

EXECUTIVE SUMMARY

Productivity Commission White Paper 2021

Rebooting
the economy

Executive Summary

Productivity is the most powerful tool we have for improving our economic welfare. It measures how much labour, capital, and technology we use to produce the things we need and want. It is not about how *much* we work, but how *smart* we work.

Our productivity grows as we learn how to produce more and better goods and services, using less effort and other resources. From antibiotics to the smartphone, we enjoy goods and services today that the wealthiest people of a century ago could not imagine, let alone buy. This progress flows from rising productivity.

Productivity growth however should not be taken for granted. History suggests it comes in cycles. In Australia, the 1990s witnessed strong productivity growth, averaging 1.8 per cent per year. But the 21st century coincided with a productivity growth slowdown to an annual average of 1.1 per cent in the decade following. Labour productivity growth—measured as the change in what we produce each hour that we work—has slumped in recent years and, without action, our disappointing performance will worsen.

The consequences of weak productivity growth are serious. As the 2016 NSW Intergenerational Report showed, if slower productivity growth continues into the future, we can expect it to translate into slower growth in our living standards and increasing gaps between budget revenues and expenditures, as our population ages (NSW Treasury, 2016).

To put productivity back on the right track, we need to embrace opportunities for structural reform. Developments in this space are underway with several draft recommendations from the NSW Productivity Commission's 2020 Green Paper in their early stages of implementation.

Recent challenges such as the COVID-19 pandemic have tested our resilience, but have also demonstrated the State's ability to change in the face of crisis. We must act quickly to take advantage of the current window of opportunity to sustain the momentum for reform. This is the moment to reboot our economy and set ourselves up for lasting prosperity.

PRODUCTIVITY GROWTH CAN REBOOT OUR PROSPERITY

In shaping the State's new productivity reform agenda, the NSW Productivity Commission (Commission) considered public feedback to the draft recommendations of the Green Paper. The Commission would like to thank all stakeholders who provided feedback to both the Discussion Paper and Green Paper. This feedback has been invaluable in shaping a strong productivity reform agenda that can deliver the greatest economic benefits for NSW citizens over time.

This White Paper identifies **60 opportunities** that can help to reboot productivity growth. These stand on four foundations: talent; investment and innovation; housing; and infrastructure and natural resources.

These reforms could offer significant net benefits to the economy. At a macroeconomic level, the reforms could boost gross state product (GSP) by 2 per cent per annum by 2041, an increase of \$19.4 billion in today's dollars.¹ This translates to lifting GSP per capita by 1.7 per cent and is equivalent to each NSW citizen over the age of 15 receiving an additional \$2,000 in today's dollars. These estimates are conservative as they do not include all reforms areas and recommendations, and additional benefits will be realised where reforms lead to an increase in the pace of innovation.

¹ This is *additional* to the expected growth in the economy by 2041.

Rebooting the economy



TALENT

Supporting a skilled and high-performing workforce

Invest to improve workforce flexibility and resilience, and re-orient training and education priorities to meet employment and skill demand in the NSW economy.

PRIORITY RECOMMENDATIONS

RECOMMENDATION 2.2

Broadening the supply of quality teachers.

RECOMMENDATION 2.3

Supporting best-practice teaching.

RECOMMENDATION 3.2

Building new pathways into the trades.

RECOMMENDATION 3.3

Targeting VET subsidies better and encouraging higher quality training.

RECOMMENDATION 4.2

Improving occupational labour mobility.



INNOVATION

Enabling new technologies and ways of doing things

Ensure NSW regulation protects our citizens while allowing innovation, technology, and new ways of doing things to flourish.

PRIORITY RECOMMENDATIONS

RECOMMENDATION 4.1

Evaluate the success of COVID-19 regulatory changes.

RECOMMENDATION 4.3

Promoting more flexible rules for use of drones.

RECOMMENDATION 4.4

Regulating to let personal mobility devices and e-bikes fulfil their potential.

RECOMMENDATION 5.12

Lifting the ban on nuclear electricity generation for small modular reactors.

RECOMMENDATIONS 7.4 & 7.5

Consolidating and increasing flexibility of employment and industrial zones to accommodate new businesses.



HOUSING

Improving housing choice and affordability

Pursue policies and regulation to increase the supply of the right types of housing, in the right places, at the right times.

PRIORITY RECOMMENDATIONS

RECOMMENDATION 6.1

Switching our tax mix to more efficient taxes, starting with the replacement of transfer duty with a broad-based land tax.

RECOMMENDATION 7.1

Reforming housing supply policy to deliver the housing we need in the places we want to live.

RECOMMENDATIONS 7.2 & 7.3

Taking a more informed approach to building design regulation and approval process.

RECOMMENDATION 7.7

Increasing the efficiency and transparency of infrastructure contributions to deliver the infrastructure necessary to support growth.



INFRASTRUCTURE

Smarter use of infrastructure and natural resources

Establish 21st century infrastructure that makes our work more effective, and helps businesses get more from their investments.

PRIORITY RECOMMENDATIONS

RECOMMENDATION 5.1

Developing a long-term vision for the water sector and prioritise approaches to meeting the economy's water needs.

RECOMMENDATION 5.4

Engaging on water recycling to showcase and build trust in new water supply options.

RECOMMENDATION 5.8

Supporting a cost-effective energy transition through the National Electricity Market.

RECOMMENDATION 8.1

Expanding higher density development within transport hubs.

RECOMMENDATION 8.4

Developing a portfolio of travel demand choices and measures to reduce congestion on roads and public transport.

Together, the NSW Productivity Commission's recommendations will deliver a better NSW economy



Making housing more affordable



Lowering the cost of living



Making it easier to do business



Making it easier to move to NSW



Best-practice teaching will lift school results

Despite higher funding and recent reforms, NSW student outcomes are getting worse or stagnating. Throwing money at the problem has not worked. The best available evidence suggests that turning things around will require a strong focus on improving teaching quality.

KEY FINDINGS

Despite significant investment in our schools, student outcomes have been falling or stagnating for decades. While this is a complex area, the evidence suggests **teaching quality** is the most important in-school factor governments can influence to turn things around.

Unfortunately, efforts to raise teaching quality through funding and longer teacher training have had little impact. Policy should instead focus on embedding best-practice teaching in every classroom. This means giving every teacher the feedback and support they need to continuously improve.

Lifting teaching quality will also require measures to attract, develop, and support people with the potential to be highly effective teachers. Fast-tracking high-achieving entrants into teaching clearly works, especially in shortage areas like maths.

New South Wales needs new career paths that reward our best teachers and keep them in the classroom, teaching students and training teachers.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATIONS 2.1 & 2.2

Meet the teacher supply challenge with a strategy that includes evidence-based measures and innovative pilot programs. Broaden the supply of quality teachers by reviewing the requirement for a two-year Masters and piloting employment-based pathways.

RECOMMENDATIONS 2.3 & 2.4

Make schools accountable for implementing best-practice teaching. Reform performance evaluation to give teachers meaningful feedback.

RECOMMENDATION 2.5

Create a Centre for Teaching Excellence to lead and support improved teaching quality across the system.

RECOMMENDATION 2.6

Develop an 'instructional lead' career pathway that keeps highly effective teachers in the classroom, as an alternative to an administrative career.



A modern VET system to deliver the skills we need

The State's vocational education and training (VET) system must reform to deliver the skills we need in a post-COVID economy. Chronic skills shortages show the system is unresponsive to industry and unattractive to students. Reform should focus on modernising training pathways and addressing poorly aligned incentives.

KEY FINDINGS

The NSW Government controls key VET levers such as the delivery of training, the running of TAFE NSW, and the targeting of course subsidies.

Despite many reviews of VET in the past decade, few reforms have modernised learning modes, career pathways, or VET's relationship with industry. Bias against VET is still strong, with universities seen as the default pathway, especially for Higher School Certificate (HSC) graduates.

COVID-19 has displaced thousands of workers and accelerated structural changes to the economy. Many jobs will not return, requiring workers to reskill or upskill.

Chronic skills shortages in trades are the result of unsuitable and limited training pathways beyond apprenticeships. Low wages and a lengthy, inflexible training structure deter potential trades workers.

Poorly targeted subsidies have encouraged many students to enrol in courses of low value to employers and students. The mismatch between skills delivered by VET and industry needs has further contributed to poor employment outcomes.

There is growing interest in micro-credentials from industry, students, and government. Micro-credentials are a highly targeted and efficient method of skills delivery and are well-suited to life-long learning.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 3.1

Continue to provide targeted workforce support, though the 'earn or learn' strategy, focusing on the skills needed for the post-pandemic economy.

RECOMMENDATION 3.2

Introduce new pathways to trades qualifications aimed at HSC-holders and mature-aged workers. New pathways should allow trades training outside the traditional apprenticeship model. Continue roll out of the Trades Skills Pathways Centre to pilot new pathways in the construction sector.

RECOMMENDATION 3.3

Target VET subsidies more effectively using labour market data and redirect course funding to address identified skills shortages.

RECOMMENDATION 3.4

Extend Smart and Skilled program subsidies to target short courses and micro-credentials. Prioritise their funding towards skills which employers recognise and value.







Forward-looking regulation supports innovation and competition

Regulation helps to protect the health and safety of the NSW community, make our economy work better, and create the society we want. Done poorly, regulation stifles innovation, creates barriers to competition, imposes unnecessary costs on businesses, and slows down productivity growth. Regulatory reform gives us a powerful lever to ensure the economy responds to change and supports a healthy society.

KEY FINDINGS

Flexible, outcomes-focused regulation can quickly adapt and respond to changing social, economic, and technological circumstances. The NSW Government acted quickly at the onset of COVID-19 to provide further flexibility for businesses and consumers. Continuing this good work will help with our economic recovery too.

Emerging technologies can boost productivity and enhance the lives of NSW residents. Some regulations are currently constraining, rather than encouraging, the use of certain emerging and innovative technologies in New South Wales.

Frequent review of regulatory regimes ensures they remain fit-for-purpose and continue to deliver the intended benefits at the least cost to businesses and consumers.

A new and strategic approach to regulation in New South Wales will help reduce the compliance, administration, and efficiency costs of poorly designed and administered regulation.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 4.1

Evaluate the success of the extended COVID-19 regulatory changes and retain them unless it can be shown there is no net public benefit.

RECOMMENDATION 4.2

Pursue automatic mutual recognition to help overcome NSW skills shortages.

RECOMMENDATIONS 4.3-4.5

Modernise regulation to encourage the use of emerging and innovative technologies, such as drones, personal mobility devices, and e-bikes.

RECOMMENDATIONS 4.6-4.15

Review existing regulatory regimes to ensure they remain fit-for-purpose and continue to provide the intended benefits; areas include occupational licencing, childcare, and agricultural regulation.

RECOMMENDATIONS 4.16 & 4.17

Move to a best-practice regulatory policy framework underpinned by Regulatory Stewardship and rigorous impact assessments.



Meet the challenge of sustainable, well-priced water and energy

WATER

Population growth and drought will continue to challenge the urban water sector. The sector can be better placed to maintain the affordable and reliable access to water services critical to a productive and liveable State.

KEY FINDINGS

The water sector's functions are spread across a number of agencies and corporations. That makes coordinated long-term decision-making harder.

Purified recycled water for drinking is a safe and cost-effective supply option. Securing public support is key to ensuring the option is 'on the table'.

The way we fund our 92 local water utilities (LWUs) is inefficient and not based on need. New operating models would help LWUs provide better services.

Managing demand for water can ease supply pressures, but it can also have social and economic costs.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATIONS 5.1-5.3

Improve governance by setting a long-term vision and plan for the sector, clarifying roles and responsibilities, and improving collaboration and cooperation.

RECOMMENDATION 5.4

Engage with the public on the benefits of purified recycled water for drinking and explore investments that demonstrate and built trust in the recycling process.

RECOMMENDATION 5.5

Design and implement a needs-based funding model and work with the utilities to develop more efficient operating models.

RECOMMENDATIONS 5.6 & 5.7

Ensure the way we manage water demand maximises benefits for the community.



ENERGY

A major technological transition is underway in the energy sector. The switch from coal to renewable generation presents both risks and opportunities. Energy policy must evolve with the market to maximise the benefits of the transition and mitigate the risks.

KEY FINDINGS

The National Electricity Market has a strong governance structure that is well positioned to manage the energy transition now underway.

Reliability of electricity is important but this cannot come at a disproportionate cost. Duplication of State and national reliability and security measures comes at an unnecessary cost to energy consumers and taxpayers.

An efficient carbon dioxide emissions reduction mechanism is essential to a cost-effective energy transition that does not risk reliability and system security.

Growth of renewables needs to be firmed by peaking and storage capacity to deliver a cost-effective dispatchable power portfolio.

Demand management has a role in optimising the electricity system, but the slow rollout of smart meters and lack of mandatory cost reflective pricing holds it back.

New South Wales faces limited gas supplies, even with new import facilities and domestic extraction. A strategic approach to gas extraction and demand management is necessary to meet the State's gas needs within the constraint of a net zero economy by 2050.

State energy regulation is fragmented across multiple agencies. This raises costs and imposes unnecessary complexity. Energy subsidy programs are similarly numerous and complex.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 5.8 & 5.11

Where possible, ensure NSW policy is developed and implemented within the National Electricity Market's governance structure.

RECOMMENDATIONS 5.9 & 5.10

Revisit the Energy Security Target and conduct careful evaluation before invoking the Electricity Infrastructure Safeguard under the Electricity Roadmap.

RECOMMENDATION 5.12

Lift the ban on nuclear electricity generation for small modular reactors.

RECOMMENDATIONS 5.13 & 5.15

Investigate new and innovative approaches to improve electricity pricing and achieve the NSW Government's 2050 target of net zero emissions.

RECOMMENDATION 5.14

Improve land use regulation and manage demand for gas.

RECOMMENDATIONS 5.16 & 5.17

Rationalise energy governance and streamline energy subsidies.



A better mix of state and local taxes can encourage growth

The Government funds vital services and infrastructure for a growing population. Yet some of our taxes are distorting the economy and impeding productivity growth. Some discourage work or investment; others disguise the real cost of goods and services. New South Wales will be more productive and better able to fund services and infrastructure if we move towards a more efficient tax mix.

KEY FINDINGS

New South Wales is overly reliant on inefficient taxes. Property transfer duty is the most costly and unreliable.

Jurisdictional differences in payroll tax administration can distort competition between states, by encouraging business to set-up in states with lower compliance costs.

An efficient and sustainable road user charge should be introduced to replace foregone excise revenues as zero and low emission vehicles (ZLEVs) gain market share. A low charge should be imposed immediately and increased over time, with the potential for the charge to change in line with location and time of driving.

The existing local government rates mechanism does not sufficiently compensate councils for population growth. This leaves local governments with insufficient revenue to meet demand for services, and a disincentive to accept development.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 6.1

Replace inefficient taxes with more efficient ones. Start by replacing property transfer duty with a broad-based property tax on unimproved land values.

RECOMMENDATION 6.2

Coordinate payroll tax administration across states and territories and identify options to alleviate the impact on startups from payroll tax for the first five years of operation.

RECOMMENDATION 6.3

Abolish motor vehicle duty and replace with a road user charge for eligible electric vehicles.

RECOMMENDATION 6.4

Implement the local government rate peg reform to allow councils' general income to grow with population. If funding from rates revenues continue to be insufficient, councils should hold a plebiscite of ratepayers to test support for abolishing the rate peg.





Plan for the housing we want and the jobs we need

Planning systems are enablers of productivity. In cities, they pool together talent, capital, and suppliers of goods and services. At the same time, they must manage the many costs of this process, such as congestion, pollution, and increased pandemic risk. Overly prescriptive and complex planning regulations stifle business competition and reduce housing supply. Changes to support the economy during the pandemic have helped—and they show how our planning system can be more responsive.

KEY FINDINGS

Housing supply has failed to keep up with demand. That has led to an undersupply of housing, increasing the cost of living for households and making New South Wales a less attractive place to live and work.

Regulations on apartment design and car parking requirements add to the cost of housing and are out of step with the needs of the community.

Development applications are taking longer to assess, and in some cases, take substantially longer than other jurisdictions, restricting housing supply and reducing affordability.

Prescriptive rules on land use by businesses are inflexible and cannot accommodate innovative businesses and the evolving economy.

As our population grows and our backyards shrink, access to open and green space is important for our productivity. It keeps people healthier, connects communities, and helps make cities more resilient to the impacts of climate change.

Infrastructure contributions are an important funding source to deliver infrastructure required to accompany growth. Over time the system has become more complex and is perceived as opaque and inefficient.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 7.1

Develop and implement a system of long-term housing targets underpinned by strong evidence and governance.

RECOMMENDATION 7.2

Review apartment design regulations to ensure benefits justify costs and accommodate consumer choice.

RECOMMENDATION 7.3

Identify the causes of long assessment times in New South Wales and opportunities to bring them in line with best practice.

RECOMMENDATIONS 7.4 & 7.5

Progress reforms to rationalise employment zones and evaluate alternative ways to manage industrial land and urban services.

RECOMMENDATION 7.6

Progress development of a consistent way to measure the benefits of open and green space, and incorporate it into land use planning.

RECOMMENDATION 7.7

Implement all recommendations of the *Review of Infrastructure Contributions* to deliver a reformed contributions system.



Smarter infrastructure will support jobs and communities

Infrastructure enables economic activity. It moves commuters to work and freight to markets. It also provides critical services such as energy, housing, education, and healthcare. Investing in the right infrastructure is a powerful lever by which the Government can raise productivity.

KEY FINDINGS

Poorly coordinated land use planning and infrastructure delivery can generate community resistance to growth and impose high costs on Government.

Infrastructure investments are among the most expensive and important decisions governments make. Identifying and prioritising the right projects can have lasting benefits. Choosing badly can impose substantial costs on society.

Infrastructure bottlenecks are a drag on productivity. Road congestion and public transport crowding cost individuals and businesses valuable time and make New South Wales a less attractive place to live and work.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 8.1

Plan for greater housing and business activity in areas where there is spare infrastructure capacity.

RECOMMENDATION 8.2

Improve transparency to create the right incentives for good infrastructure investment.

RECOMMENDATION 8.3

Ensure that agencies' business cases align with Government guidelines and that funding is given to properly evaluate projects.

RECOMMENDATION 8.4

Investigate a package of light-touch options to address road congestion. This should include measures that promote good driving behaviour, encourage off-peak travel, and targeted investments at specific congestion hot spots.

RECOMMENDATION 8.5

Assess how Opal fares and concessions can be used more effectively to manage public transport demand and support those that need it the most.

