

Australian Industry Group

Ai GROUP SUBMISSION

to the NSW Government's
2020-21 Budget

DECEMBER 2019



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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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1. Introduction

The NSW economy is continuing to benefit from the state's diverse range of industries, low interest rates, above-average population growth and strong public-sector investment. However, a weakening housing market and subdued consumer spending has seen a slowing in state growth. Having averaged 3.5% p.a. over the four years to 2018, annual growth in state demand slowed to a 0.6% p.a. pace in the September quarter 2019. Drought conditions have weighed on incomes in the agriculture sector and in the regions affected by drought.

The outlook for the NSW economy is also not without its challenges and downside risks, particularly as local household spending is likely to remain constrained due to soft consumer sentiment, slow incomes growth and relatively high household indebtedness. Also, casting a cloud over the near-term outlook is weakness in residential construction and the associated negative spill-over effects on employment and industry activity.

Moreover, the global economic backdrop remains one of sluggish sub-trend growth with few signs of any significant strengthening and further scope for volatility. This is primarily due to trade disruptions (between the USA and China and between the UK and Eurozone) and a resulting rise in uncertainty about the outlook. There are also particular concerns regarding disappointing productivity gains, high burdens of debt overhanging the advanced and emerging market economies, the impact of a prolonged period of sub-trend capital investment, the rebalancing in China, and non-economic factors such as geopolitical and political uncertainty.

On the local front, businesses continue to face tough and testing conditions, and are concerned about a range of pressures which are hindering their ability to compete in national and global markets. These pressures include high operating costs, slow productivity growth and a high burden of regulation. A growing number of businesses also have pressing concerns about the elevated price of electricity and gas and the increasing challenges to reliable supply. This is a particular challenge for the more energy-intensive industrial businesses.

In view of these issues, The Australian Industry Group (Ai Group) urges the NSW Government to use the 2020-21 Budget to address the current pressures being faced by industry and to facilitate a return to stronger incomes growth, continued gains in employment and higher living standards. This includes improving cost competitiveness and lowering business costs for NSW businesses and ensuring policy and regulatory settings in areas such as taxation are conducive to strong productivity growth.

Ai Group also emphasises the importance of innovation and investment in providing the foundation for future growth and productivity. NSW has competitive strengths and opportunities across a range of innovative, knowledge intensive and technologically advanced manufacturing sectors. This includes pharmaceuticals, scientific and medical equipment, environmental technology as well as highly processed foods, beverages and confectionary. These sectors are combining innovation, investment and exports to ensure the state is able to

compete on the global marketplace. This process must continue and accelerate in the years ahead.

While Ai group's membership is drawn from a wide range of sectors, we strongly support the Premier's vision that NSW should be "***the manufacturing capital of Australia***" and believe that this is an opportune time for a deeper engagement with the sector as evolving technology and changing global footprints open new opportunities. There is a need to improve the perception of the manufacturing industry and promote career pathways and opportunities, with the Government also providing a more supporting industry development role. This could include preparing statements that champion key industry sectors - reinforcing their strengths, opportunities and challenges and setting out initiatives that the Government is taking or considering in contributing to their future development. An annual **State of NSW Manufacturing report** could be a valuable tool to highlight the exciting opportunities and careers in manufacturing and its intersection with other sectors of economic strength such as agriculture, mining and health.

We also strongly support the NSW Government's formulation of a **NSW Economic Blueprint** identifying long-term strategies to deliver the next phase of the State's economic growth. With the support of the State Government, NSW businesses have increasingly combined innovation, investment and exports to ensure the state is able to compete in the global market place. This support must continue and accelerate in the years ahead if the state is to achieve strong and sustained economic growth.

A further 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 school arrangements. Ai Group believes that the Government must take a leading role in the development of a skilled workforce with a focus on ensuring workers are equipped to meet the challenges of a modern economy; encouraging new technology applications and; adopting a more supporting industry development role.

Equally important is the need for the Government to support the future growth of the economy by building on the progress it has already made in a number of key areas, including the delivery of high levels of infrastructure funded through operating surpluses and asset recycling strategies and important progress in helping businesses to scale-up and innovate and developing and fostering innovation precincts.

This submission sets out additional policy priorities that Ai Group believes will be critical to build on the efforts of the Government and further boost the productive capacity and long-term growth of the NSW economy, while facilitating a broad sharing of the benefits across the community.

2. Key Recommendations

Ai Group notes that economic developments in NSW remain broadly positive and that the state has maintained a solid financial position. Nonetheless, there are downside risks and significant challenges ahead. This means that the NSW Government must ensure that economic opportunities are maximized with a firm commitment to, and the timely implementation of policies to build competitiveness. With this context in mind, Ai Group's priorities for the 2020-21 NSW Budget include:

- **Provide a more supporting industry development function** through sound programs and incentives that are critical to stimulating economic growth across the State. This includes promoting innovation and raising the profile of manufacturing in the state by effectively marketing NSW's business capability; preparing statements that champion key industry sectors; continuing to support the long-term development of NSW's wide range of highly specialised and technologically advanced sectors (including defence, pharmaceuticals, scientific and medical equipment, as well as highly processed foods, beverages and confectionary); lifting the adoption of ICT enabling technologies; enhancing relationships between industry and research organisations and; building supply chain capabilities across sectors.
- The importance of **digitalisation and Industry 4.0** for industry competitiveness and growing the state's economy warrants consideration for establishing a State based program targeted to assist small and medium sized businesses in the adoption of Industry 4.0 type capability. It is also vital that NSW's regional businesses are positioned, not just to transition, but to take the lead in the new age of global manufacturing. In this regard we draw attention to the successful Victorian Government Regional Manufacturing Clusters (VRMC) and would welcome the opportunity to work with the NSW Government to further develop this type of initiative in regional NSW.
- **Drive best practice in regulatory design and implementation with a continued focus on reducing the cost burden imposed on business and the community by inefficient, outdated and anticompetitive regulations.** There should be a particular focus on achieving genuine harmonisation of state-based laws (or centralisation of laws to the Federal level) by developing and reviewing regulatory instruments in concert with other state and territory governments. We also recommend further advances in flexibility across regulatory measures which foster innovation and can give rise to significant improvements in industry performance. This includes consideration of earned autonomy in regulation for high compliance performers; negotiated rule making based on a process of consensus building (between industry and regulatory agencies) for draft regulations and; establishing government project teams which focus on identifying and reducing red tape in target sectors or industries.

- NSW should also lead efforts to reduce the burden of inconsistent and duplicative regulatory reporting regimes under a range of State and Federal Government programs by advocating for, and facilitating, a single national on-line reporting portal.
- **Build on existing NSW Government initiatives around energy supply development and demand efficiency**, including substantial further investment in industrial energy efficiency. We recommend support for deployment of mature high-efficiency technologies at scale among small and medium sized energy intensive businesses, as well as a merit based fund to support a small number of step change energy management investments by large very intensive energy users. There should also be a focus on capacity-building and market development investment ahead of the expected commencement in 2022 of the Australian Energy Market Commission's proposed Wholesale Demand Response Mechanism.
- In view of the broad success of the **NSW Energy Savings Scheme** in reducing NSW energy users' costs below business as usual, and contributing to emissions reduction, Ai Group calls on the scheme to be extended to 2030, with NSW continuing to encourage other jurisdictions to harmonise.
- Ensure a **more urgent focus on building capacity by investing in skills**. This includes investing in a digital literacy strategy and programs to future-proof the workforce against skills and job shocks arising from digital and technological transformation; creating incentives for industry to support additional work-based learning and learning integrated work opportunities; developing a state-wide, whole of government STEM skills strategy in conjunction with industry and; commencing discussions with industry and other stakeholders to progress the development of a new workplace literacy and numeracy program.
- We also call on the NSW Government to **address through COAG the declining investment in Vocational Education and Training (VET)**. In the reform of NSW's apprenticeship system key recommendations include the implementation of further measures designed to ensure apprenticeships and traineeships meet current and emerging occupational needs and strategies to facilitate greater participation by schools and industry in school-based apprenticeships and VET in schools.
- **Reduce business costs and promote long-term economic growth for the wellbeing of the local community by removing or reducing taxes and charges that hinder or discourage business growth**. This includes a commitment to genuine taxation relief and reform and ensuring that NSW businesses are not at a competitive disadvantage with their interstate competitors. Priority recommendations include pursuing the option of removing residential and commercial stamp duties by better utilising land tax as a source of revenue; undertaking to simplify tax scales and thresholds to avoid multiple rate scales which increases complexity; and undertake a review of current exemptions and

concessions that apply to taxes and remove those where administrative and compliance costs outweigh revenue foregone.

- **Utilise the NSW Government’s purchasing power to the best advantage of NSW and Australian industrial development** by ensuring that full and fair consideration is given to local tenderers and helping to facilitate local involvement in its contracts. This includes recognising the need to consider “whole-of-life” costs that takes account of through-life servicing and support which are key advantages that local suppliers offer, and which is especially needed in major projects and major technology intensive purchases. It is also incumbent on the Government to take greater responsibility in raising the core skills and competencies of public sector personnel responsible for procurement. The trend towards government outsourcing in recent decades has led to a reduction in public sector staff with the necessary skills in procurement which has adversely impacted on the standard of government procurement, including inadequacies in dealing with complex contracts. Improvements in the skills of public procurers accompanied by more time and resources directed at the outset of a project on factors such as the desired functional and performance outcomes and/or specific technical specifications can play a key role in reducing infrastructure costs.
- **In the planning of the state’s infrastructure and investment programs it is vital that funding is allocated transparently towards projects that have the potential to deliver the greatest economic and social benefits for NSW.** A key Government priority must be to facilitate the early engagement of industry and the community in shaping the future direction of investment. This will enable the early identification of opportunities, risks and issues on individual projects with proposals reflecting the needs of businesses and the people of NSW. It is also important to ensure that projects are delivered as part of a consistent pipeline of construction activity with infrastructure project delivery strongly focused on local capacity, capability, skills and supply chains.
- **Continue to invest significantly in the state’s infrastructure with the planning and delivery** of infrastructure projects underpinned by: a rational, clear and transparent process that identifies the highest-value infrastructure options; incorporates appropriate risk assessment, management and allocation; directs adequate and appropriate investment towards those options; ensures timely delivery; and ensures efficient use of the resulting assets. Less than optimal planning and delivery outcomes generate waste, compromise stakeholder benefits and puts at risk the productivity of the NSW economy.

3. The NSW Economy

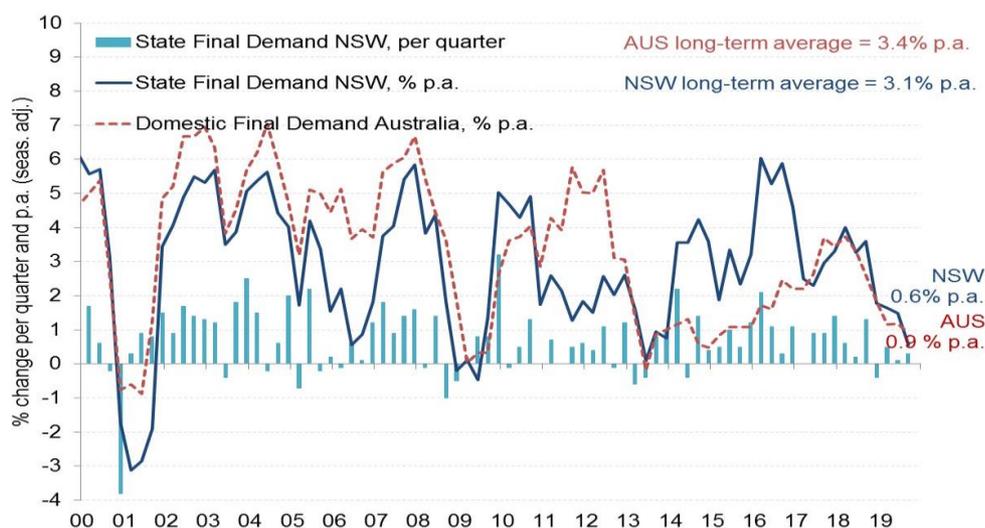
NSW's economy remains positive in 2019, although growth has lost momentum over the second half of 2018 and through 2019. Economic conditions continue to benefit from strong population growth, major infrastructure projects and government spending. NSW jobs growth is stronger than the national growth rate and stronger than NSW's recent average.

However, weakness in consumer spending will continue to cast a cloud over the near-term outlook while the downturn in residential building activity and the associated negative spill-over effects on industry activity more broadly will weigh on state final demand.

This highlights the need for the Government to be strongly focused on the long term, by embarking on reforms that build the capacity and capability of the economy; insulate the economy against external risks and shocks; and spread the benefits of growth widely across the state and across all segments of the community.

The NSW economy is continuing to expand, although growth has decelerated since early 2018. State Final Demand grew by 0.6% p.a. over the year to the September quarter 2019, a sharp slowing from 3.6% p.a. a year earlier and below the NSW long-term average of 3.1% p.a. Nevertheless, NSW's state final demand growth is also now below the national rate of growth of 0.9% p.a. for national domestic final demand (which includes only domestic expenditure).

Chart 1: NSW State final demand and national domestic final demand



Source: ABS National Accounts, Sep 2019.

Population growth is a significant driver of growth in NSW at present. NSW's estimated resident population (ERP) growth was at a relatively strong 1.4% p.a. (109,400 more people) in Q2 2019. The bulk of this growth – 85,864 – came from net overseas migration. Natural increases (births less deaths) added a further 45,557 while 22,063 were lost due to net interstate migration (high

but not exceptionally so). These ERP growth rates reflect – but also make important contributions to – growth in local economic activity, employment, incomes and housing markets.

Chart 3: State population growth (ERP)

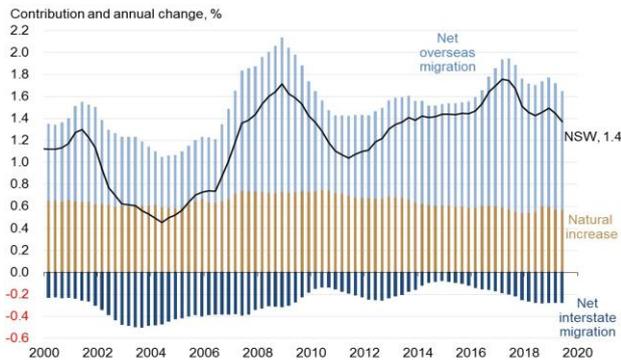
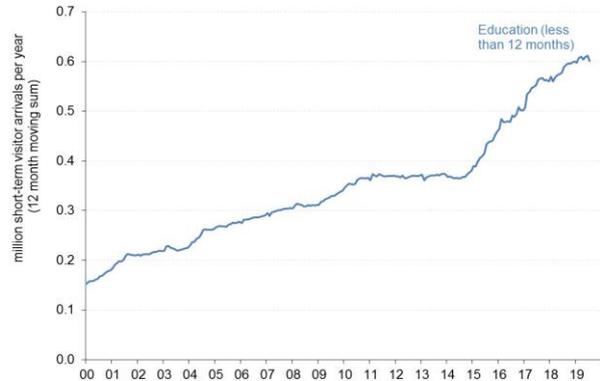


Chart 4: short-term education arrivals*



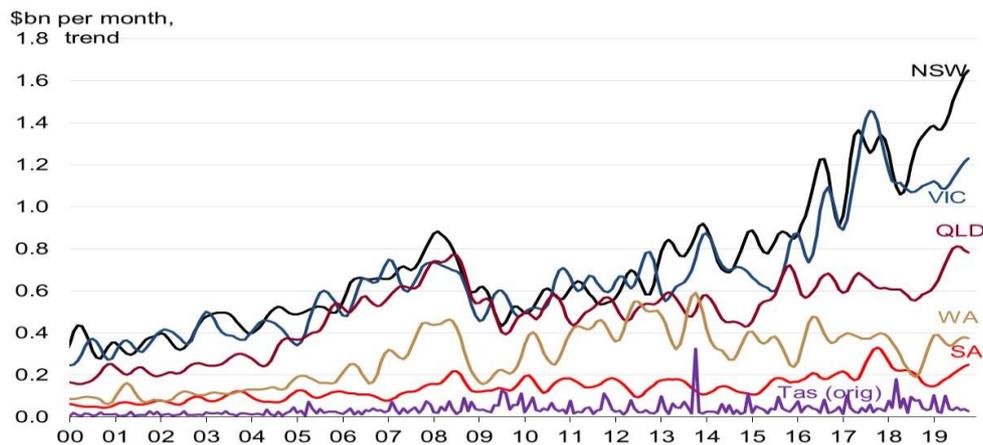
* Arrivals into Australia by non-residents for education purposes, for stays of less than 12 months.

Sources: ABS *Population Australia*, Jun 2019; ABS, *Arrivals and Departures*, July 2019.

NSW is also benefiting from strong growth in international student numbers because it is a globally recognised hub for higher education services. In the year to May 2019, 608,800 non-residents arrived in Australia for short-term visits (less than 12 months) for education purposes, up from 574,700 one year earlier. Additional international students arrived for stays of 12 months or longer and are included in state and national ERP (depending on the length and conditions of their visas). This accelerating growth in student arrivals is due to a range of factors including the lower Australian dollar and the relative attractiveness of Australia over other destinations for students.

Public infrastructure investment is another key economic growth driver. The value of work yet to be done in NSW engineering construction stood at an impressive \$20.0 billion in the June quarter 2019, including a sizeable proportion of public-backed transport infrastructure projects. Growth in engineering project activity is expected to be further boosted by investment in new pipeline infrastructure for gas supply, wind and solar projects, electrical sub-station upgrades and the construction of water treatment facilities. Major building activity in NSW is also being supported by the large amount of commercial construction work coming on stream across categories including warehouses, industrial premises, retail buildings, health facilities and sports, recreation and entertainment buildings. Non-residential approvals are strengthening and continuing to surpass all other states, by value (chart 5). Key projects include the ongoing Bangaroo development which will continue through to 2024; the \$2.2 billion Crown Sydney development at Bangaroo and the Western Sydney Airport at Badgerys Creek. Planned works are led by redevelopment of the ANZ Stadium at Olympic Park.

Chart 5: Non-residential building approvals



Source: ABS, *Building Approvals*, Oct 2019

The state's composition of growth is another key dynamic. NSW has been less affected than most other states (most notably WA) by the downswing in mining investment and commodity price cycles. This is due to the breadth of its industry base, highlighted by relative strengths in major service sectors including finance and professional services and health care and its skills and capabilities across a wide range of highly specialised, and technologically advanced manufacturing sectors. This includes pharmaceuticals, scientific and medical equipment, environmental technology as well as highly processed foods, beverages and confectionary. These sectors are combining innovation, investment and exports to ensure the state is able to compete on the global marketplace.

The NSW economy also maintains a significant research and corporate base in ICT. Over the longer term, sectors such as ICT, international education and wealth management are all considered to be areas of strong prospective growth. The state's strong relative presence in these sectors is likely to provide a solid base for NSW economic growth in the next decade and beyond.

NSW labour market conditions have remained strongly positive over the past year. In the year to October 2019, employment expanded by 2.3%, an increase of 92,700 (trend), following the creation of 113,200 new jobs in the year to October 2018. Moreover, the NSW trend unemployment rate as at October 2019 stood at 4.7%. This is lower than all states and below the national unemployment rate of 5.3%. The jobs upturn in NSW reflects the strength of government expenditure (including transport infrastructure investment) with solid jobs growth in the year to May 2019 in the healthcare (+54,800), public administration (+26,600) and transport services (+25,000) sectors. The hospitality sector (+59,300) also added jobs at a brisk pace, assisted by the relatively low value of the Australian dollar. In contrast, job losses were the most pronounced in manufacturing (-52,100), construction (-17,300) and real estate services (-16,500).

Table 1: Employment, unemployment and participation rates by state, October 2019

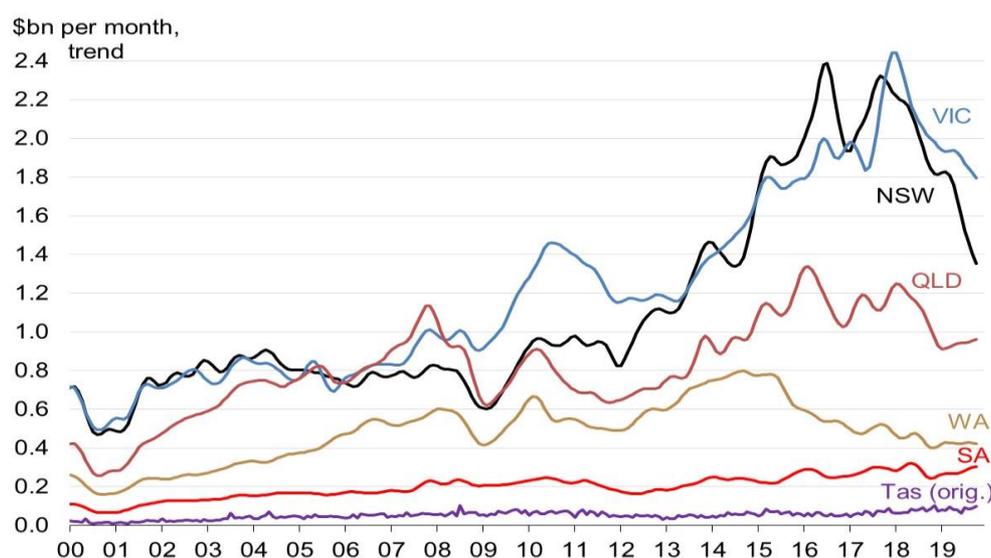
trend	Employment growth			Part time workers %	Unemployment rate %	Underemployment rate % (orig.)	Participation rate %
	'000 m/m	'000 y/y	% p.a.				
NSW	-0.1	92.7	2.3	30.3	4.7	8.0	65.7
VIC	7.3	97.5	2.9	32.7	4.8	8.3	66.3
Qld	3.4	52.6	2.1	31.2	6.5	8.7	66.1
SA	-1.0	6.9	0.8	35.3	6.3	9.8	62.9
WA	1.7	17.5	1.3	32.4	5.7	9.8	68.4
Tas	0.8	1.9	0.8	38.3	6.1	11.1	60.4
NT	0.1	-3.4	-2.5	23.1	5.9	6.3	73.9
ACT	0.4	7.7	3.4	29.2	3.3	5.5	71.2
Aust	12.3	268.5	2.1	31.7	5.3	8.5	66.1

Source: ABS, *Labour force Australia*, Oct 2019

That said, there continue to be risks for the NSW economy, particularly due to the headwinds from the weakness in residential construction and the challenges around low wages growth and subdued consumer spending which will weigh on the state’s economic outlook.

Residential building activity peaked in mid-2018 and is now turning lower following six years of expansion. In the June quarter 2019, the real value of new residential building work done in NSW fell by 7.8% (seasonally adjusted) to be 20.2% below its peak in the September quarter 2018. In addition, residential building approvals continue to trend lower, indicating further downside to dwelling investment and another challenging year for the NSW housing construction industry – and its considerable local supply chain – in 2019-20.

Chart 6: Residential building approvals



Source: ABS, *Building Approvals*, October 2019

As with the rest of Australia, consumer spending is constraining growth. Real household consumption expenditure expanded at an annual pace of 0.8% (seasonally adjusted) in the year

to Q3 2019. This was down from 2.7% growth a year earlier and represented the slowest annual rate of growth in close to 10 years. Consumer spending is expected to remain subdued in the year ahead, in line with softer conditions in the housing market. Weak income growth is also placing limits on a pick-up in retail sales. Annual growth in nominal retail sales stood at 1.5% (seasonally adjusted) over the year to October 2019, down from a 2.2% annual pace a year earlier.

Private business investment in NSW has held at relatively solid levels reflecting continued growth in engineering construction and non-residential building work. However, plant and equipment investment is showing notable weakness. In Q3 2019 private sector investment on plant, machinery and equipment fell by 14.2% p.a. (seasonally adjusted), compared with a rise of 11.3% p.a. a year earlier. Weak household demand and a slow Australian economy could weigh on confidence and further undermine future investment in plant and equipment.

Moreover, a heightened risk profile locally and globally (see below), suggest that the starting point for the NSW economy in 2020-21 is weaker than previously expected - particularly as the short-term outlook for the housing activity remains subdued. This was reflected in the NSW Budget 2020-21 Half-Yearly Review which saw a downgrading in the state's economic growth forecasts for 2019-20 and 2020-21. Real NSW Gross State Product (GSP) is expected to expand at a rate of 2.0% p.a. in 2019-20 and 2.25% p.a. in 2020-21 – down by 0.5 and 0.25 percentage points respectively on forecasts in the 2019-20 State Budget.

This moderation in the outlook is also apparent in business leaders' expectations. The Australian Industry Group's 2019 CEO Survey of Business Prospects for 2019 found that fewer CEOs (compared to one year earlier), are expecting an improvement in general business conditions in 2019 and more are expecting a deterioration in conditions. Fewer businesses are expecting growth in turnover, employment, profit margins and in most types of investment in 2019.

Indeed, many local businesses continue to face tough and testing conditions and are concerned about a range of pressures which are hindering their ability to compete in national and global markets. These pressures include slow productivity growth, a high burden of regulation, and inadequate skills, especially STEM skills to support innovation and competitiveness.

A large number of industrial and commercial businesses also have urgent concerns about the steeply rising price of electricity and gas and the increasing challenges to reliable supply. This has caused a serious and sustained squeeze on manufacturers' margins and cash flow, reducing the funding they can direct into other inputs or into investment.

Added to this are the range of key risks and challenges facing the NSW economy, including:

- continued trade tensions between the United States and China which may lead China to respond to an increasing current account deficit by curtailing outbound tourism and

international education, which would temper the outlook for NSW services export growth;

- a cautious mood among households (stemming from slow wages growth, high household debt and falling house prices) means that a key uncertainty in the local economy for 2019 is the outlook for discretionary household spending;
- weakness in residential construction activity and the negative spill-over effects on other industries;
- a smaller than expected response by households to lower interest rate expectations;
- drought conditions and its drag on output growth;
- access to funding for operational and/or investment purposes;
- Australian dollar volatility and/or foreign investor volatility and;
- access to new technologies and regulatory barriers to new technologies;

In view of these circumstances, the challenge for the NSW Government will be to use the 2020-21 State Budget to address the short-term difficulties faced by many local businesses. At the same time the Government must ensure a focus on delivering the reforms that will build the capacity and capability of the economy to ensure we make the most of the opportunities that lie ahead.

4. Innovation and Economic Development

Strong economic growth necessitates that the Government continues to support industry, innovation and economic development. This requires an on-going commitment to programs that are critical for stimulating economic growth.

Ai Group acknowledges and appreciates industry support measures introduced by the NSW Government in recent years including: R&D and innovative funding programs (Tech Vouchers, Minimum Viable Product, Collaborative Solutions), the Youth Employment program, Business Connect, Knowledge Hubs, Export Capability Building, Resources for Regions and the Sydney School of Entrepreneurship.

We call upon the state Government to continue to support industry, innovation and economic development by building on the existing range of government innovation programs and ensuring that the state's innovation ecosystem functions effectively. This includes further raising the profile of innovation and extending efforts to build collaborative links between researchers and industry. Importantly, the government needs to ensure that opportunities for collaboration are open and accessible to all sizes of businesses from all sectors with an emphasis placed on the generation of commercial outcomes.

There are also potential synergies between the Government's ICT strategy; the Sydney technology and innovation precinct and other major precincts planned to be established across NSW; and the delivery the various smart cities initiatives in NSW. A coordinated approach to these various activities will increase the potential benefits derived.

We also highlight the opportunities for further significant benefits through the following initiatives:

- 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.
- Providing support for **cluster initiative programs** that would direct financial and other assistance to individual cluster initiatives. The collaboration of related or complimentary businesses in the same areas can lead to a range of benefits such as access to a larger pool of skilled labour, improved supply chains, knowledge sharing in key areas such as

best practice and innovation, and opportunities for businesses to collaborate as a supply chain of products and services. It also assists in allowing businesses to jointly bid on projects and improve the competitiveness of the local manufacturers against large overseas businesses that can offer a “one-shop” solution and greater capacity to deliver on major projects. Cluster initiatives can also be aimed at encouraging suppliers able to jointly pitch creative ideas to solve Government challenges. Despite these benefits, evidence suggests that there remains a significant proportion of businesses who are not involved in clusters. Increasing cluster activity would therefore have a direct impact on NSW’s competitive standing both nationally and internationally. We also note that:

The selection of clusters should be based on the potential for achieving high growth, irrespective of industry sector or the export capability of participants;

While significant spin-offs from clusters can occur between firms located within close geographic boundaries, a close proximity between firms is not always a necessary precursor to success. Rapid advances in ICT have made physical location less important, with “virtual manufacturing” for instance delivering opportunities for intensive and successful cluster activity; and

Ai Groups experience with industry clusters highlights that management of the cluster must be led by business (rather than external “cluster facilitators”), thereby maintaining a strong focus on business outcomes such as profitability and efficiency.

- **Tailored regional assistance to regional SME’s** to alleviate critical issues restricting their growth. With Industry 4.0 upon us, and with the rise of digitisation, it is vital that NSW’s regional businesses are positioned, not just to transition, but to take the lead in the new age of global manufacturing. Major issues constraining regional NSW businesses include:
 - Ad hoc approaches to innovation and high failure rates of attempts to innovate and bring new or improved products to market;
 - Little, if any, understanding of issues related to IP;
 - Poor productivity and lower than possible profitability from current sales due to inefficient production processes;
 - Low volume manufacture resulting in high pricing due to a focus on domestic markets only and a limited knowledge / capability on how to expand and create market share internationally; and
 - Skills shortages in two business parameters in particular; production - trades people and Business Administration - HR and WHS compliance processes and systems.

The Victorian Regional Manufacturing Clusters (VRMC) is an important initiative that is proving to be highly successful in addressing these issues and we strongly recommend

that consideration be given to its implementation in NSW. The VRMC is a Victorian Government initiative delivered by Ai Group, to support regional manufacturers to invest in innovation, develop capability and grow. It is run across two programs, the Collaborative Business Improvement Program (CBC) and the Innovation Culture (IC) Program. The CBC is a 2-year tailored program to drive continuous improvement and solve some of your most pressing barriers to growth. The focus is on tangible actions, peer learning, collaboration and quantifiable outcomes. The IC program is tailored to foster and nurture innovative, organisation wide business culture that values and embraces innovation from all employees and harnesses the untapped ability of employees to bring improvement across the whole of the business through workshops, coaching and peer-learning sessions. The focus is on tangible actions, peer learning, collaboration and quantifiable outcomes.

Ai Group has built a strong track record in supporting industry innovation and business improvement and would welcome the opportunity to work with the NSW Government to further develop this type of initiative in NSW.

- Assisting SME's to develop **design led innovation capabilities** has the strong potential to increase the speed of innovation along with lifting competitiveness within the small business sector. SMEs can face difficulties in acquiring the skills and capabilities to assist them with identifying niche opportunities, developing ways to exploit them and become more innovative. It would also assist in driving upgrades in technical, design, cost and quality capabilities to meet customers' supply needs.
- Initiate **payroll-tax holidays for start-ups and new businesses**, as well as regionally-based incentives to support growth in designated areas, such as tax holidays, or assistance and incentives to set up new businesses. This could include exploring new lower cost industry approaches to regulation in special economic zones or regions that require a development boost. Badgerys Creek is an emerging area of strategic significance to the NSW economy that could be targeted for this purpose.
- **Rebalance 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.
- **Support in the adoption of Industry 4.0 type capability:** business use of and investment in digital and associated technologies is 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 in helping businesses develop a path for transitioning to and within the Fourth Industrial Revolution (or the adoption Industry 4.0 type capability) to exploit the benefits of digital technologies and better integrated supply chains based on stronger data flows. Specifically, this could take the form of a State based program targeted to assist small and medium sized businesses in the adoption of Industry 4.0 type capability. Funding could be directed to companies on a dollar for dollar basis up to a maximum \$50,000. Other recommended measures include education/demonstration programs and the development of toolkits that help in the uptake of digital and smart manufacturing systems.

- **Cyber security risk management:** As industry becomes more digitalized and connected through the internet, businesses will become more exposed to cyber security risks. Businesses will need to stay informed, learn from the lessons of their peers and take appropriate steps to manage these risks. It is critical that there is better collaboration between government and businesses to tackle cyber security in a safe environment where businesses can share threat information without being punished. Collaboration also helps build innovative businesses. The Government also has a role as a skills enabler through education and training in cyber security.

We also recommend that the NSW Government adopt the Queensland Government's approach of drawing on industry expertise to better inform decision making and guide policy directions. The Queensland Government's Industry and Manufacturing Advisory Group (IMAG) operates to help position Queensland manufacturing businesses to maximise domestic and international opportunities with a focus on changing demand and emerging opportunities; productivity and competitiveness; innovation and technology; and local content, business costs and regulation. The Minister for State Development chairs the group, which includes business leaders, union representatives and a peak industry body representative.

5. Reforms to Regulatory Compliance

The NSW State Government must take priority action to reduce the cost of regulation and compliance on businesses. While sound regulation has a strong role to play in protecting the community and environment and underpinning economic activity, 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.

Principal concerns of Ai Group members centre on the impediments to doing business and the additional cost burden imposed by inefficient, outdated and anticompetitive regulations. There are also widespread concerns with respect to the complexity of regulation, time delays, lack of information, over-regulation and the approaches of regulators not closely engaged in the experiences of those that they regulate, all factors which can raise costs, inhibit activity and diminish the efficacy of regulation.

Many regulations do not clearly state the underlying reason for the regulation, or what the resultant benefits are to be. Additionally, there is not a lot of evidence that there is adequate evaluation of whether the benefits are being realised, or that they outweigh the costs. To achieve improved regulatory outcomes for business and the community we must invest in gaining a better understanding of the markets being regulated. One recommended approach is the development of an effective research and market sensing mechanism to facilitate real time feedback on how Government policy is working on the ground. This would be particularly beneficial in areas including skills, environment, safety and workplace health and procurement;

Further reforms in regulatory compliance could provide significant spin-offs in improving business efficiency and productivity at a relatively low cost to the State Government.

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.

The State Government should also consider the implementation of the following initiatives:

- **Further advance flexibility across regulatory measures** which foster innovation and can give rise to significant improvements in industry performance. This includes consideration of **earned autonomy in regulation** for high compliance performers; negotiated rule making based on a process of consensus building (between industry and

regulatory agencies) for draft regulations and; establishing government project teams which focus on identifying and reducing red tape in target sectors or industries;

- That the Government provide support, especially to small and medium-sized enterprises, to enable the development of **innovative and effective compliance plans** (outlining the system by which the business will ensure compliance) and thus the achievement of enhanced industry performance. This support to include guidebooks, blueprints or models, and grants and incentives to enable access to external technical resources;
- Drive **best practice in regulatory design and implementation** and reduce the considerable cost burden imposed on business and the community by inefficient, outdated and anticompetitive regulations;
- 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;
- **Develop and review regulatory instruments in concert with other state and territory governments** to achieve genuine harmonisation of state-based laws (or centralisation of laws to the Federal level) particularly where businesses regulated operate or are managed across state borders;
- **Lead efforts to reduce the burden of inconsistent and duplicative reporting**, particularly by advocating for, and facilitating, a single national online reporting portal;
- **Encourage greater consistency amongst local government regulatory processes** to reduce compliance costs for businesses, particularly in the areas of planning and approvals;
- **Establish an on-line platform that details all local government regulatory instruments, procedures and costs.** This would provide industry and regulators with a highly visible comparison of the cost of doing business across local government jurisdictions; and
- **Provide businesses with the option of paying taxes, premiums and charges on an instalment basis where practicable.**

5.1 Greater Consistency in Regulatory Processes at the Local Government Level

There is also a strong case for encouraging greater consistency amongst local government regulatory processes to reduce compliance costs for businesses, particularly in the areas of planning and approvals. To progress reforms at the local government level, we would recommend regulatory instruments are developed and reviewed in concert with other state councils in order to achieve uniformity in approach across Australia. This could be achieved through state-based regulation review units (or equivalent) working with local councils to develop common guidelines, performance criteria or blueprints for business regulation.

We further recommend the establishment of an on-line platform that details all local government regulatory instruments, procedures and costs. This would provide industry and regulators with a highly visible comparison of the cost of doing business across local government jurisdictions.

5.2 Standards and Regulation

Ai Group welcomes the action by the Building Ministers Forum on actions to implement the Shergold and Weir report “Building Confidence”. This report comprehensively addresses the issue of non-complying product, i.e. product installed that is not in accordance with the National Construction Code but falls short on the issue of non-conforming product. Ai Group holds concerns that policy makers are overlooking the seriousness of a situation whereby non-conforming product continues to be found in building and construction supply chains. This is potentially eroding the longevity of Australia’s built infrastructure. We urge the NSW Government to place a priority on addressing this issue or risk unscrupulous operators continuing to take advantage of this point of weakness in our regulatory frameworks. We also encourage a continued monitoring of the impact of Queensland legislation that places obligations for conformance on the entire supply chain, to assess the cost of implementation and benefits.

Other key recommendations include:

- Ensuring that codes and standards are up to date and their use encouraged across the supply chain;
- Strong ongoing regulatory oversight of the building and construction industry, including licence withdrawal and/or fines and prosecution of those industry participants who fail to comply with codes and standards and;
- Effective information and education of industry as to the appropriate use of products and conformance/compliance responsibilities.

6. Taxation Reform

Ai Group believes that the NSW Government should be committed to delivering genuine tax reform. Taxation reform is one of the vital steps needed to reposition the economy and lift competitiveness in the face of increasing pressure from globalisation, technological change and demographic forces.

For this reason, **Ai Group strongly support the NSW Government's decision to take a leading role in the campaign for genuine and comprehensive tax reform by conducting a review into the Federal financial relations system** that will examine the interaction between Federal and state taxes. Until the in-balance that exists between the revenue raising capacity of the states and their spending responsibilities is addressed, the scope for reform of the most inefficient state taxes (including payroll tax, stamp duties and the selective tax on insurance premiums) will be limited.

The reform agenda should not be constrained by a need to ensure revenue neutrality, as some short- term costs that are likely to arise in delivering tax reform, will be recovered over the longer term by a more efficient tax system.

A well-thought out taxation reform package will improve growth and therefore government revenues by increasing incentives and reducing the detrimental impact to activity from compliance and administration burdens, and harmful taxes with high deadweight losses. We therefore urge the Government to place a priority on the following broad principles when shaping its policy on taxes and charges:

- **achieve efficient administration of the tax system** so that the costs of managing and complying with any given tax are not excessive relative to the revenue raised;
- **maintain certainty** so that the taxation system is easily understood and that businesses can clearly determine or anticipate how taxes are paid, and the amount of tax liability;
- **Reduce or remove taxes and charges** that are most harmful to businesses growth and employment creation and that most distort or reduce economic activity. This includes minor “nuisance” taxes that are narrowly based and inefficient;
- **simplify tax scales and thresholds** and avoiding multiple rate scales which distort activity due to resources not being directed towards their best use, and increases complexity which places a major drain on time and finances of all businesses;
- **ensure appropriate indexation of the various tax rates and thresholds** to avoid bracket creep and;

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- **ensure that taxes raised are commensurate with the revenue required** to support fiscally responsible Government expenditure.

State Governments can also perform a vital task in addressing Australia's system of inefficient state taxes (despite the issues of Commonwealth-State financial arrangements) by collectively working towards real and meaningful harmonisation of taxes, fees and levies on business (such as stamp duties, land tax and motor vehicle duty). Achieving greater administrative and legislative alignment This is critical to minimising the complexity and reducing the compliance costs for businesses operating across multiple jurisdictions. It would also encourage the adoption of the best aspects of tax legislation in different jurisdictions which would further drive reductions in administrative costs for businesses.

State Governments should also undertake a review of current exemptions and concessions that apply to taxes and remove those where administrative and compliance costs outweigh revenue foregone. This will further act to reduce compliance costs imposed on businesses and the economic distortions that are created.

Regular and effective monitoring of the compliance costs borne by businesses is a further priority to clearly identify cost impacts and the priority areas of reform.

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

Additionally, we would recommend that land tax rates be lowered, recognising that a broader land tax base would collect proportionally more tax on more highly valued land holdings.

A broadening of the land tax base would provide the Government with more scope to take further action to abolish or at least reduce the inefficient "nuisance taxes" that are a large source of direct state revenue. This includes motor vehicle and insurance stamp duties and other levies and licence fees.

7. Climate, Environment and Energy

NSW industry and the broader community face multiple serious and interrelated challenges on climate, energy and the environment:

- NSW's commitment to net zero emissions by 2050 signals a major long-term transformation of the economy; electricity generation is an important part of this, but the implications extend much further.
- Energy prices are very high and reliability under increased pressure in the wake of retiring old assets, constrained or unreliable current assets, and fuel price pressures on gas- and some coal-fired generators. More retirements are coming and the cheapest new sources of electricity are variable renewables, making energy efficiency and demand response critical items on the menu of flexible resources to manage a changing energy system.
- There is a clear public desire and political will to reduce waste and manage it better. But while more material recovery is achievable, we have not grasped the challenge of building and sustaining markets to absorb these materials, rather than using virgin inputs.

Resolving all these challenges will require steps by the NSW Government, the Commonwealth and other States, industry and the wider community. There will be Budget implications, though many will extend beyond the scope of the 2020-21 Budget process. The following steps would be helpful.

7.1 Climate

Over the coming year the State will develop interim targets towards the long term goal of net zero emissions by 2050. This process will be the best context for major new implementing policy development. However, we would flag that significant public resources may be required, given the step up in long term ambition and the fact that climate solutions are currently often less mature outside the electricity generation sector. Current funding under the State's Climate Change Fund is heavily weighted towards climate impact management and adaptation; these are very important, but increased mitigation ambition will need further resources.

7.2 Energy

In addition to the many positive existing NSW initiatives around energy supply development and demand efficiency, the Government should consider further steps. The expected closure of the Liddell Power Station in 2023 will increase pressures on the electricity system, as will likely further closures in coming years. These pressures are manageable with preparation, and solutions will be more cost effective if they include a substantial demand side focus.

That should involve a substantial further investment in industrial energy efficiency over 2020-23, with support for deployment of mature high-efficiency technologies at scale among small and medium sized energy intensive businesses, as well as a merit based fund to support a small number of step change energy management investments with large very intensive energy users. It should also involve capacity-building and market development investment ahead of the expected commencement in 2022 of the Australian Energy Market Commission's proposed Wholesale Demand Response Mechanism. The AEMC market will be able to provide much more capacity to meet NSW's post-Liddell needs with prior investment in building demand response skills and readiness among industrial energy users, and potentially procuring demand response ahead of 2022. Finally, the Energy Savings Scheme has been broadly successful in reducing NSW energy users' costs below business as usual, and has also contributed to emissions reduction. The scheme should be extended to 2030, and NSW should continue encouraging other jurisdictions to harmonise.

7.3 Environment

The Premier and other First Ministers recently agreed at COAG that the export of waste plastics, paper, tyres and glass should be banned, with a timetable and supporting policies to be developed. Environment Ministers were already developing ambitious targets for increased waste recovery and the development of a circular economy. And the ban by many other countries of imports of Australia's waste has roiled our waste management systems. Action is clearly needed. However, to date government are much less advanced in considering how targets will actually be achieved.

It currently looks likely that the State will be expected to develop and resource its own resource recovery implementation plan if the National Waste Policy Action Plan is agreed later in 2019. Building a circular economy will require considerable innovation over time to deliver more pathways for using wastes as feedstock and to reduce the costs of doing so. This innovation should be encouraged and supported by State funding and procurement that encourages the development of new capabilities and products. However, over the medium term it is also likely that increasing material recovery by limiting exports and avoiding landfill will involve increased costs for someone – the prices of virgin materials are often significantly lower than recovered materials.

NSW needs to be ready to address this gap if it wants to sustain greater recovery. This may involve supporting resource recovery facilities or the downstream manufacturers and other businesses who may use recovered materials. Alternatives – including putting costs on upstream product suppliers or downstream manufacturers – may have significant competitive impacts and should not be treated as cost-free solutions. Close consultation with the full range of waste stakeholders will be needed in developing any response.

8. Infrastructure

The NSW Government continues to play a critical role in the planning and facilitation of the state's infrastructure network. This role is particularly important in resolving the State's infrastructure constraints and improving the productivity and competitiveness of the state economy.

The NSW 2019-20 Budget highlighted the NSW Government's significant investment in infrastructure with its provision for a record capital spend of \$93 billion over the four years to 2022-23 with infrastructure expenditure spread across hospitals, schools, water supply social housing, rail and roads.

While Ai Group strongly supports this investment, it is important that the Government is committed to ensuring that its infrastructure planning is underpinned by: a rational, clear and transparent process that identifies the highest-value infrastructure options; incorporates appropriate risk assessment, management and allocation; directs adequate and appropriate investment towards those options; ensures timely delivery; and ensures efficient use of the resulting assets. Less than optimal planning and delivery outcomes generate waste, compromise stakeholder benefits and puts at risk the productivity of the NSW economy.

8.1 Planning and execution of infrastructure investment

In the planning and execution of the state's infrastructure and investment programs, the Government should:

- **Provide certainty to industry to assist project proponents** with their investment decisions. This is best achieved through the provision of high-quality infrastructure projects delivered as part of a consistent pipeline of construction activity. A consistent delivery methodology helps to increase opportunities for local supporting businesses, creates long term employment opportunities and supports business and consumer confidence in the wide range of business and related activities generated by infrastructure projects. 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.
- **Adopt best practice scoping practices at the outset of a project as a means of avoiding major pressure points** that can occur throughout the entire project cycle due to cost overruns, delayed completion and disputes. More time and resources should be directed at the outset of a project on factors such as the desired functional and performance outcomes and/or specific technical specifications as a means of avoiding major pressure points that can occur throughout the entire project cycle due to cost overruns, delayed completion and disputes.

- Provide **early alerts to industry** on the level of priority attached to major infrastructure projects and the anticipated funding arrangements.
- **Adopt a consistent approach in the development and management of infrastructure proposals** across the government sector. This enables business to efficiently deploy both capital and resources with confidence as to the Government's expectations and within a regime of rational commercial terms and risk profiles that attach to each project.
- **Base project selection on a rigorous and transparent cost-benefit analysis approach** to ensure government expenditure is directed to those projects that deliver the greatest benefit and the best possible use of taxpayer funds. A clear and transparent process also helps to foster public support for infrastructure projects and avoid costly delays in construction. It also creates confidence among investors ensuring that lower-cost financing and a deep pool of investment funds exists for future projects.
- At the pre-tender or expressions of interest stage, ensure the **engagement of the private sector** to allow for the early identification of opportunities, risks and issues on individual projects. This enables businesses to more effectively understand projects, assess the likely cost of tendering and their chances of being a successful tenderer and develop any appropriate collaborative arrangements that may be needed to service the needs of a project or client.
- Before the contract is executed, minimise contractual risks for the Government and industry by **ensuring approvals processes are more certain, and the conditions streamlined.**
- **Instigate further development of structured public-private partnership policies** that can lower the risks faced by private investors thus attracting more private sector investments while reducing upfront costs to the public.

8.2 Public sector project delivery

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

- **Work in partnership with the private sector in developing and implementing best practice principles within the Government's infrastructure delivery responsibilities.** This is an obligation that will be central to private sector commitment to, and investment in, NSW infrastructure projects for the longer term.
- **Smoothing investment cycles** as a means of avoiding a surplus of projects entering the market at any given time. This acts to minimise infrastructure or capacity constraints and enables major projects to be funded and developed in a timely manner. A more even

spread of projects can also assist in maximizing the benefits of increased investment and employment generation during periods when it is most needed.

- **Promote private sector confidence in the provision of new infrastructure**, by ensuring that procurement teams are comprised of experienced and appropriately skilled project development and delivery personnel. This includes taking steps to increase core skills and competence in project delivery.
- **Ensure clear and consistent application of land use and development policies** with industry regularly informed on the status of its policies and strategies will also help in providing industry with the certainty necessary to support its investment decisions, improve the progress of project delivery and give credibility to long-term plans.

8.3 Regional priorities

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

The NSW Government must concentrate efforts on sensible investment prioritization for all regions. This has a range of benefits including improving the region's liveability and the region's and state's future economic capacity. In support of the regions, it will be important for the Government to:

- Achieve higher level of regional industry consultation to improve the prioritization and delivery of infrastructure, and ensure Government funds are directed to those projects which will deliver the greatest benefit;
- Prioritise major investment in the transport network linking the regions with Sydney and interstate destinations;
- Continue to progress the Draft Greater Newcastle Metropolitan Plan with priority consideration given to the inclusion of a light rail line from the Newcastle City Centre to the Airport with eventual extension to Port Stephens. Also, prioritise light rail connections to Heatherbrae and Tomago given the limitations of the Port Stephens Road which operates as the only access road to the airport; and
- Continue the state-wide rollout of the Infrastructure Skills Legacy program (that sets minimum targets for the number of apprentices, women and indigenous workers employed by businesses that secure contracts for government infrastructure work) and adopt policy initiatives place to ensure that apprenticeships are made available to those in areas of high unemployment, young women and indigenous youth.

9. Using Procurement to Build Local Capability and Capacity

Ai Group welcomes the NSW Government's commitment to a procurement policy that seeks to build local capability and capacity, especially in regional areas. This gives recognition to the wider value for the NSW economy of purchasing locally, such as on-going jobs creation, reducing unemployment and increasing opportunities for skills development.

We are also strongly supportive of initiatives under the Government's revised **SME and Regional Procurement Policy** to increase the participation of SMEs and regional businesses in government procurement of goods and services. Improving the capability of SMEs and regional businesses by providing procurement advisory services and workshops is a particularly important initiative in helping small businesses to be better equipped to meet the needs of government.

In supporting small business and local industry, we believe that there needs to be **thorough and well documented feedback at every stage of the procurement process** so unsuccessful businesses can keep building their knowledge and capability to be "government ready". The size of government contracts often requires a large corporation or a consortium of corporations to handle the scale of work. In this regard, there needs to be better mechanisms for small business to access "clustering" that might allow them to be a genuine player in accessing government work.

On some contracts there may be capacity for an **interim tender process** that allows small businesses to establish their credentials. Once they are considered a genuine contender for the work, they could be supported with coaching or grants to give these businesses the capacity to do a full tender for the work.

Industry groups could be better used to help communicate the availability of government work and inform members of any opportunity to form clusters to tender for larger work programs. This needs to be done with sufficient notice for businesses to do the necessary research.

Greater consistency is also required in relation to conformity with Australian standards to ensure preferential treatment of offshore suppliers is not effectively provided by differential tests of such conformity. Ai Group also urges the **NSW Government to collaborate with other States to formulate local procurement policies** that could bring mutual benefits to more Australian manufacturers, such as assisting a manufacturer to broaden its customer base across States.

It is also critical that procurement processes ensure that local suppliers have full and fair access to supply opportunities under direct government contracts and with prime contractors for major projects. In this respect, the Government should **make greater use of the Industry**

Capability Network in facilitating linkages between Government-funded procurement and local suppliers.

A major distortion that frustrates and impedes the full and fair participation of Australian suppliers is 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.

From a purely budgetary perspective, the NSW Government must be careful to avoid short-term fiscal savings that might increase its long-term costs or reduce its long-term revenue sources. Savings measures that simply postpone expenditure from one year to another (for example, by making a saving on an initial purchase price at the expense of higher future replacement, or maintenance costs) are largely illusory. In many cases, discounted current spending simply means higher costs at a later date and an adverse long-term budgetary impact.

The value for money principle in Government procurement, therefore, 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.

This needs to be supplemented by an effective educational campaign to ensure that government purchasing officers and decision makers understand how to take into account “whole of life costing” in their evaluation of tenders and are fully aware of Australian industry capabilities.

There are also a range of measures that Ai Group recommends for improving processes around major infrastructure projects. These include:

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

- **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; and
- **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.

9.1 Market-led Unsolicited Proposals

Ai Group supports the NSW Government's market-led unsolicited bid process as a means of maximising the development of new assets and encouraging industry to submit innovative solutions to meet NSW infrastructure and service needs. However, we believe that there are opportunities to enhance the engagement of industry in the market-led unsolicited bid process. This could take the form of clearer rules of engagement such as ensuring that proponents have a more precise understanding of the relative importance attached to each of the assessment criteria, including knowing exactly how "value for money" is defined and interpreted and how innovation is assessed and measured in the uniqueness test criteria.

We would also recommend that there be a tightening of the guidelines relating to the protection of confidentiality and intellectual property rights. Where the Government decides not to proceed with a proposal, and wishes to use the intellectual property, there should be provisions allowing for appropriate payments to be considered. The Government should not use MLP's to obtain effectively free information from industry acting in a consulting engineering capacity. The proponent must be reimbursed for information provided at any stage of the assessment process if it forms the basis of a Government agency's subsequent request for tender.

On the basis that the "uniqueness" test is the major barrier to the progress of market-led proposals in NSW, we also believe that there is strong justification for amending the guidelines in line with the revised Queensland Government framework where the "uniqueness" test has been replaced with a 'justification for direct negotiation'. This places greater emphasis on proponents making a case as to why government should directly negotiate with them rather than engage in a competitive process.

10. Skills, Education and Training Policies

1.1 Strategy to meet workforce skill needs

Automation is disrupting the skills that education and training systems strive to supply. It is leading to reallocations of employment between roles, tasks, sectors and regions. Changes to skill requirements in industry are occurring at all levels of the workforce.

Labour demand is shifting towards higher level and more cognitive skills for which many workers are not adequately trained. It is demanding, as a threshold requirement, that all workers have mastered enduring concepts of digital literacy to be enabled to adjust to new ICT.¹ More advanced digital workers need to evaluate, configure and use complex digital systems and yet more advanced skills are needed to build digital technologies.² Enterprise skills (such as advanced reasoning, design thinking and social interaction) need to be coupled with technical skills to build a broader set of capabilities for application in different environments.

Ai Group's 2018 workforce development needs survey asked employers about the priorities in their workforce for digital technology training and development, and changes anticipated or caused by its rollout.³ Managers are the largest priority (33 per cent), followed by technicians and trades workers and administration staff (both 18 per cent). Professionals were rated next at 16 per cent.

Deloitte Access Economics estimates that Australia will need an additional 100,000 technology workers to meet employer demand by 2024.⁴ Its research forecasts an average annual growth of 3 per cent in ICT management and operations and 2.6 per cent for ICT technical and professional occupations between 2018 and 2024. The Deloitte report⁵ highlights the need for digital reskilling bringing together existing specialist technical knowledge with new digital skills through a codesign and delivery model between education providers and industry.

While the share of high skill work increases, the share of low-skilled work is decreasing.⁶ However low skilled workers will still be required as the digital economy evolves. It is encouraging that the updated Foundation Skills (FSK) Training Package has recognised digital literacy skills as a baseline skill alongside literacy and numeracy.

The major workforce skill changes outlined are in large part responsible for current skills shortages and gaps. The unprecedented pipeline of government investment across transport and social infrastructure will place significant pressure on government and industry to respond and creates the opportunity for a skills legacy. To be able to successfully deliver on the current pipeline, a new and more focussed approach to skill development is required. Ai Group's Chief

¹ Deloitte Access Economics (2019), *ACS Australia's Digital Pulse*

² Digital Skills for Tomorrow's World, UK Digital Skills Taskforce, 2014

³ Ai Group (2018), *Skilling: A National Imperative*, Workforce Development Needs: Survey Report 2018

⁴ Deloitte Access Economics (2019), *ACS Australia's Digital Pulse*

⁵ *ibid*

⁶ Committee for Economic Development of Australia, *Australia's future workforce*, 2015

Executive recently wrote to COAG leaders expressing industry's support for reform of Australia's training system.⁷

The skills supply has been unable to adequately match the needs via our education and training sectors. While the OECD⁸ has reported that Australia's skill shortages are on par with global skill shortages, recent Ai Group research has found this to be a major pressure point for businesses.⁹ Employers are experiencing greater challenges finding the skills they need, with the percentage reporting skills shortages increasing over four years to 75 per cent in 2018.

It is clear that in moving forward all improvement actions need to be underpinned by closer partnerships between industry and all education and training sectors. Rapidly changing work environments and skills are best served by learning that is connected to and closely reflects workplace skill needs, such as work-based and work integrated learning models. Where learning experiences are not in the workplace, they must be designed to reflect a company's workplace; to be engaging and social, and to be anchored by outcomes and assessments.¹⁰ The European Commission's twenty guiding principles for WBL, provide a solid framework for workplace collaboration in all education and training sectors.¹¹

Recommendations

- Invest in a digital literacy strategy and programs to future-proof the workforce against skills and jobs shocks caused by digital and technological transformation.
- Create incentives for industry, especially small and medium sized enterprises, to offer and support additional work-based learning and learning integrated work opportunities.

⁷ Ai Group, Text of letter from Ai Group Chief Executive, Innes Willox, to the Prime Minister and State and Territory leaders ahead of the 9 August Council of Australian Governments Meeting in Cairns, 8 August 2019 https://www.aigroup.com.au/policy-and-research/mediacentre/releases/COAG-meeting-letter-8August/?_cldee=YW5uZS55b3VuZ2VyQGpZ3JvdXAuY29tLmF1&recipientid=contact-435eae2cea5d4e10b2b8fa13dff26afd-611b658912b548568b365e6920f7d37f&esid=93a3a7d9-72b9-e911-80ea-000d3ae0d80c

⁸ OECD (2018), *Getting Skills Right: Australia*, OECD Publishing, Paris

⁹ Ai Group (2018), *Skilling: A National Imperative*, Workforce Development Needs: Survey Report 2018

¹⁰ Seven gamification strategies for corporate training, The Tech Edvocate, <https://www.thetechedvocate.org>

¹¹ European Commission (2016), *High-performance apprenticeships & work-based learning: 20 guiding principles*, Publications Office of the European Union, Luxembourg

1.2 Developing NSW's STEM (STEM) capabilities

A major focus needs to be on growing the STEM workforce, especially in areas of the economy where there are critical skills shortages. To illustrate current challenges in the engineering profession, only 60 per cent of job vacancies in engineering nationally were filled in 2019, with 87 per cent of qualified candidates considered unsuitable for advertised positions and 25 per cent of employers having no suitable applicants.¹² The main reasons for unsuitability cited were lack of experience in a particular specialisation, profession or industry; insufficient technical skills; poor application, interview or work history.

Skilled technicians are the most pressing area of shortage for companies rather than graduates, as the most recent Ai Group workforce development survey reveals. The latest data indicates that 58 per cent of employers anticipated difficulties recruiting technicians and trade workers with STEM skills.

There is ongoing concern¹³ about the state of STEM education in schools given the declining participation rates and student achievement in maths and science, and the way STEM subjects are integrated into the curriculum and are delivered by teachers, many of whom lack proficiency and qualifications in those subject areas.

Some progress has taken place in the school sector, through the STEM Partnership Forum, as recommended in the Education Council's National STEM School Education Strategy.¹⁴ The Ai Group contributed to the Forum through its research project *Strengthening School-Industry STEM Skills Partnerships*, which produced a number of models and recommendations that need to be promoted to encourage further participation.¹⁵ The Forum's April 2018 final report, *Optimising STEM Industry-School Partnerships*, includes a number of valuable recommendations involving industry partnerships.¹⁶

While longer-term solutions to the STEM skills shortfall properly concentrate on the school sector, there is much to be done to reduce short-term pressure on current shortages. In addition, support for existing workers to retrain in STEM areas would also assist to meet the relatively short-term needs of the economy.

Strategies are also required to meet the particular needs of SMEs given their prominence in the economy. Government could support these companies via networks or clusters and engagement with group training companies. Support for sectoral and supply-chain companies working with larger companies also warrants consideration.

¹² Department of Employment, Skills, Small and Family Business, *Engineering Professions, Australia*, 2019

¹³ Education Services Australia (2018), *Optimising STEM Industry-School Partnerships: Inspiring Australia's Next Generation Final Report*

¹⁴ Education Services Australia, *National STEM School Education Strategy*, December 2015

¹⁵ Ai Group, *Strengthening School – Industry STEM Skills Partnerships*, Final Project Report, 2017

¹⁶ Education Services Australia (2018), *Optimising STEM Industry-School Partnerships: Inspiring Australia's Next Generation Final Report*

Initiatives to enhance the vocational education and training sector's role in filling STEM skills gaps, and promotion of STEM apprenticeships and traineeships such as Ai Group's Industry 4.0 Higher Apprenticeships Program should be prioritised for funding by government. Training providers, especially TAFE NSW, need resourcing to develop their capacity to deliver such innovative programs. Skills to use cutting-edge technologies start with skilled teachers, good learning materials and up-to-date equipment.

Recommendations

- Develop and effectively resource a state-wide, whole of government STEM skills strategy in conjunction with industry to expand the STEM-qualified workforce.
- Implement measures to increase the level of STEM participation in the VET sector, especially through apprenticeships and traineeships relevant to STEM skills.
- Develop specific measures to expand the STEM workforce in SMEs through cluster/network models.

1.3 Investment in upskilling of existing workers

With technological change affecting nearly all industries, different skills and new practices need to be adopted by existing workers throughout their working lives. Linking lifelong learning to workforce productivity is now essential. Without efforts by government, education and training sectors and industry to normalise cultures of continuous learning in the workplace the Australian economy will not prosper to the extent that is necessary for our future.

Because of constant change, workers will need to take ownership of their own learning and have the opportunity to undertake training and development as they move through working lives. AlphaBeta estimates that by 2040 the average Australian will spend an additional 3 hours per week in education and training (a one-third increase) and workers will double the share of learning they do after the age of 21 from 19 to 41 per cent, predominantly through on-the-job training and short flexible courses.¹⁷

The acquisition of new skills by existing workers and the refreshing of existing skills needs to be available in a range of environments (virtual, physical) and through access to shorter form training. The introduction of micro-credentials by education institutions to meet on-demand learning must increase. The growing emphasis by education and training sectors now on developing capabilities in enquiry, agility, adaptability, creativity and problem-solving will assist future workers in gaining a robust base to build skills through their working lives.

In terms of re-skilling, Ai Group's research shows that employers are currently prioritising managers for digital technology training and changes anticipated or caused by its rollout. However, re-skilling extends beyond digital skills development in order to equip workers with

¹⁷ AlphaBeta (2019), *Future Skills Report*

the broader capabilities required in more autonomous workplaces. The digital economy requires a cultural change in the way work is done and managed. In the past, much of the role of a senior manager was tied up in expertise and knowledge. Now that is becoming less important and instead it is the ability to locate knowledge, assess how valid it is and then put it to use in collaboration with other people.

Businesses will need to assess their own capabilities and train when necessary using education and training partners, supervisors, managers and leaders. These companies will develop employees more capable of taking control of their roles, needing less supervision and better able to contribute to innovation in the workplace. However, support is needed for industry to develop digital strategies and workforce plans, assess existing workers' capabilities and train where necessary.

Recommendations

- Provide incentives for industry, focussing on SMEs, to assist with workforce planning to continue re-skilling its transitioning workforce.
- Build capability for continuous learning in individuals through the curricula frameworks and teaching and learning practices of all education and training sectors.

1.4 Developing NSW's workplace literacy and numeracy capabilities

Poor literacy and numeracy have a negative impact on productivity, labour mobility and the capacity of the economy to achieve the higher levels of skills needed for the increasingly knowledge-based economy. There remains an urgent need to address the language, literacy and numeracy needs of the Australian workforce.

Ai Group research reveals that the low levels of workplace literacy and numeracy are a major concern to employers. The most recent survey indicates that 99 per cent of employers have low levels of literacy and numeracy have an impact on their business.¹⁸

An individual with poorly developed literacy and numeracy skills is at greater risk of disengaging from learning and fully participating in the workforce. It is estimated the economic impact of an individual disengaging from school early would cost the government, and taxpayer, around \$334,600 per early school leaver over their lifetime.¹⁹

The Ai Group conducted a return on investment to employers participating in a literacy and numeracy support program with very positive results.²⁰ In addition to the benefits for

¹⁸ Ai Group (2018), *Skilling: A National Imperative*, Workforce Development Needs: Survey Report 2018

¹⁹ Lamb, S. and Huo, S. *Counting the costs of lost opportunity in Australian education*. Mitchell Institute report No. 02/2017. Mitchell Institute, Melbourne

²⁰ Australian Industry Group, *Investing in Workforce Literacy Pays*, August 2015.

participating employees, there is also now a firm business case for employer investment in workforce literacy and numeracy. There need to be programs within which they can invest.

A literacy and numeracy strategy needs support especially for workplaces. A key component of this is the development and implementation of a new co-contribution program specifically for workplaces. Such a program would be based on tight outcomes for both individual participants and employers.

The use of the Australian Core Skills Framework could be mandatory to measure individual improvement and return on investment measures could be utilised to demonstrate benefits to the employer including direct linkages to productivity. The program could also be nationally accredited by using the Foundation Skills Training Package adapted to suit particular workplace needs. The Ai Group conducted a small pilot study with three workplaces during 2016 based on these approaches with significant success.²¹ This combination of measures could be implemented through a larger pilot program in concert with industry.

The New South Wales Government's Curriculum Review²² of the school curriculum has revealed concerning findings, which have been detailed in the interim report. The interim report highlights an overly crowded curriculum with limited opportunities to address individual learning needs or a range of learning approaches. It recognises that teaching and learning in the senior secondary years are overly focused on university entrance and insufficiently focused on equipping students with the knowledge, skills and attributes required for further learning, life and work.²³

The key reform directions identified within the broad areas of content, structure and senior school years will have a wide-ranging influence on future generations of young people and their preparation to participate in and contribute positively to work and society. Preparing for accelerating change in the world of work necessitates re-consideration of the application of knowledge, flexibility of curriculum, levels of literacy and numeracy, unrestricted pathways and foundations for lifelong learning. Greater connections with industry will build development of the human centred enterprise skills increasingly important to business.

Recommendations

- A foundation skills strategy needs to be developed with a sufficient budget to support workforce literacy and numeracy programs.
- The NSW Government should commence discussions with industry and other appropriate stakeholders about the development of a new workplace LLN program.

²¹ Australian Industry Group, *Foundation Skills Pilot Program Success*, July 2017.

²² <https://educationstandards.nsw.edu.au/wps/portal/nesa/about/initiatives/curriculum-review>

²³ NSW Education Standards Authority (2019), *Nurturing Wonder and Igniting Passion: Designs for a future school curriculum*, NSW Curriculum Review Interim Report, October 2019

1.5 Investment in NSW's VET system

Skills, education and training have been placed high on the agenda for New South Wales through the positioning of human capital as a key element in the Productivity Discussion Paper released in October by the New South Wales Productivity Commission. The Paper raises the challenges affecting the VET system caused by quickly changing job requirements as well as more constant re-skilling in more narrow sets of skills. It expresses the need for improved relationships between VET and industry sectors to ensure training packages contain what is needed, and considers greater flexibility in delivery to help develop better interactive skills. Inequitable funding arrangements between VET and higher education and lack of coherence between the two systems are also raised as barriers to effective outcomes.

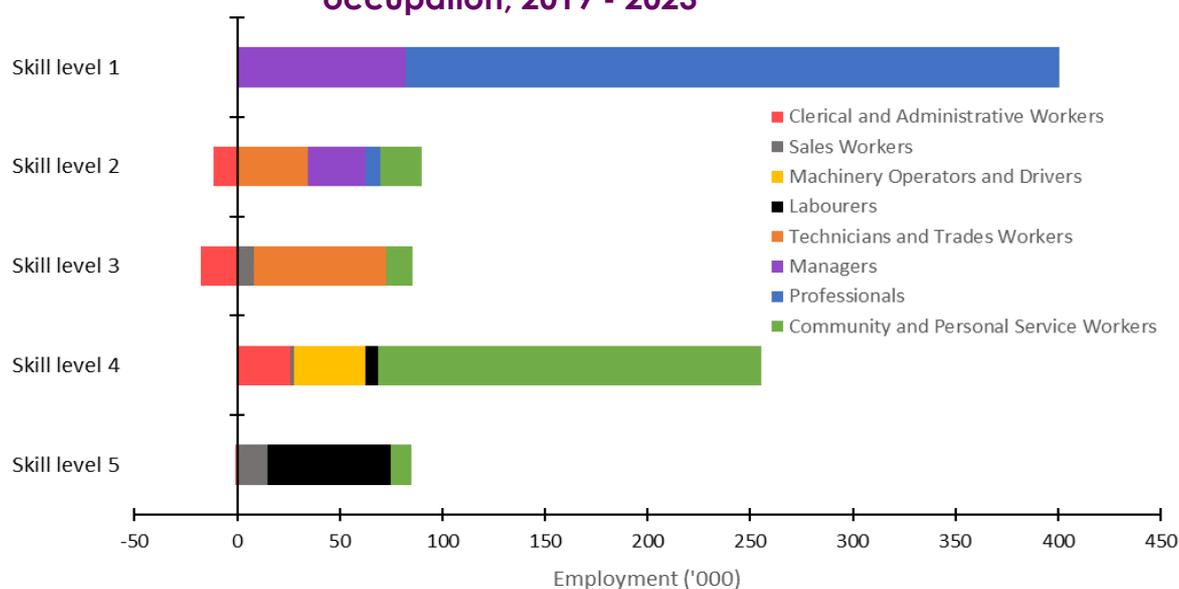
Ai Group's 2019 paper, [Realising Potential](#), identified the key issues hampering the VET sector. They included the lack of funding policy coherence and governance arrangements between the states and the Commonwealth; the inequitable funding arrangements between VET and higher education; and the lack of coherence between the two systems as barriers to effective outcomes. Ai Group contends that solving the raft of issues requires a well-coordinated, well-funded, strong national system with cooperative state relations that demonstrate the shared responsibilities for improvement.

In August 2019, First Ministers agreed through COAG to a new shared vision for VET which couples national consistency with flexibility to meet local needs. Actions resulting from the Joyce Review at the Commonwealth level include a National Skills Commission, a National Careers Institute and new Skills Organisations. With effective industry involvement and design these new structures promise better policy direction, funding coherence, forecasting and governance of the system, as well as quality of careers information and support.

The Department of Employment, Skills, Small and Family Business estimates that over the next five years to 2023, four of the 6 occupations projected to have the largest increase in employment are at Certificate II or III (skill level 4) occupations.²⁴ The following graph shows that almost 55 percent of projected employment growth to 2023 can be serviced by vocational education and training, in addition to the higher education sector.

²⁴ Department of Jobs and Small Business, *Future jobs growth to favour skilled workers*, 16 October 2018, <https://www.employment.gov.au/newsroom/future-jobs-growth-favour-skilled-workers>

Chart 7: Projected employment growth ('000) for ANZSCO skill level by occupation, 2019 - 2023

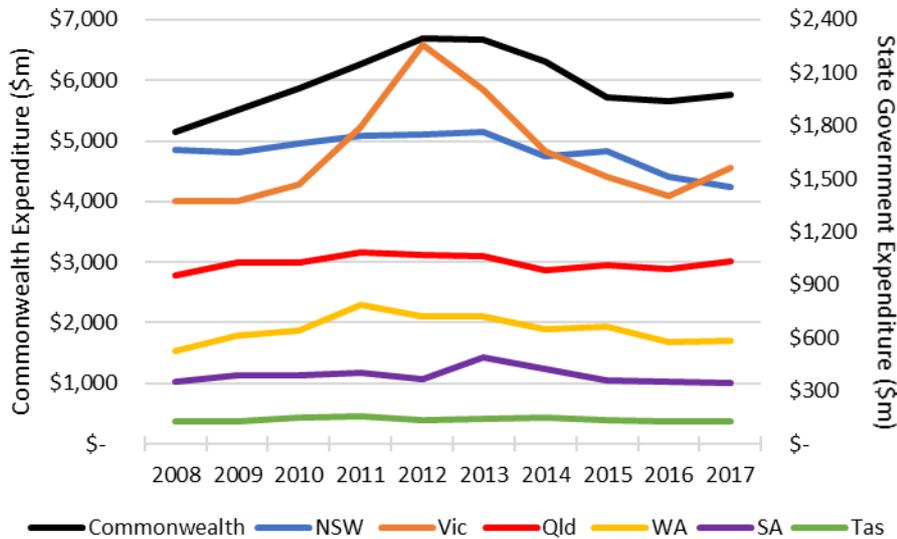


Source: Department of Employment, Skills, Small and Family Business, Future jobs growth to favour skilled workers, October 2018

Ai Group welcomes the additional investment by the NSW Government in the state’s TAFE system and vocational education and training in the 2019-20 Budget, including fee-free apprenticeships/traineeships for young job seekers and free TAFE qualifications and career counselling for mature-aged workers. However, at a universal level, there are persistent concerns that the funding of the overall VET system continues to be inadequate, in terms of both the level and composition of its funding.

The levels of total VET funding are not sufficient to meet existing and future skills needs of the workforce. The level is too low in absolute terms and relative to the funding arrangements in both the higher education and school sectors. The composition of public funding for VET, or more precisely the shared contributions of the Commonwealth, States and Territories, has created additional issues. The funding by the jurisdictions has fallen in absolute terms since 2013 and relative to Commonwealth expenditure.

Chart 8: Total federal and state government real recurrent VET expenditure, excluding capital (\$m)



Source: Productivity Commission, Report on Government Services 2019; ABS, Government Finance Statistics, Education, Australia, 2016-17. NB: State expenditure includes VET in schools funding

The shared funding arrangements are impacting on the effectiveness of the VET system. Different mixes of Commonwealth and States and Territories funding and different ways of funding each VET system are causing confused messages for employers engaging with the system, particularly those operating nationally. In some instances, within individual state systems the needs of industry, businesses and students have not been met.

Recommendations

- The NSW Government through COAG should address declining investment in VET and increasingly uneven investment across jurisdictions.

1.6 Reform of NSW's apprenticeship system

The announcement by the NSW Government to make apprenticeship training fee-free and to cap traineeship training at \$1,000 from 1 July 2018 has been welcomed by industry. One of the barriers for employers in recent years has been the rising cost of enrolment fees, and this initiative has removed that barrier. However, data from the NCVET indicates that this has not affected commencement numbers. The most recent data indicated that overall commencements of apprentices and trainees declined by 1.7 per cent for the 12 months to 31 March 2019. For trade occupations (broadly equivalent to apprenticeships), commencement

numbers declined by 2.3 per cent and non-trades (traineeships) declined by 1.1 per cent.²⁵ These figures reflect a national decline that started in 2012.²⁶

The other substantial initiative in NSW that is designed to impact on apprenticeship numbers is the Infrastructure Skills Legacy Program. This program is designed to capitalise on infrastructure investment by requiring contractors to make training places available, including apprentices and traineeships for existing and new workers. But again, the data from the NCVER is not showing increases in apprenticeship numbers for the occupations that are most impacted by infrastructure investment. Apprentice workers in construction trades declined by 12.1 per cent in the 12 months to 31 March 2019.²⁷

Completion remains a concern with 57 per cent of apprentices in NSW who commenced in 2014 completing their apprenticeship, and 61.7 per cent of trainees completing their traineeship. This compares to 54.5 per cent for trades nationally, and 57.7 per cent for trainees. While the NSW numbers compare favourably to national figures, completion rates declined markedly from those who commenced a year earlier (63.7 per cent for trades and 65.4 per cent for non-trades in NSW).²⁸

More action is needed to improve commencement numbers for apprentices and trainees, and more action is needed to arrest the decline in completion rates.

VET programs delivered in schools can have a positive impact on apprenticeship commencements but remain problematic. Across Australia, the number of school students in VET dropped by 4.3 per cent from 2017 to 2018. The number of school-based apprentices or trainees (SbATs) declined by 8.9 per cent for the same period. In NSW, SbATs declined by 3.8 per cent and overall school students in VET declined by 4.6 per cent.²⁹ NSW SbATs made up only 5.3 per cent of all NSW school students in VET in 2018.

²⁵ NCVER (2019), *Australian vocational education and training statistics: Data slicer, Apprentices and trainees*, March (2019), NCVER, Adelaide.

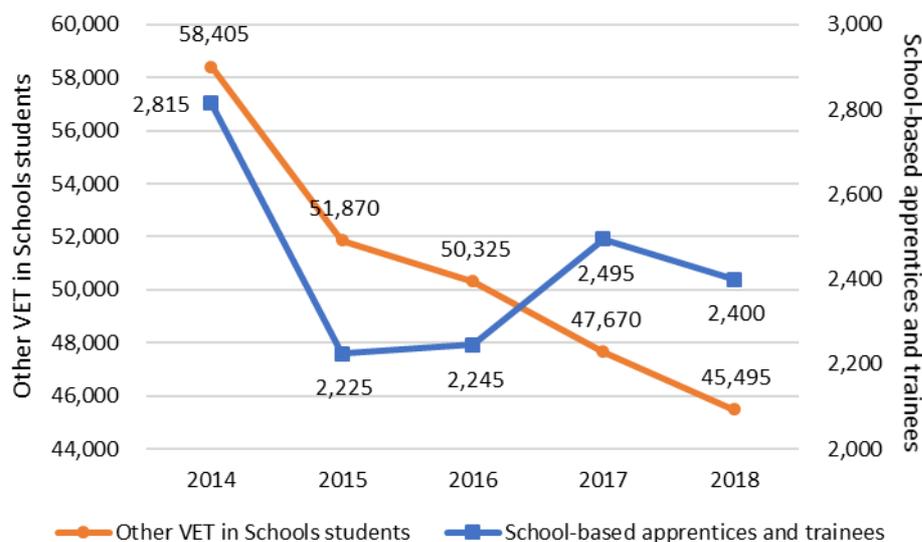
²⁶ NCVER (2018), *Australian vocational education and training statistics: historical time series of apprenticeships and traineeships in Australia*, from 1963, NCVER, Adelaide.

²⁷ NCVER (2019), *Australian vocational education and training statistics: Data slicer, Apprentices and trainees*, March (2019), NCVER, Adelaide.

²⁸ NCVER (2019), *Australian vocational education and training statistics: completion and attrition rates for apprentices and trainees 2018*, NCVER, Adelaide.

²⁹ NCVER (2019), *Australian vocational education and training statistics: VET in Schools 2018 Data slicer*, NCVER, Adelaide.

Chart 9: NSW VET in Schools students and School-based Apprentices and Trainees, 2014 – 2018



Source: NCVET (2019), VET in Schools 2018: data slicer

There needs to be a sponsored review of SbAT and VET programs delivered in school arrangements to determine the reasons for the under-utilisation of these pathways and develop strategies to assist schools and industries to more actively participate. The Head Start Apprenticeship program in Victoria, which adds an extra year of schooling for SbAT students, is one initiative worth investigating. The extra year means participating schools can offer more flexibility in their timetables, which is attractive to employers when apprentices can spend more time in the workplace.

Given the overall decline in VET in schools, Ai Group was concerned to learn that the NSW Education Standards Authority (NESA) announced in August 2019 that the Metal and Engineering Curriculum Framework will be discontinued.³⁰ This framework establishes a HSC exam for students undertaking a VET in schools or SbAT program in the manufacturing and engineering sector. The exam means these students can attain a score that contributes to their ATAR and is an important way of making the program more attractive to prospective students and their parents. Removing this incentive may encourage these students into another sector or out of VET training entirely. In 2018, there were 940 students in NSW undertaking a metal and engineering VET program with 50 undertaking a SbAT.³¹

Most employers that take on apprentices operate small businesses. These employers need to be supported to help their apprentices complete. They need help to improve their recruitment practices and help to improve how they manage their apprentice after they commence, including understanding their obligations. Professional development workshops for apprentice

³⁰ Education Standard Authority, Metal and Engineering, NSW Government <https://educationstandards.nsw.edu.au/wps/portal/nesa/11-12/stage-6-learning-areas/vet/metal-engineering-syllabus>

³¹ NCVET (2019), VET in Schools 2018: data slicer

supervisors have been available in NSW for some years; however, they have not always reached those employers who need help the most. Encouragement for new employers to attend a workshop could help extend the intended audience. Some countries, including Germany, the Netherlands and Switzerland make targeted training mandatory for apprentice supervisors.³²

Group training organisations (GTOs) can assist small businesses employ and support apprentices. Collectively, group training is the largest employer of apprentices in Australia, employing almost 24,000 apprentices and trainees across the country and over 6,500 in NSW.³³ GTOs have been operating for nearly 40 years and provide important support for SMEs. GTOs will rotate apprentices to different work sites so they gain broad exposure to skills that smaller companies can't offer, and they can guarantee continuity of employment for apprentices and trainees when companies operating on short-term projects cannot. GTOs also provide mentoring support and specialise in helping disadvantaged people into apprenticeships and traineeships.

The Australian Government previously supported GTOs in their activities through the Joint Group Training Program, so-called because of joint funding arrangements with state governments. National funding was discontinued in 2015/16, but some states continue to provide funding. Targeted funding of GTOs to support their activities to help disadvantaged groups, and to help SMEs participate in the apprenticeship system may help improve commencement and completion numbers.

Recommendations

- Implement further measures to ensure apprenticeships and traineeships meet current and emerging occupational needs.
- Develop strategies to facilitate greater participation by schools and industry in school-based apprenticeships and VET in schools.
- Provide targeted funding to GTOs to support their activities to help disadvantaged groups, and to help SMEs participate in the apprenticeship system, similar to the previous Joint Group Training Program.

1.7 Addressing youth unemployment

There are many barriers to employment for young people. Lack of experience and work-readiness are commonly cited examples. Equipping individuals with the right skills that enable them to more fully participate in the workforce and understand the dignity of work can be achieved by keeping young people engaged in learning and providing alternative pathways to employment and further education.

³² OECD (2018), *Seven Questions about Apprenticeships: Answers from International Experience*

³³ NCVER (2019), *Apprentices and trainees 2019: March quarter - data slicer*

At October 2019, Australia's unemployment trend rate for 15-24 year-olds was at 12 per cent, which is more than double the national unemployment trend rate.³⁴ In NSW, the youth unemployment rate at September 2019 was 10 per cent.³⁵ More concerning, the national youth underemployment rate sits at around 18 per cent while the underutilisation rate is at around 30 percent,³⁶ and those classified as being not in employment, education or training (NEET) is estimated to be at 12.2 per cent.³⁷

The Foundation for Young Australians estimates that having so many young people out of the workforce costs the Australian economy 790 million lost hours of work each year, equating to up to \$15.9 billion per annum in lost GDP to the Australian economy.³⁸ And while a dollar figure can be placed on the economic impact of unemployment, the impact on the mental health and wellbeing of those persons represents a less visible and more personal cost.

Students disengaged from studies at school are at greater risk of being out of work or employed in industries most prone to digital disruption, where automation may replace those jobs involving low-skill, routine tasks.

A 2015 PISA survey of students' sense of belonging in school found that Australian students have shown declining results over time, and rate lower when compared to the OECD average.³⁹ These feelings of disconnectedness can influence a student's ambition to remain at school or continue to further studies.

Managing the transition from school to a life beyond can be a difficult path for many young people to navigate without the right support and guidance. Sixty-eight per cent of young Australians say that school does not prepare them for the real world.⁴⁰ It is essential that adequate support is applied while in school and is readily available at the point of and beyond transition from school, with timely follow-up and after-care services provided by schools.

It is important to equip those at-risk of disengagement with the necessary life skills to survive and thrive in the new economy. Developing capabilities around interpersonal, creative and decision-making tasks will be beneficial in finding employment in jobs where routine and manual tasks are increasingly performed by machines.⁴¹ The OECD advocates the need for school curricula to prioritise the development of critical thinking, collaborative skills, and personal attributes of mindfulness, curiosity, courage and resilience.⁴²

³⁴ Australian Bureau of Statistics, *Labour Force* (cat. no. 6202.0), Australia, July 2019

³⁵ *ibid*

³⁶ *ibid*

³⁷ Australian Bureau of Statistics, *Education and Work* (cat. no. 6227.0), Australia, May 2018

³⁸ Foundation for Young Australians (2014), *Unlimited Potential*, p.3

³⁹ ACER, *PISA Australia in Focus Number 1: Sense of belonging at school*, 2018

⁴⁰ Year 13 (2018), *After the ATAR II: Understanding How Gen Z Make Decisions About Their Future*, p.30

⁴¹ AlphaBeta, *Mapping Australian workforce change*, 2018

⁴² Schleicher, A., *Educating for the 21st Century*, 2015

A recent inquiry into careers advice in Victorian schools heard that information provided to students does not meet their needs, and that advice is generally not administered in junior secondary years, before students tend to disengage from their studies.⁴³

While careers education has been given priority in schools through the National Career Education Strategy, much action is still required. The over-emphasis on academic success in traditional subjects has led to a lack of exposure to vocational options even when students may be better suited to, and have better work outcomes, within these pathways.

The attraction to vocational education and training, and in particular apprenticeships and traineeships has been declining among young people.⁴⁴ Year 13, for example, reports that 56 per cent of students still do not consider an apprenticeship when leaving school.⁴⁵

There is concern that careers teachers do not adequately understand or promote the opportunities in the VET sector. It is important for those providing careers advice to be aware of industry's emerging skill needs including an increasing requirement for higher level skills at the trades and para professional levels.

In striving to make school more relevant to students who are disengaging, or to work with those young unemployed who have disengaged, workplace experiences must be at the centre of school-based and job support programs. Through practical activities such work-based experiences can be effective for learners in developing their industry awareness; understanding the relevance to them; allowing learners to feel valued and make connections; and supporting them to build their skills and capabilities. Closer partnerships between industry, the school sector and job centres will enable more of this activity.

Recommendations

- Increase investment in programs that prepare students for work and transition to the post-compulsory years while at school.
- Fund programs to help young people deal with health and wellbeing challenges faced when moving out of the school environment.
- Fund transition programs for unemployed young people that support industry to increase involvement through work-based activities.

⁴³ Dandolo Partners, *Review of career education in Victorian government schools*, a report for Department of Education and Training, Victoria, 2017

⁴⁴ NCVET (2018), Apprentices and trainees <https://www.ncver.edu.au/research-and-statistics/collection/apprentices-and-trainees-collection>

⁴⁵ Year 13 (2018), *After the ATAR II: Understanding How Gen Z Make Decisions About Their Future*, p.13

11. Fiscal Policy

Ai Group commends the Government's commitment to fiscal discipline and sound financial management. The state has maintained its triple-A credit rating courtesy of a healthy economy, a low debt burden and continuing substantial investment in new and existing infrastructure projects. The solid path for NSW's finances over the medium term is highlighted by the 2019-20 NSW Budget Half-Yearly Review forecast of an operating surplus of \$702 million in 2019-20 with solid operating surpluses expected to continue, averaging \$1.9 billion per year in each of the four years to 2022-23.

We also commend the Government's four-pillar strategy to advance expenditure and balance sheet reforms, including the formal Review of Federal Financial Relations - from a state government perspective - to ensure the delivery of fair and stable revenue to NSW and positioning the State to meet future challenges.

With reduced GST receipts, it is pleasing to note that the Government has contained growth in spending over the forward estimates to a level that does not exceed growth in revenue over this period. However, there is a fine balance in the Government's revenue and expenditure forecasts which further underlines the need for high accountability through disciplined financial management. It will also require paying close attention to the level and balance of the State's assets and liabilities.

The Government's whole of government administrative and procurement 2019-20 Budget savings of \$731.4 million and \$2.8 billion of savings from changes to streamline the public service, incorporating a reduction in back-office employee numbers, a reduction in contractor expenditure and long service leave reforms are significant initiatives in resource prioritization and improving the efficiency of operations.

It will be important that the Government continues to ensure that expenses are contained. The Government must also maintain a focus on increasing productivity, improving the cost competitiveness of the NSW economy and generating stronger long-term economic growth to address the need to ease fiscal pressures over time.

Over the medium and longer term, we also call on the NSW Government to:

- continue to target to achieve operating surpluses (adjusted to the state economic cycle and fluctuations in demand) and sustainable debt positions without resorting to higher taxes and charges.
- ensure NSW taxes and charges are competitive (and where possible below the average of) other states and territories. This is vital in enabling the State to grow and attract investment. This creates its own rewards in the form of a larger tax base and a larger net revenue stream and a greater capacity to finance future public-sector services and investment.

- continue to monitor and seek out efficiencies in government department program delivery.
- continue to provide sufficient funding for investment in the drivers of NSW's competitiveness such as innovation, research and development, infrastructure, exports and skills.
- provide for improvements in the delivery of government programs and services. This includes evaluating agencies activities for opportunities for greater exposure to competition from the private sector.