

Planning for Prosperity

Economic and Fiscal Priorities for NSW



October 2008

Planning for Prosperity

The NSW Liberal/Nationals Coalition's Economic and Fiscal Priorities

The NSW Liberal/Nationals Coalition believe that the effective management of the NSW economy and State budget needs to be based on a clear set of economic goals and fiscal commitments.

These goals and commitments are vital to guide government's planning and decision-making, especially in the delivery of essential services and infrastructure. Without these the government risks proceeding without purpose.

It is through a strong economy and disciplined budget that governments are able to deliver high quality services and infrastructure in areas like health, education, transport and policing. Ultimately this strengthens community well-being and environmental sustainability and improves people's quality of life.

The case for a solid economic and fiscal framework has only been made stronger by the international financial crisis.

On Friday 31 October 2008 the NSW Liberal/Nationals Coalition launched Planning for Prosperity and commenced a consultation process that will provide the NSW community with an opportunity to contribute to the further development of the Coalition's economic and fiscal priorities.

The consultation process is structured around the NSW Liberal/Nationals Coalition's proposed four economic goals and four fiscal commitments. The outcome of the consultation process will be the detailed economic and fiscal policies that we will implement in government.

Our economic goals are our long-term objectives for the NSW economy. They are aspirational in nature and embody a vision for the NSW economy. Each one is underpinned with measurable targets and provides strategic direction for every budget. They are:

- **NSW to lead Australia in sustainable economic growth;**
- **NSW to be Australia's 21st century state;**
- **NSW to be Australia's first place to do business; and**
- **Regional NSW will be a place of equal opportunity.**

Our fiscal commitments describe our approach to the budget process. They set clear rules and parameters around government expenditure and revenue, and more generally how we do business. They are:

- **Maintaining the AAA Credit Rating;**
- **Ensuring expense growth will be less than, or equal to, revenue growth;**
- **Restoring and enhancing the level of front line services; and**
- **Ensuring all Cabinet ministers will be accountable for fiscal direction and infrastructure delivery.**

Good policy is not developed behind closed doors. It is developed in close consultation with the community, business sector and other stakeholders.

The NSW Liberal/Nationals Coalition wants to hear your thoughts and contributions on our economic goals and fiscal commitments including:

- Which goals and commitments you support and why?
- Which of the goals and commitments deserve the greatest priority?
- What policies will help us achieve our goals and commitments?
- What are the barriers and drivers to the achievement of these goals and commitments?
- How do we 'future proof' the NSW economy?
- Should we be considering alternative models of government financing such as infrastructure financing?

To provide some direction to your input, a more detailed description of each of these economic goals and fiscal commitments is provided in the attached paper.

It should also be noted that since the 2007 State Election the NSW Liberal/Nationals Coalition has announced a range of policies that relate to our future fiscal approach. These policies will be incorporated into this consultative process.

From January 2009 we will be hosting a series of public and stakeholder meetings to obtain your feedback and input on our economic goals and fiscal commitments. The dates for these meetings will be published on our website and in the media.

Alternatively, written submissions can be made via email or posted to the following address:

**Planning for Prosperity
C/- Office of The Leader of the Opposition
Level 10
Parliament House
Macquarie St
SYDNEY NSW 2000**

Email: submission@planning4prosperity.net.au

The consultation process will be led by Mike Baird, NSW Shadow Treasurer, and Greg Pearce, Shadow Minister for Financial Management and Housing Strategy, Shadow Minister for Industrial Relations and Shadow Minister for the Illawarra

The closing date for submissions is Tuesday 31 March 2009. Further details are available at www.startthechange.com.au/planning4prosperity.

Frequently Asked Questions

Who can make a submission?

The NSW Liberal/Nationals Coalition believe that policy should be developed in close consultation with the community and business. We welcome submissions and comments from individuals, businesses, Local Government or any other organisation.

Will my submission become policy?

The NSW Liberal/Nationals Coalition will consider every submission that is put to us. Not all submissions will become policy; however, the contributions made will all inform our final policy mix.

What are the outcomes of the consultation process?

The consultation process will deliver a range of ideas about how we can inform, prioritise and achieve our economic goals and fiscal commitments. These will be incorporated into our policy agenda that we will implement in government in 2011.

Is this just an open invitation for ideas?

No. The consultation process is structured on clear economic goals and fiscal commitments. Your submissions should either provide direct feedback on these, or provide ideas on how we can achieve these in government.

When will the outcomes of the consultation process be made public?

The concepts the NSW Liberal/National Coalition adopts as policies will be announced in advance of the NSW State election.

What happens to previous submissions made to the NSW Liberal/Nationals Coalition?

Many individuals and organisations have already provided us with their ideas on economic and fiscal priorities. We will be incorporating all of these into the consultation process.

What about ideas that do not relate to the economy or fiscal strategy?

This specific consultation process is focussed on our economic and fiscal priorities. If you have ideas in other areas please feel free to write directly to either Barry O'Farrell, Andrew Stoner or the relevant Shadow Minister.

Can I just have my say?

Yes. Submissions do not have to be written. From January 2009 we will be hosting a series of public meetings to obtain your feedback and input on our economic and fiscal priorities. The dates for these meetings will be published on our websites and in the media.

What if I have more questions?

Any questions can be directed to submission@planning4prosperity.net.au

Goal 1: NSW to lead Australia in sustainable economic growth

Economic growth is important to the people of NSW because it promotes a better quality of life through increased job security and disposable income.

Economic growth enables the government to provide a higher standard of services and infrastructure. Ultimately this strengthens community well being and environmental sustainability and improves people's quality of life.

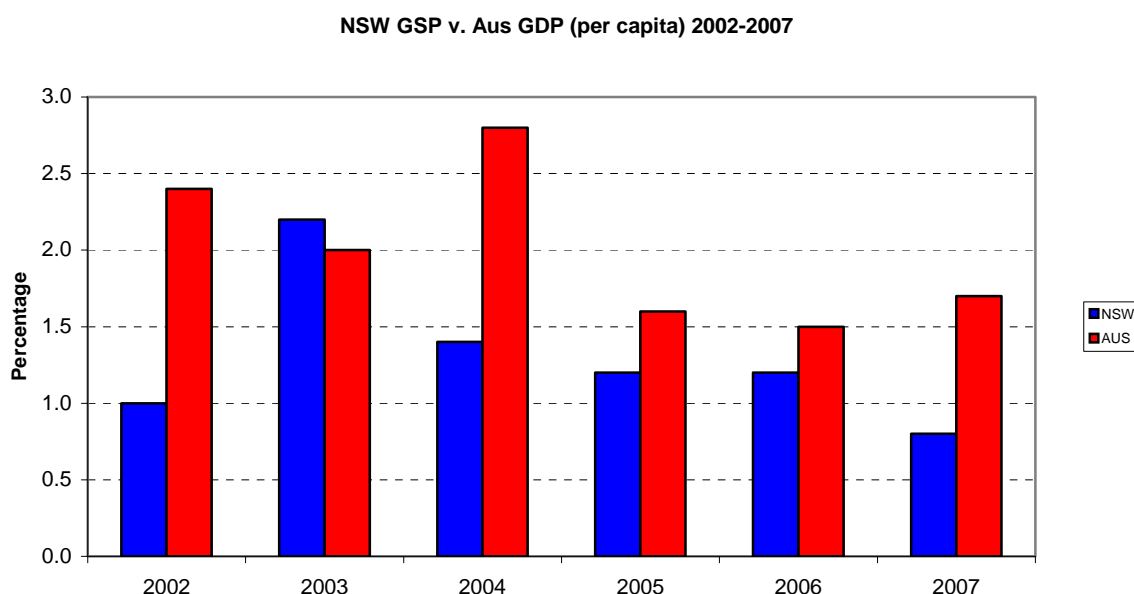
The NSW Liberal/Nationals Coalition believe NSW should lead Australia in terms of sustainable economic growth. Our long-term targets against this goal are:

- NSW to return to a level of GSP growth equal to or above the national average; and
- NSW to have an unemployment rate below the national average.

Background

For the past decade NSW has lagged behind other Australian states in terms of economic growth. In the financial years 2004/05, 2005/06 and 2006/07 NSW had the second lowest economic growth rate of any Australian state or territory, and NSW has not recorded an economic growth rate higher than the national average since 2002/2003¹.

NSW's economic growth rate has fallen significantly over the past decade, and by considerably more than the rest of Australia. From June 1998 to June 2007 the national average fall in GSP per capita was 1.7% and NSW fell by 2.6%².



Source: Australian Bureau of Statistics, Australian National Accounts: State Accounts, 2006-07

The 2008/09 NSW Budget predicts that the economy will likely face greater challenges than other states in the year ahead due to our high exposure to interest

¹ Australian Bureau of Statistics, Australian National Accounts: State Accounts, 2006-07

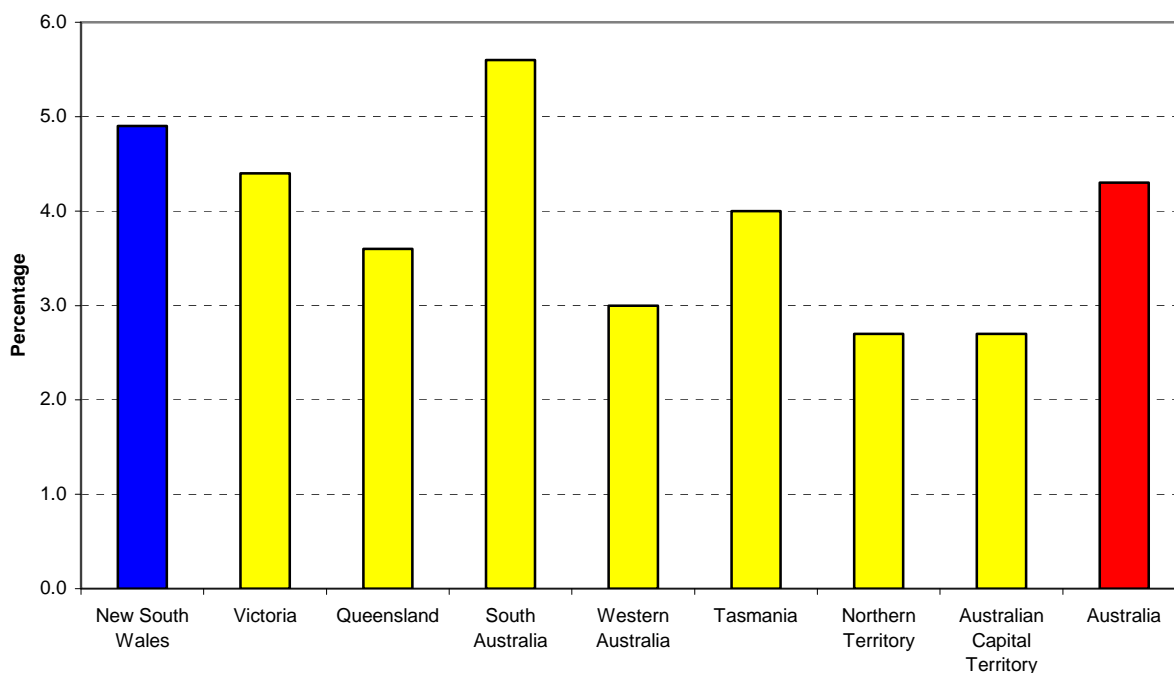
² Ibid

rates and reliance on services industries rather than resource industries. NSW Treasury has already revised projected GSP growth for 2008/09 down from 2 per cent to 1.75 per cent³.

NSW has also performed poorly in terms of unemployment. The NSW unemployment rate stands at 4.8 per cent compared with a national average of 4.3 per cent.⁴

Over the past 12 months 75 per cent of all new full-time jobs were created outside NSW, and the growth rate of employment for NSW in 2005 was 1.4 per cent, the second lowest of any Australian State.⁵

Unemployment Rates in Australia September 2008



Source: Australian Bureau of Statistics. Labour Force Australia, September 2008

Possible Policy Directions

To provide some guidance, potential policy directions we believe will ensure NSW leads Australia in terms of sustainable economic growth include:

- Ensuring NSW and in particular Sydney enhance key strengths and strong market positions in the services sector in Australia and Asia.
- Encouraging the development of new growth industries via proactive policies by encouraging businesses to establish in NSW and reducing the cost of doing business in NSW.
- Ensuring export industries remain efficient, vibrant and globally competitive.
- Driving sustainable, local growth in Sydney's growth corridors.

³ NSW Treasury, Budget Management Committee (August 2008)

⁴ Australian Bureau of Statistics, Labour Force Australia, September 2008

⁵ Kickstart NSW, Australian Business Limited, 2006

- Investing in, and ensuring, the timely delivery of critical infrastructure, including consideration of new funding models.
- Focusing the activities of government and ensuring the delivery of services is more cost effective through red tape reduction.
- Investing in our people by strengthening the education and skills of our workforce.

Goal 2: NSW to be Australia's 21st Century State

NSW should be Australia's future economy. This means developing a highly skilled workforce and investing in the industries that will drive job creation in the 21st century.

The NSW Liberal/Nationals Coalition believes NSW should lead Australia through the 21st century. Our long-term targets against this goal are:

- Development of individual industry Action Plans for designated 'future industries' with clear targets;
- 90 per cent of young adults attaining a Year 12 or equivalent qualification (Certificate III Level or Higher).

Background

Much of Australia's recent economic growth has been driven by the mining boom, particularly in Western Australia and Queensland.

NSW needs to build its own future. We need to invest in and promote industries that will be the growth industries of tomorrow. For example, knowledge-based business services, information communications and technology (ICT), renewable energy and environmental technology, supply chain management and logistics, tourism and creative industries.

Sydney is already Australia's financial services, property and business services capital. However we need to fight harder to maintain this competitive advantage. For example London has its own Economic Development Office and implements an annual Action Plan to maintain its pre-eminence as Europe's, and one of the world's major financial centres.

With the current uncertainty in global financial markets NSW also needs to diversify its employment base. Currently 25 per cent of the workforce is employed in financial services, property and business services capital⁶.

The NSW Liberal/Nationals Coalition will work with the community to appropriately define 'future industries'. We will then develop industry specific action plans with clear targets.

Other countries have already started to vigorously pursue new industries. US Presidential Candidate, Barack Obama, has committed to creating 5 million new 'Green Jobs'. He plans to harness the United States' highly skilled manufacturing workforce to pioneer the first wave of green technologies.

A highly skilled workforce is critical to making NSW a future state. There is a strong, long-term relationship between the level of education and training of the workforce and its economic performance.

The ABS reports that across Australia there are 184,400 job vacancies, including a record 56,500 in NSW⁷. Key areas of shortages include trades such as engineering, childcare and electrical trades⁸.

⁶ www.business.nsw.gov.au/aboutnsw

Currently young people in NSW are generally less likely to have finished Year 12 or an equivalent qualification (Certificate III or higher) than their counter parts in Victoria, Queensland and the ACT.

Persons (%) aged 20-24 years with Year 12 or equivalent qualification, 2006

	19 y.o	24 y.o	20-24 y.o
NSW	70.4	74.6	73.8
VIC	74.4	78.3	78.2
QLD	73.6	74.5	74.6
SA	66.2	71.5	70.6
WA	68.6	71.3	71.2
TAS	62	67.2	67.2
NT	41.1	52	47.2
ACT	81.2	84.9	84.2
Aust	71.3	74.8	74.4

Source: Australian Bureau of Statistics, Census of Population and Housing (2006)

The NSW Liberal/Nationals Coalition believes that 90 per cent of young NSW adults should attain a Year 12 or equivalent qualification (Certificate III Level or Higher). Whether it is obtaining an apprenticeship or a High School Certificate this will stand them in good stead for the future. This goal has been advocated by a range of stakeholders including the Australian Industry Group and Dusseldorp Skills Forum⁹.

Possible Policy Directions

To provide some guidance, potential policy directions that we believe will ensure NSW becomes Australia’s 21st century state include:

- Ensuring NSW and in particular Sydney enhance key strengths and strong market positions in the services sector in Australia and Asia.
- Providing innovative start-up businesses with the flexibility to enter new markets.
- Driving sustainable, local growth in Sydney’s growth corridors.
- Encouraging the development of new growth industries via proactive policies by encouraging businesses to establish in NSW and reducing the cost of doing business in NSW.
- Focusing the activities of government and ensuring the delivery of services is more cost effective through red tape reduction.
- Investing in our people by strengthening the skills of our workforce. For example, by introducing measures to make it easier for companies to provide apprenticeships as well as funding for additional apprenticeships.

⁷ Swan’s false economy, NSW Chamber of Business, 6 June 2008

⁸ Overview of demand for professionals, associate professionals and managers New South Wales – January and August 2008, Labour Economics Office New South Wales

⁹ It’s Crunch Time, Raising Youth Engagement and Attainment, Australian Industry Group and Dusseldorp Skills Forum, August 2007.

Goal 3: NSW to be Australia's first place to do business

NSW should be the best possible location for business to grow and for people to invest and create wealth.

The NSW Liberal/Nationals Coalition believes NSW should be Australia's first place to do business. Our long-term targets against this goal are:

- NSW to have a taxation rate lower than the national average;
- An aggressive reduction of existing regulation and a 'One-on, One-off' approach in future government regulation

Background

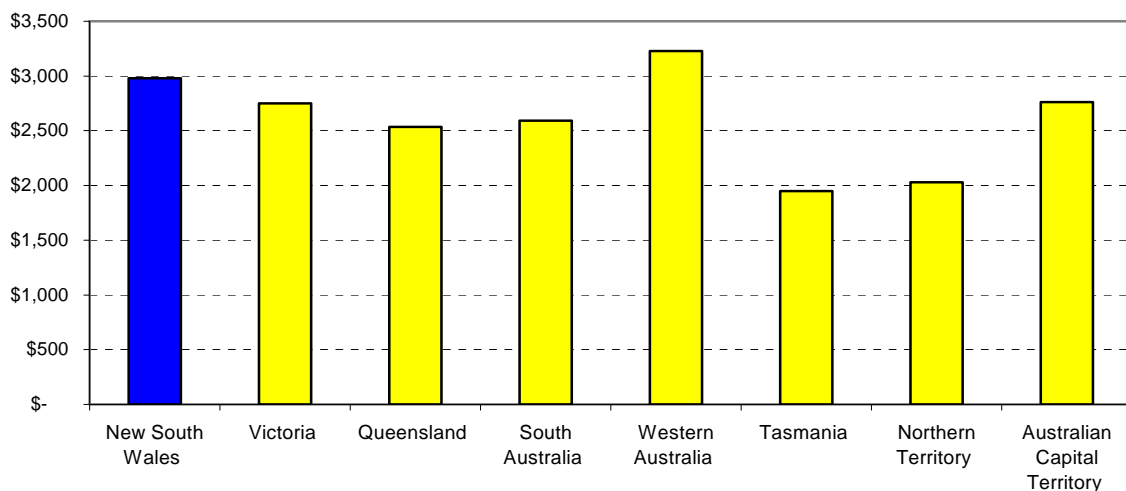
NSW needs to offer businesses an environment that gives them a competitive advantage against other businesses from inter-state. This starts with lower taxes and less red tape.

NSW is the second highest taxed state in Australia, after Western Australia, which has benefited from record mining royalties. Moreover, for the three-year period 2001/02 - 2004/05 NSW was the highest taxing State in Australia.

To put this in context a NSW business with 20 full-time employees paid 175 per cent more in payroll tax than a similar sized business in Queensland, and a NSW business with 40 full-time employees paid 15 per cent more in payroll tax than a similar sized business in Victoria.¹⁰

Taxes and charges on NSW land can be up to \$150,000 of which the State Government receives \$80,000. This compares to \$15,876 in QLD and \$22,702 in Victoria¹¹.

State Taxation Per Capita 2006-07



Source: Australian Bureau of Statistics, Taxation Revenue, Australia, 2006-07

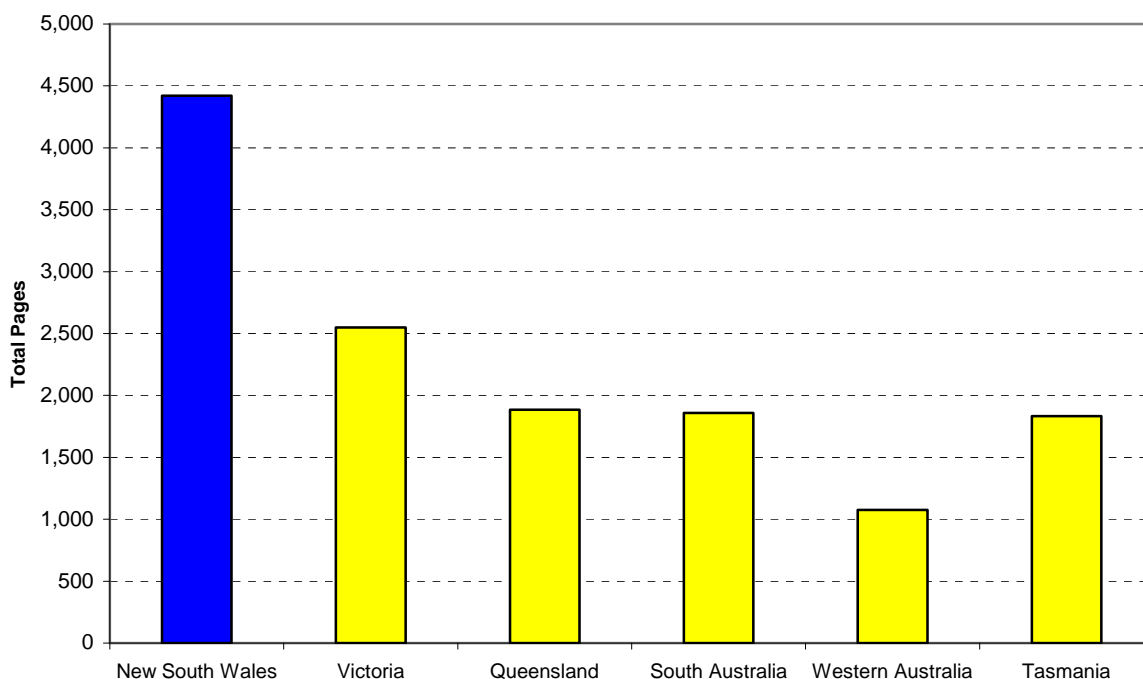
Importantly, to the extent that reducing the taxation rate stimulates economic growth it can increase taxation revenue.

¹⁰ Kickstart NSW, Australian Business Limited, 2006

¹¹ Boulevard of Broken Dreams, NSW Property Council, January 2007

Red tape refers to the quantity of regulation with which a business must comply. This increases the cost of doing business. In the last year (FY 2006/07) red tape in NSW has grown faster than any other Australian state.

No. of New Regulatory Instruments and Pages (FY 2006/07)



Source: Australian Government Productivity Commission

The NSW State Chamber of Commerce estimates NSW businesses spend around 200 hours per annum filling in forms and complying with regulations. This means precious time wasted for hard-working business operators¹².

In 2005 Australian Business Limited commissioned a national survey of 1800 businesses and asked them to rate the impact of the State's regulatory system on doing business. NSW performed the worst¹³.

Possible Policy Direction

To provide some guidance, potential policy directions we believe will ensure NSW becomes Australia's first place to do business include:

- Developing firm red tape targets, creating strong incentives for the public sector to achieve them and performance monitoring.
- Developing an annual report on red tape that independently measures and reports on the regulatory burden imposed upon businesses in NSW.
- Reforming the planning and approvals process;
- Eliminating the duplication between Commonwealth and state jurisdictions.
- Harmonisation of rules and regulations between state jurisdictions.

¹² NSW Chamber of Commerce (2005), *Time to go to War on Red Tape*, Media Release 25/10/2005

¹³ Australian Business Limited, *NSW Mid-Term Report* (March 2005)

Goal 4: Regional NSW to be a place of equal opportunity

People living in regional NSW deserve to share in the opportunity for growth and economic prosperity on a similar basis to those living in metropolitan areas.

The NSW Liberal/Nationals Coalition will close the gap between metropolitan and regional economies by offering more economic opportunities in regional NSW. Our long-term targets against this goal are:

- Closing the gap between metropolitan and regional unemployment rates; and
- Closing the gap between metropolitan and regional income per capita.

Background

NSW suffers from a two-tiered economy. There is a clear gap between regional and metropolitan areas, in terms of basic measures of economic well-being.

For example:

- The average taxable income of people living in regional NSW was \$17,401, or 35 per cent lower than of those in Sydney¹⁴.
- The unemployment rate in regional NSW in 2007 was 1.7 per cent higher than that in Sydney, at 6.3 per cent¹⁵.
- The ten state electorates with the highest proportion of people earning less than \$500 per week lie outside Sydney, Newcastle and Wollongong¹⁶.

Proportion Earning < \$500pw		Ranking by Unemployment	
Rank	Electorate	Rank	Electorate
1	Oxley	1	Oxley
2	South Coast	2	Cabramatta
3	Myall lakes	3	Clarence
4	Clarence	4	Coffs Harbour
5	Tweed Heads	5	Lismore
6	Port Macquarie	6	Fairfield
7	Bega	7	South Coast
8	Coffs Harbour	8	Tweed Heads
9	Lismore	9	Liverpool
10	Ballina	10	Newcastle

Source: NSW State Electoral Districts Ranked by 2001 Census Characteristics, 2007

These metrics are often a proxy for gaps in basic services. There is strong evidence that people living in regional NSW have less access to health services, achieve lower educational outcomes and experience the highest levels of crime.

A central theme in closing the gap will be the sensible devolution of the administration of State Government services to the local level.

¹⁴ Australian Bureau of Statistics, NSW Regional Statistics (2007)

¹⁵ Ibid.

¹⁶ NSW State Electoral Districts Ranked by 2001 Census Characteristics, NSW Parliamentary Library Research Service, 2007.

The gap in economic performance also contributes to the differences in population growth rate. In 2007, the population growth rate in regional NSW was only 0.1 per cent, compared to Sydney with 1.3 per cent¹⁷. This exacerbates the challenges both Sydney and regional NSW face in planning for the future.

Possible Policy Directions

To provide some guidance, potential policy directions we believe will help close the metropolitan and regional gap include:

- Encourage the decentralisation of metropolitan-based businesses or the creation of new businesses in regional areas.
- Encourage the growth of new industries in regional areas, through targeted incentives.
- Reduce the cost of working in decentralised locations by improving communication and transportation infrastructure.
- Devolving the responsibility of the administration of State Government services to the local level.
- Improving basic essential services and infrastructure to make regional NSW a more attractive place to live and do business.

¹⁷ Australia Bureau of Statistics, Regional Population Growth Australia.

Fiscal Commitment 1: Maintaining the AAA Credit Rating

The NSW Liberal/Nationals Coalition will retain the State's AAA credit rating.

After 13 years of Labor Government, NSW is currently on a negative ratings outlook, with a one-third chance that our credit rating will be downgraded¹⁸. This is despite record levels of revenues.

Ratings agencies attribute the negative ratings to uncertainty surrounding NSW's other credit metrics, specifically, the:

- *Reduced fiscal flexibility to cut or delay capital spending in an environment of strong voter sentiment that infrastructure is in poor condition, and concerns that it is affecting the State's economic capacity.*
- *Potential upside risk to the State's expenditure projections, reflecting the negative impact on the operating position of a weakening economy; historical difficulty in containing operating costs within budget; upside risk to capital spending from expectation for a number of "large" but not yet budgeted projects; the ability of the Government to wind back the capital program beyond 2012¹⁹.*

These comments are a direct reflection on Labor's economic mismanagement. Despite enacting the *Fiscal Responsibility (FRA) Act 2005* as a statement on the Government's fiscal sustainability, Labor has consistently breached its own targets.

Moreover, the Labor Government's failure to meet these basic fiscal targets will cause future budgets to be significantly in debt. It is projected that NSW's debt in 2012 will be \$42 billion, almost triple the level of debt in 2006. This equals approximately \$20,000 per NSW household of debt.

A NSW Liberal/Nationals Coalition will retain the AAA Credit Rating. We will engage in prudent borrowing for essential and productive infrastructure. We will adhere to a key target ratio of Net Financial Liabilities verse Operating Revenue for the Total State Sector and have a regular dialogue with ratings agencies.

We will also work in close consultation with the private sector to develop effective new models for infrastructure financing which deliver the most efficient outcomes without compromising the taxpayers' interests.

Our commitment to the AAA Credit Rating will also be supported by our second fiscal commitment to ensure that expense growth is less than or equal to revenue growth. This will ensure future budgets are sustainable.

¹⁸ Standard & Poor's 23 September 2008

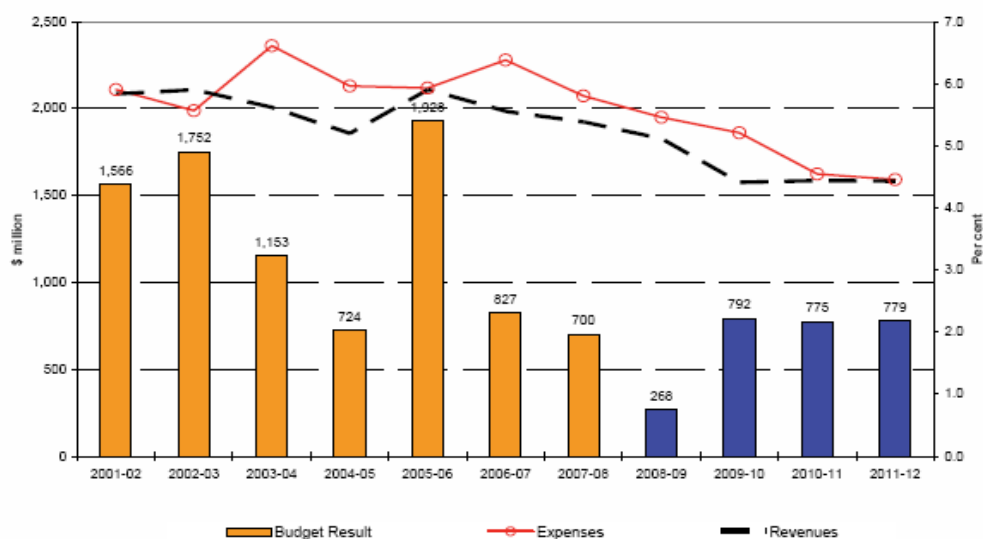
¹⁹ Ibid

Fiscal Commitment 2: Ensuring expense growth will be less than or equal to revenue growth

The rate at which NSW spends is growing faster than the rate at which it earns. For the past 12 years expense growth has exceeded revenue growth.

The NSW Liberal/Nationals Coalition will commit to closing the gap from 2011. This means we will live within our own means; expense growth to be less than or equal to revenue growth

Chart 2.2: Budget results and four year average expense and revenue growth



Source: NSW Budget Paper No. 2 2008/09.

The Stokes & Vertigan Report (February 2006) identified the revenue-expenses growth gap as the primary financial challenge facing NSW. In the five-year period to financial year 2005/06, budget expenses grew at six per cent, while budget revenues grew at five per cent.

In the context of a \$40 billion budget, this one percentage gap in revenues and expenses equates to \$400 million per annum. This directly caused the deterioration of the budget from a surplus of \$1.6 billion in 2001/02 to a possible deficit.

Since the Stokes & Vertigan Report the situation has not improved. In subsequent budgets the gap persisted.

We will close this gap by enhancing the efficiencies and operations of the functions of government. We will do so whilst restoring and enhancing frontline services.

Fiscal Commitment 3: Restoring and enhancing the level of front line services

The NSW Liberal/Nationals Coalition will commit to restoring and enhancing frontline services.

These include services such as education, health and policing. These are services that have a real impact on people's daily lives.

The NSW Labor Government has eroded frontline services. For example:

- In 2006/07 there were fewer hospital beds in NSW than there were in 1994/95 and waiting times have increased by 30 per cent despite Bob Carr's commitment to halve them.
- Since 1995, roughly half of rural maternity wards in NSW have been closed.
- In 2005 416 daily train services were axed and in 2006 1,500 weekly bus services were axed.
- In the past five years the number of police in the Sydney basin has decreased by 11 per cent, and there are fewer highway patrol police than there were in 1984.
- The backlog in school maintenance repairs has blown out to over \$80 million.

With the constraints of the global financial crisis and the limitation of debt due to retaining an AAA credit rating it is imperative that all financial methods are pursued.

In Government the NSW Liberal/Nationals Coalition will work with the community to define a series of appropriate benchmarks that measure the level of service delivery.

They will be output focussed and directly assess the quality of service being received by taxpayers.

We will report against these benchmarks on a regular basis in an open and accountable fashion.

Under a NSW Liberal/Nationals Coalition Government frontline service quality will be restored and enhanced.

Fiscal Commitment 4: Ensuring all Cabinet ministers will be accountable for fiscal direction and infrastructure delivery

The NSW Liberal/Nationals Coalition believes that a promise should be a promise, and accountability starts at the top.

This means every Cabinet Minister should be held responsible for decisions relating to fiscal strategy including announcements relating to services and infrastructure.

After 13 years of Labor Government the people of NSW have become used to infrastructure announcements being made and then delayed, downsized or even cancelled.

Labor clearly puts politics ahead of policy and makes media announcements without the commensurate level of due diligence and project management.

- **Parramatta to Chatswood Rail Link:** This project was announced in 1998. In 2003 the promised rail link was halved to Epping to Chatswood at twice the original cost. It is running three years late and yet to be completed. This is the result of poor project management and ongoing costings issues.
- **North West Rail Link:** Labor promised its completion by 2010. It was then revised to a Metro Rail Link due in 2017. This project may be cut as a part of the upcoming Mini-Budget and a sod of earth is yet to be turned. In essence it was never properly funded.
- **Pacific Highway:** In 1996 the Labor Government promised to upgrade the Pacific Highway to dual carriageway by 2006. Currently 40 per cent of the upgrade is still not complete and lives continue to be lost. This is the result of budget blowouts and under funding.
- **Newcastle Port:** There have been many years of delays in approving a \$2.5 billion coal sector deal to ease transport bottlenecks at Newcastle Port. Lack of a clear strategic approach has meant this has not happened.

The NSW Liberal/Nationals Coalition believes Cabinet needs to become an effective decision making body, where all ministers are held accountable for Cabinet decisions, not just their individual portfolios.

In government we will review the Cabinet process with a view to improving its effectiveness. We will also introduce a Cabinet reporting framework for all major infrastructure and service commitments that will include:

- Independent verification of Treasury Costings;
- Clear statements on the impact of costings on forward budgets; and
- Quarterly progress updates that note time and costing variations.

We will also ensure that NSW Treasury provide quarterly fiscal reports to Cabinet.