Ai GROUP SUBMISSION

FEBRUARY 2014

Ai Group Pre-election Priorities for South Australia in 2014

AUSTRALIAN INDUSTRY GROUP

Foreword

South Australia faces extremely challenging times, identified as a high cost, high wage, high currency economy, as we move into the March 2014 election.

These challenges which have been with us for some time are greatly impacting on the competitive position of some of the mainstream areas of Ai Group members which are in manufacturing, transport, construction, engineering, food and the service sector.

The key issue companies are having to come to grips with is how to transition to new opportunities presented by the changing economic environment.

There is a need in our view to implement policies which will assist in this transition for companies around areas such as innovation, new business models, cost competitiveness and productivity improvement.

If anything the announcement by General Motors to close manufacturing at Holden's Elizabeth facility in 2017 and Toyota's subsequent announcement has accentuated the need for clear transition policies and programs.

This submission document outlines a number of policy recommendations which we believe will help chart a sensible path for sustaining a diverse economy and assisting companies make the transition to new opportunities and driving improved productivity.

These include –

1. helping local businesses deal with a strong Australian dollar, including enhance opportunities for local businesses;
2. investing in first class infrastructure, including maintaining a pipeline of major infrastructure projects;
3. reforming the State's taxation system (including the removal of inefficient state taxes);
4. building world class skills and capabilities, including improved literacy and numeracy in the South Australian workforce;
5. addressing regulatory red tape;
6. participating in environmental and climate policies that are conducive to sustainable and robust economic growth; and
7. undertaking a major review of our workers compensation system.

We look forward to the proposals we have outlined being given positive consideration by the incoming South Australian Government.

As always we will continue to work constructively with the Government of the day.

Summary of Ai Group's Recommendations

Recommendation 1- Importance of Advanced Manufacturing

1. The newly elected Government commit to implementing the suite of recommendations of Professor Roos' Thinker in Residence Report titled *'Manufacturing into the Future'.*

Recommendation 2- Programs to assist manufacturing in transition

1. Actively support, through programs and services, South Australian manufacturers transitioning to new areas of competitive advantage in light of the high cost, high wage, high currency environment.
2. Continue to offer with a greater level of funds, programs that assist manufacturers to improve their capabilities and capacity such as Business Model Innovation, Servitisation, Government procurement strategies and the Manufacturing Leaders Network.
3. Work with manufacturers to identify opportunities for future manufacturing in areas that Professor Roos has identified as our 'manufacturing sweet spot', incorporating high value added, low volume, highly complex and highly variable activities.
4. Encourage existing manufacturers to assist with the transitioning of Holden workers and affected supply chain workers to new opportunities including support for existing manufacturers by way of soft loans to expand their businesses and maximise opportunities to uptake displaced automotive workers.
5. Encourage existing manufacturers to assist with the transitioning of displaced automotive workers to new opportunities.

Recommendation 3 – Tax reform

1. That South Australia advocates for, and participates in, a comprehensive national approach to tax reform that establishes a phased approach to reform. This would include Commonwealth, state, territory and local government, taxation arrangements. Such comprehensive reforms may require adjustments to intergovernmental financial arrangements in due course.
2. Support incremental changes to South Australia's taxation arrangements aimed at improving South Australia's business competiveness, as well as the quality of life of its citizens.
3. That South Australia should strive for greater efficiency in the provision of public services, as well as considering the potential to streamline government spending on an ongoing basis. This would include an increased private sector involvement in service provision.
4. That the South Australian Government propose a systematic and timely process to review for removal as many of the smaller taxes as is practicable. This will reduce

compliance and administrative costs across the board and help to streamline and simplify South Australia's taxation arrangements.

5. That as fiscal circumstances permit, the South Australian Government continues to reduce its reliance on payroll tax by lowering the *rate* of payroll tax.
6. That the Government initiate and encourage a calm community discussion of the potential improvements to South Australian taxation that could arise from a more uniform and less discriminatory approach to the taxation of land.
7. That as fiscal circumstances permit, conveyance duties should be reduced, and possibly as part of a broader revision of the approach to land taxation, be entirely eliminated.
8. That as fiscal circumstances permit, insurance duties be progressively reduced with a view to their elimination.

Recommendation 4- WorkCover

1. Undertake a comprehensive review of the state's workers compensation system.

Recommendation 5- Innovation Voucher Programs (IVP)

1. Encourage collaboration through programs such as the Innovation Voucher Program and other similar activities to bring together industry and tertiary research sector institutions as recognition of a source of future innovation.

Recommendation 6- Skills Development

1. Recognise that manufacturers in future will require more complex and sophisticated skills and focus on improving Science Technology Engineering and Maths (STEM) skills at all levels of skills development as a consequence.
2. Focus on improving completion rates for existing trainees.
3. Consider reinstituting payroll tax rebates and WorkCover rebates for particular areas of skill development and shortage at Cert III and above.

Recommendation 7 – Infrastructure

1. Continue to ensure South Australia receives its fair share of funding for key projects arising out of deliberations by Infrastructure Australia.
2. In times of upcoming restraint on State Government funds, focus on transport as an area of particular importance and continue to improve the north-south corridor.
3. Continue to encourage and support where evident private sector involvement and financing, including superannuation funds, in infrastructure development.

Recommendation 8 – Government Purchasing

1. Support the work of the Industry Participation Advocate.
2. Continue to refine and implement the South Australian Industry Participation Policy.
3. Renew commitment to maximising supply opportunities in State Government procurement and major projects requiring State Government approval.
4. Consider expanding the Small Business Innovation and Research (SBIR) program at the completion of the current pilot program with SA Water.

Recommendation 9 – Red Tape

1. Implement practical measures to reduce red tape such as –
    - Regular impact statement relating to red tape considerations for any new legislation.
    - Establish a single point of reference where red tape concerns can be lodged.
    - Establish regular reviews of red tape.
    - Look at the ability to comply with regulation electronically where possible.

Recommendation 10 – Immigration and population

1. Continue to ensure South Australia and in particular Adelaide, remains categorised as a regional destination for migration purposes.
2. Support an increase in business skills migration as per Ai Group's recent call as part of its national pre-budget submission.

Recommendation 11 – Environment

1. Ensure that the need for environmental regulatory obligations take into account businesses transition strategies.
2. Ensure that the solid waste levy, which has already been collected, is used in a way that improves manufacturing companies environmental compliance.

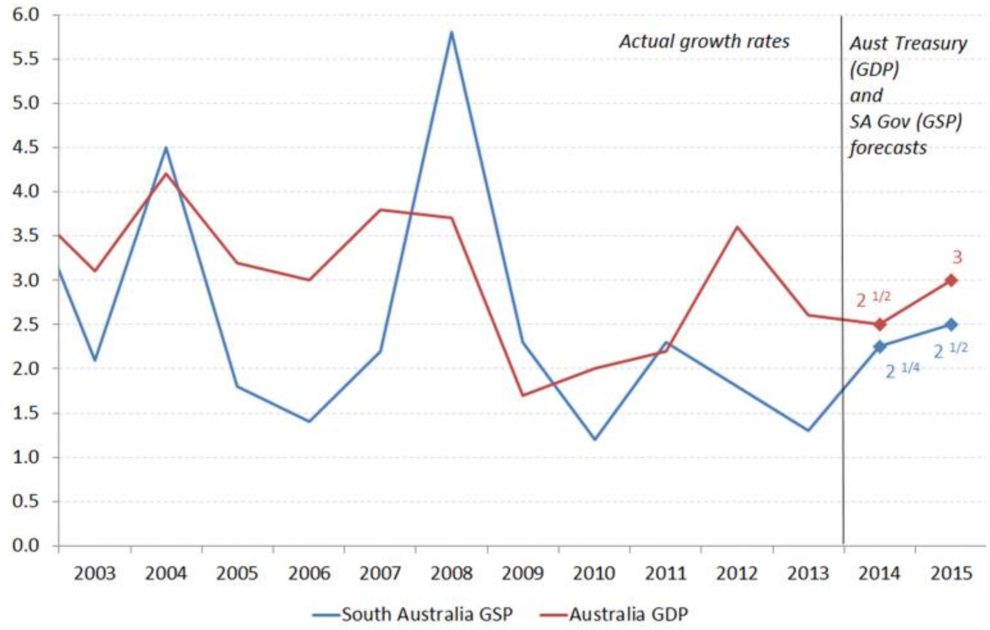
Economic Context

Within the slow national economic landscape, South Australia faces some particular challenges. Indeed, on most measures of economic performance, South Australia currently scores second only to Tasmania as the slowest state economy, within our below-average national economy.

In 2012-13 South Australian real GSP grew by 1.3% p.a. (versus 2.6% p.a. nationally), while real GSP per capita grew by just 0.3% p.a. (versus 0.8% p.a. nationally) (see Table 1). South Australia avoided an outright contraction in GSP in 2012-13 (as suffered by Tasmania), but the latest quarterly state final demand data indicate a contraction in real South Australian demand (that is, in all consumption and investment in the state) in four of the six quarters up to and including September 2013. In the labour market, South Australian employment growth has halted (zero growth in the year to September 2013) and the unemployment rate is around one percentage point higher than the national rate (6.6% versus 5.7%, see Table 1).

Despite these weak headline numbers, the State Government's latest forecasts are for real GSP growth of 2¼% in 2013-14 and 2½% in 2014-15. Employment is expected to grow by just ¼% in 2013-14, up from zero at present. In the context of the current weak outlook for the national economy (including sub-par GDP growth and rising unemployment, see Table 1) and in the context of some additional headwinds facing South Australia (see discussion below), even these modest forecasts may be optimistic.

Chart 1: South Australian GSP and Australian GDP, real % change per year



Source: ABS, *State Accounts 2012-13*. Nov 2013; SA Budget Update, Dec 2013; Australian Treasury, PEFO, Aug 2013.

The reasons for this relatively subdued performance relates to the difficult national economic environment (see discussion above) but also to some features of the South Australian economy that pose particular challenges at present. Collectively, these factors mean there are no obvious local or unique drivers of state growth on the horizon emanating from either the public or the private sectors. South Australia is likely to share in the growth generated by rising housing construction activity in 2013-14, but even this trend may be constrained by the slower population growth of South Australia than elsewhere.

- South Australia has an older population, lower population growth and lower labour force participation rates than other mainland states (see table 1). This demographic profile tends to dampens household consumption, household formation rates and new housing construction relative to the bigger, younger states. It also places obvious pressures on the health and welfare services demanded of Government.

- South Australia has lower average wages and average household incomes than other states (see table 1), due to its older population, lower housing costs and its industry mix. This lower average income adds to demand for health, welfare and other Government services and acts as a disincentive to retaining younger skilled workers.

- South Australia has not gained a significant share of the recent growth in large private sector services such as finance and professional services. Finance and insurance for example, is now Australia's second largest sector (by value added) and it is increasingly being concentrated into the CBD of Sydney, followed by Melbourne.

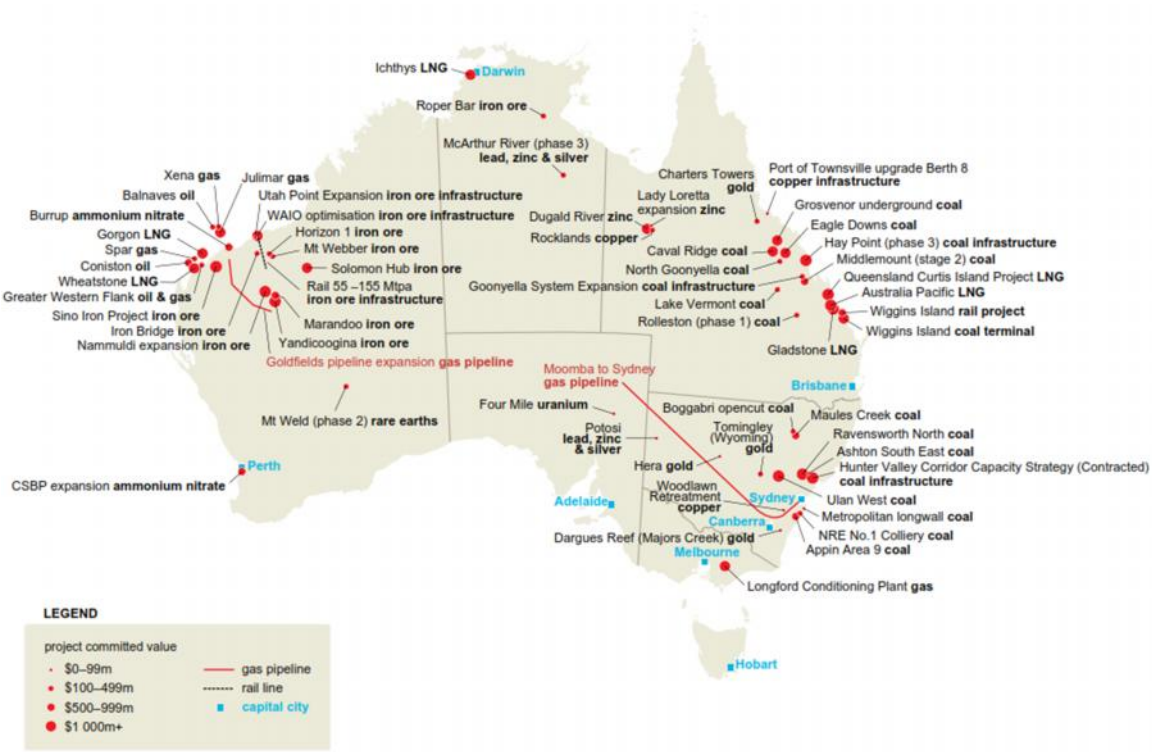
This in turn tends to draw corporate headquarters for other types of businesses towards the growing commercial and financial hubs of Melbourne and Sydney.

- To date, South Australia has missed out on the mining investment boom that has driven the economies of WA and Queensland in recent years. With the deferral of expansion plans for Olympic Dam, SA is now set to miss out on the boost from greater production volumes that WA and Queensland are already seeing as a result of their heightened investment activity (see Chart 5 and Table 1).

- South Australia has a diverse mix of industries but a larger reliance on agriculture (4.8% of GSP in 2012-13) and especially manufacturing (8.2% of GSP in 2012-13) than in other states. This means South Australia is more exposed to the problems besetting manufacturing than other, larger states. The results of this exposure are most apparent in the job numbers. National manufacturing employment has fallen by 150,000 or 14% since it last peaked in Feb 2008 (chart 3). In South Australia, manufacturing employment has also fallen. It last hit a peak of 104,000 in August 2006, but by August 2013 it had fallen by 25,900 jobs or 24.9% (see chart 4). Recent announcements of closures from Ford Australia, Toyota and GM Holden will put jobs in their large supply chain at risk. In its recent assessment of all state economies, ANZ Banking Group's economists noted that within the state's manufacturing sector, the strong export focus means that South Australia is especially exposed to the Australian dollar and international competition and concluded that as a result, "*SA is likely to continue to underperform the national economy. A fall in the AUD would be particularly helpful for this economy*".

- A reduction in state government investment from a recent peak. With a number of large-scale publicly funded projects having reached completion, public investment is likely to ease going forward, suggesting that a sustained upswing in business investment activity will be required to underpin economic growth (see chart 5).

Chart 2: National resources and energy major projects as of October 2013



Source: BREE, Oct. 2013.

Chart 3: National manufacturing employment

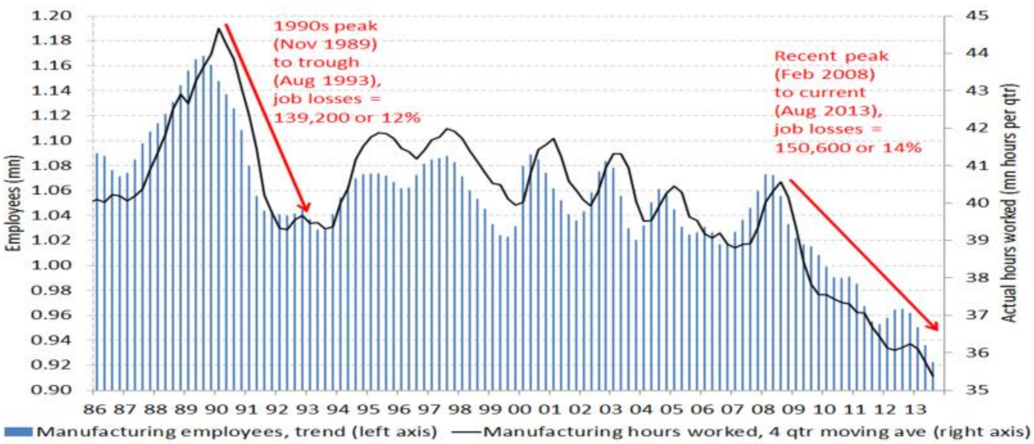
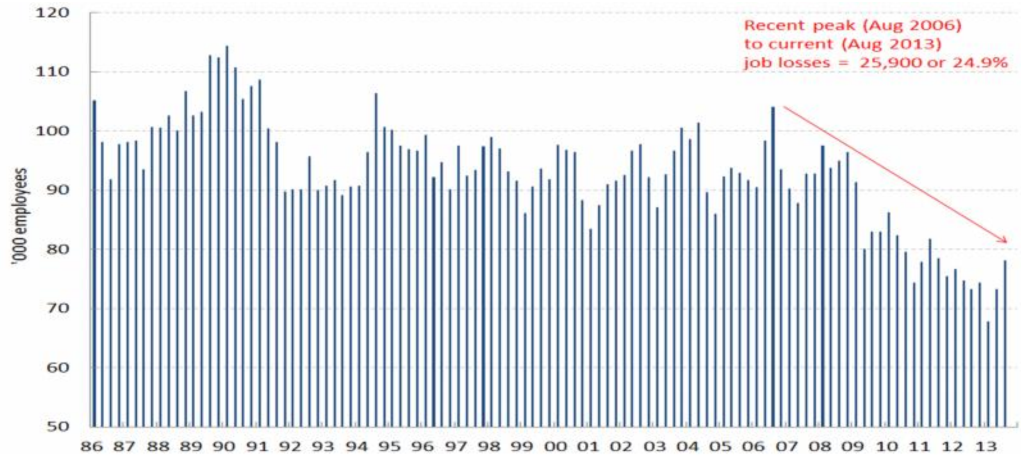
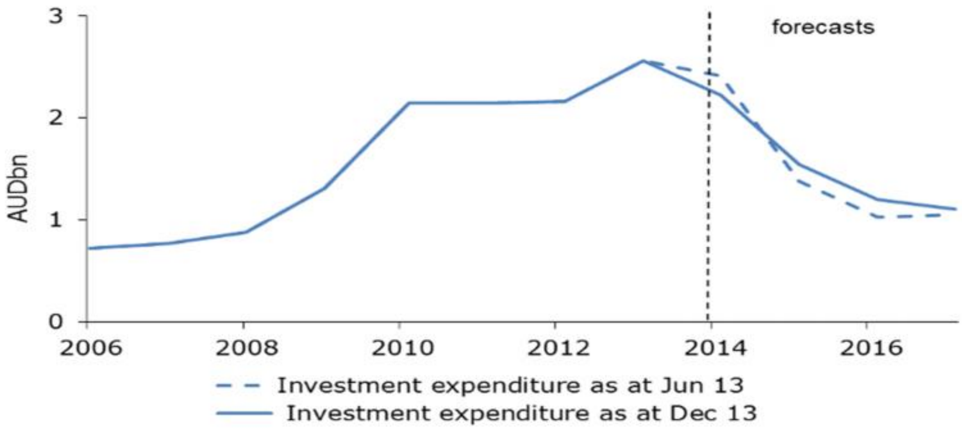


Chart 4: South Australian manufacturing employment



Source: ABS *Labour Force Australia, Quarterly Detail*, August 2013.

Chart 5: South Australian Government investment spending



Source: South Australian Budget Papers and ANZ Economics.

Table 1: Australian state economies and populations

	NSW	Vic	Qld	SA	WA	Tas	Australia
Economy size (2012-13)							GDP
GSP, real $bn	471354	333393	294,548	**94,210**	252,999	24,191	**1,524,969**
% change p.a., 2012-13	1.8	1.6	3.6	**1.3**	5.1	-0.6	**2.6**
% of national GDP	30.9	21.9	19.3	**6.2**	16.6	1.6	**100**
Economy structure (2012-13)							% of GDP
Agriculture, % of GSP	1.4	2.4	2.7	**4.8**	1.0	7.4	**2.1**
Mining, % of GSP	3.1	2.0	10.3	**4.1**	34.3	1.6	**9.6**
Manufacturing, % of GSP	7.3	7.9	6.8	**8.2**	4.7	7.1	**6.8**
Construction, % of GSP	5.2	5.9	8.8	**7.4**	12.0	6.3	**7.6**
Retail, % of GSP	4.2	5.2	5.2	**5.0**	3.2	5.5	**4.5**
Transport, % of GSP	4.8	4.7	5.5	**4.6**	4.4	5.8	**4.8**
Financial services, % of GSP	11.5	10.4	5.1	**7.3**	2.9	6.4	**8.0**
Professional services, % of GSP	7.5	8.1	5.1	**5.2**	5.0	3.2	**6.6**
Public administration, % of GSP	4.9	4.1	5.5	**5.8**	2.8	6.8	**5.2**
Health, % of GSP	6.4	7.0	6.8	**7.8**	4.0	9.4	**6.3**
Education, % of GSP	4.6	5.4	4.3	**5.1**	2.7	6.7	**4.5**
Population size (2011 census)							
Population, mn	6.9	5.4	4.5	**1.6**	2.3	0.5	**21.727**
% of national total	32.0	24.6	20.5	**7.3**	10.5	2.2	**100.0**
Population structure (2011 census)							
% female	50.7	50.8	50.4	**50.7**	45.0	51.0	**50.6**
% born outside Australia	31.4	31.4	26.3	**26.7**	28.2	16.4	**30.2**
Median age, years	38	37	36	**39**	33	40	**37**
% aged 65 years and over	14.7	14.2	13.2	**16.2**	7.1	16.1	**14.0**
Households and incomes (2011 census)							
Number of households ('000)	2,471.3	1,944.7	1,547.3	**619.0**	794.2	192.8	**7,760.3**
Average persons per h'hold	2.6	2.6	2.6	**2.4**	2.7	2.4	**2.6**
Median h'hold income, $/week	1,237	1,216	1,235	**1,044**	1,415	948	**1,234**

Labour market (Sep 2013)							
Employment growth, % p.a.	0.6	0.6	2.1	**0.0**	1.0	-1.6	**0.9**
Unemployment rate, %	5.7	5.7	6.0	**6.6**	4.7	8.5	**5.7**
Participation rate, %	63.7	64.9	65.9	**62.2**	68.0	60.2	**65.0**
Wages and prices (Sep 2013)							
Wage price index,% p.a.	2.3	2.9	2.7	**3.4**	3.2	2.5	**2.7**
AWOTE, $/week (May 2013)	1,407	1,338	1,423	**1,282**	1,644	1,265	**1,421**
Capital city headline CPI, % p.a.	2.1	2.4	2.2	**2.0**	2.6	2.0	**2.2**

Sources: ABS, various publications.

Importance of Advanced Manufacturing

Key recommendations:

- The newly elected Government commit to implementing the recommendations of Professor Roos' Thinker in Residence Report titled *'Manufacturing into the Future"*.

In 2011 Ai Group in conjunction with the Thinker in Residence Program, co-opted Professor Goran Roos to take up a residence around the importance of transforming the state's manufacturing sector to advance manufacturing opportunities.

At the completion of the residency Professor Roos produced a comprehensive report titled *'Manufacturing into the Future'* which also incorporated numerous recommendations.

Professor Roos' policy recommendations were based on four key industry policy domains –

a) *Transforming* a mature or declining industry that is very large in terms of employees, turnover, geographical dispersion, systemic impact or tax contribution (eg. firms in the automotive supply chain; firms in the defence supply chain).
b) *Rejuvenating* a mature or declining industry that is very large in terms of employees, turnover, geographical dispersion, systemic impact or tax contribution (eg. wine, forestry, paper and pulp),
c) *Growing* an existing industry grounded in both comparative and competitive advantages with positive outlooks for its share of global business (eg. food, firms in the mining supply chain).
d) *Building* and industry grounded in future comparative and competitive advantages with positive outlooks for its share of global business (eg. Functional food, scientific instruments).

Whilst his report has been noted by both sides of politics and partially implemented by the present government, Ai Group urges the newly elected government to support a full commitment to implementing the suite of recommendations in the report.

Professor Roos' work is a blueprint for transitioning and engaging the manufacturing sector to new areas of growth.

It is still a highly relevant document even post the announcement by General Motors in relation to the closure of Holden and the Toyota announcement.

Programs to assist manufacturing in transition

Key recommendations:

- Actively support, through programs and services, South Australian manufacturers transitioning to new areas of competitive advantage in light of the high cost, high wage, high currency environment.
- Continue to offer with a greater level of funds, programs that assist manufacturers to improve their capabilities and capacity such as Business Model Innovation, Servitisation, Government procurement strategies and the Manufacturing Leaders Network.
- Work with manufacturers to identify opportunities for future manufacturing in areas that Professor Roos has identified as our 'manufacturing sweet spot', incorporating high value added, low volume, highly complex and highly variable activities.
- Encourage existing manufacturers to assist with the transitioning of automotive workers to new opportunities, including support for existing manufacturers by way of soft loans to expand their businesses and maximise opportunities to uptake displaced automotive workers

Ai Group agrees with the views of Professor Göran Roos,[1] that South Australia will remain a place to manufacture things, but as a State, *"we will need to be smarter about it."*

We are very cognisant of the messages of Professor Roos - including that South Australia should be aiming to create an manufacturing environment in which 'winners' can emerge - preferably encompassing Australia's (and South Australia's) "manufacturing sweet-spot" domain.

Professor Roos has proffered the view that Australia's manufacturing sweet spot encompasses four attributes –

- Low volume
- High variability
- High complexity
- High value added

[1] Professor Roos was appointed "Manufacturing for the Future" Thinker in Residence for 2011 by the South Australian Premier and is currently the Chair of the Advanced Manufacturing Council. He is the author and co-author of numerous books and articles on Intellectual Capital, Innovation Management and Strategy. Professor Roos has worked as a consultant in most OECD countries and has served in management positions in several European and US-based corporations.

We believe this framework in which manufacturing can be competitive deserves greater attention and discussion as to what areas of economic activity it might encompass.

Undoubtedly it would incorporate the business models of companies having to make the transition to areas of competitive advantage in a new economy characterised by high wage, high cost and high currency.

We believe there is a role for Government to play in assisting companies to make this transition and that role can be fulfilled through programs and services which would enable companies to make the right decisions in this time of transition.

Support specialist industry programs

As we have stated previously and in particular in our pre-budget submission, there is a need for programs and services to assist companies making the transition.

The reality is that some companies are having to make radical transitions; others less major transitions; and yet again other companies who have met the challenges of the new economy in which we are in with relatively little change.

It will be important therefore that all companies can be engaged by the programs that are put in place.

To a large extent we believe the programs and services under *Manufacturing Works* do encompass this need, however we are firmly of the view that additional funding would enable a large number of companies to participate.

These programs have included

- *Business Model Innovation* (BMI);
- *Servitisation*;
- the *Small Business Innovation Research* (SBIR) Program;
- the *Innovation Voucher Program* (IVP);
- Cluster awareness and encouragement;
- Design based innovation; and
- the Manufacturing Leaders Group.

<u>Business Model Innovation Program</u>

Over the past two years, Ai Group has facilitated the running of two very successful *Business Model Innovation* Courses under the guidance of Professor Roos. Ten companies participated in the first program and seven companies in the second program which comprehensively stress tested their business models in light of Australia's high wage, high cost and high currency economy.

Ai Group in conjunction with Professor Roos and Adelaide University will be offering the programs again in 2014.

The courses have been well received but there is a need to engage more companies in the process.

Servitisation

Through the *Servitisation* Program, Professor Roos assisted six individual South Australian companies by helping them to understand the key drivers in adding services to their businesses as manufacturers.

- Financial – Services provide new sources of revenue at lower cost with lower volatility, and are particularly relevant for companies with large installed product bases;
- Strategic – Services are more difficult to imitate and therefore form the basis for competitive advantage - especially when the customer becomes a co-creator of value with the firm;
- Marketing – Products and services frequently become inseparable. This can lead to the development of long-term service based relationships; and
- The pursuit of new high-value activities employing services – Supporting manufacturing operations that might otherwise be at risk of offshoring or outsourcing.

We would encourage the incoming State Government to continue to support these and similar programs.

Manufacturing Leaders Network

One of the programs under Manufacturing Works was to establish a Manufacturing Leaders Network. This is in place with some forty manufacturing CEO's participating.

Whilst it is early days the essential thrust of the Network is to provide educational experiences to CEO's from global participants to assist those CEO's in their role.

Ai Group believes the Network should be extended to encompass a mentoring role for those participants to other SME companies. Such a mentoring role would be valuable to the next level of CEO's in South Australia and recognise the importance of SME's to our state economy.

Soft Loans

We encourage the newly elected Government to consider the introduction of 'soft loans' as a key initiative to assist existing non-automotive manufacturers expand their businesses such that they are well positioned to employ displaced automotive workers.

Tax Reform

Key recommendations:

- That South Australia advocates for, and participates in, a comprehensive national approach to tax reform that establishes a phased approach to reform. This would include state, territory and local government, taxation arrangements. Such comprehensive reforms may require adjustments to intergovernmental financial arrangements in due course.
- That the Committee recommends incremental changes to South Australia's taxation arrangements aimed at improving South Australia's business competiveness, as well as the quality of life of its citizens.
- That South Australia should strive for greater efficiency in the provision of services, as well as considering the potential to streamline government spending on an ongoing basis. This would include an increased private sector involvement in service provision.
- That the South Australian Government proposes a systematic and timely process to review for removal as many of the smaller taxes as is practicable. This will reduce compliance and administrative costs across the board and help to streamline and simplify South Australia's taxation arrangements.
- That as fiscal circumstances permit, the South Australian Government continues to reduce its reliance on payroll tax by lowering the *rate* of payroll tax.
- That the Government initiate and encourage a calm community discussion of the potential improvements to South Australian taxation that could arise from a more uniform and less discriminatory approach to the taxation of land.
- That as fiscal circumstances permit, conveyance duties should be reduced, and possibly as part of a broader revision of the approach to land taxation, be entirely eliminated.
- That as fiscal circumstances permit, insurance duties be progressively reduced with a view to their elimination.

Ai Group's recommendations in this area were outlined in a submission and appearance before the SA Parliamentary Economic and Finance Committee and it's investigation of the State's taxation system in 2013. Our original submission is summarised below.

In recent times, Ai Group has broadly advocated sensible state tax reforms that will ensure that Ai Group's members, many of whom are experiencing extremely difficult times; do not have their competitive position further impeded.

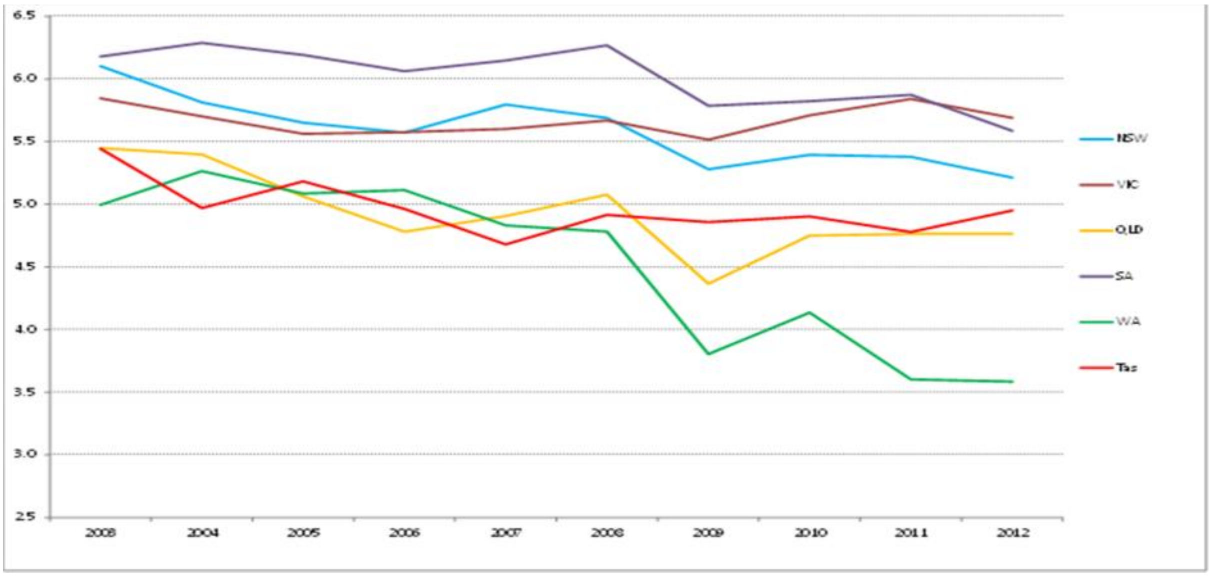
Improving the overall structure of the South Australian tax system has the potential to make the South Australian economy more productive, more able to provide rewarding jobs and more capable of generating a strong tax base from which to raise revenue into the future. Improving the structure of the State's taxation regime can also increase government accountability, reduce system complexity and business compliance costs.

In our view, there should be little argument by either side of politics that improved taxation arrangements could make a material difference to the absolute economic performance of the State, and thereby assist South Australia to improve its ability to attract new investment, and make the state a better place in which to work and live.

Ai Group strongly believes that South Australia's economy must become more competitive in order for it to prosper, and for South Australian businesses to make inroads into Asian and other markets - *whilst* overcoming stiff competition in the domestic and in export markets. In our view, tax reform is needed in South Australia to ensure tax settings are supportive of business development and productivity growth.

In recent years, South Australia has been marked as one of the nation's most highly taxing States or Territories. The chart below was taken from the *Australian Taxation Revenue* by the ABS. Measured as a share of Gross State Product, it shows for the past decade at least, South Australia has consistently ranked with Victoria and New South Wales as the higher taxing jurisdictions.[2]

Chart 7: State and Local Government Taxes: Share of GSP 2001-02 to 2011-12



Source ABS, 5506.0, Taxation Revenue, Australia, 2010-11 and ABS, 5220.0 Australian National Accounts: State Accounts, November 2013

In particular, we recommend that as a matter of urgency, that the South Australian Government gives consideration to the State tax reforms outlined in *Australia's Future Tax System Review* ('the Henry Tax Review'), and that it works with the Australian Government to implement the State tax reform recommendations in *the Henry Tax Review*.

This could stimulate economic growth and promote high performing enterprises operating in an internationally competitive South Australia. South Australia's recent lagging

[2] It is true that South Australia's level of taxation as a share of GSP is no higher than in NSW and Victoria. However it is also true that those two States have clear advantages in terms of population size, density and agglomeration benefits for businesses in the larger States to provide a degree of 'insulation' against their higher taxing stance.

productivity performance and longer term challenges associated with ageing of the population mean that the longer South Australia postpones genuine and comprehensive tax reform, the more difficult the task of promoting long-term economic growth across all sectors for the wellbeing of all South Australians.

Ai Group does acknowledge that the State based tax reforms proposed in *the Henry Tax Review* are not easily implementable in the short-term and are likely to require broader reforms to fiscal federalism and revenue sharing allocations between the States through the Commonwealth Grants Commission.

Nonetheless, we recommend that the South Australian Government plays an active role in engaging the Australian Government and other States to initiate an agreed timetable through the Council of Australian Governments (COAG) to implement *the Henry Tax Review* recommendations with respect to reform and removal of State based inefficient taxes.

Since the South Australian Government has limited scope to lower or remove existing taxes while ensuring revenue neutrality, Ai Group submits that the way forward is for the South Australian Government to reduce taxation and re-prioritise expenditure simultaneously, preferably executed in phases to avoid sudden changes to business and government practices.

Reform (or abolish) inefficient state taxes

Ai Group during 2013 forwarded a submission and appeared before the State Parliamentary Economic and Finance Committee Inquiry into state taxation.

Our key recommendations from our submission were

1. South Australia advocates for, and participates in, a comprehensive national approach to tax reform that establishes a phased approach to reform. This would include state, territory and local government, taxation arrangements. Such comprehensive reforms may require adjustments to intergovernmental financial arrangements in due course;

2. incremental changes be made to South Australia's taxation arrangements aimed at improving South Australia's business competeiveness, as well as the quality of life of its citizens;

3. South Australia strives for greater efficiency in the provision of services, as well as considering the potential to streamline government spending on an ongoing basis. This would include an increased private sector involvement in service provision;

4. the South Australian Government propose a systematic and timely process to review for removal as many of the smaller taxes as is practicable. This will reduce

compliance and administrative costs across the board and help to streamline and simplify South Australia’s taxation arrangements; and

5. as fiscal circumstances permit, insurance duties be progressively reduced with a view to their elimination.

Land Tax

Ai Group would also recommend that the Government initiate and encourage a calm community discussion of the potential improvements to South Australian taxation that could arise from a more uniform and less discriminatory approach to land taxation.

Once that has occurred and as fiscal circumstances permit, we would then advocate for conveyance duties to be reduced, and as part of a broader revision of the approach to land taxation, be eliminated in their entirety.

Payroll tax

We would advocate that that as fiscal circumstances permit, the new South Australian Government continues to reduce its reliance on payroll tax by lowering the rate of payroll tax in the longer term.

WorkCover

Key recommendation –

- Undertake a comprehensive review of the state’s workers compensation system.

Ai Group would support a major review of the Workers Compensation Scheme based on the following principles-

- An absolute focus on return to work;

2. A mandatory entitlement to access compensation be based on the requirement that the injury be predominantly work related;
3. Benefit levels as a priority support the significantly injured;
4. Benefit reforms be considered along the lines of the recent New South Wales reforms, whereby benefit levels relate to impairment and also clearly linked to return to work; and
5. Regular work capacity tests for injured workers that remain on the scheme

It is clear that our WorkCover Scheme needs a significant review.

The Minister has admitted the Scheme is ‘buggered’, requires a root and branch review and has recently released a discussion paper outlining changes that the Government would pursue if re-elected.

It is well recognised that our Scheme has the highest average levy rates of any of the major Schemes in the country and below average return to work rates.

Innovation Voucher Programs (IVP)

Key recommendations:

- Encourage collaboration through program such as the Innovation Voucher Program and other similar activities to bring together industry and tertiary research sector institutions as recognition of a source of future innovation.

South Australia's *Innovation Voucher Program* (IVP) has been aimed at eligible research and development (R&D) service providers. These include public research organisations and private companies that provide specialised services for research, development and design.

This Program funded R&D organisations to deliver technical innovation projects for small to medium enterprises (SMEs) with funding between $10,000 and $50,000 to eligible projects on a competitive basis.

There have been a number of early grants awarded and applications continue to be assessed.

Ai Group supports the thrust of the program to bring together research institutions and SME's which may not have previously had interaction with the research sector.

Skills development

Key recommendations:

- Recognise that manufacturers in future will require more complex and sophisticated skills and focus on improving STEM skills at all levels of skills development as a consequence.
- Focus on improving completion rates for existing trainees.
- Consider reinstituting payroll tax rebates and WorkCover rebates for particular areas of skill development and shortage at Cert III and above.

In the context of significant amounts of the states manufacturing undergoing transition to new areas of competitive advantage, skills development is a fundamental part of this process.

As already indicated, there is a view that our manufacturing capability in the future will involve more complex, more highly variable production.

This in itself indicates that manufacturing jobs in the future will be more highly skilled than many jobs at present.

Some years ago Ai Group sponsored a major study which indicated that the vast majority of jobs in the future would require a University or TAFE education and less than 50% of our workforce had those qualifications at that point in time.

Subsequent Ai Group research estimated that 75% of the fastest growing occupations required STEM skills.[3] That survey highlighted the growing concern amongst employers about the ability of apprentices to acquire the necessary STEM skills to fully contribute to workplace reform.

As such we believe the following should underpin our skills formation policy-

1. A focus on STEM skills, both at the school and post-school levels;
2. A funding formula that recognises areas of skill shortage and encourages both employers and students to undertake studies in those areas.
3. An important component of the funding formula should be based around successful completion rates;
4. Consideration be given to reinstituting payroll tax rebates and WorkCover rebates for targeted skills training in areas of shortage or areas of future need based on the transition in manufacturing; and
5. Continued focus on literacy and numeracy as an area that needs constant attention and support.

Infrastructure

Key recommendations:

- Continue to ensure South Australia receives its fair share of funding for key projects arising out of deliberations by *Infrastructure Australia*.
- In times of upcoming restraint on State Government funds, focus on transport as an area of particular importance and continue to improve the north-south corridor.
- Continue to encourage and support where evident private sector involvement and financing, including superannuation funds, in infrastructure development.

[3] Ai Group Report, *Lifting our Science,Technology, Engineering and Maths (STEM) Skills,* published 11 April 2013, see: http://www.aigroup.com.au/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/LIVE_CONTENT/Publications/Reports/2013/Ai_Group_Skills_Survey_2012-STEM_FINAL_PRINTED.pdf

Ai Group recognises that there have been significant investments in infrastructure in a range of areas by the State Government in recent times.

Projects such as-

1. Adelaide Oval redevelopment
2. South Australian Health and Medical Research Institute
3. New Adelaide Hospital
4. South Road Superway

have all been significant financial commitments for the State.

It is therefore important that South Australia work closely with *Infrastructure Australia* to ensure our priority projects receive comprehensive consideration. South Australian needs to maintain its fair share of *Infrastructure Australia* support for major projects of importance.

In terms of future commitments, we realise we are somewhat financially constrained due to present commitments but our members would clearly like to see continued expenditure where possible on improving transport infrastructure and in particular the efficiency of the north-south corridor.

To that extent Ai Group also supports measurers to facilitate a greater role by the private sector in financing public infrastructure as well as sensible strategies by Governments to use their balance sheets to fund investment in a fiscally responsible way.

Finally, it is also important that the South Australian Government continues to work with *Infrastructure Australia* to ensure our priority projects are actively considered and have the best possible chance of support.

Government purchasing

Key recommendations:

- Support the work of the Industry Participation Advocate.
- Continue to refine and implement the South Australian Industry Participation Policy.
- Renew commitment to maximising supply opportunities in State Government procurement and major projects requiring State Government approval.
- Consider expanding the SBIR program at the completion of the current pilot program with SA Water.

Ai Group supports recent endeavours to implement an Industry Participation Policy and appoint and empower an Industry Participation Advocate.

In our view it is important that local businesses have full and fair opportunity to participate in the South Australian Government's $5bn annual spend and also maximise opportunities in major projects that require State Government approval.

Government procurement and the South Australian *Industry Participation Policy* (IPP)

Ai Group was pleased to see South Australia's *Industry Participation Policy* (IPP) revised and strengthened in recent times. It will now increase the opportunities for local small to medium enterprises (SMEs) to participate in major projects in the state.4

In particular, we are pleased to see that the IPP has been made more effective through:

- far more of the state government's procurement being subject to the IPP by lowering the threshold for when *Industry Participation Plans* are required from $10 million to $4 million in metropolitan areas (and to $1 million in regional areas);
- local participation being more critical to the award criteria of these contracts, with the minimum weighting rising from 2 per cent to 5 per cent and this is to be reviewed again once an economic contribution analysis the *Office of the Industry Advocate* has commenced is completed. (Expected in December 2013);
- the office of the *Industry Participation Advocate* being strengthened and involving Agencies at the acquisition plan stage to ensure that the IPP is considered from the beginning of the procurement process; and
- contracts that are covered by the IPP requiring prime contractors to regularly meet with the *Industry Participation Advocate* to ensure that commitments on local participation are adhered to and opportunities for more local participation considered by the project in its delivery; and
- a more streamlined process for local business that use local sub-contractors and suppliers on projects up to $10 million.

Ai Group would like to see the IPP reviewed periodically with an eye to strengthening it further.

Local Content and Major Projects

A significant opportunity exists to increase local content in major resource projects.

In relation to projects requiring State Government approval such as the Olympic Dam expansion, under the approval of an Indenture Agreement, the Government of the day has an opportunity to build into such an agreement, a necessity to maximise local content.

An ideal template is the Hebron Project in Newfoundland. We encourage the State Government to follow suit at every opportunity.

[4] The revised Policy came into force in July 2012 and aims to ensure that local SMEs have a full and fair opportunity to bid for work linked to major projects in this state.

In relation to other major projects that do not require and Indenture Agreement, we would encourage the Government through its agents (Industry Capability Network and Industry Participation Advocate) to partner with the new relevant EPCM contractors and project owners to identify areas where local participation can be maximised and incorporated into the project. Such an arrangement can only enhance the State's Industry Participation Policy

The *Small Business Innovation Research* (SBIR) Program

The *Small Business Innovation Research* (SBIR) Program is based on the successful program which operates in the USA.

The program has been designed to help small businesses develop products that can solve specific problems faced by State Government agencies.

A pilot program in South Australia has been focussed on finding solutions to a problem that SA Water has identified and needed to address for its own operation.

The pilot program undertaken in conjunction with SA Water aims to engage a number of companies to undertake research and develop solutions to solve some of SA Water's current challenges.

Ai Group believes that the SBIR pilot has been successful to date and is deserving of the Governments ongoing support.

State Public Sector Reform

Key recommendations:

- Ai Group recommends that the newly elected Government commit to a KPI for public sector employees equivalent to the average of the other mainland states.

For some years now, Ai Group has been collating South Australia's position in respect of public sector employee numbers relative to other mainland states. We have collated this information again below based on ABS statistics for June 2013.

Ai Group analyses these public sector numbers on a national basis, in an attempt to objectively ascertain how this State compares. In summary, the data indicates that South Australia has remained either last or 4th in the rankings for the 3 years to June 2013.

Public Sector Employees as a Proportion of Total Employees (at 30/06/12)

	Public Sector Employees (State only)	Persons employed	public sector employees as a proportion of total employees (%)	Mainland State Ranking
	'000	'000		
NSW	450.1	3,596.1	12.516	2
Victoria	329.7	2,896.0	11.384	1
Queensland	302.5	2,335.3	12.953	4
South Australia	**r111.6**	**812.7**	**r13.732**	**5**
Western Australia	165.4	1,296.5	12.757	3
Average of Australian Mainland States	271.86	2,187.32	12.668	

Source: Australian Bureau of Statistics: 6248.0.55.002 - Employment and Earnings, Public Sector, Australia, 2011-12 and 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery; Table 02. Labour force status by State, Capital city / Balance of state and Sex – June 2012 r = revised

Public Sector Employees as a Proportion of Total Employees (at 30/06/13)

	Public Sector Employees (State only)	Persons employed	public sector employees as a proportion of total employees (%)	Mainland State Ranking
	'000	'000		
NSW	451.7	3677.2	12.283	2
Victoria	332.7	2934.0	11.339	1
Queensland	289.7	2349.1	12.332	3
South Australia	**113.7**	**818.0**	**13.900**	**4**
Western Australia	172.2	1223.1	14.079	5
Average of Australian Mainland States	272.0	2200.28	12.787	

Source: Australian Bureau of Statistics: 6248.0.55.002 - Employment and Earnings, Public Sector, Australia, 2012-13 (Amended); and 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery; Table 02. Labour force status by State, Capital city / Balance of state and Sex – June 2013

On the basis of our analysis:

- If South Australia was to have an <u>average</u> of the other mainland State's (in relation to number of public sector employees per persons employed) this would equate to a figure of 12.668% at 30/6/2012 and 12.787% at 30/6/2013.
- In terms of public sector employee numbers (at the national average), South Australia would have had:
    - 106,681 public sector employees at 30/6/2011 (not 110,000);
    - 102,952 public sector employees at 30/6/2012 (not 111,600); and
    - 104,600 public sector employees at 30/6/2013 (not 113,700).

As a result of this information, Ai Group recommends that the new South Australian Government:

- oversee whatever is necessary in terms of an appropriately resourced public sector whereby public sector employees as a percentage of total employees is the equivalent of the average of the other mainland States;

Red tape

Key recommendations:

- Regular impact statement relating to red tape consideration for new legislation.
- Establish an office where red tape concerns can be lodged.
- Establish regular reviews of red tape.
- Look at the ability to comply with regulation electronically where possible.

In October 2013, the Productivity Commission[5] estimated there to be about 130 national regulators in Australia, with another 350 operating within state and territory governments and a further 560 in local councils.[6] The aggregated burden for businesses that are subject to all of this regulation is significant.

> *"Australian studies have found that small businesses [alone] spend, on average, up to five hours per week on compliance with government regulatory requirements and deal with an average of six regulators per year."*[7]

In support of our views on red-tape, Ai Group has conducted a number of research pieces that touch on the subject of regulator engagement with business in recent years.[8]

[5] See the Productivity Commission report, *Regulator Engagement with Small Business*; http://www.pc.gov.au/projects/study/small-business/report published on 9 October 2013.

[6] At pages 4 to 5 of the Report.

[7] At page 3 of the Report.

[8] These include:

- *Policy priorities for business* (May 2013), in which 30 per cent of small businesses nominated regulatory burden as their number one policy priority area for the next three years;
- *Business prospects* (Feb 2013), in which 28 per cent of all businesses said they expected that government regulatory burden would be among the top three factors likely to inhibit their growth in 2013;
- The *WEF Global Competitiveness Report 2012-13* (Sept 2012, Ai Group is the Australian partner to WEF in this annual research report), in which Australia ranked 96th out of 144 countries for the burden of government regulation in 2012. Restrictive labour regulations and tax regulations were voted by 20.3 per cent and 9.4 per cent of businesses respectively as the most problematic factor in doing business in Australia;
- *CEO Survey of Business Regulation* (Sept 2011) (much of which is cited in this submission).

In addition, to provide a flavour of the more detailed reflections of businesses in a specific sector, we asked our specialist regulatory and standards staff covering importing, manufacturing, distribution and servicing of electrical and electronic products to provide input based on their intensive dealings with businesses in this sector.

Of those studies, our *2011 CEO Survey* (specifically in relation to SMEs, but equally as applicable to larger businesses) provides the most useful detail. The Survey showed that:

- Small businesses engaged with an average of six regulators per year.

- Small business operators spent an average of 5 hours per week complying with regulation and spent 3.5 per cent of their annual total costs on hiring external consultants to help with compliance issues.

- Businesses reported that they find processing delays, a lack of involvement in the development of new regulation, and finding information to be among the most challenging aspects of the regulatory process. In fact, close to 30 per cent of businesses reported that information relating to regulation is typically difficult to find or does not exist

- In terms of specific regulators, the ATO, local councils, and state regulators of OH&S were said to be associated with the greatest amount of red tape.

- When asked to identify the changes that would have the greatest impact on reducing their regulatory compliance burden, 25 per cent of small businesses requested the "establishment of reliable electronic and web-based reporting".
  "Reduce the frequency of reporting requirements to a minimum" was the second most common response, while "developing a single location or website for all regulatory information and announcements" was also prominent.

- Avoiding information duplication and overlap between regulators was also an important issue for business.

Ai Group's other red-tape reduction recommendations include:

- requiring all agencies to report on their red tape burden on business;

- requiring departments to submit Regulatory Impact Statements for an assessment of their adequacy before releasing them for consultation;

- introducing sunset clauses in all legislation with departments to justify the benefits of extending the legislation and impact on business (as opposed to the current system where legislation generally continues automatically with intermittent review); and

- establishing an office where businesses can directly raise their red tape concerns for investigation.

Immigration and population

Key recommendations:

- Continue to ensure that all South Australia remains categorised as a regional destination for migration purposes, including metropolitan Adelaide.
- Support and increase in business skills migration as per Ai Group's recent call as part of its pre-budget submission.

It is always important to have a viable immigration program to supplement training of our existing population to meet business needs.

To that extent it is vital that South Australia and the Adelaide region in particular retains its regional status under the migration policy.

Ai Group in its recent national pre-budget submission recommended a small increase in Australia's intake for 2014-15. This number is 215,000 up from 190,000 last year. Furthermore that modest increase should be directed to areas where we have skill shortages and primarily reside within the economic migration parameters.

Environment

Key recommendations:

- Ensure that the need for environmental regulatory obligations take into account businesses transition strategies.
- Ensure that the solid waste levy, which has already been collected, is used in a way that improves manufacturing company's environmental compliance.

Move to embrace national consistency in environmental and climate policies

After long an ongoing consultation with our membership, including the establishment of a dedicated *Leaders Group on Climate Policy*, Ai Group is confident in asserting that business strongly prefers a nationally consistent approach to any policy issue over the fragmented and inconsistent responses that we have often observed across various states and territories.

This is particularly true of the many aspects of climate policy – a policy that to date has implied significant compliance cost implications for business. It is important therefore, that these substantial costs (which often do not feature in international competitor economies) are not multiplied through duplicative or contradictory policies.

Clearly much will depend on the policy agenda and advancement of the new federal Government. The Abbott Government has made it clear that it will proceed to repeal the carbon price, the *Clean Energy Act*, the *Clean Energy Finance Corporation*, the *Climate Change Authority* and other elements of the former Government's climate package.

It is imperative that the new State Government is agile in re-aligning State Government emissions policies to the revised Commonwealth agenda such that State producers are not adversely affected. In Ai Group's view, there are several specific opportunities to advance national consistency in climate policy:

- Once the new Commonwealth Government legislates its substantive climate policy, (whether its *Direct Action Policy*, an emissions trading scheme, or otherwise), South Australia should move to quickly review all of its own climate policies[9] – including the *Climate Change and Greenhouse Emissions Reduction Act 2007* (SA). Whilst some policies might remain relevant, others may well not be necessary, or offer poor value and should therefore be quickly phased out;
- In considering the costs and benefits of any <u>new</u> South Australian climate proposals, account should be taken of the probability of a broad-based national approach to climate policy being revised in the near future. Policies that would not be relevant in the context of a national approach, or that have high start-up costs (both in terms of administration and compliance) relative to initial environmental benefits, should not be introduced;
- South Australia's emissions reduction target (currently aimed at limiting the state's greenhouse gas emissions to 108% of 1990 levels during 2008-2012, as a first step towards reducing emissions by 60% (to 40% of 1990 levels) by 2050)) – should be consistent with any national target adopted in legislation. In any event, any such targets should not disadvantage South Australia as against other states;
- Businesses operating in South Australia are currently required to report energy, emissions and other information under a range of state and federal programs. Many with operations in multiple states face multiple inconsistent reporting regimes.

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[9] Other relevant *State Strategic Plan Targets* to be reviewed would include the following:

T60. Improve the energy efficiency of dwellings by 15% by 2020 (Milestone of 10% by 2014).

T61. Improve the energy efficiency of government buildings by 30% by 2020 (Milestone of 25% by 2014).

T64. Support the development of renewable energy so that it comprises 33% of the state's electricity production by 2020 (Milestone of 20% by 2014).

T66. Limit the carbon intensity of total South Australian electricity generation to 0.5 tonnes of $CO2$/MWh by 2020.

T67. Reduce waste to landfill by 35% by 2020 (Milestone of 25% by 2014).

South Australia should continue to lead efforts to reduce the burden of inconsistent reporting, particularly by advocating for, and facilitating, a single national online reporting portal; and

- South Australia and several other states currently operate separate energy efficiency trading schemes. Should the Commonwealth Government move to introduce a unified national system, South Australia should cooperate with efforts that can reduce compliance costs and improve market liquidity.

<u>Assist business efficiency and emissions reduction</u>

The next South Australian Government should consider support to industry in order to meet emissions reduction targets and help position South Australian industry to participate efficiently in any national carbon constraint.

This can be delivered through a range of channels to meet the varying needs of businesses of different sizes or in different industries. Adequate and accessible funding would be one vital component, enabling assistance for projects to improve energy efficiency or reduce emissions.

Ai Group's internal research of its membership indicates the need for support to:

- Prepare for the projected economic, social and environmental impacts of climate change
- Improve awareness of the impacts of climate change policies on business
- Access practical information on processes for identification, assessment and implementation of innovative solutions and investment in carbon efficiency initiatives
- Implement practical initiatives across supply chains
- Develop the necessary in-house expertise to achieve sustainable environment solutions

An important role exists for Government in partnership with industry associations such as Ai Group[10] to promote strategic resilience in industry and position it to capture emerging opportunities in response to climate change.

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[10] Ai Group's Climate Policy Principles were developed through a high level Leaders' Group of companies (Ai Group's *Leaders' Group on Climate Policy*) from across Ai Group's diverse membership. The key principles are that:

1. The competitiveness of Australia's trade-exposed industries cannot be eroded;
2. Australia should be able to meet its international emissions reduction commitments at least cost;
3. Climate policy must respect existing investments to avoid acute short - medium term disruptions while supporting efficient long-term investment in the energy and other sectors;
4. A central feature of policy should be supporting research and development of new approaches to emissions reduction and refinement of existing approaches; and
5. Compliance costs and regulatory burdens should be kept to a minimum.

Ai Group will always look to work closely with the South Australian Government in the development and delivery of targeted initiatives to:

- Raise awareness in industry of climate change adaptation risks and opportunities;
- Provide practical assistance in the development by businesses of strategies to measure their own progress towards adapting to climate change;
- Promote integration of carbon efficiency into industry's core business practices;
- Promote and assist uptake of energy efficiency and adaptation initiatives;
- Identify and implement initiatives to reduce carbon intensity of processes, supply chains, products; and
- Identify areas of emerging business opportunity and trialling of innovative climate change adaptation technologies.

Reconsider the application of the *Solid Waste Levy* and the uses for its hypothecated fund

Ai Group has repeatedly encouraged the State Government to consider the most equitable use of environmental levies to help ensure businesses can improve their environmental impact, whilst simultaneously improving efficiencies. In our 2013 pre-budget submission we also recommended that the Government:

- consider deferral of any further increase in the Solid Waste Levy; and
- upon the wind up of Zero Waste, allocate those funds to programs that will re-use waste into other commercial uses.

Ai Group continues to argue that with so much of the (already collected) *Solid Waste Levy* unassigned[11], the 2013 increase to $47 per tonne[12] for waste to be dumped was not necessary.

It remains our strong submission that the considerable revenue that continues to be generated through the Solid Waste Levy must be curtailed. We take this opportunity to point out that on 5 March 2013 Queensland formally repealed its *Industry Waste Levy,* significantly easing that State's burden on business.[13]

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[11] The *Waste to Resources Fund* now holds around $40 million in funds (and that sum forecast to increase to $51.8 million in 2014). Unallocated levy funds are held in a hypothecated fund where they continue to accumulate for no apparent purpose that we can surmise. It is our strong view that these funds should properly be directed towards effective provision of practical assistance to industry in the implementation of sustainable waste avoidance, minimisation and reuse practices.

[12] The 2010-2011 State Budget announced that from 1 July 2011, the levy would increase from $26 per tonne to $35 in metropolitan Adelaide, and from $13 per tonne in non-metropolitan Adelaide to $17.50. The Levy (for metropolitan Adelaide) has progressively increased from $35 per tonne in 2011, to $47 per tonne currently and is foreshadowed to increase further to $52 per tonne by 2014.

[13] The review of Queensland's *Waste Reduction and Recycling Strategy 2010-2020* has been driven by the repeal of the Industry Waste Levy. That Levy effectively ended on 1 July 2012 through an amendment to the *Waste Reduction and Recycling Regulation 2011* to set all levy prices to nil. The repeal of the levy was completed when Parliament passed legislation on 5 March 2013 to remove references to the levy from the *Waste Reduction and Recycling Act 2011*(http://www.ehp.qld.gov.au/waste/waste-act.html). In addition

Ai Group advocates that *Solid Waste Levy* funds be applied to achieving a step-change in current industry waste practices through:

- the provision of practical assistance to businesses to increase the identification and uptake of waste avoidance and implementation of sustainable waste management and resource recovery practices;
- development of strategic action plans for the implementation of projects in priority sectors; and
- assistance for transition of supply chains towards waste avoidance, minimisation and reuse in key industry sub-sectors.

to removing the Waste Levy itself, the Newman Government also removed the weighbridge requirements for smaller waste disposal sites and extended the installation time frame for large sites. It moved provisions identifying waste disposal sites required to report data into a regulation to enable flexible arrangements to be developed in consultation with the waste industry. Further, it extended the time frame by which local governments and state entities are required to prepare and report on waste reduction and recycling plans, to allow the plans to be revised in the context of a review of the state's waste strategy.