

CEDA State of the State 2015
Changing the narrative
Tuesday, 9 June 2015 from 10:45am – 2:00pm
Adelaide Festival Centre

Raymond Spencer

Opening

On behalf of the Economic Development Board, I am honoured to speak today at CEDA's – State of the State 2015 forum.

In preparing for today, I reflected on the State's history and how South Australians were able to recognise and respond to the periods of critical transformation.

For most of us we appreciate that change is inevitable, and incremental change is a part of daily life. Societies that chart trends and are inquisitive, objective, and outward focused can take advantage of the magnitude of the change. These societies have a real understanding of their comparative position and strength in the global economy.

Times of transformation require five elements:

- ▲ an accurate understanding of the current reality,
- ▲ a shared vision for the future,
- ▲ prioritised strategies to attain that vision,
- ▲ deliberate bold actions, and
- ▲ focused investments aligned with the other four.

In South Australia, it is critical that we choose to chart **a course for growth** as distinct from business as usual or inactivity, both of which will result in decline.

In my comments I will focus on the ways to unlock South Australia's potential by:

- ▲ Tapping into insights gained by observing the leadership of our forebears who led the State through at least two similarly transformative periods in our history; and
- ▲ I will then set our sights on the future and share what I believe are four key pressure points to catalyse economic stimulation, jobs growth and the foundations of a new economic framework.

Tapping into the insights of our South Australian forebears – the defining periods of transformation

We have twice before in our history since white settlement been at a time of great transformation

In his 1833 report, Captain Charles Sturt wrote, and I quote:

"It would appear that a spot has at last been found upon the south coast of New Holland to which the "people" might venture with every prospect of success."

It is remarkable to reflect just how profound these words turned out to be.

We continue to '*venture with every prospect of success*' almost 200 years after this was written.

The first period of great transformation was in the earliest years of the colony, when our pioneers like my great, great grandfather were at the very start of establishing a solid foundation.

This period was not for the faint-hearted. Brave men and women battled to create a viable agricultural economy to support the new settlement.

John Ridley invented a reaping machine in 1843 which was truly pioneering and changed farming methods throughout South Australia and the nation at large. Toward the end of the 1800's South Australia would become known as the "granary of Australia".

In the 1840s, Copper was discovered near Kapunda, and even larger deposits were discovered at Burra which brought wealth to those who invested in the mine. It was the copper from Burra's "Monster Mine" that saved South Australia from bankruptcy.

When I was growing up in the 1950's, South Australia was still largely dependent on the economic framework created by the State's founders.

The next great period of transformation began when South Australia and Australia found itself cut off from traditional suppliers of manufactured goods as result of the Second World War. *The country was forced to create its own.* Armaments and munitions factories needed to be created to supply the war effort, and Sir Thomas Playford, elected Premier in 1939, was enthusiastic and determined in advocating South Australia as the perfect location for these industries.

This period of transformation continued after the war. The city of Elizabeth was built by the Housing Trust in Adelaide's north, to support the production of Holden motor vehicles. It was *at the time* a showcase of successful city planning.

The Housing Trust sold Tonsley Park where the Chrysler car manufacturing plant was set up and helped to install rail yards, electricity and water infrastructure there, as it had done at Elizabeth.

Power and water schemes were expanded to be able to cope with the industrial development occurring.

Playford was also instrumental in advocating the use of coal from the mine in Leigh Creek rather than interstate, to avoid supply complications. Playford also sought to involve South Australia in uranium mining, which he saw as both a means of providing electricity for powering industrial development. He publicly advocated for nuclear power.

When Playford left office in 1965, South Australia's population had essentially doubled from 600,000 in the late 1930s to over 1.1 million, the highest proportionate rate among the states. The economy had done likewise and personal wealth had increased at the same rate, second only to Victoria. Employment in manufacturing in South Australia had increased by 173%, while the national average during the period was 129%.

It could be argued that both periods of great transformation were achieved through their unique historical and political circumstances, however, I believe this only partially explains the achievements during those times.

For me, the successes achieved were driven by the personalities that encouraged the reforms and the role that citizens played to help lead the change.

And I include Don Dunstan in this as well.

These were political, business and community leaders who were prepared to look ahead with the courage and boldness to confront the challenges and the established norms. People with the vision and courage to invest in the relevant niches in the global supply chain where South Australia could viably compete.

People did not stand around with their “hands in their pockets” waiting for a hand-out or for someone else to solve their dilemma or realise their vision. In essence, they delivered on Sturt’s original observation of *a spot to which the “people” might venture with every prospect of success.*

As I speak with you today, I invite you to reflect on these well documented historical times and ask yourself “what contribution will I make to improve our society and create a legacy for future South Australians to enjoy?” “What will I commit to **do** as part of this current and great period of transformation?”

This decade (2010 – 2020)

Because, I believe that South Australia is at another pivotal time in its history. We have entered the halfway point of this decade, where it will be decided whether it’s a new dawn or approaching dusk, whether South Australia continues to be a glowing example of one of the world’s greatest places to live or a 2030 Harvard case study entitled “Lost Opportunity.”

We live in an increasingly competitive globalised world. A world in which technological advance is becoming ubiquitous. Where low-cost developing economies are advancing rapidly up the economic ladder.

Where the rarest and highest value of yesterday’s commodities, goods and services is commonplace today. Where major disruptions to established business models are occurring frequently, opportunities are appearing in unlooked for places and the balance of negotiating power is shifting more rapidly than ever before between the various economic players with unexpected results.

We also live at a time where the less complex economic solutions that Australia has been fortunate to rely on in the past, namely “living off the sheep’s back” and “dig it up and ship it out” are well and truly under pressure to sustain our current wealth and our expectations into the future.

Our State’s ability to maintain and increase its prosperity and unlock its growth potential, depends on us thinking ahead of the game and being able and prepared to execute increasingly complex solutions. We can no longer afford to compete on the \$A, low labour costs or economies of scale. In short, we have to all work smarter and make insight and innovation our currency. We need to go home at night and ponder the question “How can I add more value in what I did today?” “How do I help my organisation be more productive and move up the value chain?”.

If we are complacent, take our good fortune for granted and do not change, South Australia will be surpassed by growing economies in our region and we will not be able to provide for our children and grandchildren the lifestyle to which we have grown accustomed.

I do not want to be known as a member of the South Australian generation that lived just before the great decline in our living standard.

So what can we do?

The government has outlined 10 economic development priorities with three and one year measurable objectives. My experience from attending the Economic Development Committee of Cabinet is that it is very serious about these. A crucial test will be seen in how well aligned the budget spending priorities are with the economic development priorities.

Businesses, academic institutions and non-profits would, where feasible, gain a lot by aligning their efforts with these priorities.

I want to highlight four tangible ways to seize opportunities before us. I believe that these are pressure points to catalyse economic stimulation, jobs growth and create the foundation of our new economic framework.

Too often we spread our butter too thinly across the toast to please as many people as we can. This is ineffective in the best of times. At moments of great social transformation, not focusing on a few select areas that have the biggest impact can lead to an inability to respond to the possibilities before us.

The first pressure point I would like to address with you is **Infrastructure Investment**. I will spend most of my time on this because it is the most complex to communicate.

So, what infrastructure should we invest in today to drive our transformation?

Infrastructure is a generic word which covers different types of assets within different types of sectors. All too often there are inadequate assumptions when it comes to delivering, funding, operating & maintaining infrastructure!

Social infrastructure like hospitals, schools and sports stadiums is quite different from Energy infrastructure such as electricity networks, pipelines or wind farms, not to mention Transport infrastructure such as roads, ports and airports. The common denominator however is that in essence, Infrastructure is "political" as it touches the lives of citizens. It is a lever in the hands of politicians to make a long term difference. Too often it is seen only as a hot potato and, therefore, tough decisions get passed along to the next generation. Today is a time for political courage and risk taking and to use our State's balance sheet to invest in the infrastructure that will grow our GSP and, therefore, our State's ability to be competitive and pay down our debt.

Infrastructure is a key lever in terms of the economic growth it generates and this has been vetted by numerous unquestionable studies. The International Monetary Fund (IMF) uses a 1.8 multiplier.

Infrastructure is also a key enabler in terms of productivity. Time spent and lost in traffic gridlocks is now a measure of "productivity".

The EDB commends both Government and private sector for making enormous commitment to the State's infrastructure system and for its future commitments, but we must do more.

The Economic Development Board presented to Treasury in 2012 a recommended set of guidelines and processes for the evaluation of, and investment criteria for, public sector initiatives that depoliticizes the infrastructure decision making process. It is built around:

- ▲ developing a common understanding and consistent framework for evaluating proposals on a comparable basis
- ▲ facilitating the provision of high quality business cases that support sound and accountable decision making processes
- ▲ establishing a basis for undertaking a post-implementation review of a proposal and reporting its outcomes

The EDB recommended that all infrastructure projects need to develop an investment proposal and later a business case, which contains objective, relevant and meaningful information including a sound analysis of return on investment.

The investment evaluation process requires that accountability for the information contained in the investment proposal and business case are signed off by lead agency officers.

How do we prioritise and decide? We need to look at the areas in our economy where we can get the quickest uplift and make sure we have the infrastructure in place to support that.

I would be wimping out if I did not suggest some examples:

Food Park – To realise our vision as the State for ‘Premium Food & Wine’ I strongly support the investment in the collective Food Park in the Northern Suburbs.

This is a tangible way to enable local companies to meet this new Asian demand for premium food. Our vision is a cluster of food manufacturers housed in one location taking advantage of common infrastructure including: transport, waste handling, cold storage, packaging options and working together to market to the world with an emphasis on Asia. This is about moving up the value chain in all we do and exporting high value products, not just raw materials.

Strzelecki Track – Upgrading the Strzelecki Track is critical to realise our vision for ‘Unlocking the full potential of our resources and energy sector’ as well as our agribusiness sector.

Today, the route is mostly unsealed. The estimated \$450m investment to upgrade the Strzelecki Track would include 450km of sealed road between Lyndhurst to Innamincka (far north east) and up to the Queensland boarder. Users currently experience high direct freight costs, as the route is slow and unreliable, and the poor surface is subject to weather conditions, leading to travel time delays. It also impacts on higher supply chain costs through lost inventory and damaged goods.

For agribusiness, cattle stations along the route experience enormous transport costs through damaged tyres and vehicle repairs and have no options but to send stock to Queensland to be processed because sending stock south is too costly.

For oil and gas companies, it is estimated that 10% of equipment transported to the Cooper Basin on existing road arrives damaged and unserviceable.

An upgrade to the Strzelecki Track would mean faster travel time and lower operating costs and help to ensure the State is a competitive place to base resource sector services businesses.

Kangaroo Island Airport – Investment in upgrading the Kangaroo Island Airport is needed to realise our vision as the ‘Visitor Economy State’. Kangaroo Island is one of the four Australian tourist icons and the only one in South Australia

However, as an Island, it is constrained by access. Overcoming this barrier is critical to capitalising on our natural asset.

Investing \$18 million in the airport upgrade will accelerate our ability to realise the economic benefits of an enthusiastic visitor market that is already knocking at our door and allow direct flights into Kangaroo Island from interstate.

Spending millions of dollars on tourism promotion of Kangaroo Island without this investment is folly.

These are all examples of infrastructure investment that are aligned with the 10 economic development priorities and accelerate GSP growth.

So you ask, **“How can we afford to pay for the investments we need in our future?”**

We must seek new and innovative ways of funding infrastructure. There is an urgent need to educate the public and elevate the debate on debt, funding and financing because with limited State and Federal government budgets, funding infrastructure becomes an allocation and prioritisation exercise for governments and a political challenge!

As we know, the State budget is under enormous pressure and our State debt levels have bumped up against the government's self imposed limit of 35% of the annual budget.

However, the debt (which is expected to be \$10.8 billion this year and projected to grow to \$13.2 billion, including general debt and public debt like SA Water, in 2017) is running at roughly 11% of GSP, which is approximately \$100 billion.

In the general government sector (or tax payer funded), which is more relevant for the government's fiscal targets, net debt grows from 4.0 billion in 14-15 to 6.0 billion in 2016-17 and is currently 4% of GSP.

This can be compared to debt of more than 35% of GSP when the State Bank crisis happened and over 70% of GSP when Sir Thomas Playford used debt to transform the State's economy and build a manufacturing base in the mid fifties. His use of debt was instrumental in our State's growth for many decades and demonstrates the positive impact where debt is used for productive investment purposes. Investment in infrastructure and utilising debt to build that infrastructure makes sense in the context of putting in place the foundations upon which to build a new society. Debt to fund operational inefficiency and waste in the public sector is unacceptable.

The debate comparing the State's debt to a household's debt is wrong. It is much more like business debt and any business that wanted to grow and thrive that had debt at 10% of revenue would immediately go to the bank for a loan. Taking the State debt up to 20% of our GSP could well be the responsible thing in order to take advantage of the opportunity before us today to transform and grow our economy.

We need to understand the difference between funding and using the State's balance sheet for financing. Funding means public funds allocated to pay for a piece of infrastructure.

Financing means utilising the right financial tools to pay for it. This requires a debate on assessment of risks and the appropriate allocation of risk to the party best equipped to take on and mitigate that risk. Only then can a proper price tag be precisely calculated against that risk and the best financing technique decided. This is another whole speech!

Let me say though that in the funding of State infrastructure today, it is important to leverage the public funding component where it is provided to maximize private finance in projects.

Frankly, the use of sophisticated and complex modes of financing is unlikely without an elevation of the debate and ad hoc financial literacy within the public sector.

Once the communication is well engaged with the community, various other options need to be openly discussed such as "timed user pays" to pay for a specific asset which the community would consider critical. This has already been done in South Australia for the dredging of the Flinders Ports channel via a specific levy on containerised grain.

I also believe the Strezlecki Track is a good example of where a user pays model makes sense.

Second is Public Sector Reform

Now more than ever we need an innovative, engaged, and productive public sector.

In 2012, I became involved in public sector reform in this State through the Change@SouthAustralia program. Most of you, if you're familiar with the program at all, would be familiar with its suite of 90 day projects and most likely have heard of its leader, Erma Ranieri.

The program focussed on the core problem that I hear time and time again when speaking to business leaders which is the conventional culture of our public organisations is not client and outcome focused, it is slow and overburdened with red tape and process, for process sake.

This program is dynamic, productive, and generated a tremendous amount of interest across the economy.

But was it successful? Sadly, at this point, I'd have to answer no.

Although there are pockets of excellence in our public institutions, there are still too many excuses for continuing business as usual.

I believe we're getting to crunch time on public sector reform. South Australia has a tremendous amount of energy in this area, and it has a national reputation for innovation in policy and administration. But we need to do so much more.

In particular, we need strong, unequivocal leadership in public sector reform, beginning at the very top. We have a lot of programs focussed on community engagement, culture change, technological transformation and professional standards. But it needs better coordination and integration, and a stronger sense of purpose and meaning. And every stage of it must be tied to economic growth and prosperity, linked directly to the economic priorities.

And we need every public sector leader aligned to this purpose, and held accountable for achieving its goals and living the values of a modern organisational culture. Until someone loses their job for non-performance in this area I fear, it will not be taken seriously.

We cannot tolerate dissent from this aim. The State's future is literally relying on it.

Third, State Promotion with a focus on investment attraction

This is key to addressing the "confidence" issue that we are confronted with both in state and interstate. We have done a lot of great work on this as a State, but more needs to be done. South Australia's economic prosperity hinges on our ability to swiftly and strategically alter the way we think and act to improve our performance in promoting the State and attracting investment to create jobs. We are still a well kept secret in spite of the considerable activity devoted to promoting the State here, interstate and overseas. The recent highly successful trade mission to China is a clear example.

With continued investment and focus we can increase the understanding of customer markets and sectors about the advantages of investing and doing business with South Australian enterprises.

We need to continue to streamline promotional content, channels and activities in meaningful ways to audiences and markets so that SME's are able to access leading globally relevant material that speaks to the truth about South Australia. In most instances access to this sophisticated communications material is largely out of reach due to barriers such as cost, time and expertise – and yet absolutely key to growing their business.

By focusing on a first-class State promotion strategy and its implementation, we will also strengthen the interrelationship and opportunities that flow between promoting the State and investment attraction. We need a highly sophisticated foreign direct investment team tasked with attracting new financial and business investments, the success of which will be measured by the jobs created. This impacts and benefits many of the 10 priorities and is critical to the success of the State's growth agenda.

Last is Healthy Ageing

In each time of major transformation, we have not only built on our existing strengths but we have also started new industries. I believe that investing in a Healthy Ageing industry will birth new businesses and technologies, yield tens of thousands of jobs by 2035 and position South Australia as the world leader in this space, as Israel is seen today, as the world leader in water management.

You heard from Mike Rungie the economic potential of the healthy ageing sector and that we've been having the wrong debate on ageing.

The popular narrative is that ageing is a social burden, that it saps an individual's emotional energy and intellectual creativity and that our future rests solely in the hands of the young.

I strongly believe this is incorrect.

The State's ageing population is actually one of its strongest assets and greatest opportunities for new business and jobs growth.

As I look 20 years ahead, I see South Australia having unlocked the power of the silver dollar, positioning itself as a living laboratory of research, ensuring wellbeing and productivity across the life course.

In 2035, we will have world leading businesses that provide cutting edge services and programs for our own elderly residents, while exporting programs, technologies and products focused on the global senior market.

This requires a new way of thinking when it comes to ageing. Let's call it **Healthy Ageing**.

Treated as an asset, this emerging growth area can positively transform our perception of becoming older and, in doing so, inject further vitality into our communities and economic prosperity for South Australia.

The EDB is working with many leaders in this field to map out a strategy. I would like to take this opportunity to road test our early thoughts of what our vision for healthy aging in South Australia could be. In doing so, I invite you to consider how this vision could resonate with you and your organisation.

Let me read the draft of our Vision.

South Australia is a place where people and business thrive.

It's a State that values diversity: where older people are active in life and resourceful in roles that bring them satisfaction and a deep sense of purpose.

We need youthful exuberance and vitality to stimulate business and stir our imagination. Equally we need those who have seen more of life, lived through its most profound changes and drawn from that experience its richest lessons. We need their knowledge, their persistence, their skills and their wisdom.

South Australians in their 70's and beyond continue to learn and evolve as human beings and as members of our community and businesses and they want to contribute in diverse ways. They can access great encore roles - in the workplace, the arts, sport, in education, and with their families and communities.

South Australian workplaces welcome the involvement of older people and provide jobs that continue to develop and make productive use of their skills and knowledge.

By engaging with and providing for, elderly people at home, we develop our ability to supply world's best products and services to global markets.

Working together, from generation to generation, we continue to grow.

Closing

In 2012, the EDB was given the challenge to bring together government agencies and the private sector to develop a new identity for the State. As part of that we did a lot of research on South Australia's Brand DNA.

Time and time again, our research kept coming back to three words: **Creative, Innovative and Industrious**. They are the three core values that define the State's essence.

I don't know about you, but when I consider the wonderful achievements of our forebears and those that lead transformative change today – words such as Creative, Innovative and Industrious for their time, certainly ring true for me.

This is a wonderful time to live and invest in South Australia and at a time when cities, States and nations all over the world are struggling to engineer solutions to the challenges of economic decline, social dysfunction and environmental degradation South Australia can again act as the incubator of the essential ingenuity the world so desperately needs.

South Australia is a prime example of how business, government, social agencies and the community can invest and work together, we can reach even greater heights of prosperity and strive to be the most liveable place in the world and a global model for twenty first century living and wellbeing.

If we harness our DNA and apply creativity; innovation and industriousness to everything we do – investing in critical infrastructure; evolve the culture and modernise our public sector; turn the ageing challenge into a new sector economy; and promote our State to attract investment – imagine what we could achieve?

In my mind, there is no doubt that South Australia is a place where people and business thrive.

Thank you.