

Australian Industry Group

# Ai GROUP SUBMISSION

to the NSW Government's  
2016-17 Budget

APRIL 2016



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## About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

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## Introduction

The NSW economy has continued to gather momentum in response to the low interest rate environment and the added support of a more favourable Australian dollar over the past two years. Strong housing demand and rapid house price appreciation have in turn driven high levels of residential construction with this reflected in strengthening NSW retail sales and a pick-up in employment growth. The lower exchange rate is also driving an increase in tourist numbers to the State.

Despite these headline figures, not all businesses are enjoying the strengthening of the NSW economy.

- Many are still facing tough conditions, including manufacturers facing weaker demand from mining and heavy industrial projects, regional engineering and commercial constructors and those businesses exposed to the exit of passenger car assembly in Australia.
- A number of businesses are struggling to recruit skilled workers, particularly companies based in central Sydney locations.
- Many manufacturers and constructors continue to face pressures on profit margins due to relatively elevated costs of imported inputs and a still strongly competitive pricing environment.

In addition, there are risks to the outlook for the NSW economy and considerable challenges to navigate, including the continuing slowdown in China and sluggish growth in much of South East Asia, lower commodity prices and the potential for further bouts of financial market volatility. The contribution of the residential sector is also likely to diminish through 2016 and 2017 as approvals edge lower and the banks tighten credit flows to investors.

These circumstances mean it is important that the NSW Government achieves policy settings which are sensitive to the range of challenges faced by businesses and which ensure that the state makes the most of the opportunities that lie ahead.

Consequently, Ai Group urges the NSW Government to concentrate on reducing business costs through reductions in taxation and better regulation to assist current and future NSW businesses develop and gain market share domestically and internationally.

Ai Group also emphasises the importance of meaningful and lasting reform that will provide the foundation for achieving longer-term employment and growth objectives.

In particular, the Government should focus on:

- Improving competitiveness by lowering business costs for NSW businesses.

- Continuing to lift the productivity of the public sector and in the delivery of services for which it takes responsibility;
- Facilitating and supporting efforts to encourage productivity improvements in all sectors of the economy - by lifting capabilities, building networks, enhancing relationships between industry and research organisations, creating mature partnerships with the private sector, and by providing appropriate information and encouragement - to businesses and other providers of goods and services;
- Ensuring policy and regulatory settings - in areas such as taxation and the provision and maintenance of infrastructure - are conducive to strong productivity growth and;
- Maintaining strong public finances.

Accordingly, this submission focuses on the policy parameters that Ai Group believes should form the basis of the 2016/17 budget with a view to delivering sustained growth and opportunity.

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## Summary of Recommendations

The following are the key recommendations of Ai Group's budget submission.

### ***Taxation***

- The NSW Government commits to ensuring a competitive tax system that promotes the development and growth of businesses operating in the state.
- This includes investigating alternative ways to finance the removal of the most inefficient state taxes. One proposal that we believe warrants particular consideration is to finance the removal of residential and commercial stamp duties by more fully utilising the existing local government land rate system or by reforming the state government land tax base.
- As fiscal circumstances permit, the Government acts to substantially improve the competitiveness of the state's payroll tax regime.

### ***Infrastructure Investment***

- Ensure the state's long-term infrastructure strategy is based on a rigorous and transparent cost-benefit analysis as part of a whole of government strategy.
- Ensure consistency in the development and management of infrastructure proposals across the government sector.
- Work more cooperatively with industry to coordinate infrastructure projects.
- Implement measures that promote early engagement in projects to ensure that opportunities, risks and issues on individual projects are identified and communicated before requiring the submission of tenders or expressions of interest.
- Ensure the selection and retention by Government of experienced and appropriately skilled project development and managerial delivery personnel.
- Adopt best practice scoping practices at the outset of a project as a means of avoiding major pressure points.
- Direct planning to achieving efficient outcomes by focusing on project objectives instead of prescriptive specifications.
- Ensure approvals processes are more certain, and the conditions streamlined before the construction contract is executed.

### ***Cost Effective Bidding for Government Business***

- Provide advance notice of intent to issue a request for tender would assist businesses to plan for the resourcing required to submit tenders.
- The identification of the proposed risk allocation at the earliest possible stage in the tender process.

- The development of a more effective Public Private Partnership model that reduces operational risk (including equity risk) to contractors and places responsibility for risk on the appropriate entities rather than those who are least able to resist it.
- Adjust assessment processes to place greater reliance on third party accreditation and reduce reliance on the provision of comprehensive material at the bid stage.
- Streamline the tender process by adopting a two-stage process for the tendering of major projects.
- Shortlist bidders as early as possible
- Provide incentives to contractors to achieve early, cost efficient delivery of projects and to maximise value to the State.
- Recognise the cumulative financial cost on tenderers bidding on multiple projects and introduce fair and reasonable contributions to bid costs especially where tenderers develop innovative and cost effective solutions.
- Harmonisation of state and Federal codes and/or guidelines for procurement in the building and construction industry.
- Broad-based implementation of the recommendations of the Productivity Commission's Inquiry Report on Public Infrastructure.

### ***Government Procurement***

- Government agencies show a commitment to the procurement principles of value for money, clarity, transparency and improvement of processes, full and fair access, full opportunities for local suppliers, and supporting industry through effective planning and communication.
- Procurement decision making be guided by a "whole of life" costs approach that looks beyond "least cost" and brings to bear a more transparent, broader cost-benefit equation or value model that considers whole-of-life costs.
- Undertake an education campaign to ensure that government purchasing officers and decision makers understand how to take into account "whole of life costing" in their evaluation of tenders, and are fully aware of Australian industry capabilities.
- Commit to well-designed procurement guidelines, incorporating simple standardised contract requirements, clear tender specifications and evaluation procedures and clear communications on the terms of procurement.
- Ensure consistency in relation to conformity with Australian standards with no effective or implied preferential treatment of offshore suppliers.
- Make greater use of the Industry Capability Network (ICN) in helping to build Government and industry knowledge of local industry capabilities and sourcing opportunities.

### ***Transport***

- A continued focus is needed on exploring other locations for intermodal terminals as a key component in reducing congestion on Sydney's road network and improving the efficiency of port-related freight movements.
- Plan for more freight-only rail lines and guaranteed time allocations on the rail network to cater for increasing freight traffic demands.
- Continue to investigate opportunities that enable increased contestability in the delivery of public transport services.

### ***Business Regulation and Compliance***

- Develop and review regulatory instruments in concert with other state and territory governments.
- Cut regulatory burdens on business through a continued focus on reducing, streamlining and removing unnecessary regulatory burdens. This includes the removal of regulatory duplication between agencies and the pursuit of best practice regulatory principles
- Outline a plan to substantially improve the competitiveness of NSW's payroll tax regime.
- Businesses be given the option of paying taxes, premiums and charges on an instalment basis where practicable.
- Regulatory agencies work together to develop and implement a broadly-based master licence for business.
- Establish an on-line platform that details all local government regulatory instruments, procedures and costs.

### ***Planning***

- Provide certainty to industry in the assessment process.
- Streamline planning and development processes to reduce delays and uncertainty in zoning, assessments and planning approvals.
- Ensure transparency and accountability in planning to improve business confidence in the planning and decision making processes.
- An appropriate balance between industrial and residential interests and sufficiently flexible to provide protection and predictability for existing land users that require planning protection.

### ***Innovation***

- Ai Group encourages the NSW Government to take an active role in improving the innovation environment in the state through considered policy settings and incentives, including continued funding for programs under the Innovate NSW

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banner – the TechVouchers, Collaborative Solutions and Minimum Viable Product programs.

### ***Planning***

- All strategic phases of the planning process, not only the development assessment phase be subject to time frames that are monitored and reported with the objective of driving best practice outcomes.
- Speedier implementation of standard format planning schemes (local environment plans) by local councils.
- A consistent approach across councils in the requirements for development approvals and in the engagement of communities in key planning decisions.
- Integrate and rationalise approvals for all projects by creating an approvals committee with the authority to issue all relevant approvals.

### ***Technology and Digitisation***

- Adoption of Government programs that assist SMEs in taking advantage of broadband and other advances in ICT (including the upskilling of employees) could make a valuable contribution to NSW's future global competitiveness.
- Build and strengthen the NSW Government's whole-of-government digital strategy by increasing and redirecting investment as required. This should be undertaken with a view to streamlining the way the Government collects and makes use of existing data from businesses, and reducing compliance and regulatory costs for businesses and governments.
- Maintain a coordinated approach to cyber security by giving continued emphasis to working with the Federal Government to protect government assets and the broader digitally enabled economy.

### ***Supporting Exporters***

- Ensure a continuation of targeted assistance for business participation in trade missions.
- On ongoing assistance for NSW exporters beyond the initial assistance of establishing export relationships. Further advice and support to help business further grow exports would benefit the state.
- Develop a clear export strategy and a process to achieve it so as to boost the export opportunities of NSW businesses.
- Rebalance export support programs to provide effective support for small businesses that develop and export intellectual property and services.

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***Education and Training Reform***

- Include direct and formal engagement of key industry stakeholders to drive improved outcomes during the forthcoming negotiations for the 2017 Commonwealth and State Partnership Agreements.
- Support the Australian Skills Quality Authority to implement a strengthened quality assurance role and to monitor the operation of the new standards.
- Fund the establishment of new strategies that further encourage direct industry and employer engagement in the VET sector.
- Investigate approaches that link apprenticeships to higher level qualifications to attract a more diverse range of apprentices with employer incentives provided to engage employers in these arrangements.
- Support the reinstatement of Commonwealth Joint Group Training Program funding to support group training companies to enable more extensive engagement of small-to-medium enterprises in apprenticeship arrangements.
- Investigate the potential for introducing employment-based pathways to a wider range of occupations including para-professional occupations.
- Support measures to achieve full national consistency for all apprenticeships across Australia, including consideration of an oversighting body to ensure programs and arrangements meet current and emerging occupational needs.
- Participate in a communication strategy in conjunction with the Commonwealth and other states and territories to develop mechanisms to facilitate Registered Training Organisations to promote the outcomes from the Engineering Excellence Report and to raise their capability to implement competency based progression and completion for their apprentices.
- Develop and support networks such as the employer workforce champions network in order to reach more employers.
- Consider the extension of foundation skills support to existing workers.

## The NSW Economy

NSW continues to be a major beneficiary of Australia's transition from mining to non-mining led growth, remaining one of the nations' outperforming state economies. This reflects the breadth of its industry base and its low exposure (relative to national output) to weaker mining investment (see table1). The state maintains relative strengths in a number of service sectors (including finance, insurance and professional services). NSW also has a strong research and corporate base in advanced information and communication technologies (ICT). This means that it is well positioned to leverage off its comparative advantages as a provider of services, including the growing middle-class populations in China and India.

**Table 1: NSW industry share of Gross State Product**

	NSW	Australia
Finance	12.4	8.6
Professional services	6.8	5.9
Manufacturing	6.1	6.2
Health	6.4	6.5
Construction	5.4	7.7
Public admin & safety	5.0	5.2
Transport	4.2	4.6
Education	4.9	4.7
Wholesale trade	4.4	4.1
Retail trade	4.6	4.4
IT & media	4.0	2.9
Admin services	3.1	2.6
Mining	2.3	8.7
Real estate services	3.2	2.8
Hospitality	2.9	2.4
Utilities	2.3	2.7
Other services	2.0	1.8
Agriculture	1.3	2.2
Recreation	1.0	0.8
Ownership of dwellings	9.7	8.6
Total all industries	92.3	93.4
Taxes less subsidies on products	7.6	6.5
Statistical Discrepancy	0.1	0.1
<b>GROSS STATE PRODUCT</b>	<b>100</b>	<b>100</b>

Source: ABS, *State Accounts 2013-14*, Nov 2015

Over the longer term, sectors such as ICT, international education and wealth management are all considered to be areas of strong prospective growth. The state's strong relative presence in these sectors is likely to provide a solid base for NSW economic growth in the next decade and beyond. In particular, the rapid adoption of advanced information technologies throughout the economy and the roll-out of the National Broadband Network will act as a catalyst for growth of the NSW economy through

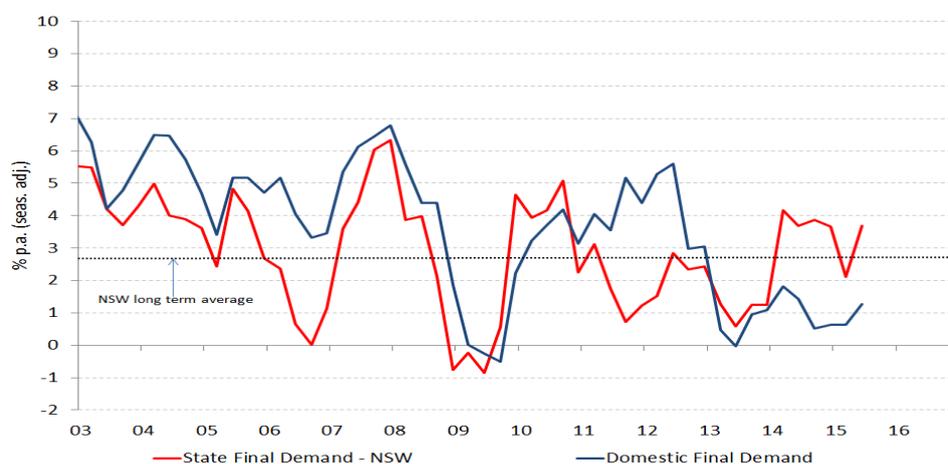
increased investment in the ICT sector. It is also likely to drive innovation in other sectors of the NSW economy.

**Manufacturing is the State’s fourth largest sector**, making up 6% of the NSW economy and is uniquely positioned to drive our economic growth rate and reduce unemployment. With strong international competitive pressures continuing to drive the shift to high value added niche activities, NSW is particularly well positioned to exploit its skills and capabilities across a wide range of highly specialised, and technologically advanced manufacturing sectors. This includes pharmaceuticals, scientific and medical equipment, environmental technology as well as highly processed foods, beverages and confectionary. These sectors are combining innovation, investment and exports to ensure the state is able to compete on the global marketplace. Moreover, manufacturers are increasingly adding value by engaging not only in production, but an array of services including research and development, prototyping, design, maintenance and logistics. This shift to services provision is helping to drive innovation and competitiveness, particularly where it is combined with retained manufacturing capability.

The demographic shift to an older population will be a major driver of health and aged care services and related health infrastructure investment. The relatively high share of the health sector in the NSW economy will provide a key base for future employment growth in NSW, and allow the state to capitalise on export opportunities to Asian markets.

The NSW economy continues to gain momentum with low interest rates and a lower Australian dollar supporting activity. Strong housing demand and rapid house price appreciation has in turn driven high levels of residential construction which has been supportive of strength in NSW retail sales and a pick-up in employment growth. NSW State final demand (that is, total consumption plus investment) grew by a solid 3.4% in the year to the December quarter 2015. This was the second highest annual growth rate of all states behind Victoria, and exceeded Australia-wide final demand growth of 1.1%. It was also well above the 10-year average growth rate for NSW of 2.7% (see chart 1).

**Chart 1: Australian and NSW final demand growth**



Source: ABS

A key growth engine is new residential building activity. Despite moderating somewhat from their mid-2015 peaks, residential approvals remain elevated in NSW, and are likely to ensure further support for house and apartment building activity over the remainder of 2016. Population growth is also acting to support the residential sector (see table 2) with the jobs growth shift from mining to services likely to underscore a continuation of solid growth momentum in coming years. On the supply side, residential building work done grew by a solid 11.0% in the year to December 2015 following a 14.6% rise in the previous year.

**Table 2: Estimated Residential Population by state and territory, Q3 2015**

State / territory	population '000 people	Annual change '000	Annual change %
NSW	7,644.2	102.2	1.4
Victoria	5,966.7	102.3	1.7
Queensland	4,792.9	55.2	1.2
South Australia	1,701.1	12.4	0.7
Western Australia	2,598.2	32.5	1.3
Tasmania	517.2	2.2	0.4
NT	244.5	0.8	0.3
ACT	392.0	5.5	1.4
<b>Australia</b>	<b>23,860.1</b>	<b>313.2</b>	<b>1.3</b>

Source: ABS

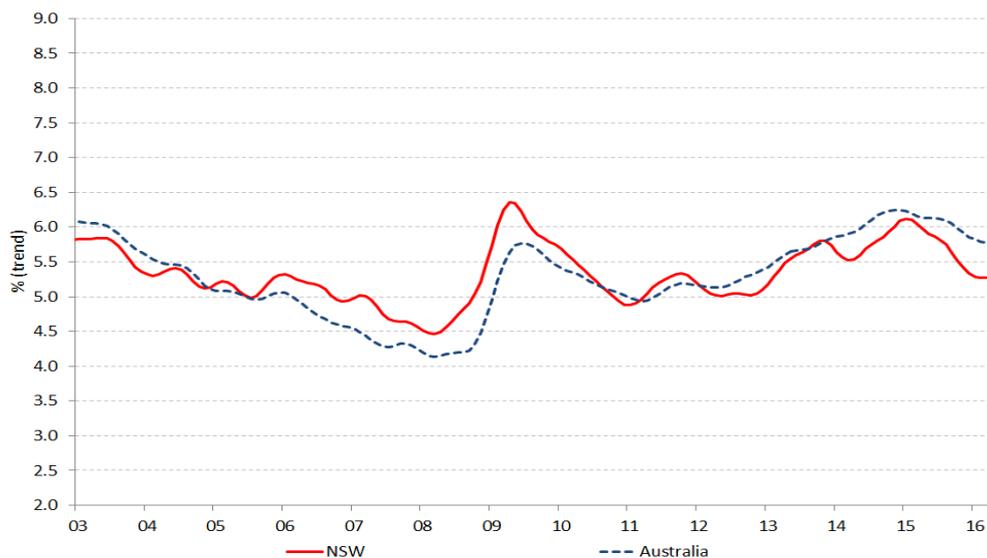
Overall business investment as compiled in Australia's national accounts data (a broad-based measure of capital expenditure) increased by a relatively subdued 1.5% in the year to the December quarter. Weighing on growth was a sharp decline of 14.6% in engineering construction in line with the downturn in coal mining investment and expenditure on resource-related projects. Indeed, NSW engineering construction investment in the December quarter 2015 was down by a significant 49.2% on its recent peak in the September quarter 2012. However, stronger non-resources infrastructure activity over the next three to five years is expected to help soften the impact of this downturn in NSW. This will be led by an impressive pipeline of major urban transport infrastructure driven by State government investment. Support for major project activity is also expected from the telecommunications sector (in line with the roll out of the NBN and 4G network developments) and some large commercial construction projects, particularly in the Sydney CBD.

The positive wealth effect from rapid house price appreciation has continued to support NSW consumer spending. Retail sales volumes expanded solidly by 4.6% (seasonally adjusted) over the year to February 2016, outpacing Australia-wide growth of 3.3% p.a.

Clear strength has been evident in a range of housing-related categories such as hardware building and garden supplies (+10.9%) and household goods retailing (+4.6%). However, other sectors not directly related to housing have also shown solid growth, including sales of footwear and other personal accessories (+11.2%) and spending on cafes, restaurants and takeaway food services (+9.3%) and department stores (+7.2%).

Household demand (consumer spending and house building activity) has in turn been a key driver of jobs growth with NSW recording healthy job gains of 137,300 (trend data) in the year to March 2016. This was the strongest increase recorded across all states. In March 2016, trend unemployment stood at 5.3% having declined from its recent peak of 6.3% in February 2015 (see chart 2). This is lower than all states and below the national unemployment rate of 5.8%. The health care and social assistance sector is the dominant employment generating sector, adding a net 68,300 new jobs in the year to December 2015. This is followed by the professional science and technical services (56,500) and retail trade sectors (39,700).

**Chart 2: Australian and NSW trend unemployment rate**



Source: ABS

The NSW 2015-16 Half-Yearly Review (17th December 2015) highlighted a strong medium-term economic outlook for NSW. Largely reflecting low interest rates, a lower exchange rate, the state’s relatively low exposure to mining and continued population growth, NSW State Final Demand is expected grow at an above trend 3.25% in 2015-16 before strengthening slightly to 3.5% in 2016-17. Real Gross State Product is forecast to expand at a below trend by 2.5% p.a. in 2015/16 due to the negative influences on the state’s interstate exports from subdued national domestic demand and income growth. However, a pick-up to a 3.0% p.a. pace is expected in 2016-17, largely driven by to state’s public infrastructure program and its boost to construction and related sectors.

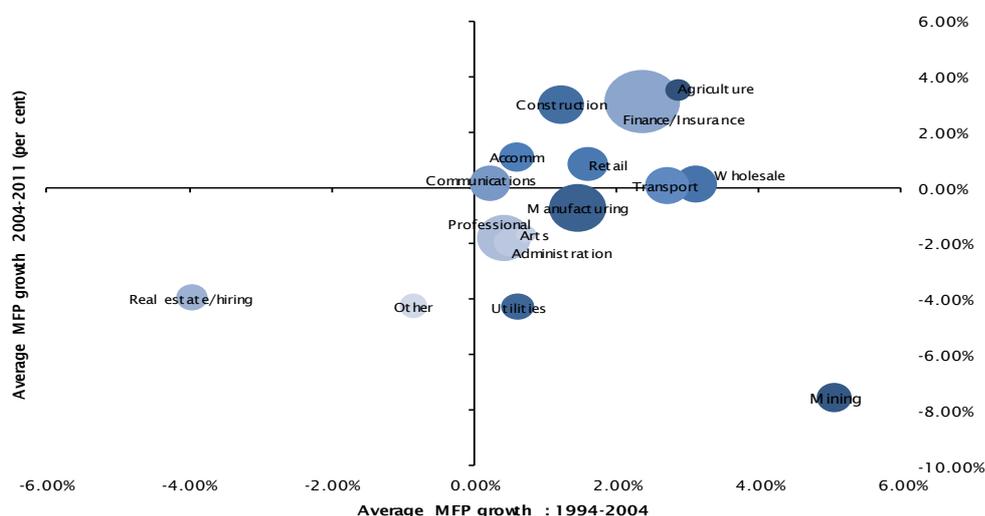
**Table 3: NSW Economic Performance and Outlook**

	2014-15 Outcomes	2015-16 Forecasts	2016-17 Forecasts	2017-18 and 2018-19 Forecasts
<b>New South Wales</b>				
Real state final demand	3.2	3¼	3½	
Real gross state product	2.4	2½	3	2¾
Employment	1.2	3½	1¼	1¼
Unemployment rate <sup>(b)</sup>	5.9	5½	5¼	
Sydney CPI – through the year to June quarter <sup>(c)</sup>	2.2	1¾	2¾	
Sydney CPI <sup>(c)</sup>	2.0	2	2¾	2½
Wage price index	2.3	2¾	2¾	3½

Source: NSW Treasury Half Yearly Review 2015-16

Despite these encouraging headline figures, many NSW businesses across major sectors of the economy continue to face tough and testing conditions. An easing in energy costs, moderate wages growth, a lower dollar, and low interest rates are all helping to support business performance. However, the current challenging international environment is combining with a range of domestic headwinds (including weak productivity growth across many industries, rising unit labour costs and profitability pressures, to weigh on the performance of a number of sectors.

**Chart 3: NSW industries and their multifactor productivity performance**



Source: NSW Budget Statement, Budget Paper No. 2, 2014-15

In view of these conditions it is critical that the NSW Government recognises the pressures on industry in the formation of policy and introduces reforms that will allow the state to take full advantages of the opportunities that lie ahead.

## STATE TAXATION

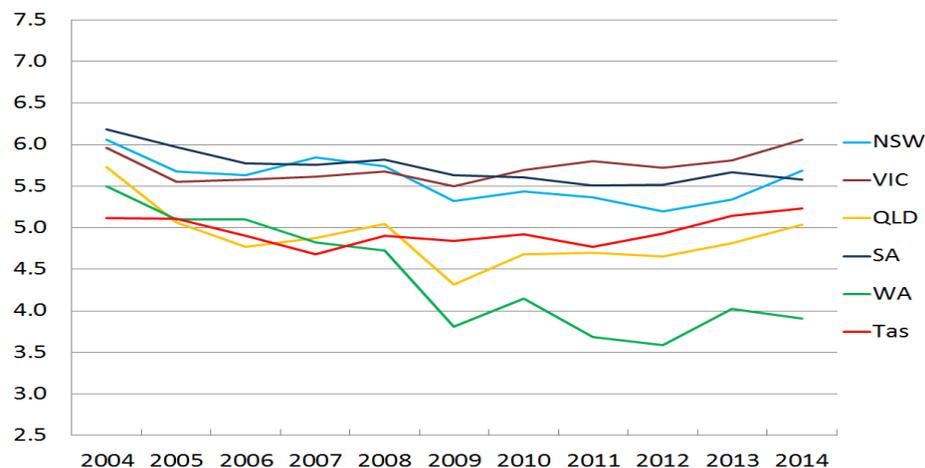
Ai Group believes that it is essential to ensure that the current taxation system is not prohibiting the further development and growth of businesses and the economy, and clearly demonstrates to the business community that NSW is open for business.

The taxation system in NSW should be consistent with the principles of:

- Reducing or removing taxes and charges that hinder or discourage businesses from growing and distort or reduce economic activity;
- Reducing the compliance burden that the various state taxes and charges impose on business;
- Ensuring that NSW businesses are not at a competitive disadvantage with their interstate counterparts.

NSW is a relatively heavy taxing state and businesses operating in NSW suffer a disadvantage against competitors operating in other states. On the level of international competitiveness, many of NSW's taxes rank very poorly and are clear impediments to setting up or expanding operations in NSW. Australian Bureau of Statistics data highlights NSW's relatively high tax to gross state product ratio in 2013-14 (Chart 4), particularly in comparison with Queensland and Western Australia.

**Chart 4: State and Local Government Taxes as a share of GDP**



Sources: ABS, 5220.0 Australian National Accounts: State Accounts, 2014-15; ABS, 5506.0 Taxation Revenue Australia, 2013-14

The State's recent lagging productivity performance and longer term challenges associated with ageing of the population mean that the longer NSW postpones genuine and comprehensive tax reform, the more difficult the task of promoting long-term economic growth across all sectors for the wellbeing of the local community.

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It is therefore important that the Government act to ensure a competitive tax system. As the NSW economy continues to recover, the ability to provide meaningful and permanent tax relief will be enhanced.

State Governments can perform a vital task in addressing Australia's system of inefficient state taxes, even as the scope for improving tax arrangements are narrowed now that higher GST revenue is off the table. State based taxes such as payroll tax as well as conveyancing duties and insurance premiums are impediments to growth, investment and job creation. There is also insufficient uniformity across states in the application of taxes across states and inherent complexity in tax scales and rates which adds to business costs. These costs are disproportionately borne by small businesses.

We would recommend that State Governments collectively look to reforming their tax systems, giving priority to the further harmonisation of payroll tax bases to reduce the compliance burden on businesses operating across multiple jurisdictions.

A review should be undertaken of current exemptions and concessions that apply to taxes with a view to reducing complexity and adopting consistent approaches across states. This is needed to minimise the administration and tax compliance costs imposed on businesses and the economic distortions that can be created.

Measures should be introduced that enable on-going monitoring of the tax compliance costs borne by businesses to clearly identify cost impacts and priority areas for reform.

We encourage the NSW Government to investigate alternative ways to finance the removal of the most inefficient state taxes. One option is to remove residential and commercial stamp duties by more fully utilising the existing local government land rate system or by reforming the state government land tax base. Stamp duties are inefficient transaction based taxes that distort economic activity. There would be substantial gains for the economy through the imposition of an annual charge on the unimproved capital value of land rather than the turnover tax levied on the full property sale price.

We would also advocate that that as fiscal circumstances permit, the new Government acts to substantially improve the competitiveness of the state's payroll tax regime.

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## INFRASTRUCTURE INVESTMENT

The Ai Group welcomes the Government's recognition of the importance of efficient infrastructure development to NSW's long-term economic performance through its strong commitment to maintaining a significant level of infrastructure investment throughout NSW.

Ai Group believes that the pivotal challenge of developing the state's productive capacity is dependent on the provision of high quality infrastructure projects delivered as part of a consistent pipeline of construction activity. This helps to increase opportunities for local supporting businesses, creates long term employment opportunities and supports business and consumer confidence in the wide range of business and related activities generated by infrastructure projects.

The Government's recent establishment of a specialist unit – Projects NSW – to manage the procurement and delivery of the state's infrastructure priorities is a significant initiative in helping to ensure projects are delivered on time and on budget.

However, there is still considerable scope for improvement in many aspects of project delivery in the public sector that will assist industry to complete projects more expeditiously, reduce the cost of infrastructure and ensure value for taxpayers' money.

Measures to ensure **early engagement in projects** must be implemented to ensure that opportunities, risks and issues on individual projects are identified and communicated before requiring the submission of tenders or expressions of interest. This enables businesses to more effectively understand projects, assess the likely cost of tendering and their chances of being a successful tenderer and develop any appropriate collaborative arrangements that may be needed to service the needs of a particular project or client.

Business confidence in government commitments to infrastructure projects is both promoted and maintained where there is **consistency in the development and management of infrastructure proposals across the government sector**. This enables business to efficiently deploy both capital and resources with confidence as to the Government's expectations and within a regime of rational commercial terms and risk profiles that attach to each project.

The next, and most important step, is for the NSW Government to **demonstrate its commitment to infrastructure development by working in partnership with the private sector in developing and implementing best practice principles within its own infrastructure delivery responsibilities**. This is an obligation that will be central to private sector commitment to, and investment in, NSW infrastructure projects for the longer term.

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In particular, Ai Group believes that **transparency and rigorous selection criteria are vital for infrastructure projects**, a case that was also made in the Productivity Commission's final report on Public Infrastructure released in early 2014.

Sound project selection plays a major role in productivity and growth outcomes according to work by the International Monetary Fund (IMF). The IMF examined the institutional environment underpinning infrastructure investment management across four different stages: project appraisal, selection, implementation and evaluation. The research found that the quality of public investment, as measured by variables capturing the adequacy of project selection and implementation, is statistically significant in explaining variations in economic growth across countries. It was concluded that these studies highlight the importance of going beyond discussions of spending levels and addressing issues of the broad institutional framework underpinning the provision of investment.

In addition, **each proposed infrastructure project should be subject to thorough and transparent cost-benefit analysis to ensure the government gets the best possible use of taxpayer funds**. A clear and transparent process also helps to foster public support for infrastructure projects and avoid costly delays in construction. It also creates confidence among investors ensuring that lower-cost financing and a deep pool of investment funds exists for future projects.

The Government must also work more cooperatively with industry in the **coordination of infrastructure projects** so as to avoid infrastructure or construction capacity constraints and enable major projects to be funded and developed in a timely manner.

Of further importance, **certainty must exist when it comes to projects**. The State infrastructure plan brings a greater degree of certainty of work for construction companies after several years of subdued activity in major construction projects. However, to further enhance certainty it is important that the government recognises the right of incumbents to make contractual decisions which can be relied upon. If these contracts are dishonoured, businesses tendering for future work will be compelled to add a higher risk premium in their bids. This will detract from the value that the people of NSW will get for their money.

Other specific measures that need to be implemented include:

- The **selection and retention by Government of experienced and appropriately skilled project development and managerial delivery personnel** to ensure private sector confidence in the tender and operational processes. This includes taking steps to increase core skills and competence in project delivery.
- **Adoption of best practice scoping practices at the outset of a project as a means of avoiding major pressure points** that can occur throughout the entire project cycle due to cost overruns, delayed completion and disputes.

- Minimising risks to successful projects by **ensuring approvals processes are more certain, and the conditions streamlined before the construction contract is executed.**

Strong potential also exists to drive innovation through procurement policy. Ensuring that government procurement opportunities have significant flexibility and **focus on project objectives instead of prescriptive specifications** have the potential to provide businesses, large and small, with the opportunity to offer innovative products or processes. That is, procurement can provide a **'demand-led' model of research and development**, and enables the government, that is the customer, with direct input at the development stage of a new product or service rather than waiting until it reaches the market. This brings benefits to both businesses and governments.

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## COST EFFECTIVE BIDDING FOR GOVERNMENT BUSINESS

Based on feedback from businesses, Ai Group believes that tender costs across the public sector are excessive and significantly contribute to the cost of individual projects.

To address this, we believe that there should be a focus on ensuring that procurement processes are clear and transparent and are subject to ongoing improvement so as to reduce the costs of tendering and access for domestic suppliers, particularly small and medium-sized enterprises.

Contracting templates and Requests for Tenders (RFT's) need to be simpler and more easily understood by industry. This could involve adopting a common form of contract encapsulating the terms and conditions of all NSW departments, agencies and service providers would agree to as part of their grants arrangements. It would also be helpful to standardize contractual arrangements for similar goods and services purchased by the NSW Government, including requirements for insurance liability.

The more that additional requirements are placed on local suppliers as conditions of government procurement arrangements, the more complex and costly will be the red tape burden on suppliers and the NSW community.

There are also a range of measures that we recommend for adoption with respect to major infrastructure projects that will assist the construction industry to complete projects more expeditiously, and reduce the cost of infrastructure to the public. These measures include:

- **Providing advance notice of intent to issue a request for tender** would assist businesses to plan for the resourcing required to submit tenders, and to research and understand what is required. It would also allow industry to seek and develop alliance partners of intent rather than wait for tenders to come to the market.
- **The identification of the proposed risk allocation at the earliest possible stage in the tender process.** A concern of the construction industry is that significant time and resources can be devoted to the evaluation of a project, even before proceeding through the Expression of Interest (EOI) and Request for Tender (RFT) phases. Furthermore, the proposed risk allocation is not always evident during the EOI phase, and may not be immediately apparent at the start of the RFT phase.
- The **development of a more effective Public Private Partnership model** that reduces operational risk (including equity risk) for project participants and places responsibility for risk on the appropriate entities rather than those who are least able to resist it.

- Adjust assessment processes to place greater reliance on third party accreditation and **reduce reliance on the provision of comprehensive material at the bid stage.**
- **Streamline the tender process** by adopting a two-stage process for the tendering of major projects. This entails preferred tenders being selected at the first-stage, based on lesser documentation requirements. More detailed evaluations and negotiations are undertaken with a smaller number of preferred tenderers at the second-stage.
- **Shortlist bidders as early as possible** and consider taking forward fewer bidders where risk assessment and preliminary assessment of bidders warrants such action.
- **Recognise the cumulative financial cost on tenderers bidding on multiple projects** and introduce fair and reasonable contributions to bid costs especially where tenderers develop innovative and cost effective solutions.
- **Provide incentives to contractors to achieve early, cost efficient delivery of projects and to maximise value to the State.**
- **Harmonisation of state and Federal codes and/or guidelines for procurement** in the building and construction industry.
- **Broad-based implementation of the recommendations of the Productivity Commission's Inquiry Report on Public Infrastructure.**

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## GOVERNMENT PROCUREMENT

Ai Group welcomes the NSW Government's initiatives in introducing greater innovation into government procurement to stimulate the NSW economy. There has been important progress in various key areas, including the reduced registration time for businesses supplying to the Government; the adoption of outcomes-based procurement; simplified procurement processes for small and medium enterprises and; the transition from fixed term panel contracts to "always open" pre-qualification schemes.

We note the Government's reform of the ICT procurement strategy to enhance competition in ICT supply to government, including a flexible principles-based policy framework which replaced a more complex and prescriptive procurement approach. Ai Group supports such an initiative and expects there to be greater transparency and efficiency, especially through the reduction of red tape, in the whole-of-government procurement process of digital services for all suppliers. However, Ai Group also expects that the ultimate choice of supplier should continue to be based on the characteristics of the tender, not a preference for any size of business.

Whilst a number of key initiatives have been introduced, there still exist a number of barriers and distortions that frustrate and impede the full and fair participation of Australian suppliers in the Government business market. These barriers and distortions are exacerbating the intense competitive pressures currently being experienced by local, trade-exposed industries and particularly by the manufacturing sectors.

Ai Group urges that this be addressed by government agencies showing a commitment to the procurement principles of: **value for money, clarity, transparency and improvement of processes, full and fair access, full opportunities for local suppliers**, and supporting industry through **effective planning and communication**.

In order to boost local industry participation in Government contracts, Ai Group recommends, in particular, that procurement decision making be guided by a **"whole of life" costs approach that looks beyond "least cost" and brings to bear a more transparent, broader cost-benefit equation or value model that considers whole-of-life costs**. This approach would take into account maintenance and through-life support which are key advantages that local suppliers are able to offer. It would encompass supply risks, quality risks and reliability that may affect production delivery times and/or these future costs. In many cases a holistic assessment of these costs will show that for local businesses these total costs could be lower than for overseas-based businesses because services could be rendered more quickly, more reliably and replacement parts delivered more promptly.

This needs to be supplemented by an **effective educational campaign** to ensure that government purchasing officers and decision makers understand how to take into account

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“whole of life costing” in their evaluation of tenders, and are fully aware of Australian industry capabilities.

Ai Group also urges the NSW Government to collaborate with other States to formulate local procurement policies that could bring mutual benefits to more Australian manufacturers, such as assisting a manufacturer to broaden its customer base across States.

There are a number of other barriers that impede local business access to the Government business market which should be the focus of procurement reform in NSW. These include:

- **An uneven weighting given to conformity with standards.** Local producers are required to produce to stringent Australian and International Standards and non-conformity or false claims of conformity are much more rigorously enforced than is the case with many imported alternatives. This puts local businesses at a disadvantage. Product standards must be enforced consistently between local and non-local manufactured products in increasingly globalised supply chains.
- **Selection criteria (implicit or explicit) that include a record of supply in other countries as demonstration of credentials.** This favours offshore suppliers and is a particular barrier to emerging local businesses and domestic suppliers of innovative goods and services.
- **Preference given to offshore suppliers.** Preference is often given by overseas-based prime contractors to sub-contractors and suppliers in their country of origin under explicit or implicit local preference arrangements and practices.

Complex contract conditions and overly prescriptive tender specifications can also make it difficult for local industry to compete for Government work, particularly SME’s and new entrants. We therefore recommend an **on-going focus on implementing simple standardised contract requirements; clear tender specifications and evaluation procedures and; clear communications on the terms of procurement.** On commercial feasibility grounds, product liability and professional indemnity insurance limits in contracts also need to be reduced.

A key challenge for industry is ensuring the sustainability of supply chains. **Government can play major role by providing the base workloads and scale needed to strengthen the resilience of supply chains.** However, Government at times acts without real or apparent knowledge of the adverse effects of its procurement decisions on the supply chain. Examples include: starting, cancelling or changing contracts at very short notice; explicitly or implicitly encouraging industry to “gear up” for work that never eventuates; contract requirements that favour offshore supply chains; programming multiple major projects

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without regard to supply capacity; or alternately programming multiple similar major procurement projects with gaps between them creating a feed and famine cycle.

**Strong pre-procurement communication programs are required** to ensure suppliers are aware of future opportunities, including communications to lower-tier suppliers on potential private-sector business that may flow public tenders. We are encouraged that the NSW Government is taking steps in considering the provision of detailed information about the state's forward construction program. There would be significant gains for both the Government and industry if indicative forward procurement plans in construction were published on an annual basis.

It is important to account for the wider value to the economy by purchasing locally, such as through skills development and retention and through creating jobs. Local procurement also ensures a broad range of suppliers can continue to operate locally.

As a further means of supporting local participation, we believe that the State Government should **make greater use of the Industry Capability Network (ICN)** in helping to build Government knowledge of local industry capabilities and sourcing opportunities through:

- **identifying import replacement opportunities** in purchases of all Government agencies;
- **assisting in the formulation of Government procurement documentation** by reviewing and advising on local industry capabilities and skills to ensure that requirements and/or specifications do not unnecessarily preclude local businesses from bidding;
- **conducting pre-tender briefings** for Government purchasing agencies on local sourcing opportunities and;
- **acting as an intermediary between Government and local industry** following the awarding of a contract, to provide feedback on strengths and weaknesses of tender documents, capabilities and other areas that may enhance future submissions.

There is also a role for the ICN to adopt a greater focus on early engagement with project proponents to support informed local industry discussion of the challenges faced by proponents in delivering on project objectives and to identify the components required within each process.

## Industry Participation Advocate

We note that the South Australian State Government created an independent **Industry Participation Advocate** in February 2013 to help local businesses leverage maximum opportunities from the SA Government’s portfolio of infrastructure projects. In 2015, the Australian Capital Territory Government established the position of Local Industry Advocate to work exclusively in the interests of the ACT business community in maximising opportunities to participate in ACT Government projects. Both are important initiatives in facilitating access to government procurement business by the private sector. We believe that that the NSW Government should give consideration to establishing a similar industry advocate as a mechanism for building the capacity of local businesses to successfully secure Government contracts and delivering more value for the State from government tendering.

## The New World of Mega-Projects

In October 2015 the Australian Constructors Association (ACA) released the report, **“Changing the Game – How Australia Can Achieve Success in the New World of Mega Projects”**. This report highlighted the extent to which infrastructure projects are becoming larger and increasingly complex and explored issues relating to the development, delivery and ongoing management of these projects. The report noted that “there is a very low success rate (measured by achieving budget, schedule and economic business case) for complex mega-projects both globally (less than 15%) and in Australia (40-50%).”

Research commissioned by the ACA assessed 44 Australian mega-projects (>\$1 billion each) worth nearly \$44 billion. This research found that the total budget overrun across the portfolio of mega-projects was \$6 billion or 13.7% (see table). There was a significant overall performance gap (20.6%) between successful and challenged projects from a budget and scheduling point of view. There was also little difference between private and public sector performance from budget and schedule perspectives. It was assessed that closing the gap from the average challenged to the average successful (19%) would save over \$3.5 billion on this project portfolio. The saving would be even greater with a more distinct move to best practice.

**Table 4: Australian Mega-Projects Survey Results**

This study	Total	Successful Projects Average	Challenged Projects Average	Overall Performance Gap (\$M)	Private Sector Gap (\$M)	Public Sector Gap (\$M)
# Projects	44	23	21	-	21	23
Budget (\$M)	43,809	1,074	910	-	-	-
Budget overrun (\$M)	6,021	83	196	3,629	-	-
Budget overrun (%)	13.74%	8.4%	27.4%	19%	19.1%	20.2%
Schedule overrun (%)	-	(.3)%	20.3%	20.6%	27.9%	27.6%

Source: Australian Constructors Association, *Changing the Game – How Australia Can Achieve Success in the New World of Mega-Projects*, October 2015

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We draw the NSW Government's attention to the following key areas noted in the report as a means of improving the delivery and on-going management of large construction/infrastructure projects.

**Moving beyond the contract:** At present, there is a view that the contract form needs to be the mechanism to ensure compliance and order on projects - assuming that bad behaviour will occur. We need to see that human collaboration is the key to success and ensure that the form of agreement (alliance, D&C, schedule of rate, lump sum) supports, not supplants this.

**Flexibility:** In complex mega-projects, it is not possible to know all the "right stuff" on day one, so we need to create a business model that reflects the emergent nature of these projects, aligns stakeholders around success and allocates a fair share of value and risk.

**Contracting in a complex world:** There are numerous examples today where the legal document is driving significant contention, claims and disputes, or has been put aside to allow project progress. We need to develop a more accessible way of creating an agreement around outcomes that guides successful solutions and incentivizes performance.

These concepts, coupled with greater regularity and certainty in project establishment and appropriate management of risk will lead to more efficient projects completed on time and on-budget with potentially significant cost savings.

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## TRANSPORT

The provision of high quality transport infrastructure is vital to the success of the NSW economy, and is also of great importance to business. The ability to transport goods and people efficiently between locations is a key element underpinning the productivity and competitiveness of NSW industry. According to a working paper report by the Bureau of Transport and Regional Economics in 2007, the deadweight economic losses of road congestion in Sydney alone are projected to amount to \$7.8 billion in 2020<sup>1</sup>. This includes the costs of delays, trip variability, vehicle operating expenses and motor vehicle emissions associated with traffic congestion.

Ai Group therefore commends the NSW Government's commitment to the planning of the State's future transport requirements through its formulation of the NSW Long Term Transport Master Plan.

We are also strongly supportive of the NSW Port and Freight Strategy. Productive freight infrastructure requires efficient port operations and appropriate supporting transport infrastructure.

Intermodal terminals are a key component of reducing congestion on Sydney's road network and improving the efficiency of port-related freight movements. We therefore welcome the Federal and NSW Government's support for the development of the Moorebank Intermodal Precinct in Sydney's South West. **A continued focus is needed on exploring other locations for intermodal terminals.** In delivering the most appropriate positioning of the terminals it will be important to ensure that there is efficient road access to reduce road congestion and ensure that the terminals capture appropriate base load freight requirements. An efficient and well-connected road network must also be developed around the Moorebank Intermodal Precinct.

In addition, to improve the effectiveness of Sydney's rail operations and cater for increasing freight traffic demands there is **a need for more freight-only rail lines and guaranteed time allocations on the network.**

We also recommend a fully integrated approach in assessing the delivery of new transport infrastructure that takes into account the identification of new growth areas, the use and release of land and plans that support infrastructure and higher density developments so that improvements in transport capacity and connectivity are maximised.

Ai Group believes that the NSW Government should place as a priority the necessary public and freight transport infrastructure needed at Badgerys Creek Airport to realize the economic and social benefits for the Greater Western Sydney area. **An integrated freight and logistics hub would be the key to meeting medium to long-term demand for freight**

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<sup>1</sup> Bureau of Transport and Regional Economics, Estimating Urban Traffic and Congestion Costs for Australian Cities, Working Paper No. 71, 2007

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**services for Badgerys Creek Airport.** This will enable businesses to access transport related efficiency and competitive gains and support opportunities for on-going economic and employment growth in Western Sydney and more broadly across the state.

Western Sydney is not well serviced by public transport as centres elsewhere in Sydney, despite the growing importance of economic development inland of the Sydney CBD. We would encourage a **greater focus on public transport improvements and connections between the various commercial centres in Western Sydney.** This will help in reducing peak-period road traffic congestion delays, allow business to improve their labour market access and enhance economic and social benefits for the region.

There is also a clear need for the NSW Government to work with the Federal Government to set in place a plan to build the **M1 Princes Motorway Extension** along the Waterfall to St Peters corridor as part of completing the Sydney Orbital Road Network. This would provide crucial freight and passenger capacity between Sydney and the Illawarra, as well as reducing road congestion in Southern Sydney and areas close to Sydney Airport and Port Botany.

With respect to funding options, **the Government should continue to investigate opportunities that enable increased contestability in the delivery of public transport services.** For particular components of public transport, private sector management offers the ability to deliver improved services at a lower cost to the taxpayer. We urge the Government to remain firmly committed to this reform process, giving further consideration to franchising opportunities and other funding models including outsourcing and public/private sector partnerships.

We also support **further consideration into the role of congestion charging and distance-based tolling on Sydney's toll road network.** User pay funding models such as road pricing are positive options for addressing Sydney's traffic congestion issues while also helping to fund the delivery of infrastructure projects in the medium term.

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## BUSINESS REGULATION AND COMPLIANCE

The State Government has regulatory gatekeeping arrangements in place and has implemented a range of initiatives aimed at reducing the overall regulatory burden. This includes measures such as allowing for electronic transactions with businesses, setting targets for red tape reduction for all NSW Government agencies and introducing a “one on, two off” policy for new regulations. Ai Group also welcomes the introduction of an outcomes and risk-based approach to regulation under the Quality Regulatory Services (QRS) initiative and Service NSW whole of Government Payment Services Platform which will reduce duplicate payments and streamline payment services.

Despite this, Ai Group believes a commitment to further reform is needed. There remains unfinished business in terms of tax administration and regulatory compliance, which if addressed, could provide significant spin-offs in improving business efficiency and productivity at a relatively low cost to the State Government.

### ***Proposed Initiatives***

In this regard the Government should consider the implementation of other initiatives, including:

- **Develop and review regulatory instruments in concert with other state and territory governments** in order to achieve genuine harmonisation of state based laws (or centralisation of laws to the Federal level) and a greater degree of certainty and consistency in the standards applying to industry;
- **Cut regulatory burdens on business** through a continued focus on reducing, streamlining and removing unnecessary regulatory burdens. This includes the removal of regulatory duplication between agencies and the pursuit of best practice principles such as:
  - Businesses should only have to supply information that is necessary (and unavailable from other sources) and not multiple times.
  - Adoption of a process of testing whether regulatory requirements actually contribute to behavioural outcomes sought.
  - Claims of reduction in regulatory burden should be externally validated by a process that includes industry-based feedback and assessment.
- **Outline a plan to substantially improve the competitiveness of NSW’s payroll tax regime** which is an impediment to growth, investment and jobs in the state;
- Businesses be given the **option of paying taxes, premiums and charges on an instalment basis where practicable**;

- Regulatory agencies work together to develop and **implement a broadly-based master licence for business**, subsuming all commonly required licences and permissions in one instrument and;
- Establish an **on-line platform that details all local government regulatory instruments, procedures and costs**. This would provide industry and regulators with a highly visible comparison of the cost of doing business across local government jurisdictions.

Ai Group commends the NSW Government's engagement of IPART to review the state's licensing framework and undertake a review of local government compliance and enforcement activity in NSW. There is a strong case for encouraging greater consistency amongst local government regulatory building and processes to reduce compliance costs for businesses, particularly in the areas of planning and approvals.

A best practice approach of sharing ideas and leading practices amongst councils is strongly supported. Ai Group recommends **developing and reviewing regulatory instruments in concert with other states' councils** in order to achieve uniformity in approach across Australia and a greater degree of certainty and consistency in the standards applying to industry. This could be achieved through state based regulation review units (or equivalent) working with local councils to develop common guidelines, performance criteria or blueprints for business regulation.

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## PLANNING

Ai Group commends the Government's focus on overhauling the NSW planning system. In particular, **we welcome the establishment of the Greater Sydney Commission for driving delivery and planning of Sydney in partnership with the state and local government.** This initiative will help to ensure a coordinated approach to planning; enhanced consistency in planning policy across Sydney's six districts and; integration across government to allow investments to be considered in the context of a whole of government infrastructure strategy.

There is also considerable merit in the Government's decision to prepare infrastructure delivery plans for priority growth areas with a view to supporting the delivery of new housing supply and employment growth in these areas.

Business consultation will be critical in achieving successful development and planning outcomes. We therefore **recommend that the structure and functions of the Greater Sydney Commission be strengthened through the formation of an industry advisory and liaison committee** linked to the operations of the Commission's strategic planning, infrastructure delivery and finance and governance committees.

This will provide the Commission with a further source of advice to assist in the decision making for infrastructure and help ensure that strategic plans are responsive to industry needs.

A range of other leading practice reforms will be critical to the process of reforming the NSW planning system. These include:

- **Providing certainty to industry.** A lack of certainty in the assessment process has the potential to substantially reduce investor confidence and divert investment away from NSW. It is critical to ensure clear and consistent application of land use and development policies with industry regularly informed on the status of its policies and strategies;
- **Planning and development processes are streamlined** to reduce delays and uncertainty in zoning, assessments and planning approvals. Statutory time frames on approvals should also be considered to help ensure greater certainty for industry with respect to development times and costs;
- **Ensure transparency and accountability in planning** to improve business confidence in the planning and decision making processes;
- **An appropriate balance between industrial and residential interests** and sufficient flexibility to provide protection and predictability for existing land users that require planning protection. This is particularly important where residential areas in the vicinity of industry can pose a threat to the continued viability of industry;

- **All strategic phases of the planning process, not only the development assessment phase be subject to time frames that are monitored and reported with the objective of driving best practice outcomes;**
- **Speedier implementation of standard format planning schemes** (local environment plans) by local councils;
- **A consistent approach across councils in the requirements for development approvals** and in the engagement of communities in key planning decisions and;
- **Integrate and rationalise approvals for all projects by creating an approvals committee** with the authority to issue all relevant approvals. The average NSW business deals with up to nine regulatory authorities in any given year.

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## INNOVATION

Strong economic growth necessitates continued support for innovation and industry development. This needs to be aligned with a genuine commitment to supporting the development of new growth industries such as biotechnology, medical devices, information technology as well as higher value added food processing.

There is also a very strong argument for the NSW government to do more to assist the development of the manufacturing sector. It is a sector that remains a huge part of the NSW economy – greater than tourism, larger than mining, a significant R&D investor and a large full-time employer.

Ai Group welcomes the NSW's Government's commitment to various initiatives aimed at supporting collaboration, innovation and international competitiveness. This includes the R&D and innovative funding (Tech Vouchers, Minimum Viable Product and Collaborative Solutions) programs, the Supply Chain Accelerator Pilot Program, the five industry-led Knowledge Hubs which provide an important platform for increased industry-research interaction and the Data Analytics Centre (DAC).

We would urge continued support to industry development through an on-going commitment to maintain and build on the existing range of government innovation programs.

An important aspect of the innovation process is research and development. In order to lift the number of companies involved in R&D and augment existing initiatives, Ai Group recommends the introduction of an innovation 'Start-Up' program for those businesses with no prior experience in R&D, but with an interest in starting an R&D project. These businesses often find it difficult to compete with larger and more experienced businesses for government funding which acts as a barrier to involvement. Under such a program, grants could be provided to companies (on a competitive basis) on a matching dollar for dollar basis, and be used for a broad range of purposes such as purchasing specialist equipment to undertake proposed R&D, to engage a consultant to assist in R&D activity, to employ a scientist or engineer to undertake R&D, or to engage the expertise of a university, CSIRO or another research centre.

To assist in generating appropriate levels of funding to boost research and development within industry, Ai Group recommends the launch of a State based Innovation Investment Fund, with significant levels of venture capital (equity) being directed towards manufacturing. This should be undertaken as part of a broad NSW Government policy to address gaps in the venture capital market, and assist innovative firms to break out and commercialise their research and development capabilities.

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More broadly, reform of state-based regulation and taxes will help to foster a greater culture of innovation within existing businesses by removing the impediments for businesses to expand into new markets or improve processes.

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## TECHNOLOGY AND DIGITISATION

Information and communication technologies (ICT) are vital in facilitating innovation, productivity growth and increased interaction of NSW industry in the global economy. We see an important role for the NSW Government and other stakeholders in strengthening NSW businesses capabilities in the information economy. There are particular challenges for SME's in adopting and realising the opportunities that ICT developments provide as a driver of productivity gains.

The NBN will accelerate the development and uptake of flow-on information technologies. While the benefits of the NBN to households, health and education providers have been strongly promoted, less attention has been paid to the needs of, and opportunities for, business users. Government programs that assist SMEs in taking advantage of broadband and other advances in ICT (including the upskilling of employees) could make a valuable contribution to NSW's future global competitiveness.

Ai Group notes that the NSW Government has recently released a final update of its ICT Strategy, which includes a \$2 billion annual investment in ICT.<sup>2</sup> This update follows from its 2012 ICT Strategy, which recognises that ICT investment, services and use have advanced. We anticipate that the revised strategy will improve the experience of Australian businesses and citizens dealing with the Government through more efficient and effective online government services.

The digitisation of the government agencies will also create opportunities to streamline the way they collect and make use of existing data from businesses, and reduce compliance and regulatory costs for businesses and governments. As the NSW Government continues to build its capability and strengthens whole-of-government digital strategy, the Government should be ready to increase and redirect investment accordingly.

There are also potential synergies between the Government's ICT strategy, its plan to transform White Bay Power Station precinct into a technology innovation hub<sup>3</sup>, and various smart cities initiatives in NSW. A coordinated approach to these various activities will increase the potential benefits derived.

Ai Group notes that there are a number of positive initiatives under this ICT Strategy. However, for the purpose of this budget response, we will only touch upon a few aspects of the strategy.

We support the Government's establishment of a whole-of-government Data Analytics Centre (DAC), which aims to facilitate data sharing between agencies to inform more

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<sup>2</sup> <https://www.finance.nsw.gov.au/ict/about-nsw-government-ict-strategy>;  
[https://www.finance.nsw.gov.au/ict/sites/default/files/resources/Digital\\_Strategy\\_2016\\_20151125.pdf](https://www.finance.nsw.gov.au/ict/sites/default/files/resources/Digital_Strategy_2016_20151125.pdf)

<sup>3</sup> <https://www.nsw.gov.au/news/sydney-bays-precinct-be-transformed>

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efficient, strategic, whole-of-government evidence based decision making.<sup>4</sup> We understand that it is the first of its kind in Australia and welcome the Government's leadership in this area. This appears to complement the Federal Government's increased funding to Data61, which has been tasked with the responsibility of driving innovation through data analytics.

We also understand that the NSW Government will soon publish its own innovation statement, and that this would also complement the Federal Government strategy. Such an approach will ensure that a consistent whole-of-government approach to digital innovation is driven at all levels of government, and reduce the risk of duplicated efforts.

We support a coordinated approach to cyber security and note that the NSW Government intends to work with the Federal Government to protect government assets and the broader digitally enabled economy. In respect to this, much of the benefits gained through the other positive aspects of the NSW Government's ICT strategy may be impacted by a Federal Government consultation currently under way with respect to cyber security, which the NSW Government should be mindful of.<sup>5</sup> The Federal Government's consultation will need to deliver an outcome that is consistent with the objectives of not only its National Innovation & Science Agenda and its recently launched National Cyber Security Strategy, but also to other complementary NSW Government initiatives. Otherwise, this will be a lost opportunity that may lead to companies moving investment in and development of innovative digital technology solutions offshore. Ai Group understands this was the experience in New Zealand, where more stringent legislative cyber security requirements were introduced, leading to certain companies shifting their investment in research and development of innovative digital technologies offshore to Australia and the USA.<sup>6</sup>

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<sup>4</sup> <https://www.finance.nsw.gov.au/ict/news/nsw-leading-data-analytics-0>

<sup>5</sup> The Attorney-General Department's Second Exposure Draft of the Telecommunications and Other Legislation Amendment Bill 2015 (Telecommunications Sector Security Reform).

<sup>6</sup> See: <http://www.zdnet.com/article/surveillance-law-prompts-shift-for-google-sponsored-sdn-test-bed>

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## REGIONAL DEVELOPMENT

Regional NSW is an important contributor to the state's economy, providing jobs and contributing significantly to industry exports and economic growth. Broadly, each region is different and has different needs. However, the regions do share common concerns. Issues such as the need for flexible delivery of quality vocational education, cross border regulation streamlining and infrastructure needs that differ from major cities.

We commend the NSW Government's first Economic Development Strategy for Regional NSW and its focus on the aims of promoting regional competitiveness; driving regional employment and business growth and; investing in economic infrastructure and connectivity. Actions in support of this strategy will be critical in terms of regional economic growth, productivity and improvements in quality of life.

### Infrastructure

The NSW Government has demonstrated a commitment to increasing funding for regional infrastructure. However, a common theme shared by all regions is that better regional industry consultation will greatly improve the prioritization and delivery of infrastructure, and ensure Government funds are directed to those projects which will deliver the greatest benefit.

The NSW Government needs to concentrate efforts on sensible investment prioritization for all regions in NSW based around the objectives of cost benefit analysis and opportunity cost evaluation. Sensible investment in both new and existing infrastructure has a range of benefits including improving the region's and state's future economic capacity and meeting the needs of our growing population.

Regional infrastructure should also be identified and prioritized in a transparent way and be accompanied by detailed plans. This is central to private sector commitment to, and investment in NSW regional infrastructure projects. It also helps businesses in their long-term investment decisions.

In addition, the Government should ensure that the requirement to employ apprentices under the government infrastructure procurement contracts is enforced. Policy initiatives should be put in place to ensure that apprenticeships are made available to those in areas of high unemployment, young women and indigenous youth. Targets for local labour force participation in regional infrastructure projects would also enable regional economies to more fully reap the benefits of infrastructure construction.

In supporting the economic performance of regional NSW, major investment in the transport network linking the regions with Sydney and interstate destinations must be a priority. This needs to be complimented with public transport investment directed at

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improving the internal connectivity of the regions so as to minimize the cost of congestion and maximise economic productivity.

The **Sydney-Newcastle-Wollongong network** warrants particular attention. Infrastructure Australia in its Australian Infrastructure Audit, April 2015 identified the cost of Sydney-Newcastle –Wollongong road delays at \$6 billion in 2011, rising to a projected \$15 billion in 2031. The Audit report also highlighted the need for well-maintained regional and rural transport networks, noting that “underinvestment in the maintenance of some parts of Australia’s infrastructure networks, notably in regional Australia could reduce the ability of those networks to provide reasonable levels of service in the future”. The areas identified as being at most significant risk include local roads, especially in regional and remote areas and regional rail infrastructure carrying low volumes of grain and/or general freight.

These issues highlight the need for improvements to freight rail connection, road network coverage and public transport in regional areas, including:

- the maintenance of country rail infrastructure; on-going upgrades to the Pacific Highway;
- fast-tracking of the M1 (Princes Motorway) Extension and;
- maintaining the Bridges for the Bush program to improve road freight productivity.

Australia’s aging population and urban sprawl is also driving the need for increases in social infrastructure investment servicing local communities (i.e. aged care facilities, hospital upgrades and entertainment and recreational facilities). Such investments also act as important mechanisms for increasing the locational attractiveness of regional centers to businesses and their employees.

### **Support for the formation of industry clusters**

The collaboration of related or complimentary businesses in the same geographic area can lead to a range of benefits such as access to a larger pool of skilled labour, improved supply chains and opportunities for knowledge sharing. Clusters also have the potential to generate more sustained success for businesses in global markets and the overall economic development of a region. The HunterNet is an example of successful regional industry ‘cluster’ of small and medium-sized manufacturing, engineering and consulting companies located in the Hunter and Central Coast Regions of NSW. It provides member companies with the opportunities to tap into activities that in the past would have been out of reach of many smaller companies, such as networking, joint marketing initiatives and trade missions. The HunterNet markets the combined capability of its members which provides opportunities for its members to collaborate as a supply chain of products and services and bid jointly for major project work.

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The NSW Government should **explore opportunities for establishing a grants program to support regional cluster initiative programs that would direct financial and other assistance to individual cluster initiatives.**

### **Regulation streamlining**

An on-going impediment to doing business in areas around state borders is inconsistencies in regulations and practices. In the Albury-Wodonga and Tweed regions, the cross border duplication of resources and inconsistent regulation are common issues raised by industry.

The NSW Government's appointment in 2012 of a Cross-Border Commissioner is a positive step in providing advocacy for businesses in border communities and supporting the resolution of cross-border governance issues.

However, Ai Group believes that given limited resources and the wide ranging nature of issues, additional support is required for the Cross-Border Commissioner role, to enable more effective identification and resolution of issues. Ai Group recommends that the **NSW Government work with the Victorian and Queensland Governments to initiate a cross-border reference group, specifically targeting the Albury-Riverina and Tweed regions.**

This reference group (reporting to the Commissioner) would be specifically tasked to identify the blockages to cross-border businesses practices in the region, and then to provide solutions to alleviate the issues. This would allow for improved dialogue with industry on these issues and facilitate their timelier resolution. Importantly, this group should operate in line with the auspices of the broader agenda for national harmonisation of the most inefficient state regulations and taxes.

## ENVIRONMENT AND ENERGY

Energy prices, energy security and energy productivity remain pressing issues for industry that the Government should be cognisant of in the Budget.

In electricity, where NSW has endured the largest increases in the nation in recent years due to very high investment by the networks, we had expected some price relief as the Australian Energy Regulator's new revenue determinations cut back sharply on network proposals. However, the recent successful appeal by the networks against those determinations makes price relief doubtful. While it may be years before litigation is concluded and determinations are remade, the costs to consumers are likely to be significantly higher than previously expected. In addition, the gradual closure of generation capacity across the National Electricity Market brings closer the time when wholesale prices will rise to levels that are sustainable – but painful for consumers.

In gas, industry faces deep uncertainty. The fall in global oil prices has roiled the gas sector, and Queensland's LNG export industry means that domestic gas users are heavily impacted by global turmoil. Export prices have fallen, but investment in production is under pressure and barriers to gas development are high – including in NSW. We have seen some producers exit the market already. Among the many possibilities facing gas users is the scenario that gas production lags, exporters prioritise meeting their contractual commitments, and domestic prices rise above international prices to force out sufficient demand to balance the market.

In this environment of high costs and uncertainty, energy productivity and energy efficiency are crucial approaches to making energy users more robust and competitive. Getting more economic output from each unit of energy input to business is a strategic imperative. The NSW Government already supports this direction through its revised and expanded Energy Savings Scheme (ESS) and the Sustainability Advantage program. We encourage the Government to:

- maintain and further invest in Sustainability Advantage, including by funding it to work with the Challenge Program proposed by the 2XEP (Doubling Energy Productivity) initiative; and
- encourage other jurisdictions with white certificate schemes similar to the ESS to harmonise with the ESS, particularly with respect to activity methodologies. The wide availability of well-understood and effective processes developed in NSW will lower the cost of pursuing efficiency for all energy users, including in NSW itself.

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## SUPPORTING EXPORTERS

Ai Group commends the NSW Government's efforts in supporting exporters venture into emerging markets, and urges the Government to continue and increase efforts in assisting exporters.

Given the current challenging environment for exporters, difficulties in obtaining credit and uncertainty regarding global economic growth, particularly from Europe, the NSW Government should proactively assist exporters by:

- **Ensuring a continuation of targeted assistance for business participation in trade missions** (particularly smaller businesses that want to expand into overseas markets), and facilitate co-funding exporters' businesses trips overseas to establish and/or increase contacts with overseas business partners. Such networks help to increase the chances of smaller NSW businesses being able to successfully break into new overseas markets.;
- **Ongoing assistance for NSW exporters beyond the initial assistance of establishing export relationships.** Further advice and support to help business further grow exports would benefit the state;
- **Developing a clear export strategy and a process to achieve it so as to boost the export opportunities of NSW businesses;** and
- **Rebalancing export support programs to provide effective support for small businesses that develop and export intellectual property and services.** The ongoing "information revolution" and the development of the National Broadband Network provide the context in which NSW is already developing world-leading knowledge, services and technologies that do not fit comfortably in the established "product" oriented export facilitation programs. A vibrant, export oriented industry focused on advancing and exploiting the information revolution will become a major earner and a major attractor of high value individuals to NSW.

## EDUCATION AND TRAINING REFORM

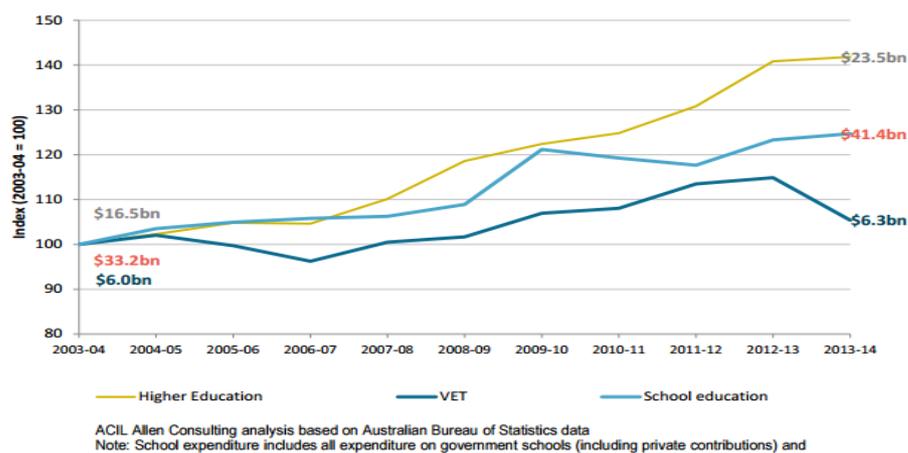
The development of the skills of the current and future workforce and its managers is central to further advances in the economic and social well-being of New South Wales. Ai Group proposes a number of skills, education and training issues be addressed in the 2016-17 Budget.

### Quality and Integrity in the VET system

Research by the Mitchell Institute shows there has been a much lower rate of growth in VET spending compared with other education sectors. Expenditure on VET has grown much more slowly, by around 15 per cent until 2012-13, before experiencing a sharp decline in 2014. This left total VET expenditure in 2013-14 around only 5 per cent higher than 2003-04 levels (see chart 5).<sup>7</sup>

#### Chart 5: Expenditure on education by sector 2003-04 to 2013-14

Figure 1: Expenditure on education by sector – 2003-04 to 2013-14

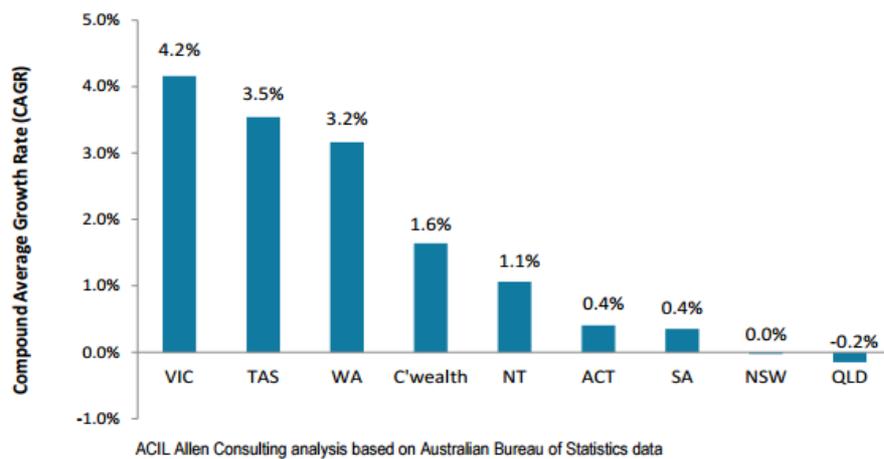


Within this context it is important to consider the Commonwealth and State composition of VET funding. The Commonwealth’s share of public VET funding has grown significantly since 1991 when growth funding commenced. Commonwealth outlays have offset declines in state outlays in 2012 – 2013 (see chart 6).<sup>8</sup>

<sup>7</sup> Expenditure on education and training in Australia: update and analysis, Peter Noonan, Gerald Burke, Andrew Wade, Sarah Pilcher, Mitchell Policy Paper No. 8/2015.

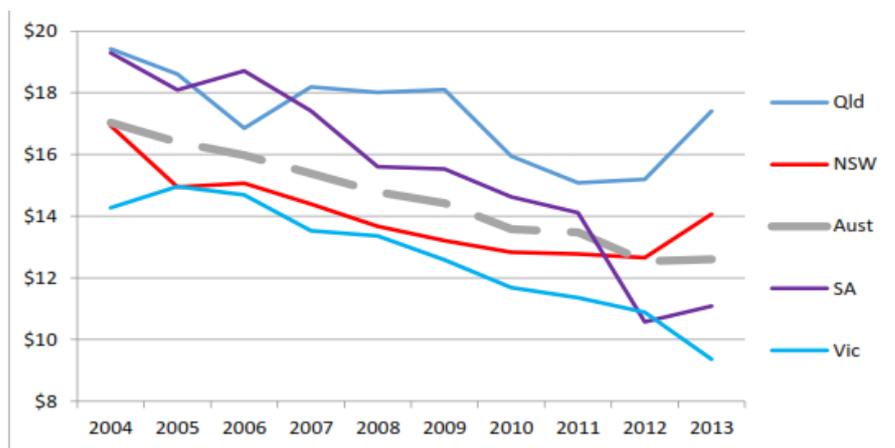
<sup>8</sup> Peter Noonan, VET funding in Australia, Mitchell Policy Paper 2016, March 2016.

**Chart 6: Average growth in VET expenditure across jurisdictions 2003-2004 to 2012-2013**



During this period New South Wales did not average any growth in VET expenditure. Government funding is usually allocated on a basis of delivered hours of training. Chart 7 shows the changes in funding per hour of government funded training delivered. There has been a large decline in real funds per hour of training and there are large differences between the states. New South Wales has experienced a long term decline except for a recent increase.<sup>9</sup>

**Chart 7: Government recurrent expenditure per annual hour of training, 2013 prices**



Source: Productivity Commission 2015

From the beginning of 2015 New South Wales has introduced the *Smart and Skilled* initiative. In July 2015 the NSW Skills Board commissioned an independent review of the first year of implementation. At this stage the review has not been finalized or released and so comment is not appropriate. What remains important to industry is that VET

<sup>9</sup> Gerald Burke, Funding, Participation and Quality in VET, AVETRA Conference, Melbourne, 2015.

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funding is sufficient to meet their needs and that the training is high quality and relevant. It is essential that New South Wales manages the transition to a demand-driven entitlement funding model without placing this in jeopardy.

Low completion rates have been exacerbated by abuse by some training providers of the VET FEE-HELP loan scheme, and a number of providers' registrations have been cancelled. The public perception of the sector has been affected. The continuing issues with the quality of VET Providers has resulted in the Australian Competition and Consumer Commission (ACCC) prosecuting one provider, with other prosecutions pending; a class action being brought against another; and the Australian Skills Quality Authority (ASQA) cancelling registration for others. The ACCC has alleged that providers' tactics have earned them millions of dollars from the federal taxpayer. The strengthened compliance measures in the Government's Mid-Year Economic and Fiscal Outlook, whilst needed, only act as a stop-gap towards fixing the issues. A new loan scheme is urgently needed.

Vocational education and training is most relevant and effective when it is driven by those who are directly involved with the jobs needed for successful businesses. In a national training system industry must be central to governance and operations, ensuring the desirable features of national consistency, a focus on outcomes, timeliness and quality assurance are built in.

Highlighting one policy driven example that does place industry at the centre of vocational training - the Commonwealth's Industry Skills Fund (ISF) – it has achieved early results that indicate satisfied, engaged employers and learners, who are being supported to provide training in the right skills to grow their businesses. This is an important product of the Government's Industry Innovation and Competitiveness Agenda which commits to increasing the skills of our workforce to better prepare for the jobs and industry of the future. The Fund also has a strategic focus on growth industries, including food and agribusiness; mining equipment, technology and services; medical technologies and pharmaceuticals; oil and gas; and advanced manufacturing.

**Recommendations:**

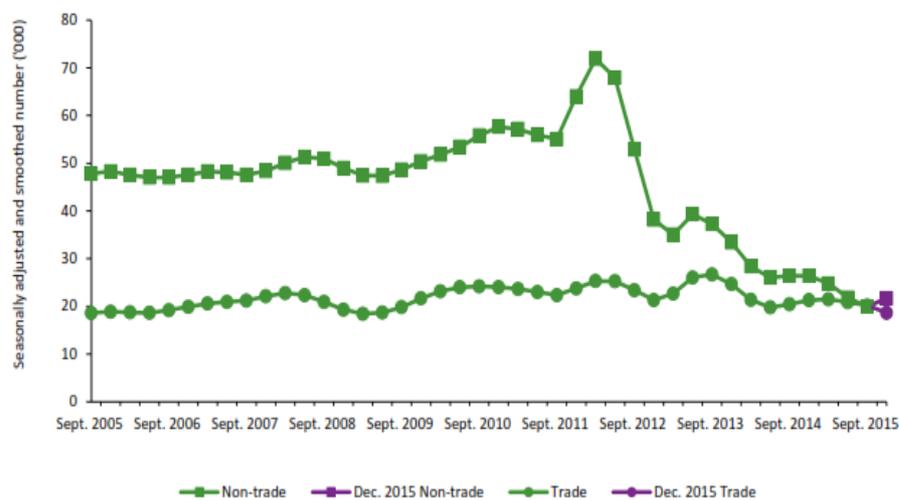
- **Include direct and formal engagement of key industry stakeholders to drive improved outcomes during the forthcoming negotiations for the 2017 Commonwealth and State Partnership Agreements.**
- **Support the Australian Skills Quality Authority to implement a strengthened quality assurance role and to monitor the operation of the new standards.**
- **Fund the establishment of new strategies that further encourage direct industry and employer engagement in the VET sector.**

## Bolstering Apprenticeship Support

The need for reform to Australia’s apprenticeship system has been recognised as a major component in the VET Reform Agenda. Apprenticeships are the backbone in the formation of highly valued and adaptable skilled tradespeople Australia needs for its future. It is imperative that Australia’s apprenticeship architecture achieves the right skills for young people and employers to fuel innovative and competitive companies.

However, a number of issues remain a concern. Recent instability around the levels of apprentice and trainee commencements jeopardises the ongoing supply of newly skilled tradespeople.

**Chart 8: Trade and non-trade commencements, seasonally adjusted and smoothed, September 2005 –December 2015**



Source: NCVER

The decade downturn in the number of apprentices and trainees reported at the end of 2014 has continued into 2015. The NCVER has reported for the September quarter 2015 there were 295,300 apprentices and trainees in training – a decrease of 13.7% on the same period in 2014 (see chart 8). For this period trades commencements decreased by 19.3%. Overall completions decreased by 6%. All jurisdictions experienced a decrease with the heaviest being the Northern Territory (16.5%), ACT (13.7%), New South Wales (12.9%), Tasmania (12.6%), and South Australia (12.1%).<sup>10</sup>

The NSW data for apprentices and trainees in-training has reduced from 143,900 in June 2010 to 86,600 in June 2015 – the lowest for the period (see table 5).

<sup>10</sup> Apprentices and trainees 2015, September Quarter, NCVER, Commonwealth of Australia, 2016.

**Table 5: In-training by state/territory as at the end of each quarter, 2010 – 2015 ('000)**

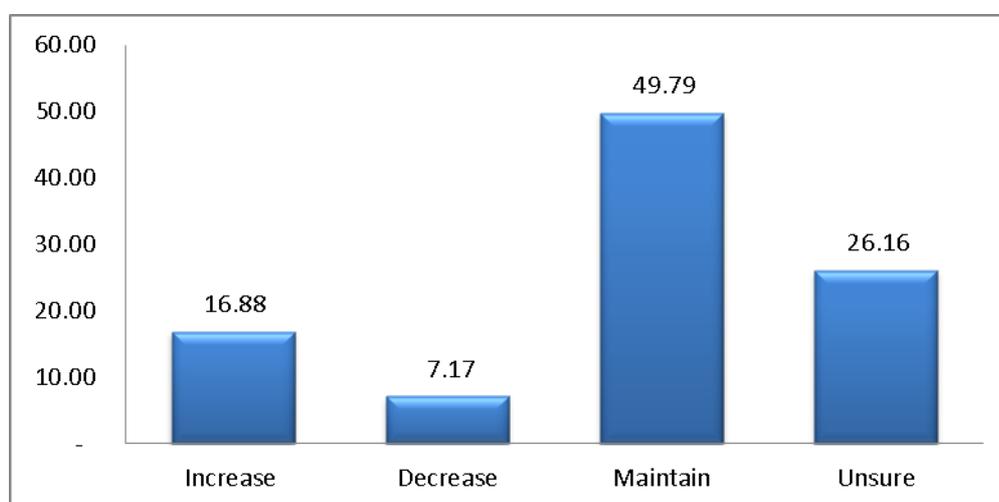
Quarter	NSW	Vic.	Qld	SA	WA	Tas.	NT	ACT	Australia
June 2010	143.9	106.9	92.4	32.6	37.5	12.1	4.3	7.2	436.9
September 2010	146.2	110.1	93.8	32.8	37.4	12.2	4.3	7.4	444.2
December 2010	145.2	107.0	90.0	32.5	37.4	11.7	4.0	7.2	434.9
March 2011	149.3	114.6	94.2	33.9	39.2	12.3	4.5	8.1	456.1
June 2011	145.9	118.8	95.6	34.6	39.3	12.3	4.4	8.2	459.2
September 2011	145.0	119.8	95.0	34.9	38.6	12.2	4.3	8.6	458.5
December 2011	140.7	116.0	90.0	34.9	37.8	11.5	3.9	8.8	443.6
March 2012	146.0	120.7	96.3	36.7	40.6	12.0	4.2	9.8	466.3
June 2012	158.9	136.2	107.4	40.6	45.6	12.9	4.4	11.0	516.9
September 2012	149.9	124.4	102.7	38.8	44.6	12.2	4.2	10.7	487.6
December 2012	140.7	106.7	94.2	37.0	42.7	11.0	3.7	10.0	446.0
March 2013	136.6	103.4	92.9	36.4	43.3	10.9	4.0	10.1	437.8
June 2013	125.7	95.3	86.4	33.7	42.3	9.6	3.9	10.0	407.0
September 2013	128.1	99.7	89.0	33.7	42.8	9.5	3.8	10.2	416.7
December 2013	118.9	90.3	82.3	31.1	41.4	8.7	3.4	9.3	385.6
March 2014	114.6	90.3	82.0	29.6	43.1	8.9	3.7	9.3	381.6
June 2014	104.1	83.8	74.6	26.2	42.1	8.7	3.7	8.2	351.5
September 2014	101.2	80.6	74.3	25.0	42.4	8.8	3.8	7.9	344.1
December 2014	93.7	72.1	68.8	23.0	40.9	8.5	3.6	7.4	318.0
March 2015	93.0	74.1	69.6	22.2	43.0	8.7	3.8	7.2	321.7
June 2015	86.6	72.0	67.4	21.0	43.6	8.6	3.7	5.9	308.8

Source: NCVER, *Apprentices and trainees 2015, June quarter*

Further data from the expanded VET collection indicates that apprenticeships and traineeships are shrinking as part of the total VET effort. Of the approximate 3.9 million VET students only 9.7 per cent are participating in apprenticeships and traineeships. This work-based training pathway is the one that most engages employers in the VET system and is now in serious decline. Measures need to be introduced to support this crucial pathway.

In a recent Ai Group survey on workforce development needs, only 17 per cent of employers intend to increase apprentices and trainee numbers over the next twelve months (see chart 9). A further 50 per cent will maintain their numbers, while 33 per cent intend to decrease numbers or are unsure about their intentions.<sup>11</sup>

**Chart 9: Employment intentions for apprentices for the next 12 months**



<sup>11</sup> 2014 Survey of workforce development needs

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Source: Australian Industry Group Workforce Development Needs Survey 2014

In response to this it is imperative that a range of measures be considered to support this pathway. One of the most successful apprenticeship arrangements is the use of the group training model, which in particular, provides a range of services to small-to-medium enterprises. The decision to remove the Joint Group Training Program funding has had significant consequences for the uptake of apprenticeships by SMEs. Experience has demonstrated that in the absence of public intervention the market produces less than the optimal proportion of apprentices. Funding support is required for group training companies to enable them to more effectively engage SMEs in apprenticeship arrangements.

One set of measures revolves around attracting a greater diversity of apprentices and encouraging and supporting high achievers to undertake trade careers.<sup>12</sup> A key aspect of this approach is to more formally link apprenticeship training to higher level qualifications including higher education degrees. An example of this is to link Certificate III apprenticeship training in building and construction to Certificate IV and Diploma level training.<sup>13</sup> Such models of innovative practice in apprenticeships could be implemented via sequential, concurrent or integrated models and require incentives to engage employers in these arrangements.

A different approach implemented overseas is the introduction of the so-called “higher apprenticeships” in the United Kingdom, France and the United States. While this title may well be unsuited to Australian conditions these approaches have the twin benefit of increasing the level of qualification awarded for apprenticeships as well as extending the scope to non-trade and more para-professional occupations. In the UK the higher apprenticeship framework covers qualifications from level 4 to 6 and includes a wide range of occupations, over 47, not usually associated with apprenticeships including: accounting; advertising and marketing communications; banking; care leadership and management; construction management; facilities management; information security; legal services; life sciences; power engineering; and supply chain management to name a few.<sup>14</sup> NSW is considering the feasibility of apprenticeship tertiary pathways to explore these issues, with the support and involvement of Ai Group among others. This will involve a number of pilot projects to design, develop and implement programs based on this approach.

The experience to date in the UK suggests that this approach may only appeal to a particular range of companies, especially large, vertically integrated organisations. Nevertheless, this initiative was prompted by the same issues that face Australia and the approach warrants further investigation about whether it fits within an Australian context.

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<sup>12</sup> *Higher Apprenticeships*, Victoria University, September 2012.

<sup>13</sup> *Ibid.*

<sup>14</sup> *Employer Guide to Higher Apprenticeships*, National Apprenticeship Services, 2014.

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A number of measures are still required to deliver a high quality Australian apprenticeship system. Central to these is competency based progression and completion for apprentices which is an important flexibility mechanism available to employers. Employers can potentially gain skilled people in shorter periods of time. A national roll-out of competency based progression across engineering and the construction trades needs to be supported. A number of successful strategies, as well as barriers to implementation, have been developed through projects such as Ai Group's Australian Government funded Engineering Excellence project.<sup>15</sup> This comprehensive report recommended the development of mechanisms to support the implementation of this initiative as well as a communication strategy with States and Territories to facilitate the expansion of the initiative. This process needs to incorporate a professional development strategy for RTOs to assist implementation.

A national body would assist the implementation of these measures including overseeing national consistency and ensuring programs and arrangements meet current and future workforce needs. It is interesting to note that in the UK an independent and employer-led body, the Institute for Apprenticeships, will be established to regulate the quality of apprenticeships in the context of anticipated rapid expansion of the program.<sup>16</sup> It is timely for Australia to review the governance arrangements for apprenticeships with a view to providing a genuinely national approach.

***Recommendations:***

- **Investigate approaches that link apprenticeships to higher level qualifications to attract a more diverse range of apprentices with employer incentives provided to engage employers in these arrangements.**
- **Support the reinstatement of Commonwealth Joint Group Training Program funding to support group training companies to enable more extensive engagement of small-to-medium enterprises in apprenticeship arrangements.**
- **Investigate the potential for introducing employment-based pathways to a wider range of occupations including para-professional occupations.**
- **Support measures to achieve full national consistency for all apprenticeships across Australia, including consideration of an oversighting body to ensure programs and arrangements meet current and emerging occupational needs.**
- **Participate in a communication strategy in conjunction with the Commonwealth and other states and territories to develop mechanisms to facilitate Registered Training Organisations to promote the outcomes from the Engineering Excellence Report and to raise their capability to implement competency based progression and completion for their apprentices.**

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<sup>15</sup> *Engineering Excellence Report*, Australian Industry Group, November 2015.

<sup>16</sup> *English Apprenticeships: Our 2020 Vision*, Department for Business, Innovation and Skills, 2015.

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## Workplace Literacy and Numeracy

Ai Group research confirms that the low levels of workplace literacy and numeracy are a major concern to employers. This has a negative impact on productivity, labour mobility and the capacity of the economy to achieve the higher levels of skills needed for the increasingly knowledge-based economy. There remains an urgent need to address the language, literacy and numeracy needs of the Australian workforce.

In addition to the well-known results of the Adult Literacy and Life Skills Survey (ALLS) and the more recent Programme for the International Assessment of Adult Competencies (PIAAC) study, research undertaken by the Ai Group demonstrates that 93% of surveyed employers reported that low levels of literacy and numeracy were having an impact on their business.<sup>17</sup> The Ai Group and employers see a strong connection between improving workplace literacy and numeracy and lifting Australia's productivity performance.

Ai Group has recently completed a significant national project in this area – *Building Employer Commitment to Workplace Language, Literacy and Numeracy Programs*. The major focus of this project was to establish the return on investment to employers who participate in the Workplace English Language and Literacy (WELL) program. Very positive results were achieved for employers demonstrating a key reason for participation in these programs.<sup>18</sup> In addition to the benefits for participating employees, there is also a firm business case for employer investment in workforce literacy and numeracy. Ai Group believes that these results should be widely distributed to encourage more employers to engage in this area.

In terms of programmatic responses, the only two avenues are via State and Territory publicly funded Foundation Skills programs or the Commonwealth funded Industry Skills Fund. At this point it is not known to what extent literacy and numeracy measures are addressed through the Fund. In any case, the total size of the Fund is only 250,000 places over four years. The data available through the international surveys such as PIAAC indicates that there are over four million workers currently experiencing low levels of literacy and numeracy.

Given this, it is timely to consider a new co-contribution program to replace the former Workplace English Language and Literacy (WELL) program. A new program would be based on the experiences of WELL but significantly involve a number of improvements. It would be based on tighter outcomes for both individual participants and employers. The use of the Australian Core Skills Framework could be mandatory to measure individual improvement and return on investment measures could be utilised to demonstrate benefits to the employer including direct linkages to productivity. The program could also be nationally accredited through the use of the Foundation Skills Training Package

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<sup>17</sup> *Getting it Right: Foundation Skills for the Workforce*, Australian Industry Group, October 2013.

<sup>18</sup> *Investing in Workforce Literacy Pays*, Australian Industry Group, August 2015.

adapted to suit particular workplace needs. This combination of measures could be implemented through a pilot program in concert with industry.

In addition, the New South Wales Government and other State Governments need to broaden their provision of foundation skills beyond students undertaking institution-based courses to supporting existing workers. Little improvement in the level of workplace literacy and numeracy can be expected unless such measures are adopted.

***Recommendations:***

- **Networks such as the employer workforce champions network need to be developed and supported to reach more employers.**
- **The State Government consider the extension of foundation skills support to existing workers.**