

Ai GROUP SUBMISSION

to the NSW Government's
2015-16 Budget

MAY 2015



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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 one 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

Drawing on Ai Group's pre-election agenda for industry, this submission sets out the parameters and policies Ai Group believes should form the basis of the 2015-16 budget.

The NSW Government has an important role in helping to shape and secure the state's economic future. This will largely depend on boosting the state's competitiveness and creating a climate for business success.

Official figures show that the NSW economy is continuing to strengthen, with the state outperforming the rest of Australia. The labour market is also performing relatively well in comparison with other states. Only Victoria exceeded the job gains recorded in New South Wales (50,400) in the year to April 2015 .

The NSW Treasury Half-Yearly Review (December 2014) highlighted a strong medium-term economic outlook for the state. Gross State Product growth is forecast to pick-up to a 3.0% pace in 2015-16 (from a revised growth rate of 2.75% in 2014-15) in response to strengthening non-mining investment and stronger growth in non-commodity exports. Dwelling investment is expected to moderate in 2015-16, although remain solid while state public investment is forecast to continue at high levels and provide key support for NSW activity.

The State's fiscal position has also improved. According to the Half-Yearly Review estimates, higher-than-expected stamp duty receipts (on the back of the strong property sector upturn) have helped transform the Budget Result for 2014-15 from a deficit of \$283 million to a surplus of \$272 million. Although future budget surpluses through to 2017-18 have been revised down, the surpluses projected still exceed \$1 billion for 2016-17 and 2017-18. The strong fiscal outlook will lend support for undertaking critical investments through the recurrent budget. This is a key positive for building business confidence and supporting future growth and employment in NSW.

Despite these positive developments, many NSW businesses across major sectors of the economy continue to face tough and testing conditions. Two barriers have placed significant strain on industry: high costs and low productivity. Currency movements, the escalation in energy costs and the rise in our relative unit labour costs have reinforced Australia's disadvantage as a high cost economy.

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

Ai Group also emphasises the importance of innovation, investment and exports in providing the foundation for future growth and productivity. NSW is well represented in the innovative, knowledge intensive and high margin businesses of the future. Through our food processing firms, developing new products and technology to meet a global market; our machinery and equipment manufacturers, producing technologically advanced goods; and our new manufacturing industries in biotechnology, information technology and pharmaceuticals, NSW industry is combining

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innovation, investment and exports to ensure the state is able to compete on the global marketplace. This process must continue and accelerate in the years ahead.

A key element to maximising the growth potential of NSW is ensuring that industry is able to meet its current and future skills needs. Particular areas of concern for businesses are the lack of work-readiness and foundation skills of school leavers, the decline of STEM skills and considerable employer unease about the quality of VET in Schools arrangements. Ai Group believes that the Government's role in relation to addressing these issues lies with funding major initiatives to lift school sector literacy and numeracy, and developing initiatives that promote STEM skills in schools, the tertiary education sector and the workplace.

In relation to investments in infrastructure, Ai Group commends the NSW Government for addressing the state's infrastructure short-fall, and taking a leading role in the development of innovative ways of recycling capital to fund infrastructure investment. It is important, however, that the Government shoulders greater responsibility in the coordination of infrastructure projects so as to avoid infrastructure capacity constraints and enable major projects to be funded and developed in a timely manner.

This submission also recommends the establishment of two highly focused cost effective programs with significant upside potential for boosting the state's competitiveness number of initiatives that we believe should be an integral part of helping to build a strong future for NSW manufacturing.

The priority recommendations that Ai Group believes the NSW Government should action in the 2015-16 Budget, are set out below.

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Summary of Recommendations

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

Taxation

- Announce an intention to pursue the lowest payroll tax rate in Australia (currently, Queensland has the lowest rate at 4.75 per cent). The NSW Government should also take a leading role in the Federal Government's upcoming white papers on taxation and federalism, and examine opportunities for the reform and removal of inefficient State-based taxes.

Infrastructure Development

- Continue to invest significantly in NSW's infrastructure to improve productivity and enhance the competitiveness of the NSW economy.
- Devote sufficient funding and resources in ensuring that all proposed infrastructure projects are properly scoped and developed before embarking on the tender process.
- Adopt a fully transparent approach to infrastructure provision, ensuring proposed projects are identified and prioritised on the basis of a rigorous and transparent cost benefit analysis.
- Take greater responsibility in the coordination of infrastructure projects so as to avoid infrastructure or construction capacity constraints.
- Maintain a focus on evaluating new ways to fund increased investments that bring together Government, investors and the private sector, including congestion charging and distance-based tolling, increased contestability in the delivery of all modes of public transport and the continued evolution of structured public-private partnership policies to meet future needs.

Reducing the Cost of Public Infrastructure

- Ensure 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.
- Engage 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.
- Undertake to identify the proposed risk allocation at the earliest possible stage in the tender process.
- The development and issue of comprehensive project materials and information to enable early assessment of the viability of projects.
- Adopt standard form legal documentation.

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- Ensure the development of a more effective Public Private Partnership model that reduces operational risk (including equity risk) to contractors and places responsibility for risk on the appropriate entities rather than those who are least able to resist it.
- Adjust assessment processes to place greater reliance on third party accreditation and reduce reliance on the provision of comprehensive material at the bid stage.
- Streamline the tender process by adopting a two-stage process for the tendering of major projects.
- Shortlist bidders as early as possible.
- Contribute to the bid costs incurred by unsuccessful tenderers.
- Harmonisation of state and Federal codes and/or guidelines for procurement in the building and construction industry.

Planning policy

- Provide certainty to industry. Businesses must be encouraged to refurbish, redevelop and to develop greenfield sites, confident that they will be in an area and an environment that takes a positive approach to their proximity.
- An appropriate balance between industrial and residential interests and sufficiently flexible to provide protection and predictability for existing land users that require planning protection.
- Speedier implementation of standard format planning schemes (local environment plans) by local councils
- A consistent approach across councils in the engagement of communities in key planning decisions;
- Integrate and rationalise approvals for all projects by creating an approvals committee with the authority to issue all relevant approvals;
- Timely and uniform implementation of the legislation and planning policies on a whole of government basis and;
- All strategic phases of the planning process, not only the development assessment phase be subject to time frames that are monitored and reported with the objective of driving best practice outcomes.
- A fully integrated approach in the identification of new growth areas; delivery of new transport infrastructure; the use and release of land and; decisions regarding the provision of supporting infrastructure.
- The streamlining of planning and development processes to reduce delays and uncertainty in zoning, assessments and planning approvals.
- Clear and consistent application of land use and development policies with industry regularly informed on the status of its policies and strategies. This will help in providing industry with the certainty necessary to support its investment decisions;
- A planning policy that provides an appropriate balance between industrial and residential interests, and is sufficiently flexible to provide protection and predictability for existing land users that require planning protection.

Regulatory compliance and costs

The NSW Government should adhere to the principles of best practice regulation in all dealings with business. These include:

- All regulations should be simply written in plain English.
- Businesses should only have to supply information that is necessary and that is unavailable through other sources (e.g. through other Government agencies).
- Claims of reduction in regulatory burden should be externally validated by a process that includes industry-based feedback and assessment.
- Regulators should share a common objective of allowing and encouraging economic progress and should carry out their protective role within that context.
- Businesses should feel encouraged to invite a regulator into their premises. Regulators should include this in their key Performance Indicators (KPI's) and measure it through regular stakeholder surveys.
- Regulators should have a consistent narrative and interactions with business should not be personalised or adversarial.
- Internal review processes or appeal mechanisms should be openly and freely communicated, as part of a strategy to make enforcement be, and appear, as objective as possible. Regulatory staff should actively encourage businesses to use appeal or review mechanisms if the business does not understand or agree with the regulatory action taken or the reasons given for it.

Purchasing Policy

Ai Group urges that barriers and distortions against local industry participation in government contracts and in major projects be addressed by government agencies showing a commitment to the procurement principles of: value for money, clarity, transparency and improvement of processes, full and fair access, full opportunities for local suppliers, and supporting industry through effective planning and communication. In particular, the value for money principle in Government procurement must look beyond “least cost”, and bring to bear and make more transparent, a broader cost-benefit equation or value model that considers whole-of-life costs.

Innovation

Ai Group encourages the NSW Government to take an active role in improving the innovation environment in the state through considered policy settings and incentives. In particular, Ai Group believes that significant benefits could be achieved through the following initiatives:

- Payroll-tax holidays for start-ups and new businesses.
- Regionally-based incentives to support growth in designated areas, such as tax holidays, or assistance and incentives to set up new businesses.
- Incentives to develop greenfield land, such as expedited planning processes.

Regional Development

- Concentrate efforts on sensible investment prioritization for all regions in NSW based around the objectives of cost benefit analysis and opportunity cost evaluation. Sensible investment in both new and existing infrastructure has a range of benefits including improving the region's and state's future economic capacity and meeting the needs of our growing population.
- Explore opportunities for establishing a grants program to support regional cluster initiative programs that would direct financial and other assistance to individual cluster initiatives.
- Ensure that the requirement to employ apprentices under the government procurement contracts is enforced.
- The NSW Government work with the Victorian and Queensland Governments to initiate a cross-border reference group, specifically targeting the Albury-Riverina and Tweed regions.

Environment: Securing Affordable and Efficient Energy

Industry has several priorities for action on energy and environment policy in the next Budget. These relate to reducing the impact of energy on business competitiveness and ensuring the public sector meets its responsibilities with respect to waste. Key recommendations for the NSW Government include:

- Bolstering existing energy efficiency programs to allow a higher level of service and assistance in return for voluntary commitments from energy users to achieve improved levels of performance.
- Support the Australian Energy Regulator process for setting allowable revenues for electricity distributors and so ensure savings for consumers, despite any potential impact on dividends and lease proceeds.
- Ensure adequate funding and regulatory activity to support e-waste recycling.

Education and Training Reform

A world class economy needs the support of a world class education system. All the international indicators reveal that we do not have this. Particular areas of concern are the lack of work-readiness and foundation skills of school leavers, the decline of the STEM skills which is very much needed for the new economy, and considerable employer unease about the quality of VET in Schools arrangements. Key priorities include:

- Develop and fund major initiatives to lift school sector literacy and numeracy achievement in conjunction with States and Territories to address their current low levels in the workplace
- Undertake to develop and support initiatives that promote STEM skills in schools, the tertiary education sector and the workplace.

Supporting Exporters

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

The NSW Economy

Official figures show that the NSW economy is continuing to strengthen with its rate of growth outpacing the rest of Australia. This reflects the state's diversified range of industries and its low exposure (relative to national output) to weaker mining investment (see table1). The state's strong presence in service sectors (including finance and professional services), means that it is well positioned to leverage off its comparative advantages as a provider of services, including export opportunities to dynamic Asian markets. Over the longer term, sectors such as health and aged care services, information and communication technology, international education and wealth management are all considered to be areas of strong prospective growth. The state's relative strength in these sectors is likely to provide a solid base for NSW economic growth in the next decade and beyond.

With the future of manufacturing increasingly determined by the shift to high value added niche activities, NSW is also well positioned to exploit its skills and capabilities across a wide range of highly specialised and technologically advanced sectors. This includes pharmaceuticals, scientific and medical equipment, environmental technology as well as highly processed foods, beverages and confectionary.

Table 1: NSW industry share of Gross State Product

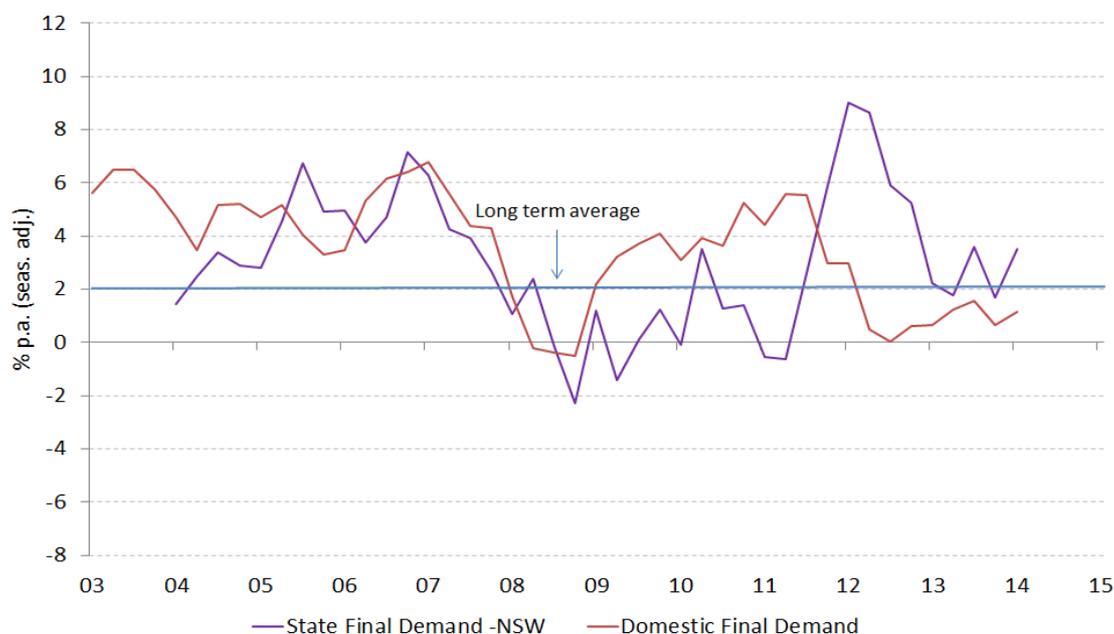
	NSW	Australia
Finance	12.1	8.4
Professional services	7.3	6.4
Manufacturing	7.4	6.4
Health	6.1	6.4
Construction	5.1	8.0
Public admin & safety	4.9	5.4
Transport	4.7	4.7
Education	4.7	4.6
Wholesale trade	4.4	3.9
Retail trade	4.3	4.5
IT & media	4.0	2.8
Admin services	3.2	2.8
Mining	2.5	8.2
Real estate services	2.9	2.7
Hospitality	2.8	2.3
Utilities	2.5	2.7
Other services	1.9	1.8
Agriculture	1.3	2.3
Recreation	0.9	0.8
Ownership of dwellings	9.5	8.5
Total all industries	92.8	93.7
Taxes less subsidies on products	7.2	6.2
Statistical Discrepancy	0.0	0.1
GROSS STATE PRODUCT	100	100

Source: ABS, *State Accounts 2013-14*, Nov 2014

NSW State final demand (that is, total consumption plus investment) grew by a solid 3.8% in the year to the end of December 2014, up from 1.8% annual growth a year earlier (see chart 1).

Moreover, annual growth in the December quarter 2014 was above its long-run average over the past 10 years (2.6%), and exceeded Australia-wide final demand growth in the year to the December quarter 2014 of 1.2%.

Chart 1: Australian and NSW final demand growth



Source: ABS

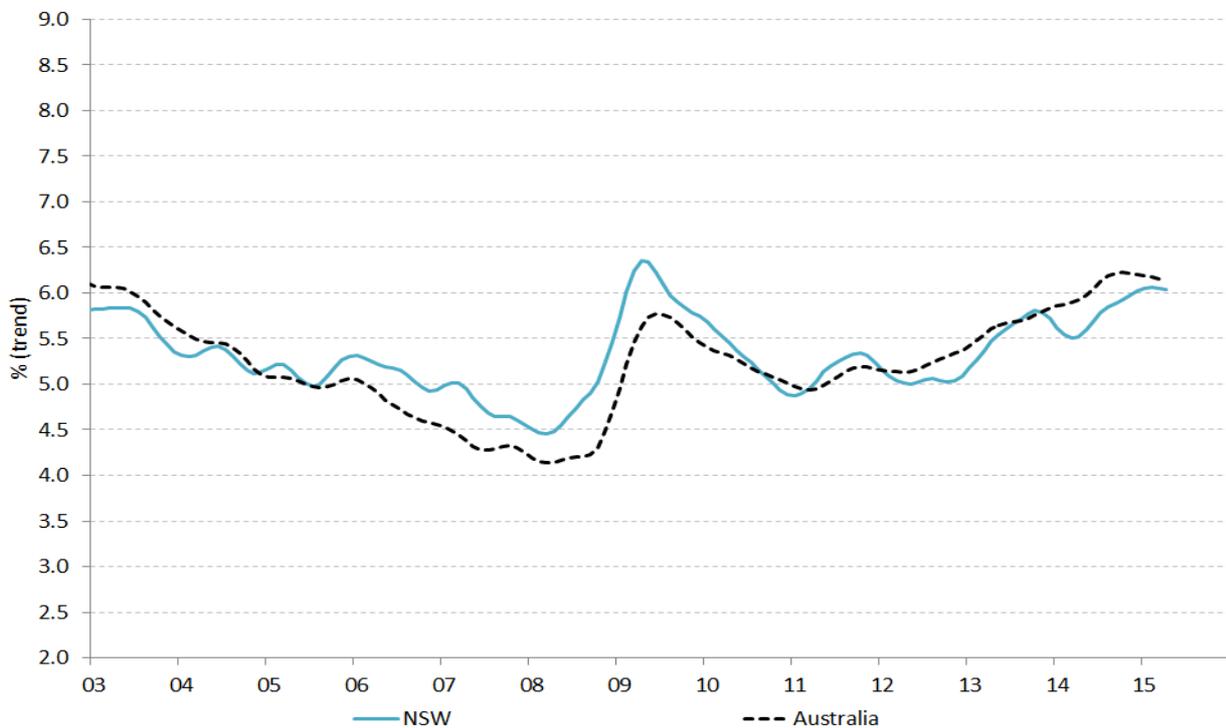
A key growth driver is new residential building activity which remains robust in response to lower interest rates and pent-up demand. NSW population growth is also acting to support the current recovery (see table 2) with the jobs growth shift from mining to services likely to underscore a continuation of solid growth momentum in coming years. Private dwellings investment in NSW grew by 17.2% in the year to December 2014. Residential approvals (which lifted by around one-third in 2013) remain elevated and are likely to ensure high levels of housing construction through the first half of 2015.

Table 2: Estimated Residential Population by state and territory, Q2 2014

State / territory	population '000 people	Annual change '000	Qtrly change %	Annual change %
NSW	7,518.5	109.1	0.24	1.5
Victoria	5,841.7	106.7	0.38	1.9
Queensland	4,722.4	70.5	0.31	1.5
South Australia	1,685.7	15.2	0.19	0.9
Western Australia	2,573.4	54.4	0.35	2.2
Tasmania	514.8	1.7	0.03	0.3
NT	245.1	2.5	0.33	1.0
ACT	386.0	4.7	0.14	1.2
Australia	23,490.7	405.4	0.29	1.6

The labour market has also performed relatively well in comparison to Australia-wide. Although NSW jobs growth has moderated slightly in recent months, the unemployment rate has remained relatively steady. In April 2015, trend unemployment stood at 6.0%. This is lower than all mainland states with the exception of Western Australia (5.7%) and compares with a national unemployment rate of 6.1% in April. In the year to April, NSW recorded healthy job gains of 50,400. The professional science and technical services sector is the dominant employment generating sector, adding a net 21,200 new jobs in the year to February 2015. This is followed by the accommodation and food services (21,200) and retail trade sectors (17,900). Although employment in the construction has softened in recent months, the sector added 66,500 jobs in the year to November 2014.

Chart 2: Australian and NSW trend unemployment rate



Source: ABS

Reflecting the wealth effects from rapid house price appreciation and share market gains, consumer spending in NSW has picked-up strongly. In the year to December 2014, household consumption expenditure which accounts for three-fifths of state gross product, increased by 4.3%, the strongest annual rise in seven years. Despite moderating in recent months, retail sales continue to expand solidly in NSW, rising by 5.0% (seasonally adjusted) over the year to March 2015. Clear strength has been evident in a range of housing-related categories, electrical and electronic goods (+16.3%), hardware building and garden supplies (+13.0%) and household goods retailing (+9.8%).

On a further positive note, a recovery in investment expenditure in NSW remains firmly on track. NSW is currently a standout state performer on capital spending, notching up growth of 22.8% over the year to December 2014, its strongest rate in seven years. The current downturn in mining related construction is being offset by a solid pipeline of road and rail infrastructure projects

driven by State government investment, telecommunications, outsourced services and a strengthening in some areas of commercial construction.

NSW's diversified economy means that it is well placed to sustain its growth momentum in 2014-15, and continue to lead the national transition from mining investment led growth to a more broad-based growth pattern.

The NSW 2014-15 Half-Yearly Review (18th December 2014) highlighted a strong medium-term economic outlook for NSW. Largely reflecting low interest rates, a surging property market, high population growth and the state's relatively low exposure to mining, NSW State Final Demand is expected grow at an above trend 3.25% in 2014-15 and 2015-16. Real Gross State Product is forecast to expand by 2.75% p.a. in 2014/15 before picking-up to a 3.0% p.a. pace in 2015-16 in response to an expected strengthening in non-mining investment and stronger growth in non-commodity exports.

Table 3: NSW Economic Performance and Outlook

Year average per cent change, unless otherwise indicated

	2013-14 Outcomes	2014-15 Forecasts	2015-16 Forecasts	2016-17 and 2017-18 Forecasts	
New South Wales					
Real state final demand	2.6	3¼	3¼		
Real gross state product	2.1	2¾	3	2¾	
Employment	0.5	1¼	2	1½	
Unemployment rate ^(b)	5.7	5¾	5½		
Sydney CPI – through the year to June quarter ^(c)	2.8	2	2¾	2½	
Sydney CPI ^(c)	2.5	2	2¾	2½	(a) Year average, per cent
Wage price index	2.5	2½	3¼	3½	

(b) Per cent change through-the-year to June quarter

(c) 2014-15 includes a ¾ percentage point deduction due to the carbon tax abolition; 2014-15 and 2016-17 include a ¼ percentage point increase due to tobacco excise increases.

Source: NSW Treasury Half Yearly Review 2014-15

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

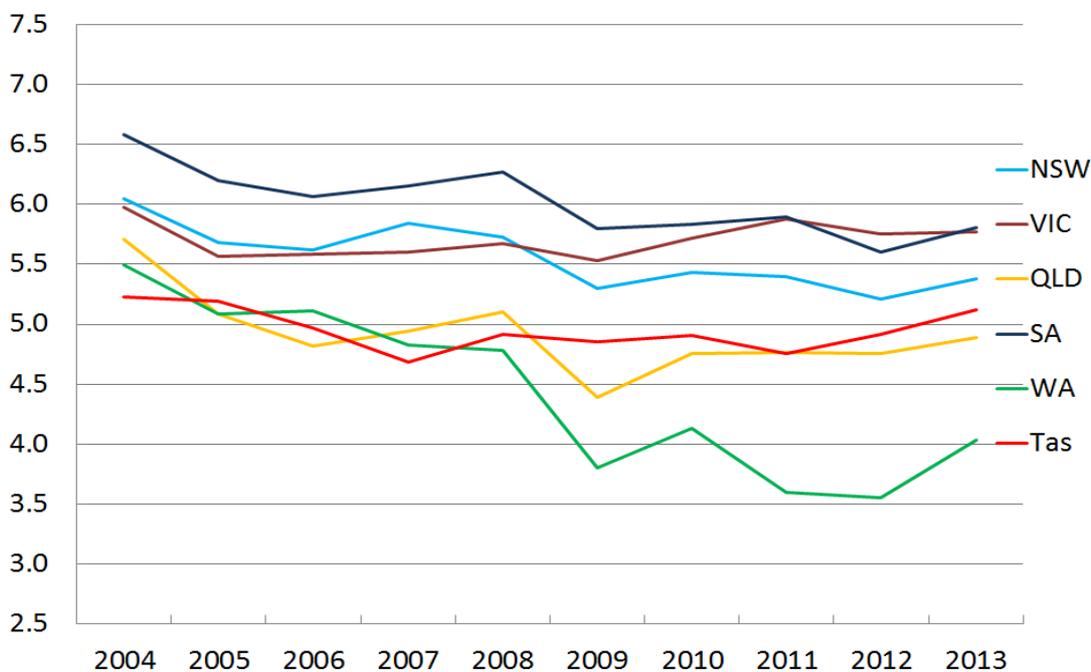
In view of these conditions it is critical that the NSW Government recognises the pressures on industry in the formation of policy and introduces reforms that will allow the state to take full advantages of the opportunities that lie ahead.

State taxation

NSW is a relatively heavy taxing state and businesses operating in NSW can suffer a distinct disadvantage against competitors operating in other states. On the level of international competitiveness, many of NSW's taxes rank very poorly and are clear impediments to setting up or expanding operations in NSW.

Australian Bureau of Statistics data highlights NSW's relatively high tax to gross state product ratio in 2011-12 (Chart 7). This includes all state and local taxes including payroll tax, land tax, land transfer duty, insurance duty and motor vehicle duty. It reveals the significant tax burden on NSW businesses, particularly relative to Queensland and Western Australia.

Chart 3: State and Local Government Taxes as a share of GSP



Sources: ABS, 5220.0 Australian National Accounts: State Accounts, June 2014; ABS, 5212.12 Government Finance Statistics, 2011-12

Pitcher Partners' analysis¹

The Pitcher Partners 2014-15 review findings demonstrate that NSW is significantly worse off than its interstate competitors for both small and larger start-ups, as determined by two scenarios:

- **Scenario 1** calculates the tax liabilities of a business with an annual payroll of \$1,225,564 (including superannuation) which purchases a property for \$2,450,906. This property has an unimproved value of \$1,173,388.

¹ Pitcher Partners (2015), "Pitcher Partners State Tax Review 2014-15". The scenario calculations are by Pitcher Partners and have not been separately verified or endorsed by Ai Group.

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- Scenario 2 calculates the tax liabilities of a business with an annual payroll of \$6,010,000 (including superannuation) which purchases a property for \$12,491,325. This property has an unimproved value of \$6,366,938.

Under both scenarios, NSW offers the least attractive State tax regime in Australia with its aggregate taxes and charges being 56% greater than Queensland under scenario 1, and 39% greater than South Australia under scenario 2. State tax liabilities are scaled from 1-5 (1 being the lowest liability to 5 being the highest).

Scenario 1

State	NSW	VIC	QLD	SA	WA
Total	\$176,928	\$146,533	\$113,615	\$123,491	\$151,493
Rank	5	3	1	2	4

Scenario 2

State	NSW	VIC	QLD	SA	WA
Total	\$1,153,286	\$888,110	\$915,886	\$832,293	\$1,014,832
Rank	5	2	3	1	4

With NSW's 2014-15 budget showing improved operating balances due mainly to upward revisions to stamp duty and GST revenue, it is time for the Government to act to provide meaningful and permanent tax relief to the business sector. The ability to deliver genuine tax relief will be enhanced by reducing taxation and re-prioritising expenditure simultaneously, preferably executed in phases to avoid sudden changes to business and government practices.

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, given that NSW continues to have one of the lowest payroll tax lowest thresholds and the second highest payroll tax rate (behind WA), further reforms to reduce the payroll tax burden are needed. **Ai Group believes that the NSW Government should announce 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.**

As part of a more far reaching approach to creating a more competitive tax system, the Government must take a leading role in the Federal Government's upcoming white papers on taxation and federalism, and examine opportunities for the reform and removal of State-based inefficient taxes. This will ensure that NSW has a tax system that promotes economic growth and high performing enterprises operating in an internationally competitive NSW. Many of the reforms to state-based taxes identified in the Henry Tax Review are worthwhile but will require broader reforms to fiscal federalism and revenue sharing allocations between the states through the Commonwealth Grants Commission.

The State's recent lagging productivity performance and longer term challenges associated with ageing of the population mean that the longer NSW postpones genuine and comprehensive tax

reform, the more difficult the task of promoting long-term economic growth across all sectors for the wellbeing of the local community.

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

Funding for State's Emergency Services

We note that no final decision has been made by the NSW Government with respect to a revised funding model for the State's emergency services. Recent reviews of the NSW tax system have recommended a move from an insurance-based levy to a property-based levy. This is seen as a more efficient and fairer system of raising revenue. It would spread the costs across the whole community, and would bring NSW into line with the other states. However, any new levy must be applied in a reasonable manner. Those businesses in fire prone areas should accept liabilities commensurate with the dangers they face. Ai Group is concerned that businesses may be asked to pay an additional levy, despite not being in an area of concern and without getting better protection, should the costs be simply based on the assets they own. For this reason, we recommend that should a property-based levy be introduced, it must be variable, taking into account the type and location of a property.

Infrastructure Development

Ai Group urges the NSW Government to **continue to invest significantly in NSW's infrastructure so as to improve productivity and enhance the competitiveness of the NSW economy**. We commend the NSW Government for addressing the state's infrastructure short-fall, and taking a leading role in the development of innovative ways of recycling capital to fund infrastructure investment.

Ai Group welcomes the formulation of the 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 strongly support 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*. These long term project plans (including a pipeline of projects to be delivered over a period of time) are critically important for the cost, quality and timely delivery of projects.

As part of its long term planning, we would urge the Government to **devote sufficient funding and resources in ensuring that each proposed project is properly scoped and developed before embarking on the tender process**. This will help to avoid pressures throughout the entire project cycle, including cost overruns, rework, delays in completion and disputes.

The Government must also **take greater responsibility in the coordination of infrastructure projects so as to avoid infrastructure or construction capacity constraints and enable major projects to be funded and developed in a timely manner**.

In the planning and coordination of infrastructure, transparency is a vital element. **Each proposed project must be identified and prioritised on the basis of a rigorous and transparent cost benefit analysis**. This will ensure that funds are directed to those projects that deliver the greatest benefits to the State. Transparency also builds public support for major projects, and ensures governments can access private finance to invest in infrastructure. Furthermore, it creates confidence among investors ensuring that least-cost financing and a deep pool of investment funds exists for future projects. We recommend the provision of regular updates to inform industry about the level of priority attached to major infrastructure projects and the funding arrangements, to facilitate the planning processes in businesses and to lift productivity throughout the NSW economy.

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

Infrastructure funding will continue to be a major challenge for all state governments into the future. Options to be considered include:

- **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.
- **Increased contestability in the delivery of all modes of public transport.** 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 such as outsourcing. This should be done in a way that ensures value for money and 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.
- **Continued evolution of structured public-private partnership policies** that more efficiently allocate risks, attract more private sector investments and achieve value and efficiency from public sector investment.
- The further identification of opportunities to fund increased investments through **cost savings and productivity gains achieved through public sector reforms.**

Ai Group also supports the use of superannuation funds and annuities to ensure infrastructure is delivered to meet future needs.

Reducing the cost of public infrastructure

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 **identification of the proposed risk allocation at the earliest possible stage in the tender process**. A concern of the construction industry is that significant time and resources can be devoted to the evaluation of a project, even before proceeding through the Expression of Interest (EOI) and Request for Tender (RQT) phases. Furthermore, the proposed risk allocation is not always evident during the EOI phase, and may not be immediately apparent at the start of the RQT phase.
- 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**.
- **Streamline the tender process** by adopting a two-stage process for the tendering of major projects. This entails preferred tenders being selected at the first-stage, based on lesser documentation requirements. More detailed evaluations and negotiations are undertaken with a smaller number of preferred tenderers at the second-stage.
- **Shortlist bidders as early as possible** and consider taking forward fewer bidders where risk assessment and preliminary assessment of bidders warrants such action.
- **Contribute to the bid costs incurred by unsuccessful tenderers** and ensure compensation for the intellectual property developed through innovation in design, systems and processes that lead to more efficient or cost effective infrastructure outcomes.
- **Harmonisation of state and Federal codes and/or guidelines for procurement** in the building and construction industry.
- **Broad-based implementation of the recommendations of the Productivity Commission's Inquiry Report on Public Infrastructure**.

Planning Policy

Ai Group commends the Government's focus on overhauling the NSW planning system with a focus on sustainable growth to deliver employment and the houses and infrastructure to support the state's expanding population.

In its consideration of options on how to best implement its reform program we would urge an emphasis on:

- **Providing certainty to industry.** Businesses must be encouraged to refurbish, redevelop and to develop greenfield sites, confident that they will be in an area and an environment that takes a positive approach to their proximity.
- **An appropriate balance between industrial and residential interests** and sufficiently flexible to provide protection and predictability for existing land users that require planning protection.
- **Speedier implementation of standard format planning schemes (local environment plans) by local councils**
- **A consistent approach across councils in the engagement of communities in key planning decisions;**
- **Integrate and rationalise approvals for all projects by creating an approvals committee** with the authority to issue all relevant approvals. The average NSW business deals with up to nine regulatory authorities in any given year.
- **Timely and uniform implementation of the legislation and planning policies on a whole of government basis** and;
- **All strategic phases of the planning process, not only the development assessment phase be subject to time frames that are monitored and reported with the objective of driving best practice outcomes.**

There is also significant potential for improvement around levels of advice to industry and consultation processes. We recommend that consideration be given to the establishment of a dedicated office for assisting industry through the planning process, focusing on the environmental and other planning conditions, as well as providing assistance in how to effectively meet any community and stakeholder consultation requirements.

The planning system should also be underpinned by supportive mechanisms that assist the progression of major developments (particularly projects likely to be contentious such as waste facilities and wind farms) to more certain outcomes. This would help to limit the impact of opposition groups or legislative loopholes that may obstruct developments at the final stage of a lengthy approvals process. The planning system also needs to facilitate timely decision-making and ensure that consideration of project variations is proportionate to the significance of the change. In instances where a business makes a modification request after receiving a planning application

approval, there should be no change to the approved conditions of consent that are not subject to the modification request.

Land use planning and development

A key issue in need of addressing is ensuring a ready supply of appropriately placed employment lands. The NSW Government must make a concerted effort to unlock Sydney's sizeable stock of under-utilised 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 lands and efficient planning processes are key enablers for industry growth, jobs creation and the attraction of business investment to NSW. Simultaneously, it helps to support the State's growing population and address housing affordability concerns.

To improve the availability of serviced land, Ai Group believes that the NSW Government should ensure:

- **Clear and consistent application of land use and development policies** with industry regularly informed on the status of its policies and strategies. This will help in providing industry with the certainty necessary to support its investment decisions;
- **Planning policy provides an appropriate balance between industrial and residential interests**, and is sufficiently flexible to provide protection and predictability for existing land users that require planning protection. This is particularly important where residential areas in the vicinity of industry can pose a threat to the continued viability of industry;
- **A fully integrated approach in the identification of new growth areas**; delivery of new transport infrastructure; the use and release of land and; decisions regarding the provision of supporting infrastructure and;
- **Planning and development processes are streamlined** to reduce delays and uncertainty in zoning, assessments and planning approvals.

Reducing the cost of doing business

NSW businesses are part of a global economy and must be internationally competitive to survive. Success in the form of government regulation will be critical in creating the circumstances conducive to shaping a more competitive NSW and generating higher growth, stronger investment and increased employment opportunities.

However, Ai Group's member businesses agree that excessive or poorly implemented regulation is a serious problem. This assessment has been expressed repeatedly by respondents to Ai Group's own surveys and is corroborated by international comparisons. The 2014 World Economic Forum *Global Competitiveness Report* ranked Australia 124th for the burden of government regulation, a marginal improvement on 2013 but down from 60th in 2010-11.

The benefits for businesses, and indeed the broader economy, from nationally-consistent business regulation and competition laws have been well canvassed in recent years. In 2008, state and federal governments signed the National Partnership Agreement to Deliver a Seamless National Economy at the Council of Commonwealth Governments meeting. Thirty-six separate reforms are covered by this National Partnership, comprising of 27 deregulation priorities, eight areas of competition reform and a reform to regulation making and review processes. Only 17 of the deregulation priorities and three of the competition reforms were completed. It is clear from the December 2013 COAG meetings that federal and state governments have taken a new approach to harmonization especially on areas like occupational licensing, which was not completed. Ai Group still sees significant benefit to industry, and indeed the broader economy including households and governments, from harmonised legislation and regulation.

Ai Group acknowledges the firm commitment of the NSW Government to reduce red tape in the public sector, and commends its engagement of IPART to review the state's licensing framework and undertake a review of local government compliance and enforcement activity in NSW.

We also welcome the announcement in the COAG Communique of 13 December 2013 by the Council of Australian Governments of a major focus on reducing red and green tape and specifically that:

- The governments all agreed to work in their own jurisdictions to improve regulation and remove unnecessary red tape;
- They also agreed to work bilaterally to implement 'one-stop-shops' for environmental approvals in their states and territories; and
- That COAG will work together on reducing red tape in the four areas of manufacturing, higher education, early childhood and 'end-to-end' regulation of small businesses, with each state to target specific small business sectors.

The conduct of regulators is as important to the effectiveness of regulation as is the design of the laws themselves. Ai Group advocates a range of other best practice regulatory principles to reduce the regulatory cost burden on business. As detailed in our 2013 *Regulator Engagement with Small Business Submission (2013)* to the Productivity Commission, Ai Group recommends adoption of the following Charter of Best Practice Regulatory Behaviour:

- **The principles of best practice regulation must be adhered to in all dealings with business** including: transparency; accountability; consistency; and careful targeting.
- **All regulations should be simply written in plain English**, so they are easily understood, implemented and enforced.
- **No inspection should take place without a reason.**
- **Businesses should only have to supply information that is necessary and that is unavailable through other sources (e.g. through other Government agencies).**
- **Claims of reduction in regulatory burden should be externally validated** by a process that includes industry-based feedback and assessment.
- **Regulators should share a common objective of allowing and encouraging economic progress** and should carry out their protective role within that context.
- **Businesses should feel encouraged to invite a regulator into their premises.** Regulators should include this in their key Performance Indicators (KPI's) and measure it through regular stakeholder surveys.
- **Regulators should always explain why they are there and what they are looking for.**
- **Regulators should have a consistent narrative** that explains their objective, including the compliance behavior they are looking for, and shows the role of every interaction (visit, notice, prosecution) in the context of the overall task of influencing business behavior.
- **Interactions with business should not be personalised or adversarial.**
- **If an inspection is undertaken following a third party complaint (by an employee, union or member of the public etc.), the regulator should not prejudge the situation** and act as if the alleged breach has occurred, or the facts alleged are true, until they are shown to be true.
- **Inspectors should act respectfully towards SMEs and seek to understand the limitations of a small management team.** Conversely, regulators should not assume that small businesses are too unstructured or unsophisticated to understand compliance duties, or assume they will not have systems in place to meet them, until proven otherwise.
- **Businesses should not be made to feel that they will be disadvantaged if they take responsibility for adverse incidents and seek ways to immediately learn from them and avoid them in the future.** Taking responsibility should not be equated with accepting blame.

- **Inspectors should not be afraid to admit they don't have particular technical expertise, and should call for assistance, rather than bluff their way through.**
- **Inspectors should actively acknowledge positive efforts, improvements or voluntary over-compliance by duty holders.**
- **Inspectors should acknowledge, respect and try to be consistent with rulings, notices or observations made to that business by other inspectors from the same regulator by another regulator dealing with the same issue (e.g. a similar regulator in another state). Inconsistency undermines authority.**
- **Internal review processes or appeal mechanisms should be openly and freely promoted, as part of a strategy to make enforcement be, and appear, as objective as possible.** Regulatory staff should actively encourage businesses to use appeal or review mechanisms if the business does not understand or agree with the regulatory action taken or the reasons given for it.

Purchasing policy

Ai Group believes Australian businesses should have full and fair access to supply the goods and services required by the public sector and for major projects undertaken within Australia. As it stands there are a number of barriers and distortions that frustrate and impede the full and fair participation of Australian suppliers in the Government business market. These barriers and distortions are exacerbating the intense competitive pressures currently being experienced by local, trade-exposed industries and particularly by the manufacturing and IT sectors.

The major barriers and distortions are:

- **An undue emphasis on upfront costs rather than whole of life costs in public sector procurement.** This emphasis results in the purchase of lower quality goods and services and neglects the costs involved in maintenance and through-life support which are key advantages that local suppliers are able to offer. The value for money principle in Government procurement must look beyond “least cost”, and bring to bear and make more transparent, a broader cost-benefit equation or value model that considers whole-of-life costs, including in relation to maintenance, servicing, quality and ongoing supplier relationships. Ai Group has consistently argued for consideration to be given to the whole of life costs of projects. Whole of life costs should include costs incurred by the purchaser from after-sales service, regular maintenance and servicing, parts replacements and any machine down time. It should also take into account supply risks, quality risks and reliability that may affect production delivery times and/or these future costs. In many cases a holistic assessment of these costs will show that for local businesses these total costs could be lower than for overseas-based businesses because services could be rendered more quickly, more reliably and replacement parts delivered more promptly.
- **An uneven weighting given to conformity with standards.** Local producers are required to produce to stringent Australian and International Standards and non-conformity or false claims of conformity are much more rigorously enforced than is the case with many imported alternatives. This puts local businesses at a disadvantage.
- **Selection criteria (implicit or explicit) that include a record of supply in other countries as demonstration of credentials.** This favours offshore suppliers and is a particular barrier to emerging local businesses and domestic suppliers of innovative goods and services.
- **Preference given to offshore suppliers.** Preference is often given by overseas-based prime contractors to sub-contractors and suppliers in their country of origin under explicit or implicit local preference arrangements and practices.

These barriers and distortions against local industry participation in government contracts and in major projects can be addressed by the adoption and adherence by government agencies of practices that adhere to purchasing principles set out below. For major infrastructure, construction and mining projects, governments should require prime contractors and holders of licences to adopt and demonstrate adherence to similar practices. These practices should work

alongside programs aimed to facilitate local industry participation such as a **strengthened Industry Capability Network**.

It is also important to account for the wider value to the economy by purchasing locally, such as through skills development and retention and through creating jobs. Governments procuring locally also ensure a broad range of suppliers can continue to operate locally. Finally, governments should be aware that many foreign governments impose contractual requirements for local content in their purchase of local goods.

Ai Group recommends government agencies and major contractors 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, ongoing supplier relationships and speed of maintenance repair.
- **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.
- **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

Encouraging innovation in NSW industry

Innovation is the foundation of improvements in our competitiveness, and driving opportunities for investment and growth. It involves bringing new or refined goods or services to market; introducing new ways of producing, distributing and marketing goods and services; and putting in place more responsive and more effective approaches to doing business.

Ai Group outlined the importance of innovation for Australian businesses in our submission to the Federal Senate Inquiry into Australia's Innovation System. Ai Group believes that the **NSW Government has an important role to encourage innovation through sound programs and incentives.**

In particular, Ai Group believes that significant benefits could be achieved through the following initiatives:

- **Payroll-tax holidays for start-ups and new businesses.**
- **Regionally-based incentives to support growth in designated areas, such as tax holidays, or assistance and incentives to set up new businesses.**
- **Incentives to develop greenfield land, such as expedited planning processes.**

There is also a need to commit to supporting innovation on the basis of the following key objectives implicit in the Manufacturing Taskforce's industry led Manufacturing Action Plan (September 2012):

- Promoting manufacturing as the engine of innovation in NSW with a view to adding a Ministerial role for manufacturing, establishing a leaders forum for manufacturing and publically championing the value of manufacturing;
- Encouraging significantly greater cooperation between research bodies and NSW industry and the clustering of sector specific manufacturing firms; and
- Promoting the use of design as a key innovation and competitiveness strategy for NSW manufacturers.

Digital technology is also vital in facilitating innovation, productivity growth and increased interaction of NSW industry in the global economy. We see an important role for the NSW Government and other stakeholders to strengthening NSW businesses capabilities in the digital economy.

Ai Group research has shown that businesses primarily obtain 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.

Government interventions in this area could include developing digital resources / benchmarking tools targeted at a particular section of the business community to help ensure local businesses embrace new technologies. Ai Group developed a digital business kit for the federal government which we are promoting to our members. The NSW Government should also help to develop and disseminate resources aimed at business.

Ai Group also proposes that the government build on its current range of programs. We specifically recommend the **introduction of an innovation ‘Start-Up’ program for those businesses with no prior experience in R&D, but with an interest in starting an R&D project.** These businesses often find it difficult to compete with larger and more experienced businesses for government funding which acts as a barrier to involvement. Under such a program, grants could be provided to companies (on a competitive basis) on a matching dollar for dollar basis, and be used for a broad range of purposes such as purchasing specialist equipment to undertake proposed R&D, to engage a consultant to assist in R&D activity, to employ a scientist or engineer to undertake R&D, or to engage the expertise of a university, CSIRO or another research centre.

In addition, 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 assist innovative firms to break out and commercialise their research and development capabilities. It should also be aimed at addressing gaps in the venture capital market, As noted in Ai Group’s 2014 submission to the Financial System Inquiry, “the bulk of Australian venture capital finance is invested in late stage opportunities, which are those ventures with demonstrated potential, and therefore lower risk. Early stage finance is insufficient, on the other hand, which prevents Australian innovators from turning their ideas into a product that can be developed locally. It also limits the pipeline of good ideas that progress to the late stage private equity phase, where there is more appetite among private investors.

Education and Training Reform

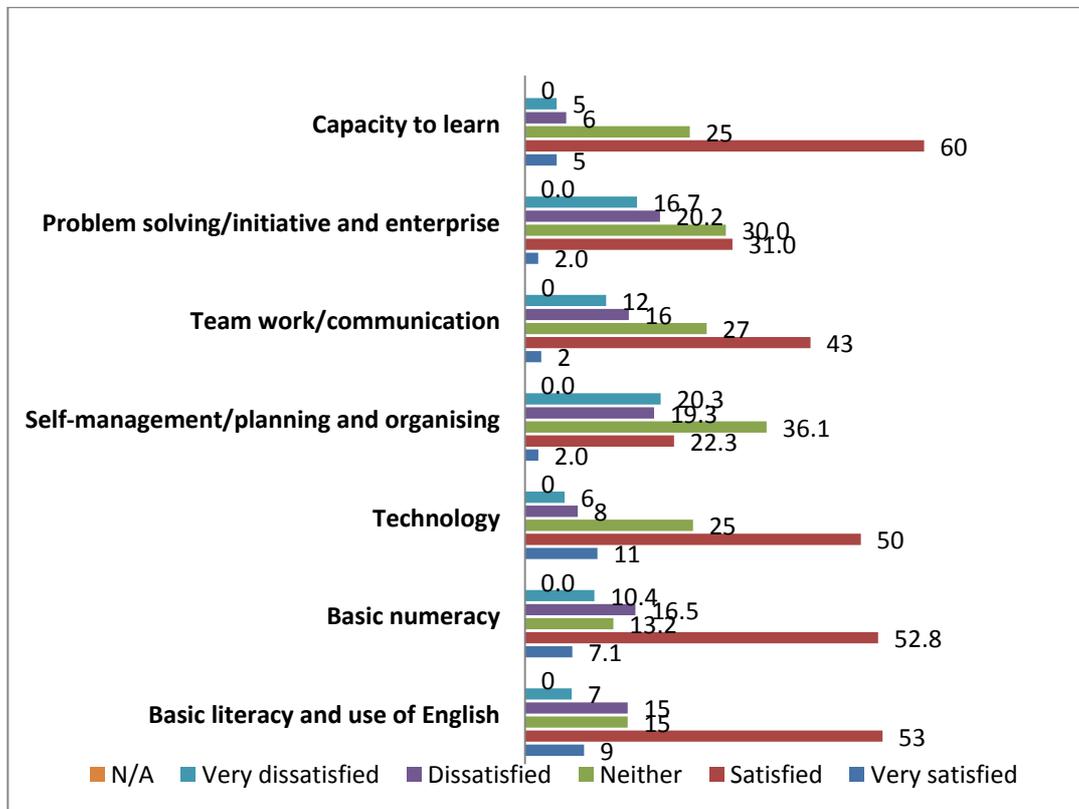
School Sector Reform

A world class economy needs the support of a world class education system. All the international indicators reveal that we do not have this. Particular areas of concern are the lack of work-readiness and foundation skills of school leavers, the decline of the STEM skills which is very much needed for the new economy, and considerable employer unease about the quality of VET in Schools arrangements.

Literacy and Numeracy

There are continuing concerns from industry about the adequacy of the literacy and numeracy levels of young people entering the workforce from school. Despite increased expenditure on school education and increases in the achievement of senior secondary certificates there has been little improvement in average literacy and numeracy levels across age groups. In the 2014 Survey of Workforce Development Needs employers were asked to rate school leavers on their foundation and employability skills. Employers reported that their level of dissatisfaction with “Basic literacy and the use of English” was 22 per cent. The level of dissatisfaction with numeracy was even higher at 27 per cent.

Chart 4: Employer satisfaction with school leavers



Source: Ai Group Survey of Workforce Development Needs, 2014

There are even greater concerns about a number of employability skills related to work readiness. The level of dissatisfaction with self-management and planning and organising was 39.6 per cent, with problem-solving and initiative and enterprise it was 36.9% and with teamwork and communication is was 28 per cent.

Ai Group is concerned that school students exit school without meeting a set benchmark in literacy or numeracy. There are no national exit standards for literacy and associated with the award of senior secondary certificates. Only South Australia links the achievement of its senior secondary certificate to level three descriptors of the Australian Core Skills Framework.²

There are particular concerns in regard to school student performance in mathematics. The 2011 Trends in Mathematics and Science Study (TIMSS) indicates that Australia's performance in mathematics and science has stagnated over the past 16 years.³ Within this international research 17 countries recorded significantly higher results than Australia in mathematics for Year 4 students including most of the Asian countries, England and the United States. Of particular concern is the result that 30 per cent of Australian Year 4 students were achieving at the low international benchmark or not achieving at least at this level.⁴

The latest Programme for International Student Assessment (PISA) results also present a bleak picture. The mathematics skills of 15 year olds have slipped back and 16 countries achieved significantly higher results than Australia. Australia's mean mathematical literacy performance declined significantly between PISA 2003 and PISA 2012 by the equivalent of more than a half year of schooling.⁵ The results indicate that 42 per cent of the students failed to reach the national baseline proficiency level in mathematical literacy.⁶ In relation to scientific literacy Australia's mean score changed little in absolute and relative terms between 2006 and 2012.⁷ The Australian Council of Education Research noted that an unacceptable proportion of 15 year olds are at serious risk of not achieving literacy levels sufficient for them to effectively participate in the workforce.

To address these issues, **Ai Group strongly encourages the NSW Government to develop and fund major initiatives to lift school sector literacy and numeracy achievement in its own right and in conjunction with other Governments.**

2 Policy Circular, Literacy and Numeracy, SACE Board of SA, February 2010.

3 Sue Thompson et al., Highlights from TIMSS and PIRLS 2011 from Australia's perspective, Australian Council for Educational Research, 2012.

4 Sue Thompson et al., Highlights from TIMSS and PIRLS 2011 from Australia's perspective, Australian Council for Educational Research, 2012.

5 MEDIA RELEASE, 3rd December 2013, Latest PISA results 'cause for concern', says ACER

6 ACER FACT SHEET, Selected results from PISA 2012, 3 December 2013

7 As reported in Benchmarking Australian Science, Technology, Engineering and Mathematics, Office of the Chief Scientist, November 2014, page 93.

Lifting the Capability of the Teaching Profession

The role that education plays in underpinning productivity and economic performance is crucial. For example, a country able to attain literacy scores 1 % higher than the international average will achieve levels of labour productivity and GDP per capita that are 2.5 % and 1.55 % higher respectively than those of other countries.⁸

The approach of a singular pathway into the teaching profession is no longer sustainable. All professions, including teaching, need to embrace multiple entry points for acceptance into professional practice. This not only reflects the modern workforce and the increasingly mobile labour force, it also recognises the multiple careers an individual will increasingly pursue over the course of their working life.

Even though we support broadening the entry pathways into the teaching profession and diversifying the potential applicants, the issue of quality remains crucial. There is also a pressing need to attract more candidates into the teaching profession with higher degrees of proficiency in mathematics and science. The lack of qualified teachers was reported in the TIMSS study where more than 20 per cent of Year 8 students were being taught mathematics by teachers who were only 'somewhat' confident about teaching the subject.⁹ A 2011 study by the Australian Council for Education Research found that for years 7 – 10 mathematics teaching, only 62 per cent of teachers had two or more years of tertiary mathematics (the minimum requirement). More than a third were teaching out of field and 23 per cent had no tertiary mathematics at all.¹⁰ This is related to the low ATAR scores required for entry into teaching.

A weakness in Australian schooling systems has been the low key approach taken to continuous professional development (CPD) for all teachers. As a nation we have embraced the mantra of life-long-learning yet we do not systemically embed this notion within some of our key professions. The teaching profession needs and deserves an innovative model for CPD. This model needs to mirror best practice lifelong learning principles.

Given these critical issues, Ai Group recommends that the NSW Government support a range of measures designed to improve the capability of the teaching profession in general, and in particular, to expand the pool of qualified teachers in mathematics and science.

... in the schools

As well as difficulties within the workforce there are problems in the pipeline from schools and tertiary education institutions into the workforce.

8 Education Outlook – OECD 2009.

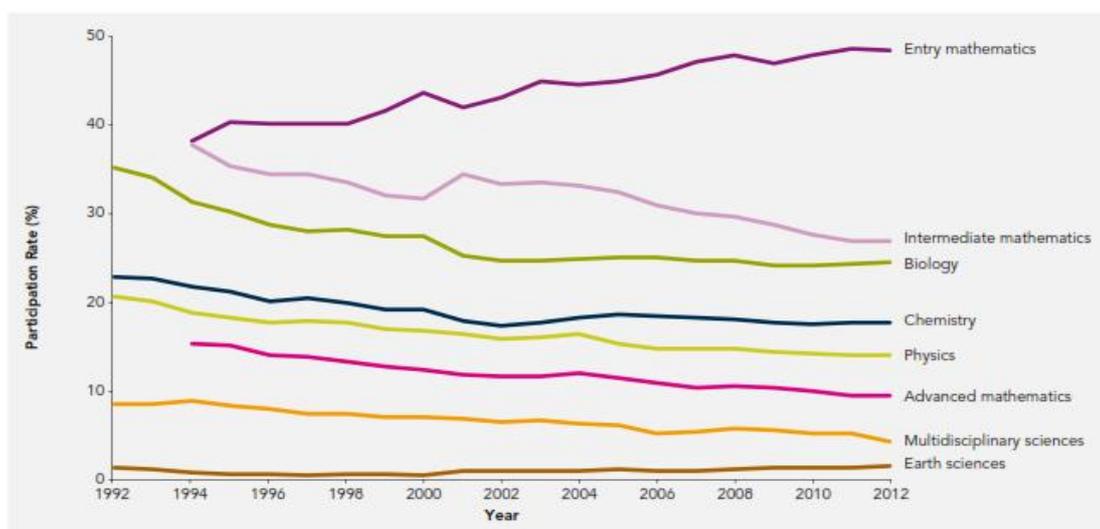
9 MEDIA RELEASE, 13th December 2012, ACER releases results from latest international studies of student achievement.

10 As reported in STEM: Country Comparisons, Final Report, Australian Council of Learned Academies, May 2013, page 17.

There is a critical need to develop and support initiatives that promote STEM skills in schools, the tertiary education sector and the workplace. Despite attempts by governments over the last decade to increase school student participation in STEM the proportion of students commencing in STEM has flat-lined at around 10 per cent or less.¹¹ A decreasing number of students are participating in mathematics. This can be a feature of education systems like Australia's where mathematics is not compulsory until the end of school unlike China, Russia and some European countries.¹² The state of mathematics and science in schools has deteriorated to a 'dangerous level' according to a review commissioned by the Vice-Chancellors of Australia's eight research-intensive universities. The number of students undertaking intermediate and advanced mathematics in secondary school fell by 34 per cent over the past 18 years¹³. Students may select the easier option of General Mathematics in the belief that this will contribute to a higher ATAR for university entrance. In response to this the ACOLA report makes a series of recommendations about mathematics advocating consideration of some element of compulsion.¹⁴

Ai Group has drawn attention to the unacceptably low level of participation by secondary school students in STEM related areas of knowledge and skills.¹⁵ The Office of the Chief Scientist has documented the decline in the proportion of Year 12 students undertaking mathematics and science since 1992.

Chart 5: Year 12 Mathematics and Science Participation Rates 1992 - 2012¹⁶



Note: Figure shows the number of students taking a course in science or mathematics as a proportion of the total year 12 population (Kennedy et al. 2014). Students can elect to take one or more science subjects and in some jurisdictions one or more mathematics levels and so may be counted more than once.

11 Australia's skills and workforce development needs, Discussion Paper, Australian Workforce and Productivity Agency, July 2012.

12 STEM: Country Comparisons, Final Report, Australian Council of Learned Academies, May 2013, page 14.

13 Dealing with Australia's Mathematical Deficit, Australian Mathematical Sciences Institute, May 2014.

14 Ibid, page 20.

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

16 Mathematics, Engineering and Science in the National Interest, Office of the Chief Scientist, May 2012, page 19.

Benchmarking Australian Science, Technology, Engineering and Mathematics, Office of the Chief Scientist, November 2014, page 100.

Despite increasing levels of Year 12 enrolments, the participation rates in physics, chemistry and biology have all declined. Participation in mathematics has been divided into different categories. Participation in entry mathematics (including subjects not designed to lead to further tertiary study) has increased over the period. However, participation rates in intermediate mathematics and advanced mathematics have both declined.

There are particular concerns in regard to school student performance in mathematics. The 2011 Trends in Mathematics and Science Study (TIMSS) indicates that Australia's performance in mathematics and science has stagnated over the past 16 years.¹⁷ Within this international research 17 countries recorded significantly higher results than Australia in mathematics for Year 4 students including most of the Asian countries, England and the United States. Of particular concern is the result that 30 per cent of Australian Year 4 students were achieving at the low international benchmark or not achieving at least at this level.¹⁸

The latest PISA results also present a bleak picture. The mathematics skills of 15 year olds have slipped back and 16 countries achieved significantly higher results than Australia. Australia's mean mathematical literacy performance declined significantly between PISA 2003 and PISA 2012 by the equivalent of more than a half year of schooling.¹⁹ The results indicate that 42 per cent of the students failed to reach the national baseline proficiency level in mathematical literacy.²⁰ In relation to scientific literacy Australia's mean score changed little in absolute and relative terms between 2006 and 2012.²¹

There are particular concerns about the low levels of participation by girls in STEM-related subjects. The Australian Mathematical Sciences Institute has drawn attention to the low female enrolments in Year 11 and 12 mathematics and the 30 per cent undergraduate and post-graduate enrolment level.²²

In addition to concern about the levels of participation, there are further concerns about pedagogy. A report from Universities Australia highlighted a number of concerns in relation to secondary education including:

“in too many schools STEM is still mostly science and mathematics taught separately with little or no attention to technology and engineering”

“Students need to be made aware of the career opportunities afforded to STEM graduates at an earlier age rather than just years 11 and 12.”²³

17 Sue Thompson et al., Highlights from TIMSS and PIRLS 2011 from Australia's perspective, Australian Council for Educational Research, 2012.

18 Sue Thompson et al., Highlights from TIMSS and PIRLS 2011 from Australia's perspective, Australian Council for Educational Research, 2012.

19 MEDIA RELEASE, 3rd December 2013, Latest PISA results 'cause for concern', says ACER.

20 ACER FACT SHEET, Selected results from PISA 2012, 3 December 2013

21 As reported in Benchmarking Australian Science, Technology, Engineering and Mathematics, Office of the Chief Scientist, November 2014, page 93.

22 Media release, Dealing with Australia's mathematical deficit, Australian Mathematical Sciences Institute, 7 August 2014.

23 Universities Australia, STEM and non-STEM First Year Students, January 2012.

The impact of this decline is compounded by the lack of qualified teachers.²⁴ This was also reported in the TIMSS study where more than 20 per cent of Year 8 students were being taught mathematics by teachers who were only ‘somewhat’ confident about teaching the subject.²⁵ A 2011 study by the Australian Council for Education Research found that for years 7 – 10 mathematics teaching, only 62 per cent of teachers had two or more years of tertiary mathematics (the minimum requirement). More than a third were teaching out of field and 23 per cent had no tertiary mathematics at all.²⁶ This is related to the low ATAR scores required for entry into teaching.

The ACOLA report recommends the reintroduction of more comprehensive prerequisite requirements for university entrance to encourage greater secondary school student participation in STEM subjects.²⁷ Further,

“despite the plethora of government policies and reviews focused on education, and science and innovation and the relatively recent emergence of the STEM agenda in Australia, the ‘pipeline’ is decreasing and there are serious questions about performance in the foundation skills of literacy and numeracy, and the enabling sciences, mathematics and scientific literacy.”²⁸

However, as the Chief Scientist has recently reported:

“State and territory governments all design and fund a patchwork of programs relevant to STEM – from school through to vocational and tertiary institutions, and in business and industry. They may, or may not, align with the effort of federal investment in education, innovation or research and development.”²⁹

²⁴ <http://www.theaustralian.com.au/news/nation/mathematics-students-in-serious-decline>, March 10, 2010.

²⁵ MEDIA RELEASE, 13th December 2012, *ACER releases results from latest international studies of student achievement*.

²⁶ As reported in *STEM: Country Comparisons*, Final Report, Australian Council of Learned Academies, May 2013, page 17.

²⁷ *STEM: Country Comparisons*, Final Report, Australian Council of Learned Academies, May 2013, page 20.

²⁸ *Ibid*, page 51.

²⁹ *Science, Technology, Engineering and Mathematics: Australia’s Future*, Office of the Chief Scientist, September 2014, page 10.

Boosting regional development

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

Infrastructure

NSW regions all have different infrastructure requirements and priorities. However, a common theme shared by all regions is that better regional industry consultation will greatly improve the prioritization and delivery of infrastructure.

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

In supporting the economic performance of regional NSW, major investment in the freight network linking the regions with Sydney and interstate destinations must be a priority. This includes the maintenance of country rail infrastructure; on-going upgrades to the Pacific and Princes Highways and; maintaining the Bridges for the Bush program to improve road freight productivity.

Support for the formation of industry clusters

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

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

Skills

Ensuring there is an appropriate level of skill development in the regions is critical to supporting regional industry and business and to maintaining viable communities in those regions.

NSW TAFE is the main provider of education and training in the VET sector for the regions, particularly in remote regions and where thin markets exist. Other providers of vocational education and training are the private RTOs, the schools sector and the adult community education (ACE) sector. It is important that resources are directed towards these providers and that they work in close collaboration with each other to achieve the best outcomes, particularly when resources in terms of capital infrastructure and qualified teachers and trainers are stretched or non-existent.

State Government departments and authorities should be encouraged to employ apprentices and trainees to support local employment. The Government should also **ensure that the requirement to employ apprentices under the government procurement contracts is enforced**. Policy initiatives should be put in place to ensure that apprenticeships are made available to those in areas of high unemployment, young women and indigenous youth.

Further, regional skills plans should be forward thinking and be looking to meet the state's various supply needs over the next decade and beyond, exploring a wide range of options for encouraging individuals and businesses to invest in those skills.

Ai Group is supportive of the NSW Government's Regional Relocation Grants scheme as a measure to encourage labour mobility within NSW and to assist in alleviating skill shortages in regional areas. However, we believe that the grants should be closely targeted to meeting the specific skill needs of identified regions. In addition, consideration should be given to broadening the grants to enable businesses to qualify to assist in boosting job creation in regional areas.

Regulation streamlining

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

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

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

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

Environment: Securing Affordable & Efficient Energy

Industry has several priorities for action on energy and environment policy in the next Budget. These relate to reducing the impact of energy on business competitiveness and ensuring the public sector meets its responsibilities with respect to waste.

Minimise costs and encourage energy efficiency

Energy efficiency and energy productivity are long term strategic imperatives for NSW. The delivered cost of electricity remains high, and gas prices are increasing. While important steps can be taken to minimise price pressures in the near term, the strong likelihood is that electricity and gas prices will rise strongly in the future. Energy efficiency can help to defer price rises by pushing back the date at which new and more expensive sources of supply are needed and averting transient market tightness. More productive use of energy will insulate businesses against a loss of competitiveness when prices do rise. Both aspects help to ease the achievement of state and national environmental objectives around climate change and other impacts of the energy system.

The Government is already taking steps to encourage energy efficiency and productivity, including through the Energy Savings Scheme and a range of programs providing information, guidance and assistance to energy users. The Government should consider additional steps, including **bolstering existing energy efficiency programs to allow a higher level of service and assistance in return for voluntary commitments from energy users to achieve improved levels of performance**. Ai Group research suggests that while the largest energy users are highly aware of their energy opportunities, smaller and less energy intensive businesses have substantial opportunities for improved energy use if capacity and resource barriers can be overcome.

Leasing of Electricity Networks

Electricity networks now account for the largest proportion of most energy users bills. Ai Group supports the Government's proposed long-term lease of much of its electricity network assets, which has the capacity to support substantial and necessary infrastructure investments. The most direct determinant of the cost of electricity network services to energy users is the Australian Energy Regulator's process for setting allowable revenues by these monopoly businesses. The Regulator's final determination would cut the businesses' revenue by 30% from their initial proposals, delivering substantial and badly needed savings to energy users. These reductions have been arrived at in part by benchmarking the networks against efficient operators elsewhere, including the privatised Victorian businesses, and in part by recognising a lower cost of capital. The networks have announced an appeal against the operational and cost of capital savings elements which, if successful, would add billions of dollars to energy user costs over the next five years. As sole current shareholder, **the Government should support the AER decision and so ensure savings for consumers, despite any potential impact on dividends and lease proceeds**.

Develop competitive gas markets

A focus is needed on developing competitive gas markets and improving transparency in gas supply with a view to increasing the development of the state's gas reserves. Natural gas is an important input to NSW business, both as a feedstock and as a fuel for heating and power generation. It is important for the Government to quickly establish where and how affordable gas supplies can be secured for the State's economic well-being. NSW is facing a projected shortage of gas for domestic use and for large industrial users who provide thousands of jobs. If the worst effects of the move towards an export-orientated gas market are to be avoided it is essential that artificial constraints on production are removed.

Ai Group recognizes that environmental protection, community safety and the sustainability of agriculture and related industries must be assured. Moreover, legitimate concerns about coal seam gas should be addressed. We support the need for ongoing and rigorous independent scientific investigation into the safety and sustainability of unconventional gas extraction. However, the current moratorium on the granting of new gas exploration permits in NSW is a blunt instrument that strangles production rather than encouraging responsible approaches. It is perfectly possible to unblock production barriers, while maintaining safety if pursued with sensible policy and good engineering and business practices.

Rescinding excessive restrictions and allowing access to NSW's substantial un-tapped onshore gas reserves (to alleviate an increasingly tight gas market) must be a key priority. It is also essential to establish a clear pathway and timetable for a more competitive gas market and further encourage supplies of on-shore gas through the expansion of capacity to import from Victoria and gas storage.

e-Waste Recycling

The National Television and Computer Recycling Scheme operates with industry funding to collect, manage and recycle a growing proportion of e-waste in Australia. The scheme is currently under review, with concerns raised that waste beyond the portion for which industry is responsible is not currently being managed appropriately, and that the recycling sector's stability may be at risk. Whatever the outcome of the review, **state and local governments will retain a shared responsibility to manage and recycle a portion of the waste stream. It is vital that they meet this responsibility with adequate funding and regulatory activity to support e-waste recycling.** This is particularly so given the substantial revenues that NSW derives from landfill levies.

Supporting exporters

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

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

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



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