



Productivity in NSW



KPMG Response to NSW Productivity Discussion Paper
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Overview

Across many fronts, New South Wales (NSW) is leading the States and Territories, but there is more to be done. The NSW Government is delivering a comprehensive agenda for the State to capitalise on the opportunities presented by technological change, growth of the knowledge economy, new infrastructure and the increasing mobility of human and economic capital. Building on this progress with continued reforms will be crucial to productivity and growth.

Reforms to deliver meaningful improvements in State productivity are a critical part of the solution to current challenges. Such reforms will help ensure that NSW can maximise the value generated from its vast resources that are continuing to grow through the State's current reform agenda.

There are a broad number of opportunities for the NSW Government to work towards overcoming current challenges, and embracing change and emerging technologies to enhance productivity growth in NSW. Specifically:

- Maximise the health and wellbeing of our population and workforce through continued healthcare system reforms including a focus on patient centred care.
- Target professional development of existing teachers and salary differentials to target subject-based shortages.
- Conduct a Strategic Review of water resource and infrastructure management in NSW to effectively address the significant water-related social, economic and environmental impacts arising from population growth and climate variability across the State.
- Facilitate technology adoption in infrastructure, including improving the understanding and use of data and reviewing laws to remove legal obstacles.
- Improve the efficiency of property based taxation through the development of a land tax – stamp duty trade-off to reduce disincentives to exchange property.
- Remove regressive and inefficient taxes, such as insurance taxes, over the long term to remove deadweight losses from the economy.
- Consider use of road user charging, ensuring privacy is protected through complementary reforms to protect road users' information.
- Consider broadening the payroll tax base or levying it on a comprehensive national tax base.
- Consider extending the joined up approach to metro planning and transport, demonstrated by the Greater Sydney Commission (GSC), to areas such as Newcastle and Wollongong.
- Ensure that community infrastructure and public domain is treated as economic infrastructure, critical to accompany growth and community acceptance of density.
- Continue to reduce regulatory burden and drive regulator performance to reduce duplication and regulation imposed by different agencies and across different tiers of government.
- Strengthen data collection and sharing, and the use of these data in driving policy outcomes.

In realising these opportunities, it is critical that equality across population cohorts is maximised and current inequalities are addressed. The remainder of this document describes these opportunities in further detail.

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Introduction

The Productivity Imperative

From 2003-04 to 2015-16, the **gains to market sector GDP from 'doing things better' have been nearly zero.**



- More than **10 million Australians have three or more long-term health conditions** and nearly **30 per cent of the adult population is obese**
- Australians, on average, spend **almost 11 years of life in ill-health, the highest in the OECD**



- Between 2003 and 2015, **the share of Australians with poorest maths skills has risen the most among OECD countries**
- About **30 per cent of Year 7 to 10 teachers in information technology have no real qualification in that field**
- Nearly 40 per cent of university students do not think their courses developed work-related knowledge and skills, and **one in five university graduates were underemployed** in 2016



- **40 per cent of Australia's GDP is produced in Sydney and Melbourne**
- It is projected that **80 per cent of Australia's population growth by 2050 will occur in the capital cities**
- The avoidable **social costs of congestion in Australia's capital cities were nearly \$19 billion** in 2014-15 (and is expected to grow to \$31 billion by 2030)
- In Sydney, the majority of jobs that can be reached within a 45 minute car journey are located in the inner city, whereas on the city fringes this is the case for fewer than 20 per cent of jobs



- **Stamp duties add over \$50,000 to the cost of a median-priced house in Sydney**
- **For every dollar raised in stamp duties, the cost in reduced investment and mobility is 70 cents**

Innovation and learning – doing things better – is the key for prosperity. Better outcomes involve new agendas involving the non-market economy, the innovation system, using data, creating well-functioning cities, and re-building confidence in institutions.

Productivity is Fundamental

For the generation of people born in 2017, if long-run productivity growth lifts sustainably by 0.5 per cent a year, over their lifetime Australian production per person would be six times its current size, or about 50 per cent higher than if productivity remains about average.

Productivity is a measure of the volume of output relative to the volume of input. It indicates how efficiently human, capital, and economic resources are used to create value. The way we structure and deploy scarce resources (economic, human, and physical) impacts our productivity. Over the long term, productivity growth is critical to maintaining and improving living standards.

Doing things better by applying new knowledge and technology is the critical x-factor in strong, long-run economic growth. While we are surrounded by new digital services and technology, this form of productivity has been weak since 2004.

Productivity growth provides capacity for higher incomes and poverty alleviation. It will be critical to ensure that future growth is inclusive. Focusing on better health care, education systems and cities as a means to achieve productivity growth provides strong prospects for improving lifetime outcomes for people from all backgrounds. Improvements have the potential to decrease health inequality and reduce job insecurity and wage risks for those whose skills are most at risk from technological changes.

Overcoming Challenges is Critical

Reforms to deliver meaningful improvements in State productivity are a critical part of the solution to these challenges. Such reforms will help ensure that NSW can maximise the value generated from its vast resources that are continuing to grow through the State's current reform agenda.

KPMG is pleased to be able to contribute to the NSW Government's productivity reform agenda by providing a response to the recently released Productivity Discussion Paper. The remainder of this document provides responses to selected discussion questions with a view of contributing ideas and furthering the productivity reform agenda.

General Discussion Questions

KPMG responses to the general discussion questions are outlined in Table 1. Overall, KPMG agrees with the six focus areas proposed, however, particular focus on regional NSW has a number of potential productivity benefits. Further, associated with human capital, it is critical that population health is maximised. Critically, across all focus areas and associated reforms, it is essential that inequality is addressed and the distribution of growth is across the entire population.

Table 1: General Discussion Questions, KPMG Responses

Discussion Question	KPMG Response
Do you agree with the six focus areas identified—outlined in Chapter 3 and subsequent chapters—for a productivity agenda?	In addition to the focus areas, issues and challenges identified, there are a number of other factors that have the potential to impact productivity performance in NSW, specifically: <ul style="list-style-type: none">• Unlocking the value of regions: regional NSW creates significant value and there is a need to alleviate pressure on cities. There is opportunity for productivity gains in regional areas through investment in infrastructure and technology to enhance agricultural productivity, and opportunities for sectors such as smart manufacturing.• Health and wellbeing of citizens: The health and wellbeing of citizens is critical to human capital and associated productivity. If people are healthy they can make a productive contribution to the economy. There are a number of factors that have the potential to impact the health and wellbeing of citizens including poverty, homelessness, family violence, mental health and physical health. Addressing these factors is critical in underpinning the human capital in the economy.• Addressing inequalities: We acknowledge the focus on human capital, in particular, school education and VET participation and performance are critical to human capital development. However, it is important to acknowledge the disparity between Indigenous and non-Indigenous people across a number of socio-economic indicators. In particular, reducing the disparity in education participation and performance is critical to human capital development.
Do you agree with the issues and challenges identified for each focus area? What other issues should we consider?	

Discussion Question

What reform options should we consider (see areas for specific feedback identified throughout the Paper)?

KPMG Response

In a KPMG analysis of the potential reform agenda to maximise productivity for Australia as a whole, a reform areas were identified:

- **Budget repair** - a combination of agreed further savings and revenue measures, involving changes that grow over time.
- **Mending the social safety net** – supporting society’s most vulnerable members, including through an increase in the Newstart Allowance.
- **A sharp lift in productivity-raising infrastructure investment** – involving building new infrastructure and upgrading existing infrastructure, based on priorities identified by Infrastructure Australia and endorsed by Parliament.
- **Further education reform** – a better-connected education from early childhood development through schooling, vocational education, higher education and lifelong learning to equip Australians for future jobs in the digital age.
- **Modernising the industrial relations system** – agreed changes to the enterprise bargaining framework and reductions in the regulatory burden on small businesses.
- **Making a start on reforming the tax and retirement income systems** – a new investment allowance and public inquiries into the tax and retirement income systems.
- **More effective action on climate change** – using the existing regulatory framework for emissions reductions and implementing an emissions-intensity scheme for the electricity generation industry.
- **Indigenous economic empowerment** – supporting and promoting entrepreneurship in Indigenous Australians.

Further reform areas, include:

- **Data as an asset** – unblocking internal government data sharing challenges to share by enacting overarching legislation to enable what customers expect to do, and are assuming they do i.e. sharing data inside government. This will help accelerate and reduce information transparency.
- **Stimulating the start-ups** – by providing grants, and also by making NSW become the place for start-ups to prosper through the creation of different pathways after school i.e. not just VET or

Discussion Question

KPMG Response

University – but also start-ups. In Israel the youth there want to be in a start-up before higher education but how would that work here in NSW? How can government enable this outcome?

The NSW Government has a role in working with the Commonwealth Government to support these reforms to improve national productivity.

Further information is available here: [A New Reform Agenda for Australia](#)

Human Capital

The skills embedded in jobs are one of the principal drivers of increased productivity. Effective labour markets do not stand still with occupations, skills and jobs changing rapidly over time. Collectively, automation, the aging of the population, deferred retirement and the continued growth of the services sector will mean that the type of jobs and people's lifetime experiences in the labour market will change significantly. Governments play a critical role in creating a good quality and adaptive education and training system, and the policy framework that allows labour markets to function well. KPMG responses to discussion questions related to human capital are outlined in Table 2.

In addition to skills, maximising the health and wellbeing of our population and the systems that support it are critical to productivity. High quality healthcare is critical for maximising health and wellbeing, improving access to services, and maximising opportunities for the population. Quality and effectiveness are both key to productivity. Improving quality helps make NSW a more attractive place to live and helps support the productive wellbeing of the population. Improving effectiveness (i.e. delivering better outcomes with the same resources) reduces the long term burden on the economy and taxpayer. Addressing systematic and jurisdictional barriers has the potential to improve the lives of NSW citizens and support workforce productivity and participation. Continued system reform will be critical. Specifically:

- There is an opportunity to focus on patient centred care by establishing real time measures of patient experience, and outcomes to improve information and increase health literacy. Consult with consumer groups representing patients and with the various medical colleges to ensure a patient voice in health care provision.
- There is an opportunity to enhance integrated care by working with Primary Health Networks and Local Hospital Networks to refocus health care policy to be patient centred, seamless in delivery, dynamic, efficient, and outcomes focused. Remove barriers to market entry in rural health and promote an integrated care system that is agnostic to funding sources.
- There is an opportunity to improve quality of health by establishing better and timelier signals of patient reported measures of experience and outcomes. Disseminate best practice to health professionals, principally through the various medical colleges, as well as NSW Health and the NSW Health Care Complaints Commission.
- There is an opportunity to use data more effectively by setting up command centres that focus on predictive use of data and real time analytics to minimise unwarranted interventions. Identify the key relevant health datasets, including those that provide aggregated information about population health, and ensure that this information is made publically available.

Table 2: Human Capital Discussion Questions, KPMG Response

Issue	Discussion Question	KPMG Response
Lifting school performance and education outcomes	How can the NSW Government improve student outcomes and the performance of NSW schools?	<p>The Forrest Review showed that Indigenous Australians who are educated to a high level experience no employment disadvantage when compared to non-Indigenous Australians. So, as the review noted, “only employment will end the disparity, and employment is only possible if we remove all impediments to parity in education. It is acknowledged that lifting school performance and education outcomes for the entire population is critical to building human capital. Further it is important to ensure there is adequate focus on lifting outcomes among Indigenous Australians to ensure equality. Further information is available here: Indigenous Millennials and Education</p> <p>There is an opportunity to improve educational outcomes for school students by addressing out of field teaching through targeted professional development of existing teachers who are willing to acquire the relevant knowledge. Salary differentials could also be used to target subject-based teacher shortages. Educational outcomes could further be supported through improving the skills and effectiveness of the existing teacher workforce, with comprehensive professional development initiatives. A more rigorous micro evidence base about what works in schools could be established in partnership with the Data Analytics Centre.</p>

Water and Energy

The water and energy sectors are facing an unprecedented period of transformation with more anticipated. These sectors are operating in an environment where resources are becoming scarcer due to a growing population, urban densification and climate change; customers face increasing cost of living pressures whilst having higher expectations of utilities; and a range of different technologies are maturing, converging and forming the next wave of disruption for the sector. KPMG’s responses to the water and energy discussion questions are outlined in Table 3.

Table 3: Water and Energy Discussion Questions, KPMG Response

Issue	Discussion Question	KPMG Response
Water		
Improving governance in the rural and urban water sectors	<p>How could New South Wales improve governance and institutional arrangements for water management?</p> <hr/> <p>How could the State improve water planning, and what are some possible ways to:</p> <ul style="list-style-type: none"> i. clarify the roles and responsibilities of State Owned Corporations (SOCs), government, and regulators in water planning? ii. increase integrated water cycle management approaches where they are cost-effective? 	<p>It is recognised that aspects of the regulatory framework covering or influencing water recycling in NSW have not been reviewed or updated for over ten years. It is recommended, therefore, a Strategic Review of water resource and infrastructure management in NSW is conducted to more effectively address the significant water-related social, economic and environmental impacts arising from population growth and climate variability across the State.</p> <p>As part of this over-arching Strategic Review, governance and institutional arrangements for rural and urban water management would be examined to:</p> <ul style="list-style-type: none"> • Determine the existing governance roles and responsibilities of key players including State Owned Corporations (SOCs), government and regulators in NSW. • Identify global leading practice in the governance of water. • Establish exactly where the overlaps, gaps and coordination issues exist.

Issue**Discussion Question****KPMG Response**

- Design and structure governance and institutional arrangements to meet strategic priorities in the most efficient way.

A governance transition plan should be developed to enable further rationalisation of, and reduction in the complexity of, existing governance and institutional arrangements including the development of clear, well-defined and transparent roles and responsibilities, as far as possible. The plan should identify governance arrangements that are cost-effective, financially viable, sustainable, optimise whole-of-community outcomes and achieve Integrated Water Cycle Management (ICWM).

The Strategic Review could also help the State improve water planning by identifying and providing solutions to key issues such as the need for increasing transparency of the planning process. This could be achieved, for instance, through better stakeholder engagement on climate related issues (especially with drought-affected communities) and improved communications of water infrastructure investment priorities and their underlying assumptions to stakeholders.

Improved river basin management planning in a changing climate requires a fundamental shift in focus towards developing and implementing a more sustainable, climate-resilient water management framework. For leading practice in this area, the European Water Framework (Directive) transposed legislation and a new policy regime to member states to protect and enhance freshwater resources, and ultimately, improve the ecological health of natural water systems throughout Europe; the key aim of the Directive is for surface water bodies to achieve 'good' ecological status by a specific date.

The adoption of such a sustainable approach to the planning and management of the river basins across NSW would, as far as possible (considering the existing water scarcity issues, the severe drought conditions and the increasing impacts arising from a changing climate), result in improvements to the abundance, diversity and population structure of specific bio-indicators. It would also result in better hydro-morphological conditions or flow regimes whilst simultaneously aiming to satisfy the requirements of all users at national, regional and local levels (including communities, agriculture, fisheries, farming).

Issue	Discussion Question	KPMG Response
		<p>This sustainable water framework approach would also facilitate a greater uptake and implementation of sustainable and cost effective ICWM solutions at point-of-use, such as wastewater recycling and stormwater and rainwater harvesting.</p>
<p>Improving service delivery in regional areas</p>	<p>How could the efficiency of local water utilities be improved to increase water security and quality, and lower bills for regional communities?</p>	<p>The efficiency of local water utilities could be improved in regional areas to increase water security and quality by effectively addressing the significant challenges posed by:</p> <ul style="list-style-type: none"> • Lack of scale efficiencies • Inefficient pricing structures • Drought • Climate change • Environmental water allocations • Demographic shifts • Technological advances • Skill shortages. <p>It is likely that, for certain regional communities in increasingly challenged areas, difficult decisions will have to be made with regards to their sustainability and viability in that area in favour of those regional areas where the majority of aforementioned challenges can be adequately addressed.</p>
<p>Expanding the role of water recycling and greater efficiency</p>	<p>What are the barriers to New South Wales achieving larger scale and cost-effective water recycling?</p> <hr/> <p>How can the NSW Government encourage households and businesses to be more water efficient, particularly in metropolitan New South Wales?</p>	<p>In line with the findings of the study conducted by 'Frontier Economics' in January 2019, the barriers to NSW achieving large scale and cost effective water recycling include:</p> <ul style="list-style-type: none"> • Lack of case study information on the constraints and the potential cost savings from water recycling, which means stakeholders cannot easily identify opportunities for cost-effective water recycling. • Lack of regulatory guidance to 'encourage' users to consider and propose water recycling investment opportunities.

Issue	Discussion Question	KPMG Response
		<ul style="list-style-type: none"> • Challenges in incorporating the broader costs and benefits of water recycling in investment and regulatory decision-making. • Additional risks and disincentives for users to consider investment in water recycling relative to other solutions, even where water recycling may be cost-effective. • Retail usage prices for water and wastewater that may not provide efficient signals regarding use of these services. • Differential application of developer charges to recycled water and other services, which reduces the incentive for developers to consider water recycling. • Uncertainty in how the Independent Pricing and Regulatory Tribunal's (IPART) proposed 'retail-minus approach' to setting prices for wholesale services for wholesale customers with a recycled water plant will apply in practice, which creates risks for both public water utilities (who provide these services) and private water utilities (who receive and pay for these services) in NSW. <p>To improve water efficiency, NSW Government could continue to:</p> <ul style="list-style-type: none"> • Minimise leakage across the network to an acceptable level. • Raise awareness of global leading practices in water efficiency standards and measures in buildings amongst users in Metropolitan NSW. • Develop and roll-out an above and below-the-line behaviour-change programme targeting household and business users to ensure water conservation is front-of-mind. Monitoring of water consumption KPIs in Metropolitan NSW would allow for effective benchmarking and evaluation of the effectiveness of such measures.

Infrastructure

The NSW Government has a critical role in encouraging innovation in the infrastructure sector. However, as the solutions being brought to the market become more radical, challenges emerged in terms of defining the role of government and the appropriate regulation. Government must maintain a level of control and oversight over the provisioning of infrastructure, however, keeping up with the pace of technological and social change is a challenge. Further, governments face pressure from existing service providers who have an interest in delaying start-ups and disruptors. It is critical that the NSW Government focuses on creating a regulatory framework that is flexible and durable in the face of technological change. This will likely involve finding a critical balance between control and innovation. KPMG’s responses to the infrastructure discussion questions are outlined in Table 4.

Table 4: Infrastructure Discussion Questions, KPMG Response

Issue	Discussion Question	KPMG Response
Maximising value from investments	How can we further strengthen the governance and transparency of infrastructure investment?	The digital revolution is starting to disrupt the infrastructure sector and has the potential to unlock productivity gains that have been missing for many years. While governments are uniquely placed to facilitate this change and ensure the benefits are distributed across the whole economy, the sector faces many engrained practices and policies that must be overcome if the revolution is to have a lasting impact.
	What types of targeted service improvements and demand management solutions could be considered to maximise value from our infrastructure?	Infrastructure is one of the great enablers of economic productivity. Energy, transport, utilities and telecommunications networks, along with education, housing and health facilities, have underpinned economic growth and our quality of living since the first industrial revolution. It is a blueprint that has served us well. But new investment is no longer delivering the productivity improvements that it used to. And while the fourth industrial revolution is sweeping through the wider economy, infrastructure has been stuck in the past.
	How can we improve strategic land use planning and coordination with major infrastructure delivery?	This is about to change. For infrastructure, the technology revolution is here. It should be welcomed but governments will need to act boldly to realise the full economic and social benefits of this transformation.

Issue	Discussion Question	KPMG Response
		<p>The role of government in facilitating technology adoption in infrastructure includes:</p> <ul style="list-style-type: none"> • Improve understanding and use of data to enable better infrastructure planning and delivery, and in addition to create better transparency re. supply chain management. Open access to data will also enable demonstration of the value for money of major investments. • Ensure infrastructure planning is economy-wide and industry-specific. • Review laws to remove legal obstacles and anticipate emerging responsibilities and risks. Examples include prohibition of autonomous vehicles and privacy restrictions on data collection, aggregation and analysis. • Use purchasing power to influence change including investment in new technologies and the use of data in decision-making, functioning of supply-chains, and up skilling of the workforce. • Review project selection protocols to ensure there isn't a bias towards traditional new build projects at the expense of more technology based initiatives. • Ensure implementation is on time and on budget, and utilises a range of specialists. Given the rapid pace of change in technology it is also critical to adopt a risk based approach to ensure new infrastructure isn't obsolete before the end of its lifecycle. <p>Further information can be found here:</p> <p>Rethinking Infrastructure Planning</p> <p>Infrastructure Productivity</p> <p>Emerging Trends in Infrastructure</p>
Getting the most out of existing assets	What further options should the NSW Government consider to alleviate congestion?	New transport technologies such as autonomous vehicles (AVs) and drone taxis are on the horizon, and have the potential to transform our cities and lives in the decades to

Issue	Discussion Question	KPMG Response
	<p>What measures could we explore to reduce pressure on rail infrastructure during peak periods?</p>	<p>come. In the near term, electric vehicles (EVs) are already here, and their adoption is expected to grow in the years ahead.</p> <p>Some of the enabling technology and infrastructure such as a 5G mobile network, battery technology, connected 'Internet of Things' sensors, and Artificial Intelligence (AI) have now matured to a degree that can help support this transition.</p>
<p>Exploring innovative service delivery models</p>	<p>How can existing innovative service delivery models be further leveraged to improve productivity and customer outcomes?</p> <p>What other innovative service delivery models should the NSW Government consider to improve productivity and customer outcomes?</p>	<p>These technologies are enabling the growth of Mobility as a Service (MaaS), in which consumers choose a mix of public transport, ride sharing and short-term vehicle hires, along with traditional, personal transport options, such as their own cars or electric bikes or scooters. More importantly, the integration of these previously siloed transport modes to create seamless trip solutions with a focus on customer experience will be a game changer.</p> <p>This transition will bring opportunities for governments, the private sector and most importantly citizens, including emissions reductions, reduced congestion, and helping mobility-constrained members of the community to become more mobile and to better participate in everyday life.</p> <p>Along with the current infrastructure investment, these trends will play a major role in realising Australia's vision, addressing the needs of the rapidly growing population, driving economic growth and enhancing social cohesion.</p> <p>Further information is available here: Australia's Future Transport and Mobility</p>

Taxation

KPMG has consistently supported tax reform that causes minimal disruption to citizens' lives and the economy as a means of maintaining and improving quality of life. Our responses to the taxation discussion questions are outlined in Table 5. We note that KPMG have recently submitted a response to the *NSW Review of Federal Financial Relations*, the responses below are consistent with that submission.

Table 5: Taxation Discussion Questions, KPMG Response

Issue	Discussion Question	KPMG Response
Reducing inefficiency in property taxes	What steps could the NSW Government take to reduce its reliance on transfer duty?	Land tax has a major advantage of being immobile and a relatively stable and predictable revenue source. The underutilisation of land tax in the Australian environment lies in the fact that there are exemptions for one's principle place of residence, primary production, not-for-profit organisations and other selected exemptions such as low cost accommodation. Thus, it has a relatively narrow base and a relatively high rate where it does apply.
Improving insurance duties	How can insurance taxation arrangements be improved?	<p>Stamp duties are one of the most inefficient taxes from an economic perspective. They lead to a lack of flexibility in the housing market: on the one hand it is a disincentive to sell to down-size, and on the other it is cheaper to renovate or to extend than to sell and purchase a larger home. It also reduces labour mobility.</p> <p>There are three main difficulties with abolishing stamp duty in some form of trade-off. These are:</p> <ul style="list-style-type: none"> • At any given point the states may be experiencing very high receipts in a buoyant market. • One can pin a non-resident purchaser surcharge on to stamp duty, as many states have now done, and thus benefit from the high foreign investment into the

Issue

Discussion Question

KPMG Response

Australian property market. This investment is likely to continue, and may well even increase in a more volatile international environment.

- People tend to like paying tax when they have access to cash (i.e. borrowing from a bank). In that sense stamp duty may be psychologically less imposing than annual taxation.

The *Review of Australia's Future Tax System* in 2009 recommended that stamp duties be replaced over time by more efficient annual land taxes. Commencing in its 2012-13 Budget, the ACT began a 20-year process of phasing out duties on residential property and increasing general rates and land tax. Although ACT stamp duty on residential property has since reduced, it is not yet insignificant. Therefore it is too early to ascertain the full impact of this plan.

Annual taxation needs to deal with the difficult issue of home owners who are retired and do not have access to the same income as younger home owners. One could design a system where land tax or property services tax was paid for out of the equity in their home. Taxpayers who use this payment mechanism might also need to have a cap applied to their liability for the property services tax.

One solution is to broaden the land tax base with a comprehensive progressive property services charge which would replace rates, insurance taxes and stamp duty with one annual charge. There are clearly political and transitional difficulties associated with this option; the current exemptions will be hard to unseat and there are difficulties converting a stamp duty payable on exchange of property into an annual tax. Such difficulties are not insurmountable.

Additionally, there is potential for a land tax – stamp duty trade-off. Key features include:

- Abolish stamp duty on the transfer of residential and commercial property.
- Combine rates, land tax, insurance taxes and emergency services levies into a new Property Services Tax which would be levied at progressive rates based on unit values, with a minimum value threshold. It would be administered by the ATO, in a similar way that the ATO administers the GST revenue destined for the States and Territories.

Issue	Discussion Question	KPMG Response
Improving motor vehicle taxes	How could motor vehicle taxation arrangements be improved?	<ul style="list-style-type: none"> • One third of the property services tax would go into a Property Services Equalisation Fund, which would be administered and distributed by an independent body equivalent to the Commonwealth Grants Commission. • This body would distribute funds to local governments to help equalise the capacity of local governments to provide local infrastructure and services. The remainder of the funds would be used for projects involving multiple local entities. • The Property Services Equalisation Fund would produce highly transparent reports. It would show comparative income and expenditure of local governments including top-up grants. This, of itself, would drive greater efficiency. • An additional feature could be the redirection of current federal government funding of local governments, which includes per capita and local road funding, to the Property Services Equalisation Fund. • The property services tax would involve a deferral scheme 'owned' by the Property Services Equalisation Fund but managed by a financial institution, or consortia of financial institutions determined by tender. The deferral scheme would provide: <ul style="list-style-type: none"> • That any individual owner over the age of 60 could defer 80 per cent of the property services tax until sale of the property or death, with a government bond rate interest change. There would be pro rata rules for joint ownership. • A selected group of others (disability pensioners etc.) would be able to enter the deferral scheme. • Properties not owned individually (that is, those held in discretionary trusts) would not be entitled to the scheme. <p>A series of miscellaneous taxes exist in NSW, such as insurance taxes, and these taxes are regressive and highly inefficient. There needs to be a long-term plan for their removal.</p> <p>Road user charging can be an efficient or low-distortionary tax, particularly where it accommodates dynamic pricing to manage access and to pay for variable</p>

Issue	Discussion Question	KPMG Response
		<p>'externalities' such as road, health and air pollution costs. Arguably, it has the potential for low levels of regressive impact, where those on lower incomes have some flexibility, including using public transport.</p> <p>Where a tax uses GPS infrastructure, there may be secondary benefits including parking and insurance. Another advantage is that user charging may reduce the demand for future infrastructure.</p> <p>Geographically-based charging has raised privacy concerns, although these may be dealt with using encryption technology. More comprehensive road user charging may be implemented with other reforms in such a way that the package becomes politically tenable.</p>
Simplifying payroll tax arrangements	How can payroll tax arrangements be further improved and simplified?	<p>Generally, payroll tax with a wide base is a highly efficient tax. It is less so where the tax base is not comprehensive or where it is not harmonised. This is our present circumstance, although it is still a critical tax making up between one quarter and one third of State Government revenue.</p> <p>Payroll tax is the most important State tax in terms of revenue collection (leaving aside the GST). It raises much more revenue in the most populous and industrialised states (NSW and Victoria) than in smaller, agricultural or resource-rich states.</p> <p>There is rhetoric associated with payroll tax which describes it as a tax on jobs. Most economists would assert that the effects of payroll tax are passed on either through higher prices (thus akin to a tax on consumption) or through lower wages (thus akin to a tax on income).</p> <p>Payroll tax is levied on the total payments for employee wages of employers, over specified thresholds (including wages, fringe benefits, bonuses and commissions). Payroll tax can be weakened through tax competition, producing increases in the threshold for taxation, variable rates and special exemptions.</p> <p>The relative immobility of resources (compared to capital) makes payroll tax a good tax base for the States. However, current Australian payroll taxes are not comprehensive. As technology improves, there is scope for further research to examine the feasibility of broadening the payroll base, or levying it on a comprehensive national tax base, possibly through Commonwealth PAYG wage withholding system on behalf of the States. This would require a federal – state package.</p>

Planning

Cities are economic assets and Sydney is Australia’s only true global city. Urban policy is economic policy and Sydney has to grow in a way that maintains or enhances livability, or risk becoming uncompetitive. This means focusing on agglomeration, innovation, culture and amenity, and managing diseconomies. For NSW, these diseconomies are housing affordability, congestion, pollution and accessibility to jobs. We need to capitalise on our strong regional centres. This will help diversify and build resilience into the economy, and provide families and businesses with more options on where to live, work and train. KPMG responses to discussion questions are outlined in Table 6.

Table 6: Planning Discussion Questions, KPMG Response

Issue	Discussion Question	KPMG Response
Unlocking the potential of our employment zones	What steps could the NSW Government take to improve residential development regulations to support an adequate supply of affordable housing?	There is an opportunity to strengthen metro governance. The Greater Sydney Commission (GSC) has demonstrated that structural reform is not the only pathway to more joined up metro planning and investment. Success depends on how far the State Infrastructure Plan, Transport Masterplan and agency priorities lock in behind GSC’s plan. The NSW Government could consider rolling out a similar approach to Newcastle and Wollongong.
	What other planning policy options should the NSW Government consider to ensure the planning system support job creation and respond to consumer preferences?	An enhanced approach to precincts could be adopted including micro-city deals for distinct precincts including partnerships based on shared objectives, long term view to returns on investment, innovative financing / funding and that utilises all levers (infrastructure, policy, governance reform) in a coherent plan for development and growth.
		Use of fast rail combined with new specific investment zones, would release the pressure on the three cities model and open up NSW to become the place to live, work and grow. An example of this could be Agri-tech or even just enabling tourism to parts of the coastline/state that are suffering.

Issue	Discussion Question	KPMG Response
Building dwellings that better match our preferences	What steps could the NSW Government take to improve residential development regulations to support an adequate supply of affordable housing?	<p>Housing strategy for key workers could be established including leveraging government owned land and greater engagement with developers to increase the support around affordable housing for key workers within close proximity to employment centres.</p> <p>The UK has taken a bold approach to ensuring key worker housing is designed into plans and new developments, with mandated targets per developments and potentially subsidised 'support' to help them. This will help ensure high growth areas have a good supply of locally based teachers, nurses, emergency service workers, and other key workers. The NSW Government should leverage this model.</p> <p>For more regional areas, where key workers such as teachers and nurses may have a high demand but little supply, the Government should review incentives or subsidies to help offset distance/supply chain challenges</p>
Making the most of our public spaces and green space	<p>Are there other innovative ways of providing new public space, particularly on underutilised land?</p> <hr/> <p>What opportunities are there to improve the use of transport corridors in high density areas?</p>	Investments in public domain and community infrastructure should be considered economic infrastructure. This infrastructure is essential to accompany growth and community acceptance of density. There is a need to consider development of methodology to value and price these benefits, and a funding program to deliver priority community infrastructure.

Regulation

Growing business confidence and attracting new investments is critical to growing the State’s economy. This will continue to be important in an economy with mobile human and economic capital. SMEs are critical and drive the economy, accounting for over 99 per cent of businesses and around 70 per cent of economic activity in the State. The next stage of reform must build on current progress. We are not starting from scratch. Opportunities need to dovetail with improving government effectiveness. Specifically:

- There is an opportunity to continue to reduce regulatory burden and drive regulator performance. By joining up and building on progress in regulatory cost reduction, Service NSW, Local Government reform and the Easy to Do Business Initiative can drive a more whole-of-system approach that reduces regulatory costs (particularly on SMEs) and boosts regulator performance across NSW.
- There is an opportunity to strengthen data collection, usage and sharing by strengthening the role/authorisation, resourcing, capability, and governance of the NSW Data Analytics Centre (DAC) as the vehicle to strengthen the use of data in driving policy outcomes.
- There are opportunities to reduce the tax compliance burden on SMEs by streamlining compliance processes, IT and data linkages (internally and with businesses) to further reduce compliance costs on businesses, and minimise tax revenue leakage for the NSW Government.

Ease of doing business with government will ensure that businesses and customers have seamless interactions. This will reduce duplication and regulations that are imposed by different government agencies and across different tiers of government. Data quality and transparency across a variety of areas (e.g. budgets, procurement) will assist businesses and customers better access government services and markets. Digitisation of government processes will support seamless interactions and enhance remote and regional access to government, bringing government in line with modern eCommerce expectations.

KPMG responses to the discussion questions are outlined in Table 7.

Table 7: Regulation Discussion Questions, KPMG Response

Issue	Discussion Question	KPMG Response
Forward-looking regulation that supports	What new tools can be harnessed to enable an adaptive, iterative and outcomes-based approach? Is there	The involvement of businesses in identifying opportunities for streamlining of regulation should be a priority for all three layers of government. A regulation taskforce, which would supplement the government lens with a business lens, should be established with a goal of devising better regulation that supports businesses to

Issue	Discussion Question	KPMG Response
competition and innovation	scope for greater uptake of these tools in New South Wales?	<p>realise the economic benefits of digital communication, data and other new advances in technology.</p> <p>Governments should focus on reviewing how other nations and industries are transforming services for customers and reducing costs of service delivery. In this day of digital design, access to and delivery of government services should be frictionless for the great majority of customers.</p> <p>Further, there are a number of ways to improve the effectiveness of government and embrace technologies that facilitate efficiency:</p> <ul style="list-style-type: none"> • Greater information sharing across governments through collaboration with other jurisdictions in multiple areas will reduce the need for duplication of information for businesses and customers when dealing with government. • There is an opportunity to improve data capture and sharing by developing an integrated approach to data capture across departments, including clear and transparent standards for data storage and the nature of the data collected. • Embrace opportunities to increase electronic interactions, improve regional services and make services available in a more flexible and cost-effective way. Make use of market technology services such as mobile Backend as a Service (mBaaS), a cloud computing category comprised of companies that provide backend functionality from user management to data access, data storage and business logic. • There is an opportunity for a more effective approach to financial management through adoption of specific fiscal targets to assist with budget management and credibility, including longer-dated projections of selected major programs to better inform budget formulations.



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