The Australian Industry Group
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19 October 2020

Peter Achterstraat AM
Commissioner for Productivity
NSW Productivity Commission

Dear Commissioner

Comment on Recommendations in NSW Productivity Green Paper

Thank you for the opportunity to comment on the draft recommendations set out in the NSW Productivity Green Paper. Ai Group submitted comments through the public portal in September, and we have aggregated them below for easier reference.

We welcome the contribution of the Green Paper to policy debate on important elements supporting the State's economic and social wellbeing. We support the general thrust of most of the recommendations and only seek to make specific comment on the following:

Draft recommendation 3.1:

By the 2020-21 Budget, develop a medium-term 'earn or learn' skills strategy that guides and supports skills transitions for workers displaced by COVID-19.

Ai Group supports this draft recommendation. The way we respond through education and training will become a major influence on the recovery of the economy and the broader community from the effects of the pandemic.

Young people have been disproportionately impacted by the social and economic consequences of the pandemic; however, all categories of workers been affected and will need assistance to re-engage with the labour market. The Green Paper fittingly suggests that different strategies will be needed for different groups, including school leavers, tertiary education leavers, and midcareer workers.

Ai Group also supports the recommendation that the strategy focus on the medium term, suggested as the next five years. This recognises that disruption to

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businesses and skills is severe, recovery will take time, and workers will need ongoing support to retrain or upskill for career transitions.

Draft recommendation 3.2:

Introduce two new and more flexible pathways to trades qualifications: one for HSC-holders (two years or less) and one for mature-aged workers (18 months or less).

- **Incentivise registered training organisations to develop more flexible modes of course delivery, including after-hours learning and short intensive periods of full-time study.**
- **Establish a Training and Skills Recognition Centre to implement the new training pathways, starting in the construction sector.**
- **Regulate to allow employment of unqualified juniors (those below 21 years of age) in a recognised trade vocation outside an apprenticeship, provided they have completed, or are enrolled in the relevant trades qualification.**
- **Endorse a marketing campaign to raise the profile and awareness of new trades pathways.**

We strongly agree with the premise of draft recommendation 3.2 that a reduction in apprenticeship commencements will lead to skills shortages in the medium to long term. We also agree with the contention that low rates of pay, inflexible training delivery and the time it takes to complete can act as a disincentive to some prospective apprentices, especially older workers with some relevant experience.

The Green Paper highlights that despite competency-based completion of apprenticeships being in place for many years, most apprentices still face a time-based model. Few apprentices are offered recognition of prior learning (RPL) and the process for approving RPL in NSW is convoluted.

The Green Paper also rightly contends that apprenticeships in their current format do not suit women. They can struggle to find an employer because apprentice employers are predominantly male, and male employers favour male apprentices.

The draft recommendation in the Green Paper is that alternative pathways be introduced; one a two-year institution-based pathway for HSC holders and the other an 18-month pathway for mature-aged workers, which has provision for RPL. These pathways would recognise the increased maturity of HSC holders and the prior work experience of mature-aged workers. Other young people would retain the apprenticeship pathway.

On face value, these suggested pathways have some attractions, especially if they can attract more people to seek careers in trade occupations. However, Ai Group recommends caution in approving these models.

The apprenticeship model has stood the test of time over many years in terms of quality and acceptance by employers. Ai Group agrees with the view that it was designed for teenage early school leavers, but many of those who commence apprenticeships today have completed their HSC. Indeed, many employers demand HSC graduates, because of the increased knowledge requirements of their trade. The most recent NCVER data shows that 41.8 per cent of current trade apprentices in NSW had completed Year 12, compared to 43.6 per cent who had completed Year 11 or lower[1]. The data also shows that more than 60 per cent of apprentices are aged 20 years or older, with 23.2 per cent aged over 25. So effectively, this draft recommendation will allow HSC holders and mature-aged workers two options: the traditional apprenticeship or an institution-only pathway.

Apprenticeship qualifications have been designed as qualifications that supplement the learning apprentices undertake in the workplace. They were not designed as stand-alone training. While the skills and knowledge of a qualified tradesperson are described in the competency units that make up the qualification, the hours that make up the formal training component are not sufficient to ensure an apprentice has achieved competence. For this reason, some Industry Reference Committees have been endeavouring to make it mandatory for some trade qualifications to be delivered only to a person completing a contract of training.

Industrial Awards contain pay rates for junior and adult apprentices and pay rates for qualified tradespeople. It is presumed that graduates of an institution-only pathway would be expected to be paid as qualified tradespeople. The question to be asked is whether employers would pay one of these graduates the same rate as someone who has not only completed the same qualification but also has up to four years of work in that trade. Will employers see them equally? Would they preference apprenticeship graduates? Would they seek to discount the wages of institution-only graduates? These are questions that need to be considered.

If the NSW Government is to amend Vocational Training Orders to allow institution only pathways for some cohorts, it must be convinced that employers will accept people who have completed these pathways as equivalent to a person who has completed an apprenticeship. The Government will also need to provide guidance to employers about pay rates for these graduates.

[1] Apprentices and trainees, December 2019, NCVER, Adelaide

If the purpose of this recommendation is to provide a pipeline of skilled tradespeople when industry is not hiring apprentices in sufficient numbers, further consideration could be given to how employers are better incentivised to take on more apprentices. This could be through various means such as direct financial incentives, or through supporting group training organisations to offer “discounted” apprentices to host employers for short durations. Ai Group would welcome the opportunity to discuss alternative options in more detail.

Ai Group supports the proposal to establish a Training and Skills Recognition Centre. Such an organisation could help fast-track people with relevant industry experience to obtain a trade qualification. This activity could work equally well for a person who completes their skills gap training through a contract of training.

Draft recommendation 3.3:

Target Smart and Skilled funding more effectively by refining the NSW Skills List. Prioritise funding to courses that demonstrate value to industry, or represent skill shortage areas.

Ai Group agrees with this draft recommendation. The suggestion that courses need to demonstrate value to industry is less clear, especially the way in which such a condition could be established. If employers in an industry take on trainees using a qualification, surely that qualification is valued. Ai Group recommends caution here to ensure personal biases against some occupations or employers do not colour funding decisions.

Other aspects of why courses deserve funding should be considered. While it is agreed that some qualifications are less critical to the state’s skills needs, they can still create opportunities for young people who may have no other options for starting a career.

Draft recommendation 3.4:

Extend Smart and Skilled subsidies to targeted short courses and micro-credentials that provide discrete skills employers recognise and value.

- **Use economic and industry data to identify high value micro-credentials to fund.**
- **Prioritise courses that have better evidence of employer trust and recognition, high quality assessment, and alignment with the Australian Qualifications Framework (AQF).**

- **Use a risk-management approach to funding, with the capacity to quickly freeze or withdraw funding if problems are identified.**

Support the development of voluntary systems of trust and recognition for micro credentials, for example alignment to AQF levels or the adoption of 'credit points' standards.

Ai Group supports the recommendation to extend Smart and Skilled subsidies to targeted short courses and micro-credentials. Micro-credentials are well-suited to older workers who have already achieved baseline qualifications but need upskilling in, for example, new technologies to maintain their employability.

Draft recommendation 5.9:

Develop a reliability system that reflects consumer needs

Revisit the NSW Energy Security Target in the context of reliability standards endorsed by the Commonwealth of Australian Government (COAG) Energy Council: If it imposes greater reliability requirements, demonstrate that this is consistent with consumers' willingness to pay.

Otherwise, adopt the COAG Energy Council standards in its place.

Concerns about reliability have led to a proliferation of reliability initiatives. Some of these are highly interventionist, such as the Federal Government's threats on replacement of Liddell, and risk frightening off private investment other than that which directly benefits from support. More neutral and predictable mechanisms to meet reliability expectations, such as the reforms under consideration in the Energy Security Board's post-2025 NEM design process, are preferable.

The existing wholesale energy reliability standard of 0.002% Unserved Energy (USE) is intentionally not a guarantor of absolute reliability, which would be very costly to pursue. The criticisms made of the standard by AEMO have some force; the 'expected outcome' compresses many scenarios into one figure and can easily be misinterpreted to give excessive confidence that no reliability problems will occur. However there appears to be no persuasive alternative standard that represents a genuine improvement in the treatment of uncertainty and probability. This was demonstrated by the former COAG Energy Council's decision to adopt a temporary pseudo-standard of 0.0006% USE – an extreme tightening of the real standard, rather than a fundamentally different approach. Energy users and other stakeholders represented on the Reliability Panel have continued to endorse the existing 0.002% USE standard as appropriate. The 0.0006% USE benchmark was adopted without deep consultation with stakeholders, is explicitly temporary and has not formally replaced the 0.002% standard.

NSW's Energy Security Target has an unclear status. The Government says that it is not a replacement for the USE standard, and that if a breach is expected the response options available include doing nothing. While this is intended to allay concern about excessive costs, it inadvertently creates additional uncertainty. The Target of being able to meet all demand in a 1-in-10 year demand scenario, in a case where the State's two biggest generating units fail simultaneously, is extremely tight and by its nature is very unlikely to occur in any given year. The Target may be best understood as an effort to build public confidence amidst very great transformation in the energy sector. However actually building new resources beyond what the existing USE standard would require, solely to meet the Target, would be expensive and provide little value in return.

NSW's proposed Energy Security Safeguard potentially has greater value than the Target it accompanies. Most energy users do not currently have strong and effective incentives or capability to reduce their peak demand as much as should in principle be possible and valuable. Extending the existing energy efficiency scheme to accelerate the uptake of peak demand reduction technologies and their usage can be helpful, though the design detail and treatment of energy intensive industry will matter. Demand response and peak shaving can play many roles in the energy system; while in some roles generation, storage or network connections may be competitive or superior, it is very likely that demand response is the cheapest way to address extremely low-likelihood events. It is much cheaper to pay the demand side not to use their equipment once every ten years (or much less frequently than that) than to build new supply-side assets which will only be used very rarely.

Overall, then, we would agree that the NSW EST should be reconsidered, but the standard that it should be judged against is the actually regulated 0.002% USE standard, and not the 0.0006% interim standard.

Draft recommendation 5.10:

Adopt an integrated market-oriented climate change and energy policy.

Commit to a contestable private energy market based on technology-neutral, competitive neutrality principles.

Create a NSW-specific emissions intensity scheme to help optimise investment in electricity, having regard to climate change mitigation objectives and the pace of innovation.

Many forms of uncertainty weigh on electricity sector investment. Some of this is a function of the immense technological and market change that the system is going through. However, policy uncertainty is a substantial contributor. There are several drivers of this uncertainty:

- Concerns about reliability have led to a proliferation of reliability initiatives. Some of these are highly interventionist, such as the Federal Government's threats on replacement of Liddell, and risk frightening off private investment other than that which directly benefits from support. More neutral and predictable mechanisms to meet reliability expectations, such as the reforms under consideration in the Energy Security Board's post-2025 NEM design process, are preferable.

- Concerns about high electricity prices have led to a range of interventions, including the 'big stick' threat of divestiture of integrated generator-retailers.

- Governments have continued to leave their emissions policy expectations of the electricity sector unclear, including both the level of emissions reductions expected and the mechanisms for achieving them. Work by Ai Group has previously illustrated how large a difference these parameters of climate policy can make to the expected returns of a given power project.

The result is a much riskier environment for electricity investment than would be optimal.

It is important to reduce all these forms of policy-related uncertainty. One set of positive changes would flow from the establishment of a new consensus around an updated electricity market model in the NEM post-2025 process. That would help settle down interventions on reliability and price. However, that process is not currently set to address climate policy-related uncertainty.

A national, or at least NEM-wide, solution would be strongly preferable to a patchwork of uncoordinated State policies. However, even uncoordinated action could be superior to continued deep uncertainty. The concept of a NEM-wide emissions intensity scheme is potentially very positive, and worth further development and discussion between the States and stakeholders. NSW could lead this, given its size, central place in the market, administrative capacity and strong reputation. However a NSW-specific scheme would be more complex to implement and vulnerable to unintended consequences in the treatment of out-of-state emissions and abatement. Single-state schemes within a wider market should be considered with great caution.

Draft recommendation 8.1:

Set out a program to move to efficient state taxes

Replace inefficient taxes with more efficient ones. Start by replacing transfer duty with a broad-based land tax. Before proceeding, identify how various designs will improve the economy and the state Budget, and how adverse impacts on various groups can be minimised.

Propose, for consideration by the Board of Treasurers, the establishment of a single interjurisdictional body to coordinate the adoption of a consistent approach to the administration of payroll tax systems in all states and territories.

We agree with the comments on transfer duty; however, an important issue is that transfer duties do serve the purpose of taxing owner-occupied housing whereas this asset class generally escapes the tax net (e.g. land tax, capital gains tax and imputed rent).

Removing these duties and raising land tax on its current base (i.e. which excludes owner-occupied residential property) would further favour the owner-occupied asset class to the detriment of a) vertical equity (because of the distribution of the value of owner-occupied housing) and b) horizontal equity – with a still wider gap between owner-occupied housing and other assets.

This could be addressed either by broadening the land tax base to include owner-occupied residential property or by piggybacking on the Council Rates system (which includes owner-occupied residential property).

We agree with draft recommendation as it relates to consistent national approach to payroll tax and believe it could be extended to collection by using the ATO as the single collection agent.

We note the payroll tax threshold, whilst being a distortion, does serve an important purpose in reducing compliance costs for businesses below this level of payroll. SMEs bear a large tax compliance cost burden relative to their means and the exemption (in a very rough way) is a means of recognising this. Removing the exemption without some alternative measure would level SMEs with an additional taxation compliance cost burden and remove the recognition that it provides.

There is strong scope for carving out a special regime for smaller businesses that don't have the added complication of foreign investors. We already have moved towards this and with a few additional steps we could invigorate this important and time-poor sector by removing most if not all of the complexities associated with the timing of deductions and income. At least as much assistance could be delivered through this separate regime as the relief from compliance and tax burdens that we currently provide in the form of payroll tax exemptions for smaller businesses.

We would be very pleased to discuss any of the above issues further.

Yours sincerely

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