

**REPORT OF PROCEEDINGS BEFORE**

**COMMITTEE ON ECONOMIC DEVELOPMENT**

**INQUIRY INTO THE ESTABLISHMENT OF SPECIAL  
ECONOMIC ZONES**

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**At Sydney on Monday 30 April 2012**

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**The Committee met at 9.30 a.m.**

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**PRESENT**

Mr D. A. Elliott (Chair)

Mr S. L. Ayres (Deputy Chair)

Mr C. Gulaptis

Mr J. T. Parker

**CHAIR:** I declare the meeting open. I welcome four of the five members of the Committee on Economic Development. We have an apology from the member for Wollongong, Noreen Hay, who is returning from overseas this morning. For the information of the witnesses and for the benefit of Hansard we are here to conduct an inquiry into the referral to the Committee on Economic Development by the Treasurer to establish special economic zones. I welcome Luke Aitken and Micah Green from the New South Wales Business Chamber and thank them for attending today.

**MICAH ANDREW GREEN**, Economist, New South Wales Business Chamber, 140 Arthur Street, North Sydney, sworn and examined, and

**LUKE FRANCIS AITKEN**, Policy Adviser, Regional Policy Initiatives, New South Wales Business Chamber, 140 Arthur Street, North Sydney, affirmed and examined:

**CHAIR:** Have you both been issued with information about the standing orders that relate to witnesses appearing before parliamentary committees?

**Mr M. GREEN:** Yes.

**Mr AITKEN:** Yes.

**CHAIR:** Do you have any questions regarding the proceedings?

**Mr AITKEN:** No.

**CHAIR:** Would you like to make an opening statement before we commence questions?

**Mr AITKEN:** I will read an opening statement. The New South Wales Business Chamber is one of Australia's largest business support groups, helping around 30,000 businesses each year. Founded in 1885, the New South Wales Business Chamber works with thousands of businesses, from owner-operators to large corporations, from product based manufacturers to service provider enterprises. The chamber is a leading business solution provider and lobbying group with strengths in workplace management, occupational health and safety, industrial relations and human resources. Operating throughout a network in metropolitan and regional New South Wales, the New South Wales Business Chamber represents the needs of business at a local, State and Federal level, advocating on behalf of its members to create a better environment for industry.

As the Committee would be aware, over recent years New South Wales' share of the nation's gross domestic product has declined. It is time to reverse that decline and build a strong and more resilient New South Wales economy. New South Wales simply cannot rely upon Sydney for future growth. We need to look towards our regions to drive the economy and build new centres of industry. The New South Wales Business Chamber believes that the State Government has a critical role to play in attracting and retaining businesses in our regions, maintaining a competitive tax system, minimising compliance burdens and running efficient and effective services are all ways in which business can be attracted to set up and grow in New South Wales.

While the New South Wales Business Chamber's position remains that to make New South Wales as competitive as possible, harmonisation of regulation should be undertaken at the State level, we also recognise that establishing special economic zones in our regions is one way in which we can kick-start regional economies and better manage growth.

**CHAIR:** Mr Green, did you want to add anything else?

**Mr M. GREEN:** No, I think that covers everything.

**CHAIR:** You are aware that this Committee is meeting with both industry associations as well as umbrella groups. We have also sought input from local government and the various regional economic business bodies which are not dissimilar to yours. If we make a recommendation to government relating to region-specific economic zones, would that be a blanket recommendation or vary depending upon the industries in the various regions, playing on people's strengths? The question we need to ask you as an umbrella group is what is the best way that the State Government could assist economic development in relation to the entire jurisdiction? Is the golden key relating to taxation rates, to workers compensation or employment policy? What is holding us back?

**Mr M. GREEN:** This is probably going to be a disappointing answer but I would say there is probably no single silver key to this that is the solution to that sort of thing. We do survey our members and ask them about their concerns obviously on a relatively regular basis and they identify a range of issues at a State level on a range of topics. Obviously taxation is a pretty significant one for our chamber members and particularly the

degree to which some New South Wales State taxes are less competitive with some of the benchmarks set by Queensland and Victoria.

But equally our members also have concerns about regulatory burdens and the degree to which red tape is preventing them from focusing on managing their business. We also have concerns about the adequacy of infrastructure and standards of skills. There is a broad range of things and I do not think there is any one thing that you would necessarily want to focus on at the expense of others.

**Mr AITKEN:** I agree with that.

**CHAIR:** Here is the leading question: of all the submissions that we received the one common theme has been planning, not with all of them but probably the most used theme was planning. Is that something that the chamber is looking at or that you have made communication with government about?

**Mr AITKEN:** Do you mean strategic planning, land use planning or both?

**CHAIR:** All of the above, but primarily delays?

**Mr AITKEN:** Delays in planning approvals?

**CHAIR:** Yes?

**Mr AITKEN:** That is something that the chamber has provided submissions on. There is the current review of the Planning Act, which is underway, and key to our submission has been that there needs to be improved strategic planning. That does not mean just at a State level; that means the coordination at local, State and Federal levels. In addition to that in terms of the approvals there needs to be some sort of benchmarking. Whether there are approval processes done by joint regional planning panels or by councils, there needs to be a benchmark standard in councils and all those bodies need to achieve that. Planning is a key issue. Ensuring that we have enough land for industry and the issues around residential encroachment on industrial land is a big problem, but definitely strategic planning tied in with infrastructure planning and transport are key concerns for our members.

**CHAIR:** It was remiss of me not to introduce you to the other Committee members. Jamie is the member for Balmain, a member of The Greens and a former mayor, so he has particular strengths there. Of course, Stuart is the Deputy Government Whip and member for Penrith and comes from business marketing. Chris is the newest member of the New South Wales Parliament and is the member for Clarence, a Nationals member. He is a surveyor so there is some industry-specific experience in the room. Members have the right to ask questions as long as they do it through the Chair. I have a list of questions but I am more than happy for other members to declare their interests and raise questions.

You referred earlier to taxation. One of the things this Committee has on its agenda thanks to the Deputy Premier's decision to appoint a cross-border commissioner is border economies. You mentioned tax. Are you in a position to give any specific details or provide specific advice on whether or not we, as a State, are letting down border economies because we are not as competitive as the other States?

**Mr M. GREEN:** That is a very good question. The key tax, which in the past and which we continue to identify as the key difference between the States is the issue of payroll tax and the headline rate in New South Wales is higher than comparable jurisdictions and the threshold is lower and obviously that is a competitive disadvantage for businesses operating close to both the Victorian and Queensland borders. We do hear anecdotally from members occasionally that expansion decisions are in some ways influenced by that proximity to the border and the difference in the tax rates between the two States.

Looking at the tax mix more broadly and other State taxes, we have not looked at that in as much detail as we would like as yet but I can tell the Committee that as a chamber we are currently in the process of commissioning a piece of work to look specifically at the aggregate tax burden in New South Wales at a State level and compare that with hopefully Queensland and Victoria. What we are trying to do ideally is to pick a small number of case study businesses and have a quite detailed look at the cost of running that business in New South Wales and then in effect create a hypothetical proxy for that business on the other side of the border and again look at what the State cost would be there vis-a-vis New South Wales and then come up with some sort of

more quantitative way of comparing the aggregate burden rather than some of the anecdotal evidence we have at the moment.

**CHAIR:** That is music to my ears. Can you advise on why in the last 16 years—and this is not a political question; I am actually trying to prepare myself for what the bureaucrats would come back with—that has not been addressed?

**Mr M. GREEN:** I would not like to speculate why that might have been the case. The challenge with the tax burden will always be finding the fiscal flexibility to make those concessions. We would love to see the payroll tax rate move straight away to the most competitive rate on the eastern seaboard but at the same time we acknowledge that that sort of tax reform is incredibly expensive and given the current fiscal constraints that the New South Wales Government is facing, that is probably an unrealistic expectation on our part. With these sorts of things we appreciate that it is always going to take time, it is always going to be a challenge. I guess what we would like to see is some sort of medium term or longer term plan or commitment towards moving towards these sorts of more competitive regimes as time permits and as fiscal circumstances permit.

**CHAIR:** You mentioned expectation. When you present this type of data and research to government do you put a loading, because I am sure the bureaucrats and certainly the parliamentarians would, on the fact that the cost of doing business, the cost of government in New South Wales is higher, because we pay our police more and we have a backlog of infrastructure? The reason I ask that question is because when you present that to Treasury—I have been on the board of the New South Wales Chamber of Commerce and when you present that to the members of the Chamber of Commerce in the back of somebody's mind is going to be, "Well, the decision on whether I open my new business in Brisbane or in Sydney is going to be influenced, yes, by payroll tax but there is a whole lot of other stuff that is going to influence it as well, some of them being non-monetary."

**Mr M. GREEN:** Absolutely.

**CHAIR:** Is that something you will consider when you put this data together? I know some of our friends in the Fairfax media call it happiness weighting or some other fluffy words. Do you say that you know the cost of getting labour in Sydney is going to be more competitive because there are more blue collar workers and more tradesmen in Sydney than there are in, say, Brisbane?

**Mr M. GREEN:** That might be a longer term goal that we could look at doing with a study like this further down the track. At this stage we have restricted it to the direct costs imposed by government through tax burdens largely and licensing fees and a few other things like that. We have also tried to look at some of the more indirect costs although obviously they are more difficult to get an accurate handle on. We are looking at trying to estimate the red tape burden placed on these businesses and come up with a quantitative assessment of that. We are looking at the possibility of coming up with some sort of proxy to estimate the impediment that the planning system creates. We are looking at some of those factors but, no, we are not looking at wage differentials between New South Wales and Brisbane at this stage.

**CHAIR:** You refer in your submission to the cost to border economies of complying with government regulations—this is something this Committee is focused on; it horrifies the four of us because this is our first term and it is fresh in our minds. How would you as an adviser and lobbyist to government recommend that we go about reducing the cost of complying with regulations, particularly those that impact on the border economies where they have to comply with two sets of regulations?

**Mr M. GREEN:** From our perspective, in an ideal world and with all the time you needed, the ideal solution would be to achieve almost complete harmonisation of State-based regulation between States. There is a Council of Australian Governments [COAG] process to do that but obviously that is going to take forever and a day. Obviously the duplicative sets of regulations at the border are, as you have identified, serious impediments for businesses operating there. That is why our submission has focused on the idea of special economic zones as a way of addressing those sorts of duplicative regulatory frameworks at the border. We see the possibility of establishing special economic zones around those communities that are based very close to the border to in effect harmonise some of those regulatory difficulties at the border as a stopgap measure, if you like, until such time as we can achieve more complete harmonisation at a whole-of-State level.

**CHAIR:** To be brutal, are you saying that it is going to be easier and more realistic to have a State economic zone than it is to wait for COAG to bring in harmonisation?

**Mr M. GREEN:** Yes, absolutely.

**CHAIR:** I was scared you were going to say that.

**Mr M. GREEN:** One day we will get to COAG. COAG is making progress but obviously there are a huge number of regulations that have harmonisation problems and it is inevitably going to be more difficult to get six States and Territories and the Commonwealth to agree to something than it is to get two neighbouring regions to agree to something. In the same way that bilateral trade reform inevitably moves more quickly than multilateral trade reform, we would expect that a special economic zone on the border could deal with these issues more quickly.

**CHAIR:** When will the report you referred to before be completed?

**Mr M. GREEN:** That is a good question. We are doing this work as part of the New South Wales Government's manufacturing task force, and Steven Cartwright, as our chief executive officer, sits on that. It is a piece of work that the Department of Trade and Investment has expressed interest in so we are currently finalising the terms of reference, but we are definitely looking at completing it by the end of the financial year.

**Mr STUART AYRES:** Your submission refers to the establishment of special geographic regions with a relatively more favourable business environment or conditions. If we were to embark on the creation of something like a special economic zone how do you think we might identify them? What traits would we be looking for beyond geography? I think we have all identified border economies as one, but how do we choose between one border economy and another border economy?

**Mr AITKEN:** We have probably focused on the border economies because it is much more justifiable in competition terms to equalise or harmonise the regulatory burden in those areas. In terms of our submission, I do not think we would encourage as a broad policy special economic zones popping up in any other place than at the borders. It is a little more difficult to justify in terms of our broad policy position of encouraging competition in New South Wales. I think it would probably detract from that. There are clear cases to be made, especially around Albury and on the northern border. We have heard examples from our members in Albury of businesses that grew out of their premises on the New South Wales side and decided to move across the border because they had found a bigger space to grow and found that they could take on another worker because of the savings they were making on payroll tax and workers compensation. It was a surprise to those businesses that that occurred but it was a pretty clear indictment of the burden they were facing in New South Wales.

**CHAIR:** What about Queanbeyan and Broken Hill?

**Mr AITKEN:** We have not put much focus on them. As I understand it, the issue there is much more around the use of government services rather than the regulatory burden. I understand anecdotally that a lot of people are travelling back and forth over the border for better schools or better health care. There is a bit of that happening. I am not sure whether Mr Green can add to that.

**Mr GREEN:** I am not familiar with that.

**Mr STUART AYRES:** To put it fairly bluntly, Albury and the Tweed are the two areas that seem to be light years ahead of other areas in the State where we could apply something like a special economic zone.

**Mr M. GREEN:** Yes. If you go back in our history to the start of 2010 when we were launching our 10 big ideas to grow New South Wales we also ran a series of regional focus groups and looked at 10 big ideas for each of the regions around New South Wales for them to identify—

**Mr STUART AYRES:** I think I was the first.

**Mr M. GREEN:** The two regions that identified this as a clear-cut priority were, as you say, the Tweed and Albury-Wodonga regions.

**Mr STUART AYRES:** How should we create these zones? Should local government areas apply for them? Should we cordon off an area on the map that is determined by the State Government? What recommendations would you make about the establishment of a special economic zone?

**Mr M. GREEN:** How you do it is always going to be challenging. From our perspective one of the keys is that whatever process the Government chooses to follow if it goes down this path it should consult as widely as it can with as many groups as possible because the people on the ground in those regions will have a better idea. As you say, the local governments, businesses and communities in those areas will have a really good idea of where the most appropriate place is to consider putting those boundaries. Local government boundaries are one possibility; maybe they should be somewhere else entirely. There are a multitude of options that could be considered but it is important to talk with as many people as you can on the ground in those areas so they can give you as much evidence as possible to identify the best place for them.

**Mr AITKEN:** The principle also has to be what the key priorities are for these areas. Obviously the Government would not be able to harmonise everything that needs to be done in these areas, so picking the key priorities might help in determining where you should draw the boundary.

**Mr STUART AYRES:** We have heard the word "harmonisation" fairly frequently throughout this process. Is there any possibility that we could use special economic zones to create a competitive advantage for the State rather than just have harmonisation?

**Mr M. GREEN:** Once you start talking along those lines it becomes less of a border issue and more about whether you want to create a special region in location X so that you can encourage type Y businesses to form there and create a hub. There are possibly arguments to support that but our broader principle is that we see the special economic zones as much more useful to address the competitive disadvantages that already exist. If you establish a special economic zone to give some businesses a competitive advantage, an artificial government-created advantage, if you like, to encourage businesses to establish there, you create the risk of growing businesses that are there only by virtue of the government support that is provided for them and there is a real risk that they will never become self-sufficient or be able to exist in the absence of that government support. You get yourself into potentially a never-ending cycle and if you pull the rug out from under them further down the track all the work you have put in can be undone. Our focus would not be on that.

**Mr STUART AYRES:** I am pleased to hear that. The natural follow-on question from that is: do you see special economic zones merely as a temporary measure?

**Mr M. GREEN:** Yes, in that regard, absolutely.

**Mr CHRISTOPHER GULAPTIS:** Following up that line of thinking, what about having special economic zones for disadvantaged areas?

**Mr GREEN:** As a way of giving them a leg up?

**Mr CHRISTOPHER GULAPTIS:** A boost, yes.

**Mr M. GREEN:** That is one option. From our perspective it might be a question of whether that is necessarily the best way to support a disadvantaged region or whether it might be appropriate to have some other sorts of regional support programs.

**Mr AITKEN:** What we have looked at in relation to special economic zones is based around the regulatory factors. As Mr Green has said, a whole lot more goes on in relation to economic growth than just regulation. It is investment in infrastructure and investment in government services, so for many of those areas it might be more appropriate to spend on that rather than try to manipulate the regulatory environment.

**Mr CHRISTOPHER GULAPTIS:** So it is really a special economic zone that is given a priority for infrastructure spend as opposed to giving it a title of special economic zone. Going back to the fact that you are focusing on the areas around the borders, I can see that if you are going to look at tax rates, compliance costs and things like public holidays there will be flow-on benefits to the rest of the State, but in relation to the borders you will be able to measure the success of the businesses that are there through their productivity. What I am trying to get a handle on is whether we can end up with a number for jobs created, productivity improvement or the dollars that are coming back to New South Wales as a result of the changes that would be implemented. Have you given any thought to that? The whole idea is to go through this process and at the end of the day to see a net benefit, not just conduct a school exercise.

**Mr M. GREEN:** I understand that. We have not put a great deal of thought into how you might quantify or measure those benefits and I do not think we can say too much in answer to that question other than to acknowledge that it is incredibly challenging to try to measure it. While you can always measure the outcome it is far more difficult to measure what the counterfactual would have been had you not acted, and working out what the gap is between those two will inherently be difficult and inevitably require some assumptions and guesstimation, as is always the case with those sorts of things. That will be a challenge.

**Mr AITKEN:** There is a very blunt statistic that the Australian Bureau of Statistics puts out in its census data of new business starts.

**Mr M. GREEN:** There is a range of metrics you can look at that will give you an indication. You could look at how many businesses have started in the region in the lead-up to the economic zone and how many have established since. You can look at trends in employment growth and gross regional product and all those sorts of things. At the end of the day you will have to use a bit of judgement in trying to assess what the actual impact has been.

**Mr JAMIE PARKER:** There seem to be two issues: one is how we deal with the border economies and their need for harmonisation. I suspect one thing this Committee will recommend is that with different State governments, COAG should try to focus on that. I know the commissioner will also take a very strong approach to that. I am interested in what delivers the highest multiplier effect as a function of the investment that is put into a particular community. If one side is cross-border economies and the other is general economies, how do we stimulate or develop economic growth in the regions? Have you been able to identify what you think are the key drivers? I know I am talking about a lot of issues.

Trade and Investment says that taxation is such a small part of the total cost of production that it does not really matter so it put that to one side. Big generators of economic growth are small businesses. They are the ones that employ most people and tend to generate most growth, and they are the ones that are not subject to payroll tax. Have you looked at what delivers the best result? From my understanding, after looking at the evidence, infrastructure delivers the biggest multiplier effect and investment in infrastructure delivers that kind of economic performance. Earlier we talked about whether we pick places in which to invest. Have you had a look at any of the modelling to establish what you think is the most effective spend?

**Mr M. GREEN:** We have not ourselves done any modelling looking at that sort of thing in detail. From our perspective we tend to talk to members and ask them to tell us what they see as the biggest impediments to their own business and to their own growth. In some ways, I take DTI's point, for instance, about noting that taxation is only a small proportion of the entire costs of operating a business. At the same time, while some of those things might be of a small absolute magnitude, they can in some ways be a real sort of psychological thing with business owners and business managers. I think payroll tax is the classic case in point. If you are a small business and you are growing, when you hit that threshold—it might be only 5 per cent of the salary of the thirteenth or fourteenth employee which might be only a few thousand dollars—it is almost as though it is a big psychological burden for the employer. All of a sudden you not only pick up all this administration and paperwork that you previously had not had to deal with but also there is a real stigma to it and employers really feel like it is inappropriate that they have hired all these staff.

**Mr JAMIE PARKER:** An arbitrary kind of thing?

**Mr M. GREEN:** Yes. When I talk to members it is not uncommon to hear them say, "I don't want to grow any bigger. This is where I am. I am sitting just under the threshold and this is where I will stay until the threshold moves because I don't want to do payroll tax."

**CHAIR:** I am glad to hear you say that. For eight years I was an industry association executive before I got elected to Parliament and I totally reject this notion from Trade and Investment that State taxes are minimal. Having represented a couple of thousand small businesses and medium-size businesses in this State—and I would be interested to hear your feedback on this particularly since my organisations were members of the chamber—number one has always been workers compensation and number two has always been payroll tax. In relation to payroll tax, my view has always been it was not just the cheque that had to be handed over but also, as you said, it was the fact that this was just another round of red tape. It horrified me even more that it also meant that one had to give consideration as to whether to put on or let go that final employee.

**Mr M. GREEN:** Absolutely.



**CHAIR:** How many hundreds of jobs in this State are being lost every day because somebody is considering whether to keep going with paying payroll tax, or whether they think they can cope with it? Is that also your observation? It has not changed in 14 months of me leaving.

**Mr GREEN:** Certainly payroll tax and workers compensation are probably the two heads of taxation that cause our members the most problems.

**CHAIR:** Will your report review workers compensation over the borders?

**Mr M. GREEN:** Yes, absolutely. Workers compensations is one of the key taxes it wishes to compare.

**CHAIR:** Something that I am interested in this Committee holding out and considering is whether it will review payments to injured workers. It is all very well for New South Wales to be paying more workers compensation than Queensland but we need also to consider whether injured workers in Queensland are getting better or worse service out of the scheme. Is that something at which you are looking?

**Mr M. GREEN:** That is probably not something that this study will look at. I am not the organisation's expert on workers compensation but my understanding is that we are looking separately at the workers compensation issue and some advocacy around some of the reforms that we might be able to look at and to compare the system in New South Wales to the way the system operates in other States.

**CHAIR:** That is very reassuring. Has the Government failed so far to promote activity in regional economies, particularly these borders economies?

**Mr AITKEN:** It is too early to tell.

**CHAIR:** I do not mean the Coalition Government but generic State governments over the past 20 years. Have governments failed business and have they failed to promote economic activity in these border economies?

**Mr AITKEN:** I think a big part of it is that strategic infrastructure spend. I travelled to Albury and I met with members there. While I was there I met with someone from the Port of Melbourne who is actively promoting freight haulage heavy rail from Albury to the Victorian border. The fact of having that heavy freight infrastructure, it was an amazing proportion—

**CHAIR:** Is the Port of Melbourne owned by the State or is it privatised?

**Mr AITKEN:** I am not sure on that.

**CHAIR:** It does not really matter I suppose; it is coming over the border and marketing.

**Mr AITKEN:** It was just an incredible amount. Sixty-five to 70 per cent of all freight went to the Port of Melbourne which was really quite impressive.

**CHAIR:** What was that figure?

**Mr AITKEN:** It got up to about 65 per cent of freight hauled by heavy rail that was going via the Port of Melbourne.

**CHAIR:** And not coming to Sydney?

**Mr AITKEN:** Yes, not coming to Sydney. I think some of those key infrastructure spends, and identifying some of those relative advantages that we did have, and not actually actively promoting them has been a big problem. I think that is a key part of it. In addition, some of our tentative ideas for many of our regions was not about regulation but was about key government services such as health services, for example. The area of Griffith is crying out for a hospital. That would be a big driver for maintaining people in the region, getting businesses to grow. If you do not have health services why would you want to establish yourself and have a family and live in that area? It is quite difficult.

**Mr STUART AYRES:** I want to follow up on that point from your visit to Albury. The Committee received a submission from Eurobodalla council about upgrading and the use of a port at Eden to create an advantage for the State, particularly given the fact that it is a deep sea port. The council has made applications to the Federal Government for upgrading the commercial wharf which I understand might have been approved only recently. Would you say that working on the theme of strategic investment and opening up a deep sea port facility in southern New South Wales would provide at least a degree of competition for a port that already operates out of Melbourne?

**Mr AITKEN:** Definitely.

**CHAIR:** The problem for Eden is heavy rail. We cannot get heavy rail there and it puts pressure on the road network. From what Mr Ayers is saying I would have thought that the savings would be warranted.

**Mr AITKEN:** Obviously you have to plan these things in the long term. You are not going to build a new port overnight but putting in the planning, taking some steps, maintaining rail corridors and things like that, definitely so that businesses can see if they invest in the area in 10 years.

**CHAIR:** I am glad that Mr Ayers raised this point as it is a very big call for the Port of Eden. I have heard Steven Cartwright talk about using it as an opportunity to promote cruise ships to come through and a lot of tourism jobs would come with that. You are right. You would not put a rail network over the Snowy Mountains to link Albury with Eden, but you could make some investment in the road networks. Cross-country haulage is not as offensive to parts of the electorate with which Mr Jamie Parker is more familiar than me than it is interstate to capital city trucking.

**Mr AITKEN:** The movement of freight is a big issue not just for Albury; it is also an issue in the Tweed.

**CHAIR:** Out of interest, what does Albury export?

**Mr AITKEN:** I will have to check. I cannot remember some of the key things they were sending. In terms of truck haulage there are some big issues up around the Tweed with road weight limits. There is a huge problem up there with businesses filling trucks to only 75 per cent capacity because of the weight limits in New South Wales.

**Mr CHRISTOPHER GULAPTIS:** That is in the process of being changed.

**CHAIR:** The way the trucking industry operates up there is offensive. In my previous role I know that its interpretation of regulations was different as opposed to regulations being different from one jurisdiction to another. Civil contractors decided whether to go to Armidale registry office or to Coffs Harbour because they knew they would get a more palatable interpretation out of Coffs Harbour on what is defined as heavy vehicles. It was just ridiculous.

**Mr AITKEN:** With road worthiness certificates and things like that a lot of businesses register their vehicles in Victoria to get around it.

**Mr JAMIE PARKER:** Obviously payroll tax is a poor way to raise tax—taxing labour. I think we would all agree on that. The Jobs Action Plan introduced the concession recently for payroll tax. Have your members reported any impact from that concession?

**Mr M. GREEN:** Is this the \$4,000?

**Mr JAMIE PARKER:** Yes, the \$4,000. That is a significant investment of hundreds of millions of dollars by the State. It will be interesting to see how the DTI does the analysis and modelling on it, going back to the Chair's question about significant taxes. When there was a crossbench discussion about it we spoke to departmental staff who said it would create a few thousand jobs. I am interested to know what impact such a significant investment would have. Have your members reported that as having an impact on their businesses?

**Mr M. GREEN:** Yes, I can say a bit about that. Certainly when the scheme was introduced we welcomed it. We are always happy to see anything that reduces the payroll tax burden on businesses in New South Wales. That said, we have now seen it in action for, I think, close to a year or thereabouts and we have

been talking to members and collecting feedback from them on what they have said the impact has been. It would probably be fair to say that the general response has been fairly negative. There is a lot of administrative complexity around the program and some have questioned whether the financial incentive provided is sufficient to encourage you to take on the staff member.

**Mr JAMIE PARKER:** The \$4,000?

**Mr M. GREEN:** Yes. There were some concerns around the timings of the payments and whether if you take someone on you will be able to claim it. If the job does not work out you might find yourself having to pay some back at the other end. There were a few concerns expressed around it and a few people looked at it, thought about it and then thought, "It has all got too hard" and they just went back to normal. One of the sorts of underlying comments we did get was, "It is great to see the Government committing dollars to reducing the payroll tax burden but it would have been better if it had just invested that money in achieving an across the board reduction in either the rate or an increase in the threshold one way or the other to, in effect, provide everyone with the same benefit but just make it nice and clean and not have any additional sort of administration tied to it." My understanding is that the take-up has been a little lower than expected and that is the feedback we are getting from our members. My suspicion is that a lot of that is because it is a lot more complicated than people expected it to be.

**Mr STUART AYRES:** It seems to me that we could find that the name of this inquiry is wrong, that "special economic zones" is not the right term and that it should be "special regulatory zones". The economic benefits, particularly those in the border economies that are a focus, are not about investing and spending more money but trying to harmonise the economic environment with the economies on the other side of the border as much as possible. If we can make regulatory changes, such as imposing truck weight limits and doing other things where New South Wales businesses are operating in a different framework, that may produce the economic outcome we are looking for.

**Mr M. GREEN:** We agree that the regulatory differences are a key focus. However, at the same time we also see the financial differences in relation to taxes. One option we have been toying with is if we are establishing a special economic zone, for example in the Albury-Wodonga region, can we shift the payroll tax burden on the businesses on the New South Wales side of the border and instead of their being subject to New South Wales rate and threshold make them subject to Victorian rate and threshold? Obviously they would still be paying the New South Wales Government, but there would be a fiscal cost to that and there would be an expenditure element. Obviously it would be significantly cheaper than providing it across the entire State, but it would target the area in which payroll tax is producing the clearest disincentive to employment.

**CHAIR:** The Treasurer never intended to set aside the cost to the Government. However, the priority was to ensure there was no disadvantage to doing business in New South Wales. Thank you for your submission and your full and frank discussion this morning. In a nutshell, you are saying that economic zones should be restricted to those two border economies. Are you saying there should a time limit?

**Mr M. GREEN:** We would look at establishing them and running them until the Council of Australian Governments has done its job.

**CHAIR:** Until they are superseded.

**Mr M. GREEN:** Yes.

**CHAIR:** There should be no cost to the taxpayer other than the loss of whatever revenues are required to make it fairer?

**Mr M. GREEN:** Yes.

**CHAIR:** That approach is consistent with what the Treasurer is saying. Thank for your submission and your time. At the end of our deliberations we may have further questions. If you agree, we will send them to you in writing.

**Mr M. GREEN:** Yes.

**CHAIR:** If you also agree, this evidence will be made public. By the sound of it, you have not said anything you would not want on the public record. Thank you again.

**(The witnesses withdrew)**

**PAUL BRENNAN**, Chairman, Penrith Business Alliance, and

**BIJAI KUMAR**, Chief Executive Officer, Penrith Business Alliance, sworn and examined:

**CHAIR:** This is 80 per cent of the membership of the Committee on Economic Development. Jamie Parker is the member for Balmain and, like all of us, he is in his first term in Parliament, having come from local government. Stuart Ayers, whom I am sure you are more than familiar with, is from Penrith. As you are aware he has a management, and particularly marketing, background. I am in my first term having been a chief executive officer and deputy chief executive officer of two industry associations. Chris Gulaptis is the baby of the team and the member for Clarence. He has also come from local government, but, more importantly has a background in surveying. We have a diverse range of members on the Committee. Noreen Hay, the member for Wollongong, has offered her apologies. Have you been provided with information about the standing orders relating to the examination of witnesses?

**Mr KUMAR:** Yes.

**Mr BRENNAN:** Yes.

**CHAIR:** Do you have any questions concerning the proceedings?

**Mr BRENNAN:** No, other than to point out that this is a first for us.

**CHAIR:** We are also new to it. We will all make mistakes together. Would you like to make an opening statement relating to your submission?

**Mr BRENNAN:** In looking at the opportunities for the establishment of special economic zones and what they potentially mean for the community and also for government in that the Government is clearly a partner, some four years ago we looked at how we could differentiate our local government area of Penrith. In constructing the differentiation we looked at our unique features, mainly around business, and established the concept of an economic corridor. That corridor starts at Werrington in the east and goes through the university and TAFE campuses and continues west through health and proceeds through retail and then hits the river, which forms a natural T that gives lifestyle.

In looking at the areas of the most immediate growth it became evident that they are in the health and education sectors. They are our strengths—we are a university town. At the time we were asked by the previous Government to put together some strategies that would promote the growth of jobs in the area. I must point out that jobs are a problem for us in that we have 60,000 residents who must leave the area every morning to find work. That is because we have produced highly educated residents but the appropriate work opportunities do not exist in the area. That presents problems with choking up roadways, overloading trains and buses and so forth. In looking at where we can go forward, the health and education sectors provide the largest number of potential jobs. We have identified between 12,000 and 13,000 positions.

**CHAIR:** What is that as a percentage?

**Mr STUART AYRES:** Of what is available at the moment?

**CHAIR:** Yes.

**Mr BRENNAN:** We can work it out.

**Mr STUART AYRES:** It is between 10 per cent and 15 per cent of the total workforce.

**Mr BRENNAN:** Yes. In looking at health and education we targeted the development of two things. One was an innovation campus where we would bring together primarily health-related activities and tie them to both Sydney University and the University of Western Sydney, which both have health faculties in the region. Sydney University has Nepean Hospital and the University of Western Sydney has health facilities at Werrington, Kingswood and Campbelltown. The fit made sense. We then commissioned Frost and Sullivan, a United States-based medical marketing and research organisation, to come up with a list of potential companies that would move into the area. We then started to push the idea of the health and education precinct. We applied

to the current Government for State significant site [SSS] status, which has happened, and we are waiting for news about funding under the Suburban Jobs Initiative. If we are successful, \$28 million will be available to kick things along. We enjoy a fantastic relationship with government and the local members. We are waiting for confirmation of the SSS status and we have companies that want to move into the precinct. We are ideally placed for the establishment of a special economic zone.

The Penrith Business Alliance as an organisation came into existence about five years ago when council decided to outsource its business engagement activities to a private entity and sought expressions of interest from local individuals to take up positions on the board. The board comprises large business, small business, the disability sector, some developers, the education sector, transport and logistics operators, community representatives, two representatives from council and one council employee. We have a team of people who are focused on making this happen and the synergies between the potential to establish a special economic zone and what we are already doing are incredibly strong. It seems that we are in a position to help each other. Given that we are not being driven by any political agendas, there is nothing stopping us doing this.

**Mr STUART AYRES:** Through this inquiry we have noted two schools of thought. They are often based on the interpretation of an economic zone. The first is that there is a number of locations on the State's borders where we have two different regulatory environments in close proximity. The Tweed and Albury-Wodonga are good examples of locations at which businesses operating on New South Wales side of the border are being subjected to different licensing arrangements, truck weight limits, payroll tax rates and so on. It is about how we might harmonise those arrangements to allow businesses that operate in close proximity to another jurisdiction to remain competitive. The second school of thought emerging from the submissions relates to locations around the State that believe they have something really good and that they could become a hub or cluster around a particular economic activity and they would like to see the State Government recognise that and support it.

I think that is where you are coming from in relation to Penrith. I will use the word "we" in reference to Penrith because it is a habit. As you said, Penrith has a hospital, a university and a potential economic corridor, and various other locations in New South Wales have other competitive advantages. We received a submission from the Eurobodalla Shire Council pointing out how it can utilise its deep sea port at Eden more effectively. If we are looking at the creation of special economic zones and if regulatory work needs to be done for border economies, what work can the State do to support initiatives such as that envisaged for Penrith?

**Mr BRENNAN:** The State is already doing things. We have held numerous discussions with the Treasurer and his people. It is all about making it easier and unique and treating Penrith as a test case to do things that are a little bit different. Years ago, when I was in the software industry, Australia was a great place because it was small enough that you could do something and control it. Penrith is very much like that in this case. We are not coming here saying that we want money, but we want to partner with government and the community to do things that are a little flexible and a little bit innovative—explore things like incremental financing, work with council in relation to section 94 applications and work so that we get a win-win situation. And some of that is pre-empting some of the red tape and eliminating it in advance.

**CHAIR:** So regulation is more of an impediment than tax, is that what you are saying?

**Mr BRENNAN:** I think so, yes.

**CHAIR:** Because you are not the first person who has said it.

**Mr BRENNAN:** You mutter under your breath every time you have to do either, as a business person. Can I expect tax to go away? No. Can I expect payroll tax to be fixed overnight? No. Can we explore financially attractive ways of bringing business into Penrith and making it successful? Absolutely. As a business person, if you asked me two years ago where I would put my next factory, it would have been Victoria. It was just too hard. Two years ago it would have been Dandenong and a year ago it probably would have been Werribee or Geelong. You do not have to go to government and say, "Give me money", and it is not appropriate. What we are saying is that we want to work together to make things happen.

**CHAIR:** So which regulation or regulations would you find to be the most offensive?

**Mr BRENNAN:** If I were a developer coming in I would probably suggest it is the time involved in getting things done with local government. If I were also looking at my cash flow and financials I would suggest

to you that it is very hard to develop a site when I have to put in all my money up front. From a cash flow perspective and a borrowing perspective, it would be nice if I could pay some, along with the appropriate interest, two, three, four or five years down the track. It would be nice if we could get an environment where I could cluster with like-minded organisations in the area. At the moment that is nearly impossible.

**CHAIR:** So you do not really have a centre of excellence or an area where you have—

**Mr STUART AYRES:** I think that is essentially what they are trying to create.

**Mr BRENNAN:** It is what we are trying to create. There is an incubator area of sorts but the first thing you do, once you get some money, is you get out of there because it is not attractive, it is old defence properties. But no, we do not have a centre of excellence. The other frustrating thing is that if I go and talk to the universities they are all coming up with fantastic ideas but they have no idea how to commercialise them. Most of the business people in western Sydney—not unlike The Hills—if they did go to university or TAFE, it was 30 years ago and they have never been back since. They do not realise that those institutions have changed. So we tend not to leverage each other's strengths in the community. To set up an innovation campus where people tap into those pre-existing strengths would be powerful.

**CHAIR:** We have just signed up with the University of Notre Dame Australia to establish a graduate school at Norwest Business Park. I went to the University of Western Sydney and talked to them as well. You have the highest proportion of sports participants in the country do you not?

**Mr STUART AYRES:** It would be pretty high. I think you are trying to say that State governments need to be able to support innovation and drive it themselves. A key component of driving that innovation is supporting a decentralisation strategy by identifying regions away from the central business district [CBD], whether they be The Hills district, Liverpool, Campbelltown, Penrith, Griffith, Grafton, Albury, or wherever they might be. We need to drive decentralisation through innovation and then cluster businesses around pre-existing strengths. In the case of Penrith that would be the area of health and education; in another regional area it might be agriculture and farming. Armidale has an education component as well. Those are the types of areas that the State should be looking at promoting.

**Mr BRENNAN:** As far as decentralisation, to a large extent, the people are already there but the problem is a lack of jobs.

**Mr STUART AYRES:** The people already exist but the employment is not there and so they have to travel to the employment.

**Mr JAMIE PARKER:** I think you have an interesting model. One of the issues that emerged from discussions is that a lot of the time we are thinking about how to help something at the end. Something is created but how do we put something into it to help to support it? What is fascinating about your alliance is that it came out of the council and the community. You developed the process of understanding the advantages and where you needed to invest, and you then moved forward from there. What kind of help do you think the State Government could provide in modelling this to other communities? We have heard people say before that the councils need to get organised and that if they looked at the advantages and disadvantages they would be able to create things like this. It would be great for the State to be able to look at a model such as yours, go to other communities and support that through Trade and Investment or through other arms to promote these grassroots initiatives where local businesses and communities come up with good solutions themselves and then try to partner with local government in other areas. What kind of help did you get from the State when you were creating the alliance, or was it purely a local government initiative?

**Mr BRENNAN:** Local government took the decision to bring about our existence. Thereafter we pretty well did it by ourselves. I struggle sometimes to understand how local government works. It works under an entirely different set of regulations to me. I work under the Corporations Act; government works under the Local Government Act. They are chalk and cheese. So we largely approached this as businesspeople—honestly, ethically, with a business plan and a focus and drive and whatever, and did not so much worry about local government regulations.

**Mr STUART AYRES:** One of the interesting things about the Penrith Business Alliance, which could well be replicated in other areas around the State, is the decision to remove the economic development focus of local government—which, given its name, obviously is the focus of this Committee—out of local government

and give it to a business leaders group to collaborate collectively amongst themselves but also with local government. Rather than it being some bureaucratic tier of a council taking the funding one might instead say, "You know what? We are government. We are not that good at creating good economies. Let us give that role to people who are and we will fund it with the rates."

**Mr BRENNAN:** In fact, they gave us less.

**Mr JAMIE PARKER:** What is the budget of the organisation—the income that it gets from the council? Could you give me a ballpark figure?

**Mr BRENNAN:** It comes from several areas. Some of it is from council, a small proportion we raise ourselves and some is from levies that are put on developers if they cannot create jobs when they come into the area. Last year it was about \$600,000.

**CHAIR:** In the submissions that the Committee has received, local government has been identified as being amongst the top five impediments to economic development. There is payroll tax, workers compensation and infrastructure and local government. Local government is probably the first one that will not have an economic cost to government for us to try to fix. Mr Brennan, you state in your submission that there should be a minimum size for special economic zones, which is a fair point, but you also said that they should be "located in a labour force of a million and have links to tertiary institutions". I can think of only one such place in New South Wales, apart from Parramatta. If you take off your Penrith hat and speak just as a business leader, are you suggesting that economic zones would not work outside the metropolitan area?

**Mr BRENNAN:** No.

**CHAIR:** You are highlighting the fact that there needs to be a healthy access to labour.

**Mr BRENNAN:** I suppose what we are highlighting is that it is a walk-up opportunity right now because we have been on this for couple of years. In June we have a speaker from Tennessee coming to talk about some of the successes they have had overseas and we are constantly looking at other models. We have just returned from China and Korea where we spent 2½ weeks looking at the relationship between business and all levels of government, with a focus on property development and health care. So we are tapping into world's best practice.

**Mr STUART AYRES:** It comes back to the point about divergence. The fact that the submission of the Penrith Business Alliance to the inquiry draws on the strength of that region—and you have highlighted Parramatta and, with respect, I am sure a couple of other locations in Sydney—could mount the same argument.

**Mr BRENNAN:** I live in the back of The Hills.

**Mr STUART AYRES:** So there is a discussion around what the State can do to drive economic development in particular areas which are not restricted by geographic location, and then there is the way we can improve the competitive disadvantage of businesses that are located in border economies. So there seems to be that clear divergence of thought there.

**CHAIR:** Touching on some of the questions about your format, you are not the chamber of commerce?

**Mr BRENNAN:** No, we do not sell membership; we represent everybody.

**CHAIR:** You are a business alliance which is a unique model; nobody else has done it like you.

**Mr BRENNAN:** Not that I am aware of.

**CHAIR:** And it was the brainchild of the council and your main stakeholder is government but particularly State government?

**Mr KUMAR:** And the developer community.

**Mr BRENNAN:** We are a proprietary limited company, so we take suggestions from council but we do not necessarily have to do what council says.



**CHAIR:** One word for you—planning. How are you going?

**Mr KUMAR:** Planning, meaning?

**CHAIR:** Planning as in the area of your developers, your local council and your relationship with them.

**Mr BRENNAN:** Our last meeting with Brad was probably a month or six weeks ago, so we have regular communication.

**CHAIR:** And you are happy with the way the Government is approaching planning?

**Mr BRENNAN:** Yes. Everything could always be faster but we are realists.

**CHAIR:** The delays are not in the forefront of your mind?

**Mr KUMAR:** The thing about planning is that when you overplan you have a problem because it creates expectations, especially in local government, that, "We have done everything, what else do you need to do? We have planned the city to death and they will come." We have met some developers, people like Lend Lease, who say, "Okay, it is good to give us some idea but if you want a first tier developer in the city we need to be involved in telling what you need to do about the heights, what kind of mix and what kind of public amenities so that we can embellish our product as well." We have a situation where sometimes we find it is difficult to convince planners that they have overplanned the city and we have to go back and address some real issues that will attract developers. We find ourselves in that situation now.

We have overcome that problem because some of the politicians could see the benefit of doing that, but it has been over 12 months. We have been struggling to get councils to say, "We have done some work but the developers really want to be involved in that process of activating development of the CBD." It is important to understand that. Sometimes when you become too complacent and say, "We have LEPs, we have planned everything, the streets will look like this, the heights will be like that", people sit back and wait for developers to come. Nothing has happened in Penrith for the past 10 years. So we have designed a new and fresh approach which our board endorsed last week. Council has come on board screaming and struggling but finally it has seen the light.

**CHAIR:** What was that plan?

**Mr KUMAR:** It was about how you engage a top developer to be part of the process so that when you end the process you have three or four developers competing for the right to develop, to undertake major projects. Gosford has done this. We are not just copying Gosford; we are using that model to create innovative ways of attracting developers. Council said, "Let's go and talk to some of the developers", which we did. They said the same thing. They said three things. Firstly, "We want the scale of the development. You cannot just give us like two hectares of land and say, 'Come and build'. We want the scale. We want to have involvement in the public amenity. We want to be involved in the public part; the community hub." They say Penrith does not have a soul because we have not built something—

**CHAIR:** So this development is a central business district development?

**Mr KUMAR:** Yes. Council is a major landholder but we are not saying it will be restricted to one particular specific site. We are looking at the whole city and will take all the land owners on a journey. The third thing they said was, "Don't over plan. Don't spend too much time or spend money to create these scenarios because we want to have a part. We won't tell you what to do but we want to engage with you so that when we come to the commercial side of it we will say, 'If you do it like this we could probably sell something.'" At the moment our price points are not there for Lend Lease to get involved but they said, "If we have some involvement we might be able to tell you and guide you that commercially this is viable."

**Mr STUART AYRES:** There are some interesting points there that can be replicated in other areas across the State from an economic development perspective. I think the key theme is whether you are talking about a regional city in the context of the existing metropolitan strategy like Penrith, or whether you are looking at areas where their growth and development has slowed like the Central Coast or areas like Wollongong and

then regional New South Wales locations, you need to bring the market to them—they are just not there yet. You have to take some sort of affirmative action to bring the market to them but then the next critical stage is what Bijai said then is accurate: creating enough scale to get the first development away that generates value uplift for the next two, three, four stages. If you do that then that allows the next phase of competitive development to come in.

I do not think this State has reformed its planning structure and its economic development focus well enough over the past decade to 15 years. When the rest of the country was on this reformist bandwagon we kind of sat in a bit of a holding pattern and that is why we have got Penrith, Grafton, Armidale, Albury-Wodonga and Tweed that are all facing this competitive disadvantage and we suffer from that. The one shining light is actually in your area, David: Norwest. The difference between Norwest and all these others is that it basically took some entrepreneurs to bite the bullet, lose some money, hold, then lose some money gain until the market caught up to that position.

**CHAIR:** Norwest Business Park is run by the Norwest Business Park Association—Alan Zammit. From what I am gathering you guys are basically similar to them except you have a more positive relationship with the council—not that they have a negative relationship with the council but essentially it is an authority within its own right. Stuart, you have likened Penrith to other areas but from my observation as an outsider Penrith is very unique when it comes to planning and development. It is a very large footprint but it is low. When you say there is not a centre of Penrith you are actually right—there is not. My best mate has got a hotel at Penrith so I spend a little bit of time there—he is a little bit out of the central business district. For the visitor you seem to be driving through the central business district for a long time and then at the end of it you finally get to Westfield. I would have thought that is a unique argument as to why you should have a major development in the central business district—

**Mr BRENNAN:** We would love a government department in town as an anchor.

**CHAIR:** We would love to give you one.

**Mr BRENNAN:** We have raised this before.

**Mr JAMIE PARKER:** One thing it tells us though when we are talking about criteria is—which has been raised a few times—if there is to be the consideration of an economic zone the establishment of a home-grown focused organisation like this one that has done the work should be an important criteria, instead of government saying "Just put it here". If an area has been identified that does not have an organisation like this, government can assist in the advice and development of an approach like this. It seems to me that your organisation and Norwest as well have done a lot. My experience is a little different because in my community, which is two minutes from the central business district, a lot of people want to develop there. There is always demand from developers to develop in my area. So it is slightly different and the chamber and business groups really rely on the energy generated from the central business district to a great extent. But it seems to me that the alliance is a great model that people could use in other areas that might be a precursor to directing investment or government support in the future.

**CHAIR:** For your information we are looking at ways to differentiate between the unique way we need to approach border economies and the rest of the State's view of economic development. I think you have probably given us more answers—

**Mr BRENNAN:** We are a broader economy: We are the first port of call when you are approaching Sydney.

**CHAIR:** We have talked about subsidies and concessions and I want to confirm that your personal view—or certainly the view of the PBA—is that subsidies and concessions are not necessarily what is stopping economic growth in your area; it is regulation?

**Mr BRENNAN:** That would be lovely but I do not think there is anything you can give me that would be anywhere as powerful as the help that you can give me to remove roadblocks. Picking up on a couple of examples; we have the only hospital in New South Wales or certainly Sydney that is a teaching hospital that does not have a medical research institute. Rather than come to government and say, "Hey look you have to build it", we went out and identified who would be in it, how many jobs would be involved, what the building

would look like, did the quantity surveying, did all the cost analysis and now we are out there with a model. The only thing we need now is funding, we do not need anything else.

**CHAIR:** Will it be in the Nepean grounds?

**Mr BRENNAN:** It will not be on the hospital grounds but we have two sites immediately adjacent to the hospital. That was \$60 million give or take a number. With the innovation campus it was pretty easy driving up and down the highway to see where the vacant land was but we worked out exactly where it will go. We are waiting on some announcements from the Feds at the moment on funding. All I know is that Minister Burke made a comment to the press that the submission was a "cracker". I am hoping that "cracker" means we are going to get something. Again we have the university, some of the developers, the business community; everyone is already engaged. We are not coming and saying, "Look we need a few dollars to do this or a few dollars to do that".

**CHAIR:** It seems that there are a lot of fingers. One thing I have always considered about Penrith, like my own electorate of the Hills and Camden, is that there is a lot of this demographic called white-collar tradesmen—namely, tradesmen who do not pick up the tools anymore because they have probably got four tradesmen working for them, they might have inherited their father's trade but it took off and now their kids are going to private schools—

**Mr BRENNAN:** And they are all Liberal voters.

**CHAIR:** They vote Liberal thank goodness—God bless them. In my electorate—and I am sure Stuart says the same thing in his electorate—that is a strength because they are innovative and they are risk takers and they are taxpayers. What are your strengths? If we talked about centre of excellence then Macquarie is IT, the Hills is financial services and Newcastle is the mining industry. What is your centre of excellence?

**Mr BRENNAN:** Primarily health and education.

**CHAIR:** When you are talking about the economic growth of Penrith and the support that we can give Penrith to promote that economic growth, will that be at the forefront of your mind as the PBA?

**Mr BRENNAN:** Yes. We cannot do surf carnivals, we cannot do motor racing; you differentiate what you have got. We have some things that are similar to Windsor but we are doing something completely different.

**Mr STUART AYRES:** I think one of the biggest benefits—and it touches on Jamie's point—is that the model of the PBA and the potential for it to be replicated in other areas is that it de-politicises the decision-making and the economic development of the city. So it is not reliant on the results of a local council election, it is not reliant on the results of a State or Federal election. There is a body that has been created to drive the economic development of a particular region that, yes, it does have some of its funding coming from local government but this local government has been bold enough to recognise that business is better at growing economic development than what local government is. I think there is potentially the opportunity for us to think about how other regions in New South Wales—particularly if we come back to the border economies—is how border economies might utilise a non-government body to administer and organise a special economic zone.

**Mr BRENNAN:** One of the first decisions we made—and in hindsight I think it was probably our best decision—was that we all elected to work free.

**CHAIR:** Sorry?

**Mr BRENNAN:** We all elected to work for nothing, except for Bijai and the staff, but my position is honorary—I am a manufacturer. Because of that we were not seen as being out there trying to raise money for membership fees or anything else and, as Stuart said, we are completely apolitical. There is nothing driving us other than passion. There are no financial implications. I think if you are going to do it in other areas I would really suggest that you get people who are prepared to work free of charge rather than getting something out of it.

**CHAIR:** In the Norwest association they are all elected and work pro bono.

**Mr CHRISTOPHER GULAPTIS:** You have partly answered my question but I would be really interested to know what steps you would go through if you had a magic wand and you wanted to implement your model in Penrith? What can we do as a government?

**Mr BRENNAN:** It is like the introduction of cash machines in the bank: You have to eliminate fear. You have to eliminate fear of job loss and fear of embarrassment. Because what happens is that when the private sector takes over it often does it a little bit quicker and you need to make sure that those in Federal, State or local governments come along on the journey without any fear of embarrassment or anything else. We do work to a different set of rules. We do not understand some of the pressures that people in government have to work under. If there is nothing in the rules to say I cannot do something that means I should do it. Whereas when we come up against local government sometimes if there is nothing to say anything about it that means you have got to go back and do an inquiry. Neither is right or wrong but we operate differently. In recreating the model you need to make sure that no-one fears the change that will be driven by it.

**Mr STUART AYRES:** Would it be right in relation to your health and education strength and the precinct plan that the developers, whether they are the existing landholders in the University of Western Sydney or any other private developer, that they need to be able to operate in a fairly consistent State Government environment. They need to know what the State's plan is and its pipeline for investment, whether that is road upgrades, water, electricity and those types of things to allow for those employment lands to be developed and released. No developer in any circumstance, whether in Penrith or anywhere else in this State, is going to invest money into an employment zone without knowing what the State's intention is as to infrastructure investment.

**Mr BRENNAN:** Absolutely. They also need to feel confident that if they come up with an idea and table it that local government does not steal the idea, because in a lot of cases local government is the biggest landholder.

**CHAIR:** Or that local government does not change its mind?

**Mr BRENNAN:** Yes.

**CHAIR:** From my experience that is the greatest fear. It is now 11 o'clock so we will conclude there but if the Committee has any further questions are you prepared to take them on notice?

**Mr KUMAR:** Yes.

**CHAIR:** Your answers to those questions will also be made public as part of this inquiry. I complement the alliance on its unique approach to the public-private sector relationship. I look forward to working with you both at some stage in the future.

**Mr BRENNAN:** We have a selection of documents that we will leave behind for the benefit of the Committee.

**CHAIR:** Thank you.

**(The witnesses withdrew)**

**(Short adjournment)**

**CHAIR:** Our next witness is appearing by videoconference. I draw your attention to the sensitivity of the microphone which will be used in these proceedings. It will pick up even whispered remarks from people at the rear of the room. I seek your cooperation to ensure that the witness is not distracted from members' questions. I ask everyone to turn off their mobile phones.

**TOM MURPHY**, Chief Executive Officer, Western Research Institute Limited, before the Committee via teleconference, affirmed and examined:

**CHAIR:** I welcome Mr Murphy from the Western Research Institute Limited and thank him for appearing before the Committee on Economic Development to give evidence. I am David Elliott, the Chair of the Committee. To my right is the Deputy Chair, Stuart Ayres. Stuart is the Deputy Government Whip and is in his first term of Parliament, having worked in business marketing. To his right is Jamie Parker, the member for Balmain. To my left is Chris Gulaptis, the member for Clarence. I ask the Committee members to identify themselves when they ask you a question. Can I confirm that you have been issued with the inquiry's terms of reference and information about standing orders that relate to the examination of witnesses?

**Mr MURPHY:** Yes I have.

**CHAIR:** Are you appearing before the Committee in a particular capacity today?

**Mr MURPHY:** The capacity is representing the views of the Western Research Institute [WRI] only.

**CHAIR:** Do you have any questions concerning the procedural information you have been sent?

**Mr MURPHY:** No. My understanding is that I can give a short presentation and then you ask questions.

**CHAIR:** We have given until 11.45 a.m. for your submission, so we have about 20 odd minutes which should be enough. I now ask you to make an opening statement before we open it to Committee members to question you.

**Mr MURPHY:** Thank you. The opening statement I would like to make is I will just give a brief history of WRI's involvement in the concept of enterprise zones. I will talk briefly about our understanding of the concept, talk a little bit about our findings, and then give a WRI judgement on the concept. That is what I will do. The first thing, the history, we were commissioned by—I think some of the people who commissioned us have also put in submissions—Charlotte Finch and the Barwon Darling Alliance in 2003 and in 2008 commissioned the Western Research Institute to look at the concept for the Barwon-Darling region, which includes the Central Darling shire, Brewarrina, Walgett, Coonamble and Bourke. At the same time we were also commissioned by the Cowra Shire Council in 2006 to work through the numbers for a model and that was subsequently published in the Farm Policy Journal. That is the history. We have done commissioned work on it; we have not done anything independently on our behalf.

The concept as we understand it mainly comes from the Barwon Darling Alliance. The concept is very high unemployment and the associated social problems including crime, meaning that there are higher sums of government money coming into the region for social security, plans for policing, juvenile justice and other costs. The idea that the Barwon Darling Alliance had was: Can this money be switched to create employment instead? The enterprise zone is a model that can make this particular switch. And since the switch is switching money, the net cost of this unemployment would be less and hence more cost effective. So we did a fairly extensive study, which I have not submitted to the Committee but I understand that you probably have received it already, our 2003 report. In that we had a number of findings. The first finding is the overseas experience. Enterprise zones have been used extensively overseas. The assessment of their effectiveness is mixed. Some have worked and some have not. There are not too many policies that are different to that.

Secondly, we did look closely at the Barwon-Darling area and we did find that across the broad spectrum it is very disadvantaged. I looked very briefly this morning at what the latest figures were for December 2011. Unemployment in Burke, for example, is 12.2 per cent; Brewarrina, 17.3 per cent; Central Darling, 13.6 per cent; Walgett, 12.6 per cent; and Coonamble, 6.8 per cent. This all compares to the balance for New South Wales of 5.2 per cent. So that is just one of 10 measures that we have of disadvantage. Our region seems to be in serious disadvantage. The second finding was when we did the 2003 report we did ask employers in the region what their thoughts were on an enterprise zone. I have to say pretty universally they liked the idea. Interestingly enough, they put education and training, including life skills, ahead of wage tax credits.

In ranking the second thing they wanted was mentoring. The third thing was exemptions from fees and charges and then came wage credits. Interestingly enough, other things that they wanted were more child care.

They wanted support for exports out of their region—not exports overseas but exports out of the Barwon Darling Alliance region. They also wanted assistance with establishing networks for business. Another finding was that we looked at—and this goes to the work we did for Cowra council and the Barwon Darling Alliance—we did find that if you make fairly reasonable assumptions the costs of an enterprise zone is fairly cost effective. I think in the first report we found that for an outlay of \$5 million a year the net cost is about \$2.1 million because as people become employed there are fewer social security payments. That did not take into account something that we did find in a different report altogether, that is, there is an association between crime and employment in the Bourke area. So it did not take into account the savings in policing costs and juvenile justice.

We did a more detailed study for Cowra, and in that particular model—slightly more heroic assumptions but still quite reasonable ones—we found that the extra tax collected across the board with the Government exceeded the extra expenditure. A major difficulty though in both of those we did find is that government funding tends to be in buckets. So savings for one department might not be the expenditure from another, so if you are a department wanting to spend money to save money it is not a saving for their department and that was something that in our discussions with government was one of the issues. The final finding we had was that existing programs—and remember that this is back in 2003—were regarded by local business and local community groups as lacking in empathy with the region.

One of the documents pointed out that a pig abattoir wanted to employ Aboriginal people in the abattoir for wild boars exported to Germany. When he applied for funding the reply came back that it was demeaning to employ Aboriginal people in such a business. That came from Canberra. They also felt that the decision making was too distant. You applied for funds and you did not find out for some time and the feedback was for most it did not relate particularly to them and there was far too much paperwork. Something we did find in the region that paperwork and so on is not something that is part of the way things are done in the region and that was certainly a bar. There is no formal assessment that we did of existing programs. We did not do that.

They are some of the findings that are detailed in our 2003 report on the WRI judgement of enterprise zones. Our view is that New South Wales is very city-centric but that does not mean that you need a deficit for most of regional New South Wales. Most of regional New South Wales is a very strong economy and I think to the bulk of regional New South Wales a different model is a different issue altogether. I do not think enterprise zones are particularly relevant for the bulk of regional New South Wales. The Barwon Darling Alliance region is a region of serious disadvantage and I think it is appropriate that something be done about that. The enterprise zone approach to addressing the problem through private sector employment is worth trying and likely to be cost effective. That is pretty much our judgement of it. I think that that particular case is something that is certainly worth serious consideration.

**CHAIR:** You mentioned in your submission, which was unique, the term "socio-economic zone" that had been set up in the Barwon-Darling region in 2007. Can you outline the evidence to demonstrate how the socio-economic zone would create new jobs?

**Mr MURPHY:** The reason why socio-economic is because when we spoke to business, there is a very high Aboriginal community in the region—I think it is 30 or 40 per cent; the figures would be in the report—but as I mentioned in my brief submission employers were not so much concerned about the tax credits, their main thing was for the people of the region to have appropriate life skills, to have mentoring, to have mentors, to be employed appropriately and to have childcare. It was a broad front because of the serious social disadvantage. I remember at the time when we first did some work in the area one of my research assistants did a demographic profile and found a lack of people in the 60-plus group and that is because the lifespan is that much shorter in the region because of health issues, so it is a broader thing than just employment.

**CHAIR:** Setting aside the notion of a special economic zone and we are talking about a socioeconomic zone, what evidence can you put forward to suggest that the job growth that would occur with a special socioeconomic zone would not have occurred, if the jobs created would not have been offset by the losses of another region? What is the opportunity cost of making you a special socioeconomic zone compared to say an area around Armidale?

**Mr MURPHY:** I think that is a valid criticism of extending economic zones willy-nilly across the State. I think it is only special cases and I think the Barwon-Darling area is a special case. When we looked at the economic zone model that we had there, the emphasis was on expansion of existing business. We spoke to existing business. Existing business did point to the fact that where you are employing people particularly in that region they are not very productive in their early years because of their lack of life skills and because of their

lack of even attending work and a range of other reasons. It is existing business and looking to employ people from the region. I think there is a very clear barrier between this particular zone and other regions.

I did not see, for example, Armidale losing jobs because jobs were created in the Barwon-Darling region. I think they are quite disconnected. That being said, the region is very much of the view that they want to become connected; they feel fairly isolated. Now I am talking quite a few years ago. You were talking about the evidence. The evidence is quite old. One of the successes, interestingly enough, was the caravan park in Bourke, which had the interesting idea of trying to bring exports in, which is something they emphasised. He used caravan parks set up with vegetable patches next to each site and he was able to extend the average stay time from 1½ days to nearly 4 days because people would wait for their tomatoes to ripen, so it was an innovative thing that they have done. Certainly if you create jobs there I do not think anyone, in fact I am very confident you would not lose any jobs anywhere else.

**CHAIR:** When you are talking about socioeconomic demographic in the Barwon, are you primarily talking about the Indigenous population or is there another socioeconomic group that is disadvantaged as well?

**Mr MURPHY:** It is predominately Aborigine but there are some others as well. It is not exclusively Aborigine.

**CHAIR:** What is the other grouping?

**Mr MURPHY:** The main difficulty is youth and the drought has had a particularly poor impact on the region. I am talking about a few years ago now. The evidence I have is old but the difficulty is that with the drought unemployment is very high. School leavers come out of school and there are no jobs. They do not have the same level of mobility that you would find elsewhere and they have gone through the critical phase of post-school of relying on welfare for a prolonged period and have missed the window of opportunity at that point. It was not exclusively Aboriginal children, there are others as well, but it was predominantly Aborigine.

**CHAIR:** Excuse my ignorance but do you have a TAFE out there?

**Mr MURPHY:** Yes, there is a TAFE out there.

**CHAIR:** Whereabouts?

**Mr MURPHY:** I think they have outreaches. There certainly is a TAFE out there but where it is I am not quite sure—Walgett probably, I think. I do not think it is at Brewarrina. I think Walgett probably has some TAFE presence.

**CHAIR:** The question I would therefore ask is: instead of going to the trouble of creating economic zones or socioeconomic zones would we not be better off making a recommendation to government that we look at improving training opportunities for these people? You say that one of the crises facing them is mobility. Would we not be better off spending the time, effort and money on making these school leavers qualified in certificate IV of a trade, hospitality or farming; giving them the qualifications to acquire that mobility?

**Mr MURPHY:** When we were out there—I did not speak to them directly and you are testing my memory a bit and a lot of the detail is in that 2003 report, which I think you have, but my recollection is there were some quite bright young people who had done courses to death but it did not lead to employment. I think employment is the important part. That is the link. Just training them is not sufficient. If you could add an extra incentive to get the momentum going with the employers; it needs both sides; the demand side and the supply side to get these people in employment. It needs involvement of employers.

It is not an enterprise zone model. There was a fairly successful model, at least for a period—and I have not looked at this for a while—of Dick Estons out at Moree. In that particular instance the model included mentoring, higher skills and it also included, because of the nature of industry, cotton growers out there working—he was a powerful personality and probably still is—and he was able to link it to employment but in doing things for people in that part of the world he included education and training as part of it. It is a necessary condition but it is not sufficient. You also need to bring in the employers. The employers certainly thought that with some extra incentive they would increase the number of people that they would employ, particularly to get them over that initial hump when the employees are still learning and probably are not very productive for the firm.



In that early period, particularly in these instances—and in many jobs it is the same—the first six to 12 months they are a net loss but to help them through that part particularly in a region, it is a bit better now; I do not know how much better, when it was going through the drought period, but now when agriculture in the area is better this would be a chance, instead of bringing in migrant labour, which is a strong feature out there, backpackers and other workers, to employ locals in a lot of jobs to get over that hump when they are not particularly productive, to get them productive and get some momentum going.

**Mr JAMIE PARKER:** You identified that the most important priorities for employers in the region were, firstly, education and training; secondly, mentoring; thirdly, exemptions from fees and charges; and, fourthly, wage issues. You said that some people received significant education and training and mentoring but you seemed to emphasise the fact that businesses need a bit of a lift over the hump, as you call it. What specific investments or support did you identify as part of that process and subsequent to that, and thinking about it now, that would be useful? Is it exemptions from fees, is it a wage issue, or is it a payroll tax issue? What policy recommendation would you make to help employers for that first six- to 12-month period?

**Mr MURPHY:** Specifically what they were looking for was to improve the bottom line. When we did the work for Cowra and the initial model for Barwon-Darling we saw that the bottom line is improved if you reduce fees and charges to some extent. If businesses could look at their bottom line being better in some way they were certainly sensitive to it and therefore would consider putting on an extra employee because it impacted more appropriately employees' productivity. They had a preference for fees and charges being reduced because they related to that a bit better and also it was probably more immediate. My judgement is that just improving the bottom line one way or the other would not matter that much as long as it was clear and transparent and the employers could see it was cheaper to employ these people than they hitherto thought. That gives them an extra push especially if at the same time you have child care, education life skills and mentoring, which I think is really critical in the early stages.

Mentoring literally involved having someone to go round in the morning at 7 o'clock or 8 o'clock to wake them up and make sure they were on the job. One thing employers are concerned about is people not turning up and missing days and those sorts of issues. Once you get into a pattern it is better, that is why I called it socioeconomic zoning because there are all those patterns to go with it. You need to be flexible; and as long as their bottom line looks better. As we showed with Cowra Council and the farm institute report we did, you can show very clearly that their bottom line looks better and that is something to demonstrate and make fully transparent.

**Mr STUART AYRES:** You have spoken a lot about mentoring and about the bottom line. Surely your research would indicate that improved productivity is an improvement to the bottom line as well?

**Mr MURPHY:** Yes, no question of that.

**Mr STUART AYRES:** I want to get a clearer idea of what you are saying. You used the phrase earlier that some people had been "trained to death" and it did not lead to jobs. Would it be better for the State Government to invest resources in supporting existing programs that cultivate or foster mentoring?

**Mr MURPHY:** One of the issues I mentioned in my opening statement—I have not done a formal assessment of this—is that a general comment about a lot of the existing programs was that they seemed to be delivered remotely and in many instances there was not a meeting of the minds between the region and the people delivering the programs. This is only impressionistic; I am not prepared to say that that is definitely the case. It is an impressionistic view I had that in 2003 people did not bother with the existing programs because of the amount of paperwork involved—they showed me the sheets of paper they had to fill out—the amount of time they had to report back and the amount of money involved; it just did not make sense for them even to bother about it.

Also, that example of the wild pig abattoir was raised and the arrogance of what was said about that went right through the town. There certainly was a degree of dissatisfaction in 2003 with that type of approach. They wanted something more immediate, someone making decisions on the spot. It is a bit similar I suppose to people being concerned in the current environment with applying for a loan and if the local bank manager does not agree the application goes somewhere else for approval. It is that sort of thing. Again, I have to say that is only anecdotal. It is an impression I have and it is also from quite a long time ago.

**Mr STUART AYRES:** I have a further question that does not relate specifically to your submission so I am looking more for an opinion. I refer to the change in the school leaving age and the impact that has had on students. Have you seen in regional New South Wales any work towards integrating what I would describe as post-school skills into the school environment to make for an easier transition for people who may have left school before we changed the leaving age?

**Mr MURPHY:** It is a good question but I have no knowledge that I could bring to bear on that. The closest we have done to any work on that was in the late 1990s when we looked at where some TAFE courses were being offered in schools, which I understand is still the case, and there were some differences in culture which created problems but also opportunities. My recollection of that particular research was that in some ways it did help people's transition because it was competency-based and that sort of philosophy suited some people better than the more general type of philosophy in schools where you do the whole subject all along. Potentially I think that could be helpful but I do not have any specific knowledge about it.

**Mr CHRISTOPHER GULAPTIS:** You mentioned there have been training programs ad infinitum. What about employment inducement for employers? Has there been anything in the past that has encouraged employers to employ some of the local people?

**Mr MURPHY:** There have been programs but, as I mentioned before, in 2003 we did quite an extensive survey of a range of key business people in the area. The concern again was the issue of the degree of work required for the application, the relative paucity of funds associated with it and the remoteness of the decision—it was done elsewhere. These were Commonwealth programs as well as State programs. One of the people I spoke to was from Ireland and who had had experience in the European Union. At that stage the European Union was looking pretty good; obviously it is not looking quite so good at the moment. He was appalled at the amount of paperwork and the paucity of the assistance offered here. He said he would not bother with it. He had set up a business in Ireland was expanding aspects of it in the Bourke area. He said the contrast was very stark. I have to emphasise that this was in 2003. I am not sure what has happened since. Again, what I am saying is anecdotal; I have not done a formal assessment of what existing programs are like. Another aspect is that some programs are difficult to understand. They have a specific purpose but the underlying philosophy of the program often is not clear. People in the region want some clarity of thought. They want to understand what they are trying to do.

**CHAIR:** Thank you for your time. If the Committee has any other questions would you be happy for it to send them via email?

**Mr MURPHY:** That would be fine.

**CHAIR:** Today's' recording and those responses will be put onto the public record. I wish you every success in the work that you are doing. It is of vital importance if we are to progress this State. I look forward to getting in touch with you again at some stage soon.

**(The witness withdrew)**

**CHARLOTTE FINCH**, sworn and examined:

**CHAIR:** Have you been issued with the standing orders relating to the examination of witnesses?

**Ms FINCH:** Yes, I have.

**CHAIR:** In what capacity do you appear before the Committee?

**Ms FINCH:** I am presenting as an individual. What I am discussing today is material that was researched and collated by the Barwon Darling Alliance. However, I have submitted it to the inquiry as an individual with the knowledge and active support of the previous executive officer of the Barwon Darling Alliance. The Barwon Darling Alliance itself dissolved earlier this year to refigure into different groups of local government. However, the work it accomplished over the past decade, complemented by the work involved in the Churchill Fellowship which I undertook in 2004, was felt to be so relevant to this inquiry that it warranted being submitted.

**CHAIR:** The five local government areas that were part of the alliance were Central Darling, Bourke, Brewarrina, Walgett and Coonamble.

**Ms FINCH:** Also Murdi Paaki Regional Assembly, the large Indigenous Council that still exists today. Sam Jeffreys was the chairman for many years. It covers the Barwon-Darling region that the five local government areas does but it also goes all the way to the South Australian border and all the way down to the Victorian border including Balranald, Broken Hill unincorporated and Cobar. Although the Barwon Darling Alliance concentrated on things for the area covered by those specific five local government areas it did, on the request of Murdi Paaki Regional Assembly, do some of those activities also in other areas such as Balranald and Cobar because it was seen also to be of assistance to those areas. The five local government areas banded together because they were similar. People often asked, "Why is Cobar not there?" If you look at it geographically you see that there is a bit of a hole there. Cobar, which is a mining area, has lots of activity in its own right. Cobar is not on the river so it does not have river issues.

**CHAIR:** Is Cobar located on the corner of the diagram in your submission?

**Ms FINCH:** Cobar is located on the diagram. The other area is unincorporated except for Broken Hill City Council in the middle. Broken Hill City Council was invited to join it did not believe it was relevant because it was a city council.

**CHAIR:** That unincorporated area has no local government area?

**Ms FINCH:** No local government area. The roads are maintained by the Roads and Traffic Authority. They have far better roads than most of the shires. The villages have a village trust for their water supply and things like that. They do not get garbage issues.

**Mr JAMIE PARKER:** Do they have a garbage collection?

**Ms FINCH:** Not in the unincorporated areas, unless the villages do it themselves. But then they do not have a rubbish tip so why would you need a garbage collection? We do in local government but not in the unincorporated areas, because who is doing it? You need local government to do garbage collection.

**CHAIR:** Do they bury it?

**Ms FINCH:** No. The village would have a local site and you just dump your own rubbish in the local regulated site, a bit like their water supplies which they regulate themselves. It is all under legislation. There are not that many people there.

**CHAIR:** Do you have any questions concerning the procedural information you have been sent?

**Ms FINCH:** I do not. I would not mind saying one or two words.

**CHAIR:** I invite you to make an opening statement.

**Ms FINCH:** Western New South Wales, along with many other declining rural and regional areas, are also areas of great potential and opportunity. They are not just depressed doom and gloom areas. However, what they lack is the investment to match that opportunity. The investment is not forthcoming because of the perceived higher risk in those areas. However, there are some solutions. One such solution is the instigation of enterprise or economic zones which purposefully interrupt the economic decline through deliberate intervention to make investment in those areas less risky. Tom Murphy did the modelling, as you heard, for the enterprise zone that Barwon Darling did. One thing that differs between his view and the view of the Barwon Darling Alliance was that they were not looking at a specific model that just sat in their region. They said that if you are going to go to all that effort it should be replicable across Australia and not just in New South Wales.

The attitude they took was there were depressed rural areas all over the world. Someone must be doing it right. There must be an answer out there somewhere and that is where the research started. We looked at Australia and no-one was really hitting the nail on the head. We looked at most of the Western countries, the United States of America, Canada and the European Union, which does it across international borders very well in some cases, and the United Kingdom. You have a framework that is replicable. In that framework you find out your own incentives that are going to match your own risks for that given region. Tom Murphy is right in that you could not replicate the incentives in the Barwon-Darling area and move it because the risks are probably different to investment in another region.

The risks in the Barwon-Darling region are social and economic because you cannot split the two. The economic risks bounce off the social risks and the social risks bounce off the economic risks. The enterprise zones I looked at in the United Kingdom had gone in as economic zones. The central government had just put in economic incentives. The framework was set and the incentives were set by central government but they were handed to local government to administer. In administering them local government then tailored them also to the social side because they found that you could not split them. Now with their enterprise zones they admit they have to look at a social concept as well as an economic concept. It may be that if you go to another area it is just a plain economic problem; that the barriers are just economic barriers and, therefore, you need only economic incentives because all you are trying to do is match your incentives to bring down the highest barriers. As my submission states, the thing that is stopping these areas—why businesses go to Bathurst and not to Brewarrina—is risk.

There are certain perceived very high risks that small business will not tackle because they do not have the capacity. You will not be wiping out that risk; you will be simply reducing it to a level at which business can comfortably cope with it. You cannot cherry-pick for an area. You cannot say that you are used to doing wage credits so you will continue with it because it is comfortable. If you reduce two or three of those five high barriers you are left with two or three that they cannot leap over and it will not work. The hard thing for government is resisting the temptation to cherry-pick the strategies it is comfortable with and can afford based on experience.

The Barwon Darling Alliance spent a lot of time meeting with State and Federal government representatives when they started to push this. Apart from the ping-pong that both parties play, they got a lot of good feedback too, but no-one was willing to bite the bullet and do the whole thing. There was also the issue of whether State and Federal governments could work together. They have worked together very well in our area on the River Towns project. It was granted over \$1 million and it was so successful that it was granted another couple of million dollars. The money was put in one bucket by several different government departments and that one bucket was used.

The Barwon Darling Alliance auspiced this project so I know about it. The beauty was that we had to do only one report and the Premier's Department then disseminated it—or it was supposed to—to all the departments, both Federal and State, that put money into that bucket. The huge number of reports I do for this little bit of money and that little bit takes up probably one-third of my productive time. I do not know why that River Towns project model was never replicated because everyone involved said it worked brilliantly. However, everyone got their brownie points, ticked it off and life moved on. If you are going to work with multi-tiered government arrangements that model would be a good example to follow because it made it very simple for government because not all departments had to worry about it, they just handed over the money and got feedback.

**CHAIR:** You have triggered about five other questions. Bearing in mind what you just heard from Tom Murphy, what are the main impediments to creating work and production in the area from what you have

seen? What would the Government be able to do to stimulate economic activity, which is essentially what we are looking at? You have heard many witnesses talk about there not necessarily being a cost to government.

**Ms FINCH:** This model would have a cost, but the net cost is a lot lower than the up-front cost. The model demonstrates that. Investment is the big thing holding back employment, economic growth, lowering all the social—

**CHAIR:** Investment in infrastructure, in manufacturing—

**Ms FINCH:** All of it. No-one wants to invest.

**CHAIR:** Why?

**Ms FINCH:** Because of the risks. First, low population is an issue. If you are building a road or a bridge, there is a benefit per head of population in the surrounding area. If it is built just outside Sydney it will generate many more votes. There are big opportunities out there. There is a proposal for a goat abattoir at Bourke. It is on the drawing board and everything is done. It was developed to the point of getting investors, but that is where it stopped.

**CHAIR:** Is that a goat abattoir?

**Ms FINCH:** Yes. Approximately 300,000 goats come out of the area each year according to the three main buyers. When sheep are dying in the paddocks because of drought goats are twinning all over the place and no-one even looks after them. That industry could be developed much more than it is.

**CHAIR:** To whom do we export them?

**Ms FINCH:** At the moment we export them to Asia. America could take our whole goat export in one go.

**CHAIR:** They eat a lot of goat?

**Ms FINCH:** Yes. It is widely consumed in some of the big cities with large ethnic populations. Korea is also a big market. South Africa produces more goats than any other country, but it consumes them all domestically. The market is huge and it would take more than Australia's whole production, which is a drop in the ocean.

**Mr CHRISTOPHER GULAPTIS:** Is it live export?

**Ms FINCH:** No. They are carted to Victoria and killed there. When the project development work was being done there was an abattoir at Pyramid Hill and another one near Beechworth.

**CHAIR:** And they are shipped out of the Port of Melbourne.

**Ms FINCH:** I would imagine so.

**CHAIR:** How do they get to Victoria?

**Ms FINCH:** They are trucked. As Tom said, there is a game abattoir at Walgett that is not functioning at the moment and another one at Collarenebri. These are small operations, but they would make a huge difference to employment in those towns. The work does not require an ability to read and write or enormous skills. People can learn the necessary skills on the job and after 12 months they have developed a work ethic. That is the big risk in employing someone. Small businesses in our area could be employing a person who has never worked before. They do not know they are supposed to turn up at a certain hour every day and stay there. I have done a fair bit of work with indigenous trainees and I have found that letting them go home for lunch is a risk because they do not come back. It is not reasonable to have that expectation because why would you expect someone to have a work ethic if they have never worked? You can get that ethic only by working. Therefore, the labour force is a risk.

Investment is also an issue. If you build a shed for a business in our area, once it is completed it is valued at less than what it cost to build. That is why the model has accelerated depreciation. The United Kingdom model allows construction costs to be wiped off in 12 months or they can be spread out over five years in 20 per cent lots or whatever. That was a big thing for United Kingdom businesses to get their investment going because no-one wanted to invest in buildings although they were needed and businesses could not grow without bigger premises. In one of the areas I looked at that was the bottleneck so a big part of their enterprise money went into building premises.

Enterprise zones are not a quick fix. Our model was for five years for one reason and one reason only. The Barwon Darling Alliance was told before it went to government that, regardless of whether it was the State or Federal Government, it could not talk about a scheme covering 10 years because no-one would listen. As a result, the model was designed on a five year plus five year basis. Of course, that is 10 years. There would be a review after five years and if things were moving it would be continued for another five years. Overseas models are for a minimum of 10 years. We cannot break long-term cycles with a five-year scheme. That is pushing up hill. With the overseas enterprise zone even in the first two or three years nothing seemed to be changing, but then the momentum got going.

Even at the end of the 10 years one of the areas I looked at was not confident that it would keep going after the incentives ceased. It applied for another program but it was not successful. However, that did not matter because the snow-balling continued. The catalyst had been in place and it had done its work. This is not the answer; it is the catalyst for economic development. Incentives are not put in place forever; a sunset clause is applied to all enterprise zones. You are trying to get the ball rolling so that the market picks it up and normal market forces come into play. At the moment market forces not only will not commence activities in these areas but they actively move them somewhere else. People want to make as much as they can and they may decide that they can make more if they go to Orange or Dubbo because the area is larger. Not only do market forces do nothing, they actively fight against economic growth in our area.

**Mr STUART AYRES:** You mentioned accelerated depreciation as something that came out of the United Kingdom as an example.

**Ms FINCH:** One of their incentives.

**Mr STUART AYRES:** Through your research have you been able to identify any other incentives that we might be able to consider in New South Wales to create economic development in regions such as the Barwon-Darling, or anywhere else for that matter?

**Ms FINCH:** Even though we say it is socio-economic, red tape is the one that comes up all the time, especially for small business. The United Kingdom tends to have the business park concept of an enterprise zone. We cannot do that where we are. We say, "Put the incentives over an area. Any business in that area that takes them up or qualifies gets them, irrespective of where they are in that area." So it becomes a bit like a dalmatian. That has been shown to be better for rural areas. Industry clustering is good and I would not discount that but that is better than a business park mentality in rural areas. That has been shown with comparisons overseas between rural and urban areas. The problem with a lot of the literature on enterprise zones is that it relates mainly to the urban experience. There would be a hundred times more urban zones than rural. When a comparison is done, the effects on rural get averaged out. You have to go to specific studies that split urban and rural.

Zone hopping happens very little in rural zones. In an urban zone you will have businesses moving in and out of zones in order to pick up the incentives. That is one of the dangers. It happens little in rural areas because the geographical distance does not make it financially beneficial for them to move around. When they get in they usually stay. They do not necessarily move their business into the zone but they start another arm, or branch, or offshoot of the business. They move it into the zone because that is where the incentives are and by the time the incentives are finished they are big enough to cope by themselves. They then stay because it is not financially beneficial for them to move that new business somewhere else. In the United Kingdom 73 per cent of the businesses that went in stayed. I do not say that 27 per cent moved out; some may not have succeeded. That is a phenomenal amount compared to the urban experience.

In the urban experience an enterprise zone tends to suck in from outside. So you had an active area but sometimes there was a poorer area nearby because of it. The rural experience is the opposite. You have the enterprise zone activity and, because it is building up, it is building up activity outside. Even if you are a

business in the zone that did not pick up the incentives or did not qualify for an incentive, for example, a mechanic, if you have businesses in the area with trucks, that mechanic is getting more business. It is the same with the enterprises outside the zone. They are getting more flow-on business because of it. That has been shown with rural zones as well. That is why you have to be careful with judging the effects. You have to ensure you are not applying the effects on urban zones to rural zones.

**CHAIR:** Going to what you specifically can do, I am guessing that there is not much, other than the goat export industry, and mining obviously?

**Ms FINCH:** No, we do not have mining. Cobar has mines and it pulls off some of our more skilled people. Because of the drought a lot of the farm workers who were experienced at driving graders and bulldozers went to the mines. That was useful. We have several abattoirs in the area. Much of my submission refers to Bourke because although I worked for Brewarrina for the past few years I live in Bourke. The aerodrome we have in Bourke is very long; it is one of the biggest in the country. Big planes can land there of the sort that you could use to export live goats into Asia. That means that from that airport you could freight vegetables straight into Asia on the same day. It was one of the fallback airstrips for the Air Force during World War II, in case Queensland fell to the Japanese. The area grew a lot of vegetables for the war effort as well. That area has a history of growing vegetables.

In the years before the drought we built up an industry growing oranges and table grapes. That was good for employment in the area. In that employment one does not have to read and write; one learns the skills on the job. A lot of people who are now not working and do not have a work history could work casually five or six days a week. If they want to work only three days a week they can do that. It did not matter because it was that sort of job. But those who worked five and six days a week got into a permanent full-time job routine, without realising it. This is where the social and economic issues collide. If you have a parent who is working, you generally have kids in school. The parent suddenly realises the handicap of not being able to read and write and how much harder life is without those skills. The parent does not want that for his kids. You can bet your bottom dollar that, if you have a working parent, you have kids in school. If you have non-working parents who cannot read or write they have found that they do not need to be able to do that in order to get through life. They have worked out how to live without it. For example, down at Centrelink the lady will fill in the form for them. They cannot see the value of education. If the kid does not go to school no-one worries.

**Mr JAMIE PARKER:** What you seem to be talking about really is more strategic investment. Let us say that the Government decided tomorrow to set up a special economic zone in the Barwon-Darling enterprise region. What would it look like? Would it have a sum of money to invest in strategic assets? When you talk about red tape what does that mean?

**CHAIR:** Would it eliminate red tape? I want to go back to the Bourke abattoir. You said you were waiting for investors. Is that because the council has given the development application and everything is ticked off and it just needs someone to come in and build it?

**Ms FINCH:** They have got it to the stage where if they had the investors they could have the permits ticked off. They have looked at sites in collaboration with the local government which is in favour of it and there should be no hold up. To answer your question, you should have the 2003 submission. I did not put it in with the original one but the one you have with the submission is an update. That one gives you all the nuts and bolts of it, all the incentives and the reason why they are incentives. But with that you have a standalone administration. The idea of an enterprise zone or economic zone was never something the Barwon Darling Alliance wanted to run. It did the research and funded it but it was for the good of the area and Australia in general. It has a standalone administration which cost \$500,000 in 2003. Sixty per cent goes to wage credits, not because wage credits were fourth on the list but because, without jobs, you do not have employment.

We are not looking at a super industry coming in and employing people. We do not want a car manufacturer or anything like that because that is a risk in itself. If it fails, you are back to square one. What we are looking for are incentives that will allow just about any small business in the area to put up their hands and say, "I want to compete to be one of these businesses to get the incentives." The incentives are less red tape, charges, even local government charges, but not cutting local government revenue. It is a rebate you get from State or Federal money that is feeding into that \$5 million. Accelerated depreciation—I think there are loans at 2 per cent less or a rebate for 2 per cent of the going rate. So you have slightly less financial cost for borrowing money to expand. The wage credits go only to new employees and there is a slightly higher rate if you are

exporting 85 per cent of your product outside the region. What we are looking at is getting small business to add one or two people to their business.

If you got all the small businesses in the area adding one or two people to their business you are going to have a jump in employment. You are not asking them to double their size because they cannot do it; you are just asking them to grow that bit. All those small businesses out there in that region have got three or four ideas of how they could do more if they could invest, if the risks were not so big. We have a guy in Bourke who runs the milk run—but the milk run is for sale—who branched out into a motel. He bought the nursing home quarters when they were rebuilding them, moved the lot he had and did them up as a motel. He is booked out because he is slightly out of town but still within cooee of a pub and the way he has set it up for families and reps and those sorts of things. He has now branched out into a restaurant in town because our tourism is growing.

**CHAIR:** This is in Bourke?

**Ms FINCH:** In Bourke.

**CHAIR:** Why is tourism growing in Bourke?

**Ms FINCH:** Tourism is growing because we are Bourke and because both local government and other businesses have worked very hard over the last 20 years to grow tourism as a complement. It will never be the number one industry—we do not want a number one industry. We have only a third of our New South Wales flock in sheep at the moment because of the drought. Apart from tourism, we are very dependent on sheep across the area and on irrigation, especially cotton. But with the water issue that is iffy. No-one is buying or selling any property with a water licence on it because no-one knows what the value is. The cotton industry is also getting more efficient, which you cannot knock. They are using less and less people. They do not use chippers anymore—which soaks up a lot of our casual illiterate people. They are using 20 per cent of the people on harvest they used just two years ago.

**CHAIR:** The figures on page 14 of the 2003 document that you gave us are actually not too bad for Bourke. I appreciate that some of the other councils in the region are not real flash but I know parts of Sydney that would not be as good as those Bourke figures. From what you are saying obviously that has improved from 2003?

**Ms FINCH:** It has probably gone back since 2003 given the last 10 years because we have lost about 500 in population in Bourke.

**CHAIR:** What is the population now?

**Ms FINCH:** We are about 2,500 I am told. The problem is that the cotton industry did not grow a crop for five years in a row so all that labour is gone; it has shifted out of town.

**CHAIR:** Will it come back?

**Ms FINCH:** Not to the extent it used to and, as a say, they are getting more efficient so they are using a lot less labour. The majority of the orange trees and table grapes have been bulldozed—they died during the drought. We will not have permanent plantings again, not until someone knows what is happening with the water and even after that. What we could do is, and where the opportunity is, vegetables. At the moment one of those fruit farms is growing melons on opportunity. With an annual crop if you have got the water you can grow it but if you do not then you do not have too. Vegetables not just for our area but for any area with an airport like we have got is fine. Triples also come through Bourke. Our road trains and triples and they stop at Bourke as triples, off load and go on as road trains. Hillston would love triples to go down as far as them—that is directly on the way to Melbourne from us. The only thing stopping that is that Bourke would need a bypass.

When you ask what investment it is incentives for private investment—you cannot just do State or private. To my mind to get the big bang and to get this thing rolling you need to put the incentives in as per the model so the private guys can grow each little bit and collectively that is a lot, plus you then need the infrastructure from State. To get triples anywhere further east than Bourke you need a bypass for Bourke because they just physically cannot go round the corner. We have one corner where everyone has to stay way back when a road train comes because he cuts through. So you need that sort of thing.



Going back to when we were doing this model, I know that the trucking industry was interested in putting a 24-hour servicing centre in Bourke. Melbourne to Darwin goes through Bourke, Brisbane to Adelaide goes through Bourke, Sydney to Darwin goes through Bourke, Adelaide to Brisbane, Melbourne to Darwin; they all go through Bourke. About the only one that does not go through Bourke is Sydney to Adelaide and back again, everyone else goes through Bourke.

**CHAIR:** And Brisbane to Melbourne—that is Dubbo.

**Ms FINCH:** Brisbane to Melbourne goes through Bourke. A lot of them go through Bourke. They do not go so much down the Newell Highway. They come over from Moree and go straight down because Bourke sits directly north of Melbourne. They go down through Cobar, Hillston and that way.

**Mr STUART AYRES:** Who owns the airport? Is it privately owned or do we own it?

**Ms FINCH:** No, I do not think so. The local government administers it, the shire administers it. I would not know legally who owns it but, yeah. It is one of the few airports with refuelling capacity.

**CHAIR:** Is there a commercial flight out there?

**Ms FINCH:** Used to be but it was extremely expensive: \$500 from Bourke to Dubbo; mainly used by government people. The problem was it come in at 10.00 a.m. and would go out at 3.00 p.m. so you had very short meetings. They fly to Cobar now. A lot of people from Bourke utilise Cobar. That is another thing if you had a regional flight in, but it was private and was not economic. We do still get a lot of charters in. When the floods were on they had all the helicopters for the Brewarrina area were based in Bourke because that is where the refuelling was.

**CHAIR:** You have given the Committee a lot of information—for which we are very grateful—but it is very different to what the first two witnesses today provided. We have been talking about border economies and you are not really in that space because you are not competing with Queensland on the other side—and I suspect they are facing very similar issues. You have the question of financial assistance from the State and a will for the State to actively either encourage private investors to invest themselves. What is the golden bullet for that region? You have told me certainty and you have told me 10-year plans, not five-year plans. We have heard from Tony that we need to have employment opportunities, that education and training is necessarily the problem—

**Ms FINCH:** He is right.

**CHAIR:** They will come with economic certainty. You have told me the existing industry worth supporting is the goat exporting industry—

**Ms FINCH:** There are lots of industries there and there is a lot of opportunity there that you could bounce off, but the investment is not there. The goats were one startling standout in the crowd sort of example. Because it is so obvious a lot of work has been done on it already. The abattoir at Collarenebri is physically built to double its size. All the foundations and all the mechanisms to double its size are sitting there because when it was built it was startling obvious that this was a growth industry. Aged care is a growth industry out there because all our old people have to go somewhere else, they do not want to. If you could physically put in aged care that coped with dementia and things like that you would get a whole economy built around aged care. Child care is becoming better, as mentioned by Tom, but in order to keep professionals longer than two or three years—we have this cycle of people coming for two or three years—you need child care because usually if one partner is a professional then the other is also a professional. Bourke has a terrific school—it is always building trade halls and trade this and trade that—and we have TAFE colleges across the area but people are being trained and there are no jobs. We need economic stimulus to get the jobs going.

**CHAIR:** From what I am hearing from you that economic stimulus is going to come from certainty?

**Ms FINCH:** Yes.

**CHAIR:** You have told me that the vegetable crops will come when they have certainty over water?

**Ms FINCH:** No, they can actually run without the sort of certainty you need for permanent plantings because they are year-to-year, but in order to feed a market you need to be—

**CHAIR:** The oranges and the table grapes—

**Ms FINCH:** They are gone.

**CHAIR:** They will come back with water, with a degree of certainty on the water?

**Ms FINCH:** No. I doubt it because it is eight years before you get a commercial crop off them. Unfortunately I think—I do not know. You may get an entrepreneur who is happy to bite the bullet or you might get China buying the farms. They are looking at them. There is huge potential in tourism but there is just no investment or structure. There are so many Indigenous people who could bounce up tourism left, right and centre across the whole area. But there is no structure for them to work within. It is not a matter of saying, "We'll give you money to set up a business." They need the structure. They need the incubators. They need to be tagged with another business to start up, that sort of thing. And in order for them to do that, that parent business or that mentoring business needs to have incentives because it will cost them to do that.

You take on a trainee, you will lose productivity because one of your guys has got to be looking over his shoulder all the time. You will lose money. You will be chasing him all the time. Mentoring has got to be—do not even think of putting in wage credits unless you are putting in mentors because you are just doing your dough, putting it down a big hole again out our way. Because people, and there is no reason why they should, they have no concept of what it is like to work. If their dad and grandad did not, why should they? There is a large packing shed out there that was built to take virtually the whole of Bourke region's oranges and grapes. It can take anything—strawberries, mushrooms, everything. Unfortunately it was finished the year before the drought so they went bust. But it has cool rooms to back the semi into. It is phenomenal. So you have got that out there that needs investment to fill it. It does not need investment itself—it is built. It needs investment around it to fill it.

You have got a motel on the drawing board in Brewarrina. Brewarrina desperately needs another motel. It has a national heritage site in the town. Every tourist who goes from Lightning Ridge to Bourke stops at Brewarrina. You can view the national heritage site, the fish traps, free of charge but getting them to stay? I talked to a chap who runs coach lines out of Queensland. He said if someone could give him four single day trips out of Brewarrina, which he can do—I could have counted six on my hands just talking to him—he would make that his hub and set up a second business in Brewarrina just bringing people in and then doing that. That means accommodation; it means all sorts of things. Brewarrina is about as destitute as you will ever find a town. You only need three businesses like that and Brewarrina is suddenly on its legs and going 100 miles an hour.

It is not the volume of investment you need, say, for somewhere around Sydney. You just need to let every little business compete to get those incentives. You need competition because without competition you have tagged the place as depressed, declining, hopeless. With competition, you have then got people actively trying to get those incentives, which means they have got to have opportunities to match with them. So suddenly you have marked it as a place full of opportunity for business, rather than a depressed, declining place. The other thing that happens is when you have competition like that you get the partnerships being built, and they have got to be built before they take up the incentives. So you have got a cohesion for economic growth already happening before you hand out the dollar. There are all these incentives, you have got someone already making a move before you give them the dollar, before you give them incentive. They have already got to have hired the new bloke before they get the wage credit. They have already got to have got the loan invested when they get the loan cost finance.

**CHAIR:** So the Government is not wasting its time.

**Ms FINCH:** They have made the move to do it already. What you have is a whole region jumping instead of all going, "We are full of doom and gloom". You know your money will not be wasted, but what small business needs to know when they are planning is, "If I make this move, if I get this bit bigger, if I take on two more people, I will be able to count on getting this, this, this, this and this. Now I know what the future holds I make the decision or I don't." They need to know ahead of time what the incentives are. They do not need them ahead of time. They need to know ahead of time what they are so they can make that decision.

**CHAIR:** We have run out of time. As you probably heard from the other witnesses, we request that if during our deliberations we come up with further questions we can email them to you and you would be happy for them to be made public. As I mentioned before, they will all be matters of public record as well.

**Mr STUART AYRES:** Given that a number of the incentives that Ms Finch referred to in her evidence are listed in the 2003 enterprise zone report, do we need to move a motion to have that tabled?

**Mr JAMIE PARKER:** Table that document.

**Mr STUART AYRES:** Can this be included as evidence?

**CHAIR:** Yes.

**(The witness withdrew)**

**PAUL JEREMY COLLITS**, Research Director, Economic Development and Enterprise Collaboration, Australian Centre for Sustainable Business and Development, sworn and examined:

**CHAIR:** On behalf of the Committee I welcome Mr Collits from the Australian Centre for Sustainable Business and Development and thank him for giving evidence to our Committee today. By way of background, I am the Chairman of the Committee. To my right is the Deputy Chairman and member for Penrith, Stuart Ayres, who is a member of the Government. To his right is Jamie Parker, the member for Balmain and a Greens MP. To my left is The Nationals MP, Chris Gulaptis, from the Clarence electorate. All of us are in our first term of Parliament. I remind Committee members that when they are asking questions they should announce their name. Can I confirm that you have been issued with the inquiry's terms of reference and information about our standing orders that relate to the examination of witnesses?

**Professor COLLITS:** Yes, that is correct.

**CHAIR:** In what capacity are you appearing before the Committee today?

**Professor COLLITS:** I am appearing as a private individual.

**CHAIR:** Do you have any questions regarding the procedural information we sent you in relation to the hearing process?

**Professor COLLITS:** No, that is all good, Mr Chairman.

**CHAIR:** I invite you to make an opening statement relating to your submission?

**Professor COLLITS:** I would be very happy to do that. I make a few quick points. First, I have not been involved myself in regional development in New South Wales since 2006. Second, I have not undertaken any detailed research into special economic zones or enterprise zones since the early 2000s. I included in my submission an earlier paper written about 10 years or so ago, so I have been very happy to respond to your invitation to provide a submission to the Committee but the material I have provided obviously relates to an earlier period where I had a particular interest in this sort of topic of enterprise zones and special economic zones. I just want to make that point.

Third, my interest in the inquiry is to ensure that the right questions are asked about this topic and about the regional policy context of any proposals of special economic zones. I draw the Committee's attention again, if I may, to the core questions of regional development, as I understand them, which are mentioned at page 2 of the main submission. I think any questions for special economic zones are those questions that I have listed at page 2. Clearly, where should governments intervene in regional development is front and centre as a question for this inquiry.

We are talking about delineating particular zones, regions or areas for some sort of attention by government interventions, so this relates to a philosophical question, if you like, and a question of some evidentiary matters, but ultimately is a philosophical question: where should governments intervene, what kinds of regions should governments be giving this status to? The next key question is what should these zones do? Finally, in other words, what are the policy objectives in play here? What is government trying to achieve by delineating particular areas as special economic zones and, thirdly, how to go about this? What are the policy instruments that governments might use in this way?

The next brief point I want to make is that the drivers of regional development are massively complex and sometimes unseen and often not fully understood; in other words, the things that make some regions successful and others not, the reasons why some regions grow while others decline, the reasons why there are region-specific problems in some areas but not others. These are matters of considerable complexity and in a sense my argument in the submission is that this complexity is a matter of material concern to decision-makers making decisions about special economic zones.

Related to that and just as importantly as the complexity of the drivers of regional growth and decline is the fact that there is no broadly agreed general theory of the drivers of regional growth and decline. They are complex, we know that, and they are also of a nature about which there is theoretical disagreement in the literature on this topic. That literature is quite extensive and is pursued by all sorts of various academic

disciplines and different modes of research but at the end of the day there is not agreement on a lot of growth and decline. That again is a matter of considerable importance for regional policymakers and indeed makes interventions highly problematic.

Second lastly, if I may, I should mention two particular effects of regional policies, particularly of these kinds of regional policies that the economists talk about, the so-called displacement effects and dead weight effects of enacting things like special economic zones. Displacement effects refers to the fact that you might be advantaging one region and the businesses in one particular region but you might be creating that advantage by diminishing an advantage for another region or in fact harming other regions. Dead weight effects refers to the fact that some of the investments that occur in these sorts of places might have occurred anyway.

One study done some years ago, which I think I referred to in the earlier paper on enterprise zones, was a study in the European Union not of enterprise zones or special economic zones specifically but of regional policy, which indeed is a huge deal in the European Union, found that nearly half the interventions related to regions and place policies suffering from these dead weight effects would have happened absent of policy interventions.

Finally I make a point about the fragility of competitive advantage in regions. There are all sorts of reasons why particular regions go through economic difficulties at particular times and regions benefit and seek to develop competitive advantage. That is something that is generally agreed by policymakers, researchers and so on. The simple point is that competitive advantage is fragile, although it might depend on access to a particular resource, which might be a natural resource or it might be skills in a region; it might be leadership, it might be venture capital, entrepreneurial ship and so on. These sorts of things are not written in concrete and can be lost by regions as well as created. That is all from me in points of emphasis about the arguments I have made in my submission. Thanks for that.

**CHAIR:** I take your point about fragility and the opportunity cost that strengthening one region can diminish another region. The primary motive of the inquiry is to make sure that particularly our border economies are not penalised because they are competing within a stone's throw of a jurisdiction that has a more appealing approach to doing business.

**Professor COLLITS:** Yes.

**CHAIR:** It is interesting that you make the point about fragility and the opportunity cost of making it more appealing within the New South Wales jurisdiction. From your reading and research, do you think that having an end state to a policy which would promote a special economic zone, would benefit or hinder the promotion of economic activity in a given area? For example, if we went to Tweed Heads and said, "We are going to make sure that all the State taxes, charges, and regulations will be exactly the same as those in Coolangatta", would we need to put a time limit on that or would we need to make that open-ended?

**Professor COLLITS:** There are a couple of issues in that question. One is that designating a zone for particular policy purposes anywhere will have its own cross-border effect. There will be places just outside the zone that might reasonably argue that they are within the economic jurisdiction, if you like, or an economic community of interest with places that are in the designated zone that are attracting these new benefits or tax breaks or whatever. There will be border problems—I accept and understand you are talking about border regions in this instance—relating to any regional policy that designates a particular region. That is perhaps a political problem in some respects. Incidentally, this is not a million miles from the debates in the 1960s and 1970s about decentralisation. One of the key arguments then was that we should designate particular places as growth centres. I am sure members will remember some of the debates or will have seen them referred to. The benefits you gain from concentrating this distance outweigh the lesser political flak of making benefits broadly applicable across the whole jurisdiction of New South Wales. You get more bang for the buck by focusing on a particular area.

In this example of border regions the focus is on places that perhaps have a particular competitive disadvantage relating to their location across the border. Certainly, real economic regions cross borders both between Queensland and New South Wales and between Victoria and New South Wales and from within a designated region and all other areas outside. I think it would be a legitimate point for businesses near the border of this designated area to say, "What about us?" That does not rule out these sorts of policy interventions. These debates routinely take place, for example, in case of drought and exceptional circumstances. That is one relatively recent case of debate about who is in the region and who is out. It is not just about missing out or

about politics or fairness or whatever. The elements of economic development or economic activity cross all sorts of notional borders. Trying to capture the benefits of an intervention like this in a border region, from other things I have said in my submission and elsewhere, would require making clear what the policy objectives were. You have mentioned time limiting these interventions and that goes to measuring impacts over time. How do you determine whether something like this has worked? You would have to set a time limit. Other jurisdictions of course will continue to make their own decisions about the competitive advantages of their regions in this new situation so there might be policy responses from the other jurisdictions.

In summary, there will always be problems when particular places are designated about who is in and who is out and how a government justifies inclusions and exclusions. One example of this might be against the earlier Queensland policies of fuel franchise fees that Queensland did not charge and New South Wales did. I think that was changed by the recently defeated Government here in Queensland. That earlier debate was very similar: At what point in these border regions of New South Wales do you provide the assistance to allow firms to be competitive? Similar cross-border debates have taken place about the effects, if any, on business of daylight saving. For me the cross-border question is something of a new context for debates about special zones. Typically these sorts of debates are either about further strengthening growing regions like the poor cities of the Middle East, China and Africa that have taken on board these special economic zones, or indeed rural and regional locations that are given designated status or are proposed to be given designated status to give them extra advantages in competition against cities such as Sydney. I have not previously come across this particular policy instrument for this kind of region.

**CHAIR:** That leads me to the next question. You have mentioned regulation and taxation. When we are looking at special economic zones, which of these aspects is the most desirable to be liberalised? Are we better off reducing taxation to promote a special economic zone or are we better off attacking regulation—you mentioned daylight saving—to make it more palatable and successful?

**Professor COLLITS:** I do not have a strong view on that subject. The evidence and the literature around enterprise zones and these sorts of special economic zones have probably attempted to evaluate success by looking at the overall performance of the zone over the time of the designation versus other regions that were not designated that way. A lot of the literature probably is about that generalised level of success rather than about having evaluated particular policy instruments, because they are all mixed together. Often there is a suite of things that are done to give the zones bang for buck and most of the evaluations that I am aware of have not unpacked particular policy instruments. That goes as well for regional policies more generally. I think regional policies are generally poorly evaluated or underevaluated in Australia in my experience. It is difficult to evaluate policy success when there is a whole basket of different policy instruments applied to either one particular region or to a number of regions.

The evidence is probably not clear but I have a preference, as one might have inferred from my submission, for reducing regulations rather than providing extra fiscal assistance. That is not something I can find evidence for in the literature to say there is clear evidence one way or the other. That is probably just a philosophical preference that I have. It is not clear cut. Indeed the evaluations that have been done on zones, largely North American literature, partly reflect the fact that economic zones have been part of their policy zones since the early 1980s in different forms, with different titles of programs and so on. It is really a mixed bag. I can remember some of the debates in which I was involved around about 10 years ago, or a little less than that, when a number of people pointed to studies that had been done that showed zones that had been effective. I was able to point to other studies that had been done that showed the opposite.

I think that reinforces my general point in the submission that the success or otherwise most likely will be attributable to factors other than the performance of intervention given to a particular region. It will go to the region's own competitive advantages, the level of business investment, the quality of regional leadership and all the other things that have been argued to be drivers of regional growth. That is a complicated answer because it is a complicated question and there are no clear findings in the literature that I am aware of one way or the other that show whether cutting regulations will be better than boosting spending. Probably most regional policy, incidentally, is about extra assistance to places rather than cutting regulations. Certainly some local governments offer their own incentives which might involve cutting their own rates, giving away land, or charging peppercorn rental or whatever to firms that might move to a particular area.

If I may digress slightly, one matter is this notion of helping existing firms and the competitiveness of existing firms versus trying to attract new firms or to grow new firms. If the objective of an enterprise zone or a special economic zone in a border region is to help the firms that are already there to get on a par with another

set of zones across the border, you say, "Let's make it fairer for the firms already there." There may not be a particular intent to use this as an attractor of outside new investment.

**Mr STUART AYRES:** I am the member for Penrith which is on the outer metropolitan edge of Sydney. I compliment you on your extensive submission. You touched on a point that I garnered from most of your evidence today and from your submission. An earlier submission and evidence spoke more about harmonisation of regulation rather than creating a competitive advantage for businesses in New South Wales. I refer to border economies, whether it be the Tweed, or Albury-Wodonga which carries a border relationship with Victoria. If we were to adopt something along the lines of a special economic zone policy is it your view that the trial or first stage would be more along the lines of creating a more equalised playing field, or harmonious regulatory environment rather than creating a competitive advantage?

**Professor COLLITS:** I think that is a perfectly legitimate point. The effort would be to work with other jurisdictions to harmonise regulations across jurisdictions so that those border regions were not disadvantaged in particular. Is that the harmonisation exercise?

**Mr STUART AYRES:** Yes.

**CHAIR:** You would not have to work with any jurisdiction; you just have to mirror the jurisdiction that you are competing with or to which you are adjacent.

**Professor COLLITS:** For the reasons I have already suggested I would be more comfortable with making the benefits for the harmonisation available across all New South Wales. The regions close to the borders and the firms within those regions would probably disproportionately benefit, or would lose the benefit of being just up the road from the other side of the border where they have things easier, for argument's sake, than to create particular zones; to make that harmonisation process open to all regions. The reason I say that is partly to do with the poorest nature of regional economies and, if you like, the borders around regional economies. Just as we live in a globalised world in which national borders are far less important than they were in former times, in a sense this globalisation process is going on within regions within Australia and all sorts of economic activity is occurring relating to the mobility of people, of labour, of capital investment, foreign investment and movement of firms across regional borders.

In a sense I have been reading some recent literature that has highlighted—I am happy to make these articles available to the Committee—some interesting work that has been done on the economic linkages between urban regions and non-urban or rural regions. It reminded me of the fact that there is a lot of mobility of resources floating around the place across regional borders. I think that is an argument in a sense for recognising or not especially emphasising regions and their borders because a lot of economic activity is occurring at all sorts of spatial scales across regions. The example in this recent literature is, say, the value to regional New South Wales of Sydney's economy. This is anecdotally understood by people but more robust work has been done on those interactions. One might have a big economic impact on regional New South Wales by, say, building a second airport in Sydney, to take an extremely current topical example. Putting in a piece of infrastructure, not in the region that you are trying to assist, might be far more beneficial economically to firms and the labour force in that region by doing something outside the region. This has been long considered the case for better supporting infrastructure like rail connections at air links between city and country.

I think that generally recognises the fluidity of economic transactions, relationships and movements of economic resources across regions. Delineating a region for something perhaps will not be as effective or relevant as it looks even though we think regionally and we think, "I am in Albury-Wodonga but my economic region goes to Melbourne, to Sydney and to other parts of the Murray border region and cross-border linkages and so on." There is a complexity which says, "Harmonisation may be preferable to particular dollops of assistance to a region to try to cut out regional competitive advantage but I think that harmonisation process should be geographically broader."

**Mr STUART AYRES:** I take the point that creation of a special economic zone to solve a border issue might create a border inside our State that would produce domestic problems.

**Professor COLLITS:** Yes.

**Mr STUART AYRES:** That is a perfectly valid point and one that I struggled to reconcile as I read the submissions.

**Professor COLLITS:** Yes.

**Mr STUART AYRES:** You touched on the fact that the State might benefit more if we were to invest in already strong and emerging economic areas like capital cities or major city centres that often provide the economic drivers for regional New South Wales or other parts of Australia.

**Professor COLLITS:** This is very much the core question in the history of regional policy in New South Wales and in other places. We have this overarching sense of the "NSW" factor; that is, people in New South Wales, and no doubt particularly in regional areas, talk about the Newcastle-Sydney-Wollongong focus and 70 per cent of the population and economic activity is in the city area. It is historically an important question for regional policy in New South Wales. It is also a core question for regional policy generally. A report done last year by the Grattan Institute at the University of Melbourne was highly controversial because it argued very strongly that we should help the growing regions that it referred to as "bolters" rather than the "laggers" or lagging regions. Historically regional policy has tried to do two things in my view. One is to help lagging regions and to equalise outcomes for equity and efficiency reasons and the other is to address problems in particular regions. This is the border and economic issue and the equalisation driver has been central.

What was the Grattan Institute's argument for supporting bolters or growing regions? It particularly focused on the role of regional universities in the regional economies. As members know, the argument is that these are the global economic engines. In 2007 for the first time in history more people lived in cities than outside them and that will only increase in the future. The argument often put for supporting the lagging regions or regions in decline relates to equity. That is, it is not easy for people or firms to up and move from a region in decline—for argument's sake a rural region—to the city. There is therefore an obligation on government to support the lagging regions.

There is a lot to the argument that we should unleash the economic forces that drive our cities and that we should make our cities economic powerhouses even more than they are, extremely liveable and so on. For all sorts of personal reasons people choose to live and work in cities rather than elsewhere. The arguments as to why individual firms, businesses and households do this are familiar and obvious.

**Mr CHRISTOPHER GULAPTIS:** You have started to answer my question. I intended to ask about providing some sort of economic boost to those disadvantaged communities versus boosting the already established industries and communities in and around our capital cities. We took evidence today from someone from Barwon in the far North West of New South Wales. That area is remote and it has high unemployment and unskilled people. Rather than it becoming a wasteland, it is believe that it has some opportunities that should be developed but there seems to be a lack of will and/or spend in those areas. The locals are looking for incentives for this special economic zone. You were starting to answer that in terms—

**Professor COLLITS:** I certainly remember the involvement of the Barwon-Darling Alliance some years ago in similar debates. I was unpersuaded by the case then and, without having thought about it much lately, I am still unpersuaded. One issue is how central governments decide which are the really deserving regions and cases that outweigh the arguments put by other regions. Secondly, there are very different advantages in different regions. People often leave the so-called lagging regions and inland regions to seek opportunities in bigger labour markets and other places.

The region I live in—Hervey Bay in Queensland—is certainly not lacking population growth or indeed economic growth to some extent. However, we have very high unemployment and very low labour force participation rates. We tick all the wrong boxes and none of the right boxes. It is a very different region. I do not know how a central government would weigh up the relative merits of the cases of inland regions with youth brain drain and so on. The position supported interestingly by the OECD in recent years and the Australian Government's regional policy approach is to provide an equal measure of assistance to all regions. People would argue whether it is equal. That philosophy and the OECD philosophy is that all regions can do better, therefore we will have help them address their local regional problems through the Regional Development Australia committees and so on. We could have another debate about whether that level of assistance is helpful and meaningful and whether it will make a difference. I believe it is not and does not. I strongly support the idea of assisting all regions rather than the so-called lagging or bolting regions. The local regions could take more control of decisions about how to support economic development. I would put it back to the regions with greater resources but without the special designation implied here.



**CHAIR:** Thank you very much for your very comprehensive approach. You have taken me back 20 years to economics 101, which was probably your intention. The Committee may have some follow-up questions after our deliberations. Unless you object, we will email them to you. They will be matters of public record unless you have any objection.

**Professor COLLITS:** I have no objection.

**CHAIR:** Thank you again and we appreciate your time.

**(The witness withdrew)**

**(Luncheon adjournment)**

**LESLEY SCARLETT**, Executive Officer, Southern Councils Group, and

**TONY GREEN**, Acting Chief Executive Officer, Regional Development Australia Illawarra, affirmed and examined:

**CHAIR:** Do you have any questions concerning the procedural information that we sent to you in relation to witnesses and the hearing process?

**Mr T. GREEN:** No.

**CHAIR:** I invite you to make an opening statement.

**Ms SCARLETT:** Of the two of us Tony is probably the economic guru. I am a Jill of all trades and a master of none. I work with seven very large councils on the South Coast. Anything that comes across the local government desk has probably been across my desk at some stage. I often have to press the delete key in my brain to get rid of information about how cemeteries are managed or how we have purchased street lighting, electricity or whatever else over the years. I have a great deal of background knowledge in social, transport, planning and local government issues generally. As I say, I am not a master of any. At Southern Councils Group we maintain a standing committee of the economic development practitioners from our seven councils. They meet regularly, usually two weeks before our general managers meet who meet two weeks before our board meets.

We convened a special meeting of that group on this occasion, along with Regional Development Australia, to respond to the inquiry that you have put together. So, much of the information presented in our submission is drawn from those expert practitioners at our own councils and from the specific knowledge that particularly Regional Development Australia [RDA] Illawarra—which works with the Wollongong Shellharbour and Kiama areas—has about the more urbanised area of our region. I can answer questions about anything that is in our submission but for specific responses I might need to direct you to individual responses made by our councillors or from the direct knowledge of our economic development people.

**Mr T. GREEN:** We discussed this during the process and from an RDA Illawarra perspective as well, we are not here looking for any special treatment for our region due to what has been happening there in the past. We are here on the basis that our organisation and others in the region believe that for a while we have been going through a transformation and there are other issues that are providing an opportunity to us at the moment and we think that recognition of a special economic zone in the Illawarra would allow us to take advantage of those opportunities. We are here to put a case for our region on the basis of what we can do for New South Wales as a whole. We are not putting up our hands and saying that we want some special treatment.

**CHAIR:** You have provided an extremely well-researched submission and I have a few opening questions, as well as some predetermined ones that the Committee has been considering. I open by asking what you see as the best support that a State Government can provide to assist the economic development in your region. And to set the scene, most of the discussion today has been divided between financial or economic assistance and what tax assistance could be provided, either through infrastructure spend or through tax breaks or a regulatory approach. So what regulations would you like us to consider removing?

**Mr T. GREEN:** From our perspective, the State Government in our region has always been that first port of call when it comes to economic development. There is no dedicated agency from a Federal Government perspective. I make it clear that my full-time role is with the State Government. I am acting in my capacity at RDA. So when we have had Department of State and Regional Development and Industry investment and currently trade investment, historically they have been known as the agencies that assist economic and regional development. So that structure is there for businesses that are looking to grow and to create employment opportunities.

Our region looks to the State Government to provide those incentives for growth. Our position is that, historically, there is a need for the provision of some level of financial assistance to help businesses overcome some of the financial constraints when a business is going to expand, start up a new business or relocate. There is always some financial constraint or impediment on that and you are going to say, "If I want to move my business to Wollongong or expand my business, there is an expense that I am going to have to incur." The provision of some financial assistance that overcomes part of that expense generally allows a business to grow

faster. We have found that businesses that are given some type of assistance will end up creating employment opportunities earlier on in the process, rather than two or three years down the track when they have set up and they have covered all their initial costs. The financial assistance can be in the form of a grant or reduction in payroll tax. We have looked as well at the taxes that the State Government put on business. Payroll tax and the waste levy are the two key areas that affect businesses in our region.

**Ms SCARLETT:** From our submission you will see that we did think, "What can the State Government do in terms of taxes?" Because our first port of call was to look at what taxes the State Government does levy. I suppose we have a major interest in knowing that our State Government is comparing those with other States and making sure that we are staying competitive with other States. If we are not competitive on most of those fronts with other States then obviously business is going to go elsewhere. For the councils towards the Victorian border, they have the option of moving or setting up business in Victoria. If it is not a cheap and economic place to do business then they are going to go elsewhere; they are going to go to another State. That is our first interest: to make sure that we are competitive with other States. We did that quick scan to see whether we were competitive with one tax that we know a lot about and that we have taken a lot of interest in as local government: the waste and environment levy.

As you can see we did not think we were very competitive at all on that front. We also believe that there are regional factors that make us uncompetitive in the region because of some of those taxes with our neighbours in the highly urbanised Sydney metropolitan area. Probably the biggest consideration in that respect is transport costs and when we have additional State Government and Federal Government taxes on transport then we are compounding the transport costs in our councils for doing business. From the point of view of taxes we want to know our State is competitive with others States. In terms of assistance we want to know that we are competitive with the types of assistance being offered in other States and in our region with the types of assistance available in Sydney and the urban area. I suppose that is in a nutshell.

**CHAIR:** When talking about impediments to economic growth you mentioned transport. Is that the greatest impediment for economic growth or is it the greatest cost of production?

**Ms SCARLETT:** I think it is an enormous cost burden on our businesses. Our own councils are significant businesses in their own right. Most of my councils run airports and retirement villages, they run a huge variety of services and business units themselves—in fact, running landfills is an enormous business enterprise and an expensive one. So we have some experience as businesses ourselves in the cost of doing business and transport for us. For example, where we actually had to do an assessment of whether a new technology or a new approach to waste management and the implementation of an alternative waste technology in the region was viable; the reason it was not viable was because of the enormous cost of transporting waste to a central alternative waste technology. As business units ourselves we know that transport adds additional costs and we know that with increasing costs on transport and taxes on transport that those costs are continuing to rise out of proportion to what our cousins in Sydney experience. So I would say it is a significant issue.

**CHAIR:** What would some similar issues be? You mentioned planning in your report.

**Ms SCARLETT:** I think all my councils try hard to plan well to assist economic development. As I have said, all seven of my councils employ an economic development practitioner on council. There are some impediments to that economic development practitioner even employed by our own councils assisting people who come to them through the planning systems of our own councils. There is a degree of conflict of interest in having an economic development practitioner in a council attempt to smooth the path of a business trying to put in a development application to that same council. I suppose you could say that the nature of our planning system, which is about regulation, is at odds with the nature of our economic development practitioner's work, which is about encouragement and opportunity.

**CHAIR:** Your member councils go down to the border, do they not?

**Ms SCARLETT:** They do.

**CHAIR:** They are in the airport and aged care space. Why are they there? Was it because you could not find anybody else to invest and operate? Was it thought that the ratepayers should subsidise that infrastructure to maintain economic activity?

**Ms SCARLETT:** I think some of that is historical and it is because they either were the only people able to enter those businesses in the first place or the actual elected representatives believe it is a missing ingredient in their areas that they are well placed to provide. In undertaking community strategic planning and 10-year long-term visioning et cetera, they have all had to revisit all of those activities and assess whether they are the right people to be delivering or whether it is a business opportunity. Often they are in competition with local business. For example, Kiama council runs a leisure centre and heated pools complex and they believe it is a social responsibility to deliver healthy opportunities for their council area. Off the top of my head there would probably be five other gyms running in Kiama, so they have to maintain competitiveness in that environment. Aviation has tended to be something that councils did because they had the land, they had the space and, in fact, they are mostly running at a loss.

**CHAIR:** You are not very well serviced down there in aviation, are you?

**Mr T. GREEN:** Not with a regular passenger service.

**CHAIR:** You have only got one or two commercial flights.

**Mr T. GREEN:** We do not have any regular passenger service in our region at all.

**CHAIR:** Does not Merimbula have one?

**Mr T. GREEN:** Illawarra Regional Airport.

**Ms SCARLETT:** For Tony's area of Wollongong, Shellharbour, Kiama there is the Illawarra Regional Airport. There are services that come and go a little to Merimbula and to Bateman's Bay. Down the coast it is always a struggle to maintain those air services through the region.

**CHAIR:** You had a Qantas service from Newcastle to Melbourne?

**Mr T. GREEN:** From Albion Park to Melbourne, yes.

**Ms SCARLETT:** It became unviable.

**Mr T. GREEN:** I think historically that was awarded on the back of a BlueScope Steel contract because its head office is in Melbourne. When they stopped sending people to Melbourne sometime ago on a regular basis it was not economically viable, because 70 per cent of that aircraft would be full on a daily basis with BlueScope Steel employees.

**Ms SCARLETT:** We are seeing the growth of fly in, fly out using that airport. Because of the recent events in the Wollongong BlueScope Steel environment we have a lot of businesses that are making a real effort to work together and pick up contracts in other regions, retain their staff and keep the families in the Illawarra in particular by flying in, flying out their breadwinner.

**CHAIR:** In your submission you mention sliding scales. How would that work?

**Ms SCARLETT:** That proposal was put together by the economic development officer from the Shoalhaven City Council, who has had many years of experience in his field. He has proposed that in looking at the establishment of special economic zones there are options as to how one might go about that. He has identified, and we as a group I supposed concurred, that there are different needs for communities that are particularly rural to what is needed in the outer metropolitan area, which Wollongong would come into, and in the more regional areas such as Eurobodalla, Bega and Kiama—Shoalhaven council areas. The region of the Southern Councils Group is a little bit of a microcosm of a State.

We have made some comparisons there with Tasmania and, interestingly, Tasmania is supporting a State Government, some regional groups of councils like my own, plus I cannot remember at last count how many local councils. We are less governed and we appear in many respects to be much more competitive than a similar sized region that is a state like New South Wales. We are, as is Tasmania, a bit of a microcosm of the whole spectrum of urban to regional to rural communities.

**Mr T. GREEN:** Just adding to that, in some respects the way that that concept was put together was on the basis of, instead of having identified regions or sectors where this program is just for Wollongong or just for the food industry in Wollongong, you could have some type of assistance for the whole State but regulate the amount of assistance that was available to specific regions based on their need.

**Ms SCARLETT:** And their mix.

**Mr T. GREEN:** As Ms Scarlett said, it was just another concept to show that there are different options available to providing assistance.

**Mr JAMIE PARKER:** One of the issues that has come out of this discussion is the motivation behind the implementation of special economic zones. One school of thought is that they are useful for equalising disadvantage. So in very disadvantaged areas you can introduce a special economic zone as an equity measure to try to lift that. Another view is to invest or support a great opportunity. We have heard from Penrith, for example, the wonderful opportunity there with a small nudge along that would liberate the entrepreneurial opportunities in that area. From your perspective do you see the implementation of these zones being more about equity or more about actually investing in areas that could potentially be big winners and that spreading to other communities?

**Ms SCARLETT:** I think we see both.

**Mr T. GREEN:** I think from our perspective it is probably more about the opportunities that we think are in our region. The special economic zone would actually provide not so much the equity but taking advantage of some of those opportunities, being able to give the agencies that work in the economic development field, give their practitioners something in their tool box to go out and promote business and employment growth in our region. That is a key part of it, but I think that concept where we talked about different percentages to different regions would also identify that it is more an equity focus on that. So there is a bit of both in our submission.

**Mr CHRISTOPHER GULAPTIS:** Do you have any cross-border issues at all with the sub part of the area?

**Ms SCARLETT:** As you probably realise, the region that Bega corresponds with across the border I suppose is relatively similar. It is not as if we have—I suppose that is probably true on the New South Wales-Queensland border too. There do not appear to be any huge issues. The biggest issues we have are probably about loss of opportunity. I have just come from the transport master planning process and the most difficult thing we are seeing there is the escape freight to other States.

**Mr STUART AYRES:** Like Melbourne.

**Mr JAMIE PARKER:** What is escape freight?

**Ms SCARLETT:** If freight finds it more attractive. If it is more attractive to send freight south, for example, Bega cheese in Bega, which is a very big business, if they find it more attractive to send freight south and out through ports in Victoria then it is a big loss for our ports in New South Wales.

**CHAIR:** Is it the transport costs to Melbourne or is it that Melbourne ports are a lot cheaper and more efficient?

**Ms SCARLETT:** I think a bit of both.

**Mr STUART AYRES:** It makes Eden an interesting topic of conversation, I would have thought.

**Mr T. GREEN:** Or the port of Port Kembla as well because from our perspective as well that is a key thing for us. I was going to add to that. Probably the only real cross-border issue that we have in our region is the transport/freight issue. We have too much freight on our passenger rail service, we have too much freight on our roads. We have an opportunity to build the Maldon-Dombarton dedicated freight line into Port Kembla. That would then open up Port Kembla as being another option for freight to go out of, rather than Eden as well.

**Mr STUART AYRES:** In the context of your particular region, if we could put to the side some of the tax arrangements that exist, are there other types of things that the State Government can do to make the South Coast and the Illawarra a more competitive place to do business, or more attractive if that makes it a little easier?

**Mr T. GREEN:** I guess I can only probably really answer that from an historical perspective. As I said, for seven years I worked in the State Government in that capacity. Businesses that we talk to about coming to the Illawarra, bringing their business down here or expanding their business, the reason they will not do it is because of that financial impediment. Historically, it has proven successful if you can offer them some assistance to say, "If you are going to bring 20 jobs to the region, if we were to give you \$50,000 or \$100,000, would that be an incentive for you to come to the region?"

**CHAIR:** How does the State get compensated for that?

**Mr T. GREEN:** I guess the way it gets compensated is looking at the taxes that it gets off businesses. Payroll tax is a perfect example. You are providing an incentive for businesses to grow; as they grow they employ more and they pay payroll tax.

**CHAIR:** Should the focus be on reducing payroll tax?

**Mr T. GREEN:** It is a catch-22. As you say, if you are going to invest in a business, the State has to get some return. If you take it out of payroll tax, then how do you get the return? One of the things I was going to raise today is the current State Government programs that look for an impediment to come to the region, rather than if this business comes to the region, what does it do for first the region and second the State? What are the economic benefits? It is not just the workers who work there and pay payroll tax. They are living in a region. They are buying property. They are paying land tax. It is the flow-on effect for the economy that the State Government would get a return from.

**CHAIR:** Are you able to talk about the port of Eden?

**Ms SCARLETT:** A little. I have a copy of Wingecarribee council's direct submission—sorry, Bega Valley.

**CHAIR:** The first thing they referred to is a four-point plan that they presented to the Government proposing public-private sector investment in the port and they talk about that as being a priority under the South East Regional Action Plan 2012. Is that your report?

**Ms SCARLETT:** The regional plan is the southern region—

**CHAIR:** The South East Regional Action Plan 2012 states it has two goals: invest in critical infrastructure and drive economic growth in regional New South Wales.

**Ms SCARLETT:** No, that is not our plan.

**CHAIR:** They make a very compelling case for the wharf at the end of the breakwater at Snug Cove, which I suspect you are familiar with, as an opportunity for it to be turned into quite a strong shipping area that would further service gas and oil operations in Bass Strait and also accommodate cruise ships.

**Ms SCARLETT:** We are seeing some growth in the cruise ship industry already.

**CHAIR:** Where are they going to?

**Ms SCARLETT:** They are the smaller cruise ships. They are coming down the coast from Sydney and around to Melbourne or across to New Zealand I think in some cases.

**CHAIR:** But they are not stopping at any of the ports along the South Coast, are they?

**Ms SCARLETT:** They are, and they are tendering people ashore at Batemans Bay. There is a significant growth in nature tourism out of Eden. The Bega Valley tourism area is identified as one of the—I

think there are seven national tourism areas that are identified as being part of the Promote Australia concept and they are having a significant growth in interest in that market.

**CHAIR:** So low-hanging fruit from the tourism point of view for the South Coast would be to do everything possible to get this fast-growing cruise industry to use ports along the South Coast?

**Ms SCARLETT:** The South Coast, as you probably understand, is not the easiest sea in the world. It has got some inherent problems of wind and weather which we are all familiar with from the annual race and it has relatively few safe harbours. Our own councils are about to embark on a harbours and boating strategy where we are looking at what our own councils have to provide in the way of land-based infrastructure to support our existing ports and harbours—not so much the ports, Port Eden and Port Kembla, which are more applicable to be looked at statewide in the State transport master planning process and port strategies but the smaller harbours and what we can do on our side of the land-based infrastructure to support those, so our councils are very active in looking at that. Obviously there was a huge Federal investment into the port at Port Eden and it would seem very sensible of a State government to take advantage of the infrastructure that is kindly being provided by a Federal Government.

**CHAIR:** What is the infrastructure that they are putting in?

**Mr STUART AYRES:** An upgrade of the wharf?

**Ms SCARLETT:** The upgrading of the wharf. It was an expensive exercise.

**CHAIR:** At Eden?

**Ms SCARLETT:** At Eden, Snug Cove.

**CHAIR:** That is Snug Cove?

**Ms SCARLETT:** Yes. It is closer and has the capacity to service that growing offshore oil rig capacity on the Victorian side of the border. It would be a case of where we are actually able to steal some of the growth; not only keep things within New South Wales but actually start taking back some from other States.

**CHAIR:** Why are we getting them into Eden instead of them going to Melbourne?

**Mr STUART AYRES:** It is closer.

**Ms SCARLETT:** Yes, it is closer.

**Mr STUART AYRES:** It is heaps closer.

**Ms SCARLETT:** By boat it is much closer, yes, by sea.

**CHAIR:** Is there a commercial airport around there that is being serviced?

**Mr STUART AYRES:** Merimbula is probably the closest.

**Ms SCARLETT:** Yes, Merimbula.

**CHAIR:** How far away is that?

**Ms SCARLETT:** It is not very far, is it?

**Mr T. GREEN:** Merimbula to Eden is about 30 to 40 minutes.

**CHAIR:** The Shoalhaven City Council's submission refers to its own Economic Development Office. It has been going since 1978, I think I read. How successful has that been?

**Ms SCARLETT:** I would say very successful.

**CHAIR:** What are they focused on?

**Ms SCARLETT:** They probably have three things. They actually manage some of council's own economic development business, which supports the other revenue streams of council; it keeps the rates down. They also focus quite strongly on existing business within the Shoalhaven council area. Probably any economic development practitioner anywhere in Australia will tell you that 80 per cent to 90 per cent of your work is growing your existing businesses—

**Mr T. GREEN:** Yes.

**Ms SCARLETT:** —and making sure you have an attractive environment for them to operate and do business in. They work obviously like any other area in attracting business from outside the region. The Shoalhaven Economic Development Unit, I would have to say, has been very heavily supported by council well before many other councils had such units. They are not at all parochial; they have worked hard over the years. If an opportunity presents itself to come to the region they will just as readily promote the region in somewhere like China as they will the Shoalhaven area itself, so they are not precious about the Shoalhaven. I think they are a very open-minded council but naturally their first interest is in growing the Shoalhaven and they have, with the naval presence, quite a large Federal Government interest and then of course some of the land within the Shoalhaven is Federal territory.

**CHAIR:** I am glad you mentioned defence because I did see a number of references to defence economy. Is that something that you would see as unique for the South Coast or is it something, from a statewide point of view, that you would prefer to see the State Government promote and then have it tendered around the State or is it something that you guys would go alone with the Commonwealth?

**Ms SCARLETT:** I think the Shoalhaven has fought very hard to retain that defence presence and to build it.

**CHAIR:** It is name of the parachute school too, is it not?

**Ms SCARLETT:** Yes, and it certainly injects a lot of money into the region. I think the Shoalhaven council would always look for State assistance if it can to promote and to build that capacity. It is obviously well positioned, as much of the rest of our region is, being nicely located between Sydney and the Australian Capital Territory and Melbourne and between two ports, so there is good reason.

**CHAIR:** So hypothetically speaking since Eden is a deepwater port, if the fleet was ever going to be kicked out of Sydney Harbour, is it something that the South Coast would heavily bid for or is it too big?

**Ms SCARLETT:** I cannot answer that. I would have to take advice on that. They have had some of that defence capacity there in the past. They were using the port to load—I am not sure that they still are but they were using the port to load munitions for sea trials where they trail munitions, the navy practices, and that is a capacity that has been there historically. I can recall having that in the region for as long as I have lived there.

**Mr STUART AYRES:** Just working along the same theme but may be not as large as what the Chair just suggested, the Federal Government recently announced that the Australian Navy would be acquiring a number of new helicopters. I am going to work on the assumption here that they will continue to be based out of Albatross.

**Mr T. GREEN:** We hope.

**Mr STUART AYRES:** Fingers crossed. Is that yet to be determined?

**Ms SCARLETT:** I do not know.

**Mr T. GREEN:** As far as I know they are looking at two locations, one at Albatross and another one in south-east Queensland.

**Mr STUART AYRES:** That would be Oakey probably.



**Mr T. GREEN:** Yes.

**Mr STUART AYRES:** There is a point for note anyhow, that perhaps we might want to see what we can do to ensure that stays here. On top of that would be also a series of flow-on economic activities that would be around maintenance—

**Ms SCARLETT:** Yes.

**Mr STUART AYRES:** —and ongoing servicing arrangements that exist that would be particularly important to the region?

**Ms SCARLETT:** And that airfield has that capacity. Shoalhaven council has worked hard to zone land and that is what the Economic Development Unit does; make sure that they have those sorts of capacities in that area.

**Mr STUART AYRES:** Because obviously following on from the decision to purchase new aircraft they have also made the decision to purchase two rather large ships that will carry most of them so I would have thought they would have been spending a fair bit of time either in Sydney or Perth so their ability to continue to service that aircraft would be a significant employer, as well as driver of other manufacturing and the multipliers that come from having that type of activity located in your region?

**Mr T. GREEN:** There is an existing industry there now servicing too the current helicopters so if we lost that altogether we would lose the existing industry so there would be job losses.

**Ms SCARLETT:** The other thing to bear in mind is the University of Wollongong has been very active—

**Mr STUART AYRES:** That was going to be my next lot of questions.

**Ms SCARLETT:** —in developing the Shoalhaven campus and it has worked at establishing one in the Wingecarribee and it has shown significant loyalty to the region. Obviously our region is a little unusual. It is often compared with the Hunter but Newcastle is more centrally located within the Hunter. Wollongong is not centrally located and it is something that the region as a whole has worked very closely together on ensuring that as a regional centre Wollongong is able to deliver services and things like its university are able to deliver services across our region.

**Mr STUART AYRES:** What impact has the Innovation Campus at the University of Wollongong had in driving new enterprise into the region?

**Mr T. GREEN:** I think it has had a significant impact, especially the information and communications technology-based [ICT] industry. I know of a number of businesses that have moved to the region because of the Innovation Campus. Some of the things they are building out there now such as the new Australian Institute for Innovative Materials [AIIM] testing area and some of the new products they are developing in the digital information technology [IT] area—

**Mr STUART AYRES:** The ability to collocate commercial enterprise with research and development?

**Mr T. GREEN:** Yes, and they are looking at putting in what they call iAccelerate, which is a targeted incubator. The University of Wollongong produces the largest number of information technology graduates of any university and most of them go out of the region to find work, so putting an iAccelerate incubator in the Innovation Campus and having the ability to get business to locate on the campus to benefit from the support that is there is a great concept. It has been a very positive move for our region.

**CHAIR:** Is there any competitor to Wollongong University down there yet?

**Ms SCARLETT:** Obviously the Canberra and Australian Capital Territory universities also can deliver reasonably well into the region but their presence is relatively small. They do some research work, but the University of Wollongong is definitely the most entrepreneurial. It is recognised Australia wide.

**Mr STUART AYRES:** It is probably the most entrepreneurial university in the country.

**Ms SCARLETT:** It has a very good record.

**CHAIR:** This might be a difficult question to answer: What is the unemployment rate in your area?

**Ms SCARLETT:** We knew you would ask this. We were tossing it around before we walked in. We have a very high youth unemployment rate.

**CHAIR:** But surely only around Wollongong?

**Ms SCARLETT:** In the Wollongong-Shellharbour areas in particular, but the Shoalhaven also. We have obviously got a very high Indigenous unemployment rate in the Shoalhaven and down into Eurobodalla and Bega. Youth unemployment is something we have been working very hard to address.

**CHAIR:** What is the figure—double digits?

**Mr T. GREEN:** Yes, youth unemployment was 17 or 18 per cent the last time I looked.

**Mr STUART AYRES:** It would be higher the further south you go, I would have thought.

**Ms SCARLETT:** No, Shellharbour-Wollongong and there are pockets in Shoalhaven.

**CHAIR:** They leave, don't they?

**Ms SCARLETT:** Yes. But we have a very high generational unemployment level too, which is another hard one to tackle. We have programs where we have worked with both State and Federal governments to address both of those problems and some of them are very successful. For example, matching youth unemployment with the growing retirement and aged care services sector has proved to be very successful. We have a couple of programs running. One that commenced in Wollongong and is now rolling out in the Eurobodalla area around Moruya and Batemans Bay is called Young at Heart, which matches young people with our very good and growing servicing of the retirement and aged care sectors. As you would probably realise, it is going to be increasingly difficult to attract staff so we want to get young people in there now.

**CHAIR:** To summarise my view of your submission and your evidence, your view is that the best thing we can do as a State Government to support economic growth in the region is to offer grants to suitable businesses in preference to offering relief on regulations because you have officers in the councils who are prepared to provide that assistance. Is that correct?

**Mr T. GREEN:** Yes.

**CHAIR:** Your strengths as a region are obviously tourism, defence and education.

**Mr T. GREEN:** And ICT.

**CHAIR:** And ICT, and they are strengths you would prefer to build on as opposed to initiating any new ventures.

**Mr T. GREEN:** The ICT is a strength that is developing and I think it can be further developed.

**CHAIR:** Other than grants, lack of infrastructure has limited your economic growth in the past, like everywhere else in New South Wales.

**Mr T. GREEN:** Yes.

**CHAIR:** We may have some further questions which we will email to you for comment, bearing in mind that everything that has been discussed will be a matter of public record.

**Mr T. GREEN:** We also mentioned in our submission that if there is an opportunity down the track we would be very keen to work with this group to consider some of the details more deeply.

**CHAIR:** Thank you. We appreciate that and probably we will take you up on that.

**(The witnesses withdrew)**

**(The Committee adjourned at 3.16 p.m.)**

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