

## 4. PRODUCTIVITY REFORM IN NSW

New South Wales has a highly productive economy that has shown exceptional economic performance and strong jobs growth, driven in part by the NSW Government's record investments in new infrastructure and services.

The Government is energising productivity growth by focusing on:

- modernising planning, licensing and regulatory systems
- supporting innovation by empowering the private sector
- investing in people by building skills across the workforce
- building economic infrastructure, including road and rail networks, and
- improving public services like health, education and transport.

The NSW Government has established the NSW Productivity Commission and appointed Peter Achterstraat AM as its inaugural Productivity Commissioner.

The Commissioner will drive the development of a whole-of-government productivity agenda, centred on four themes:

- making it easier to do business
- lowering the cost of living
- making housing more affordable, and
- making New South Wales the easiest place to move to.

The Government is making further progress on productivity reform, including a review of payroll tax administration, consulting with key stakeholders and crowdsourcing ideas from the public on improving regulation and cutting red tape, and working with other jurisdictions to drive productivity. The Commissioner is also implementing a new approach to regulation.

### 4.1 The strength of NSW productivity

---

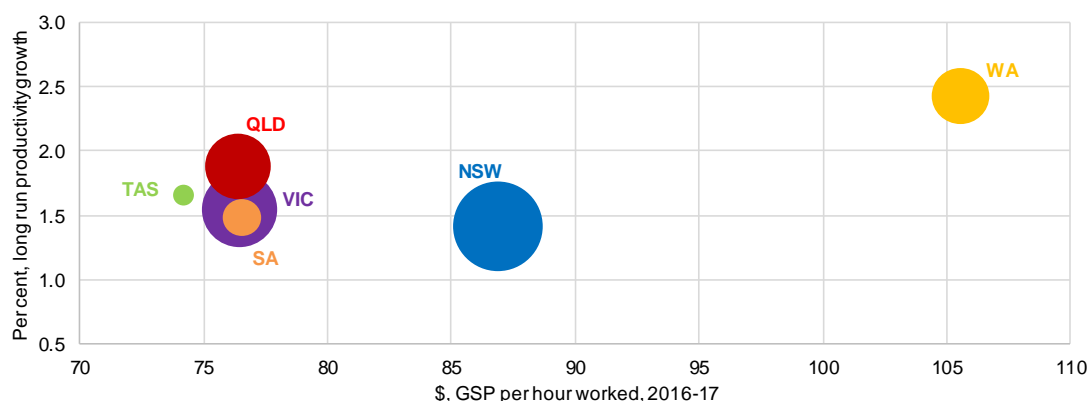
New South Wales has a strong economy, achieving above-national average growth over the past three years. Additionally, its strong labour market is responsible for near record levels of workforce participation.

The NSW Government has helped drive economic growth by investing in public infrastructure, providing education and training opportunities, and creating the conditions for business to thrive. A continued focus on productivity growth is essential to sustain economic performance over the longer term, ensure New South Wales continues to lead other states and territories, and prepare the next generation to compete successfully in the global economy.

Sydney is a centre of high tech, high skill, and value-adding manufacturing and services in Australia. Local firms combine technology and a highly-skilled workforce and are taking a leadership role in national and global value chains and markets. Their success stories demonstrate the capacity of New South Wales to foster the productive, innovative and competitive firms that are the State's economic future.

The NSW economy is highly productive, delivering greater Gross State Product (GSP) per hour worked than other states, with the exception of Western Australia, where results are skewed by a large mining sector (see Chart 4.1).

Chart 4.1: NSW productivity performance relative to other states <sup>(a)</sup>



Source: ABS 5220.0, 6202.0 and NSW Treasury

(a) Size of circle reflects relative size of the state economies

While New South Wales has a high level of productivity, our long-run average productivity growth has been relatively low compared to the other states. This suggests an opportunity for New South Wales to lift its future productivity growth rate and improve living standards further.

## 4.2 Improving living standards through productivity

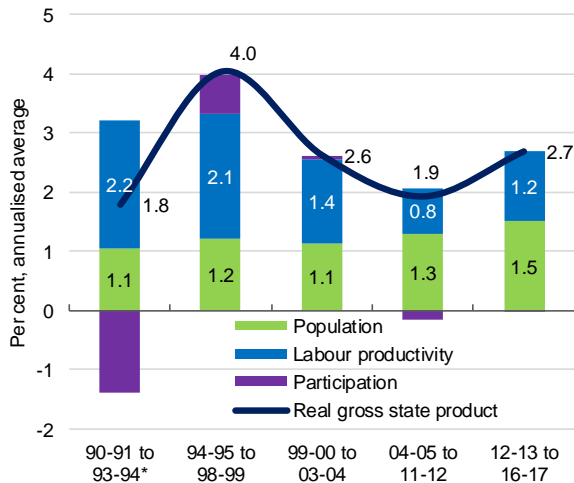
Productivity grows when businesses, workers and governments produce more with the resources at their disposal. For example, governments can help increase productivity by building transport infrastructure to help workers spend less time on the road and more time on productive activities. Businesses can increase productivity by using new technologies that help workers collaborate; whether they are sitting nearby, working at home or videoconferencing from a regional town. Increasing productivity is essential for ensuring that New South Wales remains the best place to live, work and do business.

Productivity drives jobs growth and wealth creation, and makes it possible for the Government to invest in services such as health and education, while caring for its most vulnerable citizens.

Economic growth in the long run is driven by productivity, population growth and workforce participation — the ‘three Ps’ that determine the size of the economic pie. Looking forward, participation is likely to be constrained by the effect of an ageing population. As more people retire, participation falls. The most sustainable way to improve future living standards as the population grows and ages is to raise productivity.

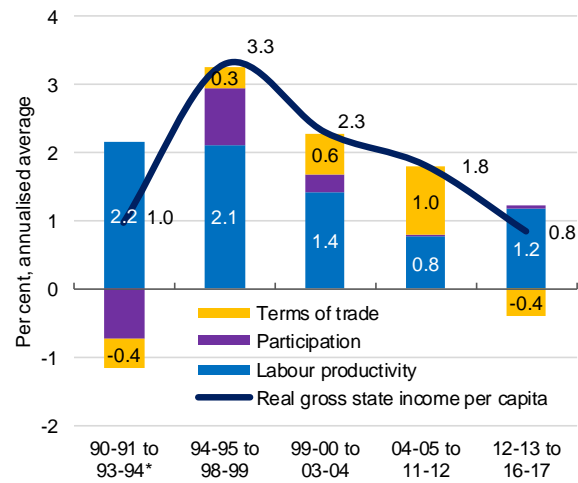
Chart 4.2 shows how productivity, population and participation have contributed to economic gains over recent years and how growth in per-capita income is driven by productivity growth. The terms of trade boom of the 2000s (due to higher export commodity prices) temporarily boosted purchasing power and allowed income growth to exceed productivity growth. However, the subsequent decline in the terms of trade, as commodity prices came off their peak, resulted in a noticeable slowing of real per-capita income growth in recent years, with labour productivity now the main contributor to growth. The New South Wales experience is mirrored nationally, as Australia adjusts to the end of the mining boom and looks to increase productivity growth to rates that followed the major microeconomic reforms of the 1980s and 1990s. The Productivity Commissioner has been appointed to ensure the NSW Government plays its part to further energise productivity and support continued growth in living standards.

Chart 4.2: The 3 P's of NSW economic growth and NSW real per capita income growth



Source: ABS 6202.0, 5206.0 and NSW Treasury

\* First cycle shortened due to State level data limitations



Source: ABS 6202.0, 5206.0 and NSW Treasury

\* First cycle shortened due to State level data limitations

## Productivity growth is essential for future generations

The 2016 NSW Intergenerational Report examined the State's economic and fiscal challenges to 2056. New South Wales' ageing population is expected to lead to declining workforce participation and put a drag on economic growth. A growing fiscal gap, in which revenue grows at a slower rate than expenditure, is projected if nothing is done. Additionally, increasing healthcare costs will become a major factor. Higher productivity growth can help narrow this fiscal gap. An increase in annual productivity growth rate of 0.2 percentage points a year would reduce the fiscal gap by around 1.0 percentage point.

The accelerating pace of market disruption is changing the nature of our workforce. This is reflected in a shift towards services-based industries and occupations that require more specialised skills and involve less routine work.

Making the right investments in the people of New South Wales is essential for supporting future productivity growth. The Government is investing in education and training so workers have the right skills as well as promoting the right economic conditions to allow businesses to grow and create jobs, unconstrained by unnecessary regulation (Box 4.1).

### Box 4.1: Investing in education and skills for the future

In 2017, the Australian Productivity Commission report, *Shifting the Dial: 5-year productivity review*, noted, "If we had to pick just one thing to improve ... it must be skills formation".

The Australian Government Department of Jobs and Small Business estimates that new service industry jobs will be the main driver of new employment created by 2022.

Ageing population and technological change will shape the future jobs market, with carers, health and business professionals, and managers in service industries expected to make major contributions to future employment growth.

The growth and prevalence of technologies such as artificial intelligence, the Internet of Things, and blockchain will significantly influence the skills required in all occupations. Improvements in the education and training sector must keep pace to ensure the labour market responds adequately to future challenges.

### 4.3 NSW Government is delivering on productivity reforms

The NSW Government is supporting productivity outcomes through investing in people; building infrastructure; creating the right regulatory environment to support innovation and competition; and reforming public services to focus on people and provide greater choice.

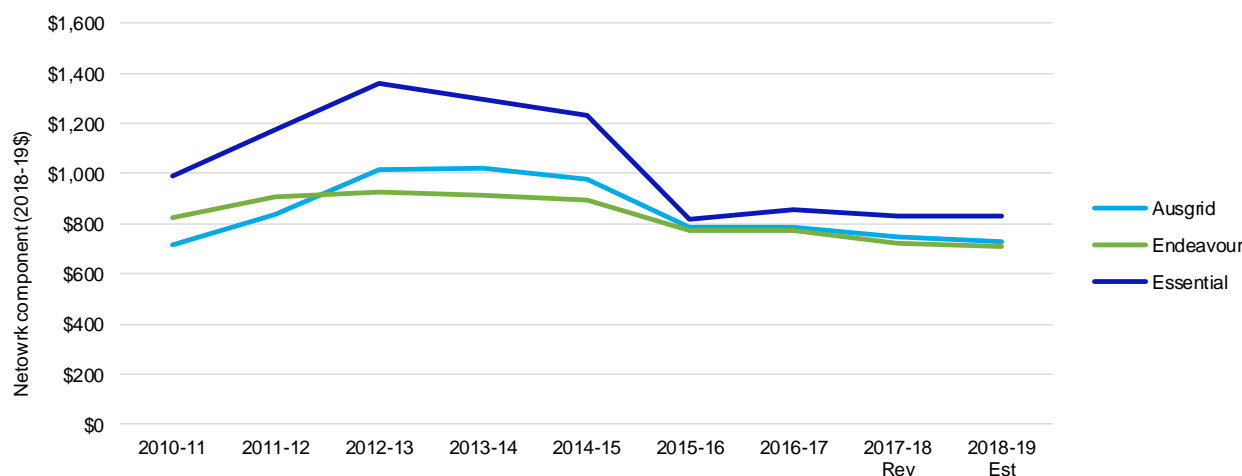
The Government has implemented a range of productivity reforms as outlined below.

#### Reforming government regulation and services

The way government regulates and operates services has a significant impact on cost of living for households. The Government has implemented a range of reforms to put downward pressure on prices. For example, reforms to the CTP Green Slip scheme illustrates outcomes that can be achieved through system-focused regulatory reform. Under the new scheme, the average price of a Green Slip has been reduced by around \$124.

Reforms to the electricity network reduced average network charges for residential customers. According to the Australian Energy Regulator, a typical Essential Energy residential customer will see network charges fall by around 40 per cent in real terms between 2012-13 and 2018-19, and average residential customer network charges in 2018-19 will be lower than they were in 2009-10 (Chart 4.3). While electricity generation, and wholesale and retail price increases have contributed to overall price rises in recent years, greater electricity network efficiencies have helped moderate these price increases.

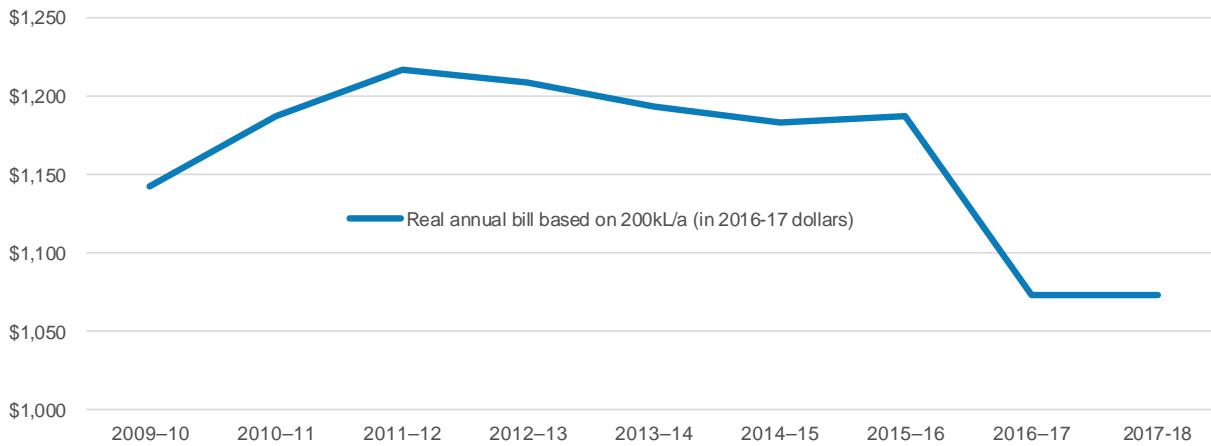
Chart 4.3: More efficient and lower cost electricity network in NSW<sup>(a)</sup>



Source: Australian Energy Regulator, NSW Treasury

(a) Estimated network component of a typical residential customer's bill over time adjusted for inflation (GST incl)

Productivity improvements have resulted in a 10 per cent decrease in real annual water bills for Sydney Water customers between 2015-16 and 2016-17 (Chart 4.4). This was the largest decrease among all major water utility groups nationally, with a typical household seeing savings of around \$100 per year. In recent years, Sydney has moved from having among the highest water and wastewater bills of any major city in Australia to the lowest.

Chart 4.4: *Efficiencies leading to lower bills for Sydney Water*

Through social impact investing (SII) governments, non-government organisations and private investors collaborate to deliver better services for the community, particularly for challenging social issues. SII drives productivity by rewarding service providers for achieving outcomes, instead of merely delivering services. A good example of this is the Newpin program, run by UnitingCare, which helps parents build positive relationships with their children, breaking destructive cycles of abuse and neglect. Newpin's rate of reuniting children in out-of-home care with their families is 63 per cent over the four years to 30 June 2017, compared with 19 per cent for comparable families not in the program. In this Budget, two new SII opportunities will be progressed to improve homelessness and Aboriginal employment outcomes.

The NSW Government has implemented a 25 per cent reduction to ten of the top parking fines when issued by State agencies. The Government will review all fines, excluding those that may impact road safety, as well as consider options for fixing confusing parking signs. (see Chapter 5 for more information)

### Implementing the housing affordability package

Making housing more affordable is a NSW Premier's Priority, and in June 2017 the Government announced a significant package of measures. The Government abolished stamp duty for first home buyers for properties valued up to \$650,000, reduced stamp duty on homes up to \$800,000, and abolished duty on lenders' mortgage insurance. To increase housing supply, the government expanded its Planned Precincts and committed \$3 billion to support infrastructure for new and growing communities, among other initiatives. In 2016-17, 63,410 homes were completed, surpassing the Premier's annual target of 61,000 home completions.

### Supporting businesses to thrive in NSW

As part of this Budget, the Government has announced that the payroll tax threshold will be increased progressively from its current level of \$750,000 to \$1.0 million by 2021-22. Approximately 5,000 firms that would have paid payroll tax will be exempt, avoiding both the tax itself and the associated administrative costs. Firms with a payroll greater than \$1.0 million will save up to \$13,625 annually from 2021-22.

Service NSW provides a one-stop-shop for people and businesses to make it easier to complete a wide range of personal and business transactions. Its service centres have a customer satisfaction rate of 97 per cent and average waiting time of 7 minutes. As part of the 2018-19 Budget, Service NSW has launched a cost of living service across the State – a tailored one-stop-shop aimed at reducing cost of living pressures for citizens by promoting rebates and incentives available across the NSW Government.

Small businesses have benefited from a reduction in red tape and duplication under the NSW Government's Easy to do Business pilot program via Service NSW. The Easy to do Business program has been successfully trialled in the cafe, restaurant and small bar sector in four local government areas in New South Wales. Through the pilot, start-up times for small businesses were reduced from 18 months to just three months, and the effort to access 48 separate forms was slashed by introducing a single portal.

Building on the success of the Easy to do Business pilots and under a new Project Agreement for Small Business Regulatory Reform agreed with the Commonwealth, the NSW Government has expanded and accelerated the roll out of the program, making it available statewide for small businesses in the cafe, restaurant and small bar, and the housing construction sectors.

Easy to do Business provides a digital platform for transacting with Commonwealth, State and local government to streamline the end to end journey of starting and operating a business. The program will deliver a range of services through the Easy to do Business online portal, with all regulatory requirements accessible in one place, notification reminders pushed to businesses and personalised support from Business Concierges.

In November 2017, the NSW Parliament passed the most extensive changes to the planning framework in almost 40 years, including enhancing community participation, streamlining local development processes, and strengthening councils' focus on strategic planning. These reforms introduced a faster and more flexible planning system. More consistent development control plans, the rollout of regional plans and the expansion of the NSW Planning Portal are some examples of productivity-enhancing changes to the planning system.

#### **Box 4.2: Worker compensation reforms improving productivity**

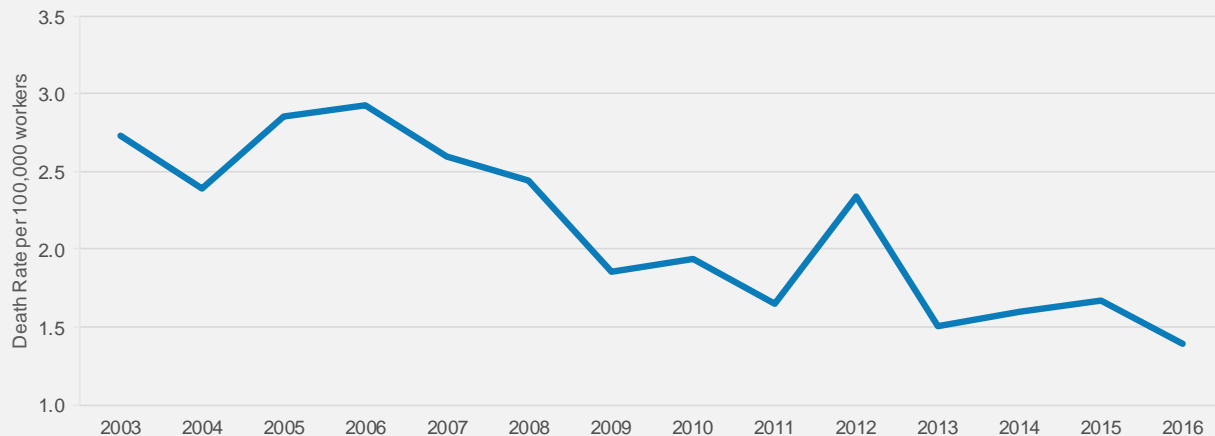
The latest SafeWork Australia data shows that NSW has become a safer and more productive place to work. Significant reforms made by the NSW Government since 2012 have led to a decline in the rate of injuries, particularly fatalities.

These reforms have provided greater support for seriously injured workers as well as improved services, reduced red tape, and workplace safety incentives for employers.

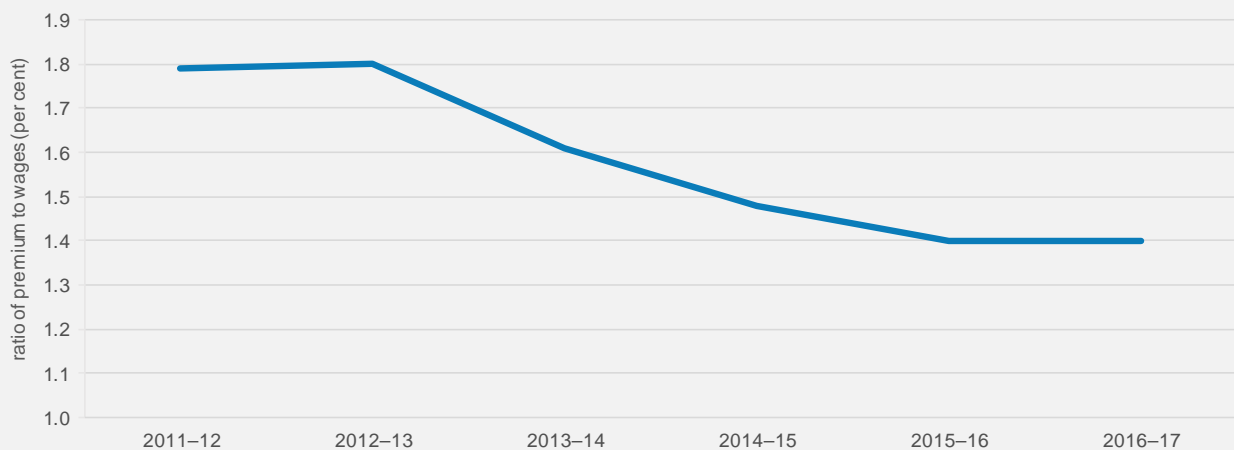
In the four years to 2016 (the latest data available) the rate of fatalities averaged 1.5 per 100,000 employees, whereas in the 10 years prior it averaged 2.4 – a 35 per cent reduction. The latest rate of 1.4 per 100,000 employees in 2016 is the lowest rate in New South Wales since Safe Work Australia began reporting in 2003.

The NSW Government reforms have created real incentives for businesses to encourage safe work practices. This has been coupled with reforms driving better support for returning injured workers to work. Supporting workers back into the workplace sooner has a positive effect on the individual, workplace, and wider community.



**Box 4.2: Worker compensation reforms improving productivity (cont.)***Chart 4.5: Worker compensation reforms improving safety and productivity*

Reforms have also resulted in a reduction in the costs of claims and premiums, which in turn means less strain on business, jobs and the workers compensation system. Workers insurance premium costs as a percentage of the total NSW payroll have been reduced from 1.8 per cent in 2011-12 to 1.4 per cent in 2016-17.

*Chart 4.6: Declining premium costs as percentage of total NSW payroll*

With the NSW Government's focus on safer workplaces, accidents are becoming less common. Importantly, it shows that productivity and safety are complementary and demonstrates that the Government is delivering on its commitment to make NSW a better place to employ people and a safer place to work.

**Investing in people and infrastructure**

As part of this Budget, the Government announced a record \$87.2 billion investment in infrastructure. This historic infrastructure pipeline would not have been possible without the Government's asset recycling program, which freed capital from "poles and wires" to invest in schools, hospitals, road and rail as well as other important infrastructure. This will contribute to productivity growth by reducing travel times and providing new and upgraded facilities and technologies to help improve outcomes for students and patients, among other benefits. Asset recycling also drives productivity growth by subjecting previously government-owned assets to the competitive pressures of the private sector, resulting in lower costs and better services for consumers.

Transport infrastructure investments in Sydney, including WestConnex, NorthConnex and the Sydney Metro will support productivity growth by providing better connections for commuters, reducing the cost of congestion, and supporting the development of new communities and town centres.

Record education expenditure along with a package of 100,000 fee-free apprenticeships and TAFE Connected Learning Centres and mobile training units will greatly improve educational outcomes, equipping students and workers for future job opportunities.

#### 4.4 Strengthening the productivity and regulatory reform agenda

The NSW Government has appointed Peter Achterstraat AM as Productivity Commissioner to drive microeconomic reform and improve the quality of regulation.

The Commissioner is helping to shape the Government's productivity agenda, and bringing a fresh approach to regulation as endorsed in the NSW Government's response to the Independent Review of the NSW Regulatory Policy Framework led by the Hon Nick Greiner AC (the Greiner Review). The Government acknowledges the importance of regulatory reform to productivity growth by assigning responsibility for both to the Treasury portfolio.

Progress on productivity reform cannot be driven by government alone. Identifying and implementing reforms that work requires engaging with business and the community. The Commissioner will consult with stakeholders to identify opportunities for reform.

##### Box 4.3: New steps in productivity and regulatory reforms

The NSW Productivity Commissioner and NSW Treasury, in partnership with agencies, are leading a range of reforms to improve regulation and productivity.

- **Review of payroll tax administration:** This review aims to identify opportunities to reduce the cost and burden of compliance. Payroll tax administration can be complex, especially for businesses operating in more than one jurisdiction. The NSW Business Chamber estimated that businesses in New South Wales typically incur an average \$10,700 in administrative costs over and above their payroll tax liability. The initial areas of opportunities identified in the review relate to education and guidance for taxpayers, payment processes, transparency on audits and payment plans for outstanding liabilities. The Review is expected to be finalised in the second half of 2018.
- **Feedback mechanism on NSW regulations:** The Commissioner has established an online portal called *Your feedback: help cut red tape*, where individuals and businesses can offer ideas on improving regulation and reducing red tape. The feedback will help to prioritise the Commissioner's efforts to improve the quality of regulation and remove unnecessary costs from the system.

#### Implementing a new approach to regulation

Thoughtfully designed and appropriately applied regulation can promote economic growth, social welfare and environmental protection.

The NSW Government has, in its response to the Greiner Review, committed to developing a modern, best-practice approach to regulation. The Productivity Commissioner will consider the recommendations included in the Final Report of the Greiner Review and advise Government on the best way of implementing a new regulatory policy framework for New South Wales.

The Greiner Review noted New South Wales has a significant stock of regulations comprising more than 880 Acts over 26,800 pages. Red-tape reduction targets have been used to help simplify legislation and reduce the regulatory burden, but more remains to be done.



The Greiner Review proposes that government agencies act as stewards in managing the existing stock of regulations and improving the design of regulations to come. Under a stewardship approach, agencies monitor regulatory regimes in consultation with businesses and communities. This information is then used to prioritise reviews and propose changes.

Under a stewardship approach, agencies are more empowered to be proactive when it comes to managing their stock of regulations. A regulatory stewardship approach is also at the heart of the policy cycle, comprising service design, delivery and improvement. It requires rethinking the 'regulation first' approach, departing from reliance on prescriptive rules, focusing on desired outcomes and examining other options to influence behaviours.

Good regulatory stewards, as proposed by the Greiner Review, focus on their customers, which involves an ongoing conversation with those affected or protected by regulation and making adjustments in response. Regulation should be designed flexibly, informed by robust policy analysis and impact evaluation. This approach puts people at the centre of the regulatory process. It may also include evaluating data derived from testing different regulatory approaches and incrementally changing the design of regulation.

## 4.5 Priority areas for productivity reform

The NSW Government has identified four initial priority areas of focus for the Productivity Commissioner. These will form the basis of stakeholder consultation and collaboration and will open an informed conversation on productivity-enhancing reforms.

### Lowering the cost of living

Lowering the cost of living is a priority for the NSW Government. Improving productivity through producing goods and services more efficiently, and putting downward pressure on prices through competition and choice can contribute to lowering prices.

The Commissioner will work with relevant agencies to engage with the community and business sectors to identify areas where competition can be improved, government enterprises can become more efficient, and unnecessary regulation can be removed to reduce the cost of goods and services.

### Making it easier to do business

Business drives the State's economic future and the Government's role is to provide the best possible conditions for businesses to innovate, create jobs, and deliver goods and services as efficiently as possible. The State's school and vocational education and training systems play a vital role in educating and training people to be job ready for businesses operating in a changing economic environment.

Unnecessary regulatory barriers, costs and complexity make it harder for businesses to operate and adapt to a modern economy characterised by market disruption and rapid change. The NSW Business Chamber has estimated that businesses spend more than \$10 billion every year complying with regulations across all levels of government. The Commissioner will work with agencies across government to tackle business regulation.

Rolling out the Easy to do Business program state wide for small businesses in the cafe, restaurant and small bar, and the housing construction sectors is a tangible example of how the Government is reducing the burden of meeting regulatory requirements.

## Housing affordability

Expenditure on housing in New South Wales comprises around 20 per cent of average weekly household expenditure on all goods and services. Housing is also the most significant source of household wealth. Due to these differing functions, higher house prices directly increase wealth for home owners while significantly impacting the cost of living and quality of life for renters and prospective home buyers.

Engaging with industry and community stakeholders will help identify opportunities to improve housing market productivity and responsiveness, which will in turn improve housing affordability. This could include measures that improve flexibility and clarity in the planning system and explore new opportunities such as Build to Rent (see Box 4.4).

### **Box 4.4: Investigating Build to Rent in New South Wales**

The Build to Rent sector represents a new direction for the property market in New South Wales. This nascent sector has the potential to improve security of tenure and customer service for renters by supplying new housing designed and held specifically for long term rental use.

To facilitate the sector, the Government has been seeking industry feedback and exploring possibility of making regulatory changes. The Build to Rent Working Group, overseen by Property NSW and comprising government and sector representatives, found that planning and tax reforms could help accelerate the development of the Build to Rent sector. These reforms could increase the scale of the Build to Rent sector in New South Wales, and in doing so could provide more choice and stability for renters, and increase the speed of new housing supply. Government will consider this industry feedback as it assesses options for reform.

## Making NSW the easiest state to move to

For New South Wales to fully benefit from access to national markets, there needs to be a reduction in unnecessary barriers to the movement of workers and businesses. State productivity can be improved by the flow of workers with skills and abilities to address potential workforce shortages, and by profitable and productive businesses expanding and moving into New South Wales from other jurisdictions. Barriers to workforce and business movement include relative levels of housing affordability, occupational licensing requirements, business conditions, and the financial costs of getting established in a new location.

In identifying areas for reform, the Commissioner will engage with businesses and the wider community regarding regulatory 'pain points'. An initial priority is to work with other jurisdictions to potentially expand the list of mutually recognised occupation licences, registrations and qualifications.

## **Contributing to the national productivity reform agenda**

In 2017, the Australian Productivity Commission released *Shifting the Dial: 5-year productivity review*. This report discussed the scope for reform across well-known drivers such as education, taxation, land-use planning, competition and road transport pricing. It also discussed reform to aid better health service delivery, and using data to drive consumer choice. State governments are involved in most of these reform opportunities. The Commissioner will explore opportunities to progress a broader national microeconomic reform agenda with other jurisdictions and through forums such as the Council on Federal Financial Relations and the Board of Treasurers (BOT).

The NSW Treasurer led the formation of the BOT to work on policy areas that solve common issues (see Box 5.4 in Chapter 5 of this *Budget Statement*). The BOT is developing a joint agenda for productivity-enhancing reforms.