

NSW

# Pre-Budget Submission

August 2023



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# Introduction

The 2023-24 Budget for New South Wales will be handed down at a critical time.

While the state's economy is strong and is a firm foundation for future economic and social progress, there are substantial short, medium and longer-term challenges that call for significant action over the term of the new Government of NSW.

Ai Group accepts the need for repair of the state's budget following the setbacks stemming in large part from the necessary stimulatory measures during the COVID pandemic. In addition, as the Treasurer detailed in the Economic Statement of 20 June 2023, there is a need to lift provisions for the state's insurance liabilities; to revalue the State's non-financial assets; to adequately fund a range of future infrastructure and program expenditures; and to return the budget and the debt outlook to more robust positions more rapidly than those projected in the Economic Statement.

Ai Group supports the Government's comprehensive expenditure review aimed at contributing to lower inflation; improving the sustainable delivery of essential services; and only funding programs that work. We accept that this will mean that programs will need to be removed or remodelled to deliver desired outcomes more efficiently.

In this submission we set out the outcomes that Ai Group believes should be prioritised in the 2023-24 Budget. In this we are mindful of both the immediate needs but also the cornerstone role the Government's first Budget plays for its agenda over the term of the current Parliament and beyond.

The closely interrelated priorities raised in this submission are:

- Improving the capabilities of the current and future workforce in support of current and emerging needs and opportunities.
- Stimulating industry development and lifting the organisational capabilities of businesses and public sector agencies.
- Ensuring a faster increase in the supply of housing for our growing and changing population and of at least maintaining the level of investment in our economic and social infrastructure.
- Lifting the pace of productivity growth in both the public and private sectors.
- Make more efficient progress in the energy transition; in the broader task of achieving significant reductions in emissions of greenhouse gases; and in addressing the management of waste.

# Summary of Recommendations

## **Creating a skilled workforce of the future**

Maintaining the ambition to modernise and lift the role of the TAFE sector.

Development of the TAFE Domestic Manufacturing Centres of Excellence including with a focus on new entrants as well as upskilling existing or transitioning workers and an emphasis on advanced manufacturing.

Mapping the state's skills needs over short, medium and long terms including by drawing on and contributing to the work of Jobs and Skills Australia.

Making the apprenticeship system more effective with a focus on mentoring to completion and mentoring of supervisors; and attracting apprentices from a greater diversity of backgrounds including through targeted funding of Group Training Organisations.

Examining the potential for expansion of the traditional apprenticeship model to a broader range of work-based learning pathways.

Supporting the development of strong foundation skills in workplaces to better equip people for further training and with more transferrable skill sets.

Explore the successful STEM scholarships programs in Victoria and South Australia to inform a similar, purpose-built NSW program.

Active participation in the contemporary tertiary education reform agenda, including by supporting the full implementation of the Noonan Review of the Australia Qualifications Framework including in relation to microcredentials.

## **Industry development and lifting business and organisational capabilities**

That the Government maintain the more active involvement in industry development that has evolved over recent years and that it maintain the core directions of NSW's Industry Development Framework.

In particular we identify the following areas to be of high value to the state's industry development and organisational capability ambitions:

- NSW Business Concierge and Business Connect services
- The strong focus on the development of modern manufacturing
- Western Sydney's Advanced Manufacturing Research Facility
- The priority status given to the defence and aerospace industries
- The Semiconductor Sector Service Bureau initiative.
- The Going Global Export Program.
- Initiatives under The NSW Cyber Security Strategy
- Support for start-ups, business incubators and acceleration.

Consideration of two new initiatives:

- Encouraging diversity in particular sectors through networks such as Women in Manufacturing and Woman in Construction.
- Greater promotion of awareness of technology options among the state's businesses and other organisations.

### **Housing and Infrastructure**

Maintaining the recent policy emphasis on housing and see the NSW Housing Strategy and the associated Housing 2041 vision as foundational elements in the improvement of the adequacy of the state's housing.

Blending the existing strategies with the initiatives relating to housing supply agreed to by the National Cabinet in August 2023.

Investment in the workforce capabilities required for an uplift in housing supply.

Working closely with business and institutional investors in pursuing the supply uplift.

Ai Group also supports the ambition agreed to by the National Cabinet of delivering a better deal for renters and we urge close consultation with individual and institutional landlords to ensure that an adequate supply of rental properties and the desired security of tenure can be achieved simultaneously.

That the Government ensures that Infrastructure NSW is adequately funded, that its integrity is maintained and that its advice is appropriately weighed in determining infrastructure needs and priorities.

That the Government adopts world's-best practice in relation to the ownership, operation and regulation of the State's infrastructure whether that be in relation to new infrastructure projects or in relation to the consideration of changes of ownership of existing infrastructure.

That the Government work closely with the construction industry and its supply chains alongside other stakeholders to improve the development and delivery of infrastructure projects.

### **Lifting Productivity in both the Public and Private Sectors**

Continuing the NSW government's ambition of productivity improvement

Promoting a more efficient public sector

Pursuing efficient regulation with specific attention to:

- Housing regulation
- Electrical production regulation
- Workers compensation
- Supporting measures to ensure a tax system more conducive to productivity advances.

### **Energy, Climate and Waste**

Promote productivity-raising reform to enable faster improved resource use in energy infrastructure delivery.

Carefully target any generator extension supports to availability and cover any costs from the Budget rather than from energy users.

Expand building upgrade supports relevant to rental properties and public housing and ensure high efficiency and concertation in any electrification.

Extend Budget decision-making discipline further in climate decisions.

Support for businesses to minimise waste generation and maximise resource recovery in Commercial and Industrial category waste:

- Consideration of targeted action to stimulate markets for local recycled products, including identifying cost gaps between recycled and raw materials and the barriers to use this creates.
- Consider options for the efficient development of the circular economy via State procurement decisions.

## Creating a skilled workforce of the future

Skills and labour shortages remain one of the key issues impacting New South Wales businesses. Ai Group's 2023 Australian CEO Survey<sup>1</sup> found that almost all businesses (90 per cent) expect to be impacted by skills shortages this year. Similar difficulties are rife in our health and education sectors and across public sector agencies.

The current labour and skills shortage environment is also one in the midst of digital and clean transition. As digital transformation progresses many employers are re-aligning their business models and strategic directions and moving into new industry areas. Workforces must be capable of continuously adapting, operating in agile spaces and relating within cross-functional teams. Employers will need to realise their new directions by building new skills, managing differently, having employees learn new tasks within roles or undertake completely new roles.

Developing a pipeline of future workers for New South Wales' key and emerging industries is critical and we applaud the State Government's focus on the broader tertiary system. The ambition to rebuild TAFE is a key plank in addressing current and future needs. The TAFE Domestic Manufacturing Centres of Excellence will be central to both rebuilding TAFE and NSW's domestic manufacturing capacity and capabilities. This will also boost skills development through expanded apprenticeship opportunities. These Centres must focus both on new entrants as well as upskilling and reskilling existing or transitioning workers. A focus on advanced manufacturing utilising the latest technologies will be essential. Provision of targeted fee-free courses is a welcome inclusion into this plan.

Development of a NSW Skills Plan would be a timely addition. Ongoing and dynamic research that maps state-wide skills shortages over three-, five- and ten-year horizons - based on robust, forward-looking data - to inform strategic planning is critical to the State's success. Industry and the skilling system would mutually benefit and would look forward to seeing work on outlook forecasts unfold. This skills plan should be undertaken in collaboration with and benefit from the work of Jobs and Skills Australia and the relevant Jobs and Skills councils.

### **Expand and reinvigorate the apprenticeship system**

With the strong demand for trade and related skills set to continue for many years to come, an effective apprenticeship system will help lay the foundations for an enduring skills pipeline. The apprenticeship model is becoming an even more important lever in Australia's future growth as rapidly changing work environments benefit from work-based learners who experience change first-hand.

Apprentice mentoring programs are effective means to lift completions and ensure a quality learning experience. Supervisor mentoring programs are particularly important for small businesses employing or engaging apprentices. The apprenticeship system must be supported to increase the diversity of apprentices including in relation to females, indigenous people and people with a disability. Targeted funding for Group Training Organisations would also assist the participation of SMEs and disadvantaged groups. Another innovation, that introduces a new

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<sup>1</sup> <https://www.aigroup.com.au/news/reports/2023-economics/australian-ceo-survey-2023/>

mature-age apprenticeship model, would address the difficulty workers have in transitioning to a trade at later stages of their working lives.

Further to these shorter-term improvements, opportunities for expansion of the traditional apprenticeship model exist for Australia. The system has great potential to be extended beyond the trades and adapted as a major work-based learning pathway at technician, paraprofessional, and professional levels.

Formal employment-based learning programs at higher levels are gaining interest from both industry and potential apprentices/cadets. These approaches have the twin benefit of increasing the level of qualification awarded for apprenticeships as well as extending the scope to non-trade, para-professional and professional occupations.

Ai Group has been working with businesses at the forefront of their industries by leading a series of ground-breaking pilot projects seeking to meet emerging skills needs, by developing pathways of learning which combine a VET qualification and a bachelor's or associate degree, that can be pursued while working. Similar initiatives in other economies, including the UK, Germany, the European Commission, and the United States, demonstrate this need for change.

### **Support the development of strong foundation skills in workplaces**

Ai Group has found low levels of foundation skills to be a perennial issue for employers. This has again surfaced in our latest skills survey which found that 74 per cent of businesses are affected in some way by low levels of literacy and numeracy.

Poor language, literacy and numeracy will continue to constrain productivity, labour mobility and the capacity of the economy to achieve the higher levels of skills needed for the increasingly knowledge-based economy. With digital literacy now an additional foundation skill, as industry continues to transform, it will require greater numbers of individuals with these skills to be well-developed.

The skill needs of the existing workforce differ from new entrants. Most, but not all, of this group will have already completed an entry-level qualification, and all of them will have gained knowledge and skills from their prior experience in the workforce. The focus on this group must include ensuring all workers have the foundational skills to deal with further training, access to shorter form training that builds on the skills they already have as their work and the industry evolves and enabling them to transition from jobs with poor future prospects into those that will become more prominent in the future.

For those workers who are identified as lacking digital or other foundational skills and for those who are intending to engage with further training, there should be the opportunity for them to have their existing skills assessed and have access to training in identified foundational skills gaps.

### **STEM scholarships**

Several other jurisdictions have or are commencing establishment of STEM related scholarships, designed to facilitate development of high level, in-demand future facing skills. These programs have been highly successful in regard to uptake, outcomes and transition to employment. Ai Group encourages the NSW government to explore the programs in Victoria and South Australia, with the view to developing a purpose-built program for NSW.



**Tertiary reforms**

The Commonwealth and State governments are actively engaged in a series of major tertiary sector reforms. This reform process has the potential to deliver the next generation tertiary sector for both the state of NSW and the nation. The establishment of Jobs and Skills Australia, the standing up of Jobs and Skills Councils and the University Accord process are rare but important opportunities to establish a genuinely joined up tertiary sector.

The reform of the Australian Qualifications Framework (AQF) is essential if we seek to build a dynamic and flexible tertiary sector. We need to move past the rigid hierarchical current AQF to enable lifelong learning to be realised in an authentic and purposeful way. Our current AQF is simply not up to the task. Ai Group strongly encourages the NSW government to support the full implementation of the 12019 Noonan Review of the AQF.

The AQF is the central policy architecture of the Australian education and training system. Subsequent to revision, focus can shift to funding and regulatory reform as well as qualification design. Ai Group strongly encourages NSW to be actively involved in the development of the reform agenda and outcomes, in conjunction with industry and the broader community.

**Ai Group recommends:**

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Explore the successful STEM scholarships programs in Victoria and South Australia to inform a similar, purpose-built NSW program.

Active participation in the contemporary tertiary education reform agenda, including by supporting the full implementation of the Noonan Review of the Australia Qualifications Framework including in relation to microcredentials.

## Industry development and lifting business and organisational capabilities

Over recent years, the NSW Government has become actively supportive of industry development and in building business and organisational capabilities. Ai Group strongly supports the directions set out in *The NSW Industry Development Framework* of February 2022 and urge the Government to maintain the core directions of the Industry Development Framework. We also support the adoption of similar investments in the development of public sector organisational capabilities.

While we recognise the need to monitor, improve and remodel programs, we note, in particular, the value of:

- NSW Business Concierge and Business Connect services.  
These are nation-leading programs that continue to provide valuable services and advice to NSW's small and medium-sized businesses.
- The strong focus on the development of modern manufacturing.  
Maintaining this focus and the position and remit of the Modern Manufacturing Commissioner are foundational elements of the state's industry development direction.
- Western Sydney's Advanced Manufacturing Research Facility.  
This facility is a critical part of the research translation puzzle yet there is little awareness or engagement about the proposed capabilities for Stage 2 that is due to open in 2026.
- The priority status given to the defence and aerospace industries.  
NSW is making a splash in the defence industry as a result of the priority given to it by NSW governments. Further refinement and development can be achieved with the assistance of close consultation with industry.
- The Semiconductor Sector Service Bureau initiative.  
Greater progress in building semiconductor capabilities in NSW and Australia can be achieved by closer cooperation and greater coordination with initiatives in other states and territories. This includes taking greater advantage of available economies of scale.
- The Going Global Export Program.  
This program offers invaluable advice and support for businesses setting out on international trade-driven growth paths.
- Initiatives under The NSW Cyber Security Strategy  
With cyber security recognised as a leading concern of businesses across Australia, the NSW Cyber Security Hub provides highly valued support in the development of digital capabilities and cyber security awareness and resilience particularly for smaller businesses.

- Support for start-ups, business incubators and acceleration

The backing of the NSW government services is materially lifting the state's game in businesses R&D, commercialisation, design and product development. Continued support is crucial to lift the rates of domestic commercialisation of local R&D.

#### *New Initiatives*

To promote greater diversity in particular sectors, the NSW Government could consider a closer involvement in emerging Women In Manufacturing and Women in Construction networks. These are already running in other states.

To promote understanding of technology options and their take-up, the NSW Government could facilitate greater pathways between the NSW tech sector and businesses and other organisations.

#### **Ai Group recommends:**

That the Government maintain the more active involvement in industry development that has evolved over recent years and that it maintain the core directions of NSW's Industry Development Framework

In particular we identify the following areas to be of high value to the state's industry development and organisational capability ambitions:

- NSW Business Concierge and Business Connect services
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Consideration of two new initiatives :

- Encouraging diversity in particular sectors through networks such as Women in Manufacturing and Woman in Construction.
- Greater promotion of awareness of technology options among the state's businesses and other organisations.

## Housing and Infrastructure

### Housing

Ai Group recognises the shortage of housing and the fundamental role that adequate investment in new housing plays in our ability both to address current shortages and improve affordability but also for Australia to continue with the strong migration program that is so fundamental to our economic and social progress. NSW, as the leading gateway for migrants to Australia, has a particular responsibility to ensure the availability of a healthy housing supply.

We welcome the recent policy emphasis on housing and regard the NSW Housing Strategy and the associated Housing 2041 vision as foundational elements in the improvement of the adequacy of the state's housing.

We are also broadly supportive of many of the initiatives agreed to by National Cabinet in August 2023.

The National Planning Reform Blueprint is a critical step and we urge the NSW Government to take a prime-mover role in progressing its ambitions in relation to housing supply targets; planning, zoning and land release; removing barriers to appropriately-located medium and high-density residential development; the acceleration of development approvals; addressing gaps in housing design guidance and building certification; and the more rapid delivery of social and affordable housing.

Investment in relevant capabilities is central to meeting the housing objectives (as is an appropriate emphasis in Australia's migration on the skills and labour needed to lift the supply of housing).

Australia's housing industry and its associated supply chains have very strong capabilities to deliver this increased supply and this potential can be lifted, and outcomes delivered more productively, with appropriate regulatory changes as indicated in the following section.

Further, Australia's institutional investors are showing an increased readiness to support investment in a broad range of housing options. We urge the NSW Government to work closely with relevant businesses and investors to assist in ensuring an increase in the stock and variety of housing options while reducing the call on taxpayer funds and further increases in the state's debt.

Ai Group also supports the ambition agreed to by the National Cabinet of delivering a better deal for renters. We recognise the increased emphasis on renting due to affordability. We also recognise that, with a large and growing proportion of household savings mandated for incomes in retirement, rates of homeownership appear likely to decline further in coming years.

In considering the directions set out by the National Cabinet, we urge the NSW Government to liaise closely with individual and institutional landlords to ensure that an adequate supply of rental properties and the desired security of tenure can be achieved simultaneously.

### Infrastructure

Ai Group recognises the ongoing need to develop and upgrade the State's economic and social infrastructure. We support very strongly the independent role of Infrastructure NSW in supporting the creation of a sustainable infrastructure legacy through its advice, its prioritisation of projects, and its oversight roles.

We urge the NSW Government to ensure Infrastructure NSW is adequately funded, that its integrity is maintained and that its advice is appropriately weighed in determining infrastructure needs and priorities.

Ai Group recognises the limitations of a complete reliance of public sector financing of investment in, and operation of the State's infrastructure. We also recognise the interest, the financial resources, and the capabilities that institutional investors can bring to assisting in meeting the State's infrastructure needs.

At the same time, we support the need for appropriate regulation of private participation in the delivery of infrastructure and infrastructure services. Similarly, there is a need for effective oversight of the performance of public sector agencies involved in investment in, and operation of infrastructure.

Appropriate regulation is particularly relevant to ensure pricing of infrastructure services, including those for which the infrastructure has monopoly characteristics, is fair and efficient for the citizens of NSW and is fair, adequate and certain for investors.

We urge the NSW Government to adopt world's-best practice to the ownership, operation and regulation of the State's infrastructure whether that be in relation to new infrastructure projects or in relation to the consideration of changes of ownership of existing infrastructure.

We have no ideological objection to asset recycling between the public and private sectors if that recycling delivers better outcomes for taxpayers and for the citizens and businesses that benefit from the provision of infrastructure services and that is consistent with the efficient provision of those services.

There is substantial scope for the more productive delivery of the state's infrastructure pipeline. At present, performance can be held back by inadequate assessment of the viability of projects before they are announced; poorly structured contract conditions for instance in design, development, and risk clauses; and poor project management including the inadequate consideration of the capabilities and role of supply chains to the delivery of projects.

Ai Group urges the Government to work closely with the construction industry and its supply chains alongside other stakeholders to improve the development and delivery of infrastructure projects.

### **Ai Group Recommends**

Maintaining the recent policy emphasis on housing and see the NSW Housing Strategy and the associated Housing 2041 vision as foundational elements in the improvement of the adequacy of the state's housing.

Blending the existing strategies with the initiatives relating to housing supply agreed to by the National Cabinet in August 2023.

Investment in the workforce capabilities required for an uplift in housing supply.

Working closely with business and institutional investors in pursuing the supply uplift.

Ai Group also supports the ambition agreed to by the National Cabinet of delivering a better deal for renters and we urge close consultation with individual and institutional landlords to ensure that an adequate supply of rental properties and the desired security of tenure can be achieved simultaneously.

That the Government ensures that Infrastructure NSW is adequately funded, that its integrity is maintained and that its advice is appropriately weighed in determining infrastructure needs and priorities.

That the Government adopts world's-best practice in relation to the ownership, operation and regulation of the State's infrastructure whether that be in relation to new infrastructure projects or in relation to the consideration of changes of ownership of existing infrastructure.

That the Government work closely with the construction industry and its supply chains alongside other stakeholders to improve the development and delivery of infrastructure projects.

## Lifting Productivity in both the Public and Private Sectors

A longstanding theme across Ai Group's policy contributions in all jurisdictions is that Australia's rates of productivity growth have slowed over the past two decades. They continue to edge lower and call for concerted action by governments and across the community.

Further productivity growth is central to our economic and social development. It finances improvements in real incomes; it allows us to achieve our social and environmental ambitions more effectively; and it widens the potential for advances in material and broader well-being.

Responsibilities for raising productivity are widely spread. Businesses, not-for-profits, employees, governments, and government agencies all have roles to play.

Ai Group urges the Government to build a larger focus on its contributions to productivity. This focus should be on the productivity of public sector agencies and on the impacts on productivity of regulation, taxation and procurement.

### **A more productive public sector**

Productivity appears have risen strongly in many parts of the in the NSW public sector. Improved and more efficiently delivered services are widely remarked upon. For the public sector, as with other organisations, this is journey that does not end and Ai Group encourages the NSW to set out a path for further progress.

### **Efficient regulation**

Whether achieved through improved regulatory design and harmonisation; more meaningful review; reduced paperwork; easier to use software; by making material easier to understand; or, all of the above, greater efficiency of regulation can make a big difference.

Improved regulatory arrangements have significant potential in contribute to improved productivity by reducing the compliance burdens that weigh down owner-managers and that tie up considerable resources in systems and running costs for larger organisations.

An emphasis on regulatory improvement would bear greater fruit if informed from the start by close consultation and discussion with those of the forefront of compliance.

#### *Housing regulation*

There are several regulatory barriers to the more efficient delivery of new housing and upgrades to the existing housing stock.

Ai Group urges the NSW Government to work with local governments, relevant state government agencies and the housing industry, including its supply chains to rationalise and harmonise regulation related to housing and to ensure local governments and agencies are suitably resourced to meet the challenges of increased housing supply.

This should extend to approaches to the processing of subdivision applications and development approvals and facilitating the greater use of modular buildings manufactured offsite.

The currently uncoordinated moves by Victoria and some local governments to ban new gas connections are creating unnecessary disruptions that can readily be avoided while remaining consistent with the ambition of making a fair contribution to the net zero target.

This and similar developments could be identified and addressed more coherently if the NSW Government worked closely with the housing industry and its supply chains to develop a roadmap to achieve a fair contribution to the net zero ambition.

### *Electrical product regulation*

Ai Group has for many years called on NSW to align its electrical product laws with the Electrical Equipment Safety Scheme used by other jurisdictions in Australia. The lack of product sell through and different certification arrangements required by NSW divert resources without any demonstrable safety benefit.

Ai Group commends the NSW Government's March 2023 final report on the Statutory Review of the Gas and Electricity (Consumer Safety) Act 2017 particularly the recommendation to address both of these issues. We encourage NSW to continue to consult with industry and the broader community and to liaise with other jurisdictions as these and other recommended changes are rolled out.

### *Workers Compensation*

In 2023/24, NSW workers compensation average premiums increased by 8%, from 1.46% of wages to 1.60%.

The majority of private employers in the state are required to obtain their workers' compensation coverage from the Nominal Insurer (icare). It is our understanding that icare was seeking to increase the average premium in 2023/24 by approximately 20%. Hence, Ai Group welcomed the Government's April 2023 direction to icare that "any premium rate increase should be limited to an average of 8% for each of the next three years".

However, any increase in premium has negative impacts on business earnings and the costs of adding to employment. The potential of further increases over coming years is a concern, particularly if icare has accepted that an 8% increase in each of the next two financial years is a definite outcome. This would take the average premium rate to 1.86% in 2025/26 and substantially add to organisation's payroll costs.

We acknowledge that icare is currently implementing a range of strategies for its Claims Service Providers to deliver better services to workers and employers with the ultimate aim of achieving better return to work outcomes. It is essential that the Government continues to monitor the progress of these changes and ensure that icare has in place strategies designed to minimise the need for the "permitted" increase in premiums over coming years.

### *Workplace relations*

A national workplace relations system governed by the Fair Work Act helps ensure employers and employees have clear entitlements and rules to follow, removing complexity, particularly for organisations with cross border operations.

Yet in recent years, the national system has been eroded as some state governments reassert a state role in regulating matters related to the conditions of engagement of employees and independent contractors.

The NSW Government has a lengthy workplace relations reform agenda which includes expanding the regulation of contract carriers (owner divers) through removing longstanding exemptions from the application of chapter 6 of the Industrial Relations Act 1996 (IR Act), introducing new workers compensation entitlements and obligations in relation to the 'Gig Sector', introducing portable long-service program, implementing a labour hire licensing scheme and implementing as so called "wage theft" laws.



Many of the proposals will overlap with current or proposed Commonwealth laws relating to workplace relations. It is essential that the State Government avoids duplication. We also urge the Government to hold firm to the national system and encourage other states to do so in the interests of a single national system.

Some of the proposals would risk visiting particularly pronounced adverse consequences upon industry and members of the community who rely upon it. For example, the simplistic removal of current exemptions from the IR Act that relate to contracts of carriage for the transportation of certain products would result in instruments that were never intended to apply to such work applying to businesses that currently do not operate under them. This would result in foreseeable disruption and adverse impact on key sectors or services, including, for example, the delivery of bread. It would also risk creating significant complexity in relation to the interaction between the NSW system and any newly established Commonwealth regulation of 'employee like' workers.

Similarly, caution must be shown in relation to any consideration of any new portable leave scheme for funded sectors, such as the disability or aged care sector. Whilst we would urge the Government to not proceed with such initiatives for a raft of reasons, we would particularly emphasise the need to not impose additional costs upon such organisations if such initiatives are not accompanied by additional and equivalent funding (through either Commonwealth schemes, such as the NDIS, or relevant State schemes). A contrary approach risks imposing an unsustainable burden upon already struggling organisations and impacting upon the delivery of services by such organisations to many of the State's most vulnerable people.

We urge the Government to continue to work closely with industry to avoid unintended consequences flowing from the implementation of any changes to the regulation of workplace relations.

### **Taxation**

Australia has seen a fresh breakout of inefficient and selective tax increases by various state governments. We urge the NSW Government not to follow this path and to avoid ad hoc tax levies on payroll. These levies add to the costs of employing people and worsen the overall inefficiency of the state's taxation arrangements. This builds on the already-high costs of taxation in NSW.

Taxation has an important role to play in lifting productivity. The most detrimental taxes should be removed, and the least detrimental taxes should be made to work well with low compliance costs and efficient administration.

In the near-term, any tax changes should have the objective of doing the least damage. Over the medium-term, the objective should be to ensure that NSW has the best tax arrangements in the country.

With the scope for unilateral action by the NSW Government limited, Ai Group encourages it to take a leadership position in the national taxation discussion aimed at improving Australia's taxation and intergovernmental financial arrangements.

### **Ai Group recommends:**

Continuing the NSW government's ambition of productivity improvement.

Promoting a more efficient public sector.

Pursuing efficient regulation with specific attention to:

- Housing regulation
- Electrical production regulation
- Workers compensation

Supporting measures to ensure a tax system more conducive to productivity advances.

## Energy, Climate and Waste

### Energy and Climate

NSW has opportunities but also serious challenges in energy and climate, with the timely delivery of needed new infrastructure particularly in focus at present. We suggest the following for consideration in Budget processes:

#### *Speeding energy buildout*

There are currently widespread concerns that the rate of progress on new energy projects is lagging well behind what is needed to replace ageing coal power stations in NSW and beyond. Even more new assets will be needed to support electrification and ambitions in new clean energy intensive exports. The existing policies for finance cost reduction (through the Electricity Infrastructure Roadmap) and social license (through REZ community benefit-sharing) are positive. But achieving this buildout in a full-employment economy without triggering major cost growth will also require the strong commitments to productivity-enhancing reform covered elsewhere in this submission.

Efforts to grow local supply chains for the energy industry are also important, but they need to be tested: do they help speed the delivery of energy infrastructure and lower long-run costs?

#### *Managing closures*

There here is speculation that Eraring, currently expected to close in 2025, may be extended given the slow progress on alternative infrastructure. Other closures might also move back. There are obvious drawbacks to this, given both the decreasing reliability of old generators and recent electricity price pressures driven in part by coal prices. However, it is equally obvious that assets should not close until the electricity system is ready. If the Government makes arrangements with generators to guarantee or support their operations for a period, Ai Group urges that these target availability (rather than requiring high actual output), and that the costs of any out-of-market arrangement are backed by the State rather than being passed on to energy users. Energy price pressures are already very high in NSW and across Australia.

#### *Building upgrades*

There is a long term need to upgrade NSW's built environment. Low emissions will require improved efficiency and reduced reliance on natural gas. Higher extreme temperatures underline the need for healthier safer buildings. Reducing individual and systemic energy costs entails higher energy performance. The NSW Energy Security Safeguard and peak demand reduction scheme are positive and funded by energy users themselves.

More tools will be needed to address rental properties (including tailored financial or tax incentives that hand off to standards over time) and public housing (which requires public spending).

Moves in Victoria's and by some NSW local government authorities to ban new residential gas connections lack adequate consideration of the broader implications of the sudden adoption of this change. Closer links need to be drawn between the need to ensure that electrification is of high quality, that electrical appliances are highly efficient and that the timing of this change consider the additional pressures on electricity networks and the transformation this imposes on existing supply chains and the employees involved.

### *Budget discipline on emissions decisions*

The expected fiscal Budget approach in NSW and Australia is to fully consider and set out the medium- and long-term fiscal implications of current decisions, including recognising any liabilities accrued. The same level of discipline is needed in relation to the carbon budget and its implications for the fiscal budget. Treasury guidelines for cost benefit analysis that incorporate a meaningful emissions value are a strong start. More consideration is needed of the future liabilities involved in negative emissions (essential to achieve net zero) and achieving a net negative emissions economy (increasingly essential to keep long-term temperatures below the Paris goals). Increased long-term reliance on large-scale engineered negative emissions will come at a substantial fiscal and resource cost which should be weighed in decisions on adoption and delivery of emissions targets and other matters.

### **Circular Economy**

While growth of waste generation has slowed slightly in NSW in FY2020-21 compared to FY2019-20 data and the resource recovery and recycling rates have slightly increased (1.3% and 1.4% respectively),<sup>2</sup> these figures are still significantly below the targets set in the NSW Waste and Sustainable Materials Strategy 2041. Given the steady resource recovery rate of core waste in the Commercial and Industrial (C&I) category, despite slightly lower waste generation, consideration should be given to the development of programs that help businesses identify opportunities to minimise waste generation, source separate their waste and enable better resource recovery.

Government procurement should also be considered as a method through which the NSW Government can enable more circular business practices and encourage suppliers to engage in the circular economy. More consideration should be given to repairability and maintenance costs, waste generation from product production and use phases, incorporated recycled content, and extended product lifespans, in addition to carbon emissions and embodied carbon.

### **Ai Group recommends:**

Promote productivity-raising reform to enable faster improved resource use in energy infrastructure delivery.

Carefully target any generator extension supports to availability and cover any costs from the Budget rather than from energy users.

Expand building upgrade supports relevant to rental properties and public housing, and ensure high efficiency and concertation in any electrification.

Extend Budget decision-making discipline further in climate decisions.

Support for businesses to minimise waste generation and maximise resource recovery in Commercial and Industrial category waste.

Consideration of targeted action to stimulate markets for local recycled products, including identifying cost gaps between recycled and raw materials and the barriers to use this creates.

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<sup>2</sup> National Waste data viewer: <https://www.dcceew.gov.au/environment/protection/waste/how-we-manage-waste/data-hub/data-viewer>

## About Ai Group

Australian Industry Group (**Ai Group**) is a peak industry association that has been representing business for 150 years. Along with our affiliates, we represent the interests of thousands of businesses across the nation, with over 1000 of them operating in NSW.

Our membership includes businesses of all sizes, from large international companies operating in Australia and iconic Australian brands to family-run SMEs. Our members operate across a wide cross-section of the Australian economy and are linked to the broader economy through national and international supply chains.

A for-purpose organisation, Ai Group is committed to creating a better Australia by empowering industry and employer success.

## Ai Group contact for this submission

**Helen Waldron | Head New South Wales | Head Member Relations**

The Australian Industry Group

E [helen.waldron@aigroup.com.au](mailto:helen.waldron@aigroup.com.au)

