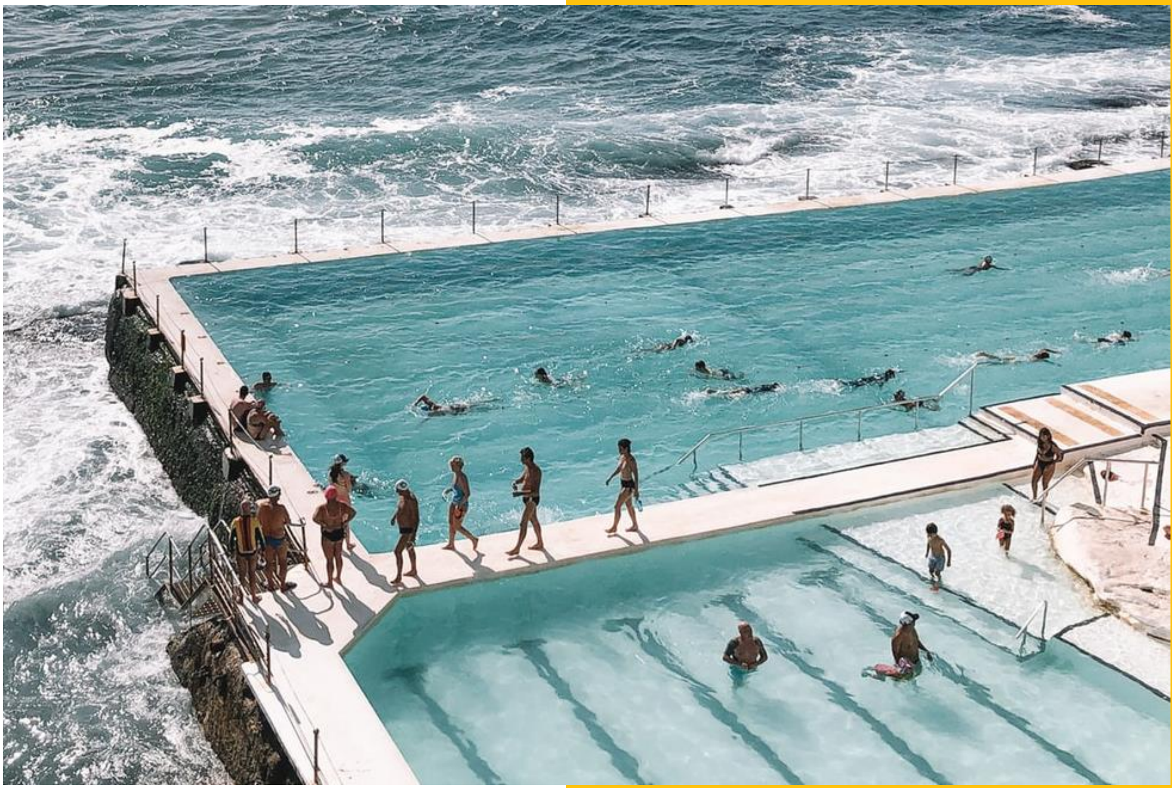
27 November 2019

Kickstarting productivity in NSW



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Introduction

The NSW Business Chamber (the Chamber) welcomes the opportunity to provide a submission to the Productivity White Paper process (White Paper).

The Chamber is one of Australia's largest business support groups, with a direct membership of 20,000 businesses and providing services to over 30,000 businesses each year. The Chamber works with businesses spanning all industry sectors including small, medium and large enterprises. Operating throughout a network in metropolitan and regional NSW, the Chamber represents the needs of business at a local, state and federal level.

Improving the efficiency of markets will require political leadership to drive changes in the way we organise economic activity, including by re-examining the way we regulate and structure markets. The Chamber is pleased the White Paper will provide an opportunity to identify where the Government's efforts should be focussed.

The Chamber notes the White Paper will include a Green Paper which will afford a further opportunity for feedback from the Chamber. For this reason, this initial submission focuses on the Chamber's policy priorities in broad terms. The Chamber notes that each of these priorities entail significant reform agendas which cannot be given their full and proper consideration as part of this submission. We look forward to engaging in more detail as part of an iterative process as proposals and draft recommendations emerge.

Part 1 of this submission provides an overview of key productivity priorities; Part 2 examines the role of human capital in driving productivity growth; Part 3 examines energy as a key business cost; Part 4 looks at transport, planning and housing; Part 5 examines the NSW tax system; Part 6 examines regional development opportunities; and Part 7 considers regulatory issues.

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Business investment, including policies which support the attraction of capital to NSW, should be considered as a key focus of the White Paper.

Recommendation 2

Policy levers relating to tax, human capital and business costs are critical to encouraging business investment and should be examined as part of the White Paper.

Recommendation 3

Payoffs associated with investments in human capital are uncertain, yet they are critical to attracting business investment and the performance of the economy. Investments in human capital should be configured to maximise the role of employers in identifying which skills and capabilities are in demand, and offering experiential learning opportunities.

Recommendation 4

The White Paper should examine productivity in the broadest possible conception with a focus on policy levers which improve the efficiency of markets.

Recommendation 5

The White Paper should consider a broader range of perspectives when considering living standards such as potential negative impacts on small businesses.

Recommendation 6

Prioritise implementation of the recommendations contained within the NSW Curriculum Review on strengthening the development of general capabilities, and raising their status within curriculum delivery.

Recommendation 7

Support teachers by introducing and expanding professional learning communities.

Recommendation 8

Introduce systems to allow schools to more effectively monitor teaching quality including a structured and accountable coaching program with suitable success measures.

Recommendation 9

Expand the use of the Teacher Performance Management and Improvement program and empower principals to manage the performance of their workforce.

Recommendation 10

The Government make additional funding available to disadvantaged schools to incentivise and support them to help students follow different post-school pathways.

Recommendation 11

The Government must commit to increase funding to the VET sector over the short and long term.

Recommendation 12

The Government provide funding to local VET partnership projects in the short-term rather than committing to further wholesale changes.

Recommendation 13

The Government should continue to expand efforts to increase the number of SBATs starting by making commencements available in Years 10, 11 or 12.

Recommendation 14

Increase the flexibility available to students to do more work-place training as part of their SBAT.

Recommendation 15

The Government should ensure that schools support students wanting to complete their HSC as well as an SBAT by improving timetabling and making resources available to students to catch up on lessons they have missed whilst training.

Recommendation 16

That the NSW Government accelerate the Careers Immersion model pilot and conduct an expedited review of the pilot with the aim of expanding the model across NSW in 2021 into primary schools.

Recommendation 17

That the NSW Government develop a campaign to promote apprenticeships and traineeships to students, families, and employers.

Recommendation 18

Provide subsidies to small and medium businesses that develop internal training that subsequently become nationally recognised.

Recommendation 19

That CPD arrangements are learner-centred and driven, free or low cost, offer a variety of learning formats and delivery methods, and are flexible in their availability.

Recommendation 20

Licensing bodies from each jurisdiction for each category of licence should develop as many nationally recognised licence categories as possible. Introduce temporary exemptions when there is an urgent need for the skills in another jurisdiction.

Recommendation 21

The NSW Government should continue to work collaboratively and develop the national policy landscape via the COAG Energy Council process.

Recommendation 22

Careful consideration should be given to end user costs when making investments in network infrastructure to improve reliability.

Recommendation 23

Demand response has the potential to be a significant contributor to energy system security and cost-control. Enabling measures for demand response should be supported, and businesses who want to take part assisted in joining demand response programs (such as through 'aggregation'). However, because not every business will be equally able or willing to enter demand response programs, participation in demand response by businesses should be voluntary rather than mandatory.

Recommendation 24

Government should establish a measure that supports voluntary negotiations between landlords and tenants to invest and share in the benefits of renewable energy on existing and future premises.

Recommendation 25

Economic regulators must apply strict scrutiny to energy network spending plans to ensure proposals are necessary and efficient. Financing terms should be reviewed to ensure windfall gains at energy users' expense are no longer tolerated. The ACCC's Recommendation 11 should be implemented, returning some of the value of historical over-investment in networks back to business and residential customers.

Recommendation 26

Regulators should index energy network cost of capital to real world benchmarks, to prevent windfall gains from financing allowances.

Recommendation 27

Due to the time needed to bring the field fully online, for Narrabri to be producing by the time of the expected supply shortfalls in 2025, approval to proceed needs to be given by 2020. The NSW Government should increase its focus on the Narrabri project, and accelerate the review and approval processes.

Recommendation 28

Gas pipeline infrastructure needs to reflect the new balance of supply sources. A review of gas pipeline infrastructure should be carried out, to identify constraints and viable capacity upgrades for links between NSW and northern producers. Pipeline capacity may also need to be expanded between proposed LNG import facilities and the major demand markets within NSW.

Recommendation 29

The NSW Government should support LNG imports into NSW, and ensure that permits and applications for expansion are prioritised. To be able to contribute to improved security at the time of projected 2025 shortfalls, LNG facility developers should be in a position to start construction by the end of 2022.

Recommendation 30

The NSW Government should appoint a single department to progress critical gas projects through the approval processes and ensure that government resources and priorities are properly applied. It should ensure that department is staffed with people experienced in natural gas developments, to ensure that the specific technical issues raised in natural gas projects can be given appropriate scrutiny.

Recommendation 31

State taxes and levies should be removed from energy bills. Surplus Climate Change Fund budget should be spent on measures to improve business and household energy efficiency and affordability, or returned to users through rebates on bills.

Recommendation 32

Identify and develop appropriate non-financial metrics to complement financial commitments (as part of the infrastructure pipeline) when communicating about actions to improve transport infrastructure.

Recommendation 33

The NSW Government should produce and regularly update commitments and actual spending on announced infrastructure projects. Information should be provided in a searchable form and collected in one place.

Recommendation 34

Infrastructure NSW should be empowered to identify bottlenecks in the allocation and distribution of funds (in areas including but not limited to planning, project identification and contracting).

Recommendation 35

The White Paper should prioritise strategies which reduce congestion and commuting times for NSW residents. The White Paper should assess demand management strategies (including price mechanisms) during peak periods on roads and public transport networks.

Recommendation 36

Infrastructure and changes to land use should be planned in advance and coordinated to maximise benefits to the community and value to the taxpayer.

Recommendation 37

The number of commercial/business related zoning classes should be reduced and streamlined.

Recommendation 38

The merits of minimum dwelling sizes should be reviewed.

Recommendation 39

The Commonwealth and other states and territories should engage constructively with the FFR Review.

Recommendation 40

Absent more comprehensive reform (including reform facilitated with support from the Commonwealth), the ambition of recent reforms to transfer duty thresholds should be boosted to ensure the future reform challenge does not become greater.

Recommendation 41

Taxes on insurance should be minimised or abolished to make it easier for businesses to mitigate risk.

Recommendation 42

Local government rates, including the IPART Review, should be considered as part of the FFR Review.

Recommendation 43

Rates ultimately paid by businesses should not be increased to fund local government services delivered to residential ratepayers. Additional mechanisms should be considered to protect businesses from any rate increases that may result from implementation of recommendations from the IPART Review.

Recommendation 44

Payroll tax administration costs warrant a higher threshold than might otherwise be the case. NSW should have a payroll tax threshold that is sufficient to ensure we are competitive with other jurisdictions and which minimises tax administration burden.

Recommendation 45

Regional employers should be given immediate access to the $1m threshold.

Recommendation 46

Progress should be made toward recommendations 6 and 12 of the PRT Review.

Recommendation 47

Revenue NSW should ensure clarity for businesses engaging in chain of on-hire arrangements by adhering to revenue rulings relating to these arrangements.

Recommendation 48

The FFR Review should consider opportunities to collaborate on the reform of state-based payroll taxes. Options include redesigning the payroll tax base to improve payroll tax administration and replacing existing taxes with alternative revenue sources in partnership with the Commonwealth.

Recommendation 49

The FFR Review should consider options to implement the FESL under a revised model that is fairer and more efficient than the ESL.

Recommendation 50

Current arrangements for funding emergency services are not optimal and should not underwrite new costs. Alternative funding arrangements are needed.

Recommendation 51

The Government should increase the payroll tax threshold to $1m for regional businesses. Further relief targeting new investment in regional areas, based on recommendations from the *Inquiry into Zonal Taxation*, should also be explored.

Recommendation 52

The Government should ensure the proportion of annual Restart NSW funding that goes to regional projects should be consistent with the 30 per cent target overall. Approaches to project assessment should balance the need to have high quality projects while recognising the challenges associated with assessing projects in regional centres.

Recommendation 53

The NSW Government should continue to take a pragmatic approach to directly address cross-border issues as they arise. All future policies should be assessed for any impacts on cross-border communities, including as part of new regulatory impact assessment processes implemented as a result of the Greiner review. The regulatory and policy environment in neighbouring jurisdictions should be monitored and, if required, changes made to ensure NSW is competitive with the rest of Australia.

Recommendation 54

The Government should:

- abolish stamp duty on insurance premiums for commercial and business premises to encourage increased insurance coverage;
- Provide flexible payroll tax payment arrangements for those impacted by natural disaster; and
- Establish a natural disaster recovery fund to better support businesses and communities impacted by natural disasters.

Recommendation 55

Principles and outstanding recommendations from the Harper Review and the PC's *Shifting the Dial* report should be considered as part of this White Paper. A focus for the White Paper should be to consider how these can be implemented in a NSW context while balancing potential political constraints.

Recommendation 56

The NSW Government should ensure the key recommendations from the Greiner Review are implemented by the end of the 2019 calendar year. The NSW Government should also revitalise the QRS initiative.

Recommendation 57

The *Easy to do business* initiative should be expanded to more policy and local government areas. The White Paper should consider how greater participation in this initiative could be incentivised and encouraged.

Recommendation 58

The Government should engage closely with developers of new technology to identify new opportunities for streamlining compliance burdens. The Government should establish an unsolicited proposal framework so that developers can gain access to Government and propose novel solutions to regulatory challenges.

Recommendation 59

Boost funding for training and support for new and expanding businesses with a view to supporting businesses as they take on new challenges such as hiring staff.

Recommendation 60

The Government should consolidate existing grants, support and other forms of business assistance into a streamlined grants program. Grants should be more visible to practitioners, application processes simplified, and likely grant outcomes clear to applicants.

Recommendation 61

The Government should, when developing public policy positions (especially for a policy area that is being addressed at both a state and federal level), ensure that:

- recommendations of 'best practice' are clearly identified and differentiated from those business practices that need to be put into place to ensure legal compliance;
- the overarching legislative framework is taken into consideration to avoid any conflict or divergence of well-understood legal concepts; and
- it is not imposed upon an employer as a matter of regulatory convenience where responsibility for a particular matter properly lies elsewhere.

Recommendation 62

The Government should monitor the ongoing impact of recent reforms to NSW Government procurement and fine-tune where necessary.

Part 1 – Introduction and overview

Productivity growth has slowed and is no longer improving living standards to the extent it has in the past. When viewed through metrics such as GDP per hour worked, Australia's productivity performance has waned as the impact of previous drivers of productivity growth has dissipated (such as capital deepening during the investment phase of the mining boom and ongoing benefits associated with previous microeconomic reforms).

Productivity: Where should our focus be?

In broad terms the productivity of an economy can be judged by the level of output that can be achieved given the stock of physical and human capital. The productivity of capital and labour can be examined separately. Labour productivity is often a focus because it offers a more compelling indication of how productivity trends affect living standards. For example, a process of capital deepening may have the dual effect of reducing capital productivity (as the highest gain opportunities become exhausted) while greatly increasing labour productivity. The net effect for overall (or multifactor) productivity is likely to be positive.

Economic theory suggests that higher labour productivity (including due to capital deepening) will increase the marginal product of labour resulting in higher labour incomes. This in turn increases living standards. That is why it is essential to create the right environment so that businesses can expand and invest in their local communities. Policies aimed at attracting greater business investment should therefore be a key focus of the White Paper.

Recommendation 1

Business investment, including policies which support the attraction of capital to NSW, should be considered as a key focus of the White Paper.

Business investment

NSW's ability to attract and encourage new business investment depends on fundamental factors relating to our endowments (including our human capital stock, strategic positioning, and industry capabilities). But capital is mobile and government policies can determine whether NSW is an attractive place to invest.

NSW is historically the highest taxing state which discourages investment at the margin. While the drag of higher taxes is offset by many of our strengths, taxes remain a clear lever which can be configured to attract greater business investment. While matters relating to our tax system will be considered in Part 5, it is notable that NSW is highly reliant on inefficient taxes such as transfer duty which are particularly punishing because they are a tax on capital investment rather than on capital income.

Business investment is also sensitive to the costs of doing business. For example, delivering more affordable energy by expanding gas supply has a comparable effect to cutting business taxes. Equally, policies that boost human capital have the potential to improve unit labour costs and make NSW a more desirable place to invest. Further, anecdotal feedback from the Chamber's members suggests the NSW regulatory environment is more challenging than in other parts of Australia. Regulation imposes a significant cost burden on business, which we estimate to be in the order of $10.6bn every year.[1] Part 7 will examine some of the key opportunities to reduce regulatory impediments in NSW.

Recommendation 2

Policy levers relating to tax, human capital and business costs are critical to encouraging business investment and should be examined as part of the White Paper.

Human capital

For labour, the corollary of an expansion of the physical capital stock is an investment in human capital. However, there is often much poorer visibility as to their productivity dividends given long-term payoff periods and factors idiosyncratic to individuals. Other labour market dynamics such as signalling and ability bias make it difficult to observe whether higher labour incomes resulting from education and training are the outcome of a genuine uplift in human capital or unrelated factors.[2] Equally, it is not always clear which among alternative investments are most effective. For example, policies such as reducing student-teacher ratios may have more limited impact than other investments of an equivalent magnitude. There is a clear opportunity to examine models of education and training to ensure effective human capital formation.

Governments have taken on key responsibilities for making human capital investments on behalf of society in the form of education and training subsidies. Government must play a central role given there are both private and public benefits. Most of the private benefits accrue to employees making it difficult for employers to make viable investments in human capital above the minimum necessary for an employee to function in their job.

Yet employers play a vital role in building the human capital stock given the role of experience as part of learning and boosting skills. Employers support experiential learning through both the formal apprenticeship and traineeship system as well as informally by providing job opportunities to inexperienced workers and developing employees as they progress through their careers. The Chamber's members increasingly report soft skills as being important to their workforce and many of these can only be learned through experience (see Box 1 in Part 2). That is why the Chamber has partnered with programs such as Productivity Bootcamp to support young people to develop the right skills they need to find their first job.[3] Policies which support employers to overcome the barriers to employing low-skilled workers are likely to have high human capital and societal benefits.[4]

[1] 2016 NSWBC red tape survey, see https://www.nswbusinesschamber.com.au/Issues/Business-Surveys/Annual-Red-Tape-Survey.
[2] See Caplan 2018, https://press.princeton.edu/books/hardcover/9780691174655/the-case-against-education.
[3] See https://productivitybootcamp.com.au/.
[4] The Mitchell Institute estimates the lifetime cost of a disengaged person to be $411,700 in fiscal impacts and $1.1m in social impacts, see http://www.mitchellinstitute.org.au/wp-content/uploads/2017/06/Counting-the-costs-of-lost-opportunity-in-Australian-education.pdf.

Employers also have direct visibility as to the skills and abilities they need in their workforces. Top-down decision making by governments — as in most domains where economic activity is planned — does not optimise decision-making to maximise the return on investments in human capital.

Part 2 will examine some of the mechanisms to boost human capital in NSW.

Recommendation 3

Payoffs associated with investments in human capital are uncertain, yet they are critical to attracting business investment and the performance of the economy. Investments in human capital should be configured to maximise the role of employers in identifying which skills and capabilities are in demand, and offering experiential learning opportunities.

Improving the efficiency of markets

While investment is essential to maintain productivity growth, we cannot solely rely on an expanding capital stock to drive improvements in living standards. This is particularly true of NSW which is predominantly a services economy built on our human capital endowments. As the Commonwealth Productivity Commission (PC) has recently noted:

> *"..the decline in the relative importance of capital-intensive sectors in favour of the service sector implies long-run weakening of capital deepening, meaning that labour productivity improvements will increasingly need to be driven by innovation and greater efficiency."*[5]

Improving the efficiency of markets will therefore become vital to boosting both labour and multifactor productivity growth. Political leadership will be required to drive changes in the way we organise economic activity, including by re-examining the way we regulate and structure markets. In some cases it may be that market intervention is impeding the efficient operation of markets. In others, it may be that there is too little intervention or an undersupply of public goods and services to enable markets to operate at their frontier. Parts 4, 6 and 7 will examine how these issues interplay with regulatory frameworks and service delivery in areas such as infrastructure, planning and regulation.

Recommendation 4

The White Paper should examine productivity in the broadest possible conception with a focus on policy levers which improve the efficiency of markets.

Why care about productivity?

Any discussion about productivity growth will likely focus on boosting living standards as a key purpose for pursuing productivity enhancing reforms. The private sector needs to

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[5] p23 *Productivity Bulletin 2019,* Productivity Commission, see https://www.pc.gov.au/research/ongoing/productivity-bulletin/2019/productivity-bulletin-2019.pdf.

thrive in order to fulfil broader societal demands for public goods and services. A languishing private sector does not bode well for the broader interests of society.

The Chamber recognises the limitations of an overly materialistic view about living standards. The Chamber acknowledges there is a role for government in developing efficient policy responses to address negative externalities and ensuring market power is not abused.

As representatives of small business, the Chamber also recognises that individuals may have different definitions of success. A decision to start a business can be motivated by a multitude of factors such as a desire for flexible work arrangements, greater work autonomy and financial security. It is important these are recognised in a framework that considers living standards in the broadest possible sense. In practice, this may mean managing the pace of change and supporting small businesses affected by significant disruption in markets.

The Chamber notes earlier efforts to develop a broader policy framework within which to view these issues. The Commonwealth Treasury's wellbeing framework is one such example.[6]

Recommendation 5

The White Paper should consider a broader range of perspectives when considering living standards such as potential negative impacts on small businesses.

[6] See https://treasury.gov.au/publication/economic-roundup-issue-3-2012-2/economic-roundup-issue-3-2012/treasurys-wellbeing-framework.

Part 2 – Human capital

NSW is primarily a services economy which relies on our human capital to remain competitive and attract business investment. While NSW is endowed with a highly educated and trained workforce, more needs to be done to build the right skills for the future.

Boosting human capital

Investments in human capital are a mixed good insofar as they give rise to both private and public benefits. Individuals are incentivised to build their skills due to the labour market opportunities opened up to them. However, education and training offers public benefits as not all of the gains flow directly to the employee. This component justifies significant public investment in skills and education.

Some parts of the education and training system are underfunded including skills training. Additional funding commitments for skills should focus on areas that are most effective at building the human capital base. The apprenticeship model is proven to be effective at contributing to the availability of skills that are in demand. There is a strong case for significant new public investment in this area.

NSW is also fortunate to be an attractive place for highly skilled people to live and work. By attracting skilled labour from other parts of Australia, and from overseas, we are able to build the stock of human capital in areas where skills needs cannot be met locally.

Reducing barriers to workforce participation ensures we make the most of our existing pool of human capital. Government has a role to ensure that childcare is affordable by minimising unnecessary regulation that imposes compliance costs. Childcare places, including before and after school care, should be widely availability to expedite return to work according to the preferences of families.

The Chamber undertook a Workforce Skills Survey of businesses across NSW in July 2019[7] and more than half reported having a skills shortage, particularly in construction; manufacturing; health; disability; early childhood; education and training; farming and agriculture; retail / customer service; and hospitality including chefs and cooks. Businesses reported that these shortages resulted in reductions in productivity and output. Over 20 per cent of businesses reported that these shortages directly resulted in them losing customers or missing opportunities.

Core competencies to be delivered by a modern school system

The Chamber's Workforce survey examined the key skills in demand. Frequently businesses focussed on the need for greater enterprise skills, and this is examined further in Box 1. External research further reinforces these findings. For example, the Foundation for Young Australians (FYA) undertook research of 4.2 million online job advertisements between 2012 and 2015[8]. That research identified that over the period, the proportion of jobs that demanded critical thinking increased by 158 per cent. For

[7] NSW Business Chamber. 2019 Workforce Skills Survey. Retrieved from https://www.nswbusinesschamber.com.au/Issues/Issues/Workforce-Skills on 14 November 2019.
[8] Foundation for Young Australians. The New Basics. April 2016. Retrieved from https://www.fya.org.au/our-research/ on 21 November 2019.

digital literacy, creativity, presentation skills and problem solving the increase was 212 per cent, 65 per cent, 25 per cent and 26 per cent, respectively.

Given these findings, it is clear that the skills of the future are actually the skills of today. It is critical to future work and success that these skills be more explicitly developed and measured at school. Introducing a more robust general capabilities framework which supports experiential and project based learning throughout the K-12 curriculum is strongly supported.

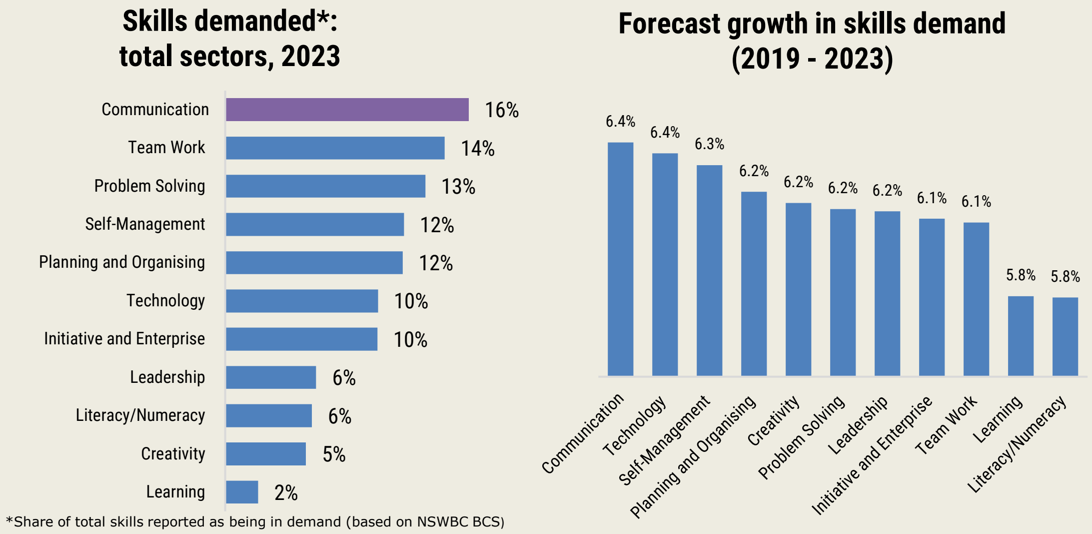
Box 1 – Projecting future skills in demand

The Chamber's 2019 Workforce Skills Survey suggests that over half of businesses (55.4 per cent) are currently experiencing a skills shortage. Trade skills in construction and manufacturing/engineering were the most prominent skills in shortage. While hard skills such as these remain scarce, growing demand in non-routine soft skills (such as social and emotional skills) should also be a focus within our education and training system.

The Chamber has prepared a set of soft skills demand projections to 2023 based on reported skill requirements from the Chamber's Business Conditions Survey (BCS) and Department of Employment workforce projections.

Communication (16 per cent) and team work (14 per cent) are projected to be the two highest soft skills in demand while technology skills account for 10 per cent. Communications skills are projected to grow the fastest, followed by teamwork and problem solving skills.

Skill Demand Projections(2019 – 2023)



Source: Based NSWBC Business Conditions Survey and Department of Employment projections.

Recommendation 6

Prioritise implementation of the recommendations contained within the NSW Curriculum Review on strengthening the development of general capabilities, and raising their status within curriculum delivery.

Improving student outcomes

Most teachers are passionate about their jobs and their role in giving children and young people the knowledge and skills they need to be productive members of society. We want to celebrate and develop these teachers and attract some of the best and brightest to become the next generation of educators.

The FYA research noted above also indicated that only 1 in 10 teachers had undertaken recent professional development to help students develop generic, transferable skills for the future workplace with less than half of Australian secondary school teachers reporting that they frequently involved students in “small groups to come up with a joint solution to a problem or task".

Accordingly we recommend the creation of professional learning communities. These communities would involve online hubs that connect teachers with evidence-based practice, whether via academia or industry-led solutions, as well as a medium for sharing their on-the-ground knowledge about the teaching and learning approaches that work. These communities should also facilitate a voluntary peer-to-peer mentoring system to help new teachers, or teachers in remote areas who lack peer support, to have the support they need to build confidence in themselves as educators.

Recommendation 7

Support teachers by introducing and expanding professional learning communities.

Research has shown that quality teaching is the greatest in-school influence on student engagement and outcomes. In NSW, the Department of Education assesses public school teachers against accreditation standards as part of the accreditation process. However, during a recent audit, the NSW Audit Office found a number of issues with the system of quality improvement including that:

- the NSW Education Standards Authority (NESA) does not review schools’ decisions to accredit teachers as proficient; and
- the Department does not effectively monitor teaching quality.

Professional guidance is particularly crucial at the start of a teacher’s career and should be a priority objective for school leadership teams. Principals’ time must be freed up from administration and shifted toward facilitating best practice teaching and learning.

A structured and accountable coaching program with measurable Key Performance Indicators (KPIs) for all involved would provide both professional and personal support to teachers as they begin to shape themselves as primary and secondary educators. Areas of teaching and learning outcomes should extend beyond academic achievement to key economic development factors such as inclusion, engagement across networks and community and the well-being of teachers and young people.

Recommendation 8

Introduce systems to allow schools to more effectively monitor teaching quality including a structured and accountable coaching program with suitable success measures.

The Audit Office recently found that, of the almost 80,000 permanent, casual and temporary teachers, only 53 were involved in the formal Teacher Performance Management and Improvement (TPMI) program.

Recommendation 9

Expand the use of the Teacher Performance Management and Improvement program and empower principals to manage the performance of their workforce.

Many public schools across NSW are conducting a range of programs that result in positive outcomes for students and communities but receive little or no recognition or funding but are being conducted on the basis of a school's commitment and dedication. By incentivising these programs and expanding the focus of funding, there might be opportunities to consider alternative models of senior secondary pathways into employment or further study.

Such an approach would require a reduction in the focus on standardised test scores. Funding could be made available to schools to, for example, develop partnerships with employers to increase the number and quality of work placements undertaken by students or work with local training providers to develop training suitable to the local employment market.

This funding could be used to increase teacher numbers to support delivery of VET in schools or to provide wraparound services that support students to complete their schooling. Continued funding would be determined by the proportion of students achieving employment or training outcomes.

The measurement of employment or continued learning outcomes would likely require data from the NSW School Leavers Survey to monitor student outcomes and school performance in terms of progress to work and further study. It could also be complemented with broader analysis of other data sources such as employee earnings.

Recommendation 10

The Government make additional funding available to disadvantaged schools to incentivise and support them to help students follow different post-school pathways.

The VET sector

The paper accurately reflects the key challenges facing the VET sector. However, of those challenges, the key issue which needs highlighting is the decline in public funding provided to the VET system, particularly when compared with the significant recent increases in funding to universities and schools. This funding inconsistency and uncertainty is hampering the ability of providers to meet the demands of students and business.

Where there is significant change due to occur across the VET sector in 2020 with new pilots and projects being introduced including: Industry Training Hubs; the National Skills Commission; the National Careers Institute; and the NSW Government Education Pathways Pilot, these changes must be conducted within the context of real funding growth across the sector and a commitment to increase funding in both the short and long-term.

Recommendation 11

The Government must commit to increase funding to the VET sector over the short and long term.

Given the range and rate of change to the VET sector due in 2020, the capacity of the system to accommodate further large-scale changes can be questioned. The focus therefore of any further pilot projects in 2020 should be small scale and localised to address specific issues. For example there may be capacity to undertake further pilot projects on the Central Coast aiming to address the high youth unemployment rate.

The value of local programs was recently evidenced as part of the Australian Government Empowering YOUth Initiative. The Chamber trialled the Youth Skillsroad Shows Pilot Program which took the online Skillsroad[9] resources to regional NSW schools. The evaluation of the pilot demonstrated the positive outcomes from such an approach for young people, particularly as a local face-to-face approach facilitated connections with employers, mentors and other young people.

Recommendation 12

The Government provide funding to local VET partnership projects in the short-term rather than committing to further wholesale changes.

In-school VET programs have proven an efficient and effective way to reach young people and help them find the best career for them. Research by the National Centre for Vocational Education Research (NCVER) shows that a young person who takes VET subjects at school is 13 per cent more likely to progress into full-time employment. Young people who followed this pathway also had the highest employment at 25 years old, with 97.4 per cent in work.

The Chamber has conducted its own research to get the views of students who have undertaken or are currently doing a School Based Apprenticeship or Traineeship (SBAT). The self-reported unemployment rate from completed SBAT participants was only 4.3 per cent. In addition, net satisfaction rates were high amongst the current SBATs, with particularly positive feedback about the company they worked for, their manager and the work they do on a daily basis.

[9] See https://www.skillsroad.com.au/.

Overall, 88 per cent of young people who had commenced an SBAT were likely to recommend it to a friend.

Even those that had left a SBAT early appeared to have benefited from the experience. Many in this group reported that the SBAT had given them the opportunity to try a career that they thought was for them, but then realised that it wasn't.

Despite these positive employment outcomes, the Chamber notes that in NSW, school-based apprentices and trainees number around 2,500 compared to more than 11,000 in Queensland. During the state election campaign, the Chamber called on the Government to deliver 20,000 school based apprenticeships and traineeships over the next four years.

Recommendation 13

The Government should continue to expand efforts to increase the number of SBATs starting by making commencements available in Years 10, 11 or 12.

Recommendation 14

Increase the flexibility available to students to do more work-place training as part of their SBAT.

Recommendation 15

The Government should ensure that schools support students wanting to complete their HSC as well as an SBAT by improving timetabling and making resources available to students to catch up on lessons they have missed whilst training.

Attitudes toward VET

As Steven Joyce noted in his recent review of the VET sector, vocational education has been steadily losing the battle for hearts and minds with the university sector. Fewer young people aspire to undertake vocational education courses and many consider VET as less prestigious and only for students who are of low academic ability. This is exacerbated by proactive marketing by universities to students, schools and families. Employers as individual companies are struggling to compete.

This appears to have translated into broader societal prejudice towards VET with attitudes that vocational pathways, and the occupations they lead to, are somehow second-class occupations. Trade occupations are frequently observed among some of the higher wage earnings jobs in NSW, while the nature of job scalability[10] cannot always be observed.

[10] Occupations typically transform into higher-paid positions because they are responsible for greater resources within a firm. For those following a vocational pathway, the equivalent may be to start a business and employ other tradespeople. Scalability of vocational skills are not always visible in data.

Public perceptions could be addressed by publishing, analysing and drawing attention to data and it is likely that the newly announced National Careers Institute could play a key role in addressing these misperceptions.

Businesses frequently raise concerns that schools are promoting university as the preferred and sometimes, only, pathway after school. Raising the profile of VET and shifting cultural attitudes must commence with schools, and particularly primary schools, and then be expanded to the broader community. There is evidence to suggest that careers learning in primary schools can be effective in helping people gain employment later in life. Employing careers advisors with more varied career pathways, preferably including those with strong links to industry and experience of the VET sector is recommended.

Recommendation 16

That the NSW Government accelerate the Careers Immersion model pilot and conduct an expedited review of the pilot with the aim of expanding the model across NSW in 2021 into primary schools.

The Queensland Government is currently delivering an advertising campaign to promote apprenticeships to students and employers. The campaign named "Take your future on" features heavily on Facebook, Instagram and careers advice websites.

A similar campaign could be developed in NSW to increase community perceptions of VET. However, it would be critical that industry is at the heart of the campaign – and that it doesn't focus on one particular education pathway – but the employment outcome at the end.

Recommendation 17

That the NSW Government develop a campaign to promote apprenticeships and traineeships to students, families, and employers.

Upskilling labour markets

The slow pace of developing nationally recognised and accredited training has meant that many employers and peak bodies have started working with training providers to develop their own training to meet their local needs in a shorter pace of time and ensure that up-to-date training available to meet their needs. For example, TAFE SA has worked with the craft brewing industry association to develop a Certificate III Program in Food Processing (Brewing) – which is now part of a traineeship program enabling people to combine paid employment in the industry with structured accredited training.

The proposed solution by the Commonwealth Government to this issue – the introduction of Skills Organisations – may not address these concerns. Accordingly, businesses must be supported to develop their own training, particularly where the training subsequently becomes nationally recognised.

Recommendation 18

Provide subsidies to small and medium businesses that develop internal training that subsequently become nationally recognised.

Occupational licensing

Continuing professional development (CPD)

Continued learning is important in many occupations. However, a variety of barriers exist to accessing CPD and must be considered as part of any conversation on best-practice arrangements including:

- time availability, particularly for small and medium business owners and employees;
- cost;
- accessibility of suitable learning i.e. whether training is available locally; and
- the effectiveness of assessment of CPD activities to gauge benefits.

Given these challenges, best practice CPD arrangements are likely to be learner-centred and driven, offer a variety of learning formats and delivery methods, and are flexible in their availability. For example, online initiatives (such as micro-certificates) should be encouraged as an efficient way to help time-poor licence-holders keep up-to-date with recent developments.

Recommendation 19

That CPD arrangements are learner-centred and driven, free or low cost, offer a variety of learning formats and delivery methods, and are flexible in their availability.

Mutual recognition

Mutual recognition usually only works where there is a direct match with the licensed activities. Licensing bodies from each jurisdiction for each category of licence should be encouraged to develop as many nationally recognised licence categories (each covering the same scope of activities) as possible. Temporary exemptions should be granted when there is an urgent need for the skills in another jurisdiction (for example, rebuilding efforts after a natural catastrophe).

Recommendation 20

Licensing bodies from each jurisdiction for each category of licence should develop as many nationally recognised licence categories as possible. Introduce temporary exemptions when there is an urgent need for the skills in another jurisdiction.

Part 3 – Energy

Low-cost energy was once a strength of the Australian economy. This lowered business costs and made NSW a more attractive place to invest and start a business. But energy costs have turned into a competitive disadvantage and are now a major concern for businesses in NSW. In the Chamber's most recent Business Conditions Survey, 41 per cent of respondents identified energy costs as a cost reduction priority.[11]

Reducing investment uncertainty

Noting the NSW Government's recent electricity strategy announcements, the Chamber acknowledges limits to the ability of NSW to take unilateral action to improve the investment outlook for electricity generation. There are also risks that engendering a culture of 'every state for itself' could end up worsening the outlook further. The optimal avenue for reducing uncertainty in electricity investment remains the COAG Energy Council process.

A state-led emissions reduction objective could help steer policy in many areas. But absent an equivalent objective at the Commonwealth level, or at least among the states comprising the National Electricity Market (NEM), it could add complexity to inter-state commerce and be limited in its ability to drive emissions cuts, resulting in emissions being moved around but not reduced overall.

However, while uncertainty persists due to the lack of clarity from the Commonwealth, the state's desire to do something is understandable. It is important that this desire is channelled towards productive actions, rather than simply acting for the sake of being seen to be doing something. Improving interconnection between NSW, Queensland and Victoria will help manage demand, as will the completion of Snowy 2.0.

Recommendation 21

The NSW Government should continue to work collaboratively and develop the national policy landscape via the COAG Energy Council process.

Energy affordability

Rising costs have gone hand in hand with decreasing confidence in the dependability of energy supplies over the medium term and limited progress on decarbonisation. The ACCC estimated in the *Retail Electricity Pricing Inquiry* (REPI) "that small businesses can achieve savings of 24 per cent on 2017–18 prices" and commercial and industrial customers 26 per cent if ACCC recommendations are adopted. Those reductions are not yet being felt by NSW businesses.

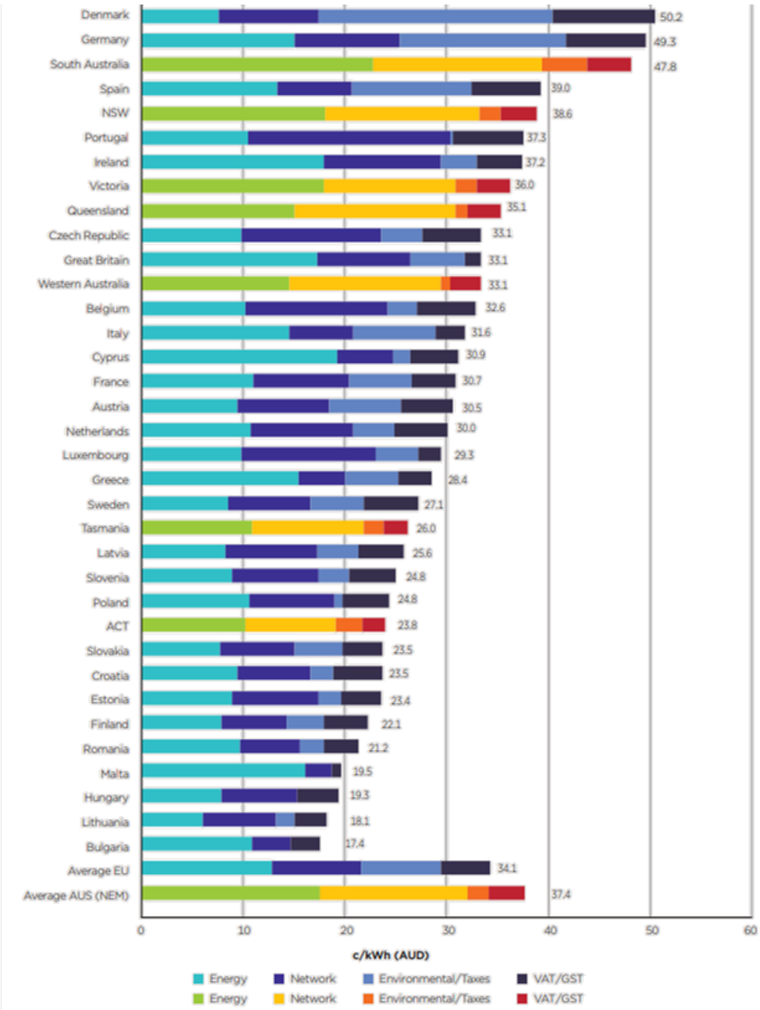
For some businesses, Australian energy costs are becoming a source of competitive disadvantage (see Chart 1) to the point where they are considering relocating operations to countries with lower energy costs. Businesses in NSW face higher electricity costs

[11] New South Wales Business Chamber; *Business Conditions Survey October 2019*; https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Taxation%20and%20Regulation/SEP-19-BCS-ABS-Region-Recap-(2-0).pdf p9.

than all other states and territories except South Australia, and most relevant international rival jurisdictions.

The Chamber is at the front line of efforts to reduce energy costs to small businesses across Australia. Funded by the Department of the Environment and Energy, the Chamber delivers the Business Energy Advice Program (BEAP). In March 2019 BEAP was set up as a result of a recommendation (number 52) from the ACCC's *REPI*. This program offers a personalised energy consultation, making sure small businesses have information on gaining the best market deal for their energy, helping them to be more energy efficient, and helping them access grants tools and resources to take action. This service is free for small businesses with 6-20 employees (and for those with 0-5 employees if they are affected by drought). The Chamber also provides a price comparison service for businesses looking to switch energy supplier.

Chart 1: 2018 nominal international electricity prices, c/kWh, including GST



Source: VaasaETT data via ACCC; *Retail Electricity Pricing Inquiry Final Report*; https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf; p24.

Energy system reliability

Energy system reliability in Australia is, against most metrics and international comparison, very good. There are multiple rules affecting different industry participants, but they broadly work towards the expectations that customers can expect on average to be off-supply for 10 minutes each year.

The Chamber accepts it may be outside the scope of the White Paper to consider the full suite of complexities relating to energy reliability. The Chamber notes that IPART is already reviewing reliability standards with respect to electricity distribution while the Australian Energy Regulator (AER) also reviews reliability proposals from regulated network businesses.

Yet the preferences of energy users – including business energy users – needs to be better understood. Users may view trade-offs between reliability and affordability differently and it is difficult to translate user preferences into clear policy positions. However, this ambiguity does not justify, as the default, an approach of addressing perceived problems with more capital expenditure which result in higher end-user costs. Caution is also needed in the application of reliability standards. When implemented without reference to cost, marginal improvements to reliability in an already reliable system can be very expensive and may cost more than consumers would be willing to pay had they been offered the choice.

In recent years energy consumers – including business energy consumers – have paid significant sums for energy network upgrades, to the extent that 'systemic' energy reliability is arguably already overprovided (i.e. customers, including business customers, might be prepared to make a trade-off for lower bills). Policymakers should be cautious that investments, justified by claims of improved reliability, are delivering reliability that customers actually value, and for a price that they think reasonable. This applies both to capital expenditure in regulated monopoly network businesses, and increasingly to supports provided in the generation market as well.

Recommendation 22

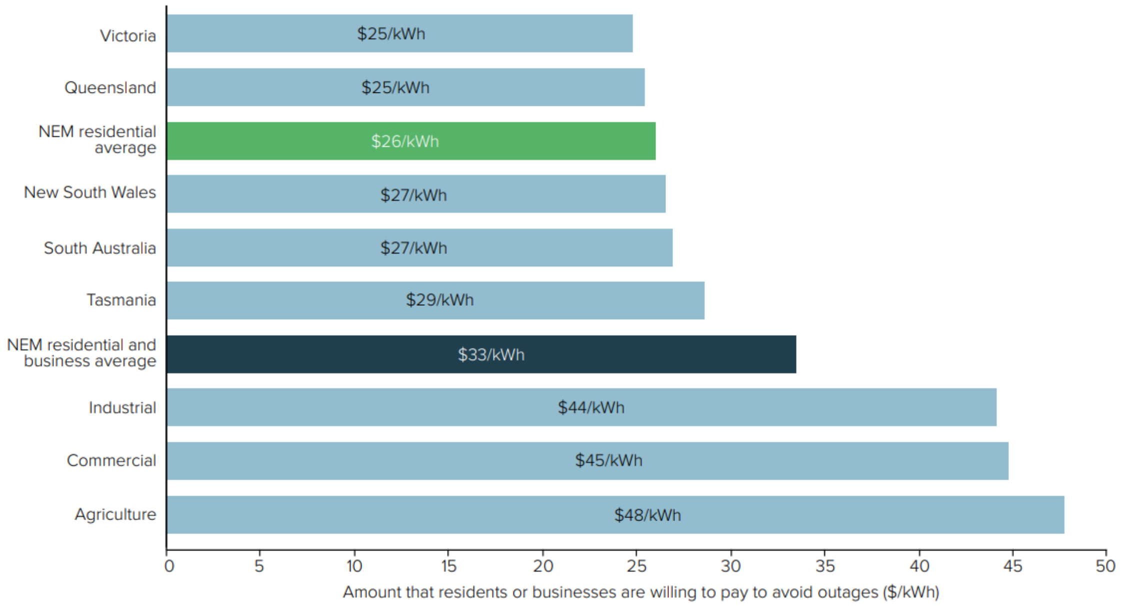
Careful consideration should be given to end user costs when making investments in network infrastructure to improve reliability.

Demand Management

Different consumers have differing willingness and ability to alter energy use throughout the day. The fact there is varying ability and appetite to reduce peak use should be reflected in policy options used to tackle capacity shortages.

'Demand response' can be a low-cost means of addressing the problem, but businesses need to be allowed to choose whether to participate. For some, reductions in peak load can have little impact on wider operations; for others it may be highly disruptive to essential activities. A survey by Energy Consumers Australia found 19 per cent of businesses would not be able to reduce demand if asked, even if offered an incentive payment.[12] For those businesses it may still be helpful if others are able to reduce their load if it means power can continue to be supplied at a lower cost than other options (such as additional generation investments). On average, it seems likely that load reductions would arise from the household sector before business users would consider it worthwhile to reduce load (see Chart 2). However, that average is likely to conceal big differences in capability and desire to participate in demand response schemes between different businesses.

Chart 2 – Amount that residents on businesses are willing to pay to avoid outages



Source: AEMO; *Value of Customer Reliability Review*; www.aemo.com.au/-/media/Files/PDF/VCR-final-report--PDF-update-27-Nov-14.pdf

Recommendation 23

Demand response has the potential to be a significant contributor to energy system security and cost-control. Enabling measures for demand response should be supported, and businesses who want to take part assisted in joining demand response programs (such as through 'aggregation'). However, because not every business will be equally able or willing to enter demand response programs, participation in demand response by businesses should be voluntary rather than mandatory.

Barriers to business adoption of solar PV

Split incentives are a barrier to the deployment of generation and energy efficiency measures in some buildings. Split incentives occur when those responsible for paying energy bills (i.e. tenants) are not the same entity as those making capital investment decisions (i.e. the landlord or building owner). In these circumstances, the landlord may not be inclined to make the necessary upgrades to building services (such as installing solar panels or improving energy efficiency performance) when the benefits associated

[12] Energy Consumers Australia; *Energy Consumer Sentiment Survey June 2018*; https://www.energyconsumersaustralia.com.au/wp-content/uploads/Energy-Consumer-Sentiment-Survey-June-2018.pdf; p25.

with the resulting energy savings accrue to the tenant. Bringing those parties together in a way that helps them both identify potential benefits, and can provide information (and where needed arbitration) can help businesses in rented premises increase their adoption of solar PV or energy efficiency measures.

Recommendation 24

Government should establish a measure that supports voluntary negotiations between landlords and tenants to invest and share in the benefits of renewable energy on existing and future premises.

There is still plenty of potential for business energy efficiency to be improved further, saving businesses money while reducing demand on generation and networks and so improving supply security. Early indications from the BEAP[13] are that businesses have made a lot of progress on lighting (using LEDs rather than other types), and often have a strong focus on behavioural changes that reduce energy use (turning off lights in empty rooms, closing doors and other similar actions). However businesses still find value in advice on other steps they can take to reduce consumption further, particularly when that is coming from a neutral party (such as the Chamber's BEAP team) rather than from a firm trying to sell a particular product or service. Further support for businesses to reduce their energy demand has the double merit of improving the businesses' productivity and constraining energy costs for other users.

Network affordability

The growth in network costs has been a particularly concerning feature of energy price rises in recent years (see Chart 3). Rising network charges reflect a combination of factors, including state policy decisions to tighten reliability standards, incentives that encouraged networks to expand their asset bases (beyond what the ACCC saw as a necessary or efficient level), and favourable financing conditions which saw networks paid cost of capital allowances set much higher than the costs they were actually facing.[14] Because these are monopoly charges, users (including small businesses) cannot escape them by switching to alternative providers. They are, however, able to lower their share of these costs by lowering consumption or self-producing electricity.

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[13] See https://businessenergyadvice.com.au/.

[14] ACCC; *Retail Electricity Pricing Inquiry Final Report*; https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf; pp156-172.

Chart 3 – Regulatory asset base from 2006 to 2017, by NEM region, real $2016-17

Source: ACCC; *Retail Electricity Pricing Inquiry Final Report*; https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf; p159

The ACCC recommended in its *Electricity Pricing Inquiry* that:

> *"…the governments of Queensland, NSW and Tasmania should take immediate steps to remedy the past over-investment of their network businesses in order to improve affordability of the network. With appropriate assistance from the Australian Government, this can be done:*
>
> - *[…] for Essential Energy in NSW, through a voluntary government write-down of the regulatory asset base*
> - *in NSW, where the assets have since been fully or partially privatised, through the use of rebates on network charges (paid to the distribution company to be passed on to consumers) that offset the impact of over-investment in those states"*

The growth of network companies' regulated asset bases over the past decade has been of questionable value to users. Recent reforms may have begun to address some of these incentive problems, with several networks promising cost decreases over the current regulatory cycle. However, it should not be forgotten that these decreases come from a very high baseline, and that the costs of any historical over-expenditure will continue to be recouped from business energy consumers for several decades.

One of the sources of overly generous energy network price controls derives from the way their financing costs are treated. Regulators attempt to assess networks' costs of capital with reference to the "weighted average cost of capital", a formula combining costs of debt and equity. Regulators forecast what these costs are likely to be over the upcoming price control period. In recent years, they have systematically over-estimated these costs, as prices for low-risk assets have dropped to historic lows. This over-estimation has led to windfall gains for network companies, at the expense of their users. To mitigate against this problem, British regulators of monopoly networks are increasingly opting to 'index' cost of capital allowances against real world benchmarks (for example, the cost of government bonds). Australian regulators are beginning to move in this direction, but there is scope to be much more ambitious in use of this tool in the next round of energy network price controls.

Recommendation 25

Economic regulators must apply strict scrutiny to energy network spending plans to ensure proposals are necessary and efficient. Financing terms should be reviewed to ensure windfall gains at energy users' expense are no longer tolerated. The ACCC's Recommendation 11 should be implemented, returning some of the value of historical over-investment in networks back to business and residential customers.

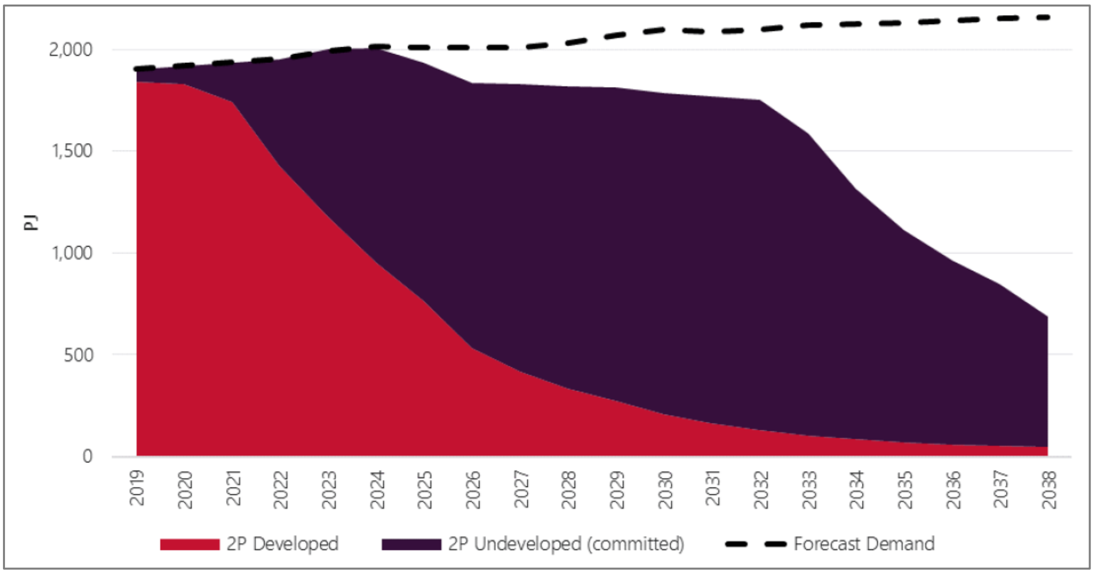
Recommendation 26

Regulators should index energy network cost of capital to real world benchmarks, to prevent windfall gains from financing allowances.

Barriers to gas exploration and production

NSW faces an imminent shortfall in gas supply (see Chart 4). The Australian Energy Market Operator (AEMO) has recently warned that gas supply in NSW will not meet demand in the winter of 2025. Gas prices have already risen in response to future tight supply, presenting a serious challenge to manufacturers and other users of gas. Sydney spot prices have almost doubled in four years, as traditional gas supply declined and alternate high value markets for producers became available. This challenge will only increase as supply tightens and prices rise further. Sydney is forecast to have the highest wholesale residential and commercial gas prices on the east coast,[15] increasing 35 per cent from 2018 to 2031.

Chart 4: Eastern Australia (excl. NT) supply/demand forecast



Source: AEMO, "GSOO 2019", p41.

Commercial and industrial gas users are postponing pay increases, reducing headcount, and deferring investments or expansions. Some have closed altogether, blaming high gas prices. These effects are not limited to the biggest users. A typical bakery in

[15] From $8.78/GJ in 2018 to $11.84/GJ in 2031 (real $2018). Measured at the distribution network inlet point.

Sydney will pay an extra $26,400 per year for gas compared to a bakery in Brisbane.[16] A galvanising plant in NSW would pay $66,000 per year more than a Queensland competitor.[17] These are just the additional costs due to transporting gas from further afield and are conservative estimates of the overall cost increases faced by NSW customers. Other factors – most significantly any scarcity-induced price rises – are not included in these calculations.

In NSW, an estimated 300,000 jobs rely on gas supply. Gas supplies around 1.3 million households and 33,000 businesses. NSW's manufacturing sector, which is approximately 84 per cent of the state's industrial gas load, employs 253,000 people in 26,127 businesses, adding $33 billion in industry value added.[18] Without addressing NSW's looming gas shortfall, these could be at risk.

The Narrabri area is the NSW gas field closest to being ready for new production. It has the potential to supply up to 19 years of NSW gas supply. The field has been explored by Santos, which submitted an Environmental Impact Statement in February 2017. The development is still pending government approval and permits. Santos has said that any production from Narrabri will go to the domestic market.

Development of Narrabri alone would result in more than $233 million in royalties, in addition to the corporate, payroll and sales taxes that an $11.9 billion investment would generate.[19] This will also lead to more than 500 jobs in regional NSW, mostly in skilled and well-paid professions.

As a result of the poor progress in developing NSW's gas resources, the state relies almost completely on imports via pipelines from South Australia, Queensland and Victoria to meet demand. Recent trends mean Victoria is decreasing in significance while Queensland is expanding as a source of imports into NSW. As more gas flows from Queensland and the NT to meet southern demand, capacity of the pipeline infrastructure will be reached, becoming an obstacle to additional supply. The additional cost of piping gas to NSW gas users is likely to more than double by 2025 as interstate gas would need to travel longer distances.

LNG imports offer an alternative supply option to in-state production and to inter-state imports via pipeline. There are several advantages to enabling NSW to import LNG. It would:

- increase flexibility to add supply on high demand days or in response to unexpected events or shortfalls;
- provide long-term contracting certainty for major users;
- 'cap' NSW spot prices at those prevailing on international markets, limiting how far prices could rise; and
- avoid pipeline infrastructure constraints and add competitive alternatives to long distance pipelines.

[16] NSW Business Chamber; *Running on Empty*; 2019 (forthcoming).
[17] Ibid.
[18] NSW Government, "Economic Value and Sector Overview", 2019; https://www.industry.nsw.gov.au/development/industry-opportunities/advanced-manufacturing/economic-value-sector-overview.
[19] NSW Business Chamber; *Running on Empty*; 2019 (forthcoming).

Recommendation 27

Due to the time needed to bring the field fully online, for Narrabri to be producing by the time of the expected supply shortfalls in 2025, approval to proceed needs to be given by 2020. The NSW Government should increase its focus on the Narrabri project, and accelerate the review and approval processes.

Recommendation 28

Gas pipeline infrastructure needs to reflect the new balance of supply sources. A review of gas pipeline infrastructure should be carried out, to identify constraints and viable capacity upgrades for links between NSW and northern producers. Pipeline capacity may also need to be expanded between proposed LNG import facilities and the major demand markets within NSW.

Recommendation 29

The NSW Government should support LNG imports into NSW, and ensure that permits and applications for expansion are prioritised. To be able to contribute to improved security at the time of projected 2025 shortfalls, LNG facility developers should be in a position to start construction by the end of 2022.

Prospective developers of gas in NSW have faced protracted timetables for government approvals. The NSW Government designated the Narrabri Gas Project as a 'Strategic Energy Project', and signed a Memorandum of Understanding (MOU) with Santos to streamline the assessment process for Narrabri five years ago, yet Narrabri remains unapproved. In Queensland, where gas projects have been brought online successfully, the state government empowered a Coordinator-General to advance critical projects through the approval processes and ensure that government resources and priorities are properly applied. The expected level of gas project activity, should Narrabri proceed, would be unprecedented in recent times in NSW, and so relevant departments will need to acquire new capabilities, including staff who have experience supporting the delivery of natural gas projects.

Recommendation 30

The NSW Government should appoint a single department to progress critical gas projects through the approval processes and ensure that government resources and priorities are properly applied. It should ensure that department is staffed with people experienced in natural gas developments, to ensure that the specific technical issues raised in natural gas projects can be given appropriate scrutiny.

The NSW Chief Scientist and Engineer concluded in 2014, that the technical challenges and risks posed by the Coal Seam Gas (CSG) industry can in general be managed. High standards of engineering, sensible selection of land, and high-quality monitoring can ensure that gas development can take place safely and in an environmentallyresponsible manner. The NSW Government has begun to implement the Chief Scientist's recommendations.

Between now and 2037, NSW is forecast to triple its gas-fired power generation (GPG) as it replaces aging coal-fired power generators, and supports increasing renewable power generation. When it displaces coal-fired generation, GPG lowers greenhouse gas emissions by 31 to 50 per cent[20]. GPG supports the transition to renewables by providing reliable dispatchable power when wind or solar are unavailable. Yet if potential investors in GPG are unsure that reliable gas supplies will be available into the 2030s, those power stations may not be brought forward. This in turn risks putting the brakes on the state's ability to incorporate higher levels on renewable generation into its electricity mix.

NSW Climate Change Fund

The NSW Climate Change Fund (the Fund) has added complexity and costs while doing little to support business in reducing emissions or improve efficiency. The Fund collected $292 million in 2017-18 from residential and business energy consumers, while spending only $180.9 million. The most recent annual report for the fund indicates that just $3.5 million of the collected revenue was invested in initiatives directly targeting business.[21] This is despite the fact some businesses contribute as much as 5 per cent of their annual electricity bill to the fund.

The majority of the Fund has been applied to a range of environmental policies only tangentially connected to climate change, including land management and conservation. While well-intentioned, the Fund's current operation exacerbates energy affordability pressures on business while doing little to reduce greenhouse gas emissions. The Fund needs a fundamental restructuring to focus on measures that help the households and businesses who pay for it to reduce their energy consumption. Failing that, the Fund should be wound up and unspent money returned to users through bill rebates.

Recommendation 31

State taxes and levies should be removed from energy bills. Surplus Climate Change Fund budget should be spent on measures to improve business and household energy efficiency and affordability, or returned to users through rebates on bills.

[20] Open cycle gas turbines (OCGTs) and combined cycle gas turbines (CCGTs) respectively.

[21] https://www.environment.nsw.gov.au/-/media/OEH/Corporate-Site/Documents/Climate-change/climate-change-fund-annual-report-2017-18-180595.pdf pp4-5.

Part 4 – Transport, planning and housing

Transport, planning and housing need to be considered in an integrated manner as they are particularly important to the way labour markets function. Like financial markets, labour markets need a sufficient degree of depth to ensure productive resources are allocated to their best use.

More practically, this requires individuals to have access to a range of employment opportunities (and inversely, employers need access to a rich supply of labour so their skills needs can be met). This outcome can be achieved by ensuring a mixture of housing solutions catering to differentiated needs of the population, infrastructure which links key population centres to jobs, and planning frameworks which recognise support the role of markets in determining the geography of jobs. The Chamber supports viewing transport, planning and housing through an integrated lens so these outcomes can be realised.[22]

Metrics to assess improvements in transport infrastructure

A broad range of metrics is needed to assess the performance of the state's transport infrastructure. The infrastructure pipeline, when presented in dollar-terms, is a useful indicator of the financial commitments of infrastructure delivery planned for NSW. However, this metric does not demonstrate how these investments benefit the NSW community. For example, other indicators such as travel times, minimising mode changes on public transport and user satisfaction surveys provide objective measures of system usability.

A focus on non-financial metrics puts emphasis on practical changes which can improve the user experience. Indeed, some of the most practical improvements do not necessarily come with significant costs. For example, changes in road rules (such as lane filtering) can support greater flow of traffic. Similarly, even if metrics such as commute times do require significant financial investments, user experiences can be improved through the provision of amenities such as WIFI. Phone apps leveraging open transport data have also made it easier for users of public transport.

Recommendation 32

Identify and develop appropriate non-financial metrics to complement financial commitments (as part of the infrastructure pipeline) when communicating about actions to improve transport infrastructure.

Strengthening the transparency and governance of infrastructure

The volume of infrastructure in development creates a challenge for governments in how they communicate with stakeholders – including businesses – about infrastructure work. For businesses who are interested in finding out how they are going to be affected by upcoming projects, or who are potentially interested in bidding to participate in them, information is not always easy to find or relevant to their needs. Different types of information are published depending on sponsoring department or specific program,

[22] Such as *Order without design: how markets shape cities,* A Bertaud (2018), MIT Press.

impeding comparability and meaning that seemingly basic information, such as when a project is scheduled for completion, is unavailable. Increasing transparency around infrastructure progress would support public confidence that commitments are being kept, and help businesses and people keep track of the projects that affect them.

Recommendation 33

The NSW Government should produce and regularly update commitments and actual spending on announced infrastructure projects. Information should be provided in a searchable form and collected in one place.

Infrastructure NSW has been established to oversee parts of the infrastructure delivery process including project selection and assurance. However it is not empowered to guide the full chain of infrastructure delivery policy, from project selection and spending oversight through project management, delivery and best practice sharing. These powers are often shared with or subservient to other departments, including Transport for NSW, Department of Planning, Industry and Environment, or the Ministry of Health. As well as focusing on infrastructure planning and project management they should also seek to ensure infrastructure commitments are matched by delivery, that rural and regional NSW is receiving the committed share of investment, and projects are being delivered by competitive local suppliers with prime contractors following best practice to involve local industry partners.

Recommendation 34

Infrastructure NSW should be empowered to identify bottlenecks in the allocation and distribution of funds (in areas including but not limited to planning, project identification and contracting).

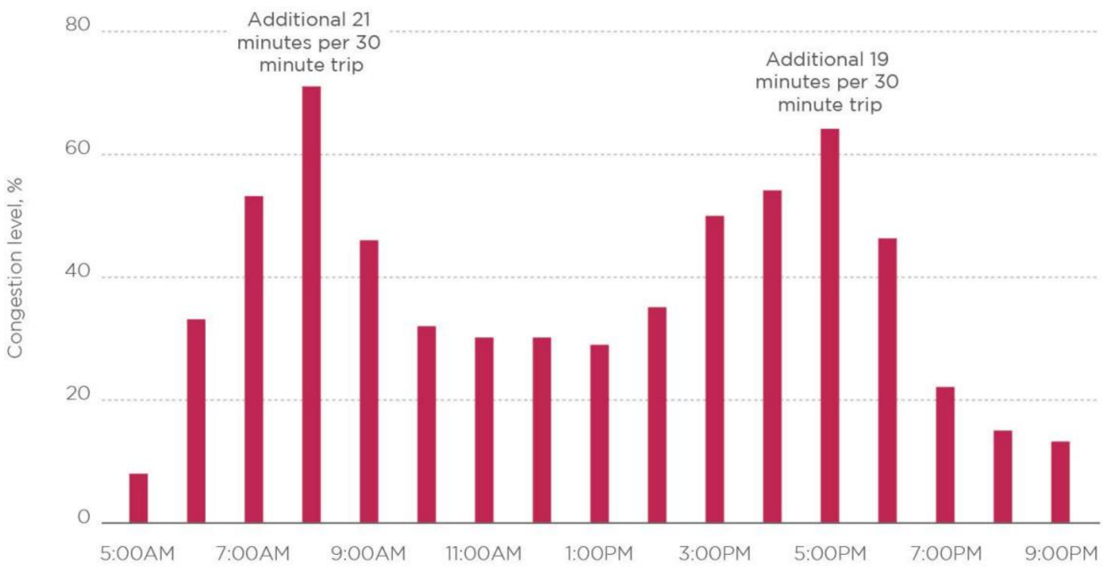
There is a potential role for Infrastructure NSW to provide a greater degree of independent scrutiny of infrastructure procurement. Its role could be evolved to equip them to provide a central clearinghouse of procurement-related services to government departments (e.g. departments of transport or departments of energy) who are frequently in positions to be commissioning large civil engineering infrastructure contracts. It would gather the best in government contracting expertise in one location, so that government departments avoid duplicating capacity, and instead are able to overcome the imbalances with private sector counterparts when negotiating major infrastructure procurement contracts. It would also have the capability and depth of contacts to better involve smaller contractors, who often find it difficult to participate in infrastructure procurement initiatives.

An obstacle to infrastructure development in regional NSW is limited capacity of local councils to access funding. The Restart NSW fund pays for a number of initiatives targeting roads, bridges and rail lines in regional NSW. However, with local councils facing resource and staffing constraints, we have heard that they sometimes struggle to comply with the procedural requirements associated with applying for funding through these programs. Accepting assurances are needed to ensure value for the taxpayer, it could be argued that councils should be afforded additional support in navigating the requirements. For example a concierge program could be developed to assist local authorities who need extra guidance in order to access funding for beneficial projects in their area.

Commuting times

Sydney commuters face some of the longest commute times in the developed world. At 71 minutes per day, the average Sydney resident spends more time commuting than the average resident of any other Australian city, and the average resident of any US urban area except for two.[23] As the Discussion Paper shows (see Chart 5), this impact is most stark at peak commute and school-travel times, between 8 and 9am and between 5 and 6pm.

Chart 5 – Sydney Congestion Level by Time of Day



Source: Productivity Commission Discussion Paper, p85

Congestion is most severe at these times. Options for reducing it come from both the supply and demand sides. Demand for travel at these times can be reduced with flexible working hours, greater use of home- or tele-working and even reconsidering standard school opening times.

On the supply side, government has a number of capacity-adding projects on road and rail underway. However, these megaprojects are not quick to implement. Until those are up and running, keeping transport routes flowing should be a priority. Maintenance of rail track and trains, and targeted roadworks to improve traffic flows should be emphasised in upcoming budgets. The opening of the CBD Metro line will create opportunities for long-overdue repairs and replacements to critical systems (including power management and signalling equipment) on the Sydney Trains network, particularly in the City Circle loop and on the Harbour Bridge, as maintenance closures will no longer cut off all access through the city.

[23] US Census Bureau https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk and University of Melbourne HILDA survey https://pursuit.unimelb.edu.au/articles/lost-in-transit.

Recommendation 35

The White Paper should prioritise strategies which reduce congestion and commuting times for NSW residents. The White Paper should assess demand management strategies (including price mechanisms) during peak periods on roads and public transport networks.

Strategic land use planning and coordination with major infrastructure delivery

Better integration of land use decisions and infrastructure decisions has the potential to improve connectivity and public acceptance of new developments.

As an example, Yarra Bay on the northern shore of Botany Bay, has been proposed as the site for a new cruise ship terminal. There has been significant local opposition to the proposals, for a number of reasons. One shortcoming of the current proposal, that could potentially be improved, is the lack of transport links between the proposed site and the centre of Sydney, where many visitors will want to reach. In the absence of other alternatives, that will likely result in buses bringing people to and from the terminal. Coordinating with other infrastructure choices could instead link the terminal to the city via an extension of the City and Southeast Light Rail, or a spur from the T8 rail line which currently serves Sydney Kingsford-Smith Airport. Bringing together the infrastructure connections with the development decision would mean that the project would have additional benefits for local residents, who may otherwise perceive the development as broadly bearing costs for them and benefits for other people.

Similar opportunities to link development and land use decisions with major infrastructure exist in a number of areas. However, they are taken inconsistently. The Northeast Metro project has made strong use of infrastructure to motivate changes to land use around its stations, increasing density and enabling new housing and commercial developments.

Recommendation 36

Infrastructure and changes to land use should be planned in advance and coordinated to maximise benefits to the community and value to the taxpayer.

Planning: reducing red tape and increasing certainty

Reform of the planning system offers significant opportunities to enhance productivity in NSW. It will be important to focus on making the system more flexible and adaptable going forward, to avoid replacing one set of locked-in, hard-to-change systems with one that can respond as our needs change over time.

Grievances with NSW planning and approval processes are well-known. As noted in the Discussion Paper, approval processes in NSW take far longer than those in other jurisdictions. The typical experience in NSW involves more red tape, approval periods and ultimately delays in delivering new projects (if they are approved at all). This adds to the cost and uncertainty of projects which improve and build capacity within our communities.

The Chamber notes proposals by other stakeholders to improve the NSW planning system, including by adopting practices which streamline processes in other jurisdictions. This includes more consistent and streamlined approval processes across councils; expanding and maximising the benefit of 'complying development' processes; and improved DA workflows to minimise delays.

Zoning

The Discussion Paper identifies the complexity and prescriptiveness of zoning in NSW as a potential barrier to business establishment and expansion. The Chamber shares this concern, and supports the identified option of reducing the number of commercial and business-related zoning categories. This would allow for a more demand-driven focus for development. It also potentially reduces the burden on local councils to carry out reviews of zoning of existing lots – an activity that has failed to keep pace with changing patterns of demand from businesses of all types.

The specificity of current zoning categories means councils would need to carry out frequent updates to plans to ensure continued matching of demand for business property of different types with the land or buildings available. Councils have struggled to do this in practice, and it may be unrealistic to expect them to. Removing many of the distinctions between different zoning classes will allow councils to focus on the differences that matter but remove the need for constant 'fine-tuning' of zoning.

Recommendation 37

The number of commercial/business related zoning classes should be reduced and streamlined.

Minimum dwelling sizes

Minimum dwelling sizes increase the cost of affordable housing in NSW. The housing stock needs to adjust to changing demographics and household structures. Single resident households are on the rise. By limiting dwelling sizes, individuals are unable to make their own decisions about housing that is most suitable to their needs. This ultimately makes it harder for individuals to access economic opportunities available closer to economic centres and restricts upward labour mobility and productivity.

Recommendation 38

The merits of minimum dwelling sizes should be reviewed.

Part 5 – Modernising our tax system

Taxes have significant impacts on the way economic activity is organised and must be an integral part of any conversation about productivity. The Chamber has recently raised a number of matters relating to the tax system as part of its submission to the Thodey Review of Federal Financial Relations (FFR Review). These submissions are included below.

When viewed through both a political and economic lens, the Chamber accepts there are significant difficulties in ensuring the efficiency and sustainability of NSW finances. State governments left to their own devices face a dilemma between allowing highly inefficient taxes such as stamp duties grow to meet future revenue needs, or introducing new more efficient taxes — such as a broad-based land tax — which would require significant political and implementation challenges to be overcome.

The Chamber believes there is an opportunity for the FFR Review to break through this dilemma by collaborating across the federation.

National engagement and leadership is needed

We will forgo opportunities to improve outcomes for the Australian community if the states and territories are expected to reform their tax systems in isolation. In many ways this is an optimisation problem: which tier of government can introduce the highest-yielding reform package that the community will accept as fair and in the best interests of the country?

State governments typically levy the taxes which come with the highest economic costs while the Commonwealth possesses far greater revenue-raising capacity. There are gains from trade associated with collaboration on tax reform. The Commonwealth can facilitate reform by providing financial support while state governments can reduce taxes that maximise the economic dividends of reform.

These fundamentals have underpinned some of Australia's best examples of tax reform such as the introduction of the GST which was the result of collaboration between tiers of government.

Previous reviews and thought leadership contributions from other stakeholders have considered many of the best opportunities for collaboration on tax reform. This includes adjustments to the GST and giving states a share of income tax. While the Chamber does not offer any specific recommendations or views at this time, we support a sensible and constructive conversation about the merits of all the possibilities.

Recommendation 39

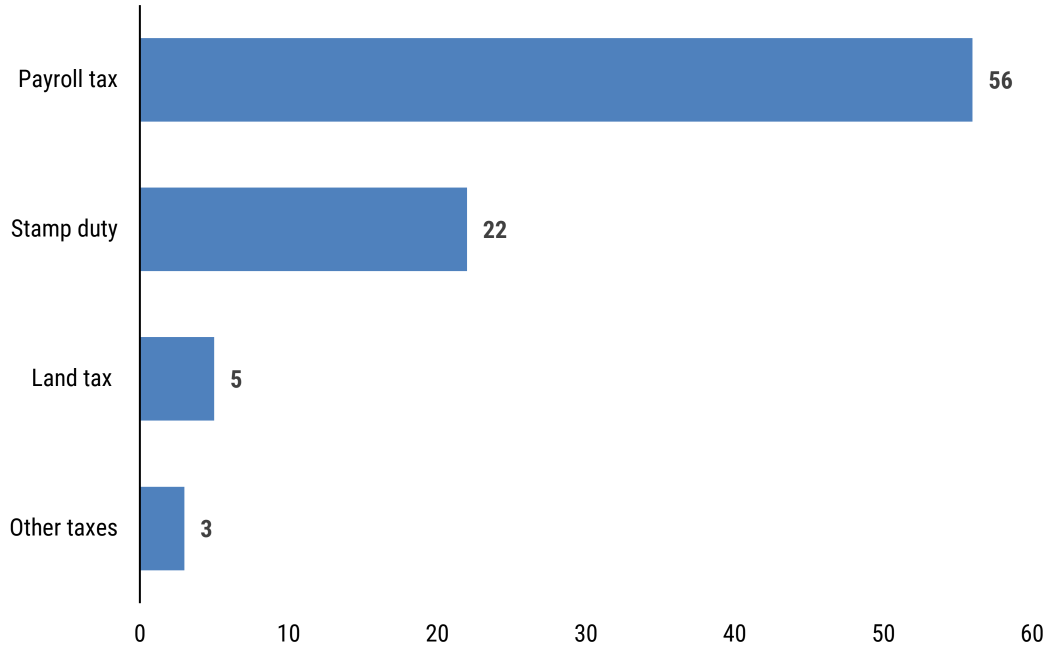
The Commonwealth and other states and territories should engage constructively with the FFR Review.

Business' concerns with the tax system

In broad terms, businesses are concerned with the effect of certain taxes on the financial viability and performance of their business (or specific activities within their business) as well as the administrative complexity of the tax system.

State-based taxes where businesses are directly involved as taxpayers tend to raise the most concern among the Chamber's members. Not only do these taxes add to administrative burden, their impacts are also highly visible as these taxes are critical to decisions within a business (such as whether to hire new staff or invest). That is why payroll tax is regularly raised as a top concern for our members (see Chart 6). Taxes like payroll are also dispiriting for businesses wanting to create jobs in their local communities and feeling they are unsupported in this endeavour.

Chart 6 - Unprompted responses raising a state tax issue as a concern



Note: Responses collated from free text answers to NSWBC Business Conditions Survey over four surveys between December 2018 and September 2019. Businesses were not prompted to raise a tax issue. Among respondents that raised stamp duty, 11 specifically indicated property-related duty; 1 specifically indicated motor vehicle stamp duty; and 10 did not specify (among the group that did not specify, it can be assumed many would be referring to transfer duty by its more commonly known name).

Source: NSWBC Business Conditions Surveys (as noted above).

But other taxes such as transfer duty also have significant negative impacts on business even if they are mostly affected through second-round effects that are not always obvious to those that do not directly pay the tax. For example, 2016 modelling by KPMG commissioned by the Chamber in *Taking on Tax: Reforming NSW Property Taxes*[24] demonstrated the extent to which industry value added would be boosted by reform to NSW transfer duty, including (but not limited to):

- rental hiring and real estate services (+2.57%);
- construction (+1.51%);
- financial and insurance services (+0.98%); and
- electricity, gas, waste and water services (+0.81%).

[24] See Table 4.1.4 which demonstrating the impact on industry value added of NSW replacing conveyancing duties with land taxes: https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/FINAL-NSWBC-NCOSS-Taking-on-Tax-Report.pdf.

Even though they are less obvious, businesses are not blind to the impact of these taxes. Businesses engage with payroll tax on a monthly basis, so it is not surprising that it is among the top concerns of businesses that are liable. But it is particularly notable that businesses are also very concerned about stamp duty[25] even though it is less frequently paid by a business (perhaps decades apart for transfer duty in some cases).

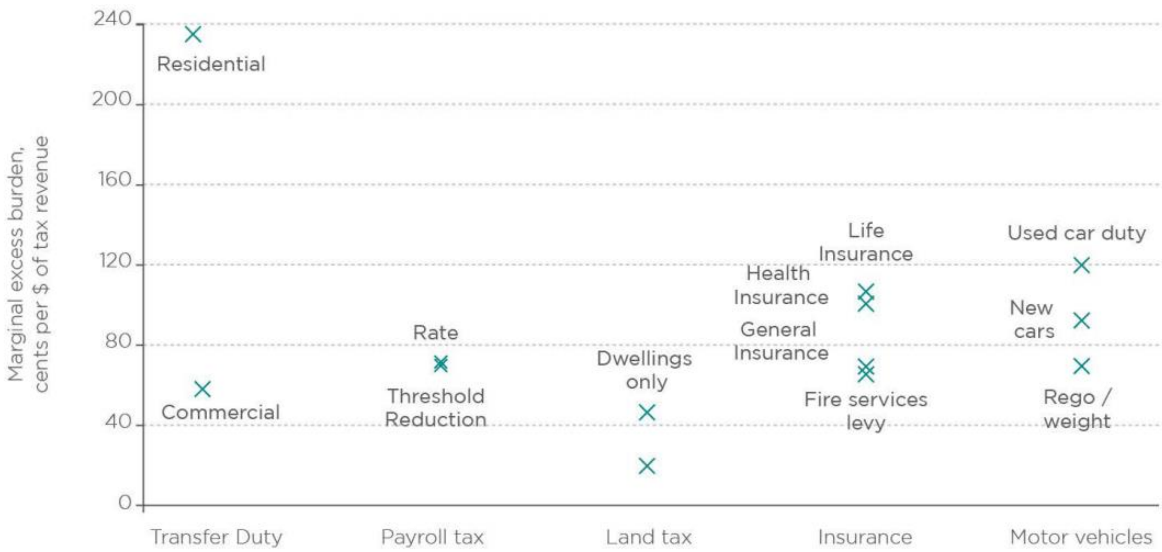
Economic costs: are the right taxes growing?

As with most of Australia's states and territories, the NSW tax base is comprised of taxes that do not meet the needs of a modern and sophisticated economy. These include:

- payroll tax which is a tax on employment;
- stamp duties which are the most economically harmful taxes used in Australia; and
- a range of other smaller taxes and levies, many of which impose significant administrative costs or frictions in markets even though they may raise very little revenue individually.

As noted in the 2016 NSW Intergenerational Report (2016 IGR), transfer duty comes with high economic costs.[26] Yet transfer duty receipts have almost tripled over the past decade. This has resulted in the NSW tax system being one of the most inefficient in Australia (see Chart 7). NSW Transfer duty is the second highest in Australia (on a per capita basis) while total taxes on insurance a higher in NSW than any other state in Australia (see Chart 8).

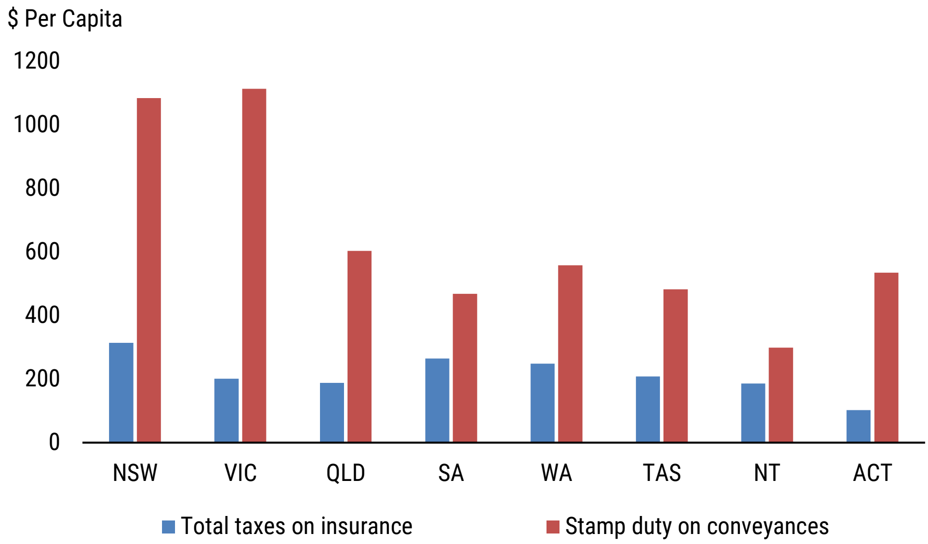
Chart 7 - Estimates of economic cost of NSW taxes



Source: Centre of Policy Studies 2018, as presented in *Kickstarting the Productivity Conversation,* NSW Productivity Commission.

[25] The Chamber judges that many of the 'stamp duty' responses in Chart 7 were referring to transfer duty.
[26] Box 5.1, 2016 IGR.

Chart 8 – High economic cost taxes (selected), 2017-18



Source: ABS, NSWBC calculations

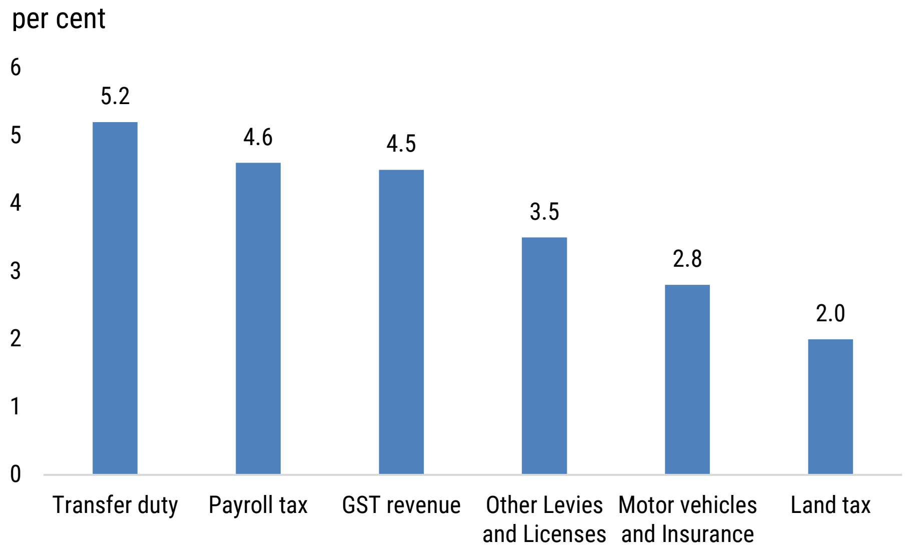
Similarly, payroll tax has grown to be the largest tax in NSW (overtaking total stamp duties in 2018-19), and is forecast to surpass $10bn by 2020-21.

The efficiency cost of payroll tax is only partially observable through modelling. Tax administration costs (which are generally outside the scope of what can be observed through modelling) are particularly high for payroll tax given complexities in the definition of wages and the inability to leverage existing or automated information systems to submit returns. These issues are particularly problematic for SMEs — feedback from our members indicate they incur around $10,000 in tax administration costs in meeting their payroll tax obligations. While some of these costs have been reduced by recent reforms, administration costs remain high for many businesses.[27]

But transfer duty is growing fastest. Despite a decline in transfer duty receipts over the past two years (due to a slowdown in property turnover), Budget forecasts suggest transfer duty will grow faster than all other major taxes (see Chart 9). According to projections in the 2016 IGR, this will continue over the next decade and beyond. These figures foreshadow the increasing economic costs of stamp duty. Decisions ought to be made today to reduce their impact on the economy.

[27] See http://www.fesl.nsw.gov.au/projects-initiatives/review-payroll-tax-administration.

Chart 9 – Growth of NSW taxes



Source: NSW Budget Statement 2019-20-Paper No. 1

The Chamber welcomes recent reforms that increase the value of current thresholds in line with CPI. This will slow the growth in transfer duty but only to a modest extent. The change is a good start but transfer duty will continue to grow over time. This is because indexation does not address growth relating to transaction volumes while the increases to thresholds precipitated by CPI are insufficient to ameliorate bracket creep (the Sydney CPI is currently 1.7% over the year while property prices in Sydney grew by 1.8% in the month of September 2019 alone). Indexing to CPI also fails to account for capital improvements which uplift property values.

The benefits of reforming transfer duty are clear. The Chamber's Thinking Business Report — *Taking on Tax: Reforming NSW property taxes* found reform could boost GSP by 1%, household consumption by $1,600 per year, employment by 10,000 jobs, and real after-tax wages by 1.8%.

The Chamber strongly supports reducing the role of transfer duty in the NSW tax system, including by boosting the ambition of recent reforms to thresholds (to at least ensure the reform challenge does not become greater).

Other non-major taxes

While containing the growth in transfer duty is the biggest single challenge in terms of ensuring tax system efficiency, other taxes also impose disproportionate economic costs on the community. This includes close to $2bn collected in stamp duties on motor vehicles and insurance as well as more than $3bn from other levies and license fees.

Taxes which have the effect of increasing the cost of insurance are particularly pernicious. Many of the Chamber's regional members are disproportionately exposed to adverse weather events such as droughts, bushfire and flooding rains. That is why the Chamber advocated for tax changes, including abolishing stamp duty on insurance premiums for commercial and business premises in our *Keeping NSW Number 1* election campaign.[28]

Recommendation 40

Absent more comprehensive reform (including reform facilitated with support from the Commonwealth), the ambition of recent reforms to transfer duty thresholds should be boosted to ensure the future reform challenge does not become greater.

Recommendation 41

Taxes on insurance should be minimised or abolished to make it easier for businesses to mitigate risk.

Local government rates

The Chamber encourages the FFR Review to consider broader reform opportunities in the context of IPART's *Review of the Local Government Rating System* (IPART Review). Given the Chamber's broader policy priorities regarding both local government and property tax reform, we consider it important for the IPART Review to be properly considered.

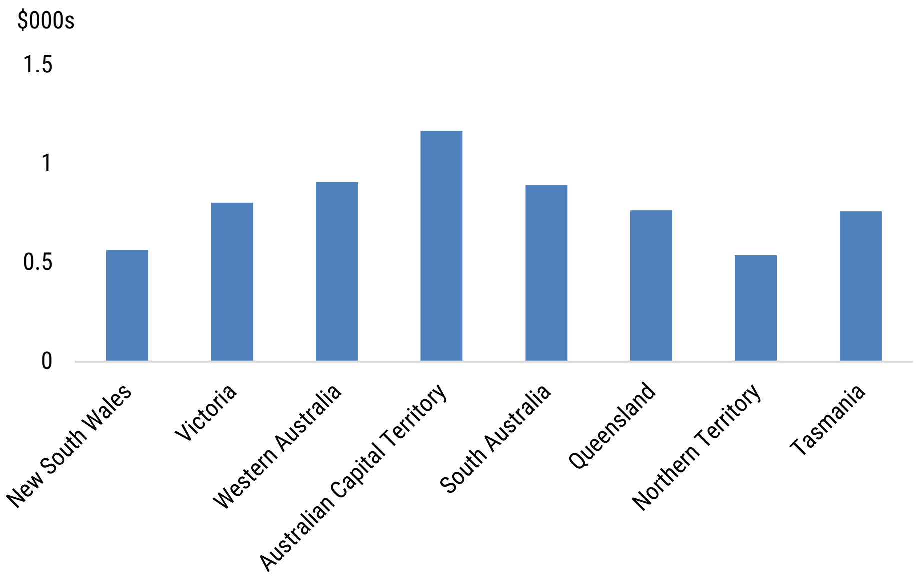
A key recommendation of the IPART Review is to facilitate an expansion to the rates base by moving toward a capital improved valuation method which is argued to be more closely related to drivers affecting the cost of local government services.

The Chamber supports the objective of allowing local governments' own source revenues to grow alongside the efficient cost of delivering local government services. To be clear, the Chamber would strongly oppose circumstances where revenue expands to fund wasteful and inefficient spending.

Insufficient growth in own source revenues will place increased pressure on other revenue sources — such as inefficient state-based taxes — to fund future expenditure. NSW rates are much lower compared to other jurisdictions (see Chart 10). While this is a good thing in isolation, governments must continue to deliver services to the community. If lower rate revenues shifts the burden onto other taxes then it is a false saving.

[28] See https://www.nswnumber1.com.au/.

Chart 10 - Municipal rates per capita



Source: ABS, NSWBC calculations

Lower rates relative to other jurisdictions does not itself imply a lower burden on business. Businesses are often seen as an easy target when it comes to rate settings. A concern is that local governments might prefer to increase rates for a constituency that does not vote and has a higher perceived ability to pay, even if this is detrimental to a local economy. Businesses already pay much higher rates than the residential sector. While some of this can be justified by their higher use of services on average, there is significant potential for cross-subsidisation between business and residential ratepayers. Pressures to grow local government rates should not result in increased pressures for business.

Part of the increased cost of local government services can be attributed to a shift toward high-density housing. It is essential to our economic competitiveness for the productive sector of our economy (business ratepayers) to be shielded from bearing increasing costs incurred by residential ratepayers. The Chamber supports mechanisms allowing the residential rates base to grow in line with the cost of maintaining population serving infrastructure and services in an efficient manner.

In our submission to the NSW Government's response to the IPART Review, the Chamber accepted there was conceptual appeal in increasing the share of total local and state government taxes collected from residential rates, given their relative efficiency.[29] We also accepted there was some conceptual appeal in moving toward a capital improved valuation method on the basis that it could potentially reduce pressures faced by business ratepayers.

On the other hand, the Chamber noted it would strongly oppose changes resulting in an overall higher tax burden for business relative to what would occur under status quo arrangements. This includes examining local government rates in the context of other state-based taxes as part of a deliberate and coherent strategy. It is also necessary to

[29] See https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/190802_SUBMISSION_IPART_Rating-System_FINAL.pdf.

benchmark the efficiency of NSW local governments and their service delivery responsibilities when making comparisons about rate revenue across jurisdictions.

It would therefore be appropriate for this review to examine the potential to improve cooperation between tiers of government to inform the Government's consideration of recommendations from the IPART Review. Our submission to the Government response to that review advocated that recommendations 6 to 8 of the IPART report to be considered as part of the FFR Review.[30]

Recommendation 42

Local government rates, including the IPART Review, should be considered as part of the FFR Review.

Recommendation 43

Rates ultimately paid by businesses should not be increased to fund local government services delivered to residential ratepayers. Additional mechanisms should be considered to protect businesses from any rate increases that may result from implementation of recommendations from the IPART Review.

Payroll tax

The Chamber welcomes recent action to increase the tax-free threshold and implementation of recommendations from the NSW Productivity Commissioner review of payroll tax administration (PRT Review).

The payroll tax threshold

One of the reasons the Chamber advocated for an increase in the payroll tax threshold was to reduce payroll tax administration costs incurred by employers. Based on survey feedback from our members, we estimate these costs to be around $10,000 for a business as they become liable for payroll tax.[31] With NSW previously having one of the lowest thresholds in the country, overall tax administration costs were higher in NSW than in other jurisdictions (in absolute and relative terms). A $1 million threshold will go some way to reducing the number of businesses caught up in the administratively onerous tasks associated with complying with payroll tax.

There remains considerable tax administration costs for business notwithstanding the positive outcomes of the PRT Review. That is why the Chamber supports maintaining a payroll tax threshold which is sufficiently high to reduce the number of small employers caught up in the payroll tax system while ensuring NSW is competitive with other jurisdictions.

The Chamber also maintains there is a need to ensure NSW has a competitive payroll tax rate. Some have proposed abolishing the payroll tax threshold to fund a reduction in the payroll tax rate to broaden the payroll tax base. While there may be economic benefits

[30] See Recommendation 3, https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/190802_SUBMISSION_IPART_Rating-System_FINAL.pdf.

[31] NSW Business Chamber Submission to the 2017-18 NSW Budget, Attachment A.

in theory, the Chamber maintains that payroll tax in its current form is far too complex and administratively burdensome to support a threshold below $1m. Lowering the threshold to cut the payroll tax rate would also have the effect of shifting the tax burden from NSW's largest employers to the small business sector.

Support for regional employers

The Chamber has advocated for regional NSW to have immediate access to the $1m payroll tax threshold rather than waiting until 2021-22 when it applies across NSW. This would be particularly welcome given the impact of drought and bushfires on regional businesses.

Contractor provisions

An outstanding area of concern is the interaction of the contractor and employment agent provisions of the *Payroll Tax Act 2007.* In our submission to the PRT Review, the Chamber argued that the complexity of these provisions create significant uncertainty and administrative burden for businesses in determining their payroll tax obligations.

The Chamber notes that the definition of wages for the purposes of payroll tax is unique. For example, the definition of wages for payroll tax and workers compensation purposes are not aligned mainly due to the fact that they are designed to achieve different public policy outcomes. But this does not mean these policy trade-offs cannot be re-examined.

The Chamber reaffirms recommendations made in its submission to the PRT Review which recommended the contractor and employment agent provisions be simplified to make reporting, record keeping, and understanding and practicing obligations easier for employers. This includes making progress on the implementation of recommendations 6 and 12 of the PRT Review, both accepted by Government, which relate to the complexity of the contractor provisions.

Chain of on-hire arrangements

The Chamber has become aware of significant uncertainty as to which party is liable for payroll tax in chain of on-hire arrangements (where an employment agent on-hires a service provider to another employment agent who in turn on-hires the service provider to its client).

There is ambiguity over which party is liable for payroll tax as Revenue NSW has the discretion to impose a liability on any one of the employment agencies existing in the chain of on-hire arrangement. The Chamber is aware of a number of cases where Revenue NSW appears to have contravened its own revenue ruling as to which party is liable.

The many businesses using chain of on-hire arrangements now have no certainty as to whether they are liable for payroll tax or not. A lack of certainty gives rise to the risk of overpaying payroll tax (and potentially double taxation if multiple parties report payroll tax liabilities on the same wages) or risking an ex-post payroll tax assessment against them where they will be unable to recover these costs from their clients.

Recommendation 44

Payroll tax administration costs warrant a higher threshold than might otherwise be the case. NSW should have a payroll tax threshold that is sufficient to ensure we are competitive with other jurisdictions and which minimises tax administration burden.

Recommendation 45

Regional employers should be given immediate access to the $1m threshold.

Recommendation 46

Progress should be made toward recommendations 6 and 12 of the PRT Review.

Recommendation 47

Revenue NSW should ensure clarity for businesses engaging in chain of on-hire arrangements by adhering to revenue rulings relating to these arrangements.

Redesigning payroll tax

Payroll tax administration is a key justification for maintaining tax-free thresholds which are high enough to ensure small and microbusinesses are not caught up in the payroll tax system.

But there is potential to greatly reduce these costs if existing business processes — including accounting platforms and business systems — can be leveraged to reduce tax administration. Unlocking the potential of these systems would require a more fundamental rethink of the design of payroll tax. The Chamber observes that the bulk of the payroll tax base is already reported regularly to the ATO in some form. For example, employers must report fringe benefits, PAYG withholding, superannuation payments and payments made under an employee share scheme. Contractor payments represent the most significant challenge for employers as reporting for payroll tax purposes differs from what is required by the ATO.

If definitions and the payroll tax base were aligned to ATO reporting, employers would be able to utilise systems already in place. While additional metadata may be required to determine the jurisdiction of a payment (as ATO reporting is national), it is plausible that payroll or other business systems would be capable of collecting the required metadata to facilitate seamless reporting.

While the Chamber does not propose any specific reforms, it is conceivable that a reform program similar to the implementation of the GST could facilitate the removal of state-based taxes such as payroll tax subject to their replacement with a suitable alternative.

The Henry Review considered the potential to consolidate payroll taxes into a tax on employee remuneration administered through the PAYG withholding system. It also recommended replacing payroll taxes with revenue from more efficient broad-based taxes that capture the value-add of labour. Each of these options would require careful consideration of implications associated with altering the current payroll tax base, as well as how to distribute revenue between states and territories. They are nonetheless worth examining for their potential to significantly improve the efficiency of our tax system (including by reducing tax administration).

Recommendation 48

The FFR Review should consider opportunities to collaborate on the reform of state-based payroll taxes. Options include redesigning the payroll tax base to improve payroll tax administration and replacing existing taxes with alternative revenue sources in partnership with the Commonwealth.

Fire and Emergency Services Levy

In 2017 the Government announced it would defer the introduction of the Fire and Emergency Services Levy (FESL) to ensure small to medium businesses do not face an unreasonable burden in their contribution to the state's fire and emergency services. The FESL was previously proposed as a fairer and more efficient way to fund the costs of fire and emergency services given the current Emergency Services Levy (ESL) penalises those that take out insurance.

The Chamber was a supporter of the Government's efforts to move towards a fairer model for funding these services. Despite this support, it was clear that under the proposed model some individual businesses would be made significantly worse off even though insurance premium reductions may leave the business sector better off overall. The Chamber welcomed the Government's decision to assess the impact on these businesses.

Now several years after this decision to defer implementation, it is unclear if or when the Government will revisit the FESL into the future. The Chamber believes these reforms remain important.

While the Chamber does not recommend any specific approach, a fairer FESL could be achieved through an alternative rate structure, contribution caps or increasing the role of the fixed component under a revised FESL model. The Victorian model includes a two-tier rate structure on metro and regional property. This approach has the benefit of reducing the impact on property owners in high land value districts that would otherwise account for a disproportionate share of the overall costs.

Recommendation 49

The FFR Review should consider options to implement the FESL under a revised model that is fairer and more efficient than the ESL.

Firefighter compensation

In November 2018, the NSW Government made changes to workers compensation arrangements for firefighters. This was an important step toward ensuring appropriate care for firefighters affected by exposure to carcinogens.

While it is essential to secure adequate funding, these costs will ultimately be passed on in the form of higher property insurance premiums (for residential and business property owners) as well as additional charges to local councils (which will ultimately be passed on in the form of higher local government rates). Some of our members have reported large increases in their insurance premiums resulting from these changes.

Increasing the ESL to cover these payments only exacerbates existing concerns relating to the efficiency costs of insurance taxes. Alternative funding arrangements should be relied upon.

Recommendation 50

Current arrangements for funding emergency services are not optimal and should not underwrite new costs. Alternative funding arrangements are needed.

Part 6 –Regional development

Many of the Chamber's members are based in regional NSW. The state's regions have the potential to contribute significant additional economic capacity so long as the right investments in physical and social infrastructure are made.

While the opportunities are immense, many of our regional communities face existential challenges. While contemporary challenges such as drought and bushfire will not persist indefinitely, our regions are more vulnerable to changes in our economic structure. Threats to the viability of a business can impact a whole community. That is why it is important to manage the pace of change and, where appropriate, protect against threats which challenge the long-term sustainability of our regional communities.

Capacity utilisation

Targeted policies can ensure we make better use of the state's economic capacity. Much of the state's latent capacity exists in regional NSW. Unemployment and labour force underutilisation is typically higher in regional NSW than it is in metropolitan areas. Regional NSW does not face the same constraints associated with congestion and high property prices.

While the Government does not need to incentivise business relocation, more can be done to ensure government policies do not create barriers for businesses that are able to benefit from relocation. For example, businesses seeking to relocate to regional NSW incur significant stamp duty liabilities upon purchasing new premises in regional NSW.

The Government should also ensure the provision of public goods that facilitate regional development (such as infrastructure and skills training).

There is also the potential for the Government to develop 'nudges' to assist business decision-making (such as by making businesses aware of opportunities that exist in other parts of NSW).

Taking forward recommendations from the Zonal Taxation Inquiry

The Chamber welcomed the final report from the *Inquiry into Zonal Taxation* when it was released in May 2018. While the Chamber's tax reform priorities are not identical to those recommended in the final report, it nonetheless contains many sensible suggestions to make it easier to do business in regional NSW.

While the Chamber does not support zonal taxation arrangements on a permanent basis, it would nonetheless support a number of measures based on recommendations made in the final report. This includes:

- payroll tax relief for businesses relocating from interstate into regional NSW;
- fast-tracking increases to the payroll tax threshold for regional businesses located outside of metropolitan Sydney; and
- stamp duty exemptions for purchases of commercial and industrial property located outside of metropolitan Sydney.

Recommendation 51

The Government should increase the payroll tax threshold to $1m for regional businesses. Further relief targeting new investment in regional areas, based on recommendations from the *Inquiry into Zonal Taxation*, should also be explored.

Fast-tracking regional infrastructure

Many of the Chamber's regional members have expressed concern at the pace of infrastructure delivery in regional NSW.

While funds are available to regional NSW under Restart NSW, regional communities face challenges associated with developing business cases for projects where the benefits are more challenging to quantify than for larger scale projects in metropolitan centres.

The Chamber considers the proportion of annual Restart NSW funding that goes to regional projects should be consistent with the 30 per cent target overall. This will require a stronger and more consistent focus from Government in both identifying, prioritising and progressing projects in regional NSW.

Regional infrastructure is an important policy lever for promoting regional development while at the same time ensuring that NSW residents have access to sufficient opportunities and amenity no matter where they live. An approach to project assessment that helps identify base levels of service provision from public infrastructure would help ensure all regions receive increased levels of infrastructure investment.

Recommendation 52

The Government should ensure the proportion of annual Restart NSW funding that goes to regional projects should be consistent with the 30 per cent target overall. Approaches to project assessment should balance the need to have high quality projects while recognising the challenges associated with assessing projects in regional centres.

Ensuring cross-border competitiveness

A number of policy issues arise for businesses operating close to state boundaries. Border communities rely on their natural strengths and endowments to be resilient against competitors operating in a neighbouring jurisdiction with more favourable policy settings. However, policy changes — no matter which side of the border they occur — can create imbalances and disproportionately impact communities located close to the border. In recent times these impacts have been seen with the implementation of the container deposit scheme (CDS) and changes to payroll tax in neighbouring jurisdictions which have disadvantaged businesses on the NSW side of the border. Border communities are also disadvantaged in BCR processes due to the discounting of benefits.

The Chamber welcomes the pragmatic approach taken to address concerns relating to cross-border issues and recommends this approach be adopted for any future issues that become apparent (such as by maintaining, and extending where necessary, compensation to border retailers affected by the CDS and ensuring the competitiveness of the payroll tax system by increasing the threshold to $1 million).

To ensure future policies do not give rise to new cross-border issues, the Chamber believes all new policies should be subject to specific consideration as to how border communities will be affected. The Chamber notes it is difficult for this to occur without robust regulatory impact assessment processes. The NSW Cross-Border Commissioner has a vital role in advocating for the interests of border communities, however it is challenging for the Commissioner to properly assess policies if a broader assessment of costs and benefits (including proper stakeholder consultation) is not performed.

The NSW Government should also continually monitor policy changes in neighbouring jurisdictions and make changes to the regulatory and policy environment to ensure NSW businesses are not disadvantaged.

Recommendation 53

The NSW Government should continue to take a pragmatic approach to directly address cross-border issues as they arise. All future policies should be assessed for any impacts on cross-border communities, including as part of new regulatory impact assessment processes implemented as a result of the Greiner review. The regulatory and policy environment in neighbouring jurisdictions should be monitored and, if required, changes made to ensure NSW is competitive with the rest of Australia.

Protect NSW from natural disasters

Australia is a land of droughts, flooding rains and bushfires. In recent years NSW has had more than its fair share of each. The Chamber's Drought Survey[32] found one in three affected businesses have had their viability affected by current drought conditions while more than two in three indicated they would scale back investment.

Our regions are disproportionately exposed to adverse weather events and need targeted support so they can pick themselves back up when a natural disaster hits.

The Government's election commitment to draw on the $4.2 billion Snowy Hydro Legacy Fund to boost funding for dams, weirs, and pipelines is welcome but more can be done to support businesses that want to protect themselves. This includes through abolishing stamp duty on insurance premiums for commercial and business premises; providing flexible payroll tax payment arrangements; and establishing a natural disaster recovery fund to provide concierge services for impacted businesses. Fast tracking assessments of disaster affected locations and financial support should also be progressed.

Recommendation 54

The Government should:

- abolish stamp duty on insurance premiums for commercial and business premises to encourage increased insurance coverage;
- Provide flexible payroll tax payment arrangements for those impacted by natural disaster; and
- Establish a natural disaster recovery fund to better support businesses and communities impacted by natural disasters.

[32] Accessible at: https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Drought-Survey-2018-Report-Final_1.pdf.

Part 7 – Regulation and competition

Promoting greater competition in markets and reducing regulatory burden has been a key driver of productivity growth in previous decades, though these gains have now largely dissipated. Increasing competitive pressures incentivises and disseminates efficient and best practice across markets. It also encourages product differentiation and creates value for consumers.

Boosting competition

Previous reviews such as the 2015 Competition Policy Review (the Harper Review) and various PC reviews[33] have recommended reforms that would boost the dynamism of markets in NSW and across Australia.

The Chamber supports the set of competition principles outlined in recommendation 1 of the Harper Review as a guiding framework for the development of government policy. The Chamber also supports recommendation 48 of the Harper Review that recommended competition policy payments to ensure budget revenue gains should accrue to the jurisdictions undertaking reform.

Many recommendations from the Harper Review have been raised on many previous occasions and are well understood (even if the implementation of reform remains a challenge). For example, recommended changes to road pricing and restrictive planning and zoning practices have been addressed in other reviews and are also discussed in this submission.

The Chamber notes that some policy issues have evolved since the Harper Review first considered them. For example, sharing economy platforms (such as in ridesharing and short-term rental accommodation) have been subject to changes in the way they are regulated. As these frameworks are relatively new or transitional in nature, it is appropriate to perform a post-implementation review to examine their effectiveness, including to identify any chilling effects on competition.

Recommendation 55

Principles and outstanding recommendations from the Harper Review and the PC's *Shifting the Dial* report should be considered as part of this White Paper. A focus for the White Paper should be to consider how these can be implemented in a NSW context while balancing potential political constraints.

Managing the transition to the sharing economy

Many of our members are concerned by the disparity in compliance obligations they face relative to those of operating as part of a sharing economy platform. Businesses are required to comply with requirements relating to planning, insurance, workplace relations and tax.

New business models and platforms have the potential to disrupt markets in a way that boosts productivity. These benefits should be embraced. But at the same time

[33] Such as the 2017 report *Shifting the Dial: 5 year productivity review,* see https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review.pdf.

incumbent players, which may already be highly efficient, should not be disadvantaged due to regulatory arbitrage. Specifically, new business models and sharing economy platforms should be successful on their own merits.

The best way to reconcile the need to embrace the benefits of disruption and a desire to protect existing businesses is to ensure regulatory frameworks evolve. This could include a combination of relaxing regulatory standards imposed on traditional businesses as well as bringing shared economy platforms into the scope of modernised regulatory systems.

Regulation reform

The implementation of recommendations from the Greiner review of the NSW Regulatory Policy Framework (Greiner Review) remains a priority for regulation reform in NSW. The core purpose of the Greiner Review is to ensure best practice policymaking in NSW. The Chamber is aware of too many examples where new regulation has been implemented without proper consultation, assessment of costs and benefits, or consideration of non-regulatory approaches.

The Chamber strongly believes that robust regulatory impact assessment must be a key feature of any new regulatory policy framework.

The Chamber also supports a revival of the Quality Regulatory Services (QRS) initiative to facilitate a culture of risk-based compliance and enforcement. Such a focus is particularly necessary in a more fiscally constrained environment where there is increasing pressure on regulators. The Chamber is aware of anecdotal experiences where regulators have adopted a more hard-line approach to meeting regulatory objectives.

The Chamber has previously noted its view that relevant recommendations from the Greiner review should be fully in place by the end of the 2019 calendar year.

Recommendation 56

The NSW Government should ensure the key recommendations from the Greiner Review are implemented by the end of the 2019 calendar year. The NSW Government should also revitalise the QRS initiative.

Easy to do business

The Chamber welcomes the Government's approach to reduce red tape by making it easier to interact with the NSW Government and streamlining application processes. The *Easy to do Business* initiative has launched a number of successful pilots which have reduced red tape for businesses involved.

Many of these pilots have required close partnership with local governments who, in turn, have had to review how they engage with business. A key to the ongoing success of the program is to scale-up the benefits by expanding to a greater number of local government areas. Progress must also continue to identify new focus areas for streamlining application processes and improving cooperation between governments.

The Chamber welcomes further implementation of the program to new industries and local government areas. Efforts to improve outcomes under the initiative could include:

- providing greater transparency around local governments that have opted into the program ahead of local government elections;
- addressing impediments to local government participation (such as where there are financial impediments); and
- incentivising participation by initiating targeted payments to local governments to compensate for revenues forgone (such as where work streams require fees to be waived).

Recommendation 57

The *Easy to do business* initiative should be expanded to more policy and local government areas. The White Paper should consider how greater participation in this initiative could be incentivised and encouraged.

Technology can improve the regulatory experience

The Chamber welcomes the appointment of the Minister for Customer Service to further streamline and improve the delivery of government services. A focus on service and the user experience will ensure NSW is well-placed to benefit from new technologies.

The Chamber notes that in many of the most notable improvements precipitated by technology are not the result of advances along the technological frontier but rather innovations in the way we interact with technology. For example, one of the key innovations of ridesharing platforms is to reduce frictions in the user experience such as by integrating payment and providing certainty as to waiting times (by allowing the user to see where their driver is located).

Similar benefits can be gained through the adoption of technology when considering the compliance challenges of business. For example, a streamlined regulatory environment allows businesses to dedicate fewer resources to compliance without compromising regulatory objectives.

Identifying opportunities to improve regulatory systems

A top-down approach (whereby the government designs and implements solutions) is unlikely to realise the full potential of technology. Governments do not always have visibility of user pain points where technology could solve compliance challenges. Even once pain points are identified, governments may not have visibility over what are the best solutions. There may also be resistance to change due to internal factors and legislative frameworks which limit the scope for technology to offer an alternative solution (such as in the case of payroll tax administration where the definition of wages makes it hard for software platforms to streamline payroll tax reporting).

By contrast, some of the best examples of the NSW Government's embrace of technology have come from bottom-up solutions developed by software developers. For example, open data has facilitated a range of transport apps that have improved experiences for users of public transport.

A successful bottom-up approach requires governments to embrace new opportunities presented by, on some occasions, small providers that have limited experience in engaging with or dealing with government. For example, RegTech providers are offering new approaches for meeting policy objectives in financial services (RegTech refers to technological solutions that streamline and improve regulatory processes).[34] The key to success in the RegTech sector has been the willingness of financial regulators to engage new technologies.

Many of the aspects of assurance being delivered by RegTech providers could have applications across a broad range of regulatory areas. The Chamber encourages the Government to explore partnership with technology providers including through close engagement with the emerging RegTech industry.

A further way to harness bottom-up regulatory innovation is to have a framework for unsolicited proposals to government (such as the existing framework for infrastructure proposals).

Recommendation 58

The Government should engage closely with developers of new technology to identify new opportunities for streamlining compliance burdens. The Government should establish an unsolicited proposal framework so that developers can gain access to Government and propose novel solutions to regulatory challenges.

Training and support for new and expanding businesses

The complexity of operating a business increases along with business expansion. The vast amount of information available to businesses, from a range of sources, can be overwhelming and difficult to navigate. In this regard, many business owners — many of whom operate as a 'jack of all trades' within their business — have the potential to benefit greatly from support services that guide them through the process of setting up and expanding their business.

The Business Concierge service provided by Service NSW is a valuable tool for entrepreneurs looking to take the leap and start a business. Further, training supported by the *Skills for Business* fund has the potential to boost the business acumen of business owners with limited experience operating a commercial enterprise.

The Chamber has previously proposed these services be expanded, via a range of delivery partners, with a view to focussing on challenges that emerge as businesses grow and expand. For example, new training and support services could be targeted to support businesses as they grow from being a non-employing business to an employer with permanent staff.

Recommendation 59

Boost funding for training and support for new and expanding businesses with a view to supporting businesses as they take on new challenges such as hiring staff.

[34] The RegTech Book, 2019, p.vii.

Reviewing business grants

There is merit in streamlining and consolidating existing grants to give greater prominence to the support available to businesses. Our members have cited a number of concerns relating to NSW government grants:

- NSW government grants in key areas such as research and development (R&D) are either non-existent or not visible to practitioners that support businesses with R&D activities;
- grants are typically of low value and do not justify the paperwork or resources required to apply (such as the Jobs Action Plan rebate); and
- businesses do not have strong visibility over their likelihood of success and so they divert significant resources to apply before being rejected on a basis that was not apparent to them from the start.

A further challenge relates to competitive dynamics associated with generous grant programs offered by other states such as Victoria and Queensland. Our members report favourable experiences and attractive incentives when engaging with support programs offered by neighbouring jurisdictions. For example, the Queensland Industry Attraction Fund offers support for businesses considering opportunities to expand their business or relocate interstate. Similar arrangements exist in Victoria.

In this respect the challenge is two-fold: ensuring businesses operating in NSW have access to similar support as their competitors in other jurisdictions; and ensuring the support that currently exists can be easily accessed by business. Streams could include and consolidate existing arrangements in areas such as (but not limited to):

- the small business grant available to businesses not liable for payroll tax;
- support for businesses undergoing digital transformation;
- export promotion and international market development;
- incentives for businesses considering business expansion into regional NSW;
- investments to reduce business exposure to weather events such as drought and floods; and
- business initiatives to build soft skills and capabilities that cannot be developed through formal vocational and tertiary education (but through modes such as on the job training and experiential learning).

Recommendation 60

The Government should consolidate existing grants, support and other forms of business assistance into a streamlined grants program. Grants should be more visible to practitioners, application processes simplified, and likely grant outcomes clear to applicants.

The risk of 'regulation creep'

The Chamber has previously expressed concerns about overlapping regulatory obligations that make it harder for businesses to understand their obligations, and ultimately more costly to comply. This can occur where subject-specific solutions are initiated even though statutory frameworks already protect and govern a particular legal relationship (for example, engaging labour).

Governments need to demonstrate how existing regulatory frameworks are insufficient before introducing new requirements, and play an educative role in clarifying how those existing requirements are capable of addressing alleged deficiencies in the law. Without this important step, there is a risk of imposing new legal obligations that overlap or conflict with those prescribed by other statutes, including Commonwealth legislation.

We are aware of recent examples where regulators have allocated resources toward identifying and promoting best practice in the workplace. Although commendable, there is a risk of conflating best practice with compliance. For example, the desire to promote going 'above and beyond' the minimum statutory requirement needs to be clearly spelled out so the expectations of various stakeholders can be appropriately managed.

Recommendation 61

The Government should, when developing public policy positions (especially for a policy area that is being addressed at both a state and federal level), ensure that:

- recommendations of 'best practice' are clearly identified and differentiated from those business practices that need to be put into place to ensure legal compliance;
- the overarching legislative framework is taken into consideration to avoid any conflict or divergence of well-understood legal concepts; and
- it is not imposed upon an employer as a matter of regulatory convenience where responsibility for a particular matter properly lies elsewhere.

Procurement

The Chamber recently surveyed its members regarding government procurement (see Box 2). Our survey showed there is broad interest in supplying to government, but that experiences with procurement (across all tiers of government) were generally unfavourable. Negative experiences with procurement can be accounted for by the higher level of requirements and processes needed to supply to government when compared with the cost of supplying to other businesses. Some of these requirements may be needed to ensure value for money for the taxpayer, but some may be redundant or unnecessary given the imposition of cost on potential suppliers.

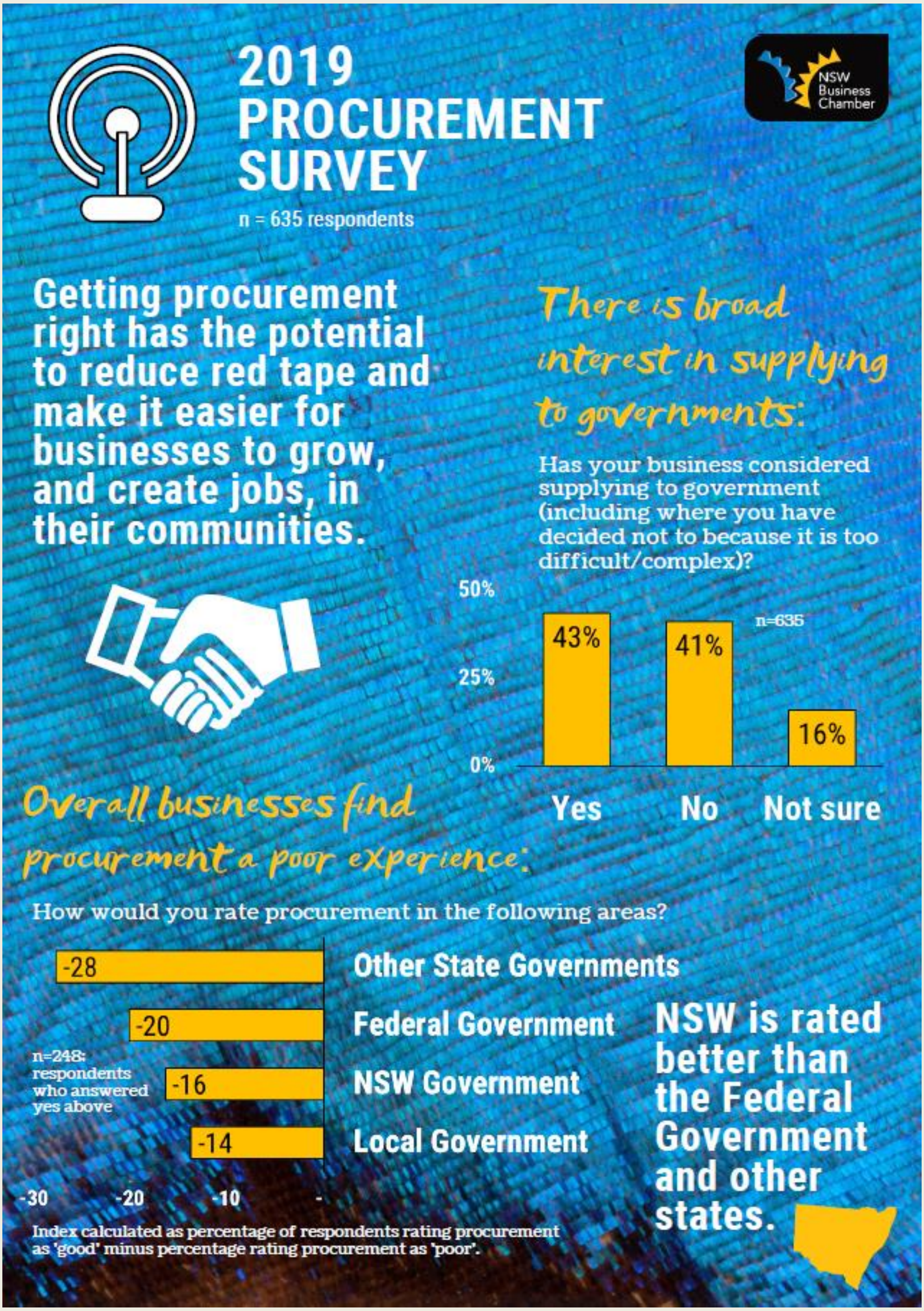
Our survey indicated recent reforms implemented by the NSW Government had the potential to improve outcomes for business. Reduced red tape and greater ability for agencies to purchase direct from small business were rated as having the most potential to benefit small business respondents.

The survey also suggested that the NSW Government performed more favourably than the Commonwealth and other state governments. Views on local government procurement were more favourable than other tiers of government, though net satisfaction was negative.

Recommendation 62

The Government should monitor the ongoing impact of recent reforms to NSW Government procurement and fine-tune where necessary.

Box 2 – Procurement Survey



Box 2 – Procurement Survey (continued)