

Western Sydney Leadership Dialogue submission to the NSW Productivity Commission
Discussion Paper, *Kickstarting the Productivity Conversation*

December 2019

Kickstarting the productivity conversation

Introduction

The Western Sydney Leadership Dialogue (the Dialogue) is pleased to respond to the Commission's invitation to contribute to a conversation about NSW's future productivity.

Broad economic context

The conversation is a timely one. Like the rest of the country and the world, NSW now stands at a critical juncture. The strategic economic decisions made by the current government over the next few years will define the prosperity and productivity of many future generations in this state. Complicating these decisions and demanding that 'business as usual' thinking be rejected is the confluence of three disruptive factors.

- a. **Recent historical economic assumptions may no longer apply.** The break-down of once-dependable functional relationships, such as between interest rates, business investment, unemployment, wages, taxation and consumer spending, are persuasive signs that this conversation should start 'from economic scratch'.
- b. **Shifting geopolitical and global economic dispositions.** Aggressively competitive interaction between key trading partners in NSW's regions of interest demands a conversation with no preconceptions based on existing economic relationships, and an open mind about future ones.
- c. **Anthropogenic Climate Change is now economic reality.** Remaining disagreements over 'the science' are now irrelevant to strategic economic positioning. The global investment and risk amelioration sectors have accepted it and for the purposes of this conversation the Climate Change debate must be regarded as closed.

Domestic economic context

This conversation is being kick-started at a time of growing uncertainty and a nascent apparent failure of proven productivity measures of the past. In particular a growing body of economic thought is concluding that a continuing focus on monetary policy, budgetary discipline and a reluctance to borrow for strategic growth will no longer provide the optimum framework for sustained productivity gains. Tenacious wage stagnation and lackluster private sector investment, despite aggressive monetary and broad-based tax cut stimulation, suggests that high household debt and insufficiently bold strategic investment leadership now threatens to become a drag on continuing productivity growth.

NSW Productivity Commission context

The Dialogue acknowledges and supports the PC's four-stranded mission on behalf of the people of NSW: to make it easier for us to do business here, to lower our cost of living, to make

our housing more affordable (especially for our younger and future generations), and to make our state the easiest to move to, whether from other Australian states or overseas.

Western Sydney Leadership Dialogue context

Macroeconomic and fiscal settings are important, but the engine room of economic growth will always be the aspirations of individual workers and self-starting businesses. Recognizing that our region does not have exclusive rights on the following, we note that GWS:

- a. continues on most economic metrics to lag other parts of Sydney;
- b. has never-the-less also shown the greatest relative improvements in recent decades, revealing great regional appetite and capacity for self-generated productivity improvements;
- c. has and will continue to absorb most of state's projected population growth;
- d. will thus continue to be significantly shaped by aspirational newcomers driven by their individual desire for a better economic future; and
- e. has been recognized by successive federal governments as a key national productivity multiplier, via support for strategic projects like Western Sydney Airport and Aerotropolis (WSA&A).

The Dialogue submits that just as NSW will play a leading role in securing all Australians' future productivity, GWS will play a leading economic role within NSW. Policy choices, spending commitments and investment attraction strategies that skew towards accelerating the activation of GWS's economic future will be a highly efficient way of also advancing the interests of the state, and the nation. What is good for GWS's productivity will be very good for that of NSW, and Australia.

We respond briefly to the six suggested areas for discussion on this basis.

1. Building human capital for a modern and evolving economy

Encourage and enable newcomers to bring existing skills – and bring their own jobs

- one and a half million energetic and ambitious 'productivity engines' will arrive in GWS in the next two decades;
- the Dialogue supports policies that maximize professional/trade skills transfer and small business start-up, without eroding existing workplace standards and equity;
- we urge a sensible and feasible alignment of immigration sourcing, processing and incentivizing with GWS's skills and expertise needs, as well as a streamlining wherever possible of non-NSW qualification and experience recognition;
- NSW should not shy from shaping its population growth to suit its productivity needs;
- conversation about new jobs in GWS has so far been passive, as if 200,000 is a 'magic number' WSA&A will conjure up and have 'waiting' for them;

- we need to reverse this thinking, reframing GWS population growth as a bring-your-own-skills-opportunities-and-businesses ‘new gold rush’;
- WSA&A is crucial to future growth, but the established local economies and productivity frameworks of each individual GWS LGA should not be neglected, as these will remain the primary nurturing ecologies for growth SMEs, particularly those of ambitious, newly arrived migrants, often with established international business links (‘migrapreneurs’);
- conversations about productivity uptick in GWS must recognize the different economic nature and needs of each LGA;
- individual ‘by LGA’ productivity frameworks, perhaps including granular analysis of potential local growth sectors and even employment targets, would add focus, ballast and higher-level visibility to Council contributions to the productivity conversation, and help avoid individual LGA needs being sidelined or swamped;
- key to enabling the full productivity of WS&A-proximate LGA economies will be ensuring that local SME’s (existing and established) can participate in the large scale economic growth activity as it evolves, via procurement and supply chain frameworks that ‘share the opportunities around’, service contract and staffing policies that foster local economic enmeshment, and a firm eschewal of the ‘branch office’ approach by international tenants.

Education – no let-up on public education

- educational outcomes in GWS have improved but still lag in NAPLAN and PISA etc, and the Dialogue urges no let-up in education service and infrastructure ‘catch-up’;
- we oppose any long-term relative erosion of the public education system, since public education catchment enables the greatest productivity gains, self-selecting as it does those most likely to be excluded from full economic activity but ‘wanting in’, and duly offering them a pathway to it;
- in particular, public policy must continue to improve digital and IT equality between the public and private sectors, including in the next-gen ‘productivity multipliers’ of 5G, NBN, digital classrooms and virtual reality skills training;

Public education must also be aligned and retooled to a disrupting/new tech economy

- for tomorrow’s graduates the keys to maintained productivity will be in professional and skills agility, optionality and education autonomy;
- our schools, TAFES and universities need to produce self-contained ‘productivity engines’ equipped to navigate a highly-dynamic employment landscape, and a volatile contractual or ‘gig’ economy;
- the Dialogue supports a general shift in the later stages of our public schools away from the still-dominant ‘individual knowledge accumulation’ approach to a more generic, team (i.e. future workplace) oriented ‘problem solving’ approach;

- as part of this public schools in GWS must not shy away from more local engagement with the commercial sector and policies must facilitate this;
- VET and trade courses will need to become more integrated with the ‘new trade skills’ needs being created by the accelerating ‘de-carbonization’ of our utilities industries;
- these sectors are radically reinventing themselves and there is a huge opportunity to revitalize our TAFE system by renewing the older apprenticeship models, where industry was incentivized to bear much more of the training burden in-place;
- the Western Sydney University model of tertiary and higher research education, in which public education and research is deeply intertwined with private sector project development and research applicability is the only model that will fully seize the productivity opportunities now on offer from ‘de-carbonisation’;
- with this in mind the Dialogue will continue elsewhere to advocate the establishment of a for-purpose ‘urban-in-place’ Green Utilities R&D and STEM Training Precinct, in the existing industrial zone of Camellia in Greater Parramatta and Olympic Park;
- we commend the proximity of Camellia to other best-practice STEM education assets (current and growth), such as WSU Parramatta and Rydalmere campuses, and Westmead Health and Education Precinct;
- a Camellia green utilities precinct should be both modelled on and draw from the resources of existing similar joint enterprises (physical and virtual), such as the national Cooperative Research Centre for Low-Carbon Living; University of Newcastle’s Institute for Energy and Resources; and UNSW Centre for Energy and Environmental Markets.

Maintaining a healthy and productive workforce

- the Dialogue takes the opportunity to draw the Commission’s attention to the productivity implications of our ongoing advocacy on the Obesity crisis now facing our community (see our Western Sydney’s Heavy Issue paper of June 2019);
- we welcome the federal government’s recent commitment to developing a National Obesity Strategy and would encourage the issues raised in the COAG Health Council’s circulating Consultation Paper be considered as productivity factors in this conversation;
- while acknowledging that the application of some form of sugar tax is primarily a federal matter we commend, to all participants in this conversation, the Consultation Paper as a good opportunity to advocate for the long-term productivity benefits of one;
- we re-iterate our advocacy in our Heavy Issue paper of an end to junk food advertising in Sydney trains and school buses, again in the context of helping sustain a healthier, more productive workforce;

Human capital pipeline must keep pace with infrastructure

- of particular importance to a region which is finally placing catch-up in health and education infrastructure is the growing awareness that the productivity gains of these assets cannot be fully realized if the pipeline of human capital fails to keep pace;

- the conversation should keep in mind that a new state-of-the-art hospital or school that can't be fully staffed at a commensurate level may contribute little more to productivity growth than no new hospital or school at all.

2. Reliable, sustainable and productive use of our water and energy

Expand this section to acknowledge scale of Climate Change/utilities disruption

- this section should be expanded to the more inclusive 'integrated utilities';
- or at least include waste management and communications components explicitly;
- waste-to-energy, battery home storage, smart metering, household water recycling units and 5G comms are all inherent to tomorrow's improved water and energy productivity, and this part of the conversation needs to address them together as a productivity lever on a disruptive scale;
- included in this ought to be recognition that the post-fossil fuel ('de-carbonized') utilities economy will be a Circular Economy, and maximizing the productivity of this will demand far more than simply meeting technical challenges;
- the conversation here will need to address non-technical elements like investment de-risking, pricing models and cost distribution, the rise of two-way utilities and the producer-consumer ('prosumer'), and the major realignment of utility social licensing.

Water market overhaul in Metropolitan Sydney/GWS

- Sydney's water marketplace needs a complete overhaul for future productivity, and the impact of failing to do so will be greatest in GWS;
- water productivity is a direct function of water use efficiency, and water efficiency means using the 'right water for the right job' (for example, avoiding the 'wasteful' use of drinking water for non-drinking purposes, etc);
- the 'right water for the right' job demands water supply chain optionality, and this must incorporate an express plan/intention to ramp-up recycling capacity in the near future, before major 'business as usual' investment decisions are made regarding existing water models and assets;
- the vast agribusiness (hydro/agroponics) opportunities in greenfields will demand vast quantities of water, suggesting huge recycling capacity;
- CSR investment attraction at WSA and WCAA will demand world-best practice Integrated Water Cycle Management/Low Carbon Footprint utilities capacity;
- there exists huge potential for strategic investment decisions now (for example in dam upgrade, desalination and ocean outfall assets) to cripple our future productivity gains in by shackling us to stranded assets and a twentieth century approach to managing increasingly scarce water resources.

A dedicated Camellia Green Utilities Precinct as we advocate

- will underwrite the fastest and fullest integration of our future integrated utilities into our communities, since the best place to start major disruptive change is at the most complicated problem-solving point-of-resistance - rather than in an artificially isolated environment (such as a business park or a laboratory);
- the recent naming of Parkes as a 'Special Activation Zone' will facilitate excellent green utilities research but dense Sydney infill areas must host similar work, to properly seize the opportunity to become an IP exporting 'de-carbonization' world-leader;
- 'urban-in-place' green utilities will be particularly vital in accelerating our research and scaled-up practical delivery capacity in 'learn by doing' areas, such as Distributed Energy Resource/grid/'prosumer integration, in-home/autonomous water recycling and individual IWCM, and energy-from-waste options;
- the Dialogue would support the measured use of fiscal policy levers, such as direct subsidy and tax/duty exemptions, to attract investment in high-risk fields;
- we would support the use of government energy procurement off-takes to help upscale green utilities transition (for example, PLR and West Metro stabling yards).

3. Smart ways to get more from our infrastructure

- 5G technology and smart metering and digitalization should unlock multiple productivity gains in areas of systemic fair aggregation;
- lateral thinking in the application of data analytics and at high-speed, real-time information management should be deployed to unlock previously un-attainable behavior and systemic efficiencies;
- we should explore productivity options in transport this unlocks, such as differential road tolls and public transport fares, time and load based pricing, and road use pricing that more closely reflecting 'user pays'.
- 5G technology should greatly expand our capacity to use long-range commuting space for work/productivity gains, for example free WIFI on trains/metro;
- advanced data and communications capacity could also be extended to health management, in the form of 'smart metering' of individual health plans;
- we should consider incorporating more automation, digital consultation (for functions like script writing and routine follow ups), and even differential fee structures, to aggregate the pressure on health infrastructure services.

4. Modernising our tax system to help our economy to grow

- NSW Government advocacy for an overhaul of property transfer duties and a move towards a broad-based land tax is strongly supported as a means of placing the state's property tax settings on a more efficient and equitable footing for future generations;
- the failure to have in place a coherent value capture policy throughout the most recent residential property boom is a substantial missed opportunity to generate revenue to fund the state's ever-expanding infrastructure pipeline. Consideration should be given to project-specific levies targeted at stakeholders receiving a direct benefit from project

investment such as the City of London's business rate supplement – used to fund Crossrail with a notably high degree of support from those forced to pay it.

- the green precinct at Camellia we advocate might present as a pilot project in a land tax/transfer duty trade-off;
- special tax zone status for Camellia (on green utilities investment incentive grounds) could also serve as a controlled experiment in 'best-practice' sustainable new growth, as well as a means to explore public utilities upgrade 'value-capture' options;
- a 5 year energy-from-waste project at Camellia, slowly upscaling from government procurement offtakes at Metro/LR yard to providing high-efficiency circular utilities for the adjacent new growth Rosehill North, could become a trial-and-error market exercise in private profit/public value-capture, in which sales transfer exemptions were granted in exchange for a 'green land tax' concept;
- NSW should continue to be a bold and fearless advocate for national tax reform wherever it sees fit, noting the limited tax levers available at the state level, the significant expertise within the NSW Treasury and public service more broadly, and the size and influence of NSW as Australia's largest tax base.

5. Planning for the housing we want and the jobs we need

- The NSW Government needs to ensure that there is a strong skills and SME legacy flowing from its record investment in infrastructure;
- too often 'local procurement' is treated as a zero-sum proposition, a choice between massive union-controlled manufacturing plants and off-the-shelf solutions imported from overseas. Neither of these concepts are particularly conducive to productivity and longer-term economic diversity;
- the \$100b currently invested (and counting) will best serve the state if our SME sector is equipped to participate in government and tier-one contractor supply chains, and procurement is geared towards developing local skills and industries that can have a lasting economic contribution beyond the major project boom, such as modular construction material manufacturing;
- Sydney Metro West station precincts should have mandated 30 per cent social/affordable housing provided in new residential developments within a 10-minute walking catchment.
- at the base of our housing market, the supply of social and affordable housing has failed to keep pace with populations growth and must be expanded both as a safety net for the least fortunate in society, but also to mitigate the adverse impact of property price growth outstripping income growth;
- the large-scale transfer of social housing assets from government balance sheets to the community sector should be considered as a means of providing non-government housing providers capacity to operate on a commercially viable scale to expand and renew stock at the rate required to address the current backlog;

- as a pilot, five separate \$1b tranches could be tendered across Western Sydney locations.

6. Forward-looking regulation that supports competition and innovation

- Publicity-driven attempts by government to ‘do innovation’ are often a waste of public resources and indeed can be counterproductive. Instead, it is appropriate for government to consider what it can do less of to enable innovators to innovate;
- the PC should treat with skepticism any generic calls for reductions in ‘red tape’ or ‘green tape’ absent of any detail or rationalisation;
- the Dialogue advocates a review of local planning frameworks, and specifically where competing policy objectives intersect and prevent Councils from delivering the amenity demanded by their constituents – for example many councils are finding Austroads guidelines around road design contradict best-practice measures prescribed to counter urban heat island effect, namely the planning of trees roadside.

Our Latest Discussion Paper – *Western Sydney’s Hot Issue*

We take the opportunity to note our latest Discussion Paper, which addresses the complex matter of our changing climate. We approach this vast and contentious subject as a whole-of-community exercise in utilities transition, away from the existing centralized, linear and inefficient models of provisioning our basic living needs, towards a more integrated, sustainable circular economy framework.

The Paper’s scope precludes detailed citation here but clearly ensuring NSW’s future productivity is core both to its *raison d’etre*, and in informing its Recommendations. As such we respectfully invite both the Productivity Commission, and all participants in this conversation, to give it some consideration.

Acknowledgement

The Dialogue thanks the Productivity Commission once again for the opportunity to join this conversation, and looks forward to continuing our participation as it evolves.

For further information, or any follow-up questions arising from any of the above please contact:

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Or contact the Dialogue office by phone on 02 9810 8496

GREATER WESTERN SYDNEY'S HOT ISSUE

EXECUTIVE SUMMARY | DECEMBER 2019





**BEYOND THE CLIMATE
CHANGE WARS:
A WHOLE-OF-COMMUNITY
UTILITIES TRANSITION
'WORKING BEE'**



THE WORSENING DROUGHT, record low dam levels and early start to the bushfire season have confirmed the need for practical action in response to rising temperatures and increasingly volatile weather patterns. The shift in public perceptions already underway is accelerating. Overwhelmingly, Australians now want to stop arguing about climate change and take steps to mitigate its worsening impact.

That impact is felt more intensely in Greater Western Sydney (GWS) than in other parts of Sydney, and for people living in the region it is a day-to-day reality, not a far-off problem for future generations and future governments to solve.

A transforming built environment, fewer green spaces and natural waterways, more concentrated traffic pollution and a lack of sea breeze creates an Urban Heat Island effect which can lead to temperatures in GWS 10 to 15 degrees above those in Sydney's east. As climate change progresses, its impact on health, productivity and amenity will be felt first and most ferociously by those living in the region. For this reason, climate change is **Western Sydney's Hot Issue** and the Dialogue believes a focus on our utilities is the best way to circumvent the raucous and unproductive policy debate around national or global solutions.

Notwithstanding the now infamous intransigence at the policy and political level and the need for a collaborative community effort, our recommendations call strongly on government to lead. While the community's expectations for big sweeping policy solutions are tragically low, it is not unreasonable to ask for practical solutions to the here-and-now side-effects of climate change, and to question the fairness of the community bearing the burden of policy failures past – we deserve better than to have to accept load shedding in our energy grid whenever there is a heatwave, for example.

In the utilities space, there are a myriad of small actions that can add up to a giant leap in addressing the Hot Issue.

HEAT, WATER AND WASTE IN GWS

Since 1965 the mean maximum January temperature in GWS has increased over twice as much as it has in the rest of Sydney, and the number of January days over 35 degrees has grown ten times more. Sydney's water usage and leakage rates are high, and our water recycling rate is low in comparison to other major Australian cities and many overseas jurisdictions. Following changes to recycling export markets and with population growth and infrastructure activity continuing apace, Sydney's excessive per capita waste generation, modest recycling performance and virtually non-existent waste-to-energy recovery capacity now also demands a complete rethink.



UTILITY TRANSITION AND GREATER WESTERN SYDNEY

This city is getting hotter, squandering too much water and producing too much waste. The extra urgency of these converging 'basic provisions' factors in GWS, combined with ambitious projected growth rates and ageing existing utilities infrastructure, now demand the region to take the lead in calling for disruptive but coherent strategic change to our utilities networks: how we provide ourselves with food and water, shelter and sanitation, energy and communications.

The necessary transition will be away from the existing Linear Economy utility networks, of centralised large-scale generation, one-way distribution, and inefficient single-use consumption, towards Circular Economy models. In this more environmentally sustainable approach, the currently 'siloes' utilities functions, feedstocks and outputs will become progressively integrated and coordinated, minimising waste and carbon footprint and maximising consumption efficiencies. The transition will be complex, expensive and multigenerational, with much of the operational detail necessarily refined 'as we go'. It will demand an epic collective effort in practical problem-solving, one we need to start now. With this in mind, the Dialogue recommends five immediate bold policy steps, to kickstart a whole-of-community utilities transition 'working bee' – or at least to focus discussion beyond the 'climate change wars'.

OUR RECOMMENDATIONS ARE GUIDED BY FIVE TRANSITIONAL PRINCIPLES:

1. Political and public service leadership will be vital.
2. Whole-of-community participation, however, is what will make or break successful transition.
3. Expertise must prevail – as must our individual agency for collective change.
4. Cooperative goodwill between the commercial and not-for-profit sectors is critical.
5. No-one gets left behind in this utilities transition.

RECOMMENDATIONS

PUTTING THE SYDNEY WATER MARKET TO WORK: A HARD RECYCLING TARGET

1

We recommend that a twinned target of 100 Gigalitres/20% of recycled water in Sydney's water use 'budget' by 2030 be set as a standing Premier's Priority. Last year Sydney consumed a massive 210 litres per day per resident, which is much more than most Australians. Most of this we used only once and then flushed wastefully out to sea. Meanwhile recycled water represented less than seven percent of our total consumption, lagging far behind national and world's best practice.

Reusing drinking water for other purposes doesn't just ease our dependence on unpredictable rainfall, it also retains our most powerful 'cooling and greening' tool in our local communities, helping keep temperatures down in our suburbs. Our poor water recycling performance is largely the result of an inefficient water sector framework, in which neither the supplier, Sydney Water, nor the many private sector specialists can fully deploy their world-class expertise. A recycling 'hard target' is the strategic spur that will drive a long-overdue recalibration, and put Sydney's water market properly to work.

EXPANDING WASTE STEWARDSHIP: SOLVING OUR TAKEAWAY COFFEE PROBLEM

2

We recommend a whole-of-community 'stewardship of waste' pilot project to reduce our use of non-recyclable takeaway coffee cups. We call on the NSW Government to lead it by committing to avoid these problem-waste items in all procurement, and the rest of us to join in by choosing reusable or compostable options, too. Expanding waste stewardship, which prices the full cost of consumption into our purchases, is the key to maintaining our high standard of living while reducing its current unsustainable waste byproducts.

LGA GREENING AND COOLING: EQUIPPING OUR COUNCILS FOR THE FIGHT AGAINST URBAN HEAT

3

We recommend that our local Councils' individual capacity to lead the fight against Western Sydney's Hot Issue in their own communities be enhanced, where necessary by sharpening, streamlining and devolving to them the planning authority and tools that determine how their built environments evolve. No-one is better placed to keep their own suburbs cool and sustainable than those who live, work and govern in them. Sydney's planning framework must recognise this, and facilitate their doing so.

MANAGING ENERGY DEMAND: WEANING OURSELVES OFF UNSUSTAINABLE AIR-CONDITIONING

4

We recommend that the NSW government lead in a whole-of-community easing of our dependence on excessive air-conditioning, by adopting a minimum thermostat setting of 25 degrees in government premises – and inviting us to do the same. Abundant electricity has eroded our capacity for energy self-discipline, nowhere more so than with our emissions-intensive air-con. This is now a critical grid overload issue in our worsening summers. We all need to moderate – only slightly – our 'need' to live in fridges.

INVENTING OUR SUSTAINABLE FUTURE: A 'GREEN UTILITIES' R&D PRECINCT FOR CAMELLIA

5

Finally, we recommend that a strategic 'green utilities' precinct be established in the existing light industrial zone of Camellia. Our utilities transition will need a dedicated strategic hub for the coordinated development of integrated green technologies, new green research and trade skills, and recalibrated investment and project delivery models. Camellia, integrated within, but sensitively delineated from, precisely the kind of dense urban infill areas that our utilities transition will ultimately benefit the most, fits the bill well.


WESTERN SYDNEY LEADERSHIP DIALOGUE


The Dialogue is a not-for-profit, community initiative leading a national conversation about Greater Western Sydney.


The Dialogue facilitates interaction between key opinion leaders, across industry, government, academia and the community, to inform public policy debate and to advance a Western Sydney regional agenda through research, analysis, advocacy & events.

If you would like to know about partnering with the Dialogue, please email info@westernsydney.org.au requesting our company credentials or an event sponsorship prospectus.

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