

31 August 2018

Economic and Finance Committee  
Parliament House  
North Terrace  
Adelaide SA 5000

Dear Committee

I write in response to your request for submissions to the Inquiry into South Australia's Investment Attraction Policies.



**Business SA**  
Chamber of Commerce  
and Industry South Australia

Level 1, 136 Greenhill Road  
Unley South Australia 5061  
T: +61 8 8300 0000

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Working for South Australia

### Executive Summary

- Investment attraction in South Australia must switch to being more about industry attraction than specific financial incentives for individual companies where South Australia does not have the financial capacity to compete with states such as Victoria
- Despite inherent challenges for small and medium businesses accessing finance, there has been no evidence to suggest that Government programs such as Unlocking Jobs for Capital actually end up providing cost competitive rates of finance and in reality, only put limited tax payer funds at risk
- The State Government should ensure there is an equivalent focus on investment retention as opposed to just investment attraction
- Since South Australia's 1836 proclamation, countless hard-working business people have created the sustainable company success stories we see in the state today and the new Government needs to have the confidence to back the ability of all businesses to create opportunities in the right environment, and not continue with policies that attempt to engineer outcomes by picking individual winners through direct financial support.

Should you require any further information or have questions, please contact Andrew McKenna on (08) 8300 0000 or [andrewm@business-sa.com](mailto:andrewm@business-sa.com).

Yours sincerely,

Anthony Penney  
Executive Director, Industry and Government Engagement





### Why this matter is important to South Australian businesses

*As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:*

- With a median age of 40, South Australia has an older population and lower labour force participation rate than all other mainland states and territories, highlighting the need for external investment in the face of challenges with growing local demand
- Business SA members are tired of seeing too much focus on financial incentives to attract businesses to South Australia, with little to no recognition of the long-term investments made by existing businesses and what should be done to ensure they not only remain here, but thrive here
- There is a lack of evidence to suggest any long-term benefits from investment attraction policies providing short-term financial incentives to attract individual businesses to South Australia, although this does not necessarily extend to specific policies targeted at attracting business migrants
- All financial incentives to attract individual businesses must be weighed up against the opportunities for the State Government to provide a lower cost environment for all businesses

### Key Policy Points

1. The challenges facing South Australia's economy are diverse, and not just limited to high-profile issues like the costs and reliability of electricity, Holden's manufacturing exit or low population growth. But the current and emerging opportunities for businesses are also diverse, particularly in sectors such as defence, health, the visitor economy and renewable energy technology. To best position local businesses for future opportunities both here, interstate and abroad, they need to be able to operate within a cost-competitive environment with access to world-class infrastructure and skills.
2. Business SA does not oppose direct assistance to businesses in the case of market failures related to government policy interventions. However, recent growth in grants and loans has extended well beyond what is in the best long-term interests of all South Australian taxpayers, including local businesses. There must be confidence to back the ability of all businesses to create opportunities in the right environment, and not continue trying to engineer outcomes by picking individual winners through direct financial support. It is evident that as the State and Federal Governments have endeavored to assist in South Australia's economic transition beyond auto-manufacturing, that the enormity of this challenge requires much more than targeted programs, but rather a much broader economic policy construct which incentivises all businesses to succeed and expand.



3. Business SA acknowledges the lack of traction the previous Government had with its Unlocking Capital for Jobs Program introduced in 2015. A review from Ernst & Young was reported to suggest that under the strict terms of the program, even the one successful application was not necessarily a qualifying one. It was also reported that the intricate design, complex and time-consuming application process may have acted as a deterrent to potential applications.

While Business SA recognises that small businesses can often struggle to access finance, the Government needs to understand that there is always a risk/return trade-off with lending and even if the Government gets involved, the need to mitigate risk does not disappear. Consequently, all that Government involvement usually achieves is the creation of complex schemes which end up costing businesses an effective finance rate that is not commercially viable for their proposed expansions in any case. Furthermore, those schemes put all tax payer funds at risk without any evidence to suggest there is a market failure to justify their existence in the beginning.

4. Business SA recently conducted our second Regional Voice survey, where we asked regional businesses to comment on their operating conditions, concerns, challenges and what they needed from the government and key support organisations to succeed. Our survey received over 450 responses throughout May 2018. What the survey results showed was that, apart from one region, all regions prioritised government support for both economic and social infrastructure ahead of investment to retain or attract businesses to their region. In other words, the vast majority of businesses argued that if the fundamentals were right in the regions, such as access to adequate health and telecommunication services, that economic growth would naturally follow.
5. While Business SA is a critic of specific financial incentives to attract companies to South Australia, we recognise the Government does have a role to play in facilitating the development of new industries in the state, for example hydrogen. Notwithstanding, support to attract industries does not have to come in the form of expensive subsidies, rather ensuring legislation or even the planning system is ready to enable these future industries. Or in the example of the post media production industry, Governments should be looking at the specific skills requirements and how they can be funded through the Skilling Australia Fund. Governments can also play a key role in coordinating their departments and agencies to work together to assist new companies looking to establish in South Australia, through offices such as the Coordinator General.

What has typically happened with more recent grants to attract businesses to South Australia, for example under the Future Jobs Fund, is that the primary focus is on the number of jobs created. While Business SA would expect those initial numbers to come to fruition if there is a government investment attached, the reality is that maintaining those jobs is the real test of whether or not that public investment was worthwhile, which really needs to be measured over at least a decade. Direct government support for businesses cannot be centred around one day's press conference, but rather what is being created that is sustainable over the longer term.



6. Business SA queries why the previous South Australian Government considered there was a market failure necessitating it to put \$50 million of taxpayers funds at risk in a venture capital fund. While there have only been two investment decisions made public to date, one business has already proved itself able to attract significant private sector funding from the market, including from Boeing. Business SA strongly encourages local start-up companies to continue developing their niche technologies and creating local jobs but their success in capital raising actually demonstrates that companies with solid growth aspects will be backed by the broader venture capital market. While there may be an argument that Governments can assist commercialisation efforts on a very small scale, which the State Government also did for the aforementioned company through a commercialisation grant, it is an entirely different proposition for a government to have an equity interest in the company, be that direct or indirect.

There is no evidence to suggest government backed funds of this nature have proved successful anywhere over the long-term. The very nature of venture capital is high risk, high return and ultimately professional investors make that decision based on their own appetite for risk. If the State Government continues to make new investments under the current venture capital fund model, ultimately decisions on high risk investments will continue to be made on behalf of South Australian tax payers and regardless of who manages the fund, that fundamental model is flawed. No one has skin in the game, except for the South Australian tax payer. Business SA recommends the Government limit its venture capital exposure to the investments already made under the Blue Sky managed fund.

7. Business SA has strongly supported economic infrastructure development in the north of Adelaide because of the significant opportunities available through projects such as the Northern Adelaide Irrigation Scheme and Northern Connector project. In fact, we were a strong public advocate for both projects long before their public funding.

Notwithstanding, we have always recognised that the car industry was never confined to the northern suburbs and having a Northern Economic Plan without a Southern Economic Plan failed to recognise the significant impacts of losing auto-manufacturing on the southern suburbs. The reality is that South Australia needs to think further than economic growth plans for specific areas and target where the highest needs are across the state, including in the regions, diverting limited resources to areas and projects with optimum net benefits. This must be an objective of Infrastructure South Australia to avoid public funding allocations towards projects of limited public benefit, including the O-Bahn extension.



8. While Business SA recognises there are a range of investment attraction approaches from other states, and some such as Victoria are well known to compete hard on financial incentives, South Australia actually needs to think about investment attraction more in terms of selling its fundamental advantages, and working hard to reduce its obvious disadvantages, particularly power and water costs. While this is more a long-term approach, we cannot expect to be able to compete with states like Victoria on financial capacity to pay incentives when we do not actually have the financial strength to out-bid them. All we end up doing is raising the bar of expected incentives and making it harder for us to attract investment in future. In the long run it's a zero-sum game and while government may have attracted companies like Motorola in past, this did not lead to sustainable job creation.
9. There should be an equivalent approach to investment retention as there is investment attraction. In fact, Business SA put forward a novel payroll tax policy prior to the 2018 election whereby we recommended that in the process of reducing the payroll tax rate to 4.5 percent by 1 July 2020, the State Government should ensure the reduced rate is only available to companies which either move to, or retain, their headquarters in South Australia.

Business SA's origins date back to 1839 and we have several members that have been with us for more than 100 years. What message do specific business incentives for overseas or interstate businesses send to the thousands of South Australian businesses which have built the foundation upon which the South Australian economy rests today? The State Government must value businesses that start, expand and remain based in Adelaide as opposed to just those incentivised to move here.

The definition of a headquartered business can be legally defined, and the State Government should more formally recognise the benefits long-established South Australian businesses provide. If we do not appreciate and nurture the businesses which make long-term commitments to operate here, we will only have to deal with a more uncertain future as they increasingly look to move interstate or offshore.