

**NSW RECLAIMING 1<sup>st</sup>**



## Foreword

Now more than ever it's vital the public policy settings in NSW allow our State to flourish and grow. The old ways of doing things don't work so well anymore, and the appetite for new thinking and fresh approaches is strong.

While Australia is weathering the economic storm better than most other developed economies, here in NSW we're lagging behind on a range of crucial indicators. Unemployment is higher than other states, while business investment, new housing, economic growth and consumer sentiment are all lower.

But we don't believe it has to remain so. That's why NSW Business Chamber is undertaking NSW – Reclaiming 1st campaign to develop a vision for a better NSW.

NSW – Reclaiming 1st will see the creation and examination of policies to lift NSW to the top of the leader board once again.

Over the coming 12 months policies will be formulated at four symposia – where the ideas of key thinkers and policy makers will be presented and debated – built around the following themes:

- > Improving infrastructure
- > Boosting the economy
- > Reducing the burden on business
- > Reforming government

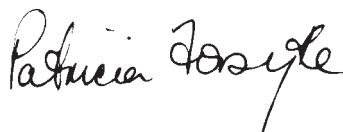
NSW Business Chamber will then incorporate as appropriate the ideas raised at the symposia into the policies we'll be advocating as we head to the 2011 State election.

This document does not claim to provide all the answers. Rather, NSW Business Chamber intends it to be a valuable conversation starter on the key issues. Each section sets out the issues critical to each policy area, and raises some possible solutions to get this conversation going.

We hope you find this document useful, and we look forward to working in partnership with you as we galvanise NSW Business Chamber's priorities for our State.



**Ian Penfold**  
President  
NSW Business Chamber



**The Hon Patricia Forsythe**  
NSW – Reclaiming 1st Spokesperson  
NSW Business Chamber

# Contents

<b>Executive Summary</b>	<b>5</b>
<b>1. Improving Infrastructure</b>	<b>9</b>
Where and when? Formulating a long-term infrastructure strategy	11
Streamlining the planning system	11
Planes, trains and automobiles: Implementing a State-wide transport development strategy	12
Pipes and wires: Securing the State's energy and water supplies	12
Accessing funding: Supporting Alternative models for financing infrastructure	13
<b>2. Boosting The Economy</b>	<b>14</b>
Beyond exporting: Smart strategies to build business globally	16
Leveraging strengths: Creating centres of industry excellence	16
Attracting investment: A team approach	17
Skilling the workforce: Accessible, efficient and responsive training	18
Tradies sans Frontières: National occupational licensing	18
Green growth: Business solutions to climate change	19
<b>3. Reducing The Burden On Business</b>	<b>20</b>
The biggest loser: Reducing taxes in NSW	22
For the good of the country: Pursuing long-term state tax reform	23
Maintaining good credit: The triple-A rating	24
Not waving, drowning: Cutting red tape and reducing the regulatory burden	24
The cheque's in the mail: Paying suppliers on time	25
Establishing a national IR system and harmonising OH&S	25
<b>4. Reforming Government</b>	<b>27</b>
Who does what and why? Better service delivery through redefined Federal-state roles	29
Living within our means: Improving the Government's accountability and fiscal responsibility	29
The modern workplace: Reforming public sector work practices	30
Better bang for our buck: Reforming government practices and structures	30
Rubbish bins and side streets: Reforming local government	31
<b>5. Where To From Here?</b>	<b>32</b>

# EXECUTIVE SUMMARY

Things need to change in NSW if we are to ensure we remain the engine room of the Australian economy. Business is suffering under ever increasing red tape, burdened by inefficient and out of date work practices in the public sector, and frustrated by Government agencies that can't pay their bills on time. Unemployment is significantly above the national average and rising, our economy is slowing, the Budget is in deficit and infrastructure projects frequently fail to leave the drawing board.

### Relative performance of the NSW economy

	State Final Demand (seasonally adjusted % change Dec. 2007 to Dec. 2008)	Gross State Product (latest % growth rate forecast for 2008-09)	Unemployment rate (seasonally adjusted % for March 2009)
NSW	1.2	1.25	6.9
ACT	-0.4	2.5	2.8 <sup>†</sup>
Victoria	1.6	1.5	5.7
Tasmania	5.4	2.25	4.3
SA	3.6	2	5.9
WA	5.8	6.0	4.9
NT	8.7	4.5	4.0 <sup>†</sup>
Queensland	3.5	3.0	4.8

Sources: ABS Cats. 5206.0 and 6202.0; State and Territory Budget Papers and Mid-Year Economic and Fiscal Reviews 2008-09.

<sup>†</sup>These figures are trend data.

While NSW is not immune from global conditions, the world economy is not entirely to blame for our current predicament. The NSW economy is held back by policy settings that don't allow us to make the best use of our abundant natural, human and intellectual resources. The State Budget has serious structural flaws, and for too long we've avoided facing the tough issues about public spending.

NSW Business Chamber represents around 22,000 businesses and 119 chambers of commerce across NSW. Our members, whose turnover provides them with a daily barometer of the State's economic health, are looking for innovative ways to survive and thrive in these tough times. Outside the factors they directly control in their businesses, they are looking for innovative yet practical and effective policies from government. They want to see their politicians get the policy settings right so they can get on with what they do best – running their businesses and creating jobs.

This document identifies what we believe are the four fundamental policy areas in need of urgent attention and reform.

### Improving infrastructure

Infrastructure plays a vital role in underpinning economic growth and social cohesion and is crucial to NSW's competitiveness. Better infrastructure is good for business. NSW infrastructure is falling behind – our transport and infrastructure assets rank below those of the world's leading global cities.

NSW needs an urgent commitment to a coordinated plan and delivery timeframe for long-term infrastructure development. The NSW Government should also consider new and innovative approaches to fund and deliver these important projects.

### Boosting the economy

NSW has a comparative advantage in that it is most populous Australian state and home to the largest concentration of economic infrastructure. NSW should leverage this comparative advantage to ensure it is the preferred place to do business above all other Australian states.

NSW's share of the nation's GDP has declined, but this is not irreversible. NSW must be a low taxing state, an efficient and productive place that provides opportunities for business to grow. Government has a role to play in supporting economic conditions to ensure NSW remains the business capital of Australia.

### Reducing the burden on business

Businesses in NSW are versatile and resilient, but one of their most common frustrations comes when dealing with the inefficiencies and unproductive processes within Government.

Business expects government to get out of the way of hard working business owners and operators so they can get on with the job. Instead they are all too often hampered by regulations and requirements that appear to do little else than put barriers in front of economic growth.

Government must ease the burden faced by business – not just by cutting red tape, but by paying bills on time, and becoming more transparent and accountable.

## Reforming Government

The NSW Budget is in deficit. At a time when growth in revenue is contracting, the implementation of practices and policies to ensure Government is operating efficiently and by bringing work practices into the 21st century, will ensure the Budget is returned to surplus as soon as possible.

Australia suffers from a high level of duplication and inefficiency between state\* and Federal governments as well as a lack of clear responsibility for decisions made between state and local governments.

One critical area of failure by the Federal and state governments has been in developing a better model of cooperative Federalism. The practical operation of the Federation is dysfunctional. Blame-shifting is rife. Eliminating these inefficiencies and duplication will deliver better value to NSW taxpayers.

Each of these areas is critical to the economic success of NSW. No one area is more important than the other, and no one area can be viewed or reformed in isolation. Each has its role to play in allowing NSW, Australia's most populous state, to reclaim 1st, and fulfil its potential as Australia's economic engine room.

\* Throughout this document 'state' signifies both the states and territories.

# 1. Improving Infrastructure

## Key points

- > The population of NSW is projected to increase from 7 million in 2008 to 7.6 million in 2018, with Sydney and the Central Coast expected to account for 70% of this growth
- > Almost 75% of businesses are concerned about the impact of transport congestion on their business
- > According to the NSW Ministry of Transport, people residing in the Greater Metropolitan Area undertake an average of 19.4 million trips each weekday
- > 11,442,000 private transport journeys each day = 113,836,000 kms per day
- > 5,050,000 public transport journeys each day = 29,263,000 kms per day
- > By 2014-15 it is estimated NSW faces an electricity shortfall of around 300MW

### Rail infrastructure critical

#### Maldon-Dombarton rail project

The abandoned Maldon-Dombarton rail line in the Illawarra region would provide a critical link between growing Port Kembla and the main Southern Freight line.

The 35 km track is already partially built; however, work ceased in 1988. To complete the project there needs to be about 30 km of track built (including a 4 km tunnel) and a number of bridges and overpasses.

The rail line would predominantly be used for freight movements, such as coal, grains and agricultural products from inland NSW.

In addition, it would also provide a much needed alternative passenger rail link between Sydney and Wollongong should something happen to the main Illawarra passenger line that runs along the coastal cliff-tops.

“The Maldon-Dombarton rail line is critical to the region’s economic future” said Illawarra Business Chamber President, Les Dion.

“Better freight rail links between Sydney and Wollongong will also have benefits across NSW as the Port of Port Kembla could take on an expanded role in the State’s freight task.”

“Port Kembla is a critical piece of economic infrastructure that needs supporting rail and road projects to reach its full potential as a generator of wealth and jobs for the region and the State.”

The Federal Government has committed \$300,000 to a pre-feasibility study of the project which is strongly supported by local businesses, community groups and local politicians.

## Where and when?

### Formulating a long-term infrastructure strategy

An infrastructure system that allows the efficient movement of goods around NSW is critical, especially for more isolated regional areas. Building a world-class freight network (ports, airports, rail and major roads), a reliable transport system (roads, trains, ferries, light rail and buses) and utilities (power and water) that can meet the needs of a growing population are all vital components of a well-functioning infrastructure system.

The growth in NSW's population will have a significant impact on the demands on NSW's infrastructure, with increased infrastructure spending in the areas of health, transport, roads, electricity and water.

A key component of preparing NSW for the next period of economic growth is ensuring the State has sufficient and reliable infrastructure capacity. Investment now will prevent infrastructure acting as a brake on growth once the economy recovers.

In order to bridge the gap between NSW's existing infrastructure and what is needed to service and facilitate business growth, the focus needs to be on ensuring future projections of infrastructure trends are fed into the planning process, thereby developing a solid, evidence-based framework for project delivery.

### Streamlining the planning system

There are two key aspects of the NSW Government's latest round of planning reforms that will help speed up the development approval process while maintaining the integrity of the planning system and allowing for appropriate community input.

- > The increased use of complying development and the intention to lift this from 11 per cent of applications currently to 50 per cent in the future.
- > The use of planning panels, with the Planning Assessment Commission at the state level and Joint Regional Planning Panels at the local level.

There now needs to be a period of stability to allow for the full implementation of the changes and to adequately assess if these reforms are meeting their objective – to make the planning approval process timelier, while still providing for community input.

## Planes, trains and automobiles: Implementing a State-wide transport development strategy

NSW's competitiveness is at risk due to the inability of people and freight to move efficiently around the State. Across the various industries of our member base, there is a consistent call for the provision of a better integrated commuter transport network and a better connected freight network.

The efficient movement of freight is critical to the continued growth of both our domestic and exporting industries. This means getting freight to and from NSW's three ports, Port Botany, Port Kembla and the Port of Newcastle, in a timely and efficient manner.

Improved land transport and intermodal terminal networks would also allow for further expansions at Port Kembla and Port of Newcastle which would take pressure off the already congested area around Port Botany.

Greater Sydney suffers from congestion throughout the working week which is exacerbated at peak periods. It is necessary for transport investment to maintain the pace with Greater Sydney's population increases and economic growth.

Rail is critical for the movement of passengers and a number of metropolitan projects are needed as part of the solution to Sydney's growing congestion problems. These include building a metro system to service the growing residential areas of Sydney's south-west and north-west.

## Pipes and wires: Securing the State's energy and water supplies

According to the national energy regulator, by 2014-15 NSW faces a shortfall in electricity of around 300MW. Given the timelines involved in commissioning a power station, planning clearly needs to begin now to meet this future energy deficit. Failure to do so could lead to brown outs and black outs, with terrible consequences for business.

In addition to the immediate needs of NSW, the establishment of the Federal Government's Carbon Pollution Reduction Scheme means governments at all levels need to increase their focus on low-carbon energy options such as nuclear, geo-thermal, clean coal and carbon capture technologies, solar and wind.

While a recent NSW Government report recommended the consolidation of local water utilities for better economies of scale, more efficient delivery of service and better management of infrastructure, the Government will not undertake the rationalisation of water services.

Currently, town water supply is a monopoly; however, as new technologies such as desalination or recycling plants emerge, there is the potential for private sector providers to enter some segments of the market.

## Accessing funding: Supporting alternative models for financing infrastructure

The gap between infrastructure requirements and the capacity of taxpayers to fund those requirements has widened. Rising social expenditure, the considerable slowdown of the economy and previous poor fiscal decisions have all placed significant pressure on the NSW Government's ability to fund infrastructure.

The NSW Government has made progress in this area, such as the rail carriage public-private partnership. However, it needs to explore new business models with private sector participation. Clear frameworks will ensure the investment of the many billions of dollars in private sector capital managed by pension funds and insurance companies.

The importance of infrastructure users is often overlooked in public-private partnership (PPP) arrangements. Although PPPs are useful in financing infrastructure when public funding is inadequate, their ultimate purpose is to service infrastructure users.

Public acceptance of PPP projects is dependent on the level of transparency of the project and the level of community involvement. This is why infrastructure planning should involve consultation throughout all levels of government, public and private infrastructure stakeholders, infrastructure users and the community in general.

## A big idea

*High-speed intercity links would assist with the overcrowding challenges facing Sydney. The NSW Business Chamber has identified a high speed rail link between Canberra-Wollongong-Sydney-Central Coast-Newcastle as a potential solution to some of Sydney's transport problems.*

## 2. Boosting the Economy

## Key points

- > NSW contributes more than any other state to Australia's GDP, but has grown at only a moderate rate since 2001
- > NSW contributes 40% of national GDP in the finance, property and business services sectors
- > 223 Top 500 companies account for approximately \$588 billion worth of private sector revenue generated in the NSW economy
- > In 2007-08, NSW accounted for 38% of the value of Australia's total imports, but only 17% of Australia's total exports
- > In dollar terms, NSW imports almost twice as much as it exports, owing to its dependence on sophisticated manufactured imports
- > From 2006-07 to 2007-08 NSW had the largest increase in the number of small goods exporters
- > There has been a 52% reduction in the number of skilled vacancies in NSW since February 2008
- > A \$620 million agreement over four years was recently signed by the NSW Government and the Australian Government to fund 175,000 qualifications in skill shortage occupations in NSW
- > The global carbon market is worth about \$100 billion a year and there is as yet no Asia Pacific trading hub.

### Getting a foot in the international trade door

NSW based Design + Industry Pty Ltd is the largest product design and engineering consultancy in Australia, specialising in the design, development and production of high technology business, medical and consumer products.

"We are good at what we do, and can compete with any firm in providing companies with innovative solutions," Managing Director Murray Hunter said.

"But it can be tough going as there are other markets, other countries, which are more well known for their innovative design work."

D+I's core function is to achieve global design and engineering excellence through the development of competitive and innovative product design.

The company has won more than 80 industry awards, including international awards. 40 per cent of D+I's revenue is derived from export markets.

"Overcoming the initial hurdle of 'Why Australia?' is often part of the challenge," says Mr Hunter. "Once we have our foot in the door, however, we know we can win the business."

## Beyond exporting: Smart strategies to build business globally

The intensity of global competition presents new challenges and opportunities for all Australian businesses, not least those based in NSW.

The general reduction of barriers to international trade and investment has been accompanied by the rapid growth and development of emerging economies – notably China, India and Brazil. Firms based in these economies are moving rapidly up the value chain, as seen by their rising share of global foreign direct investment and the relocation of manufacturing and professional services from developed economies like Australia.

The traditional goal of exporting more than we import has been superseded by the need to attract high value-adding activities that link up to global production chains. The breaking up of national industries and their dispersal across the globe makes it critical for governments to help businesses reduce their fixed costs and to give them access to creative and flexible workforces.

In NSW, a more pragmatic approach to international engagement is needed. The Republic of Ireland famously became a leading software exporter, by building on its existing resource of a highly educated workforce and maintaining consistently low corporate tax rates.

Further, given the increase in global competition and the opening up of markets, there has been a substantial shift in requirements for companies if they are to be successful offshore. Doing business globally is no longer the domain of established multinationals, as more and more small companies internationalise.

## Leveraging strengths: Creating centres of industry excellence

NSW must ensure it remains the economic powerhouse of Australia. The State accounts for 32 per cent of Australia's GDP – ahead of both Victoria (24 per cent) and Queensland (19 per cent). Sydney alone contributes 25 per cent of Australia's GDP.

Sydney competes against other key global cities such as London, New York, Hong Kong and Singapore for employment in the finance and professional service sectors. The concentration of knowledge-intensive industries means that Sydney, and indeed NSW, should be well positioned to take advantage of opportunities in the Asia-Pacific region as emerging economies seek specialised solutions which they are unable to obtain in their home markets.

In sectors such as design, financial services, information and communications technology, education and medical devices NSW has leading firms that are globally recognised. Beyond these sectors, there are many small to medium enterprises that are successful in their own right, compete globally and help to foster growth, both in revenue/employment generation and industry innovation.

The importance of these sectors to the NSW and Australian economy cannot be understated. In the financial services area, NSW contributes 40% of national GDP in the finance, property and business services sectors. Likewise, international education services from NSW accounted for \$5.3 billion in 2007-08, representing 39 per cent of Australia's total.

Yet NSW struggles to make its mark internationally as an important player in these and other sectors.

Investment in key industry sectors is needed in order to build on NSW's current strengths and position the economy for the future. This will require input and commitment from both government and business to ensure that NSW remains relevant within the growing economies of the Asia-Pacific.

### Attracting investment: a team approach

Foreign direct investment (FDI) is estimated to have fallen 21 per cent worldwide in 2008, and is predicted to slump even further in 2009.

While FDI inflows have been growing steadily over the last five years (measured to June 2008), Australia will not be immune to global trends. The short-term financial impacts of reduced investment inflows will be compounded over the medium-to-longer term as competition for FDI intensifies.

This is because in the face of increased costs worldwide, emerging economies in the Asia-Pacific region are repositioning themselves away from a source of cheap labour in manufacturing, to serious players in knowledge-based industries. These locations are now competing head-to-head with Australia in sectors once dominated by developed nations.

To ensure future growth, NSW cannot rely solely upon Sydney's brand, diversity of population and its stable political and social environment – as valuable as these fundamentals are. The NSW Government has a critical role to play in attracting and retaining business in NSW by maintaining a competitive tax system, minimising compliance burdens, running efficient services and providing adequate infrastructure. However getting these settings right is necessary but not sufficient to make NSW attractive to international investors.

Niche investment attraction strategies linked to current industry strengths and advantages will support building centres of industry excellence.

Current duplication of resources and disjointed promotional strategies act as a detractor to investment. Working with other states and the Commonwealth to develop a unified investment attraction strategy would better encourage major foreign investment.

A similar team approach between government and business would also assist in making NSW a pre-eminent place to do business.

## Skilling the workforce: Accessible, efficient and responsive training

Despite the impact of the economic slowdown on employment and skilled labour, skilling the workforce remains as important as ever. In a changing economic climate, adapting to new circumstances will rely as much on the capabilities of the workforce as the capacity of companies to maximise business opportunities in a tightening economic environment.

Businesses will have to lift productivity to achieve competitive advantage, while displaced workers will also need to develop or update their skills to make a swift transition back into employment.

The NSW Government has recently signed a four year agreement with the Australian Government to fund 175,000 qualifications in skill shortage occupations for jobseekers and existing workers under the Productivity Places Program. However, the relationship between this classroom training and the achievement of sustainable employment outcomes for jobseekers or an increase in businesses' productivity is yet to be demonstrated.

For vocational training to be effective, it must be specifically targeted to skill and employment needs that have been identified at a regional level by local bodies such as Regional Development Boards. For example, there's no point in providing vocational training in mining in the Sydney metropolitan area.

## Tradies sans Frontières: National occupational licensing

A wide range of occupational trades are licensed to varying degrees in each state. There are approximately 850 occupational licences across the states for seven groups of trade occupations.

But whenever a licensed tradesperson in one state moves or expands their operations into another, they are required to seek registration in the new state and may be required to sit additional assessments and pay additional fees.

This restriction places a heavy burden on industry and trade-qualified employees and inhibits workforce mobility and competition across borders.

Under national trade licensing once a licence is issued, the licence holder would be able to use it to work anywhere in Australia without additional paperwork or cost, ensuring portability of skills and greater workforce flexibility.

## Green growth: Business solutions to climate change

With the new US administration committed to introducing an emissions trading regime, the prospect of an expanded global trading market in carbon credits is strong.

The Australian Securities and Investment Commission, the Australian Stock Exchange, the Reserve Bank of Australia and the Australian Prudential Regulation Authority are already located in Sydney, as are 42 per cent of Australia's financial services employees. Sydney is also ranked 10th in competitiveness by the Global Financial Centres Index.

Using this already strong base and looking beyond the current downturn, Sydney should be preparing and positioning as the Asia-Pacific carbon trading hub.

## A big idea

*Trial an 'entrepreneurial zone' in a NSW region, in which foreign direct investors are exempted from NSW State taxes – notably payroll tax and land tax – and operate under Federal industrial relations laws only. Tax incentives could also be granted for foreign investment in local infrastructure and skills development and training. The establishment of this zone should be accompanied by a strategy to create Centres of Industry Excellence in certain knowledge-intensive industries where NSW has a growing, recognised expertise and competitive advantage.*

### 3. Reducing the Burden on Business

## Key points

- > NSW relies more heavily on payroll tax and land tax than other states
- > Despite recent and planned cuts, at 5.75% the payroll tax rate in NSW is the highest of all the states
- > The additional borrowing cost of losing NSW's triple-A credit rating could be as high as \$500 million per year
- > Almost 70% of NSW Business Chamber members believe that complying with regulation has a moderate to major impact on their business
- > One-fifth of NSW Business Chamber members report spending more than 20 hours per week complying with regulatory requirements
- > Australia currently has six separate industrial relations systems, which create unnecessary burdens and costs for business and taxpayers.
- > Australia currently has nine separate Occupational Health and Safety and Workers Compensation systems

### Payroll tax cuts – What they really means for business

Paul Hoffman, CEO of Express Coach Builders in Macksville on the North Coast knows firsthand how state taxes, constantly changing regulations, and inconsistent regulations across the states can impact on a business.

A finalist in the 2007 Education and Training Award category of the NSW Business Chamber's President's Prize, since starting in 1995 Express Coach Builders has grown from six to 90 employees, and is currently building one new bus every four days.

The company is a major employer in the region and employs 30 trainees and apprentices.

It also works each year with three local high schools to place up to 40 year - 10 students under a work placement program, from which ten traineeships are offered.

But taking on trainees now means taking on more red tape.

"Trainees and apprentices used to be exempt from payroll tax," Hoffman said.

"Now we have to pay the tax on our 25 trainees and then claim it back in the following financial year, an arduous task that just creates more red tape."

Similarly, changes to the scope of workers compensation payments have made administration more difficult.

"They changed the definition of wages to include super, then they changed it again to include the wages of trainees and apprentices.

"Each change means re-learning the arrangements. I don't think government understands how time-consuming and costly that can be."

Hoffman says cash flow is “the king of business”, and that payroll tax has too long been an impediment to business growth.

He says the announced changes to payroll tax – incrementally decreasing to 5.5 percent by 2011 – will go some way to increasing NSW’s competitiveness.

“The changes will help level the playing field amongst competing businesses in other states, which is crucial for us considering 94 percent of our product is delivered nationally.”

Delivering that product nationally is made more difficult by different regulations and standards in each state.

### The biggest loser: Reducing taxes in NSW

While there are a range of sometimes competing reasons why businesses are attracted to one state over another (eg, location of industries, customer base, climate, workforce profile), the level and complexity of taxation is key to business decision making. In NSW, taxes are too high and there are too many of them.

#### Comparison of selected taxes and overall tax burden for NSW, Victoria and Queensland, 2008-09

Tax rates and thresholds per annum	NSW	VICTORIA	QUEENSLAND
Payroll tax rate	5.75% <sup>i</sup>	4.95%	4.75%
Payroll tax threshold	\$623,000 <sup>ii</sup>	\$550,000	\$1,000,000
Land tax rates for taxable land value of \$500,000 <sup>iii</sup>	\$2,212	\$775	\$4,000
Transfer duty on land for taxable land value of \$500,000	\$17,990	\$21,970	\$8,750
State tax revenue per capita	\$2,645	\$2,512	\$2,454

Sources: State Treasuries of NSW, Victoria and Queensland

In 2008-09 taxation made up 39 per cent of the NSW Government’s total revenue, with the three largest taxes being payroll tax (35 per cent of tax revenue), transfer duty (21 per cent) and land tax (11 per cent).

In NSW, payroll tax revenue has increased by almost 60 per cent since 2001-02 and NSW relies more heavily on payroll tax and land tax than all other states (with the exception of the NT in the case of payroll tax).

<sup>i</sup> NSW’s payroll tax rate is scheduled to be reduced to 5.65% from 1 Jan. 2010 and 5.5% from 1 Jan. 2011.

<sup>ii</sup> Indexed to Sydney CPI.

<sup>iii</sup> Different land tax and transfer duty rates apply at different taxable land values, and both rates and thresholds differ from state to state. For simplicity, the taxable land value of \$500,000 has been given as an example.

While payroll tax is fiscally efficient, it discourages employment and innovation. Similarly, land tax has the potential to be an efficient tax, but it increases input costs for business. On the other hand, transfer duty is an inefficient tax that is highly sensitive to changes in the business cycle.

Further, NSW has deferred the abolition of nuisance taxes, such as transfer duty on non-land business transactions, transfer duty on unquoted marketable securities and mortgage duty on business loans. Queensland and Victoria have already abolished their mortgage and marketable securities duties.

### For the good of the country: Pursuing long-term state tax reform

Australia's system of redistributing revenue from one state to another no longer meets the needs of a modern Federation and inhibits reform of state taxes, an area that sorely needs attention.

The NSW Government has long pointed to the large GST cross-subsidy that exists between the states. NSW, Victoria, Queensland and Western Australia currently subsidise the other states to the tune of \$3.6 billion a year.

NSW specifically is estimated to generate \$15 billion in GST revenue this year, but will receive only \$13 billion in GST revenue grants, equivalent to a return of 87 cents for every dollar of GST revenue raised in NSW.

State taxes raise less than one-fifth of national tax revenue and only two-fifths of total state revenue; yet there are 160 separate state taxes across Australia. The collection of so many taxes means high administrative costs for governments (and therefore taxpayers) and a very heavy compliance burden for business. These unnecessary costs obstruct Australia's competitiveness, productivity, growth and prosperity.

An overhaul of Commonwealth-state financial relations is a prerequisite to substantial and lasting national and state tax reform. Without such an overhaul, there will be little scope for states to widen their tax bases or to abolish the many small taxes that contribute so little to Australia's total tax revenue but so much to the burden on business.

## Maintaining good credit: The triple-A rating

A triple-A credit rating signifies that a state or country is the most reliable and stable borrower, is well managed financially, and has sufficient flexibility to be able to withstand cyclical downturns in economic activity. In addition to providing access to funds at the lowest interest rate, it signifies to investors that the triple-A rated jurisdiction is a safe place to do business.

Premier Rees has said the cost of a downgrade to the State's triple-A position would be \$500 million per annum. While some commentators have said it is lower, the fact remains no responsible government can meekly accept a credit rating downgrade, especially when revenues are uncertain, expenses are growing, essential capital works projects are at risk, and business confidence is low.

There are real costs to a drop in a government's credit rating. It sends a signal to investors that a government is less able to create a stable environment for long-term economic activity. This discourages investors. Lower rates of investment in turn mean lower rates of employment, consumption and tax revenue – outcomes which NSW can ill-afford.

## Not waving, drowning: Cutting red tape and reducing the regulatory burden

Red tape and the burden of regulation impede competition, innovation and productivity, and so have a negative effect on production, income and employment. 10 per cent of Australian businesses regard government regulations or compliance as a barrier to innovation, and this number rises for smaller companies.

NSW Business Chamber's RedTape Survey 2008 found almost 70 per cent of respondents believe complying with government regulatory requirements has a moderate to major impact on their business, and around three-quarters of the businesses surveyed had noticed an increase in the time and cost of complying with regulatory requirements.

Victoria is reducing the flow of new regulation through its adoption of the 'one in, one out' principle – that is, a new regulation can only be introduced if another regulation is abolished or simplified. In addition, the Victorian Government has committed to reducing the total stock of regulation by 15 per cent by July this year and 25 per cent in five years.

NSW Business Chamber welcomes the NSW Government's recently announced target of a \$500 million reduction in red tape by June 2011. Measurable targets are a critical first step to reducing the overall compliance burden on business, because they give ministers and agencies an incentive to actually remove regulations, rather than just streamline them.

## The cheque's in the mail: Paying suppliers on time

Another unnecessary cost on NSW businesses is the tardy payment of business suppliers to NSW Government agencies. Several member companies of the NSW Business Chamber are currently owed millions of dollars by Government agencies which have delayed payments as long as 120 days.

These members have been unable to find out from the relevant agency when they will receive the funds owing to them or to whom they can appeal.

Naturally, the lack of responsiveness around late payments is intensely frustrating for these businesses, especially when they are currently struggling with trickling cash flows, devalued land assets and limited access to loan capital.

While NSW Government regulations indicate that heads of agencies may award late payment penalties, it remains unclear who is ultimately responsible for ensuring payments are made within reasonable timeframes.

## Establishing a national IR system and harmonising OH&S

The current industrial relations system in Australia comprises six separate systems. This creates complexity and cost for business, particularly those businesses that operate across state borders.

The failure of state governments to work with the current and previous federal governments to create a uniform national system has resulted in a system that only covers 85 per cent of the workforce. The boundary lines between the systems are often unclear, which continues to cause significant problems for NSW businesses.

Beyond the complexity and confusion inherent in the operation of dual systems, there are also significant costs in maintaining a duplicate tribunal and bureaucratic structure that caters to a shrinking constituency.

There are currently nine major systems covering Occupational Health and Safety (OH&S) and Workers Compensation in Australia. While OH&S systems proceed from the same fundamental approach, they are quite distinct in terms of their practical operation and their requirements from business.

The current move to harmonise Australia's OH&S systems through the creation of model legislation should be supported.

## A big idea

*To ensure NSW remains a competitive place in which to do business it is imperative the process of business tax reform continues. The NSW Government must strive to at least match Victoria's payroll tax rates by continuing to reduce the rate by 0.25 percentage points annually from 2011. Nuisance State taxes such as transfer duty on unquoted marketable securities, mortgage duty on business transfers, transfer duty on non-land business transactions should be swiftly abolished as part of the national tax reform agenda.*

## 4. Reforming Government

## Key points

- > The Federal Government is responsible for about 52% of all government health spending, with the states responsible for the other 48%
- > The Federal Government is responsible for about 40% of all government education spending, with the states responsible for the other 60%
- > The Federal Government collects over 80% of all tax revenue in Australia, yet accounts for just over half of its own-purpose expenditure
- > State governments collect only 16% of all tax revenue in Australia, yet are responsible for 40% of their own-purpose spending
- > NSW has 172 local government areas, yet there is no organising principle supporting local governance arrangements, with large inequities in the extent of local representation for residents
- > A report commissioned by NSW councils found they need \$6.3 billion to overcome the backlog in repairing and building local infrastructure
- > NSW councils are holding almost \$1 billion in unspent contributions from developers meant for local infrastructure
- > Rate capping in NSW has meant council rates have grown by an average of 3.2% over the last ten years, while State General Government Revenues have grown by 5.2% over the same period

### Bureaucratic roadblocks to meeting skills shortages

At a time when skill needs are rapidly evolving in response to changing work patterns, emerging technologies, and other factors, apprenticeships in NSW struggle under a highly regulated and inflexible administrative system.

Apprentices in NSW are employed under a range of industrial regimes, often including more than one State award, Federal awards and Certified Agreements. Changing these is a highly bureaucratic process, and one that can take years. Meanwhile, apprentice levels suffer and business isn't able to get the new entrants it needs to remain efficient and viable.

Shirley Dungate, President of the Advanced Association of Beauty Therapists, has experienced the delays caused by the bureaucratic process first hand.

"From the very start, we had agreement to shorten the duration of the beauty therapy apprenticeship from the Advanced Association of Beauty Therapists, as both a combined employer and employee industry association, and the main respondents to the Hair & Beauty (State) Award which even includes the Australian Workers Union.

"The long and frustrating process of varying the State award before the Vocational Training Tribunal would even consider varying the Vocational Training Order meant we had to wait for years while our apprenticeship completions continue to suffer."

## Who does what and why? Better service delivery through redefined Federal-state roles

In key service areas in Australia there is a split of funding and responsibilities between the state governments and the Federal Government. For example, in health and education the Federal Government funds 52 per cent of health and 40 per cent of education spending, with the states providing the balance.

This split reduces transparency and accountability, allowing the different levels of governments to blame each other for inadequate delivery of these services. Patients and students are the losers.

It also means there is a large amount of duplication and inefficiency. Given that in NSW health and education collectively consume half the Budget, waste in these areas is very costly indeed and taxpayers also lose out.

Reform of Federal-state relations is critical to improving the performance of all governments in Australia and providing better value for Australian taxpayers. This reform is becoming increasingly urgent as expenditure pressures grow because of factors such as the ageing of the population and, more immediately, declining tax receipts and an increasing demand on the social security safety net.

COAG agreed to consider in 2009 'an ambitious program of reforms to roles and responsibilities for funding and delivery of services to the community.'

The National Health and Hospital Reform Commission has recommended that the Commonwealth should assume responsibility for all primary health care and funding.

Similarly, the Bradley Review of Australian Higher Education has proposed the integration of higher education and vocational education and training (VET) to create a comprehensive system of post-secondary education. The proposal seeks to shift vocational training from state to Federal funding, making VET primarily a Federal rather than a state responsibility.

Employers often find the overlapping nature of State and Commonwealth skilling and employment programs to be complex and confusing. Different employer incentives, levels of publicly funded training, target groups, eligibility criteria and information sources may apply, without an easy means of assessing if a particular program will achieve the desired increase in workforce productivity.

## Living within our means: Improving the Government's accountability and fiscal responsibility

Management of the bureaucracy in NSW has been characterised by tolerance of inefficient practices and a culture that lacks transparency and accountability. NSW has a much larger number of agencies than other states and there has been little requirement these agencies demonstrate quality and timeliness of service delivery.

Agencies have routinely been allowed to get away with spending more than they're allocated. The result is a growing gap between revenue and expenditure, as well as service delivery outcomes that fail to meet community expectations.

The NSW Budget is under pressure from a range of factors, including the global recession and public sector wages growing faster than inflation. While some of these factors are beyond the NSW Government's control, the failure to impose real fiscal discipline has left the State in a weak position to weather current economic conditions.

Restoring a sustainable rate of expenditure growth is a key challenge. With employee-related expenses accounting for nearly half of total State expenses the key to achieving this is controlling public sector wages growth.

### **The modern workplace: Reforming public sector work practices**

A major contributor to NSW's underperformance is the relatively poor performance of its public sector. For example, State Government health spending is higher per person in NSW than any other jurisdiction bar the NT, yet elective surgery waiting times are longer than most other states.

Last year's IPART Rail Fares determination suggests the gap between publicly and privately provided rail services is up to 40 per cent. We should be getting 40 per cent more for the money taxpayers spend on transport.

While Victoria has actively developed a market for provision of government services by the private and non-government sectors, NSW lags behind and consequently pays more to achieve less with public money.

Workforce management is a key constraint. Government needs to be flexible and responsive. However, NSW labours under a system which describes a specific job in a specific place and then hires someone to do that exact same thing every day for life. There can be little room for innovation when the job descriptions of 350,000 people can't be easily or regularly redefined.

To get better value from public servants they need to learn and apply new skills, move from project to project, and expect to be paid for results – not long service. Rigid industrial agreements and permanency of employment undermine government's ability to innovate, pursue efficiency and promote a culture of responsibility.

### **Better bang for our buck: Reforming government practices and structures**

Restructuring the NSW public sector will help to get better value from State spending, by ensuring that certain functions are not dispersed between multiple agencies, or duplicated by them.

NSW has over 60 Budget-dependent agencies, compared to 11 in Victoria. The greatest opportunities for NSW Government rationalisation appear to be in the following areas:

- > commercial regulation (currently managed by seven ministers);
- > human services (five ministers); and
- > justice and emergency services (four ministers).

Effective rationalisation would not create unwieldy super-departments, but rather retain the identity of smaller agencies while integrating them within larger and stronger administrative structures.

### Rubbish bins and side streets: Reforming local government

Local government has a major impact on business – large and small – and so it is critical this level of government is able to provide local services and infrastructure in a way that meets the needs of the communities they serve and supports local economies. What local government must not do is inhibit economic activity through red tape, unnecessary duplication of other levels of government, and diseconomies of scale.

In NSW, annual rate increases levied by councils are set by the State Government. This limits the ability of councils to raise funds and is a contributing factor to some councils' questionable financial viability.

Other problems with local government arrangements in NSW include over-governance relative to population, an infrastructure funding backlog, and inefficient delivery of services owing to a lack of economies of scale.

Councils have said they need an injection of \$6.3 billion to cover the cost of repairing and building infrastructure in local communities. However, research by NSW Business Chamber in 2007 found councils in NSW were holding around \$900 million in unspent contributions from developers earmarked for local infrastructure.

### A big idea

*Local Government in NSW needs to be overhauled to ensure that local councils are operating on a firm financial footing. Local councils should be amalgamated to reflect the regional areas defined in the Metropolitan Strategy to achieve savings in service delivery and reduce expenditure by pooling resources. Further savings can be made by creating electoral consistency across councils with respect to wards and mayoral elections which currently make council elections more costly. Removing rate pegging to increase revenue streams and reforming Section 94 contributions to introduce a "use it or lose it" provision would ensure funds are spent on local infrastructure.*

## 5. Where To From Here?

This paper was formulated, not to provide definitive solutions but to stimulate the discussion for ideas from which NSW could reclaim first position. To assist in formulating policy and to provide a blueprint for the State, the NSW Business Chamber will be hosting four symposia over the coming year. These bimonthly forums will follow the topics picked up in this document and will be rolled out as follows:

- > May: Improving Infrastructure
- > July: Boosting Economic Capacity
- > September: Reducing the Burden on Business
- > November: Reforming Government

The symposia will provide an opportunity for the NSW Business Chamber to gather information from key stakeholders and interested parties. Discussions points raised at the symposia may inform the final policy position of the Chamber.

For more information about NSW – Reclaiming 1st and related events, please visit [www.nswreclaiming1st.com.au](http://www.nswreclaiming1st.com.au)

## About NSW Business Chamber

NSW Business Chamber is one of Australia's largest business support groups, helping over 22,000 businesses each year.

Founded in 1885, we've worked with thousands of businesses, from sole traders to large corporate, and have developed into a leading business solution provider and lobbying group with tremendous strengths in workplace management, OHS, IR HR, international trade, and improving business performance.

Independent and non-government, NSW Business Chamber represents the needs of business at a local, state and federal level, lobbying governments and authorities to create a better environment to do business in.

## NOTES



