

Australian Industry Group

Ai GROUP STATEMENT

Ahead of the March 2019
NSW Election

MARCH 2019



Ai Group New South Wales 2019 State Election Statement

Executive Summary

In building on NSW's major strengths as a diversified and globally engaged economy with a strong innovation and research culture, this policy statement outlines priorities for the incoming government to address and key areas where it can play a direct leadership role following the coming NSW state election.

These include:

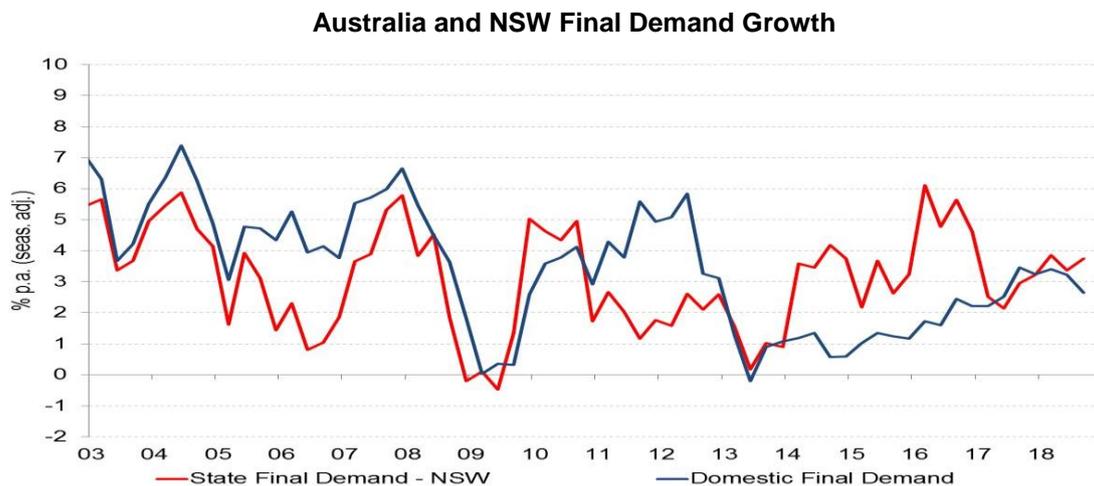
- **Provide a more supporting industry development function** including by facilitating and encouraging the building of business capabilities that make businesses more productive and resilient - championing key industry sectors - reinforcing their strengths, opportunities and challenges and setting out initiatives that the Government is taking or considering in contributing to their future development.
- **Further advancing flexibility across regulatory measures** to promote room for innovation and "breakthrough" improvements in industry performance while reducing costs and other burdens on industry. 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.
- **Ensure NSW taxes and charges are competitive with other states and territories** to enable the State to grow and attract investment. This includes an on-going commitment to the progressive reform of state taxation arrangements preferably in concert with a nationally-led reconsideration of federal-state financial relations. Businesses would also benefit from the option of paying taxes, premiums and charges on an instalment basis where practicable.
- **Facilitate and support efforts to encourage productivity improvements across 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.

- **Continue to invest significantly in the state's infrastructure** to ensure NSW has adequate, appropriate infrastructure and services to accommodate with project delivery strongly focussed on local capacity, capability, skills and supply chains to ensure we maximise the benefits of these major projects for our local communities.
- **Invest in education and skills development for the current and future workforce** to enable all NSW businesses and workers to reach their full potential in the context of rapidly evolving technologies and the emergence of new work opportunities.
- **Position NSW at the forefront of the digital economy** by enabling NSW businesses and workplaces to utilise the full potential of digital technologies, including the next wave of industry 4.0. A key priority must be increased investment in the development of foundation digital and STEM skills for new and existing workers.
- **Address issues concerning industrial waste** by working with the manufacturing and construction industries, as well as the waste and recycling sectors, to identify cost-effective options to support and promote the circular economy. This should be augmented by encouraging the use of recycled materials in government procurement where appropriate and reduce regulatory and institutional barriers to such usage.
- **Ensure that energy markets, regulation and infrastructure are focussed on the delivery of competitively-priced local electricity and gas** to all businesses and households reliably, efficiently and sustainably. A timely decision must be made on the Narrabri coal seam gas project and, more generally, revamp gas field development approvals to create a more timely, science-based and predictable process while ensuring community concerns are addressed.

The Economic Context

The NSW economy continues to exhibit strength with state final demand in Q3 2018 up by 3.7% (seasonally adjusted) over the year. Economic growth is being supported by strong population growth, the continued upswing in publicly funded infrastructure projects and a high (albeit cooling) level of residential building activity. The labour market has remained robust with strong job gains and rising labour demand while improved business conditions have encouraged businesses to increase investment.

Another key positive for the NSW economy is export growth with positive global conditions and a relatively low Australian dollar generating increasing opportunities for the service driven sectors - education and tourism – as well as advanced manufacturing such as medical and pharmaceutical products. NSW comprises Australia's largest advanced manufacturing industry with exports having grown a solid 11.8% p.a. on average over the three years to 2017.



Source: ABS

NSW is also in an enviable fiscal position. The state has maintained its triple-A credit rating courtesy of a strong economy, a low debt burden and continuing substantial investment in new and existing infrastructure projects. The 2018-19 Half-Yearly Budget Review continues to project solid operating surpluses, averaging \$1.3 billion per year in each of the four years to 2021-22. The State's net worth also continues to grow, rising to a projected \$314.7 billion at June 2022, driven by asset recycling, financial management reforms and active financial liability management. The revenue dividend from a solid performing economy and an asset recycling strategy has lent strong support to the NSW economy and helped to finance significant infrastructure spending.

Despite these encouraging headline figures, business conditions are mixed and margins are generally tight amid strong competitive pressures and the escalation in energy costs. The unfolding slowdown in residential building activity will cast a cloud over the State's medium-term outlook including the associated negative spill-over effects on employment and industry activity more broadly which will

weigh on state final demand. Risks to the outlook also centre on the sustainability of consumer spending due to a further decline in the household savings rate. This is likely to mean that consumers will come under increasing pressure from high household debt levels, low wages growth and moderating house prices.

However, whilst key challenges persist, NSW's future remains bright. NSW diversified economy means that it is well placed to capitalise on a more broad-based growth pattern driven by improving non-mining business investment. NSW is well represented in the innovative, knowledge intensive and high margin businesses of the future. NSW industry is combining innovation, investment and exports to make its mark in the global marketplace including through our food processing firms who are developing new products and technology to meet a global market; our machinery and equipment manufacturers, producing technologically advanced and high valued goods; and our new manufacturing industries in biotechnology, information technology and pharmaceuticals.

Further details on Ai Group's pre-election policies and priorities are set out as follows:

Ai Group Policy Recommendations

Maintenance of sustainable public finances

Maintenance of sustainable public finances should remain a key fiscal strategy of the next Government. NSW businesses will be looking to the Government to continue to achieve operating surpluses and debt positions that are consistent with the State's triple-A credit rating through responsible and prudent fiscal management. This will require ensuring that recurrent spending is covered by recurrent revenue. It will equally require 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.

Over the medium term the strategy should be 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. This is vital in enabling the State to grow and attract investment;
- Take advantage of the state's strong fiscal position and solid credit rating to allocate sufficient funds for the continued development of the state's economic and social infrastructure;
- Continue to monitor and seek out efficiencies in government department program delivery;
- 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.

Taxation reform

Establishing the right tax structure is one of the most important reforms that Government can implement to promote growth, boost employment opportunities and improve international competitiveness. The next Government must be strongly committed to delivering genuine improvements in the state's taxation arrangements to promote growth and investment in the state. We recognise that opportunities for improvements would be greatly enhanced by a concerted national reform program – including to federal-state financial arrangements. An ambitious program of improvement to taxing arrangements should include:

- Reduction or removal of taxes and charges that are most harmful to businesses growth and employment creation and that most distort or reduce economic activity;
- Ensure that NSW businesses are not at a competitive disadvantage with their interstate counterparts, and that businesses are encouraged to locate and invest in NSW rather than in alternative global locations;
- Ensure 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;
- Simplify tax scales and thresholds and avoiding multiple rate scales which distort activity and increases complexity;
- Implement reform of NSW property taxes by pursuing the option of removing 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. This would ensure the state has a more efficient and reliable revenue source;
- Reduce land tax rates recognising that a broader land tax base would collect proportionally more tax on more highly valued land holdings; and
- Take a leading and constructive role in the important national debates on tax reform and the federation. A key objective should be to remove the more inefficient state taxes.

Business Regulation and Compliance

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

- Assign responsibility of regulatory policy to a Senior Minister to advocate regulatory policy reform within Cabinet, drawing on advice and assessments from an independent body or well-resourced regulatory function as recommended in the Independent Review of the NSW Regulatory Policy Framework;
- Further advance flexibility across regulatory measures, including 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;
- 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;
- Achieve improved regulatory outcomes for business and the community by investing in gaining a better understanding of 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;
- 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 the actors 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.

Government Procurement

It is vital that NSW Government procurement policy is focused on ensuring that capacity and capability are developed in domestic supply chains so that full opportunity can be taken up by domestic businesses that can plan for and compete for procurement work in projects. Emphasis on local capacity, capability, skills and supply chains must be maintained and strengthened. This should include an emphasis on using public infrastructure contracts to build competitive capacity and capabilities in regional areas wherever possible. Ai Group is not advocating that favoritism be shown to local suppliers, but rather that they be given equal access to tender, and that full, fair and equitable consideration is given to local tenders or quotations received.

There are a range of opportunities for improving the management of the tender process so that tender costs are reduced across the public sector, and the Government's purchasing power is used to the best advantage of NSW and industrial development. We urge the next Government to:

- Increase attention to whole of life costs in public sector procurement as distinct from a focus on obtaining the lowest cost. This means taking account of factors such as maintenance and through-life support which are key advantages that local suppliers are able to offer;
- Maintain and strengthen the emphasis on local capacity, capability, skills and supply chains with full, fair and equitable consideration is given to local tenders or quotations received;
- Ensure consistency in relation to conformity with Australian standards with no preferential treatment of offshore suppliers;
- The selection and retention by Government of experienced and appropriately skilled project development and procurement personnel to ensure private sector confidence in the tender and operational processes;
- Commit to well-designed procurement guidelines, incorporating simple standardised contract requirements and clear tender specifications and evaluation procedures; and
- Make greater use of the Industry Capability Network (ICN) in helping to build Government knowledge of local industry capabilities and sourcing opportunities.

Industry, Innovation & Economic Development

Strong economic growth necessitates that the next State Government continues to support industry, innovation and economic development. This necessitates an on-going commitment to programs that are critical to stimulating economic growth. In particular, we call upon the next Government to:

- Pledge an on-going commitment to programs that are critical to supporting industry and economic growth, including Tech Vouchers, Minimum Viable Product, Collaborative Solutions, Supply Chain Accelerator Pilot Program, Youth Employment program, Business Connect, Export Capability Building and the Resources for Regions program;

- Build on these existing programs with 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;
- 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 and create new jobs. 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;
- Establish a manufacturing advisory group to act as an industry expertise resource for Government in guiding policy directions based on the Queensland Government’s Industry and Manufacturing Advisory Group (IMAG);
- Maintain a focus on building collaborative links between researchers and industry, and in doing so 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;
- Deliver the physical infrastructure geared towards promoting innovation such as innovation precincts and improving SME’s access to Government research facilities;
- Establish Government education programs that assist SMEs, particularly in regional areas, in taking advantage of broadband and other advances in ICT (including the upskilling of employees) could make a valuable contribution to NSW’s future global competitiveness;
- Reduce or remove regulatory barriers to innovation and new technologies across all sectors, including (but not limited to) energy, transport, engineering, food development, robotics, digital technologies and telecommunications;
- Assist NSW businesses and workplaces to utilise the full potential of the next generation of digital technologies and smart manufacturing systems. A key focus must be the further investment in the development of digital and STEM skills for new and existing workers; and
- Take a pro-active approach to connecting manufacturing businesses with opportunities in government procurement.

Building First Class Infrastructure

NSW’s long-term economic performance continues to depend on maintaining a substantial level of infrastructure investment to improve productivity and enhance competitiveness across the State. It is important that the next State 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.

Key priorities include:

- Address the rising concerns with the regulatory risks arising from changes to the regulatory and contractual arrangements governing privately-owned or leased infrastructure assets. Existing owners of such assets, including many superannuation fund members, should not be penalised by a failure of government to clarify from the outset appropriate and fair regulatory and contractual arrangements;
- Stronger regional development plans need to be addressed with projects identified and progressed at rates consistent with the roll-out of metropolitan projects;
- Provide the necessary public and freight transport infrastructure needed at Badgerys Creek Airport to realize the economic and social benefits for the Greater Western Sydney area - an integrated freight and logistics hub would be the key to meeting medium to long-term demand for freight services for Badgerys Creek Airport;
- Provide regular updates and early alerts on the level of priority attached to major infrastructure projects and the anticipated funding arrangements;
- Ensure all proposed infrastructure projects are subject to thorough and transparent cost-benefit analysis to ensure the government gets the best possible use of taxpayer funds;
- Establish and formalise a community and business consultation process, where robust debates on the prioritisation of NSW infrastructure projects could be conducted;
- Take action to further develop 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; and
- Ensure improved provision of real-time information by governments about transport options and network conditions; investment in new and smarter transport infrastructure to keep up with population pressures; and pricing reform to improve utilisation and efficiency in the use of transport infrastructure.

Solutions for Regional Development

Regional NSW is an important contributor to the state's economy, providing jobs and contributing significantly to the state's exports and economic growth. In particular, it will be vital to:

- Maintain a commitment to the implementation of proposed regional projects and funding allocation to existing programs;
- Achieve a 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;
- Identify and prioritize proposed regional infrastructure in a transparent way, accompanied by detailed plans. This is central to private sector commitment to, and investment in NSW regional infrastructure projects. It also helps businesses in their long-term investment decisions;

- 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;
- Explore opportunities for establishing a grants program to support regional cluster initiative programs that would direct financial and other assistance to individual cluster initiatives; 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.

Environment – Securing Affordable and Reliable Energy

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. The next Government must act to:

- Support energy efficiency while avoiding duplicative energy planning requirements on large energy users;
- Work with the Commonwealth to adopt Recommendation 11 of the ACCC's Retail Electricity Pricing Inquiry Final Report directed at developing rebates for energy users on distribution network charges;
- Make a timely decision on the Narrabri coal seam gas project and develop reforms for gas approvals that create a more timely and predictable process while ensuring community concerns are answered;
- Develop an integrated energy and industry policy that facilitates upgrades by industry of production facilities (to radically enhance efficiency or the switching of fuels) and brings together information on opportunities, supporting innovation and unifying finance options;
- Ensure energy-efficiency policy supports small and medium business energy users;
- Address issues concerning industrial waste by working with the manufacturing and construction industries, as well as the waste and recycling sectors, to identify cost-effective options to support and promote the circular economy; and
- Encourage the use of recycled materials in government procurement where appropriate and reduce regulatory and institutional barriers to such usage (such as replacing materials requirements for infrastructure with performance standards).

Skilling for the Future

The development of the skills of the current and future workforce and its managers is central to further advances in the economic and social well-being of NSW, and in securing the state's long-term sustainability and prosperity. The next State Government therefore has a critically important role in improving education and skills to enhance productivity and optimise workforce participation. Key priorities include:

- Promote and support an education and training system that is a world leader;
- Increase investment in the development of key categories of skills for the transforming economy through education and training sectors in NSW;
- Extend the Skills for Business program to more businesses and skill areas;
- Address declining investment in VET in cooperation with the Commonwealth to ensure that it is best placed to meet the emerging vocational skill needs of industry;
- In consultation with industry, develop measures designed to increase the level of participation in apprenticeships/traineeships, including the Industry 4.0 Higher Apprenticeship; and
- Develop strategies to facilitate greater participation by schools and industry in VET in schools and in school-based apprenticeships.
- Taking specific account of the transport needs of students in VET infrastructure planning, particularly in regional areas.

We also recommend that consideration be given to the integration of the Albury and Wodonga TAFEs to provide the local community with a more comprehensive range of training options and allow them to “skill-up” for the full workforce needs of industry in the border region. An integrated approach to VET in the region would mean servicing to a much higher catchment of students, and increasing TAFE's ability in the region to scale and resource itself accordingly. Drawing on the example of the successful cross border health service – known as Albury Wodonga Health – the NSW Government should begin discussions with the Victorian Government to explore the opportunity of progressing a collaborative TAFE approach in the delivery of VET courses to the Border community. We would see this integrated TAFE arrangement as potentially coming under the jurisdiction of one state.