

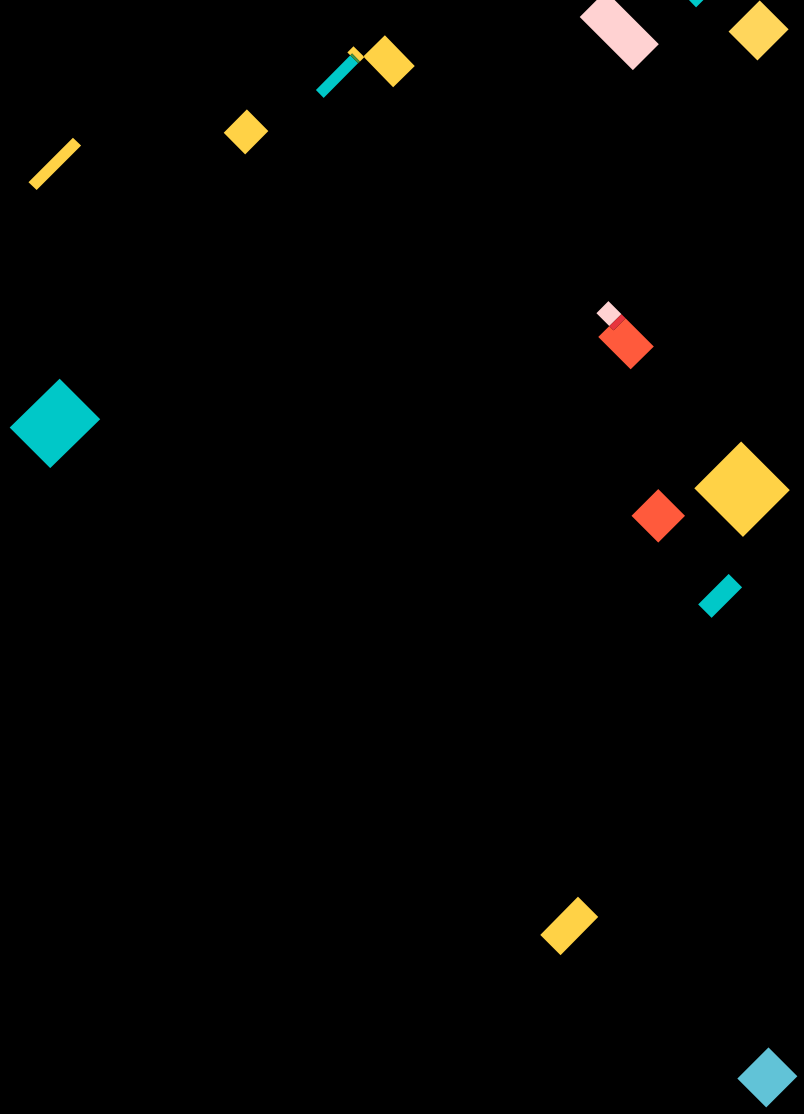
Make it big Adelaide

Phase 1
Acknowledge



Deloitte.

*Shaping
Future Cities*





Make it Adelaide

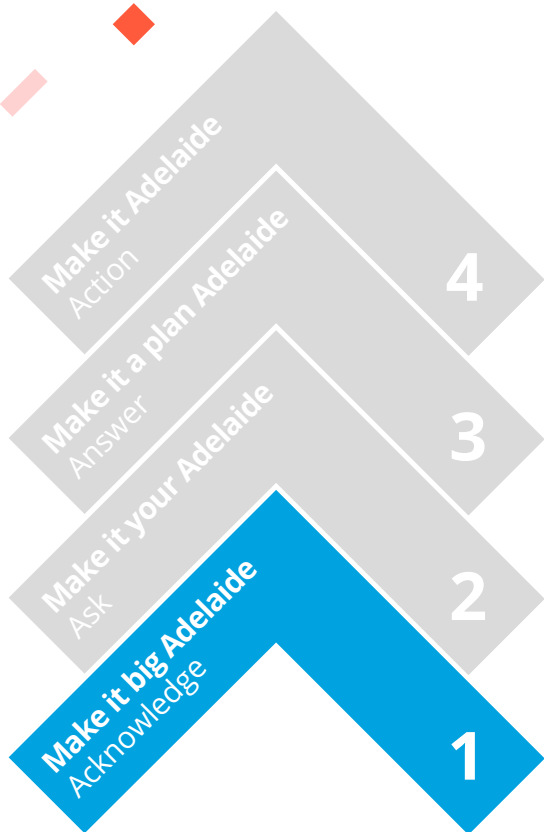
Australia's cities have a bright future. And as a city, Adelaide has a stake to claim in unlocking the nation's enormous potential for social and economic prosperity.

The South Australian Government cannot achieve this alone. Business leaders have a pivotal role to help transform our economy – and the community has a big part to play in contributions that stimulate the growth and development of our wonderful state.

Deloitte believes this is an opportunity to work collaboratively and to co-create a plan that delivers a bright and strong future for Adelaide and South Australia.

Let's shape Adelaide together and build a future where our children – and their children – can flourish.

This is the first in a series of reports. Deloitte is committed to working with industry, the community, and government to develop and deliver a set of practical solutions that help to strengthen the South Australian economy. We welcome your involvement, encourage you to join in the conversation, and look forward to working with you on this journey.



Phase 1

Make it big Adelaide > Acknowledge

is the first of a series across the themes of Acknowledge, Ask, Answer and Action. The broader narrative will act to recognise South Australia's challenge, seed the impetus for change through conversation, and develop a plan that outlines where and how we can take action to accelerate our economic and population growth.

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'It's just like a big country town'

'God's waiting room'

'Everybody's inside, sitting in the same chairs they were sitting in last year'

'Adelaide is small'

No small matter.

For too long, too many of us have been telling ourselves a set of truths we hold as self-evident: That you can't make it in Adelaide. That we're from a small city with a small destiny. That anyone with a good idea will leave, and anyone who doesn't will be left behind.

What's worse is that we tell these 'truths' to other people.

To our interstate colleagues, who decide not to invest here. To our old friends, now in the east, who choose not to come home. We tell them to our kids. And worst of all, they listen.

It's time to change that.

We know that South Australia isn't as small as we talk about, that we're already a state home to 1.7 million people and a \$100 billion economy.

We believe in the city that makes the world's best wine, built the globe's best cricket ground, and hosts the best arts festivals on the planet.

We believe in the grand city, that William Light laid out between hills and ocean in 1836, a radical city where Catherine Helen Spence demanded the right to run for office, a growing city where Sir Thomas Playford built industries for workers and brought workers for industry, and the cutting-edge city where Don Dunstan set the agenda for the rest of the country.

There's a big future for all of us.

There's a job ahead to build that future. And big choices to make it happen. There's much we need to do as leaders in business, in government, and in the community to make it the big Adelaide we want.

A big Adelaide in ten years won't have the same industries as in the past, or even as what we have now. We won't do business or run our governments in the same way.

It's time to lay out a plan for what a big Adelaide will look like and what we all need to do to make it there.

**The future is what we make it.
And we will make it Adelaide.**



Executive summary

Adelaide's economy has been doing it tough for some time

Since the mid-1980s, Adelaide and South Australia's economy has trailed the rest of Australia. The manufacturing industry, which once provided 1 in 5 jobs in South Australia, is now much less important. And while the other big manufacturing state, Victoria, has found new high-powered engines of growth in the services sector, we've been stuck behind in third gear.

The focus of the public debate in the space has often been limited to the decline of the manufacturing sector. But the gap which has opened up is driven by more than that. Big cities are getting even bigger as fast-growing services industries cluster there. This is happening all around the world – not just in Sydney and Melbourne.

Don't get us wrong – far from what the doomsayers say, Adelaide's economy isn't crashing anytime soon. There is still modest growth. But it's not setting any land speed records either. Both our population and economy have, on average, grown more slowly than the rest of the country for over 30 years.

The most practical effect of this are the choices that people make about their own lives. The number of young people aged between 15 and 34 in South Australia is lower now than it was in the mid-1980s, despite the fact that the population is around 340,000 people larger.

We've also seen this effect play out in the make-up of the private sector. The economy is now heavily reliant on small and medium enterprises and private companies, with many corporate head

offices having moved to the eastern states. Only 5.9 per cent of medium and large businesses in Australia are based in South Australia – well below our population share.

While these problems have been tough for the South Australian economy for some time, unless we act now, this is a problem which is likely to get worse. On current trends, Deloitte Access Economics forecasts that natural population growth – births over deaths – will fall to almost zero in the longer term, further limiting our opportunities locally.

We have to act now to make a difference

This future is not inevitable. Demographics are destiny, but there's still time for us to keep more of our young people and to attract more of the world's best and brightest.

We believe that we can turn it around. And we're willing to put a number on it. **Our aspiration is that we increase the number of people who choose to live in South Australia to 2 million by 2027.**

To get there, we need to meet the national growth rate of 1.4 per cent per year. To be clear, this is not a forecast – things will need to change to reach a population of 2 million by 2027.

Why focus on people? After all, these people will ultimately be attracted to live in this state by better jobs and stronger industries. There's no point pursuing population growth on paper if those people don't have good jobs or their kids don't have good futures.

However, the return of strong population growth will be the most robust indicator of sustainable improvement to our state's economic health. The reality is that both public and private capital chase where people choose to live – as we've seen as a headwind for Adelaide. Ensuring our existing jobs continue to be based in Adelaide and that we're able to attract the best and brightest will be ever more reliant on scale in the future.

Our future

The star of our economy will be a new engine of growth firing up, fuelled mainly by new private sector investment. In honour of our industrial heritage, like a V8 Monaro, we think there's eight cylinders. None of these sectors will come as too much of a surprise, but they shouldn't – we're most likely to succeed in the future by leveraging the competitive advantages that we have now.

The third instalment in *Deloitte's Building the Lucky Country* series looked at industries where global growth is strong and Australia has a significant advantage against our competitors. Four out of the 'Fantastic Five' sectors offer significant global growth opportunities for South Australia:

- International education
- Energy and gas
- Tourism
- Agribusiness.

In fact, South Australia's performance in each of these sectors is already at least a solid 'not bad'. We've grown fairly quickly in each – but there's still a lot of room for growth. To take one example, our share of tourists and international students is below what you would expect from our share of the national population (which, not to labour the point, isn't really what it used to be).

In each of these sectors, we believe we must identify opportunities to lead the nation, not come middle of the pack.

The sixth *Building the Lucky Country* report, *What's over the horizon? Recognising opportunity in uncertainty* finds that South Australia is particularly well positioned to benefit from a third Asian boom, due to our premium food and wine exports, as well as success in retail, wholesale trade and transport.

In addition to these sectors where we can surf the waves of global growth, we think there are four other sectors specifically for South Australia to focus on. These sectors build on our existing strengths to grow services sector jobs:

- Defence industries
- Creative industries
- Health and medical industries
- Professional and information technology services.

In addition to these eight cylinders, South Australia needs to continue to develop other sectors. Improvement in global markets could spur growth in mining, particularly further developments in copper and iron ore.

We think that the time is right to link a plan for population growth to the acceleration of these industries, and further underpinning this transition to a growth economy will be the advantages presented by our city. Adelaide's liveability, cost effectiveness and access to the attributes that make our nation so attractive to the world are now continually recognised. But let's not just pat ourselves on the back for these accolades, let's use them to accelerate our growth and attract and retain the people we need to ignite these cylinders and ensure Adelaide's place as a globally competitive, mid-sized city at the heart of our state.

Let's be positive about the size and strength of our economy and make the right investment decisions over the medium term to facilitate this growth. After all, over the next decade, South Australia's gross state product will cumulatively be worth more than a trillion dollars – let's demonstrate that we can make the right decisions, push through our risk averse culture and rebuild our corporate sector.

Over the balance of this year we aim to facilitate discussions with the key players in each of these domains to develop a plan that outlines where and how we can accelerate our economic and population growth.

Two things we're not doing

This isn't the first time someone has written a report about the economic future of South Australia. These reports generally take one of two approaches.

One approach they take is to offer a silver bullet. Some hero single project or industry which will solve all of our problems. That's not what this report will do. The truth is, the scale of South Australia's economy is surprisingly large – there's over 800,000 jobs and \$100 billion in product every year. Even the largest single project will inevitably be just one part of a broader story of our state's prosperity.

The other thing they say is that the future comes down to the South Australian Government, either as the saviour or to stop messing up. And the Government has an important role to play, making sensible investments in infrastructure, industry and our cities and towns, educating our kids so they have better skills to do the best jobs, and creating an economic environment that supports private investment. But it's a supporting actor – it shouldn't be seen as the star.



1

We want to work together to create an Adelaide in which our children flourish.

Why Make it Adelaide?

Why are we doing this?

We believe fundamentally that South Australia can have a stronger future, but we need to act now to secure it.

For Adelaide to compete on a global stage we need to accelerate population growth in our state and retain talent to support the growth of our key industries.

We see business and community leaders as having a pivotal role to help transform the South Australian economy. With our strong links to the business community in Adelaide, we believe that Deloitte is best placed to facilitate and become the catalyst for action – government cannot do this alone.

What does the process look like?

We are working on practical solutions to the problems that are before us, and want to engage with industry, government and the community to be part of this journey.

We see the next five months as an opportunity to work collaboratively with these key stakeholder groups to develop a plan that creates an Adelaide in which our children can choose to flourish in. This will help us to form a set of practical solutions we can all own and deliver to drive our state forward.

Following this consultation process, we will create a plan which lays out these practical solutions and what we need to do to get there.

How can I get involved?

The future of South Australia is everyone's responsibility. We want you to join us on this journey.

We will speak to key stakeholders within the business community and government, as well as engage the wider South Australian community, to help us formulate a robust plan to grow our state.

2

South Australia's doing it tough

We know our economy is in a state of transition

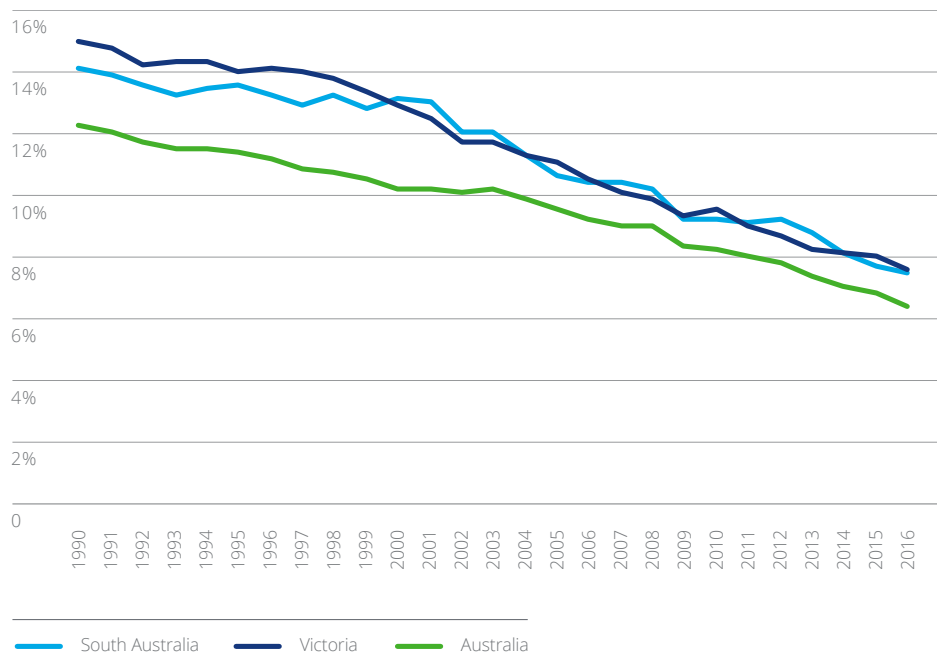
We've all heard the story. The South Australian economy is in a state of transition. Our once dominant manufacturers are shutting up shop – from the recent closures of Holden and Caroma to the now-historical Mitsubishi plant and the BHP shipyards in Whyalla. Many more companies have undergone restructures, leading to job losses or redeployment interstate.

Other 'makers of things' have disappeared from our minds almost completely – apparel, whitegoods, medicines, to name a few.

This may be the story we tell about our state, but it's not just happening here.

It's happening in Victoria, which once had a very similar economy to our own. And it's happening in cities all over the world, like Austin, Portland and Glasgow.

Chart 2.1: Manufacturing shares of output, 1990–2016



Source: Australian Bureau of Statistics (ABS)¹

This all comes down to a couple of points:

- We need other industries to pick up the slack. Manufacturing won't reach those lofty 1970s heights again, nor will advanced manufacturing create as many jobs as the old factories of the past.
- With so many other cities dealing with the same challenges as we are, we can look around the world for great ideas to shape our thinking on what to do – and what not to do.

But agglomeration and its best friend – services – will have a far greater effect on our state going forward

We might be in a state of transition, but that won't be the case forever. While the decline of manufacturing in South Australia has been slow and steady, this specific era of adjustment is coming to a close. Most of South Australia's traditional manufacturing has already left, and those industries which remain – like advanced food manufacturing and defence – are better adapted to the current economic climate.

But we're not just experiencing the loss of manufacturing – we're feeling the downsides of living in a smaller city. Victoria's going through the same transition as we are, but they've weathered the change much better as a whole.

So, what's the difference between South Australia and Victoria?

It's pretty simple: Victoria has a burgeoning services economy, and the fastest growing population in Australia to boot.

Chart 2.2 shows industry value added per person in South Australia compared to Victoria. We do well just where you'd expect us to – agriculture, thanks to our wine and produce; health care, linked to our ageing population; public administration; and mining.

But what's more interesting are the areas where Victoria beats us, fair and square. Financial services, professional services, information media and telecommunications, and property and rental services.

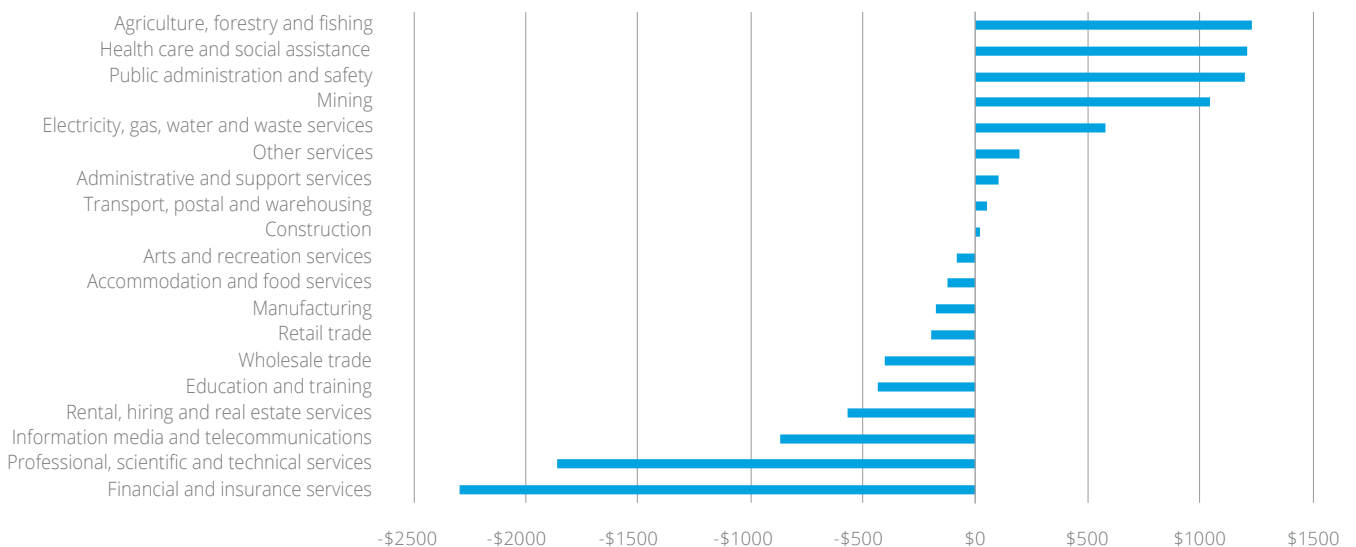
And that's consistent with Australia's comparative advantages as a developed, high wage country. We perform best in areas which are skilled or capital intensive, like services or mining. High labour costs mean that sectors relying on lower skilled workers are less competitive globally. But South Australia hasn't transitioned towards these areas as well as Victoria or the other states.

Our services sectors haven't grown fast enough to make up for the decreasing role that manufacturing plays in our state.

There's another story here too: the story of agglomeration. The economies of agglomeration are effectively clustering effects, where the productivity of knowledge workers rises when they are in close proximity to each other. The World Bank suggested in 2009 that developing economies are entering a 'new realm' of agglomeration where proximity matters not just for access to markets, but for access to ideas.³

We see the effects of agglomeration playing out in Australia today. Sydney and Melbourne are getting bigger as the faster-growing services industries cluster there. Workers congregate in big office towers, technology parks and inner-city universities to collaborate and share ideas – even though technology allows us to communicate more easily than ever before. And this is happening all over the world – think London, New York, San Francisco and Shanghai.

Chart 2.2: Differences between industry value added per capita – South Australia vs. Victoria, 2016



Source: ABS²

3

But not as tough as what you'd think

We've been outpaced by the rest of mainland Australia

Our declining manufacturing sector, the collapse of the State Bank and the recession we had to have: all contributors to South Australia's slowing economic growth over the last three decades.

Over the past few decades, we've been outpaced by the rest of Australia (excluding Tasmania) – and the gap is becoming more pronounced over time. Between 1990 and 2016, South Australia grew by an average 2.3 per cent each year – compared to 2.7 per cent in Victoria and 3.1 per cent across Australia. Our income

per capita is also lower than all Australian jurisdictions except Tasmania, and it's well below the national average.⁴

This pace has translated through to slower employment growth compared to the rest of the nation. South Australian unemployment rates have generally tracked above the national average since the 1990s, with the difference in underemployment rates (part-time workers wanting additional hours) even more stark. Since 1986, South Australia's trend unemployment rate has been on average 0.8 per cent higher than the national unemployment rate – see Chart 3.1.⁶

Table 3.1: Average annual economic growth in Australia, selected years

Average annual GSP growth	1990–2016	2000–2016	2010–2016
New South Wales	2.5%	2.1%	2.5%
Victoria	2.7%	2.6%	2.0%
Queensland	4.0%	3.8%	2.6%
South Australia	2.3%	2.3%	1.6%
Western Australia	4.7%	4.9%	5.1%
Tasmania	1.9%	1.8%	0.7%
Northern Territory	3.5%	3.6%	4.2%
Australian Capital Territory	2.6%	2.7%	2.2%
Australia	3.1%	2.9%	2.7%

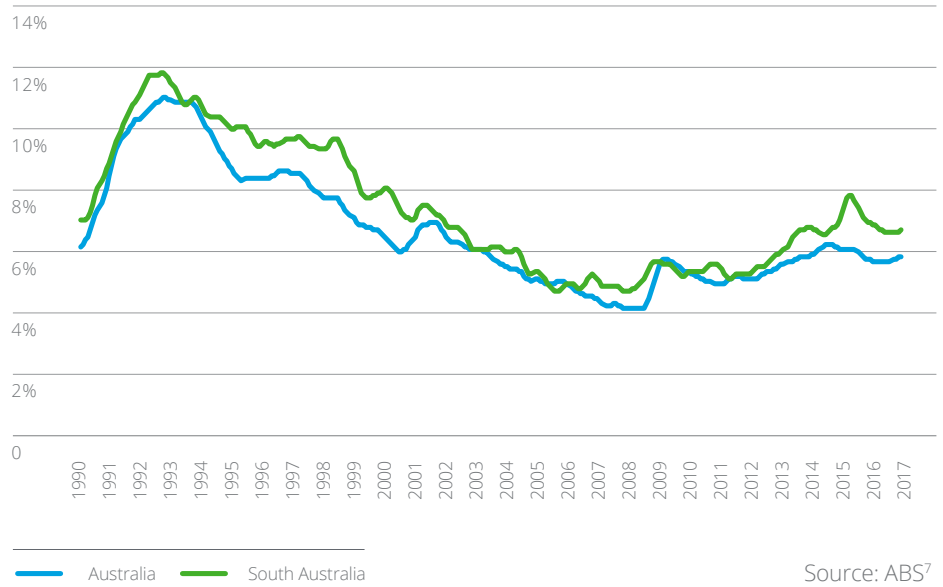
Source: ABS⁵

And our share of the nation has declined as a result

Slower growth rates and higher unemployment year after year all add up in the end. The combined effect of industrial decline and fiscal turmoil in the 1990s drove a population exodus from South Australia. Those who left were predominantly young people and young families who did not return. Remarkably, even today, there are fewer individuals aged between 15 and 34 living in South Australia than there were in the mid-1980s.

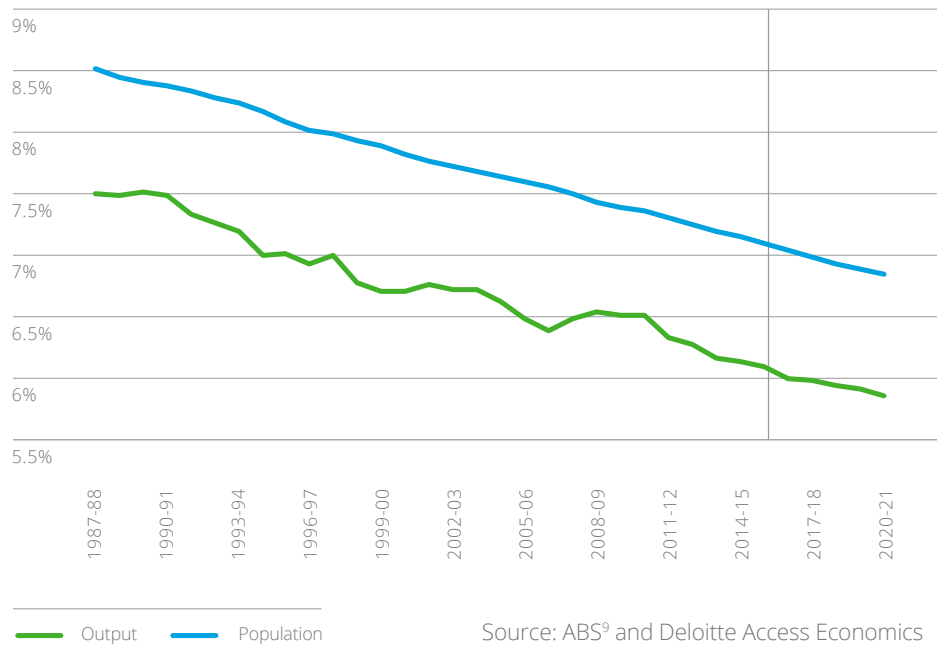
As a result, our share of the nation has declined dramatically. South Australia's share of Australian gross domestic product (GDP) was 7.5 per cent in 1990.⁸ Today, we only represent 6.1 per cent – coupled with a similar decline in our share of the national population. This trend is forecast to continue into the future.

Chart 3.1: South Australian and Australian trend unemployment rates



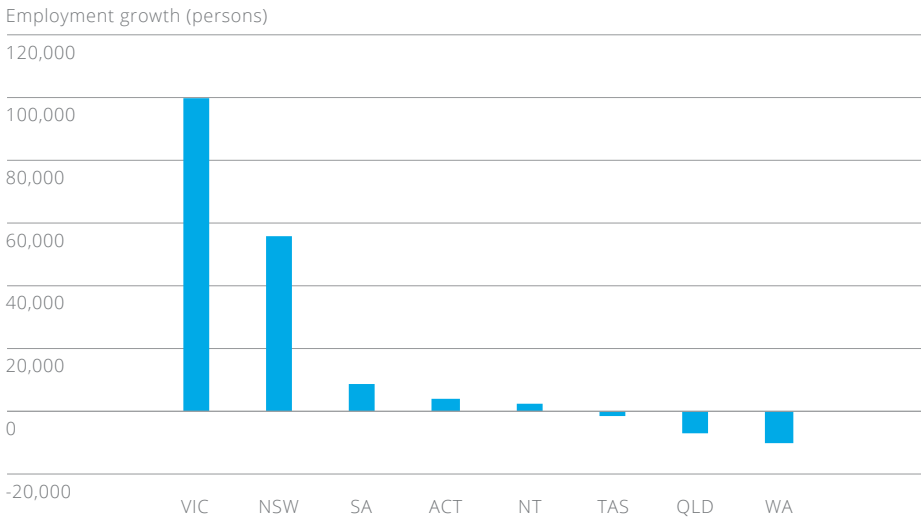
Source: ABS⁷

Chart 3.2: South Australia's share of national output and population



Source: ABS⁹ and Deloitte Access Economics

Chart 3.3: Employment growth, year to March 2017 over previous year



Source: ABS¹¹

But we're still growing – just slowly

Despite all the doomsday talk, South Australia is still here – and still growing.

Our economy grew by 1.9 per cent last year, matching Western Australia, almost meeting Queensland and far exceeding Tasmania to boot.¹⁰ South Australia came third in jobs created in the year up to March 2017, trailing only Victoria and New South Wales.

And it's important to remember that in our discussions at home, interstate and abroad. We haven't crashed the car – we're just stuck in third gear.

South Australia came third in jobs created in the year up to March 2017.

4

Our burning platform

2 million people by 2027

Our aspiration is that we increase the number of people who choose to live in South Australia to 2 million by 2027.

The current population of South Australia is 1.71 million.

We're not as far off as you might think. But we have a long way to go, and it won't be an easy path.

Why people?

Without people, economies just don't work. We need people to produce things, consume things and to organise things in ways that robots just can't do.

More than that, we need enough people so that Adelaide remains a significant city in Australia's economic life. There will always be places that are bigger than Adelaide, but this is a matter of critical mass. Economies of agglomeration will work in our favour if enough people with the right skills and ambition live here and share ideas from one side of the city to another and beyond. Our services industries will cluster and grow here – not in Sydney or Melbourne – if we give knowledge workers and businesses a reason to do so.

The reality is that both public and private capital chase where people choose to live. Ensuring our existing jobs continue to be based in Adelaide and that we're able to attract the best and brightest will be ever more reliant on scale in the future. Without scale, we won't develop our services sectors. And without services, we miss our opportunity to fill the hole left by traditional manufacturing and decades of slower growth.

That's why we need 2 million people by 2027.

The future is what we make it. And we will make it Adelaide.

What needs to happen?

We've chosen population as our key metric because the return of strong population growth will be the most robust indicator of our state's growing and sustainable economic health. To be clear, this is not a forecast – things will need to change to reach a population of 2 million by 2027.

So what needs to happen to get there?

We need to double our population growth from now to 2027

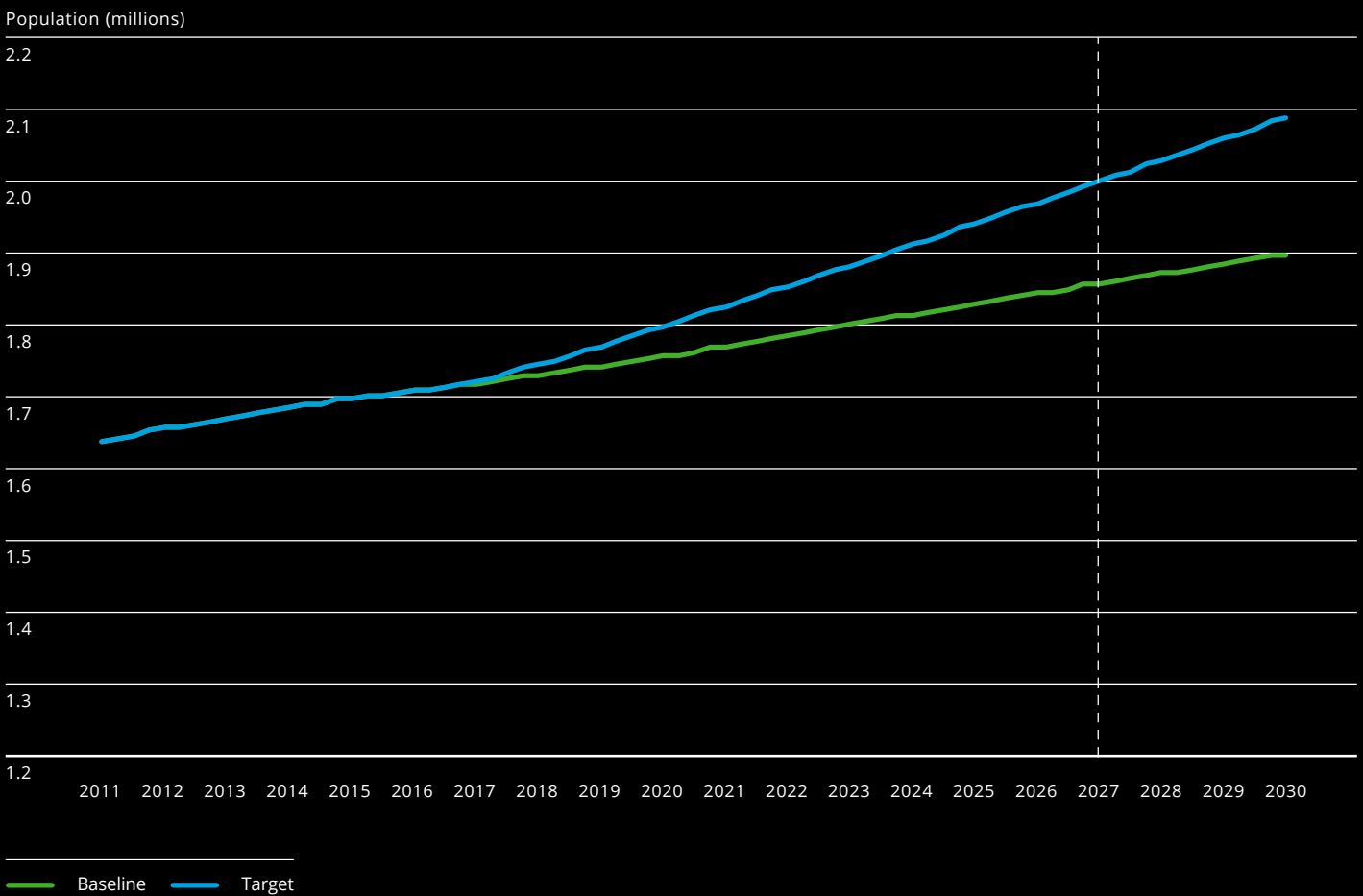
To reach a population of 2 million, an extra 290,000 people will need to choose to call South Australia home by 2027.

This represents an additional 142,000 people over and above baseline government forecasts. To put it another way: nearly 13,000 extra people will need to live in South Australia each year compared to what the middle of the range forecasts suggest.

This translates to nearly doubling our population growth compared to what we see in the baseline. Our population would need to grow at 1.4 per cent each year – equivalent to the Australian growth rate – compared to 0.8 per cent under the baseline scenario. The baseline is built on the same assumed parameters as the Department of Planning, Transport and Infrastructure (DPTI) medium series and ABS' series B population forecasts, but updated to reflect South Australia's most recent population performance.

An extra 290,000 people will need to choose to call South Australia home by 2027.

Chart 4.1: Baseline and target population growth



There are fewer individuals aged between 15 and 34 living in South Australia than there were in the mid-1980s.

Hitting 2 million by 2027 requires South Australia to grow well above its best results in history. That may seem unachievable at the outset. Deloitte Access Economics modelling shows that the South Australian population will reach 2 million in early 2039 in the baseline scenario.

But if the population stars align – international migration, interstate migration and natural increase – we can get there. International migration was particularly strong in 2009 and 2010, net interstate outflow was relatively minor (and even positive) in 1990 and 1991, and natural increase was more positive in the 1980s.

The required level of growth is broadly in line with each component matching its best performance – all at the same time.

And that means keeping our young people here

For many years, too many young South Australians have left seeking better futures interstate and overseas.

They leave with degrees from some of the world's top universities. They take with them their skills, their innovative ideas and their passion. They leave our festivals, our wine regions and our affordable living – and most importantly, their family and friends.

And yet they still go.

This needs to change.

We need to make a compelling case to young South Australians that you can have a successful future in Adelaide. That we're a small city with big opportunities. That people who stay can make it big, and that people who leave are missing out.

And attracting the best and brightest to our state

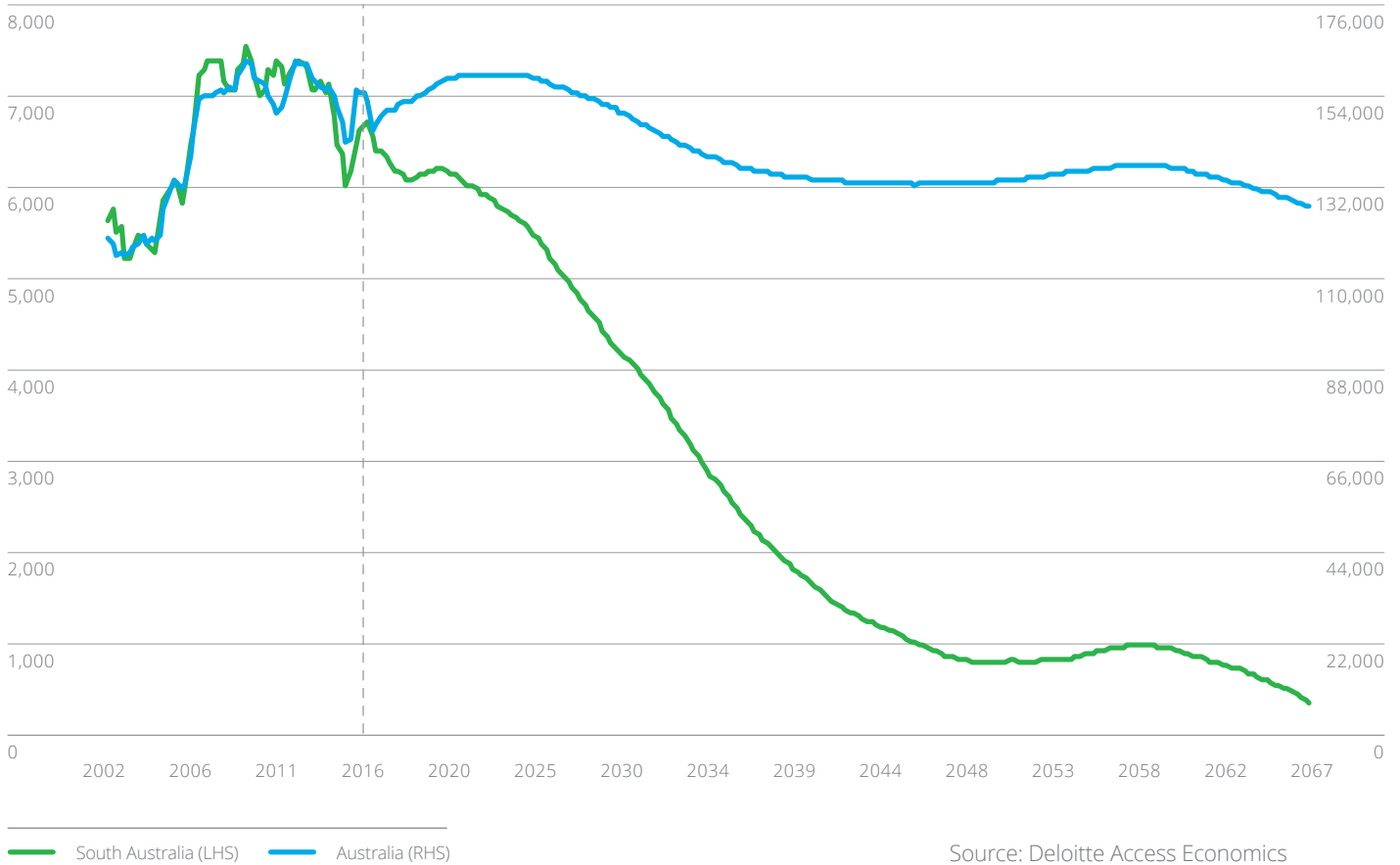
We don't just want to keep our young people here – we want to attract more than our fair share of the world's best and brightest.

International migrants are great for the economy and our community. They can boost the working-age population, contribute to taxes and bring necessary skills to our shores.¹⁴ Researchers at the University of New England found that the social benefits of migration far exceed the costs, especially in the long term.¹⁵

There are also broader benefits of attracting migrants to South Australia. Migrants retain important connections with their home country, which can be important for trade links. Studies have shown that for some countries – including our neighbour New Zealand – a greater stock of migrants from a particular country leads to more trade with that country.¹⁶

A targeted migration scheme could also impact those sectors of the South Australian economy where we have a comparative advantage, like energy and gas or tourism.

Chart 4.2: Natural population growth, Australia and South Australia



Source: Deloitte Access Economics

What if nothing changes?
There are fewer young people in South Australia today than there were in the mid-1980s

It's a harsh truth.

Fewer people aged between 15 and 34 live in South Australia today than in the mid-1980s, despite the fact that the population has increased by around 340,000 people in that time.¹⁷

The continued exodus of young people is having an effect on our population and on our economy. The median age in South Australia is 40, the oldest of any mainland state.¹⁸ Young people taking their productive capacity with them is bad for our economy.

There are also flow on effects. While some young people do return in their 30s, many remain interstate when they have children. This affects our birth rates down the track, and further accelerates our ageing population.

And demographics mean our natural growth is slower than ever before

Fertility rates have been declining for many years in developed countries. Since 1976, the total fertility rate in Australia has been below 'replacement level' – meaning that the average number of babies born to a woman is insufficient to replace herself and her partner. Despite an increase in the late 2000s, fertility rates are once again on the decline. The current total fertility rate is 1.8 babies per woman in South Australia, above only Victoria and the ACT.¹⁹

At the same time, the baby boomers are ageing. While we are currently facing the challenges of an ageing population, those baby boomers will one day reach the end of their natural life.

These two factors combine to mean that natural population growth will slow and eventually fall to almost zero. On current forecasts, the number of deaths will nearly equal the number of births in South Australia. Without any other intervention – people leaving or people arriving – South Australia's population would stagnate.

5

How do we do it?

The star of our economy will be new engines of growth firing up, fuelled by new private sector investment. In honour of our industrial heritage, like a V8 Monaro, we think the engine has eight cylinders – competitive advantages and those strategic industries where we have lots of room to grow. We also need to use our city’s advantages to accelerate our growth and attract and retain the people we need to ignite our cylinders and secure Adelaide’s place as a globally competitive, mid-sized city.

Our industries: focusing on our competitive advantages

The third instalment in Deloitte’s *Building the Lucky Country* series looked at industries where global growth is strong and Australia has a significant advantage against our competitors.²⁰ Four out of the ‘Fantastic Five’ sectors offer significant global growth opportunities for South Australia.

These industries are things we’re already good at. There’s a lot of room for growth, but there are also challenges ahead.

We believe we must – and can – identify opportunities to lead the nation.

None of them stand alone. In fact, it’s the synergies between each sector where many of the most exciting opportunities lie.

International education

International education is South Australia’s largest services export. Deloitte Access Economics found that international education and training contributed \$954 million to the South Australian economy in 2015, and provided over 7,500 full-time equivalent (FTE) jobs.

Each extra international student enrolment in higher education contributes \$43,700 in total value added and 0.33 FTE jobs to South Australia.²¹

34,200 international students were enrolled in South Australian educational institutions in 2016 – and not just in universities. Around half of students were enrolled in English language intensive courses, vocational education and training, school and non-award courses.²²

South Australia has natural advantages in attracting students: a relatively affordable, high standard of living and a large stock of student accommodation. But significant opportunities remain across the sector – we make up 7.1 per cent of Australia’s population, but captured only 4.8 per cent of the international student market in 2016. If South Australia’s international education market grew by 15,200 enrolments by 2026, we would match our population share – and if we grew a little faster than the rest of the country, we could ‘punch above our weight’ and capture 10 per cent of the national market.²³

These international students would bring vibrancy to the city and beyond, as well as innovative ideas and entrepreneurial businesses to support our economy.

How can we attract new international students to South Australia? How do we ensure students currently studying in South Australia share their experiences back home and beyond? How do we encourage more students to remain in South Australia beyond their studies?

Energy and gas

At a time when energy security is a crucial issue in Australia, South Australia plays a critical role in continuing production in Australia and across the world. While a lot of the focus of the public debate has been on energy supply, in the medium to long term, the focus will shift to the resources opportunity of South Australia's gas and renewables.

South Australia has the country's largest onshore oil and gas reserves: the Cooper and Eromanga Basins in the state's north-east, which also straddle south-west Queensland.²⁴ In 2016, we spent \$122 million on oil and gas exploration, representing nearly 9 per cent of expenditure across Australia in seasonally adjusted terms.²⁵ Unconventional oil and gas exploration has also expanded in the state – requiring specialist technology and expertise to extract. South Australia also has high potential in the renewable energy sector: if South Australia were a nation, it would rank second only to Denmark in terms of installed wind power on a per capita basis.²⁶

Given our natural advantages in gas, as well as clean and renewable energies, how do we become global leaders in the energy networks of the future? How can we do more to translate our strengths in these sectors into knowledge jobs servicing the world?

Tourism

Adelaide and South Australia are great tourism destinations – and we've been recognised for it. Adelaide made the top ten cities in Lonely Planet's Best in Travel 2014 list, while South Australia was listed in the top ten regions in 2017.

Tourists spent \$6.3 billion in the state in 2016, with 432,048 international visitors and 6.2 million interstate overnight visitors – representing growth of around 6 per cent compared to 2015.²⁷ But only 4 per cent of Australia's international visitor nights were spent in South Australia in 2016 – far below our population share, and nowhere near doing justice to our beautiful state.²⁸ We need to do more to leverage the assets that we have – Kangaroo Island, our festivals, world class wine and our regions.

What additional infrastructure projects will assist us to accelerate the growth we have seen? International hotels? More eco-tourist developments in our wine regions? Additional international airlines or routes?

Agribusiness

Agriculture, food, wine and forestry accounted for \$5.3 billion in exports for South Australia in 2016, and made up around half of our merchandise exports.²⁹ We have a diverse agricultural base – from wheat to livestock and seafood. Adelaide was recognised as a Great Wine Capital in 2016, as a gateway to 18 wine regions and a producer of almost 80 per cent of Australia's premium wine. South Australia's food processing industry has also emerged as our largest manufacturing industry, bolstered by increasing demand in south-east Asia. From boutique producers like Beerenberg and Maggie Beer, to large players like Thomas Foods International, South Australia has developed a reputation for high-quality produce.

In the sixth instalment in Deloitte's *Building the Lucky Country* series, we recognised that South Australia would be one of the greatest beneficiaries of renewed booms in Asia, partly due to the growth potential for our niche food and wine exports.³⁰

However, agribusiness faces an unexpected problem: a shortage of skilled graduates. Less than 1.5 per cent of Australian university students pursue agriculture and environmental courses.³¹

Our agricultural producers face pressure to serve an ever-growing market with limited resources. Retaining our natural advantages of clean air and high-quality soil in this environment requires expertise and innovation. If we fail to make the most of this opportunity for both our education and agribusiness sectors, this bounty may instead accrue to our competitors.

What actions can we take to attract the necessary workforce to further enhance our leading position in this sector? What activities or policies will drive rapid export growth of our quality food and wine?

Our industries: the important ones where we still need to grow

In addition to those sectors where we can surf the waves of global growth, we think there's four other sectors specifically for South Australia to focus on. These sectors build on our existing strengths to grow our economy.

Defence industries

South Australia is the home of the only state-based defence agency in the country, Defence SA. World leaders like BAE Systems, Lockheed Martin and Raytheon all form part of a state-based defence cluster in Adelaide's north. This cluster allows small-and-medium-sized local employers, like Levett Engineering, to play key roles in supplying large defence procurements. In the city's west at Techport, ASC is developing South Australia's engineering and manufacturing expertise, building 12 new submarines in partnership with French company DCNS. By 2020, work will commence on nine new Future Frigates at Techport.

How do we ensure that we develop a sustainable services industry in South Australia with a life beyond these construction projects?

Creative industries

South Australia is already known as the Festival State – with the largest Fringe festival in the southern hemisphere, the well-recognised Adelaide Festival and Adelaide Writers' Week, and Australia's only World of Music, Arts and Dance (WOMAD) festival. These events attract world-class musicians, artists, and performers. Year-round, the city sees over 1,100 live music gigs per month in 200 venues, and we've raised artists as diverse as Sia Furler, Jimmy Barnes and the Hilltop Hoods.

But our creative potential goes beyond Mad March – with arts and recreation services contributing a total of \$853 million to our economy in 2015-16.³² Adelaide is developing its reputation – but, as in some of our other key industries, we face a shortage of locally-grown talent.

Aligned to the magnificent cultural boulevard of North Terrace, this often undersold aspect of Adelaide's character and economy presents significant opportunities for investment to sustain our leadership and enhance this critical component of our liveability.

Do we really understand the intersection between our creative and cultural assets and the impact on tourism, international education and the attraction of service industries? What investments would provide acceleration of this dynamic?

Health and medical industries

The South Australian Health and Biomedical Precinct on North Terrace is set to become one of the largest health and life sciences precincts in the southern hemisphere. The new Royal Adelaide Hospital, the South Australian Health and Medical Research Institute (SAHMRI), the University of Adelaide's Medical and Nursing School and the University of South Australia's Centre for Cancer Biology will form the cluster. SAHMRI 2 is also on the cards following the Federal Government announcement in the 2017 budget for a proton beam therapy facility.

What features make cities attractive to young and experienced workers?

The challenge now is how we can establish and grow health and biomedical businesses which are driven by both the research undertaken by, and the talents of, our local researchers. The innovative research undertaken at our universities is well placed to be exported across the world, with collaborations between businesses, hospitals and other research institutes set to benefit the broader community.

How can we further support health research and commercialisation in South Australia? How can we leverage the investment in our universities and SAHMRI?

Professional and information technology services

Adelaide might not be a national hub for professional services, but it's impossible to ignore the value of the sector. Together, professional, financial, and real estate and hiring services contributed over \$14.5 billion to South Australia's economy in 2015-16.³³ In 2016, Deloitte Access Economics identified in the BankSA Trends economic bulletin that employment in professional services – from scientists and veterinarians to lawyers and computer programmers – had grown by 62 per cent over the past 20 years, compared to 24 per cent growth across the board.³⁴

The cost advantages for middle and back office support, the liveability of our state and high skill levels give South Australia plenty of room to grow its base of white-collar workers.

Information technology services are also well placed to become a strength for Adelaide. Adelaide is set to become Australia's first Gig City, with 14 locations in Adelaide to receive internet speeds of up to 10 gigabits per second – which is set to benefit start-ups and other businesses. And growth in our higher education and research sectors, alongside collaborations between government, universities and businesses are helping to develop an ecosystem where innovations can be shared and commercialised.

As the global professional services industry evolves through the use of technology, which components can we attract to Adelaide to leverage our economic advantages? What else can we do to develop and attract global technology firms to Adelaide? How can we enhance collaborations between government, universities and the private sector?

Our people: making Adelaide a place where people want to live, work and grow

The other half of the equation is our people. We need to retain people who grow up in South Australia and attract more people to live here too. This will only occur when Adelaide is considered a more attractive place to live and work. We need to offer something more.

Living smarter and more densely

Adelaide is a mid-size city in terms of population, but it's spread out over a relatively large area by world standards. Some people want a traditional house on a quarter-acre block, but others don't. Plus, continuing to grow out without growing up will stretch public infrastructure thin. The South Australian Government's *30-Year Plan for Greater Adelaide* recognises this reality, with policies to increase population density while minimising congestion.³⁵

Adelaide also needs to get smart. Smart cities use existing and new technologies to better meet people's needs – like the internet, real-time data collection and analysis, software and sensors. Adelaide is already on this path, with the opening of the Smart City Studio, a collaborative project between the Department of State Development, Adelaide City Council and Cisco. The studio ran a trial for smart street lights which use smart LED technology to save energy and maintenance.³⁶

What else can we do to become a 'smart city'? What features make cities attractive to young and experienced workers?

A culture that takes more risks

Australia often places highly in world rankings for ease of opening a business,³⁷ as well as showing a high level of business start-up activity by world standards.³⁸ However, the exodus of young people chasing opportunity elsewhere indicates a widespread belief that you can only make it outside Adelaide.

Older generations are also sceptical of what Adelaide has to offer. Entrepreneurs who've had to move away from Adelaide note that investors are risk averse and that it's hard to secure funding – meaning that we lose entrepreneurs to chase capital elsewhere.

If we can change our mindset – from risk averse to risk taking, from encouraging more of the same to encouraging innovation, from scaring our entrepreneurs away to giving them a place to stay – who knows what Adelaide might achieve?

How can we better use Tonsley to encourage an Adelaide culture which takes more risks? How can we support entrepreneurs and start-ups? How can we encourage university graduates to incubate their business ideas in Adelaide?

With better connections to the world, not just to the east coast

Adelaide needs to have a global outlook if it's to thrive in a globalised world. We often find ourselves focused on what the eastern states are doing and how we can better connect with Sydney and Melbourne. But our future customers aren't based in Sydney – they're located across the world. New technologies, cheaper international shipping and free trade have created new opportunities for South Australians. We've seen this already in the wine industry – with thanks to innovative production techniques and the popularity of South Australian shiraz.

The opportunities of the future are on our doorstep. Innovative South Australian companies are already integrated into the world economy from their Adelaide headquarters. We must look beyond the east coast to target export markets and attract investment and confidence from abroad.

How can we better connect to Asia? How can we support South Australian businesses to market overseas?

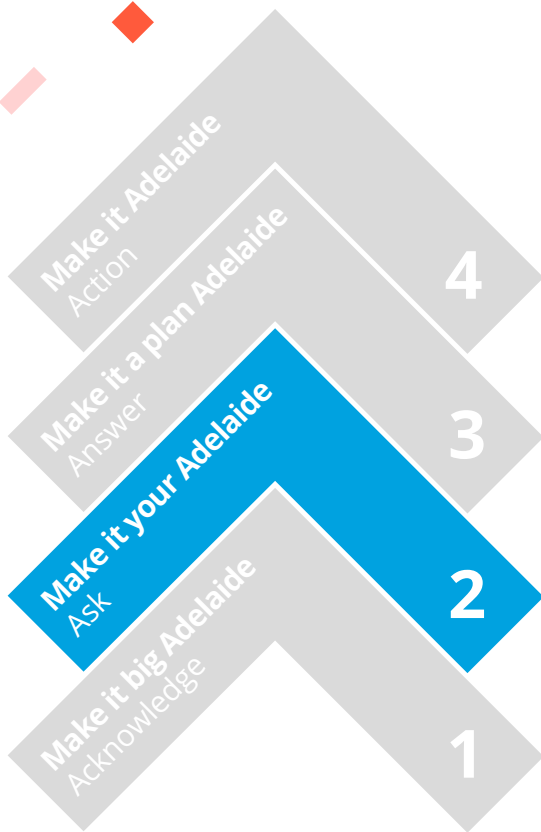
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Phase 2

Make it your Adelaide > Ask

is set to engage South Australian business, government and community leaders. Together we will engage in workshops and summits to develop sector based interim findings and shape a vision for the South Australian economy. Our final report will synthesise the refined ideas and diverse insights collected throughout this journey.



For more information visit
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