

A man and a woman, both wearing white shirts, are working together at a wooden counter. The woman is on the left, smiling and looking at a laptop. The man is on the right, leaning over the counter and looking at the laptop. The woman is holding a pen and a notebook. The background is a dark, blurred kitchen or office setting with a chalkboard.

**BUSINESS
NSW**

PRE-BUDGET SUBMISSION TO THE NSW GOVERNMENT: BUILDING OUR STATE

2024-25

March 2024

FOREWORD

Business NSW welcomes the opportunity to provide a pre-Budget submission ahead of the 2024-25 NSW Budget. As NSW's peak business organisation, **Business NSW** represents almost 50,000 businesses across NSW. We work with businesses spanning all industry sectors including small, medium, and large enterprises. Operating throughout a network in metropolitan and regional NSW, **Business NSW** represents the needs of business at a local, state, and federal level.

Business NSW acknowledges that this is the first June budget for the NSW Government. We see this budget as an opportunity to help reshape our state over the coming decade, as the economic headwinds shift, technological change gathers pace and as the Federal Government takes a renewed and strategic interest in shaping the decade that comes.

The recommendations within this submission are made with recognition of the constrained fiscal environment in which the government continues to find itself in. However, as we move through this Government's political cycle, it is time to begin considering the state shaping projects that the Government can embark on that will shape our state.

It is vital that this budget helps bolster consumer and business confidence into the 2024-25 financial year. Against headwinds of deteriorating business confidence, rising costs of energy and insurance and the short supply of housing, it is important that this budget continues to build NSW as the best state to start a business in, move a business to, or expand a business in. The focus for Business NSW and our members is to ensure that the conditions are right for businesses to continue doing what they need to do to thrive.

This year is a critical year for reshaping and reforming our educational systems, with the State VET review, apprenticeship incentive scheme review and the university accords all culminating this year. Strong and targeted investment in under resourced parts of our system will go a long way to ensure that businesses have access to a good labour market that has appropriately skilled workers to tackle the problems of tomorrow.

The establishment of the Service NSW Business Bureau in late 2023 is an encouraging step towards removing red tape and making it easier to do business in NSW. We encourage the Government to seek ways to remove blockages in the planning system. This blockage has impeded businesses' ability to grow and become more productive. Importantly this blockage also has locked many people out of home ownership, placing stress on both workers and businesses, as many have lost access to talent due to their locations. We especially encourage the automation and standardisation of basic statutory planning across the state to enable key-worker housing to be rolled out at scale.

Rising business costs (in particular, access to insurance) and access to skills and workers across every sector remain a significant challenge, while supply chain issues continue to hamper access to goods.

The recovery of NSW's economy will be very much dependent upon the NSW Government's ability to restore both consumer confidence and business confidence. The former, so businesses can start to operate at a sustainable level and the latter to encourage investment in labour and capital.

Dan Hunter

Dan Hunter
CEO
Business NSW

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SUMMARY OF RECOMMENDATIONS

RECOMMENDATIONS	DESCRIPTION	PAGE NUMBER
Recommendation 1:	Lower the payroll tax rate from 5.45% to below 5% and increase the threshold to at least \$1.3 million – easing the tax burden of businesses.	15
Recommendation 2:	Index payroll annually to ensure that bracket creep does not continue to impact business.	15
Recommendation 3:	Continue to reduce the red tape burden on business by streamlining payroll tax administration.	15
Recommendation 4:	Investigate a regional payroll tax rate in line with Victoria (1.21%) to ensure regional businesses are competitive with other states.	15
Recommendation 5:	In the medium to long-term explore other revenues that can replace this burdensome tax.	15
Recommendation 6:	<p>The Commonwealth and State Governments must come together through the Council of Federal Financial Relations (CFFR) to commence a standing agenda of tax reform. This should include Payroll Tax, GST, personal and corporate income taxes.</p> <p>The CFFR should consider:</p> <ul style="list-style-type: none"> • The breadth of options available to ultimately abolish payroll tax • Reducing dependency upon stamp duties and supporting initiatives to transition to broad based land tax • A pathway to aligning the rate and base of the GST to more sustainably reduce income taxes, especially for low and middle-income earners • Commence a phased reduction of Australia’s corporate tax rate to 25% by extending the 25% small business corporate tax rate to cover SMEs with an aggregate turnover less than \$250 million. 	17
Recommendation 7:	NSW Government fulfil its promise to remove the Emergency Services Levy (ESL) and stamp duty tax from insurance premiums to make insurance more affordable for business and reduce risk to the business economy from operating without cover.	19
Recommendation 8:	NSW Government to audit procurement policy across agencies to confirm that insurance required by businesses is aligned and fit for purpose. As an example, \$20 million PI and PL is currently required by all NSW vendors but may be excessive for some contracts.	19

Recommendation 9:	The NSW Government and Federal Government to co-fund a support and training program for business to uplift the level of education around risk management. Such a program would be similar to the currently funded energy education and engagement support tools such as Energy Made Easy.	19
Recommendation 10:	Create market segment specific workshops to determine customer and supplier interest/support for alternative products in the following three categories: <ol style="list-style-type: none"> 1. Professional indemnification for specialised construction services 2. Public liability for NSW tourism activity-based businesses 3. Geographic solutions for bushfire/flood prone locations that cannot get traditional cover. 	19
Recommendation 11:	NSW Government to run an insurance innovation market testing procurement, where Government will fund up to three proposed innovative product offerings that will achieve at least two of the following objectives: <ol style="list-style-type: none"> 1. Reduce the government liability as insurer of last resort 2. Demonstrably reduce premiums 3. Offer alternative coverage where no coverage is offered (or is unaffordable to most of the market). 	19
Recommendation 12:	NSW Government to fund a study into coverage gaps in the NSW business market to ensure that the state's business economy is competitive. This would include a comparison to other markets and an assessment of the hurdles to overcome in NSW. Insurances such as product liability, transport, business continuity, workers compensation, public liability and professional indemnification could be included in the study. An example would be comparing the NZ PL market for activity-based businesses.	19
Recommendation 13:	Ensure the national agreement for skills provides for a real increase in overall VET funding	22
Recommendation 14:	Ensure the State Government's response to the NSW VET Review is supported by substantial strategic investment in vocational education and training, including in TAFE NSW.	22
Recommendation 15:	Ensure State Government contributions to reviews of apprenticeships and apprenticeship incentives are informed by a strategic view regarding strategic investment in apprenticeships in NSW.	22
Recommendation 16:	The NSW Government should ensure ongoing support for the <i>Educational Pathways Program</i> .	22
Recommendation 17:	The NSW Government should ensure ongoing support for the <i>Industry Skills Legacy Program</i> .	23
Recommendation 18:	Ensure the Regional Industry Education Partnerships Program continues to support and promote education and training opportunities in regional NSW.	23

Recommendation 19:	The NSW Government should ensure ongoing support for <i>Careers NSW</i> .	23
Recommendation 20:	The NSW Government should continue investing in collaborative models for education and training, particularly in regional NSW.	24
Recommendation 21:	In partnership with the Commonwealth and other states, NSW government should take additional steps to cover the cost of the transmission infrastructure build out to support Renewable Energy Zones, removing those costs from user bills.	27
Recommendation 22:	Planning and environmental approvals for major energy infrastructure should be streamlined in line with recommendations of the NSW Electricity Supply and Reliability Check Up.	27
Recommendation 23:	Establish a new energy advice and support program targeting the SME sector.	28
Recommendation 24:	Establish a program to support medium-sized gas using businesses in converting from gas to electricity consumption in their processes	29
Recommendation 25:	Expand the Peak Demand Reduction Scheme to support gas to electricity conversions.	29
Recommendation 26:	Review Peak Demand Reduction Scheme and Energy Savings Scheme rebates for business hot water system upgrades, with a view to providing greater support for businesses looking to switch from gas to electric hot water.	29
Recommendation 27:	Make NSW the start-up state by establishing a \$1.3 billion government-backed venture capital fund.	31
Recommendation 28:	Grow the proportion of government procurement to SMEs to over \$10 billion per annum	32
Recommendation 29:	Strengthen awareness and take-up of the NSW Government Tender Support program	32
Recommendation 30:	Boost Business Connect to offer independent business advice and build their capability to supply to government	32
Recommendation 31:	Maintain funding for Investment NSW operations and programs including international representatives and offices working in concert with the Australian Government. <i>Business NSW</i> encourages the NSW Government to expand efforts sponsoring and supporting enterprise, trade, and international investment in the state of New South Wales.	32
Recommendation 32:	The government is to implement a clear strategy to effect the creation of innovation precincts, whether by appointing a minister for innovation districts (or with clear responsibility for them), and a coherent funding structure or competitive bidding process for funding	33

Recommendation 33:	Ensure SafeWork NSW is adequately resourced to help drive safer outcomes for NSW workplaces	34
Recommendation 34:	Ensure the NSW Government’s Centre for Work Health and Safety is adequately resourced to ensure it retains its capacity to drive innovative safety strategies.	34
Recommendation 35:	Ensure the reforms planned for the NSW workers’ compensation scheme include: <ul style="list-style-type: none"> • Significantly strengthening the level of regulatory and stakeholder oversight • Improving the level of transparency throughout the scheme, and • Adopting a data-driven approach, by leveraging the work being done by the NSW Government’s Centre for Work Health and Safety, to ensure the premium formula provides a sufficient incentive to NSW employers to drive safe behaviours throughout NSW workplaces. 	35
Recommendation 36:	Fund further rounds of the Accelerated Infrastructure Fund focused on regional areas that will also enable greater social housing development.	36
Recommendation 37:	Build on the Rezoning Pathways Pilot, fast-tracking additional larger developments with significant social and affordable components	36
Recommendation 38:	Commission pattern book designs for CDC low-medium density development.	36
Recommendation 39:	Prioritise infill infrastructure that will have a far greater impact on unlocking housing supply in NSW.	36
Recommendation 40:	Enhance and systematise ‘value sharing’ or levy policies to improve the financial viability of major infrastructure while incentivising dense, transport-accessible housing.	36

CURRENT BUSINESS CONDITIONS IN NSW

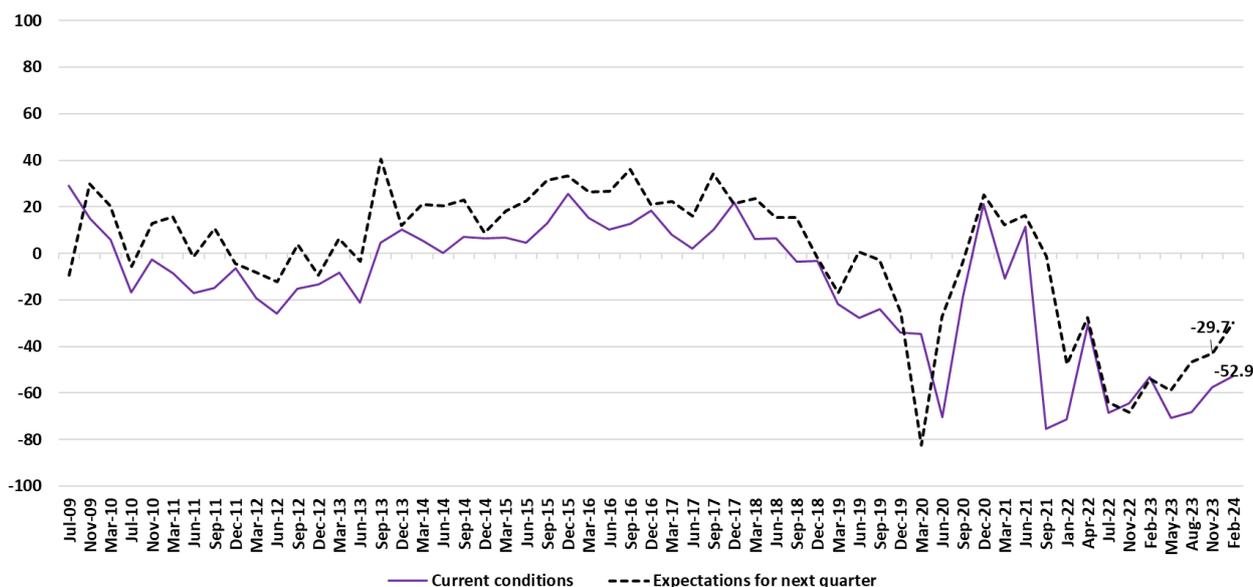
The Business Conditions Survey is the flagship research product of Business NSW. It is conducted on a quarterly basis to gauge business confidence, identify challenges facing the business community and seek business feedback on topical matters. On average, each survey receives about 1,000 responses from businesses across all key industries and regions in NSW. Each survey also includes a mix of small, medium, and large enterprises.

This section presents the key findings from the three surveys conducted in the 2023-24 financial year thus far.

Business confidence remains soft

Businesses have been cautious about NSW economic conditions in recent years. The headline Business Confidence Index has been in negative territory for ten consecutive quarters. Nevertheless, it has been gradually recovering. The latest reading of -52.9 is the highest in nearly two years. Some businesses are less concerned about economic conditions in the next quarter, with the business confidence reading that captures expectations for the next quarter rising to -29.7.

Figure 1: Business Confidence Index

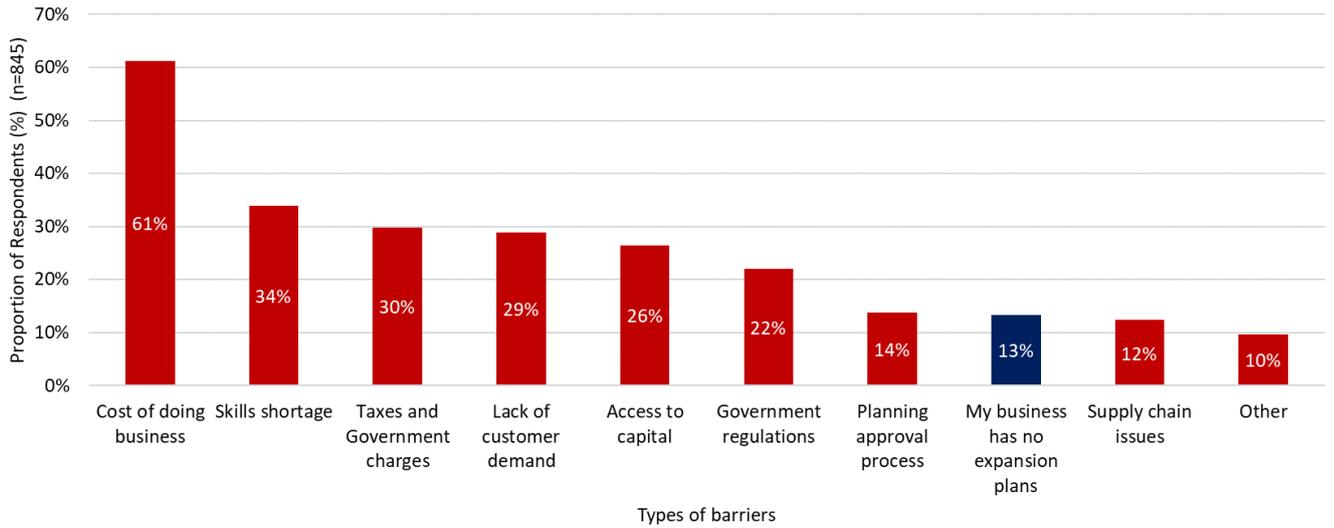


Source: *NSW Business Conditions (March 2024)*, Business NSW

Businesses experience a multitude of barriers to expansion

The business environment has been challenging on multiple fronts since the start of the pandemic. Many businesses are still experiencing multiple barriers to doing business. The most common barrier is the cost of doing business, which not only limits profit growth but also hinders the execution of expansion plans. The skills shortage, taxes and government charges, and a lack of customer demand also affect about one in three businesses.

Figure 2: Barriers to business expansion



Source: *NSW Business Conditions (December 2023)*, Business NSW

*Results sum to more than 100% as participants were able to select multiple options.

Concerns about business costs

Despite the latest movements in ranking, the business cost categories that have consistently featured in the top three spots are:

1. insurance costs
2. taxes, levies and other government charges
3. energy costs.

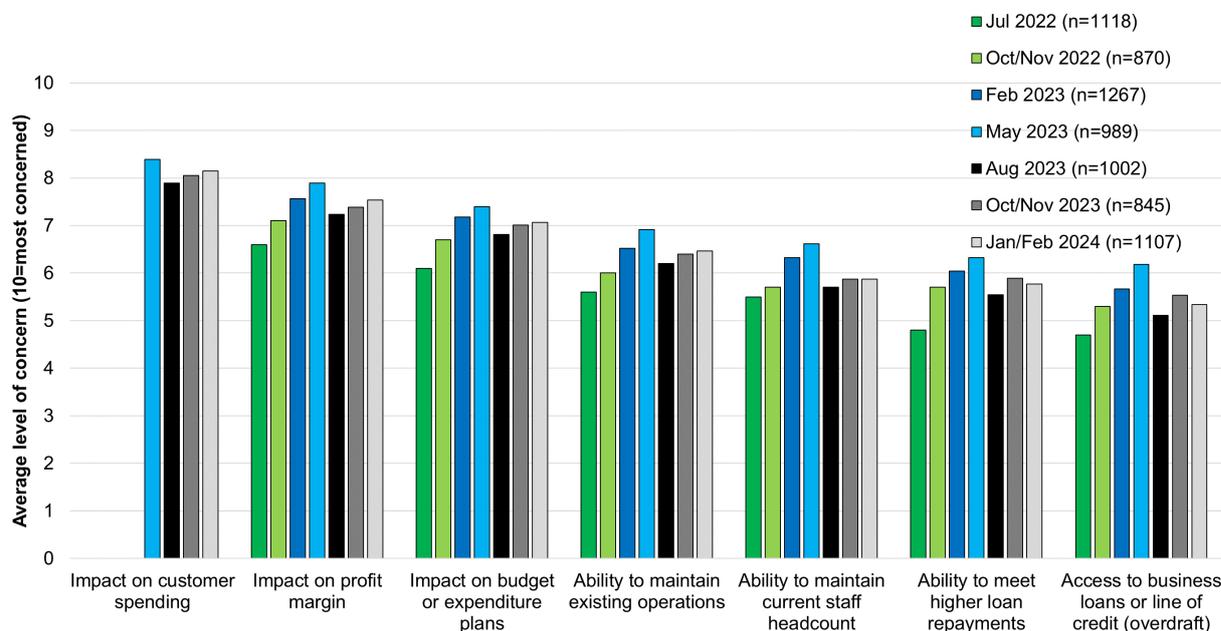
Figure 3: Business cost concerns ranking

2023 Q1		2024 Q1		
1 st	Energy costs	Insurance costs		↑
2 nd	Insurance costs	Taxes, levies, and other government charges		↑
3 rd	Taxes, levies and other government charges	Energy costs		↓
4 th	Wages	Wages		
5 th	Supplier cost	Transport Cost (including toll charges)		↑
6 th	Transport Cost (including toll charges)	Supplier cost		↓
7 th	Rent	Loan repayments		↑
8 th	Loan repayments	Rent		↓

Source: *NSW Business Conditions (March 2024)*, Business NSW

Business concerns about interest rates had been intensifying in the first year since the Reserve Bank of Australia commenced its monetary tightening cycle. Although the level of concern appears to have eased and stabilised in recent months, it remains notably higher than it was in mid-2022. Amongst the various concerns, businesses remain most cautious about the impact of higher interest rates on customer spending.

Figure 4: Concerns about interest rates (July 2022 – February 2024)



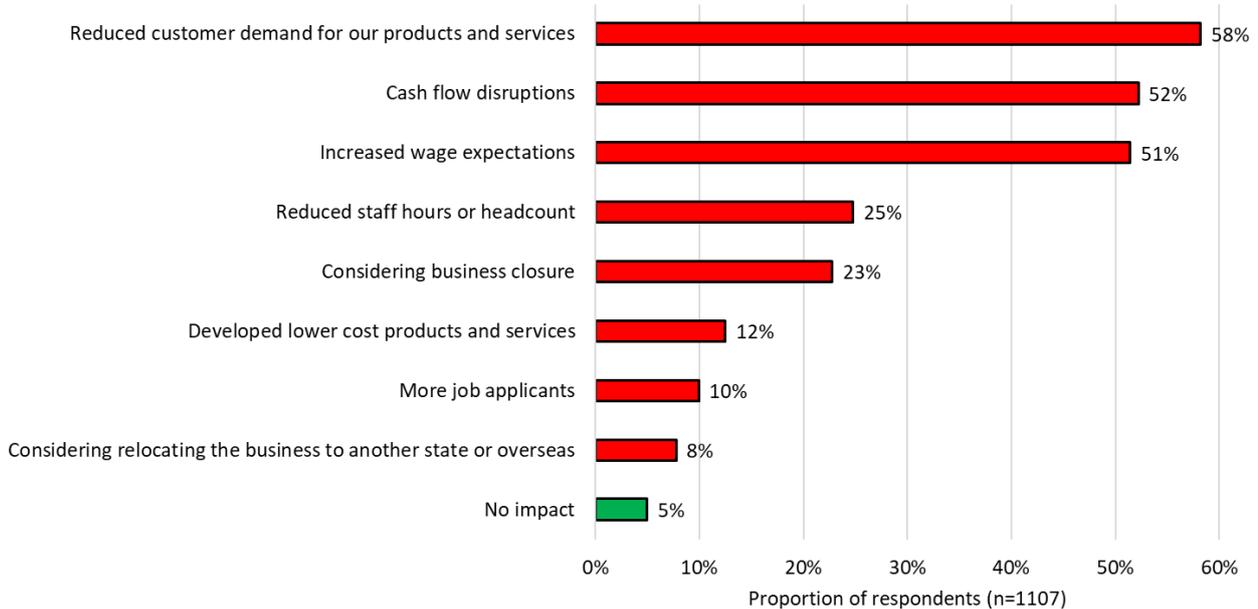
Source: *NSW Business Conditions (March 2024)*, Business NSW

Impact of the rising cost of living

Inflation affects businesses not only in the form of higher operational costs. Businesses are also impacted by the rising cost of living experienced by households. For instance, 58% of businesses have experienced a reduction in customer demand for their products and services, and 51% have experienced increased wage expectations by workers.

Also as a consequence of the rising cost of living, 52% of businesses have experienced cash flow disruptions and 25% have had to reduce staff hours or headcount. In the more extreme cases, 23% of businesses are considering business closure and 8% are considering relocating the business to another state or overseas.

Figure 5: Impact of the rising cost of living on business

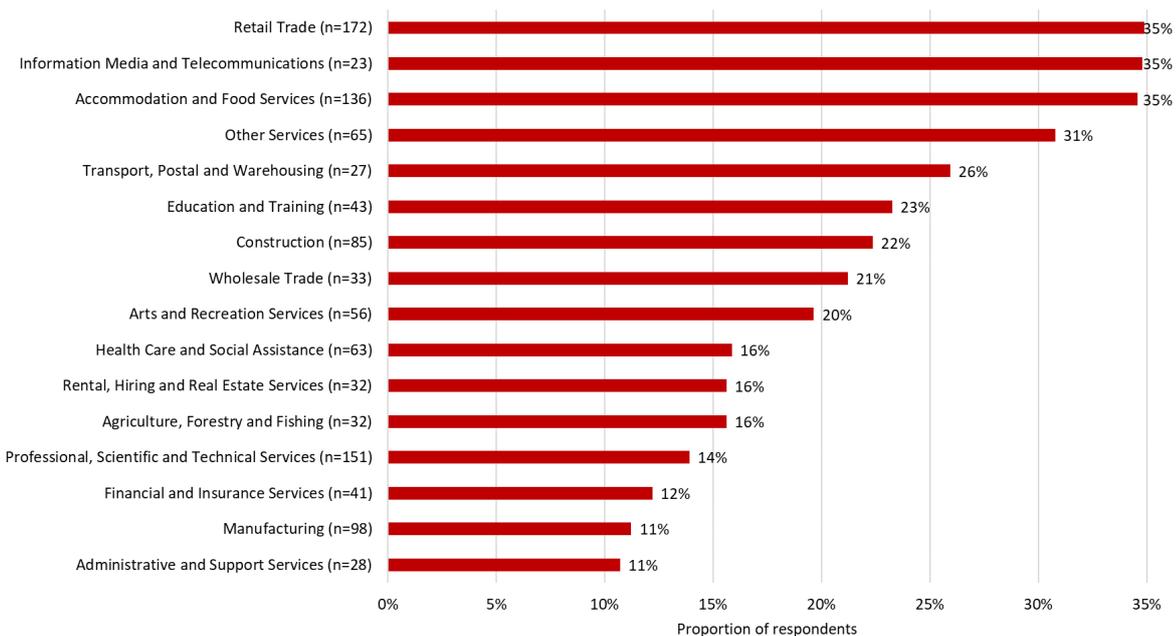


Source: *NSW Business Conditions (March 2024)*, Business NSW

*Results sum to more than 100% as respondents were able to select multiple options.

Businesses in retail trade and accommodation and food services – the two industries that are most sensitive to changing customer demand – are more likely than average to be considering business closure due to the rising cost of living. On the other hand, amongst the least likely to consider business closure are those operating in manufacturing; financial and insurance services; and professional, scientific and technical services.

Figure 6: Impact of cost of living on business – considering business closure (by industry)

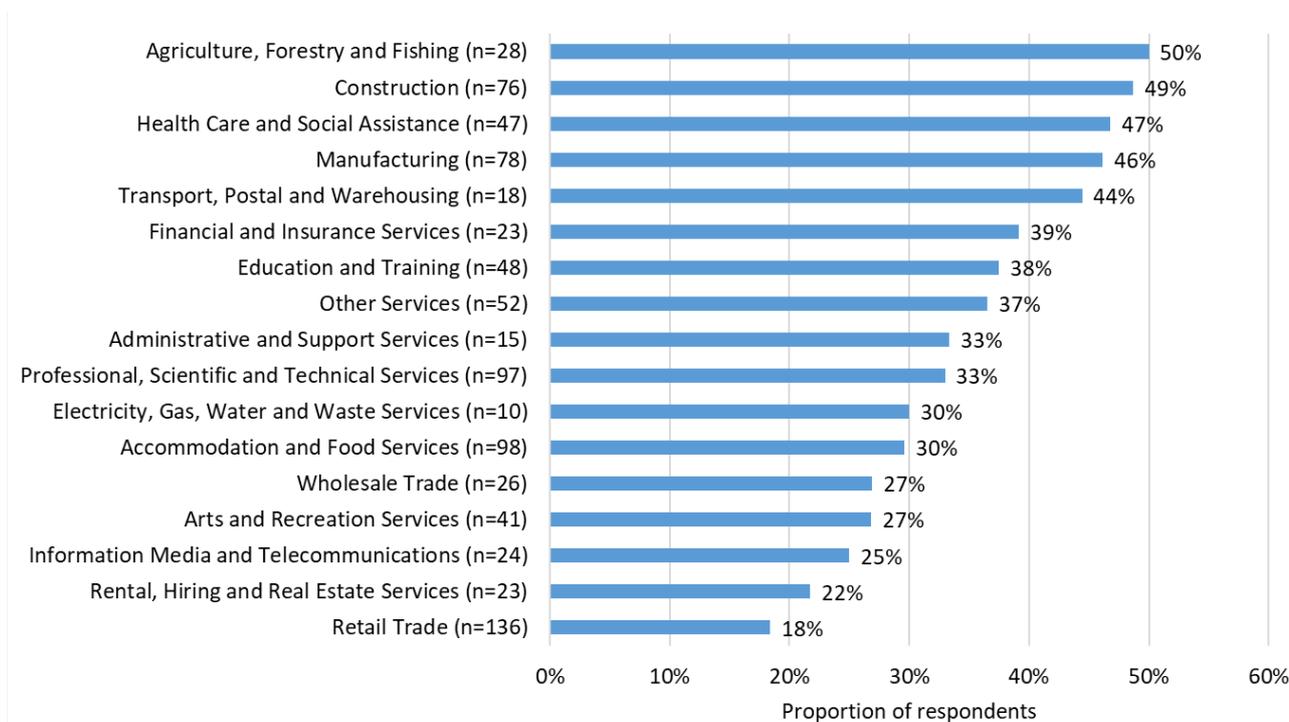


Source: *NSW Business Conditions (March 2024)*, Business NSW

Skills shortage

Skills shortage is currently an issue experienced by all industries. Some industries such as agriculture, construction and health care are particularly constrained by difficulties accessing skilled workers.

Figure 7: Barrier to business expansion due to skills shortages (by industry)



Source: *NSW Business Conditions (December 2023)*, Business NSW

*Industries with less than 10 responses are not included.

As at the start of 2024, the key barriers to attracting and retaining skilled workers are:

- wage expectations (51%)
- cost of living in the area (46%)
- lack of affordable housing (45%)
- insufficient housing supply (41%).

Compared to survey findings a year prior, wage growth pressure appears to have eased as 59% of survey respondents reported ‘high wages demanded by workers’ as a barrier to accessing skilled workers in early 2023. Meanwhile, the housing challenge appears to have intensified, as ‘affordability of housing’ and ‘availability of housing’ were reported by 35% and 32% of respondents respectively a year ago.

Figure 8: Barriers to attracting and retaining skilled workers



Source: *NSW Business Conditions (March 2024)*, Business NSW

*Results sum to more than 100% as respondents were able to select multiple options.

Ways to improve the ease of doing business

In the latest survey conducted during the first two months of 2024, businesses ranked the policy areas that require priority attention from government.

Figure 9: Policy areas requiring priority attention from government

Ranking	Priorities
1 st	 Taxes, levies, and government charges
2 nd	 Cost of doing business
3 rd	 Cost of living
4 th	 Workers' compensation
5 th	 Red tape removal
6 th	 Skills and education
7 th	 Energy
8 th	 Housing
9 th	 Supply chains
10 th	 Industrial relations

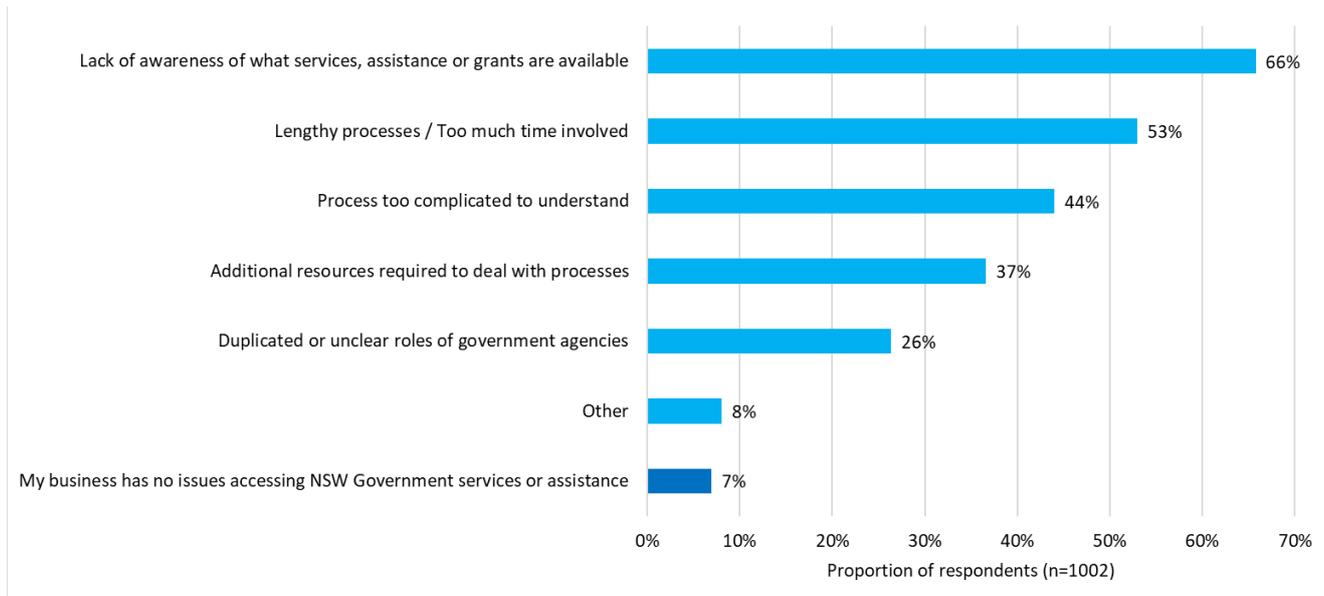
Source: *NSW Business Conditions (March 2024)*, Business NSW

Findings from a survey conducted last year also indicate that a majority of businesses experience barriers to accessing government services, assistance or grants.

To ensure effective interactions between government and business, the most common issues to be tackled (from a business perspective) are:

- a lack of awareness of what services, assistance or grants are available
- lengthy processes requiring too much time
- processes being too complicated to understand.

Figure 10: Barriers to accessing government services, assistance or grants



Source: *NSW Business Conditions (August 2023)*, Business NSW

*Results sum to more than 100% as respondents were able to select multiple options.

BUSINESS COMMITMENTS MADE BY THE NSW GOVERNMENT DURING THE 2023 ELECTION

Business NSW congratulates the NSW Government for the work that has already been undertaken in addressing its election commitments in its first year of Government, and we continue to look forward to working with them over the coming three years.

They include the commitments to:

- No new taxes on business in this term of government
- Boosting small business access to government procurement
- A NSW Business Bureau to improve the government interface with business
- Reducing administrative red tape for payroll tax – 52,000 businesses to have the option of bypassing Revenue NSW and using the ATO “single-touch” payroll system
- Delivery of three Manufacturing Centres of Excellence in Illawarra, Western Sydney and the Hunter
- Commitment to conduct an audit of manufacturing in NSW
- \$315 energy rebates for 320,000 eligible small businesses
- Acceleration of the energy transition via NSW Energy Security Corporation
- \$93.7 million to hire 1000 apprentices and trainees across the NSW Government by 2026
- Commitment to 30% affordable housing on government-owned land
- Reform of the NSW workers’ compensation scheme to fix the broken claims management system.

RECOMMENDATIONS - THE NSW BUDGET 2024-25

Business NSW has five key pillars representing the collective ambitions of businesses across the state of NSW:

1. Make doing business **easier** in NSW through lower taxes and red tape
2. Make business **smarter** in NSW by futureproofing the workforce with a pipeline of quality workers
3. Make NSW businesses **confident** to face the future through balanced and agile energy and infrastructure policy
4. Make NSW a **better** place to grow start-ups and setup businesses by doing more to attract investment and remain competitive
5. Make NSW **thrive** by improving and rewarding safety in the workplace, revitalising our CBDs, increasing our housing supply and building affordable housing so our state can continue to be the best place to live and work.

This budget represents a major opportunity for the new government to orient policy to deliver on these pillars.

PILLAR 1: EASIER IN NSW

Payroll tax

Payroll tax continues to be an issue impacting many businesses, especially as they experience bracket creep into payroll tax. The NSW Government is estimated to bring in almost \$55 billion in payroll tax revenue over the coming four financial years, a significant growth year-on-year, outpacing stamp duty, gambling and other taxes and levies. A pathway to reform needs to be explored to remove this excessive burden off businesses, especially one that may mean businesses are operating both their efficient levels, naturally restricting their activities due to thresholds¹. Reducing this burden would free up significant capital for businesses to invest in productivity driving innovation.

During the COVID pandemic, the NSW Government moved quickly to reduce payroll tax to 4.85%. For two years, this supported NSW business cashflow and kept staff employed. With continued tough business conditions on the horizon, NSW businesses need a more competitive payroll tax. Payroll tax is a tax on jobs and the administration is time-consuming and complex. Streamlining payroll tax administration would make business owners' lives easier.

Keeping NSW competitive with neighbouring states means offering a more competitive payroll tax environment for businesses.

Queensland already has a higher payroll tax threshold of \$1.3 million, meaning many small businesses pay no payroll tax. In Victoria, small businesses also pay less in payroll tax than in NSW, with a rate in Victoria of 4.85% for metropolitan businesses and 1.21% for regional-based businesses. (Victoria does impose surcharges for larger businesses of +1.0% for those with national payrolls above \$10 million, or +2.0% for businesses with national payrolls above \$100 million.)

Regional NSW businesses are subject to a payroll tax rate of 5.45% - the same rate as metropolitan businesses. This disparity in rates will continue to encourage larger business along our borders to invest and expand across the border. We are competing with Queensland and Victoria for investment, and we know we are missing countless opportunities interstate.

We call on the NSW Government to investigate a regional payroll tax rate in line with Victoria to lower the impact of payroll tax on job creation in our regions.

Recommendations

- Lower the payroll tax rate from 5.45% to below 5% and increase the threshold to at least \$1.3 million – easing the tax burden of businesses.
- Index payroll annually to ensure that bracket creep does not continue to impact business.
- Continue to reduce the red tape burden on business by streamlining payroll tax administration.
- Investigate a regional payroll tax rate in line with Victoria (1.21%) to ensure regional businesses are competitive with other states.
- In the medium to long-term explore other revenues that can replace this burdensome tax.

¹ Does payroll tax affect firm behaviour? Ben Ralston, Treasury Working Paper
<https://treasury.gov.au/sites/default/files/2019-03/p2018-t280988-1.pdf>

Tax reform

The recent debate around Stage 3 tax cuts demonstrated the difficulty around tax reform, however, this reform is necessary to ensure that our state becomes more productive and prosperous. The NSW Government is to be commended for taking a leadership role in pursuit of tax reform and we recommend that the Government continues to pursue this. Treasurer Mookhey has signalled his passion for reforming tax in the medium-long term. **Business NSW** acknowledges tax reform requires an active Federal Government in partnership with the states and territories to achieve meaningful outcomes. We also accept that, politically, the timing for this critical area of policy maintenance and reform will always be challenging.

Australia will need a public policy framework expressly designed to achieve stronger sustainable growth, higher productivity, thriving businesses, more jobs and rising living standards.

Tax reform remains unavoidably central to this task, the discussion needs to be renewed and the momentum rebuilt so that the next opportunities for reform are not missed.

“Tax reform is not an end in itself. It is an indispensable part of a broader co-ordinated policy approach that has as its goals greater incentive, security, consistency and simplicity.”²

Reform of our tax system is also essential if Australia is to maximise the growth opportunities and full potential of business in the next phase of economic recovery.

It took a quarter of a century - following the economic shocks of the 1970s and countless inquiries, summits and reviews by successive governments - before the Howard Government won a mandate to introduce a new tax system in 1998. The time has come again to embrace that policy discussion, to explore moderate adjustments to the Federation’s complex state and federal taxes before larger and more challenging reforms will be needed.

Achieving comprehensive reform with our system of government remains challenging in the extreme – nevertheless the sheer fiscal and public policy challenges of the post-COVID decade make cooperation and collaboration between our Commonwealth, state and territory governments essential. From payroll tax and stamp duty to re-alignment of company tax and reform of GST - business and the broader Australian community need a more efficient, globally competitive and sustainable tax system.

Business NSW has a long history of working collaboratively with the NSW Government, peak industry bodies, the community services sector and other key stakeholders towards reform of the tax system. The current tax reform work of our federal and state chamber colleagues is strongly aligned in the interests of locking in Australia’s recovery and long-term success.

As NSW and Australia set a renewed path towards growth, businesses face a tax system riddled with complexity and inequity not just from the differing regimes applied to labour, real property and capital but also the vast ecosystem of exemptions, concessions, deductions and deferrals and an internationally high tax rate for SMEs.

Despite the considerable reform of the late 1990s, Australia still relies disproportionately upon taxing income. Even after successive efforts at returning bracket creep, Australia continues to rank near

² <https://treasury.gov.au/sites/default/files/2019-03/Whitepaper.pdf> , *The Howard Government’s Plan For a New Tax System*, Commonwealth of Australia August, 1998.

the top of OECD rankings for dependence upon personal income tax (3rd at 40.1%).³ Our corporate tax rate is tied for second-highest in the OECD at 30%.⁴ These matters need to be addressed through a staged approach commencing with a realignment of the of the 25% corporate tax rate for SMEs with an aggregate turnover less than \$250 million. While this is a Commonwealth matter, NSW Government leadership is critical in placing these issues before the Board of Treasurers and Council of Federal Financial Relations (CFFR).

Payroll tax reform also remains a priority for businesses. The states remain highly dependent upon payroll tax (NSW alone around a third of own source revenue) to deliver services. High payroll tax rates removes many emerging businesses ability to invest in their business and staff.

Alternate state-based taxes such as stamp duty are even more inefficient and unsuitable substitutes for this job-killing and wage suppressing tax.

Payroll tax alternatives considered through the *Henry Review* of Australia's Tax System form a solid starting point for the CFFR.

Business NSW recognises tax reform requires NSW Government leadership and partnership with the Australian Government and other States and Territories.

The Board of State and Territory Treasurers will be a critical forum for consideration of tax reform options before the CFFR.

Recommendations

The Commonwealth and State Governments must come together through the Council of Federal Financial Relations (CFFR) to commence a standing agenda of tax reform. This should include Payroll Tax, GST, personal and corporate income taxes.

The CFFR should consider:

- The breadth of options available to ultimately abolish payroll tax
- Reducing dependency upon stamp duties and supporting initiatives to transition to broad based land tax
- A pathway to aligning the rate and base of the GST to more sustainably reduce income taxes, especially for low and middle-income earners
- Commence a phased reduction of Australia's corporate tax rate to 25% by extending the 25% small business corporate tax rate to cover SMEs with an aggregate turnover less than \$250 million.

Insurance

Insurance as mentioned remains one of the biggest issues for our members. In 2023 we released a report, *Insurance at the Speed of the Business*⁵ highlighting the issue and providing recommendations towards reform of the system that would make the system more workable for our members.

³ OECD; Tax revenue as a percentage of total taxation; <https://stats.oecd.org/Index.aspx?QueryId=78166>. Australia trails only Denmark and Iceland on this measure.

⁴ OECD; Statutory corporate income tax rate; *ibid*. Australia trails only Colombia on this measure.

⁵ See also Business NSW; *Insurance at the Speed of Business*, 2023; <https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Insurance%20at%20the%20Speed%20of%20Business.pdf>

Over the last four years our members have experienced significant increase in all their insurance costs, business insurance, property, automotive and workers compensation insurance (This will be explored under Pillar five). This perfect storm of cost rises means that some businesses are having to choose between continuing to operate and having effective cover - putting both businesses and their customers at risk.

General insurance

Australian businesses are facing increasing pressure from rising insurance costs. Since 2019, insurance has been rated at the number one cost concern in Business NSW's Business Conditions Survey in 10 out of 12 surveys in which the question was asked. Businesses in NSW consider insurance to be a more severe driver of cost pressure than energy, tax, rent and wages. Insurance is a business cost that has risen considerably in recent years, putting pressure on the competitiveness and viability of Australian businesses, especially small businesses.

While insurance premiums are rising across the board, for a subset of businesses undertaking specific types of activity or located in flood and bushfire-prone locations, insurance is either not commercially available, or only available at such prohibitively high prices that the business is in effect uninsurable. These businesses, which range from critical activities underpinning economically vital sectors such as construction, to those which typify Australia such as camping and caravanning sites and outdoor recreation centres, face choices about whether to continue operating.

Many enterprises are experiencing escalating insurance premiums and diminishing product availability. Competition in insurance is deteriorating. This is especially evident in the foundational business insurance classes of professional indemnity (PI), public liability (PL) and asset insurance. Premiums in some classes are escalating by about 30% per year, and that is where businesses can still access insurance at all.

Standard insurance products are not capable of operating 'at the speed of business'. Current models with slow decision-making and rigid payout structures are failing to meet contemporary small business needs. Businesses receiving insurance payouts are often obliged to build back as before the insured incident occurred, in some cases exposing them to the same vulnerabilities that left them susceptible to floods or bushfires in the first place. Businesses need insurance products that deliver the speed and flexibility to enable them to operate in the way that meets their circumstances.

Long-term solutions cannot by themselves address the acute crisis in insurance affordability and access. Government and the insurance industry are discussing measures to address the long-term issues with business insurance affordability and availability. Most of the solutions proposed by the insurance sector would take many years before they translate into relief for NSW businesses, even if the work commenced today. The insurance sector has also not committed to reducing premiums if these solutions were implemented, nor specified how much they expect premiums would drop. Businesses need solutions that can be implemented on a timetable meaningful to their operations – in other words they need solutions that require only months, not decades, to take effect.

Government – and ultimately taxpayers - are bearing increased exposure to the gaps left by commercial coverage. Trends in the commercial insurance market, combined with increased incidence of natural disasters, are likely to impose ever-greater risk on the NSW Treasury as the effective 'insurer of last resort' as more parts of the economy become uninsurable.

For years Business NSW has been calling for the removal of the Emergency Services Levy (ESL) and stamp duty tax from insurance premiums through numerous submissions and public appearances. Removing these costs will make insurance more affordable for business and reduce the chances of business operating without cover. BNSW is encouraged by the announcement on 16 November 2023 that the NSW Government will seek to undertake reforms of the ESL, creating a

state-wide contribution for funding emergency services in NSW. This will bring NSW to be in line with every other mainland state. BNSW will work with the Government and members to ensure that the reformed system is designed equitably.

Recommendations

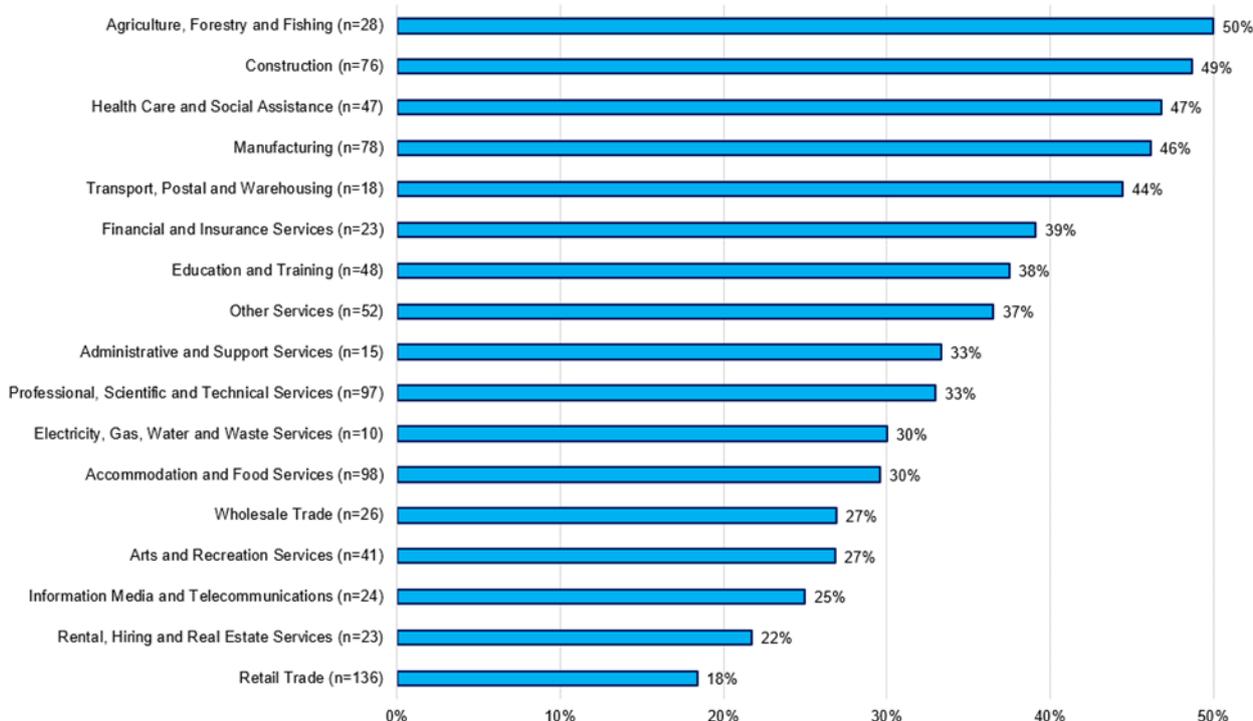
- NSW Government fulfil its promise to remove the Emergency Services Levy (ESL) and stamp duty tax from insurance premiums to make insurance more affordable for business and reduce risk to the business economy from operating without cover.
- NSW Government to audit procurement policy across agencies to confirm that insurance required by businesses is aligned and fit for purpose. As an example, \$20 million PI and PL is currently required by all NSW vendors but may be excessive for some contracts.
- The NSW Government and Federal Government to co-fund a support and training program for business to uplift the level of education around risk management. Such a program would be similar to the currently funded energy education and engagement support tools such as Energy Made Easy.
- Create market segment specific workshops to determine customer and supplier interest/support for alternative products in the following three categories:
 1. Professional indemnification for specialised construction services
 2. Public liability for NSW tourism activity-based businesses
 3. Geographic solutions for bushfire/flood prone locations that cannot get traditional cover.
- NSW Government to run an insurance innovation market testing procurement, where Government will fund up to three proposed innovative product offerings that will achieve at least two of the following objectives:
 1. Reduce the government liability as insurer of last resort
 2. Demonstrably reduce premiums
 3. Offer alternative coverage where no coverage is offered (or is unaffordable to most of the market).
- NSW Government to fund a study into coverage gaps in the NSW business market to ensure that the state's business economy is competitive. This would include a comparison to other markets and an assessment of the hurdles to overcome in NSW. Insurances such as product liability, transport, business continuity, workers compensation, public liability and professional indemnification could be included in the study. An example would be comparing the NZ PL market for activity-based businesses.

PILLAR 2: SMARTER IN NSW

Meeting workforce needs

Skills shortages remain a challenge for businesses in NSW. While labour market conditions may show early signs of easing, they continue to be tight in some sectors. Thirty-four per cent of respondents to our December 2023 *NSW Business Conditions* Survey pointed to skills shortages as the main barrier to expansion. Our survey consistently finds the availability of skilled workers features among the principal barriers to business expansion in NSW, second only to the cost of doing business.⁶ These challenges are particularly salient in primary industries, health care, construction, manufacturing, transport and logistics, as shown in Figure 11 below.

Figure 11: Proportion of NSW businesses indicating skills shortage as a barrier to expansion



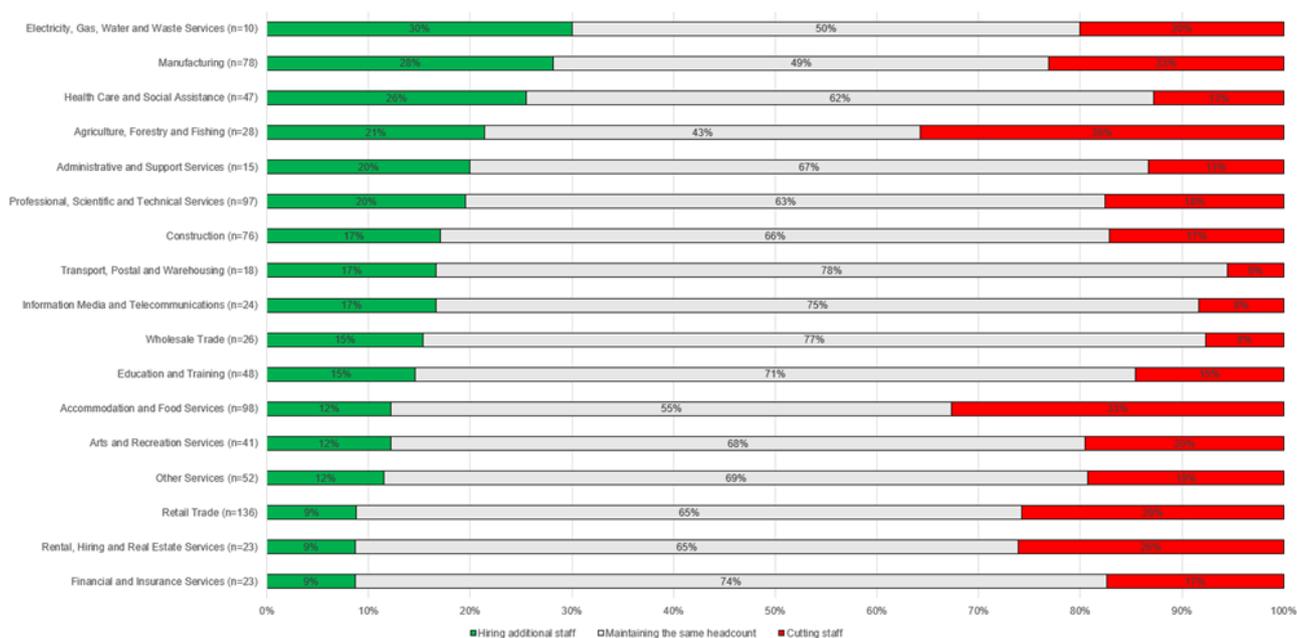
Source: *NSW Business Conditions (December 2023)*, Business NSW

*Mining and Public Administration and Safety have been omitted due to low response rates for those fields.

Hiring intentions remain robust overall, with a more dynamic employment environment becoming evident in some sectors, as shown in Figure 12 below. This emphasises the need for an adaptive and agile workforce to keep pace with transforming economies and changing business needs.

⁶ Business NSW; *NSW Business Conditions*; December 2023.

Figure 12: Hiring intentions of business by sector



Source: *NSW Business Conditions (December 2023)*, Business NSW

*Mining and Public Administration and Safety have been omitted due to low response rates for those fields.

Recent efforts on the part of State and Federal governments reflect a broad consensus in helping businesses meet their skilled workforce needs. While these initiatives are certainly welcome, the State Government needs to ensure the findings and recommendations from various reviews and inquiries are matched by sustainable funding commitments in the medium and longer term. Business NSW understands that a number of valuable programs are unfunded beyond 30 June 2024. Feedback from businesses regarding these programs is generally positive, and each should have its funding renewed across the forward estimates. Several programs and initiatives of particular importance for NSW businesses are highlighted below.

Vocational education and training

The Vocational Education and Training (VET) sector serves a critical role in supporting people into work, and ensuring that businesses have access to the skills they need. Funding inconsistency and uncertainty hinders the ability of providers to meet the demands of students and business, with businesses reporting that VET courses, particularly in regional areas, are often full, cancelled or unavailable due to funding constraints. This is reflected in the sustained downtrend evident in employer satisfaction with VET. NCVER reporting on overall satisfaction among employers in NSW who use vocational qualifications as a job requirement has seen a gradual decline over a ten-year period from 79.2 per cent in 2013 to 74.6 per cent in 2023. Satisfaction among employers with apprentices has similarly declined over the same period, from 77.2 per cent to 74.3 per cent.

There are significant reforms occurring at both the State and Federal level that promise to substantially improve the quality, availability and relevance of vocational education and training. However, these reforms will need to be matched by ongoing funding commitments if they are to be sustainable. Accordingly, the new national agreement provides an opportunity to reset the relationship between the Commonwealth and NSW, and provide greater clarity, transparency and

consistency around funding responsibilities, ensuring the right balance between quality, compliance and efficiency.

Recommendations

- Ensure the national agreement for skills provides for a real increase in overall VET funding.
- Ensure the State Government's response to the NSW VET Review is supported by substantial strategic investment in vocational education and training, including in TAFE NSW.

Apprenticeships and traineeships

The apprenticeship and traineeship system is a key incubator of the future workforce. While the current model has delivered positive results, feedback from industry and the continued decline in participation indicates further reform is needed. The Federal Government has recently announced a fresh review of Australian apprenticeships and apprenticeship incentives. The review is expected to address financial support for apprenticeships and evidence-based improvements to apprenticeships system, with a view to supporting individual wellbeing, productivity and successful outcomes for both apprentices and employers.

Recommendation

- Ensure State Government contributions to reviews of apprenticeships and apprenticeship incentives are informed by a strategic view regarding strategic investment in apprenticeships in NSW.

The Educational Pathways Program (EPP)

The Educational Pathways Program (EPP) is an innovative initiative designed to improve education and career outcomes for high school students. This program complements existing career education activities by providing tailored mentorship opportunities, and introduces students to a variety of vocational training and employment pathways, including School-Based Apprenticeship and Traineeships (SBATs). The program has a particular focus on supporting students who face barriers to education and work. The program was launched in 2020 as a pilot in 24 schools in 2020 and has since expanded to include 148 government high schools in 9 regions across New South Wales.

Recommendation

- The NSW Government should ensure ongoing support for the *Educational Pathways Program*.

Industry Skills Legacy Program (ISLP)

Business NSW has long been a supporter of the Industry Skills Legacy Program (ISLP). The program aims to address the estimated 300,000 extra construction workers required nationally by 2025. In doing so, it supports targeted initiatives to increase the participation of disadvantaged and underrepresented groups in the construction sector, and provides opportunities for existing workers to upskill while on the job. The program also aims to boost the number of apprenticeship opportunities in the construction industry.

The program includes strategies to ensure that projects employ and train people from the local area, promoting community development and boosting the development of a local skills base in regional NSW. The program is an integral part of the NSW Government's commitment to boost the number

of skilled construction workers and to enhance diversity within the construction industry. The program involves a comprehensive approach to addressing current and future labour needs in the construction sector, while also contributing to both diversity and sustainability in the construction industry.

Recommendation

- The NSW Government should ensure ongoing support for the *Industry Skills Legacy Program*.

Regional Industry Education Partnerships (RIEP)

The Regional Industry Education Partnerships (RIEP) program supports valuable partnerships between many of our member businesses and NSW secondary schools. This program facilitates the integration of education and industry to enhance career development opportunities for students. Business NSW frequently receives positive feedback from members, schools, industry and other stakeholders about this program. The RIEP program offers programs that support work experience and practical training opportunities in a variety of fields. The *Trade Readiness Program*, for example, introduces students to work in the building and construction trades, offering hands-on training in areas like plumbing, bricklaying, carpentry, and electrical work. The *Junior Construction Program* provides opportunities for high school students to receive accredited training in the construction industry. Other initiatives involve industry partnerships in the tourism, hospitality and not-for-profit sectors.

The RIEP program plays an invaluable role in supporting the engagement of a variety of stakeholders in supporting work-relevant training opportunities in regional New South Wales.

Recommendation

- Ensure the Regional Industry Education Partnerships Program continues to support and promote education and training opportunities in regional NSW.

Careers NSW

Our 2022 Workforce Skills Survey found only 7 per cent of businesses considered the careers advice currently available in schools to be sufficient. There are enduring concerns among our members regarding the quality and availability of reliable advice on career pathways in general, and for trade-based apprenticeships and traineeships in particular.

The Careers NSW service was launched in 2021 to provide personalised career services and resources across New South Wales. This program supports in-person guidance from careers planners and industry experts along with self-service career support information.

Recommendation

- The NSW Government should ensure ongoing support for *Careers NSW*.

Collaborative cross-sector models for education and training

Industry-engaged collaborative training models provide an innovative means for building capacity in the state's education and training system. They support the development of industry-relevant skills and facilitate mobility between vocational and higher education. TAFE is partnering with the NSW

Department of Education and Training to deliver two pilot IATs: one in Kingswood focused on construction, and one in Meadowbank focused on IT. The IAT model has received widespread support from our members. There is particular interest in regional NSW, where substantial infrastructure investment and renewable energy initiatives are projected to lead to huge demand for skilled workers in regional areas. Collaborative training initiatives of this kind have the potential to increase the state's capacity for responding to current and emerging skills needs, particularly in regional NSW.

Recommendation

- The NSW Government should continue investing in collaborative models for education and training, particularly in regional NSW.

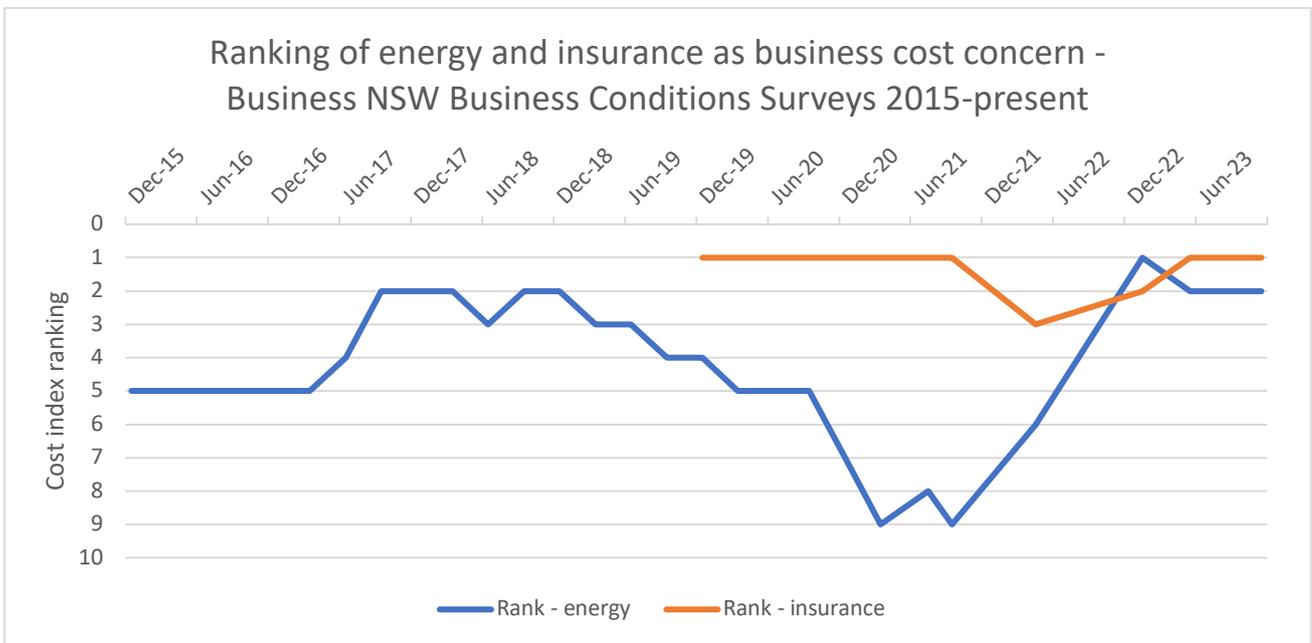
PILLAR 3: CONFIDENT IN NSW

Containing the cost of doing business

Energy

Slow progress on development of clean energy infrastructure has left businesses facing an undesirable confluence of rising prices and thinning reliability margins. Futures markets do not foresee reductions in wholesale electricity prices (Figures 13 and 14) in NSW over the 4-year horizon, while network contributions will increase in the next regulatory period and as the costs of the NSW Electricity Infrastructure Roadmap add to bills.⁷ AEMO's 2023 Electricity Statement of Opportunities warns of reliability risks exceeding the relevant standard in New South Wales from 2025-26, brought about by the deteriorating reliability of existing plant and delays in commissioning new generation and transmission assets.⁸

Figure 13: Ranking of energy and insurance as business cost concern

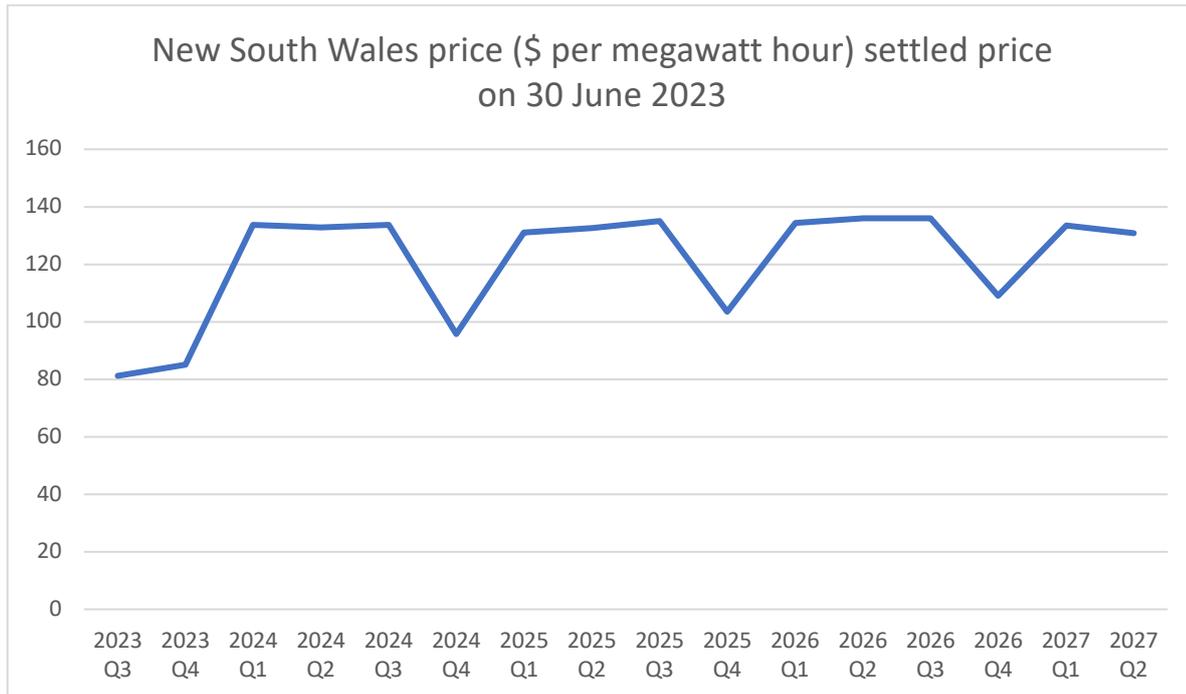


Source: NSW Business Conditions Surveys (2015 – present), Business NSW

⁷ <https://www.aer.gov.au/industry/registers/charts/quarterly-base-futures-prices-and-volume-traded>

⁸ <https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-reliability/nem-electricity-statement-of-opportunities-esoo>

Figure 14: Ranking of energy and insurance as business cost concern



Source: Australian Energy Regulation; ASX Energy

The benefits that may eventually be realised from major transmission and generation projects are years away from making a material difference to business energy users. The task facing the Commonwealth and State Governments, and the energy market bodies, is to speed up the decision-making process for new energy investments without weakening the processes that ensure businesses and other energy consumers are not paying over the odds for those investments.

One of the pivotal energy decisions facing the government this year concerns the future of Eraring power station. While Business NSW is certainly open to the prospect of a short-term extension of Eraring’s operations, given delays to other energy infrastructure, any arrangement must come at a reasonable price to energy consumers. Observing delays to major new projects, from Renewable Energy Zones to Snowy Hydro 2.0, it is hard for the business community to share their confidence that ‘she’ll be right’ if Eraring is closed before those alternatives are built and commissioned, even acknowledging the coal fleet’s deteriorating reliability.

Closing Eraring by itself might not be enough to tip reliability over the edge, but it would reduce the margin for error. That increases the pressure to deliver new infrastructure quickly, at a point when an array of constraints, from community consent to supply chains and labour markets to NSW’s sluggish planning system, are all slowing new infrastructure build. Unless and until those constraints can be overcome, keeping Eraring operational is a prudent insurance policy until more new, clean energy infrastructure has been brought online.

The NSW Electricity Supply and Reliability Check Up, highlighted the delivery challenges that NSW has encountered across its energy infrastructure portfolio. The report proposes shaking up the structures of several key bodies tasked with developing the electricity system, to focus them on more effective rapid delivery of projects. The report flags that there is a genuine risk that progress made to date on energy transition could be jeopardised if bills continue to rise and reliability of the electricity system deteriorates.

Initiatives including the Capacity Investment Scheme and the Rewiring the Nation program, which have been implemented or extended since the last Budget, seek to address financial constraints. However, their ability to also overcome planning and environmental approval barriers and skills and supply chain constraints is so far unproven. The volume of investment required in energy infrastructure to replace aging and polluting energy sources with clean alternatives is considerable, and it is needed at a time when business costs across the board are surging. Business, therefore, wants to know that the transition is being delivered efficiently, and unnecessary extra costs are not being incurred along the way and ultimately passed onto them.

While early outcomes from generation auctions under the auspices of the NSW Electricity Infrastructure Roadmap have been encouraging, the situation in respect of transmission has been significantly more concerning. Since the long-term Roadmap plan rests on the development of Renewable Energy Zones anchored by new transmission, the slow progress and increased cost of transmission projects under the Roadmap and the AEMO Integrated System Plan is troubling. Those costs are currently expected to be passed on to consumers in their entirety. Business NSW sees a greater role for government (state as well as Commonwealth) in shouldering some of the costs of transmission infrastructure development. Rather than merely offering financing for projects which still have ready access to private finance solutions, governments could make a bigger difference for end users by supporting the costs of transmission directly, removing them from energy bills altogether. It is not yet clear to what extent (if at all) the expanded Capacity Investment Scheme will reduce pressure on users' bills. The proposed 'cap and ceiling' approach to revenue underwriting holds promise, but we remain wary of governments writing cheques on the promise that money will be recouped from consumers, come what may, in the future. Energy consumers have been asked to bear the majority of the risks throughout the energy transition. Other energy system participants must also be asked to take up their fair share.

Furthermore, as the Check Up identified and as has become increasingly apparent throughout 2023, planning and environmental approvals processes have become a significant bottleneck slowing the delivery of critical energy infrastructure. Recommendations made in the Check Up to speed up approvals processes must be prioritised in order for the government's energy supply and decarbonisation ambitions to be met, and to minimise the need for interventions such as life extension at Eraring. While much of the focus over the past year has been on financial aspects of accelerating the transition, including the development of the Rewiring the Nation and Capacity Investment Schemes at a national level, and through further LTESA auctions and the development of the NSW Energy Security Corporation, non-financial barriers are increasingly prominent.

Recommendations

- In partnership with the Commonwealth and other states, NSW government should take additional steps to cover the cost of the transmission infrastructure build out to support Renewable Energy Zones, removing those costs from user bills.
- Planning and environmental approvals for major energy infrastructure should be streamlined in line with recommendations of the NSW Electricity Supply and Reliability Check Up.

Energy is once again a primary source of cost concern for businesses. Since the sharp rises in energy prices that have occurred through 2022, energy has risen in Business NSW's Business Conditions Survey on cost concerns. Cost increases are driven by a multitude of factors, the NSW Government has several means by which it is able to influence the bills businesses face.

NSW has now implemented the energy bill relief measures which were included in the 2023 Commonwealth Budget and pledged in the 2023 election campaign. Although the \$650 payment did

not address the structural causes of recent rises in energy costs, it will nevertheless have provided some welcome relief for NSW's small businesses.

Addressing the structural causes of high energy costs to businesses, however, will require considerably more than a one-off payment. Improving the productivity of businesses' usage of energy is one of the ways that businesses can combat these cost pressures. Using less energy for a given unit of output (or increasing the units of output for any given unit of energy) improves competitiveness, and can contribute to improving businesses' growth outlook, encouraging investment, and reducing inflationary pressures. Business NSW has been disappointed by slow progress on business energy productivity measures. At the time of writing, the National Energy Performance Strategy has not reported, many months after its initial intended release date. The extent to which the NEPS will focus on matters affecting businesses, especially smaller businesses, is unclear. The longer we wait for the strategy to be determined, the longer businesses also must wait for meaningful measures to be introduced to assist them.

Since the cessation of the Commonwealth-funded Business Energy Advice Program in 2022, businesses have been left without a trusted, independent, free to use source of advice about how to lower their energy costs, nor about how to engage with the energy transition more broadly. Business NSW views the establishment of a successor advice and support program targeting small and medium sized business as a critical component of the energy transition, ensuring that smaller businesses are not left out as governments and industry target their efforts on households and the largest energy-using industries.

Although Business NSW would prefer a national solution, in the absence of Commonwealth support, we encourage the NSW Government to step into the breach. Expanding business access to advice from trained engineers or peak bodies with industry sector expertise potentially offers a significant improvement in the value businesses place on the advice received.⁹ As a peak body which has provided expert energy consultancy to businesses over recent years, Business NSW is certainly supportive of efforts to expand this model of advice delivery to SMEs. Until August 2022, Business NSW was supported to offer this advice by the Commonwealth via the Business energy Advice Program. This program has now been ceased, and the gap in providing this type of useful advice to businesses has grown. The Business energy Advice Program reached 7% of eligible SMEs across Australia during its three years of operation. To reach more businesses in the years ahead requires a new program with an expanded remit and with resourcing to maintain advice that is free and independent.

Recommendation

- Establish a new energy advice and support program targeting the SME sector.

Converting from Gas

The cost and availability of gas is also a concern for many of those businesses who depend on it. Supply side measures, including the approval by the NSW Government of the Narrabri Gas Project, have not yet converted into increased supply reaching the market. After a very expensive winter in 2022, businesses do not want to see a repeat in future years. Of the measures Business NSW recommended in 2019 in its report *Running on Empty*, several remain unenacted.¹⁰ Narrabri, though

⁹ For further detail see Business NSW; *Unfinished Business*; 2022; https://www.businessnsw.com/content/dam/nswbc/businessnsw/thought-leadership/November_2022_ECA_Survey_Report_low-res.pdf; especially p. 35

¹⁰ https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/015-Running-on-Empty-Report-7_PRINT.pdf

approved by government, at time of writing is still awaiting a Final Investment Decision, and its supporting pipeline infrastructure is not yet fully permitted. Pipeline connections to Queensland have only seen very limited capacity upgrades, despite a growing dependence of all southern states on northern production as Victorian gas fields deplete. As LNG prices have risen, the commercial prospects of an LNG import facility have deteriorated even though the insurance one would provide still has value.

Gas policy decisions made by the Commonwealth and in other states will affect NSW. However, there is also a much greater role that could be played by the NSW Government in supporting businesses to reduce their gas demand by using it more productively, and in some cases in converting (or preparing to convert) from gas to electricity in their processes. Such a program would be most effectively targeted at the small manufacturers, hospitality businesses and others who are significant users of gas, but not at such a large scale as to benefit from or be regulated by policies targeting the very largest users.

Via the Peak Demand Reduction Scheme, businesses with ageing electrical hot water systems are potentially eligible for subsidised (often free) upgrades to modern, energy-efficient heat pumps. Businesses converting from gas to electric hot water systems are, at present, only able to receive a smaller co-payment under the Energy Savings Scheme. This discrepancy may reflect the different motivations for the PDRS and the ESS, but they have resulted in a confusing and somewhat arbitrary landscape for support for businesses looking to improve their heating and hot water systems. The government should review the two schemes, with the outcome of providing greater support for businesses looking to switch from gas to electric hot water, in line with the support already available under the PDRS for electric-to-electric upgrades.

Recommendations

- Establish a program to support medium-sized gas using businesses in converting from gas to electricity consumption in their processes.
- Expand the Peak Demand Reduction Scheme to support gas to electricity conversions.
- Review Peak Demand Reduction Scheme and Energy Savings Scheme rebates for business hot water system upgrades, with a view to providing greater support for businesses looking to switch from gas to electric hot water.

Behind all of these issues, the availability of skilled workers and the liquidity of global supply chains for parts and materials remain significant constraints. It is exceedingly difficult for governments to accelerate infrastructure building significantly given these constraints, and doing so would come with a large cost attached. Even at the scale of an individual business, having employees with training and knowledge of new energy technologies and the opportunities they create is constrained, with much competition for those personnel with the relevant skill set. The measures proposed in the previous chapter will help address these workforce shortages. Better coordination of energy infrastructure building can also help to ensure that workload and workforce are matched most effectively. Joined up decision making between state and Federal Governments, AEMO, and other key system planning bodies is required to prevent plans being brought forward which exceed the capacity of Australia's infrastructure sector to deliver.

Delivering the infrastructure business depends on

2023 enabled the Commonwealth and NSW Governments to review and reset infrastructure strategy. This led to some difficult decisions being taken about major infrastructure projects in NSW. Both the Commonwealth and NSW Governments have been forced to defer or cancel several projects in the face of the workforce and supply chain capacity crunch Business NSW and others have been warning about. This government can make a meaningful contribution to putting infrastructure delivery on a more sustainable footing by ensuring that projects are subject to rigorous evaluation before commitments are made, and that the desire to invest in key infrastructure does not exceed the market's ability to deliver on it. The past year's reviews of the infrastructure pipeline represent a strong starting point, but the real test will come as new projects are considered.

After a year spent getting existing infrastructure commitments in order, this year potentially presents the opportunity for the Government to set out its vision for future infrastructure priorities. Allowing the department time to carry out necessary preparatory work to determine future infrastructure needs, and how best they can be met. Rather than rushing into another round of high-profile project commitments, Business NSW recommends that Government use the time afforded to it to develop and articulate a clear, informed understanding of what its infrastructure goals are, before committing to particular projects.

Freight transport

Critical transport infrastructure will, when completed, improve freight transport productivity across the state and nation. Key projects include Inland Rail, Western Sydney Airport and its surrounding roads and rail networks, the Port Botany Gateway project and associated road and rail upgrades, the upgrading of Newcastle Airport to handle widebody jets and Port of Newcastle to handle container shipping. With so much still to be completed, and with infrastructure market capacity stretched, Business NSW's preference remains on seeing Government focus on completing existing commitments rather than calling for new works that may not be achieved for more than a decade. Slow progress in the development of employment areas surrounding Western Sydney Airport, particularly in the new city of Bradfield, is increasingly concerning, and runs the risk that the Commonwealth's investment in the airport will not yield the economic benefits it should.

Industrial action at Australia's ports has not subsided but escalated. More than half (51%) of NSW businesses have reported business supply chain disruptions in the past three months, according to our March 2024 Business Conditions Survey. These disruptions are corrosive to the NSW economy and, in future, must be resolved immediately.

Business NSW recognises the Australian Government focus on Industrial Relations Reform and notes, our ports are too critical to business and the communities they serve to be subject to ongoing industrial disputes.

Electrification of road transport

Emissions from road transport make up the majority of some businesses' footprint. The renewed interest of the Australian Government in EVs is timely and welcome. While progress was made in the past year, Australia remains behind its peers in facilitating the uptake of electric vehicles. Businesses who wish to move their fleets to EVs are thwarted by high upfront prices, a lack of availability and choice of vehicles, and charging infrastructure that is still patchy and not always able to meet demand.

The influence of taxation decisions on the EV market is becoming increasingly apparent. The October High Court decision in the case *Vanderstock vs Victoria* necessitates a swift engagement between the Commonwealth and states on future road user charging and vehicle taxation policy.

PILLAR 4: BETTER IN NSW

For NSW to increase the economic dynamism and maintain its reputation as the best state to do business, it needs to invest in early to mid-stage starts up to ensure their growth.

Venture funding

Venture capital (VC) is a critical tool for nurturing innovative start-up businesses, yet Australia's VC sector is less than half the size of the OECD average. Business NSW will undertake further work and release paper looking at the Venture Capital Ecosystem, against global examples but also other states.

A state-backed Venture Capital Fund would help retain and grow talent onshore, boost the economic output of businesses and the state, while fostering a new generation of entrepreneurs. This can also help fund regional start-ups that often miss out on traditional VC funding due to their proximity to the big cities.

A fund of this nature could also take much longer-term views, investing in sectors that traditional VC are unable to or don't have the patience to, this is especially relevant in fields like MedTech, where the payback period can be as long as 15 years.

The fund itself can be delivered at no net cost to the budget in the long-term, with return on equity stakes funding the policy measure.

The current system offers grants that do not give taxpayers a long-term stake in the start-ups they finance. A state-backed VC fund would allow the public to share in the success of the businesses they back. Furthermore, it provides further incentive for the State Government to nurture these businesses to ensure their success.

NSW is fast falling behind Victoria in the race to be the innovation state. In 2021 Victoria announced the Breakthrough Victoria Fund to the tune of \$2 billion in a bid to increase its economic competitiveness and create jobs. It's time for the NSW Government to enter the VC game.

Business NSW will continue our work on the shape and purpose of a VC fund to be co-led by business and government, and to be a world leading attraction to key talent and ideas.

Recommendation

- Make NSW the start-up state by establishing a \$1.3 billion government-backed venture capital fund.

Government Procurement

The NSW Government spends almost \$40 billion annually on goods, services and construction. Access to these government contracts is critical as it provides certainty of work and support for business growth and investment, while also being a signal to other potential customers of the quality of the supplier.

NSW Government procurement data showed almost \$8 billion was spent on NSW SMEs over the 2020/21 financial year. That's over 49,000 small and medium businesses engaged with NSW Government through one of their toughest years on record. This has been critical for small and medium businesses operating in regional NSW and the local communities they serve.

These initiatives have gone a long way towards giving NSW small and medium businesses a level playing field to compete with multinationals and their subsidiaries for local and regional procurement

opportunities at a scale they can handle. It also provides the best possible outcome for taxpayers through competition, quality and accountability at the local level.

Without the NSW government actively identifying local SME suppliers and making it easier for them to engage with government procurement, we put at risk the ability of local firms to provide critical services and local jobs. Since the election the new government has indicated intent to expand opportunities for enhanced local procurement, particularly in the manufacturing sector. We encourage government to ensure that NSW SMEs are able to participate in those procurements, and that barriers to participation are eased.

There is an opportunity to help NSW SMEs and start-ups to not only survive through the current economic headwinds, but to help them thrive. That's why Business NSW supports building on this success with even more engagement and growing the proportion of government procurement to SMEs to over \$10 billion each year. NSW has led the country on government procurement for SMEs - and we need to keep it that way.

Recommendations

- Grow the proportion of government procurement to SMEs to over \$10 billion per annum
- Strengthen awareness and take-up of the NSW Government Tender Support program
- Boost Business Connect to offer independent business advice and build their capability to supply to government

Investment attraction overseas

The role of Investment NSW has been a focus of debate over the past year, however, our members have stressed to us the importance that these offices have played in getting their businesses into international markets. We have heard from start-ups that have been able to pitch their MVP Granted product through the Asia offices of Investment NSW. Without the offices there, they would not have had the same credibility in pitching their start-ups.

With new international aviation routes being established when Western Sydney Airport opens, and when Newcastle Airport upgrades, there are opportunities for the NSW government to further promote links for business travel and tourism. The NSW Government should focus some of its Investment attraction activity on ensuring that the state's economy is able to capitalise on these opportunities.

Business NSW welcomes a review of the operations with a view to further invest on a business case basis, increasing the reach of Investment NSW to further evangelise Australian businesses overseas.

Recommendation

- Maintain funding for Investment NSW operations and programs including international representatives and offices working in concert with the Australian Government. **Business NSW** encourages the NSW Government to expand efforts sponsoring and supporting enterprise, trade, and international investment in the state of New South Wales.

Innovation Precincts

Business NSW supports Business Western Sydney's position on innovation precincts and districts. The government is yet to implement a clear strategy, such as appointing a minister for innovation districts (or with clear responsibility for them), and to have a coherent funding structure or competitive bidding process for funding. We believe it is important at both a regional level as well as a state level.

Recommendation

- The government is to implement a clear strategy to effect the creation of innovation precincts, whether by appointing a minister for innovation districts (or with clear responsibility for them), and a coherent funding structure or competitive bidding process for funding.

PILLAR 5: THRIVING IN NSW

Growing and thriving local communities need key workers to keep businesses open and to keep us all safe.

Work Health & Safety (WHS)

The safety of workers is of paramount important to Business NSW, ensuring that everyone is able to go home safely. With our state's system being a risk-based (as opposed to being an outcomes-based) WHS system, having an adequately resourced regulator is fundamental to the success of New South Wales' regulatory regime. Without a sufficient number of inspectors to both guide workplaces on WHS best practice and, if necessary, enforce the statutory obligations imposed on all the participants within the workplace, New South Wales cannot thrive as an economy.

Being a leader in the production of innovative harm prevention strategies underpinned by its research and data, the NSW Government's Centre for Work Health and Safety plays a central role in ensuring the reduction of deaths and serious injuries in NSW workplaces.

Recommendations

- Ensure SafeWork NSW is adequately resourced to help drive safer outcomes for NSW workplaces.
- Ensure the NSW Government's Centre for Work Health and Safety is adequately resourced to ensure it retains its capacity to drive innovative safety strategies.

NSW's workers' compensation scheme

Business NSW welcomed the NSW Government's election promise to reform of the NSW workers' compensation scheme to fix the broken claims management system.

We believe that central to these reforms will be the restoration and/or strengthening of the level of oversight that was originally put into place by the 1998 reforms. This includes Ministerial, regulatory and stakeholder oversight (by 'stakeholder', we are referring to the beneficiaries of the scheme, employers and their workers).

Business NSW commends the NSW Government for actively progressing workers' compensation reform. However, in terms of oversight, Business NSW maintains that the two most important areas for reform are those of both regulatory and stakeholder oversight. If the current level of oversight is not significantly strengthened in the very near future, return to work rates will not improve and with it, the financial health of the scheme as a whole. NSW employers will be facing yet another hike in premiums despite having no influence over the drivers behind the scheme's decline.

The level of transparency that currently exists throughout the system also requires reform, the most notable area being the premium-setting system.

The premium formula is, in part, supposed to provide an incentive which drives safe behaviours in the workplace. Given what is known about the current formula, this objective is not being achieved.

Instead, NSW employers, who are the primary funders of the scheme, are being held financially responsible for inefficiencies that lie well outside their control.

Given the valuable work being done by the NSW Government's Centre for Work Health and Safety, the NSW Government is best placed to ensure that, with stakeholder input, the premium-setting system can be adapted to incorporate a data driven approach to truly incentivise safe behaviours in the workplace.

Recommendations

Ensure the reforms planned for the NSW workers' compensation scheme include:

- Significantly strengthening the level of regulatory and stakeholder oversight
- Improving the level of transparency throughout the scheme, and
- Adopting a data-driven approach, by leveraging the work being done by the NSW Government's Centre for Work Health and Safety, to ensure the premium formula provides a sufficient incentive to NSW employers to drive safe behaviours throughout NSW workplaces.

Housing for NSW workers

Whether in Sydney CBDs or a regional town, businesses need key workers able to afford to live close to where they work. The lack of available housing has been consistently identified by our members as a major barrier to business growth and sustainability.

Since election in March, the Government has taken steps to acknowledge the serious housing crisis affecting NSW. Early steps to speed up planning approvals, encourage greater density of development around public transport, and to increase support for social and affordable housing are all welcome. We welcome the government's pledge to set a target for 30% affordable housing for key workers on government-owned land. But NSW has been off track for many years, failing to deliver the volumes of housing supply it needs. It will take a concerted effort, through this Parliamentary term and beyond, to get NSW's housing back on track.

Business NSW supports a series of actions to improve the housing situation in metropolitan and regional NSW, including:

- Clearing the planning approvals backlog.
- Increasing the supply of lower impact medium density housing like terrace housing, town housing, dual occupancy, and low-rise residential apartments across NSW. Follow the lead of New Zealand and rezone large cities like the Sydney metropolis to permit this type of medium-density housing by converting R2 to R3.
- Reintroducing housing pre-approved key component designs to enable faster approvals of well-designed, attractive housing that can obtain community consent. A pre-approved set of quality designs will boost infill development and target the missing middle by growing supply of townhouses, terraces, dual-occupancies, and small residential flat buildings - all enabled throughout Greater Sydney by the rezoning of R2 to R3.
- Advanced modular housing designs will enable not only high volume at short notice, but will lower risks and allow leased lands to be released for infill development – where existing transport, infrastructure and amenity already exist.

- Rezoning residential land around high frequency transport nodes including Metro, Heavy Rail, Light-Rail and rapid bus routes. A template approach to rezonings around transport nodes will fast-track housing delivery.
- Allowing for significant density bonuses to include social and affordable housing.
- Developing a series of CBD pilot precincts for modern mixed use including¹¹:
 - Changes to planning rules to allow for greater mixed use and residential development within the Sydney CBD, including easing requirements to make it easier to build schools and childcare facilities in our CBDs.
 - Business Improvement Districts to ensure that place-based solutions let businesses thrive.
 - Doubling the size of our CBDs' permanent populations over the next 10 years.
- Incentivising councils financially to overdeliver on their housing targets.

Within the context of this Budget, Business NSW encourages the government to make further funding available to:

Recommendations

- Fund further rounds of the Accelerated Infrastructure Fund focused on regional areas that will also enable greater social housing development.
- Build on the Rezoning Pathways Pilot, fast-tracking additional larger developments with significant social and affordable components.
- Commission pattern book designs for CDC low-medium density development.
- Prioritise infill infrastructure that will have a far greater impact on unlocking housing supply in NSW.

With transport infrastructure projects exceeding their budgets but being pivotal for the delivery of additional housing density, Business NSW supports a more systematic approach to 'value sharing' or levies connected to major projects. Too many of NSW's major projects have been allowed to deliver windfall gains to landholders and property owners, without in return generating the improvements to housing supply the state needs. Those projects which have had a value sharing component have implemented it in an ad hoc manner that has limited the benefits the policy is able to generate. By instituting a consistent means by which the uplift in property value created by public investment in major infrastructure is recouped to meet community needs, the Government can incentivise needed housing density in the locations best served by public transport, while also reducing the cost to the state of major infrastructure investment.

Recommendation

- Enhance and systematise 'value sharing' or levy policies to improve the financial viability of major infrastructure while incentivising dense, transport-accessible housing.

¹¹ See also Business NSW; *Revaluing Sydney's CBD*; 2023; https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Revaluing_Sydneys_CBD_BusinessNSW_report.pdf

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