

Australian Industry Group

Ai GROUP SUBMISSION

Ai Group NSW 2015
State Election Statement

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Contents

Executive Summary	4
Fiscal Policy	7
Taxation and Regulatory Reform	9
Government Procurement	13
Industry, Innovation & Economic Development	16
Building First Class Infrastructure	18
Housing Shortages & Affordability	21
Solutions For Regional Development	23
Environment: Securing Affordable & Efficient Energy	26
Skilling for the Future	29

About Australian Industry Group

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

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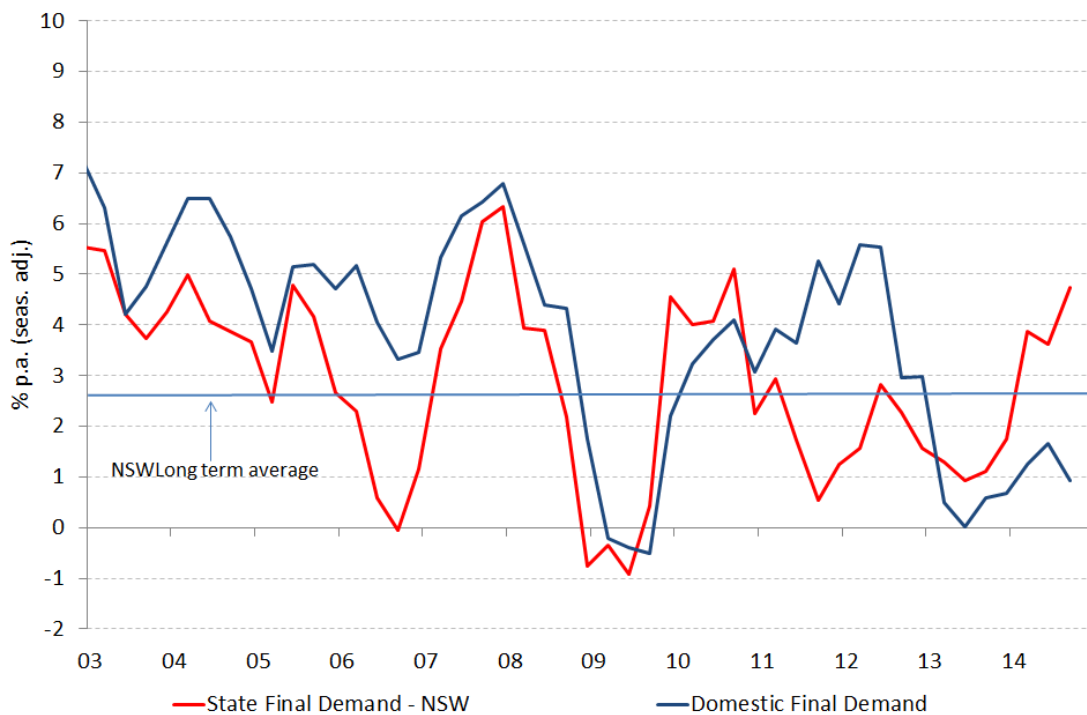
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Executive summary

The 2015 NSW state election comes at a time of economic challenges and opportunities.

Economic growth in NSW is strengthening. NSW State final demand grew by a solid 4.7% in the year to the end of September 2014, up from just 1.1% annual growth a year earlier (see chart 1). Moreover, annual growth in the September quarter 2014 was above its long-run average over the past 10 years (2.6%), and exceeded Australia-wide final demand growth in the year to September 2014 of 0.9%. A key growth driver is new residential building activity which is rising solidly in response to lower interest rates and rising population growth. Private dwellings investment in NSW grew by 16.5% in the year to September 2014. Residential approvals (which lifted by around one-third in 2013) remained elevated throughout 2014. A solid pipeline of road and rail infrastructure projects driven by State government investment, and a strengthening in commercial construction is expected to underpin robust growth in private and public investment in coming years.

Chart 1: Australian and NSW final demand growth



Source: ABS

A further positive for the NSW economy is the recent strengthening in consumer spending from the subdued levels following the Global Financial Crisis (GFC). Reflecting an easing in consumer caution in response to rising house prices and household wealth, household consumption expenditure increased by 3.5% in the year to June 2014. This was the strongest annual rise in three years and the third fastest pace post-GFC.

The State's fiscal position has also improved. According to the 2014-15 NSW Treasury Half-Yearly Review estimates, higher-than-expected stamp duty receipts (on the back of the strong property sector upturn) have helped transform the Budget Result for 2014-15 from a deficit of \$283 million to a surplus of \$272 million. Although future budget surpluses through to 2017-18 have been revised down, the surpluses projected still exceed \$1 billion for 2016-17 and 2017-18. The revenue "dividend" from a stronger economy and an asset recycling strategy will lend support to the NSW economy and help to finance increased infrastructure spending.

Despite these encouraging headline figures, many NSW businesses across major sectors of the economy continue to face tough operating conditions and remain reluctant to commit to new full-time staff. Cost containment is paramount amid highly competitive market conditions. Cost pressures on NSW businesses are being compounded by relatively high domestic wage and non-wage costs and weak productivity growth and rising energy costs across many industries.

Furthermore, the global outlook remains highly uncertain given the growth slowdown in the Chinese economy, renewed difficulties in Europe, a stalled Japanese economy and a slow pace of recovery in the United States.

Whilst there are still headwinds to growth and significant challenges ahead, NSW's diversified economy means that it is well placed to lead the national transition from mining investment led growth to a more broad-based growth pattern.

To ensure economic opportunities are maximized, NSW businesses will need a firm commitment to, and the timely implementation of policies to build competitiveness. It is therefore critical that the next State Government plays a strong role in investing in the fundamentals of our economy and putting in place measures that support productivity growth and help our businesses flourish in this Asian century.

NSW needs to add to existing strengths, to give more emphasis to growth based on skills and innovation and to have a focus on removing impediments to productivity.

Specifically, the reform process should encompass:

- **Lifting the productivity of the public sector** and in the delivery of services for which it takes responsibility;
- **Facilitating and supporting efforts to encourage productivity improvements in all sectors of the economy** - by lifting capabilities, building networks, enhancing relationships between industry and research organisations, creating mature partnerships with the private sector, and by providing appropriate information and encouragement - to businesses and other providers of goods and services;

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- **Facilitating the provision of new and much needed infrastructure**, including by recycling capital through carefully managed privatisations in existing public sector assets;
- **Ensuring policy and regulatory settings** - in areas such as taxation and the provision and maintenance of infrastructure - **are conducive to strong productivity growth**;
- **Maintaining strong public finances**; and,
- **Improving competitiveness by lowering business costs** for NSW businesses.

Accordingly, this Ai Group election statement sets out the policy parameters for the Government of NSW, which can be delivered in the next term.

Fiscal Policy

Key Priorities for next Government:

- Maintenance of sustainable public finances;
- Continue to progress the recommendations of the final NSW Commission of Audit Report (Schott Report);
- Target to achieve operating surpluses and sustainable debt positions without resorting to higher taxes and charges;
- Ensure NSW taxes and charges are efficient and competitive relative to other states and territories;
- Provide sufficient funds for the continued development of the state's economic and social infrastructure; and
- 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.

Maintenance of sustainable public finances should remain a key fiscal strategy of the next State Government. The key to managing this task is responsible and prudent management of the State's finances. This requires ensuring that recurrent spending is covered by recurrent revenue. It equally requires paying close attention to the level and balance of the State's assets and liabilities.

A failure to do so will increase pressure on the Government to find additional sources of revenue through taxes and charges. This would limit the ability of the Government to undertake critical investments and have a considerable adverse effect on business growth and employment and impose an increased cost burden on the NSW community.

We would urge the next Government to continue to progress the recommendations of the final NSW Commission of Audit Report (Schott Report). This is necessary to increase productivity, improve the cost competitiveness of the NSW economy and generate stronger long term economic growth, thereby easing fiscal pressures over time.

Further, over the medium and longer term, the next NSW Government should:

- Target to achieve operating surpluses and sustainable debt positions without resorting to higher taxes and charges.
- Ensure NSW taxes and charges are efficient and competitive relative to 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.
- Provide sufficient funds for the continued development of the state's economic and social infrastructure.

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

- 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.

Taxation and Regulatory Reform

Key priorities for next Government:

- Fully commit to the Tax and Federalism White Paper processes and examine opportunities for the removal of inefficient state-based taxes on industry;
- Outline a plan to substantially improve the competitiveness of NSW's payroll tax regime;
- Work 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);
- Commit to the adoption by all state agencies (with an industry regulatory function) of a common protocol for their conduct as regulators;
- Ensure that regulatory agencies work together to develop and implement a broadly-based master licence for business;
- Develop and review regulatory instruments in concert with other state and territory governments in order to achieve uniformity in approach across Australia and a greater degree of certainty and consistency in the standards applying to industry; and
- Establish an on-line platform that details all local government regulatory instruments, procedures and costs.

Ai Group believes that the Government should be strongly committed to delivering genuine tax reform to promote growth and investment in the State. The next Government must take an active role in the Federal Government's upcoming white papers on taxation and federalism, and examine opportunities for the reform and removal of state-based inefficient taxes. This will ensure that NSW has a tax system that promotes economic growth and high performing enterprises operating in an internationally competitive NSW. The State's recent lagging productivity performance and longer term challenges associated with the ageing of the population mean that the longer NSW postpones genuine and comprehensive tax reform, the more difficult the task of promoting long-term economic growth across all sectors for the wellbeing of the local community.

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

Improve the competitiveness of NSW's Payroll Tax Regime

We would advocate that that as fiscal circumstances permit, the new Government acts to substantially improve the competitiveness of the state's payroll tax regime. The current payroll tax is an impediment to growth, investment and jobs in the state.

Regulatory reform

The next State Government needs to take priority action to reduce the cost of regulation and compliance on businesses. While regulation by Government generally aims to achieve particular economic and social objectives, excessive, ineffectual or badly designed and administered

regulations can impose significant costs on businesses, deter investment, reduce employment and generally detract from the international competitiveness of industry.

NSW has an important role to play in working through the Council of Australian Governments (COAG) agenda for a seamless national economy by reducing excessive and unnecessary regulatory red tape. This includes progressing reforms that have not been completed or only partially completed, including reforms in the areas of chemicals and plastics, regulation making and review and road reform.

Best Practice Regulation

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.

Best Practice Regulator Behaviour

All state agencies with a regulatory function over industry should adopt a common protocol for their conduct as regulators. The conduct of regulators is as important to the effectiveness of regulation as is the design of the laws themselves.

Suggested principles of such a protocol are:

- Regulators should all share a common public objective of encouraging economic progress and carry out their protective role within that context.
- Businesses generally should feel encouraged to invite a regulator into their premises. Regulators should have this as a KPI and measure it through independent stakeholder surveys.
- Regulators should have a consistent narrative that explains their objective and shows the role of every interaction (visit, notice, prosecution) in the context of the overall task of influencing behaviour.
- Interactions should be objective, and not adversarial or personalised.
- Businesses should not be made to feel that they will be disadvantaged if they take responsibility for adverse incidents and seek ways to immediately learn from them and avoid them in the future. Taking responsibility should not be equated with accepting blame.
- Regulators should actively acknowledge positive efforts, improvements or voluntary over-compliance by duty holders.

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

- Inspectors should acknowledge, respect and try to be consistent with rulings, notices or observations made to that business by other inspectors from the same regulator by another regulator dealing with the same issue (even a similar regulator in another state). Inconsistency undermines authority.
- Internal review processes or appeal mechanisms should be easily available and openly communicated. Regulators should actively encourage business to use them if they do not understand or agree with regulatory action taken or reasons given.

Licensing Reform in NSW

Ai Group supports IPART's review of licensing in NSW and its aims of identifying all license types where reform would reduce the most cost savings. Feedback from Ai Group members indicates that the principal issues of concern in relation to licensing include the lack of information, lack of consultation on the impact of licensing, time delays in receiving approvals and the multiplicity of licensing requirements. We commend the development of the on-line Licensing Framework and Licensing Guide to assess licences in NSW. It will be important that all listed licences are scrutinised even if they haven't been identified as a priority for licence reform to ensure a comprehensive assessment of licences. It is also recommended that regulatory agencies work together to develop and implement a broadly-based master licence for business, subsuming all commonly required licences and permissions in one instrument.

Local Government Reform

There is a clear need for more action to assist business in navigating through and complying with different local government rules and regulations.

Ai Group welcomes the NSW Government's commitment to reducing the burden of red tape on businesses and in engaging IPART to undertake a review of local government compliance and enforcement activity in NSW.

In particular we endorse the recommendations to amend the Local Government Act 1979 (NSW) to:

- Remove duplications between approvals, including the Environmental Planning and Assessment Act 1979 (NSW);
- Reduce the consultation period for Local Approvals Policies to 28 days in line with Development Control Plans to help streamline the development assessment process; and
- Provide business and the community with a path of redress for complaints that is less time-consuming and costly than more formal appeal options.

We also support the recommendation of a local government register of regulatory functions maintained by the NSW Government to better manage the roles and responsibilities at the levels of state and local government. This would assist in minimizing jurisdictional duplications and inconsistencies as well as opportunities for reform. It is recommended that no rule be enforceable unless included in this register.

IPART's recommendations highlight the 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.

Of particular importance in planning and in building and construction are those reforms aimed at:

- Developing, (where appropriate) a standardized and consolidated set of development consent conditions for councils to utilise for different forms of development.
- Creating a more coordinated framework for state government and council interactions by instituting a Partnership Model so as to enhance the capacity and capability of councils to undertake their regulatory and create a clear delineation of regulatory roles and responsibilities.
- A best practice approach of sharing ideas and leading practices amongst councils is also strongly supported. One additional way of identifying targets for reform is to develop and review regulatory instruments in concert with other states' councils in order to achieve uniformity in approach across Australia and a greater degree of certainty and consistency in the standards applying to industry. This could be achieved through state based regulation review units (or equivalent) working with local councils to develop common guidelines, performance criteria or blueprints for business regulation.

As a further driver of best practice, the next state government should give consideration to 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.

Government Procurement

Key priorities for next Government:

- Commit to well-designed procurement guidelines, incorporating simple standardised contract requirements and clear tender specifications and evaluation procedures;
- Reduce product liability and professional indemnity insurance limits in contracts;
- Increased attention to whole of life costs in public sector procurement as distinct from a focus on obtaining the lowest cost;
- Ensure consistency in relation to conformity with Australian standards with no preferential treatment of offshore suppliers;
- Make greater use of the Industry Capability Network in facilitating linkages between Government and industry; and
- Commit to working with industry to improve the delivery of public infrastructure.

Improved management of the tender process

There are a range of opportunities for improving the management of the tender process so that tender costs are reduced across the public sector.

SME's and new entrants in particular are disadvantaged by overly complex contract documentation. The NSW Government should commit to well-designed procurement guidelines, incorporating simple standardised contract requirements and clear tender specifications and evaluation procedures. Overly complex contract documentation and requirements also arise when the government seeks to transfer risk to the supplier whenever problems emerge. This increases the cost of tendering to prohibitive levels, particularly for smaller suppliers. On commercial feasibility grounds, product liability and professional indemnity insurance limits in contracts need to be reduced.

Australian businesses should have full and fair access to supply the goods and services required by the public sector and for major projects undertaken within Australia. 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

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

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.

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 next 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 next State Government should make greater use of the **Industry Capability Network** in facilitating linkages between Government-funded procurement and local suppliers. In particular, we call on the next state Government to utilise the ICN more fully to help build local industry capabilities and sourcing opportunities through:

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

We would also recommend establishing a process of identification and on-going monitoring of the proportion of Government purchasing accessed locally as opposed to imported sources. This should be published as part of annual reporting requirements of the Department of Trade & Investment.

With respect to major infrastructure projects, the next NSW Government should commit to working with industry to improve the delivery of public infrastructure. Measures that need to be implemented include:

- Engagement of the private sector at early stages of planning for projects to ensure that opportunities, risks and issues on individual projects are identified and communicated before requiring the submission of tenders or expressions of interest. This enables

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

contractors to more effectively understand projects and assess the likely cost of tendering and their chances of being a successful tenderer.

- The development and issue of comprehensive project materials and information to enable early assessment of the viability of projects. This includes matters such as the implementation of a commercial framework pro forma for projects that incorporates sufficient additional information to enable an effective analysis of project risk within the corporate limits of liability for contractors at the time of tendering.
- Standard form legal documentation incorporating clauses relating to risk including, but not limited to, such issues as standard exclusion clauses and legal risk responsibilities of third party consultants and others upon whose capacity and skill the Government will ask tenderers to rely.
- The development of a more effective Public Private Partnership model that reduces operational risk (including equity risk) to contractors and places responsibility for risk on the appropriate entities rather than those who are least able to resist it.
- Shortlist bidders as early as possible and consider taking forward fewer bidders where risk assessment and preliminary assessment of bidders warrants such action.
- Harmonisation of state and Federal codes and/or guidelines for procurement in the building and construction industry.
- Broad-based implementation of the recommendations of the Productivity Commission's Inquiry Report on Public Infrastructure.

Industry, Innovation & Economic Development

Key priorities for next Government:

- Pledge on-going commitment to programs that are critical to stimulating economic growth, including Tech Vouchers, Minimum Viable Product and Collaborative Solutions, Export Accelerator Program and the Bridging the Gap Program;
- Build on these existing programs with 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; and
- Launch a State based Innovation Investment Fund with significant levels of venture capital (equity) being directed towards manufacturing.

To deliver strong economic growth, the next State government must continue to support industry, innovation and economic development. In particular, given that manufacturing remains a huge part of the NSW economy – greater than tourism, larger than mining, a significant R&D investor and a large full-time employer - there is a very strong argument for the next NSW government to do more to assist the development of this sector.

We call upon the state political parties to continue to support industry development through an on-going commitment to programs that are critical to stimulating economic growth. This includes a commitment to:

- Maintain the R&D and innovative funding (Tech Vouchers, Minimum Viable Product and Collaborative Solutions) programs.
- Continue the Supply Chain Accelerator Pilot Program.
- Maintain export support through the Export Accelerator Program.
- Support new job creation through the Jobs Action (Payroll Tax Rebate) Plan.
- Continue the Bridging the Gap Program to facilitate research collaboration between industry and universities.
- Provide for continued private participation in the development of major infrastructure projects.
- Ensure an appropriate balance between the development of economic and social infrastructure.

Ai Group proposes that the next state government builds on its current range of programs. We specifically recommend the introduction of an innovation 'Start-Up' program for those businesses with no prior experience in R&D, but with an interest in starting an R&D project. These businesses often find it difficult to compete with larger and more experienced businesses for government funding which acts as a barrier to involvement. Under such a program, grants could be provided to companies (on a competitive basis) on a matching dollar for dollar basis, and be used for a broad

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

range of purposes such as purchasing specialist equipment to undertake proposed R&D, to engage a consultant to assist in R&D activity, to employ a scientist or engineer to undertake R&D, or to engage the expertise of a university, CSIRO or another research centre.

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

Building First Class Infrastructure

Key priorities for next Government:

- Take greater responsibility by leading the way in coordinating infrastructure projects across the country;
- Provide early alerts to industry on the level of priority attached to major infrastructure projects and the anticipated funding arrangements;
- Ensure the long-term infrastructure strategy is based on a rigorous and transparent cost-benefit analysis as part of a whole of government strategy;
- Continue to develop innovative, yet sustainable, models for financing projects into the future;
- Encourage greater private sector involvement in the provision of traditional government services and programs; and
- Give further consideration to adoption of user pay funding models such as road pricing which are positive options for addressing Sydney's traffic congestion issues.

Ai Group urges the next NSW Government to continue to invest significantly in NSW's infrastructure so as to improve productivity and enhance the competitiveness of the NSW economy. Ai Group welcomes the formulation of the Government's Freight and Ports Strategy aimed at promoting the efficient and effective movement of freight in NSW and supporting the competitiveness of industry. We also commend the Government's commitment to the planning of the State's future transport requirements through its development of the *NSW Long Term Transport Master Plan*.

Improve the coordination of major projects

However, in driving infrastructure activity, the next NSW Government needs to shoulder a significantly greater responsibility by leading the way in coordinating infrastructure projects and reducing any uncertainty surrounding major projects. Establishing and maintaining a consistent pipeline of work provides industry with the confidence to invest in infrastructure, up-skill existing workforces and employ more people. The next NSW Government must take a leadership role in the coordination of the pipeline of infrastructure projects across the country so that industry is capable of responding to tenders without facing significant cost and labour resource impacts that result in more expensive projects. The State Government should also assist the private sector in the efficient deployment of both capital and resources by providing early alerts to industry on the level of priority attached to major infrastructure projects and the anticipated funding arrangements.

Whole of Government Strategy

The formation of Infrastructure NSW represents an important initiative in developing infrastructure policy reform options and providing independent advice on the infrastructure needs of the State over the next 20 years. It is important, however, that this long-term infrastructure strategy is based on a rigorous and transparent cost-benefit analysis as part of a whole of

government strategy. This will ensure that Government funds are directed at projects which have the potential to deliver the greatest economic and social benefits. This analysis should also identify specific opportunities for private sector investment to assist business in formulating long-term investment plans and ensure more efficient use of public and private resources to support continued economic growth.

Continue to evaluate new ways to fund increased investments

Infrastructure funding within a sound fiscal framework will continue to represent a major challenge for the next Government. As a consequence, there is a need for the State government to continue to develop innovative, yet sustainable, models for financing projects into the future, and to adjust policy and commercial approaches that may have been relevant to the past but not the future.

The next Government needs to leverage its financial position by inviting greater private sector involvement in the provision of traditional government services and programs. This needs to be undertaken in a way that ensures value for money and consistency and reliability of service while, at the same time, enabling the Government to maintain an operational oversight of service delivery standards and asset protection on behalf of the people of NSW. In this respect, we believe that there is a strong case for selling and leasing more public sector assets in the near term, including the full sale of the State's electricity network, in order to streamline service delivery and allow for the further recycling of capital to fund vital road, rail, health, utility and other social infrastructure projects.

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

Future focused infrastructure planning and development

In order to better accommodate population fluctuations and changes to planning principles, a future focused approach to infrastructure planning, design and construction is essential to meet the needs of the current generation whilst acknowledging that we do not fully know the needs and wants of future generations.

Considering 'scalability' when creating tender requirements for state infrastructure development can provide a range of positive outcomes. Infrastructure that is scalable can be added to or taken away from and this presents a better long term investment to the state. This type of future thinking will greatly reduce the need for infrastructure having to be re-built in the future. Infrastructure that can be scaled up or down depending on need, essentially makes the infrastructure future-proof and freeing up funding that would be require to re-build for new infrastructure.

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

The Government must also be firmly committed to ensuring that long-term land use and infrastructure planning and delivery is fully integrated to improve certainty for industry and the community. This entails the need for tracts of land to be set aside for industry in general.

Housing Shortages and Affordability

Key priorities for next Government:

- Prioritise the release and rezoning of lands that are best capable of accommodating housing;
- An across the board stocktake of underutilised land;
- A fully integrated approach to land development and the provision of infrastructure; and
- Timely and uniform implementation of legislation and planning policies.

Despite a recovery in the NSW housing market, the gap between supply and demand is expected to continue to widen particularly given the state's pick-up in population growth and with overseas migration growing strongly. With dwelling starts failing to keep pace with population growth, the housing shortage in NSW remains acute at around 135,000 dwellings in 2012, accounting for over one half (55 per cent) of the national housing shortage.

With the shortfall of housing expected to increase to around 167,000 dwellings in 2014 (ANZ Economic Research), a key element of the next Government's reforms and policies must be a strong commitment to housing supply and affordability.

The NSW Government has played a key role in addressing the housing supply shortage through its strategic reform process and financial incentives. This includes the government's Metropolitan Strategy for NSW aimed at establishing a planning framework to allow for the sustainable growth of Sydney to 2031. The Government's decision to limit first-home buyers' stamp duty concessions to newly built homes under the First Home Plus Scheme is another positive step in helping to generate new housing supply in the state.

Further areas of action for the next Government will be to prioritise the release and rezoning of lands that are best capable of accommodating housing and to ensure the delivery of infrastructure and network of transport capable of supporting these designated areas. Also of importance will be the need for:

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

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

A strong commitment is also required in maintaining and enhancing the skills base of the construction sector. The strength of the NSW economy is driving demand for skilled labour in both residential and infrastructure construction. The government must work with industry to increase the number of construction workers with the relevant skills to meet current and future demand within the sector, or face the likelihood that skills shortages will exert upward pressure on the cost of housing and vital infrastructure.

Solutions for Regional Development

Key priorities for next Government:

- Maintain commitment to the implementation of proposed regional projects and funding allocation to existing regional programs;
- Explore opportunities for establishing a grants program to support regional cluster initiative programs;
- In recognition of the regions' strong reliance on public utilities for employment opportunities, the next Government should ensure that the requirement to employ apprentices under the government procurement contracts is enforced; and
- The NSW Government work with the Victorian and Queensland Governments to initiate a cross-border reference group, specifically targeting the Albury-Riverina and Tweed regions.

Regional NSW is an important contributor to the state's economy, providing jobs and contributing significantly to industry exports and economic growth. The NSW Government has shown a strong commitment to improving services and infrastructure in regional areas. This includes undertaking major investment in the road network linking the regions with Sydney and interstate destinations, and supporting improvements on the major freight rail routes.

It is important that the next state Government is committed to implementing proposed regional projects in a timely manner, including the maintenance of country rail infrastructure, and upgrades to the Pacific and Princes Highways.

In particular it should:

- continue to allocate funding to the Resources for Regions program to provide for infrastructure in communities affected by mining;
- maintain the Bridges for the Bush program to improve road freight productivity;
- continue to fast-track Newcastle's revitalisation through its CBD renewal and light rail delivery; and
- support the delivery of priority regional infrastructure through Restart NSW.

Support for the formation of industry clusters

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

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

marketing initiatives and trade missions. HunterNet markets the combined capability of its members which provides opportunities for its members to collaborate as a supply chain of products and services and bid jointly for major project work.

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

Skills

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

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

The regions have traditionally had a strong reliance on public utilities to provide apprenticeship opportunities for the local youth. State Government departments and authorities should be encouraged to employ apprentices and trainees to support local employment. The next state government should also ensure that the requirement to employ apprentices under the government procurement contracts is enforced. Policy initiatives should be put in place to ensure that apprenticeships are made available to those in areas of high unemployment, young women and indigenous youth.

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

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

Regulation streamlining

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

Ai Group 2015-16 Pre-Budget Submission to the Commonwealth Government

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

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

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

Environment: Securing Affordable and Efficient Energy

Key priorities for next Government:

- Unblock gas production barriers while maintaining safety, and establish a clear pathway and timetable for a more competitive gas market;
- Encourage emerging supplies of on-shore gas, including expansion of capacity to import from Victoria and gas storage;
- Maintain support for energy efficiency improvement measures;
- Defer increases in the Waste and Environment Levy; and
- In order to drive efficiency, and ultimately applying downward pressure on electricity prices, Ai Group supports the current Government's proposal to privatise the State's electricity network assets via the transfer of 49% of its ownership of a range of electricity and transmission companies ("poles and wires") to the private sector, in the form of a 99 year lease subject to appropriate regulation of the privatised businesses.

A reliable and affordable supply of energy is integral to the prosperity of NSW. Yet over the last several years energy has become increasingly costly.

Develop competitive gas markets

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

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

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

Minimise costs and encourage energy efficiency

To help energy users cope with high energy prices and restrict pressures for future rises, the next Government must maintain support for energy efficiency improvement measures. In the context of the Government's Energy Savings Scheme it is important to provide more opportunities for industry to cut operating costs, and to ensure the scheme does not impose net costs on energy intensive trade exposed businesses. To ensure that the benefits are spread as widely as possible the next Government should consider expanding the range of activities included in the scheme – most urgently in providing new opportunities to gas consumers to contain their costs.

An important role also exists for Government in partnership with industry associations such as Ai Group to promote strategic resilience in industry and position it to capture emerging opportunities in response to climate change. Ai Group would welcome the opportunity to work closely with the NSW Government in the development and delivery of targeted initiatives to:

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

Deferral of Increases in the Waste and Environment Levy

Ai Group encourages the State Government to consider the most equitable use of environmental levies to help ensure businesses can improve their environmental impact, whilst simultaneously improving efficiencies.

We also recommend that the next Government consider deferral of any further increase in the *NSW Waste and Environment Levy* to ease the cost burden on businesses, particularly in instances where there are no legitimate alternatives to landfill disposal or where there is limited ability to switch to waste avoidance and recycling.

We take this opportunity to point out that on 5 March 2013 Queensland formally repealed its *Industry Waste Levy*, significantly easing that State's burden on business.

The high level of the *NSW Waste and Environment Levy* also creates significant incentives to exploit opportunities to dump waste illegally. Indeed, a majority of submissions to the 2012 NSW EPA Review of the NSW Waste and Environment Levy linked the levy to illegal dumping. The likely consequence is the imposition of more red tape to overcome deficiencies in the imposition of the levy and additional costs in policing levy collection. For instance, the EPA is seeking various amendments in Protection of the Environment Operations (Waste) regulation 2014 such as additional installation of weighbridges at waste facilities and new record keeping requirements.

Privatisation of Government owned assets

Despite a strong forward infrastructure program, NSW ambitions on infrastructure are clearly constrained until capital can be released from the electricity network. This underlines the good sense in the current Government's proposals for the electricity network to be taken to the next state election. This reform is long overdue and represents the best opportunity to fund a sustained increase in infrastructure investment while helping to drive efficiency, and ultimately applying downward pressure on electricity prices.

The benefits of electricity reform in NSW will only be fully delivered if the private sector is able to play a greater role. Importantly, it will remove perceptions of a conflict between the Government's role as ultimate energy asset owner and its role in shaping the regulation of these monopolies. It will also remove the potential for public ownership to distort incentives for capital investment, since the actual cost of capital to the state is well below the commercial cost upon which the regulator judges the appropriate return on investment.

Skilling for the Future

Key priorities for next Government:

- An education and training system that is a world leader;
- Raising the level of literacy and numeracy in the working age population;
- Ensuring students are employable and workplace ready and that no student exits the school system without the fundamental skills of literacy and numeracy; and
- A demand driven training system that responds to the needs of industry.

The challenges of the modern economy are complex and dynamic. Never before has the development of Australia's human capital been so critical to achieving increased productivity and global economic competitiveness.

Educational attainment is a critical element of human capital, in its own right and through its contribution to workforce participation. Improved education and skills will contribute to enhancing productivity and optimising workforce participation.

A Group considers the broad range of education and training options available to Australians are an asset, but warns that all education systems need to be managed more carefully with an emphasis on quality alongside ensuring that NSW and moreover Australia has a demand driven, industry led system.

Ensuring students are employable and workplace ready is foundational in ensuring the long-term competitiveness of NSW.

The NSW Government has a critically important role to play in improving literacy and numeracy, affecting the quality of teaching and assisting schools in low socio- economic communities. Addressing productivity in the long term requires a coordinated effort that links education and training sectors at local, state and national levels.

Addressing the foundation skills of language, literacy and numeracy

Employers continue to be concerned about low levels of workplace literacy and numeracy.

Australian workplaces are dynamic and constantly changing. The workforce needs to respond to increasing skills requirements brought about by new technologies, new work practices and increased compliance and quality assurance measures. Higher levels of language, literacy and numeracy will be required in the future to ensure that industry can continue to improve productivity and maintain its competitiveness in the global economy.

It is essential that the next NSW Government commits significant resources to improving the literacy and numeracy levels of the state's workforce. An important element of this is the need to ensure that the qualifications under the national Foundation Skills Training Package are on the Smart and Skilled list and are adequately funded.

A flexible and quality driven training system

A responsive and quality driven training system is vital for NSW businesses to take advantage of opportunities in the future and alleviate skill shortages. The risk of not transforming the entire VET system into a flexible and high quality education provider is that it will create an additional barrier preventing people from engaging in the workforce. As a consequence, Australia could find itself severely constrained by on-going skill shortages.

A strategy is needed around workforce development. This strategy should target all parts of the organisation, not just apprenticeships and traineeships. As existing workers are the obvious candidates for upskilling to fill skill needs, there needs to be a greater emphasis on workplace delivery, flexible delivery, greater use of e-learning, and empowering workplace supervisors to assess 'on the job' under the tutelage of the relevant Registered Training Organisation (RTO).



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