



2020-21 Pre-Budget submission

Federal Treasury

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Introduction

The Hunter Business Chamber (The Chamber) is the largest regional business chamber in Australia, established in 1886. The Chamber independently represents about 2,000 member organisations to all levels of government and is the peak business and industry association in the region, reflecting the interests of all sectors.

The Chamber is aligned with the NSW Business Chamber and advocates to government at all levels for policies that promote investment and growth.

The Hunter Region in NSW is Australia's largest regional economy, with a Gross Regional Product of more than \$50 billion per year, driving more than one quarter of the total economic output of NSW. The region encompasses 10 local government areas (LGAs) with a total population of nearly 700,000 and a workforce of 280,000¹. The region has an estimated 322,000 jobs, projected to increase to 384,000 by 2036.²

The Hunter is an economically diverse region encompassing strong foundations in resources, manufacturing and agriculture, with a fast-growing health, education and service sector and increasing focus on innovation and intellectual resources, including world-class education, health and medical research facilities. It supports a wide spectrum of complementary and emerging industries, including renewable energy technologies, defence and aerospace, tourism and the digital economy. It is situated on Australia's main east coast transport corridor with sophisticated infrastructure and two major international gateways in its airport and deepwater sea port.

The Hunter Business Chamber appreciates the opportunity to contribute to Treasury's pre-Budget submission process. We endorse the submission made by the NSW Business Chamber (NSWBC) and offer, in addition, the following comments on priorities specific to the Hunter Region.

Regional Infrastructure Priorities

The Chamber has a strong focus on advocating for infrastructure that will enable business and industry growth and attract investment to the Hunter region. The Chamber endorses Infrastructure Australia's call in the 2019 Australian Infrastructure Audit for more investment in satellite cities including Newcastle to ensure that key regions such as the Hunter have capacity to support national growth. We believe investment in priority infrastructure projects such as those detailed in this submission will better position the Hunter to alleviate Sydney's housing and congestion pressures.

¹ Remplan, City of Newcastle and Hunter Economy Profile <https://www.economyprofile.com.au/newcastle/industries/gross-regional-product>

² Hunter Regional Plan, p17 <https://www.planning.nsw.gov.au/Plans-for-your-area/Regional-Plans/Hunter/Hunter-regional-plan/The-leading-regional-economy-in-Australia>

In addition, economic diversification is a key issue for the Hunter given the variable outlook for the resources and energy sectors. While demand forecasts indicate mining and the export of coal will play an important role in the Hunter economy for decades to come, there is a strong focus on diversifying the regional economy to ensure its future strength and resilience. There is an imperative to identify new opportunities for investment and employment, and the infrastructure priorities championed by the Chamber are those that will support the development a more diverse and resilient economic base.

NEWCASTLE AIRPORT RUNWAY AND TERMINAL UPGRADE

A terminal upgrade and runway expansion at Newcastle Airport will open new opportunities for trade, tourism, employment and economic investment at this key global gateway, realising ambitions set out in the regional plan. Upgrading the runway to Code E standard and expanding the size of the terminal would position the airport to accommodate larger, wide-bodied aircraft with long-haul capability into Asia, the Middle East, the US and beyond. This would increase its viability as a destination for airline partners, significantly boost the local visitor economy and open new trade and tourism opportunities internationally.

Increased capacity for international flights from Newcastle Airport would offer travellers and commuters from the Hunter, New England and North Coast areas an alternative starting point for overseas flights, relieving pressure on Sydney Airport and enhancing accessibility and viability of regional aviation services. Improving the runway would also increase capacity for and productivity of air freight, aligning with the opportunities for freight gateways supporting international trade and unlocking regional economic development through freight.

There is an imminent opportunity to complete the runway upgrade in conjunction with maintenance and overlay works scheduled to be undertaken by Defence. RAAF Base Williamstown, Australia's premier fighter aircraft base, shares runway facilities with the Airport and Defence has indicated its support for the Airport's expansion plans. Willingness to invest in the full project, however, is required by April 2020. The scheduled maintenance work has a high-level costing of \$80 million, however Defence has budgeted \$110 million towards the project, which, in effect, would see a \$30 million contribution from Defence towards the runway upgrade. This scenario creates a unique opportunity to leverage this significant investment to secure the completion of the runway upgrade.

The Airport has the capacity to contribute \$22 million to fund this project, subject to Board approval. The following table illustrates the proposed funding breakdown:

FUNDING SOURCE	AMOUNT	DESCRIPTION	% of Code E funding
Department of Defence	\$30 million	\$110M total from DOD Runway overlay (\$80M) plus \$30M towards Code E upgrade	28%
Newcastle Airport	\$22 million	Balance of funding for Code E runway upgrade	21%
Funding Gap	\$54 million	Non runway costs (airport terminal expansion etc)	51%
TOTAL	\$106Million	Total cost for Code E upgrade, over and above DoD's \$80M overlay expenditure	100%
<i>Newcastle Airport</i>	<i>\$10Million</i>	<i>Funding to attract airlines and promote destination.</i>	

Upgrading the airport to Code E status will generate significant economic benefits over a nominal 20-year asset life, according to independently verified estimates:

- Conservative Benefit Cost Ratio (BCR) of 2.7 and Net Project Value of \$936 million;
- Creation of 4,410 extra full-time jobs;
- \$12.7 billion in regional economic benefit as follows:
 - \$6.2 billion in extra income added to the visitor economy
 - \$6.5 billion in additional freight activity.

The Airport is seeking State and Federal Government support for the proposed funding model and additional commitment to address the funding gap.

NEW ENGLAND HIGHWAY – SINGLETON BYPASS

The New England Highway is a major freight and commuter corridor between Newcastle and the Queensland border. It is part of the inland Sydney to Brisbane National Land Transport Network and the primary route connecting the Upper Hunter with Maitland and Newcastle. The highway passes through the centre of Singleton and carries around 26,000 vehicles, including more than 3,700 heavy vehicles, each day, with traffic volumes predicted to increase over the next 25 years.

Within the Hunter region, the route passes through a number of major towns where the bottlenecking of traffic, in particular heavy vehicles, causes significant congestion, safety and

amenity issues that affect local residents and freight transport productivity. Of the series of projects proposed to upgrade the New England Highway in this region, the Chamber regards the immediate funding priority for the Federal Government to be the Singleton Bypass.

A bypass of Singleton has been long proposed but the project is now gathering momentum. A preferred route option for the bypass was announced in 2016 and involves building a new section of highway west of Singleton across the floodplain, starting near Newington Lane and rejoining the New England Highway north of McDougalls Hill. Public consultation on the concept design and Review of Environmental Factors opened this month (December 2019).

The State Government has committed \$92 million under the state-federal funding agreement. A commitment of \$500 million is required from the Federal Government to facilitate construction of the bypass, which could feasibly start within two to three years if funding is secured.

Another section of the New England Highway that will become a priority for upgrade with the construction of the Singleton Bypass is the approximately eight-kilometre section from the Golden Highway intersection at Whittingham to Singleton. This important link road is not part of the proposed Singleton Bypass so an upgrade is currently not funded but is critical to meeting the objectives of the New England Highway Corridor Strategy. The strategy identifies the connection as priority for investment to increase capacity between the Golden Highway and Muswellbrook.

The State Government has committed \$85 million to upgrading the New England Highway between Belford and the Golden Highway to provide two travel lanes in each direction and a flyover for vehicles turning right from the Golden Highway towards Maitland and Newcastle. Tenders for construction are expected to be invited in the first half of 2020. Once the Singleton Bypass is completed, the aforementioned section between the Golden Highway section and Singleton will be the only section of unimproved road along that stretch of the New England Highway.

M1 EXTENSION TO RAYMOND TERRACE

A missing link in the national highway route between Sydney and Brisbane, the M1 extension from Black Hill to Raymond Terrace will vastly improve connectivity on one of the most heavily used corridors for freight in NSW, reduce travel times and improve safety for all road users. The 2019-20 Federal Budget committed \$1.6 billion to the project and the Chamber is keen to see the project, which has been in planning since 2004, progress quickly. We note that the required funding allocations are set out in the forward estimates but reinforce the importance of a timely release of funds to facilitate this important project.

FASTER RAIL CONNECTION WITH SYDNEY

A fast-rail link to Sydney will have a transformational impact on the economy and liveability of the Hunter, bridging the geographical divide between our region and Australia's biggest city and financial centre. Faster rail between Sydney and Newcastle will connect jobs for the

Hunter, encourage investment and reduce congestion on the M1, making both road and rail transport faster, safer and more convenient.

The CBD-to-CBD road trip between Newcastle and Sydney is two hours, outside of the morning and afternoon peak. The rail trip is much slower: the fastest trains complete the trip in about two and a half hours but the trip is typically closer to three hours. Faster rail could reduce the trip to two hours³, making a regular commute between parts of the Hunter and Greater Sydney more viable and competitive with similar journeys into the Sydney CBD from western Sydney.

While high-speed rail is the best option for intercity travel in the longer term, faster rail between Sydney and Newcastle offers a viable short-to-medium-term solution for improving connectivity between the cities.

Faster rail between Newcastle and Sydney was listed as a long term Initiative in the 2019 Infrastructure Australia Priority List. The NSW State Government is currently investigating fast rail options, in partnership with the Federal Government, with an expert panel due to deliver advice in the near future. Simultaneously the Federal Government Standing Committee on Infrastructure, Transport and Cities is inquiring into financing options for faster rail. Pending a favourable business case for the Sydney to Newcastle corridor, the Chamber would be urging a substantial commitment in the 2020-21 Federal Budget to quickly advance this potentially transformational project.

BUSINESS POLICY AND TAXATION

The Hunter Business Chamber endorses the comments and recommendations in the NSWBC Pre-Budget Submission to Treasury. In addition, we make the following comments about energy costs and drought funding.

Energy costs

Energy costs remain a high priority for businesses in NSW. Half of the respondents to the Chamber's Business Conditions Surveys identify energy prices as their top cost control priority. Reliable and affordable energy is critical to business, households and communities. High energy prices threaten tens of thousands of jobs in NSW manufacturing and particularly the Hunter region where there is an incidence of high energy using industries. While a combination of measures has seen a short-term drop-off in prices, we remain concerned that these do little to address the underlying fundamentals in the sector. Band-aid measures have provided temporary relief, but coherent long-term policy environment that can underpin investment is still lacking.

³ NSW Government, A Faster Rail Future for NSW <https://www.nsw.gov.au/improving-nsw/projects-and-initiatives/a-fast-rail-future-for-nsw/>

Constraints in the gas market have led to AEMO projecting shortfalls in NSW by 2025. Among the necessary steps to remedy this problem, pipeline infrastructure connecting NSW to neighbouring states requires capacity upgrades. With a greater proportion of NSW's gas coming from fields in Queensland, while traditional sources in Victoria deplete, a reorientation of pipeline capacity will also be needed to ensure adequate supplies reach NSW. The Commonwealth can help ensure these upgrades occur in a timely manner so that pipeline constraints are alleviated ahead of the forecast shortfall in 2025.

While energy cost pressures on businesses remain high, there is value in helping businesses navigate the market, to find the best deals and ensure that cost-effective energy saving opportunities are taken up. With financial support from the Department for Environment and Energy, the Chamber is delivering the Business Energy Advice Program (BEAP), which provides advice to help small businesses and their representatives get better energy deals and reduce their energy usage.

Government consideration for funding assistance where business takes on equipment conversion strategies to adapt to renewable forms of power must also be a priority. Businesses wishing to adapt to new technology are often faced with unrealistic payback periods, lending restrictions and lack of equity to fund change. Governments could play an important role in unlocking this constraint.

Government must develop, and stick to, a national energy policy that coherently addresses reliability, affordability and emissions reduction. The test of a credible, stable policy environment will be rising investment in energy infrastructure.

Drought funding

The Chamber notes that drought assistance is currently focused on farm-based businesses in eligible areas. While we acknowledge that primary producers bear the brunt of drought impact and should rightly be the key target of assistance programs and services, we argue that the prolonged period and intensity of this drought has been such that the economic impact for businesses in other sectors is also significant. Therefore, consideration should be given to ways that assistance can be provided to any business that can demonstrate drought-induced hardship.

The drought is having a significant toll on regional business communities. The NSW Business Chamber (NSWBC) conducted a Drought Survey in 2018⁴, which indicated 84 per cent of regional businesses were affected by the drought. With the drought having worsened since, it can reasonably be assumed that the adverse impacts on business in affected areas has been exacerbated by the continued dry conditions and associated water shortages and bushfire damage.

The Hunter Business Chamber conducted a survey of its members in November 2019, which reinforces the issues raised by businesses in the 2018 NSWBC Drought Survey. The

⁴ NSWBC Drought Survey, August 2018 https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Drought-Survey2018-Report-Final_1.pdf

Chamber's recent survey attracted responses from businesses and organisations in each of the 10 Hunter region LGAs representing a diverse range of sectors including:

- Retail (eg: jewellers, giftware, hardware);
- Services (accounting, audio systems, legal, electrical, real estate);
- Manufacturing (mining and industrial supplies);
- Agriculture (cattle, vineyard); and,
- Local government.

The majority of responses came from members located in the LGAs of Muswellbrook, Upper Hunter and Singleton. More than 85 per cent of respondents indicated that their business had been adversely impacted by drought but none of the respondents to the Chamber's survey had accessed or applied for drought assistance (although only two were directly engaged in the agricultural sector). While respondents acknowledged the greater impact of drought on primary producers, they felt that the persistence and severity of the current drought warranted consideration of financial assistance schemes being extended to the broader business community in affected areas.

Some of the suggestions were as follows:

- Low-interest loans for businesses;
- Government assistance/incentives to stimulate employment opportunities;
- Investment allowance incentives; and,
- Tax relief.

Comments were also made about location-based criteria that determines eligibility for drought assistance and inconsistencies in classification between levels of government. For instance, while 93.3 per cent of the Hunter region is classified as being in either drought or intense drought on Department of Primary Industries mapping (see Figure 1), only two of the 10 LGAs in the region – Upper Hunter and Muswellbrook – are eligible for funding under the Federal Government's Drought Communities Program – Extension. This means that LGAs like Singleton, Dungog and Midcoast were ineligible to apply for project funding under Round 4 of the Building Better Regions program despite most of their council areas being in intense drought.

As the drought in NSW continues into its third year and the impact on regional business intensifies, the Chamber believes eligibility for drought assistance should be reviewed with a view to including business beyond the primary sector and that the criteria for eligibility by area should be aligned with State Government drought classifications.

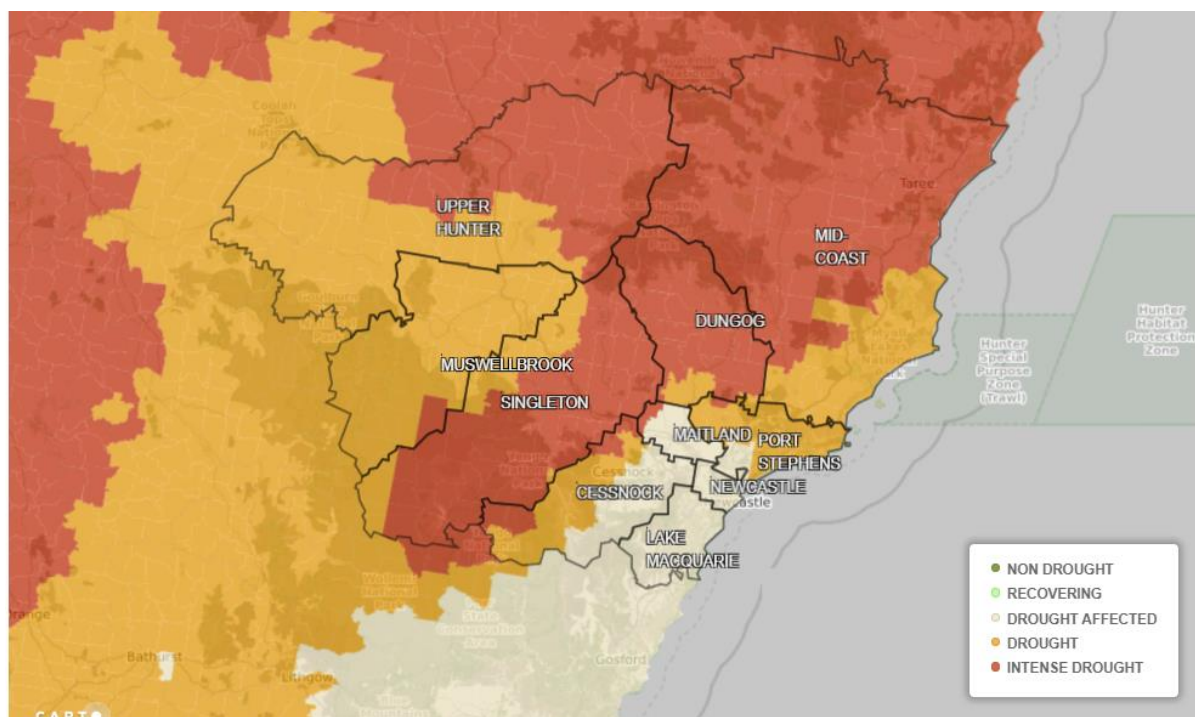


Figure 1: Hunter Region LGAs showing drought classifications, December 2019. (Department of Primary Industries Combined Drought Indicator)

The Chamber appreciates the opportunity to contribute to this submission process and welcomes any further engagement on these matters.

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