



Ai GROUP SUBMISSION

April 2014

Ai Group Pre 2014-15 Budget Submission to the NSW Government

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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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Executive summary

This submission sets out the parameters and policies Ai Group believes should form the basis of the 2014-15 budget. The submission addresses initiatives in the broad areas of fiscal policy, innovation and industry development, infrastructure, export development and skills training.

The budget for 2014-15 is being framed within the context of difficult fiscal circumstances and a tough and challenging business environment. Growth in state final demand for NSW remains below its long term trend, employment growth remains weak, business investment is subdued and concerns about the employment outlook continue to weigh on consumer confidence and spending.

Nevertheless, there are positives for the NSW economic outlook, including ongoing population growth, a strengthening housing construction sector and a solid pipeline of road and rail infrastructure projects. NSW's diversified economy also means that it is well positioned to take full advantage of opportunities in areas where medium term growth prospects are more encouraging such as in high value-added manufacturing and in finance, healthcare, education, professional, scientific and technical services.

The challenge for the NSW Government is to use the 2014-15 Budget to address the current difficulties being faced by industry whilst putting in place measures that improve the economy's competitiveness. This is critical in helping our businesses develop and gain market share domestically and internationally. This will underwrite stronger economic growth in the longer term, thereby reducing fiscal pressures over time.

Lifting competitiveness is the key theme of Ai Group's 2014-15 Pre-Budget submission. Achieving growth and competitiveness will largely depend on creating a climate for business success. Accordingly, Ai Group urges the Government to adopt the policy initiatives contained in this submission to assist current and future NSW businesses develop and gain market share domestically and internationally.

Although the State's budget remains under pressure, Ai Group calls on the NSW Government to deliver genuine taxation reform and relief to businesses, to ensure that the tax system does not act as a disincentive to investment in the state's economy. We would also encourage further reforms to reduce the regulatory burden on business.

We commend the NSW Government for driving investment in infrastructure, although we would welcome the Government taking significantly greater responsibility in the

coordination of infrastructure projects and in reducing any policy or planning uncertainty surrounding major works.

The reform agenda must also include a focus on ensuring NSW has an adaptable, flexible and highly responsive Vocational Education and Training (VET) system to ensure training is well-targeted and responsive to the needs of NSW business and individuals.

Ai Group emphasises that the NSW Government should always remain fiscally responsible. However, fiscal prudence should be interpreted strategically so that the longer-term fiscal benefits of measures to boost business competitiveness and the capacity of the NSW economy are fully taken into account.

Business conditions in NSW remain challenging, and many businesses are looking to the NSW Government's firm leadership in guiding and supporting the State's economy.

The Economic Context

The NSW economy is achieving moderate expansion and is outperforming growth Australia-wide. A key growth driver is new residential building activity which is rising solidly in response to lower interest rates and attractive rental yields. A rising population growth rate is also supporting the current recovery. (see table 1). This improvement in the NSW housing market is expected to continue given a high level of pent-up demand following an extended period of under-building (relative to underlying demand).

Table 1: Estimated Residential Population by state and territory, Q3 2013

State / territory	population '000 people	Annual change '000	Annual change %	Aged 65+ % of pop
NSW	7,439.2	108.1	1.5	15.2
Victoria	5,768.6	110.5	2.0	14.6
Queensland	4,676.4	83.7	1.8	13.6
South Australia	1,674.7	15.3	0.9	16.7
Western Australia	2,535.7	76.3	3.1	12.5
Tasmania	513.4	1.2	0.2	17.3
NT	241.8	4.3	1.8	6.2
ACT	382.9	5.9	1.6	11.4
Australia	23,235.8	405.4	1.8	14.4

Source: ABS, Australian Demographic Statistics, Sep 2013.

NSW Gross state product (GSP) grew by 1.8% p.a. in 2012-13. This growth rate was below its long-run average over the past 10 years (+2.1% p.a.), although it exceeded

final demand growth for Australia nationally. Nevertheless, reflecting consumer caution and ongoing concerns about the employment outlook (which are evident in the national Australian economy also), household consumption grew by 2.1% p.a. in 2012-13, the softest annual growth rate in more than three years. More positively, the NSW housing sector emerged from its slump ahead of the other states (as is usually the case in the Australian residential construction cycle), with new dwelling investment in NSW advancing by a solid 7.2% p.a. in 2012-13. Total private investment also lifted by a relatively strong 8.0% p.a. in 2012-13 supported mainly by mining-related engineering construction. In contrast, public expenditure declined sharply by 24.4% p.a. in NSW and was the major contributor to Australia's negative growth in public gross fixed capital expenditure of -8.8% p.a. in 2012-13.

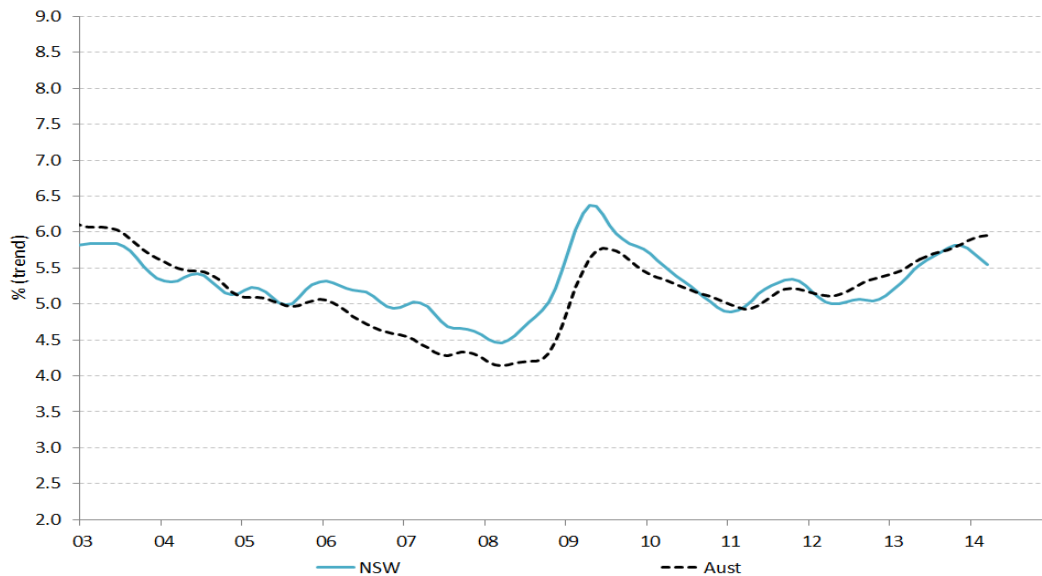
Recent data from the ABS' quarterly *National Accounts* continue to paint a more positive overall picture for NSW, relative to other states. This reflects the state's more diversified range of industries and its lower exposure to weakening mining investment.

NSW real state final demand (SFD, or total state consumption plus investment) grew by 0.6% q/q and by 2.5% p.a. in the year to the December quarter of 2013. This was the strongest performance among the states in Q4 and exceeded final demand growth nationally, which increased by just 0.1% q/q and 1.2% p.a. in the December quarter.

NSW's labour market remains soft despite signs of improvement in recent months. NSW experienced employment growth of 0.6% p.a. in the year to March 2014, an encouraging improvement on the 0.1% p.a. rate of growth in February 2014. This saw the NSW unemployment rate fall below the national rate (see chart 1). Despite this improvement, full-time work (the more stable form of employment) declined by a marked 21,700 persons in the year to March, with this fall compensated by growth of 41,900 in part-time positions.

The labour market data highlights that many NSW businesses across major sectors of the economy remain reluctant to commit to new full-time staff. Cost containment is paramount, as they struggle against a high dollar to gain a foothold in overseas markets while trying to overcome intense competition from importers. Cost pressures on NSW businesses are being compounded by rising domestic wage and non-wage costs and weak labour productivity growth. Those sectors experiencing the greatest job losses in the year to November 2013 in NSW were manufacturing (-44,100) and information, media and telecommunications (-28,000).

Chart 1: Australian and NSW unemployment rate (trend)

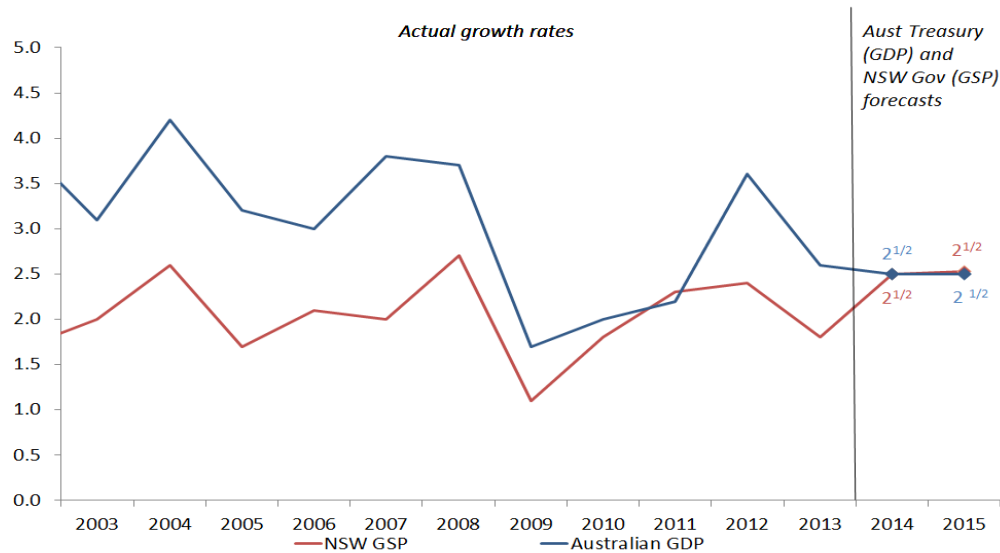


Source: ABS 6202.0 Labour Force, Australia

In its mid-year update in December, the NSW Treasury forecast the state’s economic growth rate to accelerate in 2014, albeit not as strongly as it anticipated at the June Budget. This downgrading was due mainly to an earlier than expected peak in mining investment and slower consumption growth, in response to weaker growth in employment and wages. As of December, real GDP was forecast to expand by 2.5% p.a in 2013-14 (up from 1.8% p.a. in 2012-13) and to remain steady at this rate in 2014-15, broadly in line with national growth rates (see Chart 2). NSW final demand is also expected to strengthen, to 2.25% p.a. annual rate in 2013-14 and 2014-15, after growth of just 1.7% p.a. in 2012-13. Employment is expected to rise by 1.0% p.a. in 2013-14, although as noted above it remains stuck at just 0.1% p.a. as of February. Even if stronger employment growth is achieved, it is likely to remain below trend and will do little to bring the unemployment rate down in the near-term. The state’s unemployment rate is forecast to increase to 6.25% in 2014-15.

The low interest rate environment is likely to support a continued recovery in dwelling investment in NSW. A solid pipeline of road and rail infrastructure projects and a strengthening in commercial construction should also underpin an improvement in private and public investment. A further positive is rising exports due to growing production capacity in thermal coal and an improvement in the economies of our major trading partners.

Chart 2: NSW GSP and Australian GDP growth



Source: ABS, State Accounts 2012-13, Nov 2013; NSW Budget Update, Dec 2013; Aust. Treasury, MYEFO, Dec 2013

The NSW economy also stands to benefit from the influence of a range of longer term trends. These include:

- **Rapidly growing opportunities in the Asian region.** The centre of the global economy is moving eastwards with the rapid industrialization and urbanization of China dwarfing the earlier “Asian Tigers” phenomenon and now pointing the way for India and Indonesia. While these developments have lifted investment in Australian resource and energy projects, the associated rise of the Asian middle classes will broaden and deepen the opportunities for Australian producers and service providers. Between now and 2030, the middle classes of Asia are anticipated to grow in number from 600 million presently to well over three billion.
- These opportunities as well as strong international competitive pressures are encouraging a **shift to high value-added manufacturing** through which NSW businesses can develop and exploit their skills, knowledge and research and design capabilities across a wide range of more advanced, value-added manufactured goods and related services. This includes pharmaceuticals, scientific and medical equipment as well as highly processed foods, beverages and confectionery.

- **NSW's aging and growing population.** This will be a major driver of demand for health and aged care services and related health infrastructure investment, but also for recreation, arts, travel and hospitality services, as older people tend to spend more on services rather than goods.
- Related to this demographic trend (and to global income and production changes), is **the long term shift in the industry structure** of advanced economies towards services, including the servitisation of manufacturing. The NSW economy's strong presence in service sectors (including education, finance and the professional services) means that it is well positioned to leverage off its comparative advantages as a provider of services, including export opportunities to the dynamic Asian markets.
- **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.

The challenge for the NSW Government is to use the 2014-15 Budget to address the current difficulties being faced by industry whilst putting in place measures that support productivity growth and help our businesses make the most of the opportunities that lie ahead.

Ensuring that the tax structure is right is one of the most constructive reforms a Government can undertake in promoting a productive economy and a competitive business environment. As outlined in this submission, NSW's tax system ranks poorly relative to other States. This is of critical concern for the growth and development of the economy. Ai Group believes that the Government's priorities for taxation reform should centre on reducing taxation and re-prioritising expenditure simultaneously, preferably executed in phases to avoid sudden changes to business and government practices.

Tax reform must be matched by significant investment in building the competitiveness of the NSW economy. Investments that create new opportunities provide their own rewards. They come in the form of a larger tax base, a larger net revenue stream, a potential reduction in welfare spending and a greater capacity to finance future public sector services and investment.

The NSW Government plays a key role in the development of the State's economy through the provision of high quality infrastructure. However, infrastructure funding within a sound fiscal framework represents a major challenge for the Government. In this respect, we believe that there is a strong case for selling and/or leasing out more public sector assets in the near term, including the full sale of the State's electricity

network, in order to streamline service delivery and allow for the further recycling of capital to fund vital road, rail, health, utility and other social infrastructure projects.

Ai Group has also identified various broader policy priorities aimed at building the productive capacity of the economy, and creating a positive economic environment that reflects the importance of achieving longer-term employment and growth objectives. This agenda includes:

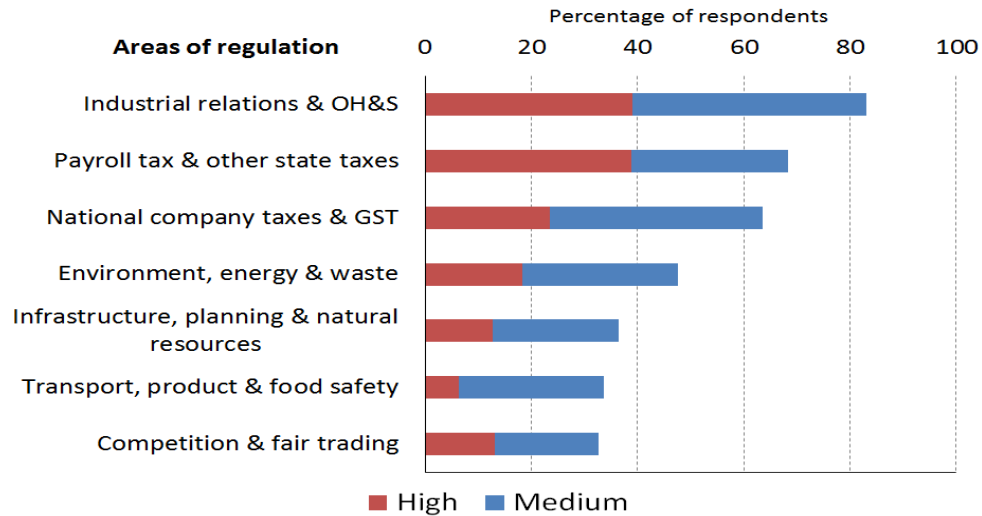
- *reducing regulatory compliance costs,*
- *improving Government tender processes,*
- *a genuine commitment to supporting the development of new growth industries and;*
- *facilitating further investments in infrastructure.*

State taxation

Although the State's budget position remains under pressure, Ai Group believes that the Government should be strongly committed to delivering genuine tax reform and relief to the business sector so as to promote growth and investment in the State. Businesses in NSW are inhibited by a State tax structure that is inefficient and does not promote international competitiveness.

In Ai Group's CEO Survey of Business Prospects published in March this year, we asked Australia's CEOs about the expected regulatory burden or cost imposed by various regulatory areas or agencies in 2014. The results provide a timely update on the regulatory burden faced by Australian business since we published our last major study on this topic, CEO Survey of Business Regulation (Sept 2011).

Chart 3: Expected degree of regulatory burden in 2014



Source: Ai Group, 2014.

In this year’s survey, compliance with payroll and other state taxes was nominated as the second largest burden on businesses (behind only industrial relations and OHS) with over two thirds (68%) of CEOs assessing compliance in this area as placing a medium to high cost on their businesses in 2014.

In our view, the best way forward would be for the NSW Government to reduce business taxation and re-prioritise expenditure simultaneously, preferably executed in phases to avoid sudden changes to business and government practices.

Recent research conducted by Pitcher Partners and the Institute of Public Affairs demonstrates the poor ranking of the NSW tax system relative to other States in terms of the tax burden on business.

This research examines the tax liability potentially faced by a typical medium-sized business setting up business in each of the States and territories. The taxes examined include payroll tax, land tax, land transfer duty, insurance duty and motor vehicle duty. Two scenarios are examined.

Scenario 1 calculates the tax liabilities of a business with an annual payroll of \$1,178,427 (including superannuation) which purchases a property for \$2,379,300. This property has an unimproved value of \$1,212,750.

Scenario 2 calculates the tax liabilities of a business with an annual payroll of \$5,834,950 (including superannuation) which purchases a property for \$11,896,500. This property has an unimproved value of \$6,063,750.

As shown in the tables below, the research indicates that NSW imposes the highest aggregate taxes and charges on business in Australia under scenario 1 and scenario 2. State tax liabilities are scaled from 1-5 (1 being the lowest liability to 5 being the highest). An onerous land tax liability and duty paid on the transfer of land represent the major undermining influences on the state's tax competitiveness.

A 9% increase in the payroll tax threshold from \$689,000 in 2012/13 to \$750,000 in 2013-14 has provided some relief for NSW's businesses on the payroll tax front. However, Ai Group believes that the NSW Government should adopt a more far reaching approach by outlining an intention to pursue the lowest payroll tax rate in Australia (currently, Queensland has the lowest rate at 4.75 per cent). This would be an important outcome politically, and also in terms of NSW's overall competitive position.

Pitcher Partners' analysis¹

Scenario 1:

WorkCover Premium (based on 2013/14 average premium rates)

Remuneration: \$1,178,427

State	NSW	VIC	QLD	SA	WA
Premium	\$18,313	\$15,296	\$17,087	\$32,407	\$19,656
Rank	3	1	2	5	4

Payroll Tax (based on 2013/14 rates and thresholds)

Annual taxable wages: \$1,178,427

State	NSW	VIC	QLD	SA	WA
Tax	\$23,349	\$30,793	\$4,657	\$28,632	\$23,632
Rank	2	5	1	4	3

Duty on transfer of land (based on rates applicable as at 1 July 2013)

Dutiable value: \$11,896,500 (NSW)

State	NSW	VIC	QLD	SA	WA
Tax	\$116,352	\$88,986	\$84,500	\$59,261	\$115,224
Rank	5	3	2	1	4

Land tax (based on rates applicable as at 1 July 2013)

Unimproved value: \$6063,750

State	NSW	VIC	QLD	SA	WA
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¹ Pitcher Partners (2013), "Pitcher Partners State Tax Review 2013-14". All scenario calculations are by Pitcher Partners and have not been separately verified or endorsed by Ai Group. We acknowledge this analysis may not have taken into account a further decrease in some industry workers compensation tariffs in NSW (averaging 5% across the 376 industry classifications that received a reduction) from 31 December 2013.

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Tax	\$13,008	\$2,098	\$11,169	\$1,767	\$3,024
Rank	5	2	4	1	3

Aggregate Taxes and Charges

State	NSW	VIC	QLD	SA	WA
Total	\$171,022	\$137,173	\$117,413	\$122,066	\$161,467
Rank	5	3	1	2	4

Scenario 2:

WorkCover Premium (based on 2013/14 average premium rates)

Remuneration: \$5,834,950

State	NSW	VIC	QLD	SA	WA
Premium	\$90,675	\$75,738	\$84,607	\$160,461	\$97,327
Rank	3	1	2	5	4

Payroll tax (based on 2013/14 rates and thresholds)

Annual taxable wages: \$5,834,950

State	NSW	VIC	QLD	SA	WA
Tax	\$277,130	\$258,963	\$277,160	\$259,130	\$279,672
Rank	3	1	4	2	5

Duty on transfer of land (based on rates applicable as at 1 July 2013)

Dutiable value: \$11,896,500 (NSW)

State	NSW	VIC	QLD	SA	WA
Duty	\$773,245	\$386,041	\$425,157	\$262,096	\$490,177
Rank	5	2	3	1	4

Land tax (based on rates applicable as at 1 July 2012)

Unimproved value: \$6,063,750 (NSW)

State	NSW	VIC	QLD	SA	WA
Tax	\$104,951	\$37,971	\$53,829	\$63,758	\$50,666
Rank	5	1	3	4	2

Aggregate Taxes and Charges

State	NSW	VIC	QLD	SA	WA
Total	\$1,246,001	\$758,713	\$840,752	\$745,445	\$917,843
Rank	5	2	3	1	4

The case for state tax reform was made clearly in Australia's Future Tax System Review ('the Henry Tax Review') in 2010. The federal Government has announced it intends to

conduct a further national taxation review in the medium term. Ai Group continues to support the adoption of the recommendations of the Henry Tax Review by all states and by the Federal Government. These recommendations would ensure that NSW has an efficient and fair tax system that promotes economic growth and high performing enterprises operating in an internationally competitive NSW. The State's recent lagging productivity performance and longer term challenges associated with the 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.

The State based tax reforms proposed in the Henry Tax Review are not easy to implement in isolation in the short-term. They are likely to require broader reforms to fiscal federalism and revenue sharing allocations between the States through the Commonwealth Grants Commission. Ai Group therefore recommends that the NSW Government engage 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.

Innovation

Strong economic growth requires continued support for innovation and economic development. This needs to be aligned with a genuine commitment to supporting the development of new growth industries such as biotechnology, medical devices and information technology.

Ai Group's 10 point economic policy plan envisages a manufacturing industry that supports diverse, innovative businesses involved in all aspects of the manufacturing cycle. Implicit in the plan is broad government support for innovation, investment and growth, underpinned by the following key objectives:

- Consolidation of Government Budgets
- Investing in Infrastructure
- Removing Key Workplace Relations Roadblocks
- Boosting Workforce Skills
- Building Innovation and Business Capabilities
- Lifting Manufacturing Performance

- Successful Transition for Automotive Manufacturing
- Reducing Regulatory Burdens
- Reforming Energy Markets
- Reducing Emissions and Meeting the Renewable Energy Target at Least Cost

Ai Group believes that there is a strong need to implement policies that support these objectives in order to maximise industry's ability to innovate, expand and contribute to the state's economic growth.

In order to lift the number of companies involved in R&D, Ai Group recommends the introduction of an innovation 'Start-Up' program for 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 proposes 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.

Supporting exporters

Ai Group commends the NSW Government's support for exporters venturing into emerging markets, and urges the Government to increase its efforts in assisting exporters.

Given the current challenging environment for exporters with the high exchange rate, difficulties in obtaining credit and uncertainty regarding global economic growth, the NSW Government should proactively assist exporters by:

- Continuing to fund more **overseas trade missions for businesses**, particularly smaller businesses that want to expand into overseas markets, to participate and to 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 successfully breaking into new overseas markets.
- continuing **targeted assistance** for business participation in trade missions.
- assisting NSW exporters beyond the initial establishment of export relationships. Further advice and support to help business grow their exports would benefit the state.
- developing an export target and a process to achieve it.
- Rebalancing export support programs to enhance 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.

Regulatory compliance costs

While regulation by Government generally aims to achieve particular economic and social objectives, excessive, ineffectual or badly designed and administered regulations can impose significant costs on businesses, deter investment, reduce employment and generally detract from the international competitiveness of industry.

While recent moves by the NSW Government to add impetus to the reduction of red tape in government is encouraging, Ai Group notes that despite all the efforts on regulatory reform in recent years, feedback provided by members of Ai Group indicates that the compliance burden associated with business regulation remains high.

We strongly welcome the initiatives that the Federal Government is taking to reduce the regulatory burden on businesses and other organisations through the introduction into Parliament of the Omnibus Repeal Day (Autumn 2014) Bill. This is an important first step in reducing the compliance and reporting burdens that cost businesses so much in time and money.

There are a number of actions the NSW Government can take to reduce business regulatory compliance costs.

We would encourage the NSW Government to work closely with the Federal Government with a view to adopting the Productivity Commission's regulatory reform recommendations arising from the Commission's study on *Regulator Engagement with Small Business (September 2013)*.

These recommendations are in accordance with Ai Group's long held position that a commitment to best practice regulation is essential for all government departments and that regulations should be transparent; accountable; proportionate; consistent and; properly targeted.

Ai Group has also stressed that the conduct of regulators is as important to the effectiveness of regulation as is the design of the laws themselves, underlining the fundamental importance of the quality and culture of regulator engagement as a determinant of compliance costs. Indeed, the Productivity Commission points to the need to foster the adoption of a culture that "promotes a facilitative and educative posture towards business which seeks to achieve regulatory objectives without unnecessarily constraining business activity and growth".

Ai Group advocates a range of other best practice regulatory principles to reduce the regulatory cost burden on business. These include:

- That in the review of any regulation the initial question should be one of establishing that there is in fact a valid reason for the regulation, and that regulations should be cut back to only that part which is essential to achieving the intention of the legislature.
- Accommodate (wherever possible) those businesses that have the potential to benefit from performance based regulation that specifies compliance in terms of regulatory outcomes rather than a prescriptive approach. This is a constructive and pro-active approach, which allows room for innovation and breakthrough improvements in industry performance, and can lower costs and other burdens on industry.
- Minimise the required number of approvals needed for projects and execute approval processes concurrently.

- 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.
- Work with local government to reduce duplication of regulation across local government boundaries (planning regulations for example) and across State borders.
- Ensure that regulators share a common public objective of encouraging economic progress and carry out their regulatory role within that context.
- Review the NSW Government programs related to reducing the regulatory burden, including ensuring methodologies for measuring the impacts of their regulatory reform initiatives are sound and more importantly, measure whether there has been a net decline in the regulatory burden being imposed on businesses, particularly small businesses.
- The NSW Government also needs to consider how regulatory agencies interact with the business community with respect to regulatory changes and proposals. Consultation is crucial and should continue but governments need to invest in more efficient and less onerous consultation processes which do not impose an additional burden on businesses. Incorporating a ‘consultation’ regulation impact statement in the regulation making process as well as monitoring and reporting on the quality of consultation are worth considering at all levels of government.
- Businesses operating in NSW report energy, emissions and other information under a range of state and Federal programs. Many with operations in multiple states face a number of inconsistent reporting regimes. NSW should lead efforts to reduce the burden of inconsistent reporting, particularly by advocating for, and facilitating, a single national online reporting portal.

Infrastructure Investment

Ai Group is pleased that the NSW Government has implemented its previous announcements and has taken a leading role in the development of innovative ways of recycling capital to fund infrastructure investment. In line with its previous commitments, the Government’s delivery of new infrastructure projects throughout NSW adds significant value across the state economy.

Importantly, the Government's program covers large projects that will generate substantial downstream economic benefits as well as smaller activities that benefit local people in operating their businesses and going about their day to day activities.

In taking up the mantle of driving infrastructure activity, the NSW Government needs to shoulder a significantly greater responsibility by leading the way in coordinating infrastructure projects and reducing any uncertainty surrounding major projects.

Establishing and maintaining a consistent pipeline of work provides industry with the confidence to invest in infrastructure, retrain existing workforces and employ more people.

Recent announcements regarding major road projects in Sydney's west and north are examples of enhanced cooperation and coordination between Australian Governments and the private sector that reduces uncertainty and supports the development of surrounding communities.

To assist the private sector in the efficient deployment of both capital and resources, we again urge the NSW Government to provide early alerts to industry on the level of priority attached to major infrastructure projects and the anticipated funding arrangements.

Continue to evaluate new ways to fund increased investments

Ai Group acknowledges that infrastructure funding will continue to be a major challenge for all state governments into the future. The global financial crisis and subsequent financial shocks have changed the risk propensity of financial institutions and enterprises, regarding their investments in infrastructure and commercial projects.

Investors and the building and construction industry look more favourably on future infrastructure projects in which project risks are fully identified and measurable from the outset, and those risks are then apportioned to the parties most able and appropriate to bear them.

In recognition of this risk-averse environment, there is a need for governments to work with the private sector to develop innovative, yet sustainable, models for financing projects into the future, and to adjust policy and commercial approaches that may have been relevant to the past but not the future.

Ai Group believes that there are potentially many opportunities for the NSW Government to leverage its financial position by inviting greater private sector involvement in the provision of traditional government services and programs. This

involvement will need to ensure value for money, consistency and reliability of service while, at the same time, enabling the Government to maintain an operational oversight of service delivery standards and asset protection on behalf of the people of NSW.

The privatisation of the State's electricity network (as recommended by the Commission of Audits and Infrastructure NSW) is long overdue. It represents the best opportunity to fund a sustained increase in infrastructure investment while also applying downward pressure on electricity prices. As such, we urge the Government to revisit this reform with a view to the early implementation of a strategy for electricity network privatisation.

In addition, the Government should commit to funding increased investments through cost savings and productivity gains achieved through public sector reforms.

Opportunities for improvement in the cost of public infrastructure

Discussions by Ai Group with construction contractors and product manufacturers over the last 12 months confirms that there are a number of improvements that governments may make to their tendering and procurement practices that will assist industry to complete projects more expeditiously, and reduce the cost of infrastructure to the public.

Ai Group calls on the NSW Government to make a public commitment to work with industry to improve the delivery of public infrastructure. Specific issues that need to be implemented include:

- The selection and retention by Government of experienced project development and project delivery personnel to ensure private sector confidence in the tender and operational processes.
- Engagement of the private sector at early stages of planning for 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. This enables contractors to more effectively understand projects and assess the likely cost of tendering and their chances of being a successful tenderer.
- The development and issue of comprehensive project materials and information to enable early assessment of the viability of projects. This includes matters such as the implementation of a commercial framework pro forma for projects that incorporates sufficient additional information to enable an effective analysis of

project risk within the corporate limits of liability for contractors at the time of tendering.

- Standard form legal documentation incorporating clauses relating to risk including, but not limited to, such issues as standard exclusion clauses and legal risk responsibilities of third party consultants and others upon whose capacity and skill the Government will ask tenderers to rely.
- 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.
- Shortlist bidders as early as possible and consider taking forward fewer bidders where risk assessment and preliminary assessment of bidders warrants such action.

Transport Industry Policies

Ai Group welcomes the formulation of the NSW Government's Freight and Ports Strategy aimed at promoting the efficient and effective movement of freight in NSW and supporting the competitiveness of industry. We also commend the Government's commitment to the planning of the State's future transport requirements through its development of the NSW Long Term Transport Master Plan. This represents an encouraging and significant development in NSW transport infrastructure policy. The plan's commitment to a \$1.6 billion extension of light rail from the south-east through the CBD is particularly important. This project will provide opportunities for local manufacturers and improve NSW's transport network, contributing to environmental protection and driving innovation and best practice. It will be vital for the Government to ensure that the opportunities for competitive local content are maximised. We would urge that such a focus is applied at both the manufacturing and ongoing maintenance stage of this and other major transport projects.

Ai Group also urges the Government to prioritise the development of transport infrastructure to support a second major airport at the Badgerys Creek site to meet the Sydney region's growing demand for aviation services. Aviation is a substantial driver of

economic growth in the State and an additional airport has the capacity to generate significant economic benefits through increased air freight, visitor movements and job creation. We welcome the steps planned by the Government to extract more efficiency and capacity from Sydney's existing airport, including the proposed implementation of works to relieve major congestion around Sydney airport and Port Botany and to improve public transport access to the Airport. However, continued population growth will demand a second airport. Moreover, given the long lead times in the design and construction of both an airport and related transport infrastructure, the NSW Government must make it a priority to confirm the second airport.

With respect to funding options, opportunities for increased contestability in the delivery of all modes of public transport should be considered. We commend the Government's long term program to reform transport operations, including the franchising of Sydney Ferries as a means of using State assets and funds more efficiently. 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.

Land Use and Development

The planning and management of industrial land is a key infrastructure issue that needs to be addressed, as part of an overall strategy to support population and economic growth in the Sydney Basin and regional NSW.

In NSW (as in the rest of Australia), all tiers of government have failed to make the necessary infrastructure investments in recent decades, to support population growth and sustainable development. This has reduced the availability of serviced industrial land. A lack of certainty in land release and appropriate infrastructure delivery is a potentially significant constraint to business growth, construction activity and employment generation in NSW in coming years.

It is critical that the **NSW Government make a concerted effort to unlock Metropolitan Sydney's sizeable stock of underutilised land** by investing in vital infrastructure (roads, water, electricity and sewerage) as well as opening up new areas for development. High quality economic infrastructure combined with appropriately-placed suitable

employment and efficient planning processes are key enablers for industry growth and the attraction of business investment to NSW.

Investment by the private sector requires a high degree of certainty. It is important, therefore, that in the Government's planning of future industrial areas, industry is given the certainty necessary to support its investment decisions. This will require a clear and consistent application of land use and development policies, with regular information flowing to industry on the status of planning policies and strategies.

A whole of Government approach is required, taking into account the delivery of new transport infrastructure; the use and release of land and; decisions regarding the provision of supporting infrastructure.

Planning policy also needs to ensure that there is an appropriate balance between industrial and residential interests. It needs to be sufficiently flexible to provide protection and predictability for existing land users that require planning protection.

This is becoming increasingly important, particularly where new residential developments in the vicinity of established industry can pose a threat to the continued viability of industry. The risks faced by industry are increasing as environmental standards become more stringent.

Support for the NSW property market

The NSW residential building sector has improved over the past year with new dwelling investment advancing by a solid 7.2% p.a. in 2012-13. This has been driven by lower interest rates, rising population growth and attractive rental yields.

Nevertheless, this must be seen in the context of a protracted period of under-building in NSW (relative to estimated underlying demand) which has resulted in an increasing housing shortage. Despite a recovery in the housing market, the gap between supply and demand is expected to continue to widen, particularly given the state's relatively strong population growth.

With dwelling starts failing to keep pace with population growth, the housing shortage in NSW remains acute at around 135,000 dwellings in 2012, accounting for over one half (55 per cent) of the national housing shortage. Furthermore, the shortfall of housing is expected to increase to around 167,000 dwellings in 2014 (ANZ Economic Research)

As a consequence, a key element of the Government's reforms and policies must be a strong commitment to housing supply and affordability.

Ai Group acknowledges that the NSW Government is playing a key role in addressing the housing supply shortage through its strategic reform process and financial incentives. We welcome the government's Metropolitan Strategy for NSW aimed at establishing a planning framework to allow for the sustainable growth of Sydney to 2031. In particular, we are encouraged by the proposal to develop a land release policy that will actively identify and facilitate opportunities for the release of land in both infill and greenfield areas. Exploring opportunities to fast-track re-zoning for large-scale housing proposals where there is private sector readiness, is another positive move to boost housing supply.

It will be important that the Metropolitan Strategy delivers on its stated target of at least 545,000 new houses across Sydney by 2031 to address low levels of housing supply over the last 10 years. This will require prioritising the release and rezoning of lands that are best capable of accommodating housing and the delivery of infrastructure and a network of transport capable of supporting these designated areas.

This strategy should also be underpinned by:

- a genuine commitment by local councils to the release of new areas and the roll-out of large subdivision developments;
- a state-wide stocktake of underutilized residential land that offers opportunities for affordable housing in close proximity to existing transport and services;
- a fully integrated approach to residential planning that combines:
 - the identification of new growth areas,
 - the delivery of new transport infrastructure;
 - the use and release of land and;
 - decisions regarding the provision of supporting infrastructure and;
- timely and uniform implementation of the legislation and planning policies on a whole of government basis.

Ai Group commends the Government's decision to limit first-home buyers' stamp duty concessions to newly built homes under the First Home Plus Scheme. This was a positive step in helping to generate new housing supply in the state. The enhanced targeting of

the scheme is also likely to assist in dampening the previous scheme's inflationary impact on established house prices at the more affordable end of the market. It may, as result, improve housing affordability and availability.

However, Ai Group believes that the maximum threshold of \$650,000 at which eligible first home buyers receive stamp duty exemption is too low. The previous NSW first home buyers' scheme applied a threshold of \$750,000 and we believe that this should be the threshold in the current scheme also.

Government procurement policy

It is vital that NSW Government procurement policy is directed at enhancing private sector access to the Government business market and supporting the development of a strong, internationally competitive and export focused industry. In achieving this objective, import substitution initiatives must become a more significant element in all levels of Government purchasing.

Of equal importance is the need to ensure that government agencies implement an approach that shows a commitment to the following five procurement principles:

- **Value for Money:** Value for money looks beyond "least cost" and brings cost-benefit approach that considers quality, after sales servicing and maintenance and ongoing supplier relationships.
- **Clarity, Transparency and Improvement of Processes:** procurement processes should be clear and transparent and be subject to ongoing improvement to reduce costs of tendering and access for domestic suppliers, particularly small and medium sized enterprises.
- **Full and Fair Access:** Procurement processes should ensure local suppliers have full and fair access to supply opportunities under direct government contracts and with prime contractors for major projects. This includes consistency in relation to conformity with Australian standards and no preferential treatment of offshore suppliers.
- **Full Opportunities for Local Suppliers:** Australian based suppliers should have full opportunity to compete for the provision of goods and services under government contracts both directly and indirectly through supply to prime contractors. For major projects, prime contractors and licence holders should ensure that local suppliers have full and fair access to sub-contracting and supply arrangements. Procurement plans should demonstrate how purchasers will

facilitate opportunities for participation by local suppliers. Undertakings by purchasers should be monitored over the life of projects and purchasers should publicise the extent of participation by local suppliers. Proactive strategies should be adopted to ensure a strengthened Industry Capability Network (ICN) continues to inform local industry of opportunities and links purchasers with local suppliers, and also adds value to suppliers by identifying any capability shortcomings that limit the competitiveness of those local suppliers.

- **Supporting Industry through Effective Planning and Communication:** Large government purchasing activities and major project plans should be developed in a transparent way to ensure local industry is able to invest sufficiently to participate in major tenders.

Specific measures that we recommend for implementation include:

- **Greater use of performance based specifications.** This assists in fostering the development of innovative goods and services and maximising the opportunities for Australian suppliers to compete on a value for money basis by moving from a low bid position to the adoption of a wider value set including innovation and value adding components. Government clients also stand to benefit from potentially lower costs and higher quality outcomes.
- **Effective planning and communication.** Large government purchasing activities and major project plans should be developed in a transparent way to enable early assessment by businesses of the viability of tendering for projects, and to ensure local industry is able to invest sufficiently to participate in major tenders. This includes the implementation of commercial framework pro forma for projects.
- Consistent definition and interpretation of **“value for money”**. Where a weighting based system of tender evaluation is utilised, it is critical to ensure that industry is fully informed prior to receiving tenders of the weighting system being utilised by the Government agency. Also, the number of criteria against which a tender is evaluated should be minimised to maintain the transparency and objectivity of the process.
- **Greater emphasis on whole of life costs in government procurement.** Currently there is undue emphasis on upfront costs rather than the whole of life costs of projects. These costs should include costs incurred from after-sales services, regular maintenance and servicing, parts replacements and any machine down

- time. If these services were provided by Australian businesses rather than overseas based businesses the costs could be lower because services could be rendered more quickly and replacement parts delivered more promptly.
- **To improve opportunities for SME's** to access the Government business market, specific initiatives should be included in the procurement strategy such as:
 - include identifying specific contracts or supply needs that could be reserved for small businesses, and
 - packaging selected contracts in a way that makes it easier for SMEs to compete.
 - **Import replacement.** On-going support for the Industry Capability Network (ICN) in linking local capability with major projects and export markets, and identifying import replacement opportunities in the procurement activities of Government agencies and local councils. The ICN plays an important role in supporting local businesses across a wide range of industry sectors in generating new business and employment in Australian and international projects. Establish a process of identification and on-going monitoring of the proportion of Government purchasing accessed locally as opposed to imported sources. This should be published as part of annual reporting requirements of the Department of Trade & Investment.
 - **Improve competition and access to Government business.** Currently, the majority of centralised government procurements are undertaken by means of open tendering processes with a view to establishing whole of government, long term panel contracts. The use of long term contracts and, in some instances, the use of standard contracts, have for many years been seen as unduly inflexible and unresponsive to regional differences, changes in market conditions, and changes in technology. Ai Group has argued for some considerable time that long term contracts should have a provision for review after a specified period to take account of these changes and continue to deliver best value for money. Long term nature of contracts also locks out unsuccessful suppliers for extended periods of time.
 - **Intellectual Property Rights.** This is a particular concern for companies operating in construction industry in the context of the copyright of designs submitted as part of a tender. Concerns relate to designs tendered appearing in a later Request for Tender Document for a similar project by the same agency.

- Appropriate policies required to guarantee intellectual property rights – including copyright of material, and to ensure commercial in confidence information submitted in tenders are requested as such and not provided to actual or prospective competitors. Intellectual property should remain the province of the supplier where the supplier will be commercially disadvantaged by losing the protection.
- **Reduce complexity.** SME's and new entrants in particular are disadvantaged by complex tendering processes. Implement simple standardised contract requirements; clear tender specifications and evaluation procedures and; communicate clearly on the terms of procurement. Overly complex contract documentation and requirements also arise when the government seeks to transfer risk to the supplier whenever problems emerge. This increases the cost of tendering to prohibitive levels, particularly for smaller suppliers. On commercial feasibility grounds, product liability and professional indemnity insurance limits in contracts need to be reduced.
 - **Coordination across Government.** As much as possible, major procurement activities undertaken by the NSW Government should be coordinated and staged across Government, and in some cases in consultation with other Governments, to allow businesses scope to invest and achieve the economies of scale by aggregating demand across the Australian market.
 - **Supply chain sustainability.** This is a key challenge for industry. Procurement plays a major role in supporting the sustainability of supply chains and the viability of Australian manufacturing. Government procurement can play a key role in providing scale and viability to local supply chains. Government at times acts without real or apparent concern about 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; unnecessarily citing standards that local firms do not use; programming multiple major projects without regard to supply capacity; or alternately programming multiple similar major procurement projects with gaps between them creating a feed and famine cycle.
 - **Product standards must be enforced** consistently between local and non-local manufactured products in increasingly globalised supply chains.

Energy

A reliable and affordable supply of energy is integral to the prosperity of NSW. Over the last few years, energy has become increasingly costly. Ai Group strongly believes that the budget process is an opportunity for the Government to make energy affordability, efficiency and reliability an economic priority.

Natural gas supply and production

Ai Group has been vocal in highlighting the mounting cost pressures on gas users brought about by the transformation of the Eastern Gas Market from an exclusively domestic market to one where more than half of the gas produced in Australia is destined for export. Ai Group's own research indicates that many large scale gas consumers are already experiencing difficulties, with prices rising to export parity and potentially beyond. A very tight market is being driven by an apparent mismatch between the imminent commencement of exports and slower-than-expected development of gas production. Although this is a national issue, it carries particularly acute risks to supply and price in NSW, where 95% of the gas supply comes from interstate (mainly Queensland) and these supplies are being threatened by the shifts associated with LNG exports.

Ai Group believes that, along with pro-competitive reforms to the gas market and the introduction of a national interest assessment for any further LNG export capacity, encouraging additional gas supply is an essential to ease the risks and costs faced by energy users. As the Federal Government's recently released *Eastern Australian Domestic Gas Market Study* (2014) made clear:

These effects will be exacerbated if impediments to supply or other constraints are imposed on the market's ability to respond.

NSW possesses significant reserves of unconventional gas that – if developed rapidly – could eliminate the risk of acute supply shortages in the future. Other measures can help and should also be pursued, including expansion of capacity to import gas from Victoria and gas storage. Ai Group understands the need for environmental sustainability, community engagement and the protection of valuable agricultural resources. However we also believe that regulation should be based on the best scientific information available. In 2013 the Chief Scientist of NSW conducted an enquiry that determined that the challenges and risks of Coal Seam Gas (CSG) are “not dissimilar” to those found in other extraction industries and can be managed by sensible industry practice and adequately resourced regulatory agencies. This is primarily a

regulatory and fact-based scientific issue, but it will have profound economic and budgetary implications for Government as the national gas market continues to evolve.

Energy infrastructure and asset privatisation

Ai Group believes that a careful privatisation of energy assets can advance the interests of energy users. Efforts to privatise generation assets are well advanced. However for consumers the biggest potential gain would be through the sale of energy network assets. Privatisation would remove perceptions of a conflict between the Government's role as ultimate energy asset owner and its role in regulating these oligopolies. It would also remove the potential for public ownership to distort incentives for capital investment, since the actual cost of capital to the state is well below the commercial cost upon which the regulator assesses an appropriate return on investment.

The recent enormous investments in NSW's electricity networks raise a difficult question for privatisation. These investments have been the single largest contributor to the steep rise in NSW electricity prices in recent years. Since electricity demand is falling and is well below the levels projected when the augmentation began, it is likely that some of the newly acquired assets are not needed and may never be required. Whether energy users should continue to pay for these assets indefinitely, or whether their value should be written off by taxpayers prior to a sale, requires deep consideration.

Energy efficiency

In contrast to the steady growth in energy demand over previous decades, since 2010 demand has steadily decreased. This reflects many factors, positive and negative; however a welcome side-effect for energy users is that weak demand puts downward pressure on wholesale electricity prices and defers the need for investment in expensive new generating capacity until well after 2020. Notwithstanding this demand trend, energy prices have been rising and remain high. In order to help energy users adjust to these price rises and to help defer additional rises, Ai Group urges the Government to maintain support for energy efficiency improvement. In the context of the Government's Energy Savings Scheme, it is important to provide more opportunities for industry to cut operating costs, and to ensure the scheme does not impose net costs on energy intensive trade exposed businesses. And in order to ensure that the benefits are spread as widely as possible, the Government should consider expanding the range of activities included in the scheme. This should be considered urgently, as a means of providing new opportunities to gas consumers to contain their costs.

Invest in education and training of the NSW workforce

In order to drive growth in productivity and innovation, the NSW workforce needs to be adaptive, flexible and highly skilled. An adaptable, flexible and highly responsive Vocational Education and Training (VET) system is the key to this. The education and training system and industry need to work closely together to achieve this outcome. Ai Group looks forward to a demand driven system under the *Smart and Skilled* reforms, a system that is responsive to the needs of industry and businesses, as well as to individuals.

The establishment of the NSW Skills Board is a good first step to ensuring a demand driven model. The reference groups set up by the Skills Board will ensure industry and community engagement and Ai Group looks forward to contributing to this consultation process.

TAFE

Ai Group believes there should be continued strong support for the public provider, TAFE NSW, which fills an important role in providing education and training to the NSW economy. It also provides unique opportunities for education and training in niche markets, for disadvantaged groups and provides a strong community presence in regional NSW. However, there needs to be flexibility in the industrial arrangements so that NSW TAFE can innovate and react to market pressures for the benefit of its customers. This would help it to better maintain a high quality world class delivery of VET.

Ai Group asks that the NSW Government commit funding to ensure that the reformed VET system is able to adequately meet the needs of business and industry.

Language Literacy and Numeracy (LLN)

Employers continue to be concerned about low levels of workplace literacy and numeracy with 93% of employers identifying some impact on their business due to low levels of workforce literacy and numeracy².

Australian workplaces are dynamic and constantly changing. The workforce needs to respond to increasing skill requirements brought about by new technologies, new work practices, increased levels of global engagement and increased compliance and quality

² Getting it Right: Foundation Skills for the Workforce, Australian Industry Group, October 2013

assurance measures. Higher levels of language, literacy and numeracy will be required in the future to ensure that industry can continue to improve productivity and maintain its competitiveness in the global economy.

To ensure that the NSW economy continues to meet the challenges of the global economy, the NSW Government must ensure that there is funding available to support people to attain higher levels of language, literacy and numeracy. It is important that the NSW Government ensures that the qualifications under the national Foundation Skills Training Package are on the *Smart and Skilled* list and are adequately funded.

Science, Technology, Engineering and Mathematics (STEM)

To compound the issue of low levels of literacy and numeracy in the workforce, there continues to be a lack of critical science, technology, engineering and mathematics (STEM) skills among the current and emerging workforce that is holding back Australian businesses in their quest to be more innovative, productive and competitive.

The report, *Lifting our Science, Technology, Engineering and Maths (STEM) skills*³, has drawn attention to the unacceptably low level of participation by secondary school students in Science, Technology, Engineering and Maths (STEM).

Ai Group recommends a number of strategies to address the issue and believes the NSW Government should act to lift STEM skills for the NSW economy. These are:

- Lifting teacher quality and adopting more innovative teaching strategies to engage students in STEM learning. This should be for all students from K-12.
- Ensure better provision of career advice highlighting the importance of STEM skills for the workforce of the future.
- Increased participation and attainment in STEM related disciplines should feature as a key performance indicator for schools.
- Availability of semester long work placements for new STEM undergraduates in NSW Government departments and authorities.
- Encourage business related research projects through collaborative partnerships with universities.

³ *Lifting our Science, Technology, Engineering and Maths (STEM) Skills*, Australian Industry Group, 2013

Ai Group believes there should be strong engagement at the community level between schools and local industry so that maths, science and engineering can be taught in a relevant way.

Ai Group believes that maths should be mandatory in the K-12 curriculum. Mathematics is a foundation skill. People who don't have a base level of maths are severely limited in their employment options. Maths needs to be treated as an important language for communication in the digital world. This will require a serious review of the current curriculum to ensure that all abilities are catered for and that it is relevant and engaging.

Critical to raising the level of STEM skills and numeracy is raising teacher quality. Unfortunately there is little faith that all primary school teachers are prepared or indeed adequately skilled to teach maths and science in the primary years – the most formative years for engaging young people in STEM skills and critical for developing all the underpinning knowledge and skills required to progress to the more challenging levels in high school. An opportunity missed in the K-6 period will have profound long term consequences in further engagement in high school. All the research points to a declining number of young people choosing maths and science in years 11 and 12 and this is compounded by a worsening decline in those taking more Advanced mathematics in the senior years. This will lead to a long term decline in our ability to meet the challenges of moving to high level innovation and technology, leading to a decline in our competitiveness in the global economy.

Ai Group asks the NSW Government to take a role in improving the STEM skills of all school students. Ai Group supports a policy of specialist maths and science teachers in primary education and asks the NSW Government to seriously consider this policy. Ai Group also asks for mathematics to be a mandatory component of the senior years.

School Education

Fundamental to the future of the NSW economy, a highly skilled workforce with high levels of LLN should focus on more than just the existing workforce. All research points to the need for early intervention. Every child that leaves school should do so with the minimum required level of LLN that will allow them to function in the workforce and contribute to increasing productivity and innovation.

Ai Group asks that there be adequate investment in the school system to ensure that all young people achieve a minimum level of literacy and numeracy before completing school and that the NSW Government set itself a target to be a world leader in these fundamental skills as well as encouraging excellence and assisting students to reach

their full potential. This requires significant investment but it will reap enormous benefit in the long term.

Online business management

In our view, collaboration between the NSW Government and other stakeholders will be critical to strengthening NSW businesses capabilities in the digital economy. Ai Group research has shown that businesses primarily get their information about new technologies from other businesses and the investment activity of competitors is a key spur for other companies to invest. Suppliers and clients are particularly important in this area and are often a source of information and training.

This has implications for Government support for this area including:

- NSW Government should work collaboratively with the business community to deliver programs as this will expand the reach and audience for information and will match the channels that businesses are already using to get information.
- NSW Government should work collaboratively with partners to develop more efficient and cost-effective dissemination of information and resources.
- NSW Government should develop digital resources/benchmarking tools targeted at particular sections of the business community (for example, a sector level and company size level), so as to maximise their relevance to the audience. Ai Group's experience is that case studies are a very powerful way of engaging the interest of businesses. We recommend that the Government work with the industry to develop case studies from different industry sectors to highlight successful examples of companies taking advantage of digital economy opportunities or transforming their business.