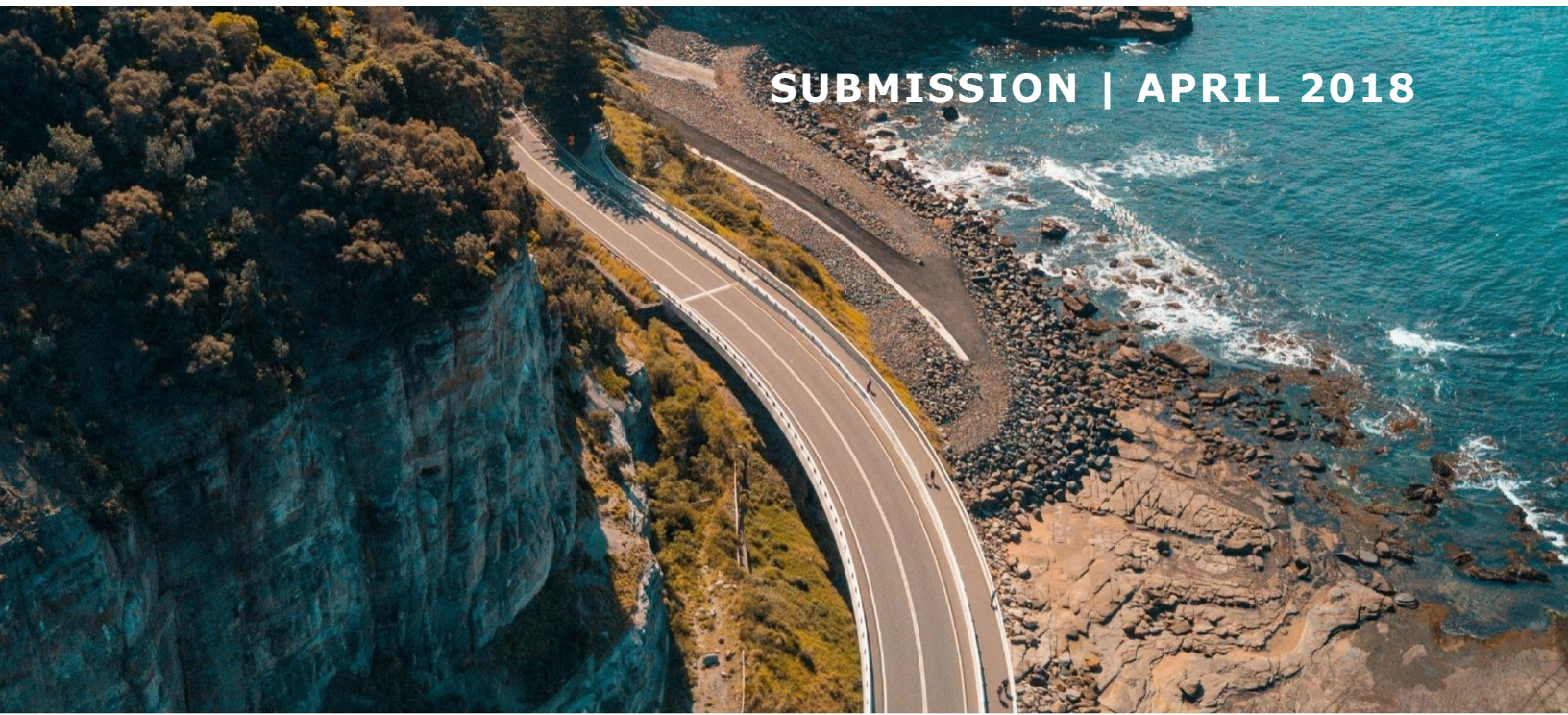


# 2018-19 Pre-Budget Submission NSW Business Chamber

SUBMISSION | APRIL 2018



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## **Introduction and overview**

The NSW Business Chamber (the Chamber) welcomes the opportunity to provide a submission to the 2018-19 Budget.

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 calls on the Government to increase the payroll tax threshold to at least \$1 million, and establish a formal annual review process to ensure our payroll tax system is competitive. Payroll tax is a major handbrake on NSW business and jobs growth, In addition, NSW's low threshold increases the administrative burden of our payroll tax system. We estimate a \$1 million threshold would lower tax administration costs by up to \$40 million on top of the tax savings to business.

Maintaining discipline and ensuring prudent budget management is a key recommendation of this submission. The Chamber supports budget planning on the premise that expenditure growth should grow in line with Gross State Product (GSP) as the predominant basis for ensuring the longer-term sustainability of state-finances.

This submission also provides recommendations to help address business concerns in relation to affordable and reliable energy; mechanisms to ensure all of NSW benefits from the Government's record investment in new infrastructure; measures to promote export growth; and reforms to improve education and training opportunities for young people.

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## **Part 1 – Payroll tax relief**

Around two-thirds of the Chamber’s members cite reducing business taxes such as payroll tax as a top priority for their business.<sup>1</sup> Payroll tax is a significant and direct disincentive for employers looking to take on additional staff or increase the wages of existing staff. Based on responses to the Chamber’s December 2017 Business Conditions Survey, we estimate 85 per cent of payroll tax savings would be used to expand business operations and would include capital investment and increased labour.

One of the biggest impediments to business growth is incurring a payroll tax liability once a payroll exceeds \$750,000 per annum. In practice this means the typical business employing fewer than 10 employees (at the average full time wage in NSW) must pay a 5.45 per cent premium on the wages of additional employees (or employee hours). These businesses also incur tax administration costs associated with payroll tax, which we estimate to be over \$10,000 for businesses that cross the existing payroll tax threshold.

The Chamber proposes an increase in the payroll tax threshold to at least \$1 million. Further to this, given the strength of payroll tax receipts (expected to be sustained over the forward estimates) opportunities to reduce the rate should be considered once a \$1 million threshold is achieved.

Increasing the threshold would reduce red tape and remove a significant barrier to jobs growth. It is important the NSW payroll tax regime remains competitive with other jurisdictions. The Chamber proposes a formal annual review considering the competitiveness of the NSW threshold and payroll tax rate with other jurisdictions.

### **The competitiveness of the NSW payroll tax system**

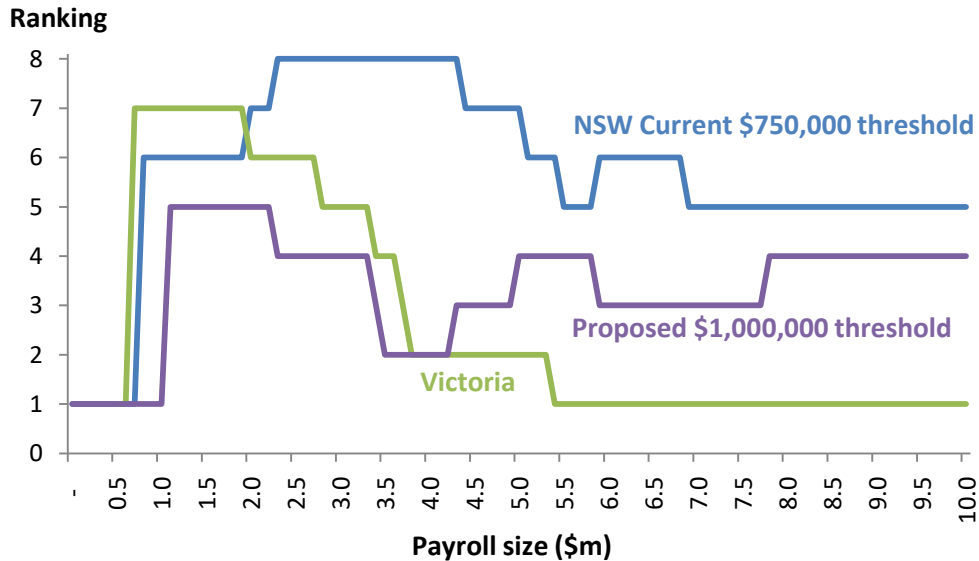
A key dimension to minimising the impact of payroll tax is to ensure NSW is competitive with neighbouring jurisdictions. This not only ensures regional businesses are able to compete with cross-border rivals, but ensures NSW is an attractive place to start and grow a business.

NSW has the third lowest threshold in the country and is particularly uncompetitive at payrolls of between \$2.2 million and \$4.2 million. While NSW has a more competitive payroll tax rate than some smaller jurisdictions (such as ACT, Northern Territory and Tasmania), higher thresholds in those jurisdictions mean NSW only becomes competitive against these jurisdictions at payrolls beyond \$7 million.

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<sup>1</sup> Business Conditions Survey, New South Wales Business Chamber, December 2017.

## NSW Payroll Tax System Ranking (out of 8 jurisdictions)



Note: Ranking by size of payroll tax liability excluding rebates and other adjustments (includes deduction regimes built into NT and QLD systems)

Threshold and rate adjustments are the primary levers for improving the competitiveness of our payroll tax system. While the competitiveness of the NSW payroll tax system could be improved by lowering the tax rate, the Chamber observes that doing so in any meaningful manner would have a significant revenue impact on the Budget. On the other hand, increases to the threshold would make a real difference in the effective rate of payroll tax paid by small businesses, particularly those with payrolls between \$750,000 and \$1 million.

Of concern is that Victoria (which offers a suitable benchmark for NSW given the structure of our economies) provides more favourable arrangements at almost every payroll size, something that could be alleviated with a threshold increase. Other jurisdictions have increased or are proposing increases in their payroll tax thresholds for example, Queensland - \$1.1 million, Australian Capital Territory - \$2 million, Northern Territory - \$1.5 million, Tasmania \$1.25 million and South Australia - \$1.5 million.

### The case for a payroll tax threshold increase

The Chamber maintains payroll tax relief should be delivered via a threshold increase before considering opportunities to reduce the rate. There are a number of reasons for this, including (but not limited to) the benefits of:

- Reducing the burden of tax administration costs.
- Offering more substantial payroll tax relief to SMEs looking to grow their business.
- Ensuring regional NSW receives an appropriate share of the benefits.

## Reducing the burden of tax administration costs

Based on advice from our members we estimate annual tax administration costs to be around \$10,000 for the typical NSW business. A number of our members report payroll tax compliance consumes almost a third of the time of a full time staff member (the need for this would vary depending on the size and complexity of a business' payroll). Using this benchmark, payroll tax administration costs could be as much or more than \$25,000 a year for some businesses. Table 1 provides an overview of tax administration processes undertaken by payroll tax liable employers. The scale and impact of these processes will vary between employers.

**Table 1 – Overview of processes for payroll tax paying firms**

<i>Finding information about and understanding obligations</i>	<i>Registering and getting ready for payroll tax</i>	<i>Practicing payroll tax obligations</i>	<i>Dealing with unusual situations</i>	<i>Ex-post compliance activities</i>
<b>Activities</b> <ul style="list-style-type: none"> <li>• Visiting website</li> <li>• Attending webinars</li> <li>• Obtaining advice from professionals</li> <li>• Understanding requirements</li> <li>• Analysing business context</li> </ul>	<b>Activities</b> <ul style="list-style-type: none"> <li>• Prepare information for registration</li> <li>• Online registration</li> <li>• Alter business processes if needed</li> <li>• Train staff</li> <li>• Upgrade systems</li> <li>• Meeting record keeping requirements</li> </ul>	<b>Activities</b> <ul style="list-style-type: none"> <li>• Assessing wages with regards to:                             <ul style="list-style-type: none"> <li>– Contractors or subcontracting</li> <li>– Payroll fluctuations</li> <li>– Different forms of payments</li> <li>– Business structure</li> <li>– Subsidiaries</li> </ul> </li> <li>• Payroll tax lodgements</li> <li>• Annual reconciliation processes</li> </ul>	<b>Activities</b> <ul style="list-style-type: none"> <li>• Monitor policy development and public rulings</li> <li>• Obtain private ruling in unusual circumstances</li> <li>• Obtain external advice from professional on specific areas of clarification</li> </ul>	<b>Activities</b> <ul style="list-style-type: none"> <li>• Deal with any information requirements of Revenue NSW</li> <li>• Provide information as needed as part of audit processes</li> </ul>

A large share of tax administration costs for smaller firms can be attributed to processes associated with becoming ready for payroll tax (such as altering systems, training staff and understanding obligations) whereas larger businesses tend to be occupied with more complex payrolls (and challenges associated with determining wages for the purposes of payroll tax).

Increasing the threshold would reduce the number of businesses incurring tax administration costs. Not only would it exempt businesses from the payroll tax system altogether, but it would mean fewer businesses incur preparatory costs. In aggregate, the Chamber estimates increasing the payroll tax threshold to \$1 million would result in up to \$40 million in annual tax administration savings.

The Chamber acknowledges there are efficiency arguments favouring a rate reduction over a threshold increase. These arguments are premised on the notion that threshold increases narrow the payroll tax base (generating distortions favouring smaller employers) which partially offset the benefits of the tax cut.

Computable general equilibrium models have been used to estimate the magnitude of this effect, with some models suggesting the efficiency arbitrage associated with reducing the rate as opposed to increasing the threshold to be around 13 cents per dollar of payroll tax relief.<sup>2</sup> This result should be considered against the potential for tax administration savings. To illustrate, feedback from the Chamber's members suggests increasing the threshold to \$1 million would result in a tax administration savings of 73 cents per dollar of payroll tax relief delivered to a business just below the new threshold.<sup>3</sup> So when tax administration savings are properly considered, the case for a threshold increase becomes even stronger.

#### *Offering more substantial payroll tax relief to SMEs looking to grow their business*

A low payroll tax threshold is a significant impediment to business growth. A threshold increase would ensure payroll tax relief is provided to Small and Medium Enterprises (SME's). Many businesses would become payroll tax exempt, while others over a new \$1 million threshold would benefit from a \$13,625 payroll tax saving. SMEs would benefit from a more substantial reduction in their effective rate of tax than can be achieved under a rate reduction within the same funding envelope.

#### *Ensuring that regional NSW receives an appropriate share of the benefits*

While the Chamber is supportive of arrangements that reduce the burden of payroll tax for all businesses, we note the importance of supporting businesses across regional NSW.

A threshold increase would ensure the benefits of payroll tax relief are more evenly distributed throughout NSW. Regional NSW has a higher relative share of businesses just over the payroll tax while metro Sydney has around 2.5 times as many businesses with 200 employees or more (in relative terms). This means that prioritising a rate reduction instead of a threshold increase would disproportionately benefit metro Sydney.

The Chamber's recent Supplementary Submission to the Inquiry into Zonal Taxation emphasised the benefits of a \$1 million threshold with a particular focus on the need to ensure the State's border communities are not disproportionately impacted.<sup>4</sup>

### **Beyond a \$1 million threshold**

The Chamber acknowledges the Government has competing funding priorities and payroll tax relief must be viewed in this context. However, the \$1.2 billion upward revision of forecast

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<sup>2</sup> Murphy, C (2016), *Efficiency of the tax system: a marginal excess burden analysis*, Tax and Transfer Policy Institute Working Paper 4/2016.  
[https://taxpolicy.crawford.anu.edu.au/sites/default/files/publication/taxstudies\\_crawford\\_anu\\_edu\\_au/2016-06/complete\\_final\\_chris\\_murphy\\_efficiency\\_tax\\_system.pdf](https://taxpolicy.crawford.anu.edu.au/sites/default/files/publication/taxstudies_crawford_anu_edu_au/2016-06/complete_final_chris_murphy_efficiency_tax_system.pdf)

<sup>3</sup> Based on the Chamber's estimates of \$10,000 tax administration

<sup>4</sup> <https://www.nswbusinesschamber.com.au/NSWBC/media/ABI/180223-Zonal-Taxation-Supp-Sub.pdf>

payroll tax receipts over the forward estimates reveals scope to deliver more substantial payroll tax relief than might otherwise have been the case. The Chamber considers the Government is uniquely positioned to match, and preferably exceed, the ambition demonstrated by other jurisdictions in improving the competitiveness of their respective regimes.

### **Recommendation**

Payroll tax threshold in NSW should be increased to at least \$1 million per annum.

### **The need for ongoing review of the NSW payroll tax system**

Notwithstanding any changes made to payroll tax as part of the 2018-19 Budget, ongoing adjustments to ensure the competitiveness of our payroll tax system will be required.

The Chamber was supportive of the Government's decision to increase the threshold to \$750,000 as part of the 2013-14 Budget. While this provided modest payroll tax relief in the immediate period following the increase, the removal of threshold indexation has meant that NSW businesses will be significantly worse off over the longer term. Indeed, at the time it was expected that, despite the increase in the threshold, the removal of indexation would result in increased revenue by 2016-17.<sup>5</sup>

The Chamber has previously advocated for structural changes to our payroll tax system to ensure it remains competitive into the future.<sup>6</sup> This could include the reintroduction of threshold indexation or other mechanisms, such as a more formal annual review process, to calibrate rates and thresholds. The objective of such a mechanism should be to ensure NSW is not disadvantaged by policy changes in other jurisdictions. The Chamber considers this is a role that could be undertaken by the newly announced Productivity Commissioner.

### **Recommendation**

A formal annual mechanism should be implemented to facilitate adjustments to rates and thresholds to ensure the competitiveness of NSW's payroll tax system over time.

### **Improvements to the Jobs Action Plan**

While the Jobs Action Plan rebate offers welcome relief for many businesses looking to take on a new worker, in practice our members have found it to be administratively complex and,

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<sup>5</sup> Table 6.3, BP2, Budget Papers 2013-14.

<sup>6</sup> NSWBC Pre-Budget submission 2017-18, p.7

<https://www.nswbusinesschamber.com.au/getattachment/Issues/Issues/Taxation-and-Regulation/Ensuring-responsible-budget-management/NSWBC-Budget-Submission.pdf.aspx>



as it only provides short term relief, hasn't directly influenced their hiring or expansion decisions. Feedback from the Chamber's members has included:

*"The administrative cost of applying is significant as the calculation is done monthly and the year-end reconciliations are quite time-consuming. The grant application for us as an entity is so cumbersome due to the lack of consistency in employee numbers from one year to the next that it becomes a non-event for us to apply."*

*"The rebate is so onerous in administration we decided not to access it and are not employing additional staff. A good indicator of administration costs is the number of businesses offering the service of doing the administration for a fee. This would make an interesting KPI for those in the Government promoting the scheme."*

The complexity associated with applying for the rebate makes it relatively prohibitive for smaller employers to access. Larger employers can leverage economies of scale unavailable to SMEs. While the Government has amended eligibility to limit access for larger businesses, this has not improved access for smaller employers.

In the event the rebate is discontinued after 2019, alternative measures — with a comparable funding commitment — should be made to boost job creation in NSW.

### **Recommendation**

Jobs Action Plan rebates should be redesigned so rebates are automatic based on a businesses registered growth in payroll.

## **Part 2 - Better regulation**

Excessive and complicated regulation is consistently cited as one of the top impediments to business growth and success. In regard to regulatory burden Australia is ranked 80 out of 137 countries (according to the Global Competitiveness Index 2017-18), the Chamber maintains more must be done to ensure it is easier to do business in NSW.

The Chamber is pleased the Government has announced a measure recommended in our submission to the Greiner Review, to launch an online portal for users to report areas of red tape creating significant compliance costs. This measure will assist in providing better visibility on some of the key challenges faced by business in meeting compliance obligations.

### **Embracing technology as a means to reduce the costs of compliance**

New developments in Regulatory Technology (or 'RegTech')<sup>7</sup> are making it easier for businesses to meet compliance requirements across a range of areas. RegTech originated

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<sup>7</sup> RegTech, or regulatory technology, is a broad term used to describe technological solutions to meet compliance requirements, including business-to-business and government-to-business interactions.

in response to compliance challenges in financial services, RegTech developers are responding to a need for creative solutions to reduce the costs of compliance.<sup>8</sup> The approach and learnings are potentially applicable to other areas of regulatory design and compliance. The Chamber notes that a number of RegTech developers operate out of the Stone and Chalk FinTech hub. There is an opportunity to consider what additional Government support could be provided to assist RegTech developers, particularly where they are advancing solutions to lower the cost of doing business.

Technology is not a silver bullet but there is tremendous scope for it to reduce costly and time consuming compliance processes. Incentives to develop technological solutions come from the ability for users to reduce costs (who in turn demand the products and services that are developed). However, institutional barriers within government may work against the successful adoption of technology. These barriers exist across all areas of government including procurement and policy design. Government agencies should actively review whether their policies are open and conducive to innovation.

### **Recommendation**

Government should explore how institutional barriers to technological adoption within Government can be broken down, including at the policy design stage. Government agencies should actively review whether their policies are open and conducive to innovation. Government should work with and provide support to technology providers advancing solutions that lower the cost of doing business.

### **Approach to regulatory policy making**

Governments should look to adopt best practice regulatory design and wherever possible look to reduce complexity in regulatory compliance.

The Chamber made a number of recommendations in its submission to the Greiner Review.<sup>9</sup> To summarise, the Chamber is concerned regulatory policy-making has become an ad-hoc affair and the impacts on stakeholders have not been properly considered as part of the policy development process. Particular concerns include deficiencies in:

- Level of consultation with regulated entities or other stakeholders.
- Consultation documents such as issues papers or regulation impact statements which do not properly outline the objective or consider unintended consequences of government intervention.
- Consideration of alternative policy options that could better address policy objectives.
- Cost-benefit analysis used to support or reject regulatory intervention.
- Assessments of the impact on stakeholders and ways in which these impacts could be mitigated.

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<sup>8</sup> The Chamber notes that a number of RegTech developers operate out of the Stone and Chalk FinTech hub.

<sup>9</sup> See <http://www.nswbusinesschamber.com.au/getattachment/Issues/Issues/Taxation-and-Regulation/Reducing-the-regulatory-burdens-faced-by-business/161216-Regulation-Framework-Review.pdf>.

The Chamber supports the recommendations contained within the Greiner Review as a basis for improving regulatory policymaking in NSW.

The Chamber reaffirms the importance of proper regulatory policymaking to the business community. Failure to embrace the recommendations made in the Greiner Review would represent a missed opportunity for NSW.

### **Recommendation**

Recommendations from the Greiner Review should be fully implemented, funded and adopted across all areas of the NSW Government.

### **Service NSW and user centricity**

The Chamber welcomes the Government's efforts to drive efficiency. The Chamber agrees there is considerable scope to identify areas of overlap within the bureaucracy, and to ensure the existing functions of government are delivered in the most cost effective manner. Action in this area will contribute further to expense management and deliver better value for taxpayers.

As with previous pre-Budget submissions, the Chamber is a strong advocate for the gains made by Service NSW. The Chamber's *2016 Red Tape Survey* identified Service NSW as the best performing government agency (across all tiers of Government) while client-facing agencies with functions delivered through Service NSW also demonstrated significant improvements in their performance.

Service NSW is a highly effective reform initiative which has reduced the costs of interacting with government by placing the 'client' at the centre of the system. As an investment to improve efficiency, Service NSW is an exemplary model of how this can be achieved.

### **Recommendation**

Service NSW should retain its position at the core of the Government's strategy of improving its interactions with the community. Government should affirm its support of Service NSW and provide required funding to pursue further service improvements.

### **Container Deposit Scheme: funding for a border-region adjustment mechanism**

The Chamber has prepared a submission to IPART's monitoring role with respect to the Container Deposit Scheme (CDS).

Cross-border issues for suppliers located close to other jurisdictions without comparable schemes are a major concern for the Chamber. The Chamber has obtained feedback from a range of businesses located across NSW confirming negative impacts of this initiative.

The Chamber proposes a border-region adjustment mechanism to reduce the negative consequences of the scheme on retailers close to state boundaries. Specifically, the mechanism would aim to financially compensate businesses that have experienced losses as a result of the CDS. Details of the proposed mechanism can be found in the Chamber's submission.<sup>10</sup>

The Chamber estimates that a robust scheme that could reasonably compensate businesses along the Victorian border could be developed at a moderate cost in the order of \$1 million per year.

### **Recommendation**

Government should allocate funding to develop a border-region adjustment mechanism that compensates border-region retailers for losses associated with the CDS.

## **Part 3 – More affordable energy**

Increasing energy prices and concerns about inadequate security of supply have been emerging as a key concern for many businesses, particularly those in the manufacturing sector.

New South Wales is now almost entirely reliant on interstate supplies of gas. The Gas Price Trends Review 2017 report prepared by Oakley Greenwood for the COAG Energy Council again confirms the only sustainable way to place downward pressure on gas prices and to improve energy security is more gas supply and more gas suppliers.

The Chamber has called for greater certainty for investment in energy exploration, production and distribution in NSW. Populist decisions that ignore the science and the market are only going to compound existing price problems.

The role of small business in driving the Australian economy is largely understood. Small business are nimble, efficient and generally speaking operate on smaller margins. Given the importance of small business to the economy and employment generation, it is essential that more is done to provide them with affordable energy.

In some areas of NSW, small businesses with effectively the same energy profile and consumption as the average residential dwelling are paying 3, and in some instances almost 4 times the fixed charge component under the applicable tariff. This should be a focus for both the Australian Energy Regulator and the NSW Government.

Businesses in NSW are also contributing to the NSW Climate Change Fund, which collected \$289 million in revenue in 2016-17, and invested a fraction of this amount in initiatives directly targeting business. If these funds are to continue they should be activated to assist businesses in installing interval and smart meters as well as other devices to improve energy efficiency.

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<sup>10</sup> <https://www.nswbusinesschamber.com.au/NSWBC/media/ABI/180321-CDS.pdf>

### **Recommendation**

The Government should refocus attention on providing businesses across NSW with improved energy security and affordability.

### **Recommendation**

A higher share of the \$289 million in annual proceeds to the NSW Climate Change Fund should be immediately allocated to initiatives to assist business.

## **Part 4 - Infrastructure**

The Government's investment in new public infrastructure, delivered through its asset recycling program, is providing a once in a generation opportunity to not only transform NSW through new roads, rail and hospitals but to also build a legacy of skills and new housing investment that ensures NSW becomes the best state to live and work.

The Chamber has been a vocal supporter of the Government's asset recycling program. This support was predicated on the benefits of investment being shared across NSW.

The Government's commitment to allocate \$6 billion as part of Rebuilding NSW towards regional projects, together with its recent announcement that the \$4 billion proceeds from the sale of NSW's share in Snowy Hydro would be committed towards regions are welcomed. It is now critical that regional NSW see an acceleration on the delivery of economic infrastructure.

In addition, we highlight challenges to be addressed in ensuring border communities are not unfairly treated in Benefit Cost Ratio (BCR) assessment; the need for specific funding allocations for Regional Economic Centres; meeting NSW's freight task; the provision of infrastructure to support tourism growth; and looking beyond asset recycling to future mechanisms to finance our infrastructure needs.

### **Regional infrastructure**

To help develop and leverage growth across NSW, there is a critical need to develop better public transport linkages between Sydney and the regions, and from key infrastructure sites like airports and train stations into regional areas.

While we recognise the Government has made attempts at simplifying project applications under a range of funding envelopes for regions,<sup>11</sup> the primacy of a BCR greater than 1 continues to prove problematic for many regional projects. The Chamber supports a BCR approach but still maintains there is a need to review the conservatism applied by

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<sup>11</sup> For example, the NSW Government's \$1.3 billion Growing Local Economies fund has provided a simplified project application process and assessment, but still requires the project to demonstrate a BCR greater than 1.

governments in respect to these assessments in the regional context particularly as scale and population issues often discount the benefits and importance of regional investment.

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.

The Chamber also notes that businesses and community groups located in proximity to state borders are concerned with the discounting of benefits applied where infrastructure projects provide benefits across jurisdictions.

This practice may lead to an undersupply of infrastructure as it becomes prohibitively difficult for projects to stack up against traditional criteria.

To address these concerns, the NSW Treasury should undertake a review of its *NSW Government Guide to Cost –Benefit Analysis*<sup>12</sup> to ensure it is optimally structured to capture the breadth of benefits to regions from infrastructure investment.

### **Recommendation**

Infrastructure selection criteria should be revised to ensure regional and regional economic centres have access to equivalent services and amenity as comparable communities elsewhere in the state. In addition, NSW Treasury should undertake a review of its *NSW Government Guide to Cost –Benefit Analysis* to ensure it is optimally structured to capture the breadth of benefits to regions from infrastructure investment

### **Recognition of Major Regional Economic Centres (Illawarra and the Hunter)**

The Chamber recognises the necessity for infrastructure investment across NSW and for all regions to benefit from the record infrastructure program being delivered by the Government.

The Chamber is concerned that under the current funding framework of Restart NSW, the major regional economic centres of the Hunter and the Illawarra are being underserved in terms of funding and delivery of projects.

The regional economic centres of the Hunter and the Illawarra, offer a lower cost base and present productivity benefits compared to many businesses operating in high cost locations. The competitive advantages of these centres need to be harnessed to provide the next wave of investment and jobs growth.

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<sup>12</sup> [https://www.treasury.nsw.gov.au/sites/default/files/2017-03/TPP17-03%20NSW%20Government%20Guide%20to%20Cost-Benefit%20Analysis%20-%20pdf\\_0.pdf](https://www.treasury.nsw.gov.au/sites/default/files/2017-03/TPP17-03%20NSW%20Government%20Guide%20to%20Cost-Benefit%20Analysis%20-%20pdf_0.pdf)

Seizing the potential of these regions is essential for state and national productivity. Commonwealth Government activity and interest in relation to faster rail for the Hunter and the Illawarra is welcome.

The Faster Rail proposal for Newcastle and Sydney<sup>13</sup> which has now received Commonwealth funding for business case development can play a critical role in developing this region and its connections with Sydney.

For the Illawarra, inaction from state government for a similarly transformative project proposal, the South West Illawarra Rail Link (SWIRL) has meant that no funding has been secured to further business case development<sup>14</sup>. This is disappointing as the SWIRL could provide significant benefits for both freight and commuter rail and connect the Illawarra with South West Sydney

Developing a new definition of major Major Regional Economic Centres under Restart NSW and allocating a portion of funds for investment is strongly supported. A focus on new rail (both commuter and freight) to unlock these regions potential is also encouraged.

### **Recommendation**

Under Restart NSW, NSW Government should develop a new definition of Major Regional Economic Centres to better recognise and support projects within the Hunter and Illawarra.

Projects that deliver faster commuter and freight rail services should be a key focus.

### **Infrastructure necessary to support NSW Tourism Industry/Visitor Economy**

Australia's growing tourism industry provides significant opportunities for regional NSW.

Sydney is recognised internationally as a global city and has high appeal for first time and repeat visitors. Expanding the capacity of Sydney as an entry point for international tourists must be a top priority – however leveraging this capacity to encourage tourism dispersal across NSW is critical to the future economic growth of regions. These issues were explored in the Chamber's Tourism Industry Division's recent report *Getting Out There – Encouraging Chinese Tourism*<sup>15</sup>.

The Report's recommendations included:

- Expediting the roll-out of high speed broadband, improving mobile coverage and increasing public WiFi across regional NSW.
- Targeting investment in new public infrastructure to improve access to regional tourism destinations.

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<sup>13</sup> [http://minister.infrastructure.gov.au/mccormack/releases/2018/march/mm005\\_2018.aspx](http://minister.infrastructure.gov.au/mccormack/releases/2018/march/mm005_2018.aspx)

<sup>14</sup> <https://media.uow.edu.au/releases/UOW236086.html>

<sup>15</sup> <https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Chinese-Tourism-Final-STANDARD.pdf>

In addition, the Chamber supports the calls of the Sydney Business Chamber, Western Sydney that Government look to build on its investment in new stadia by developing a NSW Global Events Taskforce to work alongside Destination NSW in bidding for major sport and cultural events.

### **Recommendation**

Further investment should be made to support the dispersal of tourists into regional NSW (including investments to improve mobile coverage and access to attractions). The Government's investments in stadia should also be leveraged by establishing a NSW Global Events taskforce to encourage global sporting and cultural events to Sydney.

## **Part 5 – Boosting local capability**

NSW's substantial infrastructure construction pipeline provides a once-in-a-generation opportunity to ensure these projects create a lasting legacy for our workers and businesses. The Chamber supports the Infrastructure Skills Legacy Program which sets targets for select large construction projects to ensure these projects pave the way for skilling our workers and increasing the representation of young people, Aboriginal and Torres Strait Islander people and women in the construction industry.

The Chamber believes there is scope to ensure a similar legacy is created to grow and develop competitive local industry capability. Procurement processes must be appropriately structured to provide competitive local SMEs with adequate opportunity to be involved as this would not only benefit the businesses themselves, but also strengthen NSW's industry capability and create additional jobs. This means that procurement selections cannot only be focused on purchase price alone.

While the Chamber is acutely aware of the need to ensure taxpayers receive value for money in the procurement of goods and services, an approach that simply selects the cheapest purchase price fails to acknowledge the 'whole of life' costs in the delivery of public goods and services and the potential benefits that can be achieved from local investment over the longer term.

In addition, consideration of the tax revenue and local employment implications of utilising NSW based business should be included in an assessment of tenders and design of procurement strategies.

### **Recommendation**

The Government should include requirements for industry participation plans for all regionally based projects greater than \$5 million and include tax revenue and local employment implications as part of tender assessment methodology.



## **Part 6 - Investing in skills and education**

As noted above, the Government's record investment in new public infrastructure, provides a significant opportunity to also invest in NSW's future skills base.

While NSW currently has the lowest rate of unemployment of all Australian states (4.8 per cent), pockets of youth unemployment remain stubbornly high (for example Central Coast 18.6 per cent, Coffs Harbour-Grafton 19.8 per cent and Southern Highlands-Shoalhaven 28.9 per cent).

This is particularly frustrating for the Chamber as our Workforce Skills Survey 2017<sup>16</sup> indicated that NSW employers are experiencing skills shortages that equate to more than 54,000 jobs state-wide. Quite obviously, there is a significant disconnect between what employers expect from their staff and what our education and training system is currently producing.

### **Put forward projects under the Skilling Australians Fund**

The Federal Government's Skilling Australians Fund (SAF) will make \$1.5 billion from the Commonwealth available via a new project based National Partnership Agreement (NPA) with states and territories.

Notwithstanding the Chamber's concerns with the lack of certainty around funding and the quantum allocated for NSW (as it stands NSW faces a \$100 million shortfall for its current programs), the SAF provides an opportunity to increase training support for young job seekers.

To that end, the Chamber proposes the following areas of focus.

#### ***Community Services traineeships***

Key qualifications identified for additional incentives include Certificate III in Individual Support and Aged Care.

#### ***Hospitality traineeships***

Additional training incentives should be targeted at this sector and include Certificate III in Hospitality.

#### **Infrastructure and construction**

The Government's investment in new public infrastructure should be leveraged to improve traineeships in infrastructure and construction. Key qualifications in infrastructure and construction (Certificate II in Track Infrastructure, Certificate IV in Civil Construction Supervision, Diploma of Project management and Certificate IV in Environment and Sustainability) should be a priority for additional incentives.

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<sup>16</sup> [http://www.nswbusinesschamber.com.au/NSWBC/media/Policy/nswbcSkills-Survey\\_Final.pdf](http://www.nswbusinesschamber.com.au/NSWBC/media/Policy/nswbcSkills-Survey_Final.pdf)

### **Funding to assist retain apprentices**

A 'kick start' incentive assisting employers onboard an apprentice over this critical period of employment. Doing so would significantly contribute to meeting the Government's stated commitment to a 65 per cent completion rate for apprenticeships by 2019<sup>17</sup>.

Further reforms to our school system in NSW should also be a priority and the Chambers *Old School New School: Transforming school education for the 21<sup>st</sup> century*, sets out 'guiding principles' that highlight elements of the NSW school system that would benefit from an extension or re-design.

#### **Recommendation**

As part of its project proposals to the Commonwealth under the SAF, the NSW Government should progress projects that incentivise training and employment opportunities in the critical community, hospitality and construction sectors as well as provide a kick-start incentive that assists employers on boarding and supporting an apprentice over their first six months of employment.

### **Build on the Infrastructure Skills Legacy**

The Chamber has been a strong supporter of the Industry Skills Legacy Program (ISLP) which commits identified projects to help:

- Existing workers to learn new skills on the job.
- Increase the representation of young people, Aboriginal and Torres Strait Islander people and women in the construction industry.
- Ensure workers from surrounding areas are targeted for training and employment.

The program seeks to help address the estimated 300,000 extra construction workers required nationally by 2025<sup>18</sup>. Currently three projects are participating in the program (Sydney Metro, Lismore Base Hospital Stage 3B redevelopment and WestConnex).

While the Chamber understands and supports an ongoing assessment of the effectiveness of the ISLP before it is implemented statewide, we believe a further two projects (based in regional NSW) should be identified and added to participate in the program immediately.

#### **Recommendation**

The Government should identify two further project sites in regional NSW to participate in the Infrastructure Skills Legacy Program.

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<sup>17</sup> See: [https://www.training.nsw.gov.au/smartandskilled/statement\\_of\\_expectations.html](https://www.training.nsw.gov.au/smartandskilled/statement_of_expectations.html)

<sup>18</sup> [https://www.masterbuilders.com.au/MediaLibraries/MB/Submissions-2015/Towards-2020-Policy-for-Apprenticeship-Reform-\(1\).pdf](https://www.masterbuilders.com.au/MediaLibraries/MB/Submissions-2015/Towards-2020-Policy-for-Apprenticeship-Reform-(1).pdf)

## **Part 7 - Support for NSW exporters**

Many of our state's future opportunities will hinge on the success of securing new international markets. While NSW businesses are capable of competing internationally, there are significant barriers to entering new markets and businesses need support to ensure this does not limit their potential.

The Chamber proposes the NSW Government allocate additional funding to augment existing programs such as the Commonwealth's Export Market Development Grant (EMDG) and the Export Capability Building Program. New funding should be directed at:

- Unlocking export pathways for NSW businesses through detailed trade and export market information.
- Promoting NSW as a source of high quality products in overseas markets.
- Providing additional assistance and representation to small and medium enterprises aiming to secure new export opportunities that will help drive business and employment growth.

While export assistance programs involve an outlay from the Budget, the return from this investment can be significant. For example, KPMG's analysis of the EMDG estimated that 88 per cent of its gross costs were self-funded, that is, paid back through increased tax revenue generated from additional economic activity.<sup>19</sup> That same analysis estimated that the EMDG generated more than 7 dollars for every dollar invested.

The Chamber proposes a contribution of around \$20 million per annum for this activity.

### **Recommendation**

The Government should allocated \$20 million over the forward estimates to expand assist to small and medium enterprises in NSW to establish and grow export opportunities and trade.

## **Part 8 - Three part budget review**

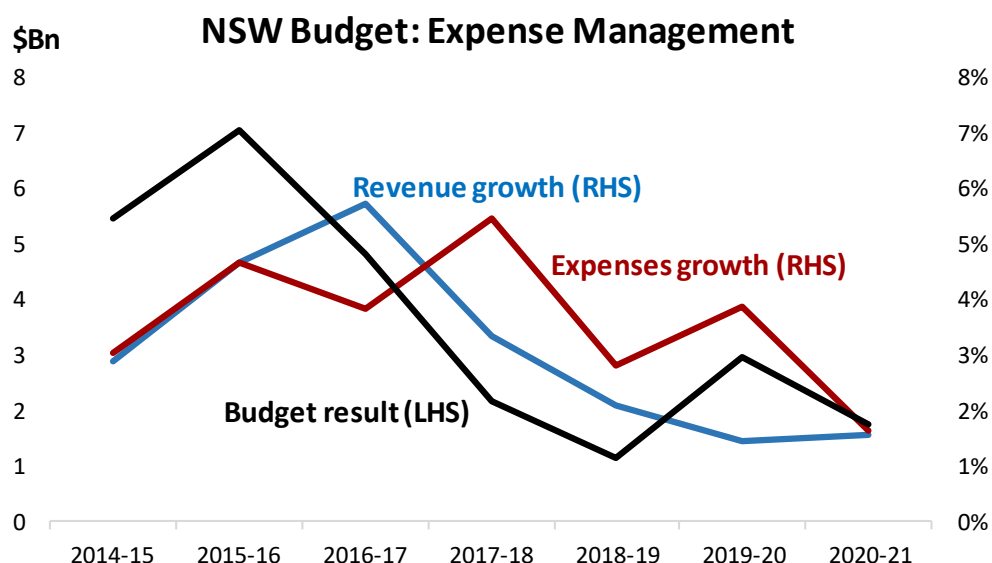
To ensure responsible budget management over the longer term expense minimisation should be part of an ongoing strategy. This is particularly important given the number of government enterprise agreements due for re-negotiation and NSW's declining share of GST revenue. The Chamber notes surpluses identified in the forward estimates are relatively modest and underpinned by expenses growth averaging 2.8 per cent in the years 2018-19 to 2020-21.

The Chamber notes expected growth in expenditure in the years 2017-18 to 2020-21 is 8.5 per cent compared to revenue growth of just 6 per cent. To consolidate recent gains in the Budget position, the Chamber maintains expected expenses growth should not exceed expected revenue growth over the forward estimates. In the longer term, the Chamber supports budget planning on the premise that expenditure growth should grow in line with

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<sup>19</sup> KPMG (2015), Economic impact of the Export Market Development Grants scheme.

Gross State Product (GSP) as the predominant basis for ensuring the longer-term sustainability of state-finances.



To ensure responsible budget management over the longer term expense minimisation should be part of an ongoing strategy. This is particularly important given the number of government enterprise agreements due for re-negotiation and NSW's declining share of GST revenue. The Chamber notes surpluses identified in the forward estimates are relatively modest and underpinned by expenses growth averaging 2.8 per cent in the years 2018-19 to 2020-21.

The Chamber proposes the government commence a three-part budget review (the review) before the next election with subsequent phases of the review to be completed post the 23 March 2019 election. The proposed review would examine and make recommendations to improve three core issues:

- **Part One – Revenue administration** – how revenue (including taxes and other government fees and charges) is collected and the associated burden of administration for payers;
- **Part Two – Tax efficiency** – the state's tax mix and the economic costs of relying on inefficient taxes; and
- **Part Three – Revenue and expenditure sustainability** – the adequacy of revenue sources, including tax and non-tax revenues, and the efficiency of government expenditure.

The proposed review would include a broader focus on both the tax system and the sustainability of state revenues.

The Review would provide an opportunity to update the 2012 NSW Commission of Audit, including by reporting on any remaining challenges.

The Chamber has noted that expenditure growth is expected to exceed revenue growth over the forward estimates. So while a longer-term focus is needed, the Review should also include immediate measures that could be adopted to improve the Budget position.

### **Recommendation**

The Government should initiate a three-pillar review of budget formulation be conducted by the newly announced productivity commissioner. The review should examine:

- Part One — Revenue administration
- Part Two — Tax efficiency
- Part Three — Revenue and expenditure sustainability

The focus of the review should be on practical reform pathways capable of broad community support. Part One should commence before the end of this term of Government.