



THE CABINET OFFICE  
NEW SOUTH WALES

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Dear Dr Salerian

I refer to the release for comment of the Productivity Commission position paper on the *Economic Impacts of Migration and Population Growth*.

The report is useful from a national perspective, confirming the outcomes of a range of other studies suggesting that migration, particularly skilled migration, continues to have a positive economic effect.

The report's usefulness in informing policy development could nonetheless be increased by a deeper exploration of certain issues. These include:

- the differing economic impacts of migration at the State, regional and local level; and
- the particular impacts of migration on the delivery of basic services and how the costs of such services are borne.

I have enclosed more detailed comments on the above issues for the Commission's consideration.

Thank you for the opportunity to comment.

Yours sincerely

Vicki D'Adam  
Deputy Director-General

## NSW COMMENTS

### PRODUCTIVITY COMMISSION STUDY INTO THE ECONOMIC IMPACTS OF MIGRATION AND POPULATION GROWTH

#### **General comments**

The NSW Government is a firmly committed supporter of migration to Australia, not only because of the valuable skills which migrants contribute to the economic welfare of the nation, but because of the rich and vibrant culture which they bring. Australia is one of the most successful and harmonious multicultural societies, and NSW supports a well-balanced and targeted migration program which will help further our economic and social objectives.

NSW has traditionally been Australia's primary settler destination. Currently, NSW attracts around 36 per cent of all settler arrivals, of which around 90 per cent settle in the Sydney basin. Population forecasts suggest Sydney's population is expected to reach 5 million people by the 2020s. After taking into account people leaving Sydney, on average, Sydney is growing by about 40,000 people per year, or 780 people per week. Just under half of this growth is a result of migration.

The continuation of this pattern of growth will have a significant impact on Sydney. For example, it will increase pressure in the housing market, both in terms of housing affordability and the level of housing and supporting infrastructure assistance provided by the NSW Government. In relation to housing, the Sydney Metropolitan Strategy estimates that a total of 2.2 million homes will be required in Sydney by 2031 to accommodate expected population growth. It is expected that an additional 640,000 new homes will be required in Sydney to 2031 to cater for a population of 5.3 million people. This represents over 23,000 homes each year.

The Commission's paper provides a reasonable overview of the economic impacts of migration and population growth. However, in the NSW Government's view, the paper's usefulness in informing policy development could be increased by a deeper exploration of the differing impacts of migration at the State, regional and local level, the particular impacts of migration on the delivery of basic services and how the costs of such services are borne.

#### **Impacts of migration**

The NSW Government considers migration integral to this State's effort to attract and retain the people it needs to help drive economic growth. Reflecting this commitment, the *Drive for Talent* program was announced in November 2005 as part of the NSW Government's Open for Business initiatives. Under this program, the Government will sponsor skilled migrants to move to Sydney for the first time, focussing on attracting high value, highly skilled business migrants in the fields of finance, information technology, biotechnology and pharmaceuticals. These occupations were decided upon after consultation with employers and industry groups about skills needs not able to be filled from the local workforce. The NSW Government also announced that it will form partnerships with recruitment agencies, employers and universities both in Australia and overseas to secure the best graduates and professionals for businesses in Sydney.

It is important that we do not lose sight of the fact that immigration has had an enormous beneficial influence on the nation, particularly in the post World War II era. The construction of extensive power transmission grids and the growth in our agricultural sector are two examples of how migration has contributed greatly to nation building.

However, productivity gain at a national level is likely to mask differences between and within jurisdictions. For NSW, migration is likely to have an uneven geographic impact, as it has disproportionately higher settlement rates than the rest of Australia, with Sydney as the principal

destination. The NSW Government's recently released Sydney Metropolitan Strategy, *City of Cities-A Plan for Sydney's Future* ([www.metrostrategy.nsw.gov.au](http://www.metrostrategy.nsw.gov.au)), examines the impact of such population growth in more detail.

While net impacts as modelled in the Commission's paper may be small on an Australia-wide basis, localised impacts could potentially be significant and act as an impediment to economic growth. What is true at a macro level may not apply at a smaller level in every instance. For example, the lack of availability of local employment, particularly employment which effectively uses the skills of migrants, as well as affordable accommodation and the level of supporting infrastructure, could inhibit the achievement of the expected gains.

The Commission may wish to examine more closely the economic impacts of migration on regional economies, including obstacles to effective regional migration programs. This should include an examination of the extent to which migrants sponsored by other jurisdictions under State and regional specific visa classes settle in NSW rather than in the jurisdictions which sponsor them.

#### *Meeting the costs of service delivery*

The Commission's paper notes that, while migrants create a necessity for additional government expenditure, they also generate additional government revenue through the taxes they pay. The position paper goes on to suggest that the overall impact of migrants on budget outcomes will be positive (ie. migrants will generate more tax revenue than the additional expenditure they impose on government). Again, at a macro level, these observations are generally correct, but they mask some complexities in the current cost sharing arrangements.

The States and Territories are primarily responsible for delivering key services such as health care, public education, public housing, community services, disability services and public transport. The States and Territories therefore bear the primary cost burden for meeting the needs of migrants.

Migrants also tend to draw heavily on these basic services, particularly early on in their stay. For example, many skilled migrants and humanitarian entrants experience a period of unemployment or underemployment and draw on social housing assistance in the early years of arrival. This includes private rental assistance as well as support under the NSW Department of Housing's Tenancy Guarantee Program, which helps overcome a new arrival's lack of rental history.

Services need to be expanded to accommodate population growth generally, but they also need to be adapted or finetuned to tackle the particular needs of migrants and their children. For example, the NSW Department of Education and Training (DET) delivers a range of services targeted at migrants, such as English as a Second Language programs, the SKILLMAX program, English language and vocational literacy programs, as well as skills upgrading, recognition, and assessment services offered by TAFE NSW.

Given the responsibility that each State and Territory has for providing services to migrants, and the fact that the States and Territories only collect a relatively small proportion of tax revenue (16.5% compared with the Commonwealth's 80.5%), it is vital that there be an equitable distribution of tax revenue between States and Territories, so that each has the required resources to provide necessary services to migrants. As indicated above, NSW is by far the most popular destination for migrants. While 34 % of the GST is collected from NSW, only 28 % of the total revenue is returned to this State. Under the latest Grants Commission calculations this means that an amount of \$2.5 billion of the GST revenue pool will be redistributed from NSW to States such as Queensland and Western Australia.

This arrangement inhibits NSW's ability to provide affordable and effective support not only to migrants but also to the broader community. The level of economic and social benefits that might otherwise be obtained through this support is therefore not as great as it could be.

In the context of the Council of Australia Governments' recent agreement to a National Reform Agenda, this arrangement should be corrected. The Agenda aims to deliver significant economic and social benefits, and comprises three streams of reform in the areas of human capital (health, education and work incentives), competition and regulatory reform. Being the most populous and economically powerful jurisdiction in Australia, NSW will be a vital player in delivering on the Agenda's stated goal of underpinning Australia's future prosperity. The Agenda may not achieve this goal if NSW's ability to contribute to reform efforts in areas such as health and education are compromised by an outdated process for distributing tax revenue.

#### *Special Humanitarian Program*

The NSW Government remains concerned that, in the context of the Special Humanitarian Program (SHP) administered by the Commonwealth Department of Immigration and Multicultural Affairs, a number of proposers are not fulfilling their obligations to provide settlement assistance to new arrivals. NSW queries whether the needs of SHP applicants, including the capacity of proposers to provide necessary assistance, are being accurately assessed, and the extent to which the Commonwealth's efforts to strengthen proposer compliance requirements are fully effective. As a consequence, other service providers, including NSW Government agencies, are being asked to meet this demand.

Furthermore, the NSW Government is of the view that costs to the State in providing basic services, particularly in the area of health, are exacerbated by inadequate arrangements at the Commonwealth level. According to figures provided by the Commonwealth Department of Immigration and Multicultural Affairs, only 37 per cent of African refugees are given health screenings before arrival. The failure of the Commonwealth to provide specific infrastructure for health assessments, including allowing such assessments to be covered by Medicare, means that NSW Government services (eg the Refugee Health Service) bear the costs of providing an adequate screening service.

#### **Efficacy of skills assessment and recognition processes**

The NSW Government welcomes the decision at the recent COAG meeting to streamline skills recognition assessment processes, so that migrants with skills to Australian standards are more rapidly deployed in the Australian workforce.

#### **English language requirement**

The NSW Government shares concerns raised in the Commission paper 'in regards to the integrity of aspects of the English language testing processes' for skilled migration applicants (p.154).

There have been situations where, despite being assessed as possessing vocational English, skilled migrants have been considered "unemployable" by employers due to a lack of English language proficiency, and of cases where on-shore English language assessments have assessed some skilled migrants at a lower level of English language proficiency than otherwise indicated by their off-shore assessments. The integrity of the English language testing regime is critical if Australia is to gain maximum economic benefits from its skilled migration program.

The Commission's paper notes the importance of English language proficiency to labour market success. In this context, the Commission may wish to examine more closely the impact of higher English language requirements for skilled migration as a means of improving the employment prospects of settlers.