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Accelerating R&D in NSW



NSW Business Chamber

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Introduction

The NSW Business Chamber (the Chamber) welcomes the opportunity to provide a submission to the consultation *Accelerating R&D in NSW*.

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.

This submission summarises previous work undertaken by the Chamber including proposals that have the potential to make it easier for businesses to engage in R&D activities.

The Chamber believes a broad conception should be taken as to the scope of R&D activities under focus for this review. While policy dialogues regarding R&D have typically focussed on a more narrow range of activities (such as those eligible for the R&D tax incentive), the Chamber believes a broader focus is warranted. This is because R&D activities exist along a spectrum and there is the potential for lower impact R&D activities to make a significant contribution where they occur at high volume.

Such a broad focus brings into a view many of the Chamber's existing policy work across areas such as skills, infrastructure, tax, regulation and productivity; each of which has the potential to shape the dynamism and innovative capacity of our economy.

At the same time the Chamber is cautious about the potential for costly but ineffective responses to the R&D challenge. Policy should have a focus on removing impediments to R&D, and building broader economic capacity, instead of Government picking winners. Many policy interventions that are complementary to R&D are meritorious on other grounds such as improving economic efficiency.

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Chamber research reports

Industry research collaboration

The Chamber and the Sydney Business Chamber (the Chambers) partnered to release the Thinking Business report *Industry Research Collaboration*.¹

To help identify solutions to improve the conversion of Australia's considerable research expertise into commercial success, the Chambers commissioned PwC to develop a roadmap to improve the effectiveness and frequency of industry-led collaborative innovation. The solutions included in the roadmap were co-developed with more than 100 stakeholders across industry, research and government. The report made a number of broad recommendations including (see report for more detail):

- establishing good practice forums on corporate engagement and commercialisation;
- general guidelines for engaging with companies and researchers;
- SME capability development workshops;
- work integrated learning forums; and
- creation of a marketplace for research expertise.

The report also recommended policy actions including:

- Initiatives to incentivise and promote collaboration between research organisations and industry.
- Review of government procurement policies to encourage and reward local, collaborative innovation.
- Review of the neutrality provisions within the context of how much research organisations can charge for commercial services.
- Investigate opportunities to improve access to government funded innovation programs and to improve information sharing between government departments.
- Investigate opportunities to consolidate government innovation programs to reduce fragmentation, duplication and complexity, while providing improved stability.
- Investigate opportunities to encourage more motivated SMEs to collaborate with research organisations.
- Initiatives to encourage more mobility between companies and research organisations.
- Initiatives to address declining rates of STEM related course completion.

Innovation in Sydney

The Sydney Business Chamber in collaboration with Deloitte and the University of Technology Sydney released the report *ImagineSydney: Create* to understand where in Sydney innovation is already happening and the factors that are contributing to it.²

The research identified a number of innovation hotspots and the contributing factors to their success. It also identified a number of case studies and innovation levers.

¹ <https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Industry-Research-Collaboration.pdf>

² http://landing.deloitte.com.au/rs/761-IBL-328/images/exc-imagineSydney-INB-Report-Download-Create_Full_Report.pdf

Grants and government support mechanisms

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).

Procurement

The Government has the potential to drive innovation and R&D practices through its procurement processes.

The Chamber recently surveyed its members regarding government procurement (see Box 1). 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.

Box 1 – Procurement Survey



2019 PROCUREMENT SURVEY

n = 635 respondents

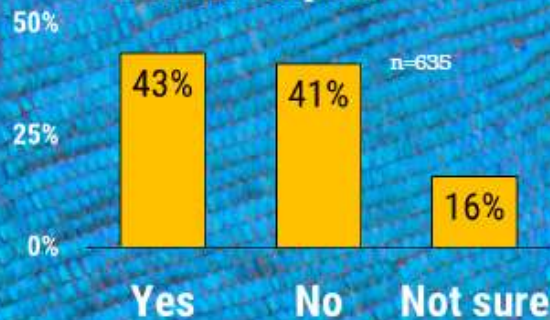


Getting procurement right has the potential to reduce red tape and make it easier for businesses to grow, and create jobs, in their communities.



There is broad interest in supplying to governments:

Has your business considered supplying to government (including where you have decided not to because it is too difficult/complex)?



Overall businesses find procurement a poor experience:

How would you rate procurement in the following areas?



Index calculated as percentage of respondents rating procurement as 'good' minus percentage rating procurement as 'poor'.

NSW is rated better than the Federal Government and other states.



Box 1 – Procurement Survey (continued)



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.

Tax, productivity and red tape

The Chamber recently prepared a submission to the Productivity White Paper³ process and the Thodey review of Federal Financial Relations⁴.

For NSW to be an attractive place to engage in R&D activities it also needs to be a attractive place to do business. This requires ongoing efforts to ensure we are competitive across all dimensions of tax and regulation as well as maintaining appropriate infrastructure.

The Chamber made 62 recommendations in our submission to the Productivity White Paper process which are intended to ensure NSW is maximising our potential. Many of these will be relevant to the current review of R&D.

Skills for the future

The nature and scope of R&D activities are endogenous to the endowments of a given location. NSW cannot expect to build its capacity for R&D if it does not have the right human and social capital to develop new ideas and support their commercialisation. We must be making investments today to support the human and social capital needed for tomorrow's R&D activities.

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.

The Chamber undertook a Workforce Skills Survey of businesses across NSW in July 2019⁵ 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.

³<https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Taxation%20and%20Regulation/Reducing%20the%20regulatory%20burdens%20faced%20by%20business/191127-Productivity-Review-Final.pdf>

⁴<https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Taxation%20and%20Regulation/Reducing%20the%20regulatory%20burdens%20faced%20by%20business/191122-Thodey-Review.pdf>

⁵ NSW Business Chamber. 2019 Workforce Skills Survey. Retrieved from <https://www.nswbusinesschamber.com.au/Issues/Issues/Workforce-Skills> on 14 November 2019.

Our future economy will increasingly require soft skills – that is, abilities which are more universally applicable and that unlock new opportunities and make connections where they may previously not have occurred. These skills will not necessarily be taught in traditional education environments, though that is not to suggest they can't be. The Chamber has projected potential changes in soft skills in demand over the next several years (see Box 2).

Box 2 – Projecting future skills in demand

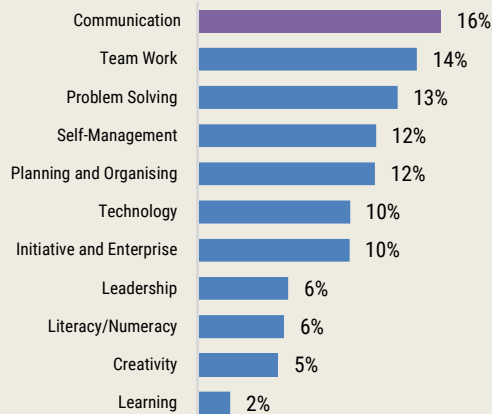
The Chamber's 2019 Workforce Skills Survey suggests that over half of businesses (55.4 per cent) are currently experiencing a skills shortage. Trade skills in construction and manufacturing/engineering were the most prominent skills in shortage. While hard skills such as these remain scarce, growing 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.

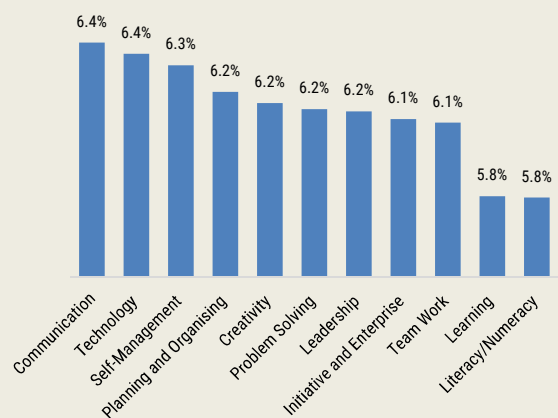
Communication (16 per cent) and team work (14 per cent) are projected to be the two highest soft skills in demand while technology skills account for 10 per cent. Communications skills are projected to grow the fastest, followed by teamwork and problem solving skills.

Skill Demand Projections(2019 – 2023)

**Skills demanded*:
total sectors, 2023**



**Forecast growth in skills demand
(2019 - 2023)**



*Share of total skills reported as being in demand (based on NSWBC BCS)

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

Geography of jobs

Infrastructure and planning are vital to the development of deep and liquid labour markets. R&D is more likely to occur where markets shape cities rather than the other way around. This is because resources (including human capital) are free to move where they can be put to their most valuable use. Overly restrictive planning requirements or policies which go against the forces of agglomeration are likely to impede R&D activities.⁶

Feedback on R&D from our members

The Chamber recently invited our members to indicate the key barriers to investing in research and development to improve the performance of their business.

The most significant issues raised by respondents were cash flow, access to funding/capital, cost of R&D activities, lack of skilled staff/knowledge within the business, lack of time, tax issues, red tape, quality of internet, and difficulties accessing/engaging with government grants.

⁶ See *Order without Design* by Alain Bertaud for a comprehensive explanation of the concept of 'cities as labour markets'.