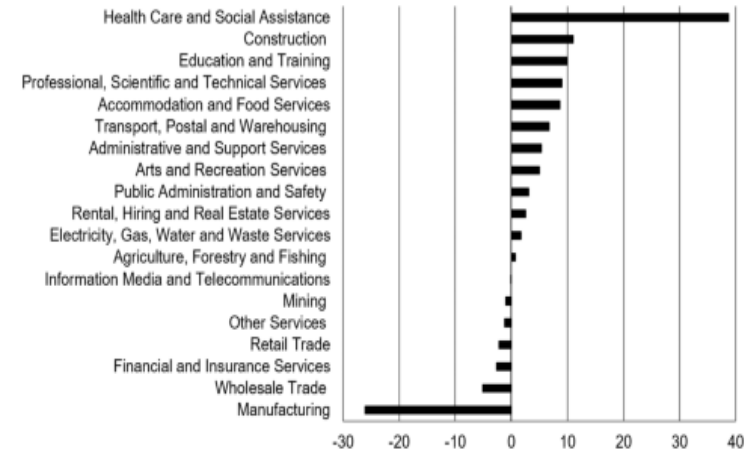
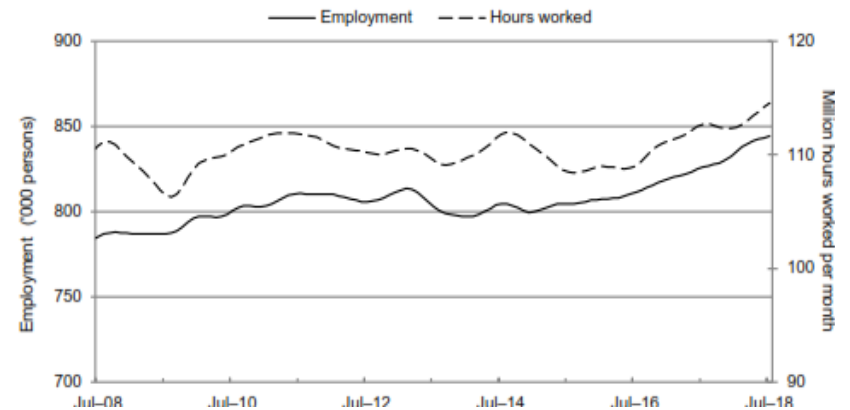


Chart 3: South Australian employment and hours worked, trend estimates



Source: Australian Bureau of Statistics

- \$8.7 million over four years to upgrade facilities and expand services in a number of regional hospitals including the Ardrossan Hospital, Mount Barker Hospital, Murray Bridge Soldiers' Memorial Hospital and Yorketown Hospital; and
- \$5 million over two years for country fire service station upgrades, including ancillary buildings and increased back-up power generation capacity.

Key individual regional infrastructure projects include:

- \$100 million over four years for a new year 7 to 12 public secondary school in Whyalla;
- \$20.5 million over three years to upgrade the Port Lincoln wastewater treatment plant;
- \$8.5 million over three years for a new Strathalbyn Aged Care facility;
- \$7.0 million over three years for the Murray Bridge Emergency Department; and
- \$3.9 million over three years to implement a retained staff fire service station at Mount Barker.

Government measures for energy

South Australia has pressing concerns about elevated energy prices and reliability of energy supply. In response, the Government is investing \$184 million to address electricity security and provide cheaper and more reliable power. This includes the following measures:

- \$100 million over four years in grants to deliver battery storage systems in up to 40,000 homes across the state;
- \$50 million over four years for a Grid Scale Storage Fund to facilitate development of new storage technologies to improve reliability of the state's electricity system;
- \$30 million over three years to establish mechanisms to reward consumers for demand flexibility and changing their consumption patterns to reduce peak demand and lower energy systems costs; and
- \$4 million to enable transmission network operators to commence early works to support delivery of further interconnection between the eastern states and South Australia.

\$773 million over 5 years in regional South Australian initiatives



South Australian Budget: revenue, expenditure, balance and debt

This Budget estimates Government revenue to have risen by 3.9% in nominal terms in 2017-18. Government revenue is expected to grow by an average of 2.4% p.a. over the next four years in nominal terms, or -0.1% p.a. in real terms.

This real decline in revenue reflects a projected decline in dividend revenue from the Motor Accident Commission as well as the impact of the government’s reforms to payroll tax, land tax and the Essential Services Levy over the forward estimates.

Revenue from payroll tax is expected to rise by 3.2% in 2018-19 (after estimated growth of 5.9% in 2017-18), with average annual growth of just 1.3% p.a. over the four years to 2021-22. Revenue from transfer duties is expected to fall by 1.7% in 2018-19 (after an estimated fall of 2.9% in 2017-18) reflecting an expected further easing in South Australian property values.

Payroll tax and transfer duties together accounted for around 45% of the state’s total taxation revenue in 2017-18.

Government expenses are projected to decrease by 0.3% in nominal terms in 2018-19, after growing by 8.6% in 2017-18. The Government expects its expenses to grow by an annual average of 1.6% p.a. over the four years to 2021-22. This relatively low rate of expenses growth reflects Government savings measures (including savings in ministerial budgets and efficiency measures) which will help to offset additional spending on new measures.

The Budget predicts small but positive net operating balances for South Australia over the forward estimates. The Government expects an operating surplus of \$48 million in 2018-19, up from an estimated deficit result of -\$397 million in 2017-18. Operating surpluses are expected to average \$132.5 million per year over the four years to 2021-22.

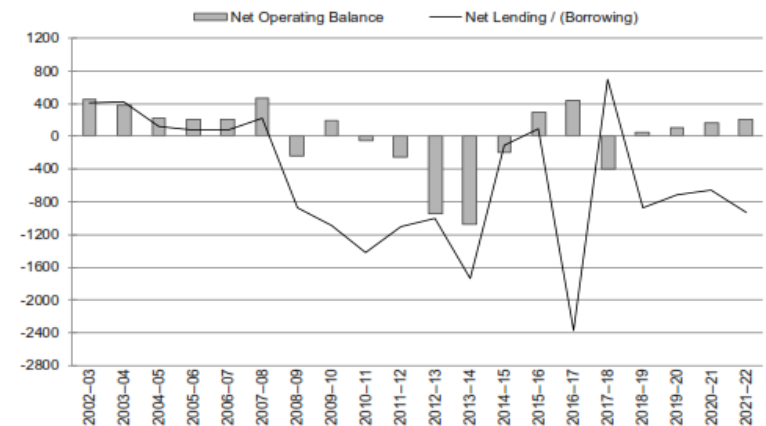
Net debt is expected to rise to \$6.3 billion in 2018-19, an increase of \$957 million from 2017-18. This will largely reflecting increased infrastructure spending initiatives. Net debt is expected to rise to \$8.7 billion by 2021-22.

As a percentage of Government revenue, net debt is expected to rise to 32.1% in 2018-2019 and 41.1% in 2021-22.

Table 4: General Government Fiscal Position

	2017-18	2018-19	2019-20	2020-21	2021-22
	<i>Est.</i>	<i>Budget</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
Revenue nominal growth, %	3.9	2.0	1.8	2.3	3.3
Revenue real growth, %	1.6	-0.3	-0.5	-0.2	0.8
Expenses nominal growth %	8.6	-0.3	1.5	2.0	3.1
Expenses real growth %	6.2	-2.5	-0.7	-0.5	0.6
Operating balance, \$mn	(397)	48	105	166	211
Net debt, \$mn	5,331	6,288	7,076	7,749	8,651
Net debt to revenue (%)	27.8	32.1	35.5	38.0	41.1

Chart 4: General Government Sector Net Operating Balance and Net Lending (\$million)



Source: SA Treasury

South Australian economy: outlook, opportunities and risks

The South Australian Government expects real state output (GSP) to increase by 2.25% p.a. in 2018-19, unchanged from the estimated rate of growth in 2017-18.

The low Australian dollar is expected to continue to support economic activity in export-oriented sectors such as tourism, international education, food and wine.

State Final Demand (SFD) - which includes total spending in the SA economy by households, business and governments but excludes net exports - is estimated to have increased by 3.0% in 2017-18. This reflects relatively solid consumer spending and a strong pipeline of residential construction work.

Looking ahead, SFD is expected to grow by an average annual rate of 2.3% over the four years to 2021-22. These positive (albeit softer) growth forecasts take into consideration the growth outlook for the national economy, increased infrastructure spending and increased activity related to various defence projects.

South Australian employment is forecast to grow by 1.5% p.a. in 2018-19, following estimated growth of 2.1% p.a. in 2017-18. The recent demise of the local automotive assembly industry is still weighing on the State's manufacturing sector and the local jobs market. Employment is currently being supported by public investment in transport, health and energy infrastructure. In the longer term, naval shipbuilding projects (frigates and submarines) will also contribute to job opportunities, including in supply chain businesses. Employment growth of 1% p.a. is expected in each of the three years to 2021-22.

Key risks and challenges to this growth outlook for South Australia are:

- Significant structural adjustment following the end of local car assembly and reduced investment activity in the mining sector;
- Slow population growth and an ageing population;
- Interstate emigration, which constrains the state's growth potential; and
- A sharper than expected deceleration in the Chinese economy, which could reduce international student and tourist numbers and related export earnings.

Table 5: South Australian Economic Performance and Outlook

% change p.a.	2017-18 estimate	2018-19 forecast	2019-20 forecast	2020-21 forecast	2021-22 forecast
Real GSP	2.25	2.25	2.25	2.25	2.25
Real SFD	3.0	2.50	2.25	2.25	2.25
Employment	2.1	1.5	1.0	1.0	1.0
CPI	2.2	2.25	2.25	2.5	2.5

Source: SA Treasury

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