



**BUSINESS  
NSW**

**NSW  
PRE-BUDGET  
SUBMISSION**  
2025-26

December 2024

**Business NSW** welcomes the opportunity to provide a pre-Budget submission ahead of the 2025-26 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** commends the NSW Government on its steadfast commitment towards housing, energy rebates and supporting a clean energy future. Our economy has been experiencing a decline in per capita growth, and while migration has fuelled short-term growth, prioritising productivity and reducing business barriers will unlock growth, attract investment, and create opportunities for our economy. Investment in innovation and productivity measures will drive job creation, improve living standards, and ensure our state thrives as a competitive and dynamic economic hub of Australia.

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 the Federal Government takes a renewed and strategic interest in shaping the decade that comes. Amid ongoing challenges affecting business confidence, this budget must establish NSW as the premier state for starting, relocating, or expanding a business. While targeted efforts are addressing housing supply, key barriers such as rising wages, persisting insurance and energy costs, and excessive red tape continue to contribute to the cost of doing business and impede operations.

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.

Our recently released *State of Skills 2024* Report showcases how NSW employers are innovating through training and recruitment to meet skills needs across sectors. While businesses lead in addressing shortages, we urge the NSW Government play a stronger role in reducing pressures and building long-term resilience, particularly in regional NSW. Substantial investment in vocational education and training (VET), with a focus on establishing TAFE NSW as the gold standard VET provider, is vital to ensuring access to a skilled and resilient labour market capable of tackling future challenges.

Our latest Business Conditions Survey revealed that energy has fallen out of the top three business cost concerns for the first time since 2023, now replaced by wages. Concerns regarding insurance costs and taxes and government charges continue to rank highly. Although energy costs have dropped in priority, aligning carbon emissions policy with energy strategy remains essential. We urge the NSW Government to collaborate with the Commonwealth and other state and territory governments to advance the net-zero transition and address the forecast east coast gas shortfalls from 2028.

To ensure a resilient and competitive economy, it is crucial to address both immediate and long-term challenges. While managing business cost pressures are important, these efforts must be complemented by a focus on driving productivity and fostering the environment conducive to business growth.



**Dan Hunter** CEO  
Business NSW

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<b>Recommendation 3:</b>	Increase funding to Service NSW Business Bureau to ensure that it can assist businesses in these challenging times.	15
<b>Recommendation 4:</b>	<p>To reduce the regulatory burdens on small businesses associated with a change of use DA process, the NSW Government should consider:</p> <ul style="list-style-type: none"> <li>• Introducing a preliminary (AI) assessment system where businesses can submit a simplified form to determine whether a full DA is necessary for their proposed change of use</li> <li>• Implementing a more straightforward, transparent process with clear guidelines to facilitate easier compliance with development requirements, such as implementing an AI Planning Portal</li> <li>• Introducing fast-track approval pathways for change-of-use applications, especially those with minimal environmental impact or minimal change of use</li> </ul>	15
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<b>Recommendation 10:</b>	The Commonwealth and State Governments must come together through the Council of Federal Financial Relations (CFFR) to commence a standing agenda of tax reform, with a focus on capping the overall tax burden that SMEs face as a percentage of their revenue.	17
<b>Recommendation 11:</b>	<p>The NSW Government should:</p> <ul style="list-style-type: none"> <li>• Commit to modernising the Australian tax system to make it simple, efficient and fair.</li> <li>• Commit to comprehensive tax reform, including reform of Federal-State arrangements, with an aim of reducing or eliminating unproductive taxes on business such as stamp duties, insurance taxes, and payroll taxes.</li> <li>• Create a Tax and Federation Reform Commission to provide considered advice on reform options. As well as tax reform, the Commission would be tasked with recommending opportunities for improved delineations of federal and state spending responsibilities.</li> <li>• Reduce the company tax rate to 25 per cent for all businesses to enhance the competitiveness of Australian businesses versus international competitors. With the corporate tax rate at 30 per cent, Australian businesses have become less and less competitive with counterparts in other OECD countries.</li> <li>• Broad raise in GST to balance.</li> </ul>	17
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<b>Recommendation 27:</b>	Develop a centralised, publicly available data assets in partnership with industry in line with recommendation 7 of the NSW VET Review to ensure a comprehensive 4-year skills and jobs look-ahead.	25
<b>Recommendation 28:</b>	Establish industry-specific and place-based Compacts with the aim of helping employers across NSW meet their skills needs, in line with recommendation 8 of the NSW VET Review.	25
<b>Recommendation 29:</b>	The NSW Government should continue investing in collaborative models integrating industry involvement with education and training, particularly in regional NSW.	25
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<b>Recommendation 31:</b>	Government covers the cost of any further cost modification on the transmission network to remove this extra cost from bills and expedite delivery.	28
<b>Recommendation 32:</b>	Planning and environmental approvals for major energy infrastructure should be streamlined in line with recommendations of the NSW Electricity Supply and Reliability Check Up in addition to the recommendations below: <ul style="list-style-type: none"> <li>○ If government want to accelerate the transition to meet their set targets and provide business and the people of NSW with reliable affordable energy, the selected REZ generation projects should be considered for Critical State Significance Infrastructure (CSSI).</li> <li>○ Adopt a strategic biodiversity landscape-scale assessment approach under the relevant legislation</li> <li>○ Government to ensure draft regulations in the under the BC Act and Local Land Services Act 2013 (LLS Act) is thoroughly consulted with industry before finalisation and provide a simpler most cost-effective offsetting approach.</li> </ul>	29

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<b>Recommendation 39:</b>	Create an NSW-based Venture Capital Fund that can be built over a decade. Set at \$100m per year, this fund will co-invest along the private sector and be potentially run by a private venture capital (VC) manager, or general partner (GP).	37
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<b>Recommendation 51:</b>	Conduct review of the investment attraction process that NSW undertakes compared to other states to assess efficacy and make improvements where possible to ensure both value for money but also national competitiveness.	38
<b>Recommendation 52:</b>	The government is to implement a clear strategy to drive 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.	39
<b>Recommendation 53:</b>	The Government consider the recommendations of <i>The Role of Government in Innovation Districts For the Innovation Districts Alliance May 2024</i> .	39
<b>Recommendation 54:</b>	Increased investment from Destination NSW is essential, as the current projected figures in the Visitor Economy strategy must adequately reflect the rapid growth of Western Sydney.	41
<b>Recommendation 55:</b>	The development of a comprehensive plan or strategy, alongside targeted activation in and around the airport, is essential to capitalise on the Western Sydney region's investment in tourism.	41
<b>Recommendation 56:</b>	Rezoning Shellharbour Airport as a regional airport would unlock critical funding for essential upgrades, and help enhance its role as a key transport and economic hub for the Illawarra region.	41

# CURRENT BUSINESS CONDITIONS IN NSW

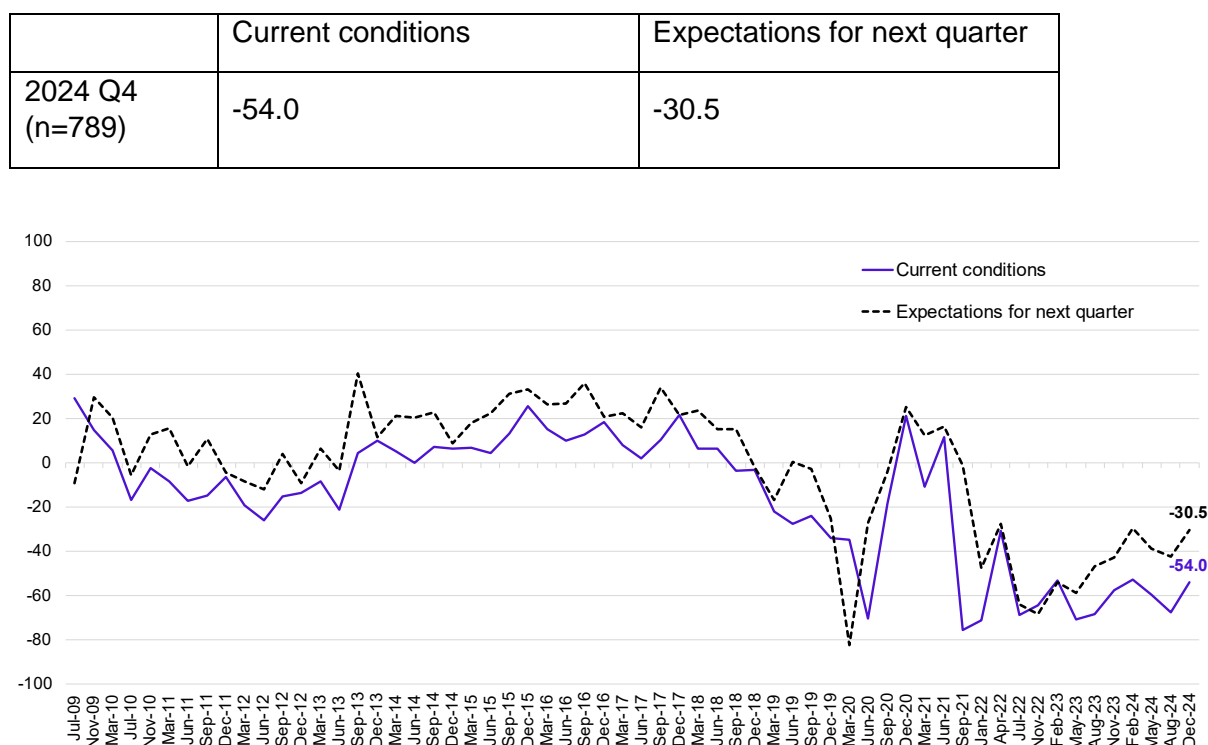
The Business Conditions Survey is the flagship research product of Business NSW. It is conducted on a quarterly basis to gauge business confidence, identify challenges facing the business community and seek business feedback on topical matters. On average, each survey receives about 800 responses from 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 two surveys conducted in the 2024-25 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 13 consecutive quarters. Following two quarters of decline, the Business Confidence Index has staged a sharp rebound in the December quarter. The latest reading of -54.0 is just below the reading of -52.9 at the start of 2024.

**Figure 1: Business Confidence Index**

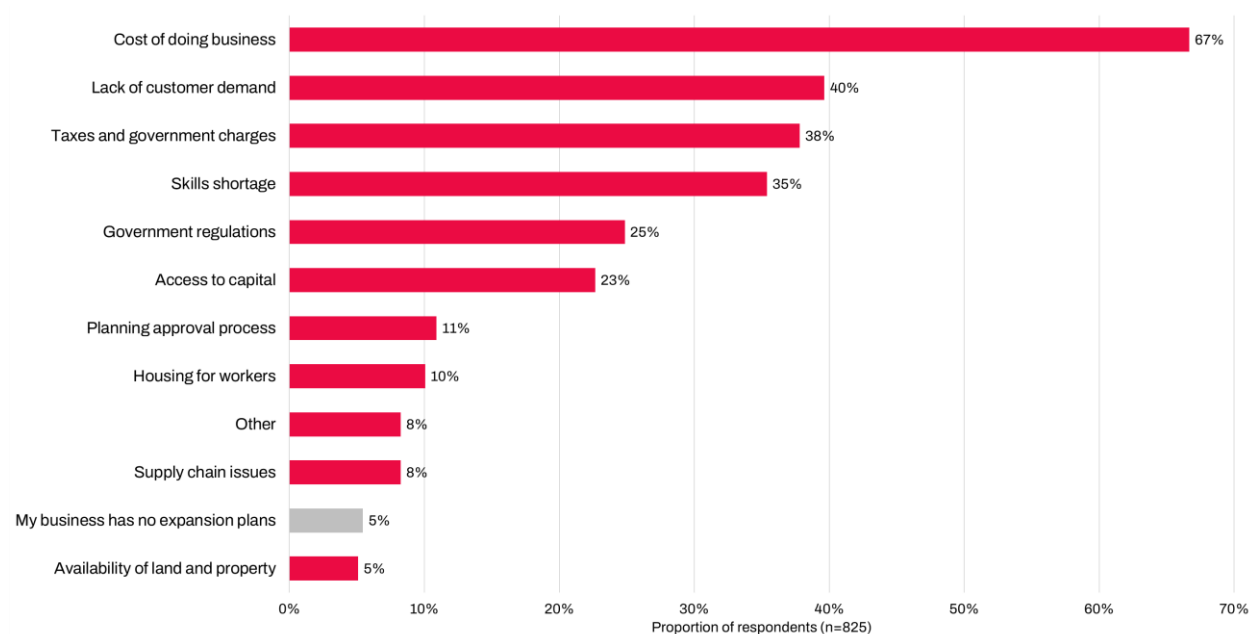


Source: *Business Conditions Survey (December 2024)*, Business NSW

## Barriers to Business Expansion

Due to a sizeable gap between the supply and demand for goods and services that emerged during the pandemic, inflation has been a persistent economic challenge. Inflation is not only affecting household budgets, but also constraining business expansion as high operating costs erode profits. The cost of doing business has been the most common business barrier, according to surveys conducted by Business NSW in the past two years. In the August survey, 67% of respondents consider the cost of doing business as a barrier to business expansion.

**Figure 2: Barriers to business expansion**



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

Source: Business Conditions Survey (*August 2024*), Business NSW

## Concerns about business costs

Over the past two years the top four business cost categories have remained consistent with insurance holding the top spot followed by taxes, levies and other government charges. Energy cost concerns have slowly slipped out of the top three, allowing wages to jump into the top three.

**Figure 3: Business cost concerns over time**

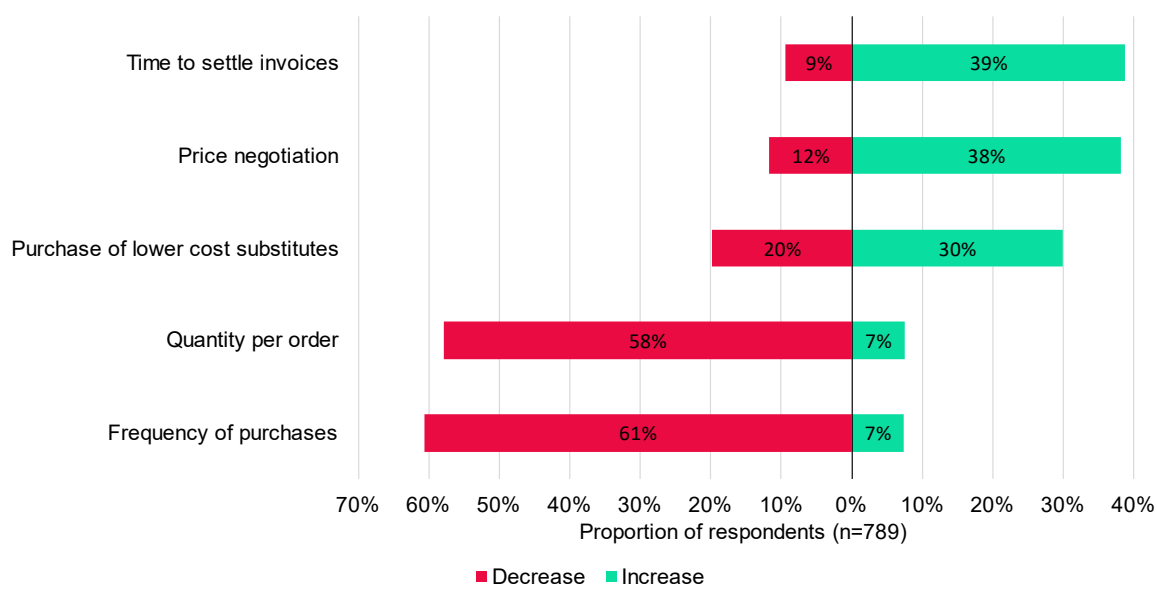
Q1 2023	Q2 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Energy cost	Insurance cost	Insurance cost	Insurance cost	Insurance cost	Insurance cost	Insurance cost
Insurance cost	Energy cost	Energy Cost	Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges
Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges	Energy cost	Energy cost	Energy cost	Wages
Wages	Supplier cost	Wages	Wages	Wages	Wages	Energy cost
Supplier cost	Wages	Supplier cost	Transport cost (including toll charges)	Supplier cost	Supplier cost	Supplier cost
Transport cost (including toll charges)	Transport cost (including toll charges)	Transport cost (including toll charges)	Supplier cost	Transport cost (including toll charges)	Transport cost (including toll charges)	Transport cost (including toll charges)
Rent	Rent	Rent	Loan repayments	Loan repayments	Rent	Rent
Loan repayments	Loan repayments	Loan repayments	Rent	Rent	Loan repayments	Loan repayments

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

## Customer Behaviour

In the lead-up to Christmas, NSW businesses are seeing a reduction in overall customer demand (quantity per order and frequency of purchases) and an increase in customers price-sensitivity (price negotiation and purchase of lower cost substitutes) compared to the same time last year. In addition, 39% noted an increase in time to settle invoices by their customers.

**Figure 4: Change in consumer behaviour compared to the same time last year**



Source: *Business Conditions Survey (December 2024)*, Business NSW

# RECOMMENDATIONS - THE NSW BUDGET 2025-26

Business NSW (BNSW) 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

## Red Tape

Business NSW, as the leading advocate for business in the state, has long recognised the importance of cutting red tape to create a more dynamic and competitive environment. Government red tape, as defined by Business NSW, refers to the unnecessary administrative and regulatory burdens imposed on businesses due to poorly designed and implemented government regulations and rules. Examples of red tape include duplication between different level of government, prescriptive and/or lacking clarity regulations, excessive record keeping and reporting requirements and unnecessary compliance activities.

Government red tape remains a pressing challenge for businesses in NSW. Excessive regulation and administrative burdens stifle growth, discourage innovation, and increase operational costs, particularly small and medium size enterprises.

In early 2025 Business NSW will be publishing its “Seeing Red: NSW’s business environment” which explores the far-reaching effects of red tape across multiple sectors, highlighting the most affected industries and providing insights into the rising operational costs businesses face due to regulatory demands. The report also highlights challenges the small businesses face with the development application process.

## Regulatory and compliance requirements

Despite the NSW Government’s efforts to streamline regulations, the overall regulatory burden continues to grow, disproportionately impacting SMEs. Results of our surveys show that:

- In November 2024, regulation and compliance was ranked second most challenging aspect of running business in NSW in the current economic environment. This is a dramatic spike from being ranked sixth in November 2023.
- Three in five (63%) businesses that responded in May 2024 deemed the level of regulatory requirements to be on the tough side, up from 52% in August 2023.
- The percentage of small business respondents perceiving regulations as tough nearly doubled in 10 months (from 35% in August 2023 to 61% in May 2024), and those finding it excessive ballooned from 1% to 17%.
- In August 2024, more than one in five small businesses reported that regulations were keeping them from expanding.
- 41% of small businesses are considering selling or closing because of regulatory and compliance requirements, compared to 36% of medium businesses and 19% of large businesses.

As global competition intensifies and businesses strive to remain competitive, it is essential for NSW to eliminate excessive red tape. This will unlock the potential for economic growth, foster innovation, and enable businesses to thrive in a less restrictive environment. Business NSW advocates for reforms that simplify regulatory processes, reduce duplication, and ensure that rules are clear and fair. This approach allows businesses to focus on their growth and contribute to the state's prosperity. By addressing these issues, NSW has an opportunity to set a new standard for regulatory reform, creating a more dynamic and competitive business environment that supports long-term economic success.

## Recommendations<sup>1</sup>

To reduce red tape, the NSW Government should adopt a comprehensive approach:

- Make regulatory and government administration reduction a key focus of small business strategy at both state and federal levels
- Commit to a NSW government review of regulatory burden to identify areas where small business administration can be removed, including at LGA level.
- Increase funding to Service NSW Business Bureau to ensure that it can assist businesses in these challenging times.

### **Reforming NSW's Development Application (DA) system: a path to simpler, faster approvals**

The planning system has been in sharp focus this year, being cited for many of NSW's housing problems. However, the system is also letting down small businesses. The current DA process imposes substantial regulatory burdens that hinder business growth and innovation.

Business NSW's consultations with businesses revealed that the current complexities of the DA process for change of use applications in NSW imposes significant challenges on small businesses.

Small business owners often lack the knowledge and resources to effectively navigate the regulatory framework governing DAs in NSW, leading to confusion and mistakes in DAs.

Key issues identified are not new, however they are important to address:

- Variations in requirements between different local councils add another layer of complexity.
- There is insufficient support for small businesses to determine whether a proposed change of use can bypass a DA, and during the DA process itself.
- Approval times for simple change of use DAs are excessively long, frequently exceeding six months.
- The cost of preparing and submitting a simple change of use DA can be prohibitive.

The cumbersome DA process discourages small businesses from pursuing new opportunities or expanding their operations. The risk and uncertainty associated with lengthy and costly applications deter entrepreneurs from innovating or investing in new ventures.

Delays and added costs not only affect individual businesses but also have broader economic implications. Slowed business growth contributes to reduced employment opportunities and decreased economic activity within local communities.

## Recommendations

To reduce the regulatory burdens on small businesses associated with a change of use DA process, the NSW Government should consider:

- Introducing a preliminary (AI) assessment system where businesses can submit a simplified form to determine whether a full DA is necessary for their proposed change of use
- Implementing a more straightforward, transparent process with clear guidelines to facilitate easier compliance with development requirements, such as implementing an AI Planning Portal
- Introducing fast-track approval pathways for change-of-use applications, especially those with minimal environmental impact or minimal change of use.

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<sup>1</sup> These recommendations may change before publication of the report based on further analysis and stakeholder discussions.

## Tax reform

Tax reform is critical to ensuring NSW becomes more productive and prosperous, despite the inherent challenges demonstrated via various debates around tax cuts. Business NSW acknowledges that meaningful change requires collaboration between federal, state and territory governments, recognising the political complexities involved.

The two big taxes that have been a drain on our economy have been stamp duty and payroll tax. Both are taxes that punish positive activity. They are a handbrake on the dynamism of the economy. Payroll tax stops businesses from expanding further or making them choose between people or capital. Stamp duty stops the people that the businesses hire from being able to easily buy a home closer to their new job, impacting the mobility of our workforce and putting undue pressure on other parts of our economy through excessive travel distances and problematic travel patterns.

Payroll tax reform remains a key priority for businesses. With states, including NSW, heavily reliant on payroll tax for revenue – accounting for nearly a third of own-source funding – it significantly impacts emerging businesses' ability to invest in growth and workforce development. While alternatives like stamp duty are even less efficient, payroll tax remains a job-killing and wage-suppressing mechanism in urgent need of reform.

In reviewing payroll tax, it is worth considering an increase to the threshold to address the significant impact of inflation. Over time, inflation has outpaced payroll tax thresholds, resulting in many businesses, previously unaffected, now bearing a substantial tax burden. Given cumulative inflation of approximately 25-30% over the past 4-5 years, linking the payroll tax threshold to inflationary trends would offer a fairer and more sustainable approach.

As we acknowledged in our submission last year; **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."<sup>2</sup>*

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.

**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

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<sup>2</sup> <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.

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 the top of OECD rankings for dependence upon personal income tax (3<sup>rd</sup> at 40.1%).<sup>3</sup> Our corporate tax rate is tied for second-highest in the OECD at 30%.<sup>4</sup> 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).

## Recommendations

- Lower the payroll tax rate from 5.45% to below 5% and increase the threshold.
- Index payroll annually to ensure that bracket creep does not continue to impact business. If payroll tax was indexed to CPI since 2020, the threshold would be \$1,389,405.68<sup>5</sup>
- Continue to reduce the red tape burden on business by streamlining payroll tax administration.
- Institute 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 payroll tax– such as working together with Commonwealth and State governments to replace payroll tax with an increase in consumption tax (GST).

Further recommendation: The Commonwealth and State Governments must come together through the Council of Federal Financial Relations (CFFR) to commence a standing agenda of tax reform, with a focus on capping the overall tax burden that SMEs face as a percentage of their revenue. This recommendation will also be reflected in our Federal Budget submission.

The NSW Government should:

- Commit to modernising the Australian tax system to make it simple, efficient, and fair.
- Commit to comprehensive tax reform, including reform of Federal-State arrangements, with an aim of reducing or eliminating unproductive taxes on business such as stamp duties, insurance taxes, and payroll taxes.
- Create a Tax and Federation Reform Commission to provide considered advice on reform options. As well as tax reform, the Commission would be tasked with recommending opportunities for improved delineations of federal and state spending responsibilities.
- Reduce the company tax rate to 25 per cent for all businesses to enhance the competitiveness of Australian businesses versus international competitors. With the corporate tax rate at 30 per cent, Australian businesses have become less and less competitive with counterparts in other OECD countries.
- Broad raise in GST to balance.

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<sup>3</sup> 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.

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

<sup>5</sup> This was figure was determined through the RBA's Inflation calculator, comparing 2020 to 2023; <https://www.rba.gov.au/calculator/annualDecimal.html>

## 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*<sup>6</sup> highlighting the issue and providing recommendations towards reform of the system that would make the system more workable for our members. Throughout 2024 we have highlighted stories of our member experiences with insurance, with some experiencing a year-on-year doubling of premiums.

Over the last five 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. As we have stated in previous submissions and will continue to articulate, since 2019, insurance has been rated at the number one cost concern in almost every Business NSW's Business Conditions Survey. It has been the number one issue over the last six quarters. Businesses in NSW consider insurance to be a more severe driver of cost pressure than energy, tax, rent and wages. The cost rises are often unpredictable and a compulsory part of doing business. Insurance is a business cost that has risen considerably in recent years, putting pressure on the competitiveness and viability of Australian businesses, especially smaller 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 Australiana such as camping and caravanning sites and outdoor recreation centres, face choices about whether to continue operating. For example, a small sample of members in early December, Business NSW asked 'considering the level of your current business insurance, are you fully covered for a catastrophic event?' 36% said 'yes' and 64% said 'no'.

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

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<sup>6</sup> 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>

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 last year 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 NSW Government and members to ensure that the reformed system is designed equitably.

The recommendations from the report remain live and actionable.

## **Recommendations**

- NSW Government accelerate 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. Every day that the reform in this space does not take space, businesses are going without insurance.
- 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. We acknowledge the Government’s work to ensure that businesses do not need the insurance while tendering but right fitting insurance is important.
- 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 competition, where the 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 environment remains 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

In 2024 we conducted our largest skills survey in over two years, gaining our deepest understanding of our member experiences with employees, the training systems that support them and their experiences in the workforce. This analysis culminated in our *State of Skills 2024* Report. Our recommendations are based on our research and member experiences from the survey.

Part of this analysis has reaffirmed our previous finding that upskilling existing staff and access to workers with relevant skills feature as the top two priorities for NSW employers in enhancing productivity.<sup>7</sup> The NSW Productivity Commission's 2021 *Rebooting the Economy* White Paper recommended ensuring that the State's education and training system is attuned to the state's economic landscape, accessible to learners, and accountable for its outcomes.<sup>8</sup> To ensure NSW does not fall behind, we need to invest in a skilled and capable workforce. We need to build flexibility and resilience into our education and training system. We need to ensure our priorities for education and training align with the state's current and future skills needs.

The Vocational Education and Training (VET) sector serves a critical role in the NSW economy. It provides pathways to education and work, and helps ensure that businesses have access to the skills they need. 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. They will be essential if we are to keep NSW on track for productivity and prosperity.

### Meeting skills needs across NSW

Skills shortages remain a feature of the NSW economy. The Business NSW 2022 *Workforce Skills Survey* previously found that 93% of NSW employers struggled to meet their skills needs. This was up from 51% in 2019, and well above the level of 39% in 2017. The 2024 survey found that many NSW employers continue to experience a skills shortage, with 77% of survey respondents reporting they had considerable difficulty in recruiting, or were unable to recruit the people they need. This figure was 81% for employers of five or more staff. Shortages were particularly acute in sectors such as healthcare, manufacturing, hospitality, and across the skilled trades. More than 80% of employers in the Hunter, Western NSW, Western Sydney and Riverina Murray regions continue to experience significant difficulty in meeting their skills needs. The incidence of employers facing a skills shortage in the Mid North Coast, Riverina Murray, New England and North-Western NSW was 10% higher for firms with five or more employees.

The Business NSW *State of Skills 2024* report found that 38% of NSW employers anticipated significant negative impacts through being unable to meet their skills needs. A further 4% of respondents to the 2024 survey indicated their business may not survive if current circumstances continue. This is down from 10% in 2022, and closer to the 2% of respondents in 2019. Findings from the report point to the emergence of a 'multi-speed economy', with smaller businesses coping with shrinking margins amid tightening economic conditions. While labour market conditions appear to be easing in some sectors, many of the associated challenges that NSW businesses face still remain.

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<sup>7</sup> Business Conditions Survey (*December 2024*), Business NSW.

<sup>8</sup> NSW Productivity Commission (2021). *Productivity Commission White Paper 2021: Rebooting the economy*. Sydney, Australia: NSW Productivity Commission.

NSW employers face significant location-based challenges that impact on their ability to meet skills needs. Geographical location itself posed a challenge for 27% of NSW employers (29% of those facing a skills shortage), with many struggling to attract workers to regional locations. Difficulty accessing relevant local training opportunities also remained a challenge for 17% of employers. These challenges are accompanied by a range of follow-on impacts for regional communities. Employers also found it difficult to attract workers to remote locations, putting even greater pressure on existing staff challenged with maintaining service standards across regional NSW.

The recent review of NSW's VET system found substantial scope for improvement in helping employers meet their skills needs. The Review emphasised the value of place-based training initiatives in ensuring regional communities have access to the education and resources they need. The *NSW Skills Plan* aims to establish a new regional skills planning model that embeds stronger community-based decisions and supports collaboration, connection and innovation within local communities. The Review recommended the establishment of industry compacts as part of the skills plan. These compacts would see local employers, training providers, and community organisations working together on collaborative programs and initiatives in meeting skills needs. The Review also recommended the establishment of a *Regional Skills Fund* for incentivising innovation, collaboration and the development of local solutions.

Findings from the 2024 *Workforce Skills Survey* reflect the broader challenges facing NSW's economy, including ongoing skills shortages, especially in regional areas, and the need for more responsive and flexible training programs. The NSW VET Review affirmed the value of evidence-based decision-making at both the state and local level. 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 NSW 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.

## **Strengthening investment in VET**

NSW needs a vibrant and productive skills ecosystem if we are going to be able to meet our skills needs now, and in the future. The state's vocational education and training (VET) system needs to keep pace with current and future workforce requirements. It must be responsive to the needs of both employers and students. Substantial investment in vocational education will be essential if NSW is to sustain a skilled workforce in the longer term.

The NSW education and training system is instrumental to productivity and prosperity. TAFE NSW has an obvious role to play in this. TAFE should serve as the gold standard for vocational education and training in NSW. It should serve as an example of excellence nationally and internationally. The NSW Government should ensure TAFE NSW serves as a leading example for VET, ensuring quality, consistency, and industry relevance. Strategic investment in facilities will also be essential in ensuring TAFE remains at the heart of regional communities.

There remains scope for ensuring the courses funded through the *Smart and Skilled* program are able to keep pace with current and future labour market demands. Providers need certainty if they are going to be able to ensure the quality and relevance of their programs. They need confidence in NSW's education and training system in order to innovate. The volatility and uncertainty associated with the *Smart and Skilled* program in its current form remains an impediment to quality, innovation and scale in our education and training system.

Other opportunities for improving *Smart and Skilled* include simplifying the system for learners and employers, aligning training subsidies with industry needs, and enhancing the quality, availability and relevance of vocational education and training (VET) across NSW. They include making eligibility rules clearer for both students and employers. They also include improving incentives for training that caters to working learners, regional students, and students with carer and other responsibilities. Other opportunities for improvement include simpler fee structures, clearer eligibility criteria, and more transparent information so students can more easily navigate the options available to them. Empowering students in making informed decisions in their preferred destinations for education and work has a wide range of benefits including improving workplace outcomes, widening participation and improving program completion rates.

NSW's 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 is due to release findings from the recent *Strategic Review of the Australian Apprenticeship Incentive System*. The review report 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. The NSW Government needs to ensure that NSW Government support for apprentices and trainees builds on findings from this review, making the most of strategic investment opportunities in apprenticeships and traineeships in NSW.

## Recommendations

- Ensure TAFE NSW serves as the gold standard for VET, ensuring quality, consistency, and industry relevance, in line with recommendations 1, 2 and 3 of the NSW VET Review.
- Ensure strategic investment in TAFE facilities, particularly in regional communities, in line with recommendation 21 of the NSW VET Review.
- Ensure substantial ongoing investment in an enhanced and streamlined *Smart and Skilled* program.
- Ensure State Government support for apprentices and trainees builds on findings from *The Strategic Review of the Australian Apprenticeship Incentive System*.

## Meeting regional skills needs

Employers in regional NSW are facing particular challenges in meeting their skills needs. There remains a need for stable, adequate funding to ensure the provision of high-quality training, especially in rural and remote areas and in courses with higher delivery costs. Investment in TAFE will be essential in ensuring adequate training standards, industry-relevant courses, and equitable access to learning opportunities across the state. The NSW Government should ensure vocational education and training opportunities are available state-wide through proceeding with recommendation 9 of the NSW VET Review through implementing a new *Student Access and Training Commitment* to improve access to training that is both local and relevant (as part of the TAFE NSW Charter). These efforts should be supported through implementation of the new *Regional Skills Fund* incentivising innovation, collaboration and the development of local solutions that are fit for purpose.

Teacher housing is vital to attract and retain teachers at our rural schools. Teachers, counsellors and other support staff play a vital role in sustaining learning and wellbeing in regional and remote areas. The NSW Government owns and manages approximately 1,400 teacher housing properties across the state. There remains opportunities to expand the current range of benefits and incentives

for teachers in regional and remote areas, in line with the *Rural and Remote Education Implementation Plan* as part of the *Rural and Remote Education Strategy*.

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.

### **Recommendations**

- Ensure local and relevant training opportunities are available across the state through implementing the *Student Access and Training Commitment* as part of the TAFE NSW Charter.
- Incentivise innovation, collaboration and the development of local solutions that are fit for purpose through implementing the *Regional Skills Fund* recommended in the NSW VET Review.
- Expand the range of benefits and incentives for teachers in regional and remote areas, in line with the *Rural and Remote Education Implementation Plan* as part of the *Rural and Remote Education Strategy*.
- Ensure the *Regional Industry Education Partnerships Program* continues to support and promote education and training opportunities in regional NSW.

## **Widening participation**

The NSW labour market still has tremendous un-tapped potential. Initiatives like the *Start Strong* program and *Early Childhood Education Quality Initiatives* have the potential to make early childhood education more accessible and boost participation in quality preschool programs. Strategic investment in supporting access to affordable childcare through initiatives of this kind will help unlock a valuable labour resource that is readily available.

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.

### **Recommendations**

- Invest in childcare funding to make more places available to help parents re-enter the workforce, with retention strategies and learning pathways to build and retain the skilled workforce needed to support families and children in their early years.
- The NSW Government should ensure ongoing support for the *Educational Pathways Program*.

## Leveraging industry engagement

Industry engagement is vital in ensuring the quality and relevance of vocational education and training. There remains substantial scope for employers to play a greater role in informing the strategic direction of education and training across the state. This includes informing both current and future skills needs over a two-to-five-year horizon. Opportunities for leveraging industry engagement include in the development and use of shared data assets, and through collaborative initiatives for bringing sector stakeholders together, as recently demonstrated through the *NSW Digital Skills and Workforce Compact*.

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. They also facilitate mobility between vocational and higher education. Innovations of this kind are of 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. The NSW Government has an opportunity to play a leading role in this context through the continued development of training institutes, centres of excellence, skills hubs and other collaborative models for engagement, education and training.

### Recommendations

- Develop centralised, publicly available data assets in partnership with industry in line with recommendation 7 of the NSW VET Review to ensure a comprehensive 4-year skills and jobs look-ahead.
- Establish industry-specific and place-based Compacts with the aim of helping employers across NSW meet their skills needs, in line with recommendation 8 of the NSW VET Review.
- The NSW Government should continue investing in collaborative models integrating industry involvement with education and training, particularly in regional NSW.



## **PILLAR 3: CONFIDENT IN NSW**

### **Containing the cost of doing business**

#### **Energy**

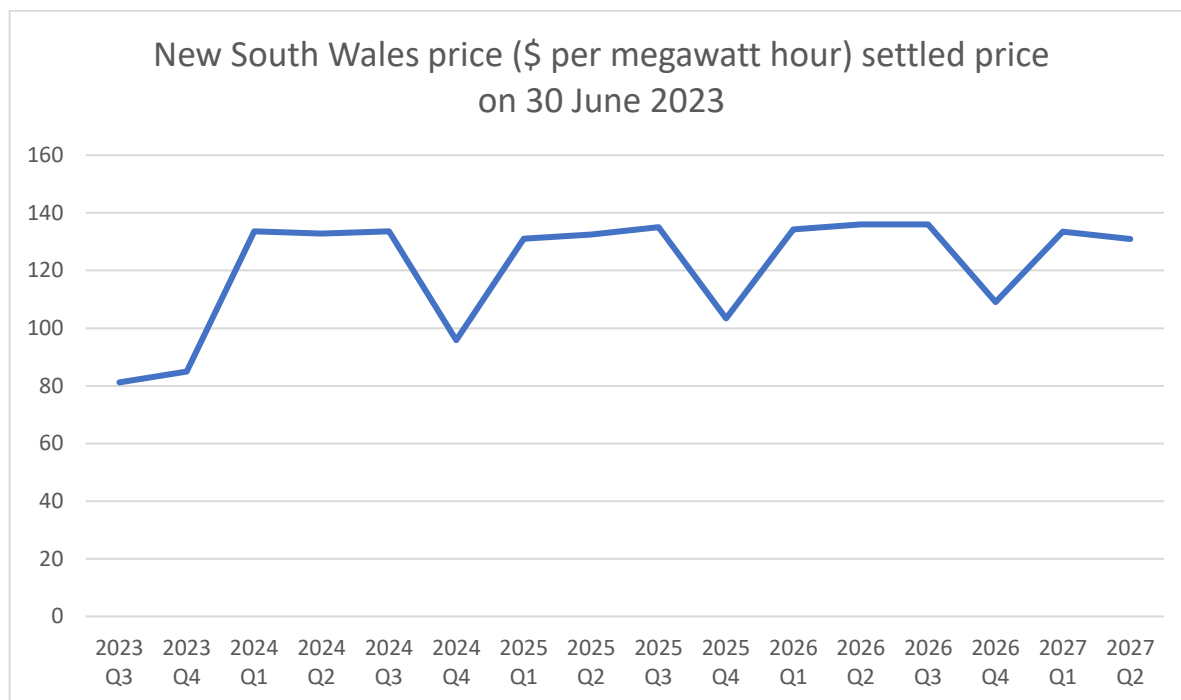
##### **Energy outlook**

The energy transition in NSW is well underway and investments in generation and storage capacity continue to increase, and the pipeline of renewable developments continues to expand. Australian Energy Market Operator's (AEMO) 2024 Electricity Statement of Opportunities (ESOO), a 10-year outlook of investment requirements to maintain reliability in the National Electricity Market, has forecast improved reliability for NSW compared to the 2023 report. This improved reliability is due to the quickened progression of new wind, solar, battery, gas, and pumped hydro developments, The increased investment of larger rooftop solar systems by consumers, the new 365km HumeLink transmission line and the two-year extension on the closing of the Eraring Power Station.

While progress has been made in the last year, businesses are still currently in need of more affordable and reliable energy. Market outlooks do not foresee reductions in wholesale electricity prices (Figure 5) in NSW over the four-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.<sup>[68]</sup> In the short term ESOO reliability risks are forecast higher than the relevant reliability standard in NSW over this next summer due to weather, in 2027-28 when Eraring Power Station closes, and from 2031-32.. In the short term ESOO reliability risks are forecast higher than the relevant reliability standard in NSW over this next summer due to weather, in 2027-28 when Eraring Power Station closes, and from 2031-32.

The high energy costs and low reliability are negatively impacting many of Business NSW's members, with businesses struggling to pay their energy bills and unable afford to upgrade operational equipment to lower energy costs. Energy costs together with high-cost labour, increasing insurance cost and climbing real estate prices (or rentals) has also caused Australia to become very expensive for goods and services impacting our local manufacturing market, and Australia competitiveness in global markets.

**Figure 5: 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.

### Energy infrastructure

Observing delays to major new projects, from Renewable Energy Zones, large-scale transmission lines to Snowy Hydro 2.0, it is hard for the business community to share their confidence in the transition and delays are likely to deteriorate reliability outcomes too. The ESOO reported that when considering only those energy supply infrastructure developments that have made sufficient progress against AEMO's commitment criteria, reliability gaps are forecast in NSW in the next decade. Extending the closing of Eraring for two years improves reliability in the short term but expected investments in new generation, storage and transmission must be delivered on time and in full to maintain a reliable supply of electricity to homes and businesses.

As such, the NSW Government must overcome any barriers from community consent to supply chains and labour markets to NSW's sluggish planning system, which are all slowing new infrastructure builds. Unless those constraints can be overcome, high energy costs and regular blackouts could become the norm.

Then NSW Government released the **NSW Electricity Supply and Reliability Check Up** in 2023 to address such barriers. They highlighted the delivery challenges that NSW has encountered across its energy infrastructure portfolio. The **NSW Government's 2024 response** recommended accepting the path moving forward. The response highlighted plans to change the structures of several key bodies tasked with developing the electricity system – focusing them on a more effective and rapid delivery of projects. It also highlighted that progress made to date on energy transition could be jeopardised if bills continue to rise and reliability deteriorates. As of November

2024, 22 of the 52 Check Up recommendations have been completed, and activities to address an additional 30 are in progress.

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. This investment is needed at a time when business costs across the board are surging. Business NSW wants to know that the transition is being delivered efficiently, and unnecessary extra costs are not being incurred 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. 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, and already costing businesses. Recent findings showed that small businesses in NSW with an annual consumption of 40 MWh could pay up to \$7,716 more due to three-year transmission delays – representing 23% higher bills than if transmission was delivered on time<sup>9</sup>.

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. This would remove businesses 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 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.

## Recommendations

- In partnership with the Commonwealth and other states, the NSW Government should take additional steps to cover up to 10% of the cost of the transmission infrastructure build out to support Renewable Energy Zones, removing those costs from user bills.
- Government covers the cost of any further cost modification on the transmission network to remove this extra cost from bills and expedite delivery.

## REZ planning approvals

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 for the government's energy supply and decarbonisation ambitions to be met.

To streamline and fast track planning approval for the REZs, the NSW Government recently released the Renewable Energy Planning Framework. This framework is to help guide stakeholders through the transition to renewable energy, support the legislated net zero targets and secure an affordable supply of electricity for NSW. The framework provides a suite of policies that will guide

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<sup>9</sup> Nexa Advisory, July 2024, The consumer cost of transmission delays. <https://nexaadvisory.com.au/web/wp-content/uploads/2024/07/Nexa-Advisory-Consumer-Cost-of-Transmission-Delays-Report.pdf>

the planning and assessment process for renewable energy development and infrastructure. The renewable energy development types include solar, wind, transmission, and hydrogen.

The guidelines providing a planning framework for each renewable type, where wind energy, solar energy and battery energy storage systems have been suggested to follow State Significant Development planning and approval pathway. Only transmission lines have been identified to following the planning and approval process as a Critical State Significant Infrastructure. Whilst both processes undergo a rigorous development assessment process including extensive community consultation and a detailed consideration of any environmental, social and economic impacts, SSDs take much longer on average than CSSIs.

Another planning bottleneck in REZ planning and approval processes is the environmental approvals. The NSW Government should consider adopting a strategic biodiversity assessment approach for environmental approvals. The introduction of REZs as covering a landscape scale area presents an opportunity to streamline certain approvals that would assist one or a number of projects in a similar area. The Cumberland Plain Conservation Plan in Western Sydney is a good example of how upfront biodiversity approvals provided by the government streamlined and fast-tracked development for housing. This allows for the best outcomes for both development of renewable energy infrastructure projects and biodiversity conservation.

The government needs to be strategic in their reform and proposed changes to the existing biodiversity conservation framework under the BC Act 2026 and Local Land Services Act 2013 (LLS Act). In August 2024, the government announced the BC Act Amendment Bill showing a range of changes to the legislation. The regulations under the BC Act Amendment Bill are yet to be released, causing uncertainty in how the legislation will impact development.

The current framework is complex and allows for different biodiversity outcomes depending on the proposed development or use of land. This has resulted in proponents of clean energy or transmission projects being subject to more costly offsets in circumstances where similar clearing for a different purpose (e.g. farming) does not attract the same onerous offset obligations.

## **Recommendations**

- Planning and environmental approvals for major energy infrastructure should be streamlined in line with recommendations of the NSW Electricity Supply and Reliability Check Up in addition to the recommendations below:
  - If government want to accelerate the transition to meet their set targets and provide business and the people of NSW with reliable affordable energy, the selected REZ generation projects should be considered for Critical State Significance Infrastructure (CSSI).
  - Adopt a strategic biodiversity landscape-scale assessment approach under the relevant legislation.
  - Government to ensure draft regulations in the under the BC Act and Local Land Services Act 2013 (LLS Act) is thoroughly consulted with industry before finalisation and provide a simpler most cost-effective offsetting approach.

## Supporting business with immediate energy cost solutions

Energy is once again a primary source of cost concern for businesses. Since the sharp rises in energy prices that have occurred since 2022, energy has risen in Business NSW's Business Conditions Survey on cost concerns (Figure 3). 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 nevertheless 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.

One solution for some businesses in managing their energy bills – especially those in a leased premises unable to install solar – is investing in a smart meter. The theory is that higher prices at peak times will encourage consumers to shift their electricity usage away from peak times to times when electricity prices are cheaper – making more efficient use of the poles and wires network.

The Australian Energy Market Commission (AEMC) has made a draft rule that would accelerate the deployment of smart meters to energy customers by 2030. This would bring to life foundational recommendations from its smart meter review and place consumers at the forefront of the transition to net zero. In NSW, the cost of installing a smart meter is approximately \$600–\$800. However, the cost can vary depending on the type and model of the meter, the complexity of the installation, and the labour and travel costs of the installer. This can be very costly to small businesses, and Business NSW urges government to consider finding or subsidising small business to be able to invest in smart meters. While Business NSW acknowledges the limitations of smart meters to control state-wide usage, they can still provide immediate cost relief for certain businesses.

Business NSW is still concerned by slow progress on business energy productivity measures and the lack of a centralised support system to businesses, especially for SMEs managing their energy costs. We are pleased to see the release of the National Energy Performance Strategy but still recognise current settings are not effective in helping SMEs in lowering their energy costs and electrifying.

Since the cessation of the Commonwealth-funded Business Energy Advice Program in 2022, businesses have been left without a trusted, independent, free source of advice about how to lower their energy costs – let alone 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. This would ensure smaller businesses are not left out, as governments and industry target 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.<sup>10</sup> As a peak body which has

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<sup>10</sup> 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](https://www.businessnsw.com/content/dam/nswbc/businessnsw/thought-leadership/November_2022_ECA_Survey_Report_low-res.pdf); especially p. 35

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 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.

## 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.<sup>11</sup> Narrabri, though 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.

NSW has many gas-reliant businesses who cannot electrify all their heating, refining and reforming processes required in their operations. In August 2024, BNSW published their latest Business Conditions Survey, which showed that 18% of all businesses and 64% of Accommodation and Food service businesses are still totally reliable on gas as an energy source.

Business NSW has been a strong advocate of further gas resource development during the period of energy transition and for the long-term energy security of NSW. Gas will also aid NSW's energy security and reliability by catering to both basic energy demands and peak loads, reducing the risk of shortages and price spikes to enhance energy security for all consumers.

In 2024, the NSW Government proposed a renewable fuel scheme in the future. This creates an opportunity to include renewable gases such as biomethane and e-methane. Biomethane is a renewable and carbon-neutral replacement for natural gas that can aid in the decarbonisation of Australia's gas network whilst supporting those gas reliant businesses of NSW.

## Recommendations

- The Renewable Fuel Scheme and any future renewable fuel strategy for NSW should include renewable gases such as biomethane and e-methane to support these businesses that use gas.

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

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<sup>11</sup> <https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/015-Running-on-Empty-Report-7-PRINT.pdf>



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**

This last year has seen the delivery of impressive and productivity creating infrastructure such as the Sydney Metro. This is quite an achievement considering the 2023 tough decisions taken about major infrastructure projects in NSW. Both the Commonwealth and NSW Government were forced to defer or cancel several projects in the face of the workforce and supply chain capacity crunch Business NSW and others had been warning about.

Whilst 2024 has seen the delivery of more infrastructure across the state, government still needs to accelerate delivery and ensure a consistent healthy pipeline for the future. The NSW 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. They can also keep improving their procurement processes for infrastructure to save on costs and delivery times and allow growth of the market.

The timely delivery of certain infrastructure projects across the state is vital to a number of NSW businesses. Additionally, optimising and expanding certain infrastructure in regional NSW will need to become a priority in the near future with the development of the REZ's and NSW Government's regional plans to growth strategically important regional towns and cities.

## **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 unchanged and wants to Government focus on completing existing commitments rather than calling for new works that may not be achieved for more than a decade.

Whilst 2024 has seen some progress, the lagging 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 impacted development. More than half (51%) of NSW businesses have reported business a supply chain disruption in the first quarter of 2024, 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. There are six enterprise agreements for ports in NSW due to expire in December 2024/2025. These are located in Port Kembla, Newcastle and Port Botany. With this in mind, it is critical that both the Commonwealth and NSW Government work together to ensure businesses are not forced to incur further price hikes and delivery delays.

Ports and freight transport are critical to NSW businesses and the communities they serve. Regional businesses and others need accelerated delivery of freight transport projects. Additionally,

Government should to ensure opportunities from our NSW ports are fully released for businesses and for Australia competitiveness in imports and exports in global markets.

**Recommendation:**

- Accelerate the delivery of current critical transport projects that support freight including 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.
- Leverage freight capacity across all three major NSW ports (Port of Newcastle, Port Botany and Port Kembla) to support planned upgrades for freight transport to guarantee cost effective and timely import and export for NSW businesses.

## **Electrification of road transport**

Emissions from road transport make up the majority of some businesses' footprint. The renewed interest by 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 2023 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.

Additionally, government needs to support energy providers in finding solutions for current barriers or disincentives to buy and drive EV's. One issue that Ausgrid recently found a solution to is the ability to charge EVs in high density areas, where parking is limited, and many people cannot install a charger at home. Ausgrid recently revealed a new program retrofitting their poles in high density areas with chargers to support the uptake of EV drivers. Another barrier government should be considering solving, is the multitude of different apps required to charge your EV. There are about 15 different apps a driver needs to download in order to cover all the charger providers. The NSW Government should consider how this could be amalgamated through the Service NSW app to incentivise people and make it easier for older people to switch to driving EVs. We urge government to work with electricity providers to find and implement similar solutions to retrofitting poles with chargers to incentivise a rapid and efficient uptake of EV drivers.

### **Recommendation:**

- Provide a platform on the Service NSW app that includes all electric vehicle charging station across the state, assisting with EV uptake

## **Upgrade infrastructure for strategically important regional cities**

The NSW Government's regional plans identify cities that are strategically important to the ongoing growth and development of regional NSW. There are seven regional plans covering areas including the Riverina Murray, North Coast, Central West and Orana, Hunter, Central Coast, New England and North West and the Illawarra Shoalhaven Regions. The regional plans set a 20-year framework, vision and direction for strategic planning and land use to ensure regions have the facilities they need to continue to be vibrant places for people to live, work and visit.

However, many of these regions are already experiencing the impacts of aging infrastructure such as local roads, water and sewage. Businesses operations and growth potential are being impacted. Councils lack resources and funds to maintain and upgrade these growing regions. Government needs to investigate each region's infrastructure needs, now and into the future, to ensure businesses can thrive.

### **Recommendation:**

- Provide regional councils support to maintain and/or upgrade existing infrastructure such as roads, water and sewage.

## **Improve and expand digital infrastructure in regional NSW**

Digital infrastructure investments are transforming regional connectivity through expanded and more reliable internet coverage, bringing services up to metropolitan standards. The rollout of 5G networks in regional centres is accelerating business capabilities and enabling new technologies. Digital hubs are being funded to support the growing remote workforce, providing professional spaces and high-speed connections. Additionally, enhanced cybersecurity infrastructure is being implemented to protect regional businesses as they increasingly operate in the digital space, ensuring they can participate safely in the digital economy.

However, there are still many gaps in digital infrastructure across the state that need to be addressed for businesses to operate and expand to their full potential.

### **Recommendation:**

- Draft a NSW Digital Infrastructure Strategy that reviews the most important digital infrastructure gaps across the state and provides a pathway forward to ensure productivity is increased.

## 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 start ups to ensure their growth.

### Venture funding

In the lead up to the 2023 State Election our election manifesto called for the creation of a NSW based Venture capital (VC) fund. Since that report, we have engaged with key stakeholders across the industry to develop recommendations around the creation of a fund and the operating environment in which it will thrive.

We recognise that innovation is an essential driver of economic progress in NSW. It can increase productivity, create new business opportunities, and raise the standard of living. Innovation and Science Australia identified the biggest growth opportunities are to come from knowledge-intensive companies that innovate and export. They are the most profitable, competitive and productive businesses.

However, Australian Bureau of Statistics data shows only 45% of businesses in NSW reported innovation activity in the two years to 30 June 2023. NSW was outperformed by the Northern Territory (48%), Queensland (47%) and Victoria (47%). NSW accounts for more than 30% of the country's economic output, according to the Reserve Bank of Australia, 8% more than our nearest rival Victoria. Considering the size and complexity of our state economy, we can and must become number one on this measure.

The leading barrier to innovation, reported by one in five businesses in NSW, was lack of access to additional funding. Venture capital (VC) is a critical component of the economic success and innovation ecosystem in NSW. By providing essential funding to high-risk, early-stage businesses, VC enables startups to bring innovative products and services to market, fuelling job creation and fostering economic growth. This influx of capital is particularly important in sectors such as technology, healthcare, and clean energy, where substantial upfront investment is required to develop groundbreaking ideas. As NSW continues to position itself as a hub for innovation, VC serves as a key enabler, driving the state's competitive advantage in the global knowledge economy.

NSW is competing both domestically and internationally within the Asia Pacific region for its place in the VC ecosystem. It has distinct advantages, serving as the financial hub of Australia while also boasting beautiful natural features, from beaches to mountains, and attracting talent from across the globe.

Beyond financial backing, VC plays a pivotal role in accelerating the growth of emerging businesses by offering strategic guidance, mentorship, and vital industry connections. This holistic support enables startups to scale rapidly, access new markets, and attract further investment from global players. As NSW strives to lead in sectors like deep tech<sup>12</sup> and artificial intelligence, a strong VC ecosystem is essential to ensuring that local innovators can compete on the world stage, delivering long-term economic prosperity and solidifying the state's role as a global innovation leader.

Our research shows that:

- In 2023, NSW received over \$2.1 billion in VC investment, representing 61% of VC investment in Australia. NSW's funding dropped by almost half compared to 2022. This

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<sup>12</sup> Deep tech refers to technologies that are based on substantial scientific or engineering advances and have the potential to significantly transform industries or create entirely new ones.

followed global trends in decreased VC investment due to macroeconomic headwinds and geopolitical risks.

- Despite the state's large share of Australian VC investment, NSW lags per capita investments when compared to overseas jurisdictions. New Zealand and Singapore have similar population sizes to NSW, and both have greater VC investment per capita (six times greater for Singapore) and as a proportion of GDP or SDP (2.5 times greater for New Zealand).
- The NSW Government has few funding options available to businesses, limited to startups under four programs. Further, the current NSW Government has reduced funding to some programs and stopped funding others.
- The NSW Government's average annual commitment to VC programs (\$12 million) is a small amount compared to the investment by VC firms, and lower than government VC programs in Victoria (\$133.3 million) or Queensland (\$32.5 million).
- In NSW, there is a significant gap in funding between early-stage investments and the point where companies become attractive to traditional lenders. This is especially pronounced for deep tech, biotech, and advanced manufacturing.

The following recommendations to the NSW Government are based on Business NSW research, and extensive consultations and industry engagement.

## **Recommendations**

### **Policy changes**

- Create an NSW-based Venture Capital Fund that can be built over a decade. Set at \$100m per year, this fund will co-invest along the private sector and be potentially run by a private venture capital (VC) manager, or general partner (GP).
- Focus government VC funds on sectors with high strategic importance and potential for future economic impact. This includes deep tech, biotech, and advanced manufacturing
- Implement payroll tax relief and other financial incentives to reduce the operational burden on startups.
- Utilise existing R&D tax incentives more effectively through loan facilities and other financial mechanisms.
- Enhance government procurement policies to provide early-stage startups with critical contracts and revenue.

### **Regulatory reform**

- Streamline regulatory processes in sectors like medical technology to reduce approval times and encourage investment.
- Reform superannuation fund regulations to make VC investment more attractive.

## **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.

Business NSW has supported the initiatives launched in 2024 to help support SME participation into the procurement system, including the raising of the small business procurement to \$250,000 and reducing the insurance requirements during the tendering process. However, there are still additional initiatives that could be implemented to help continue this growth.

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

- Continue to 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.
- Implement relevant recommendations from the Procurement practices of government agencies in New South Wales and its impact on the social development of the people of New South Wales inquiry.
- 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.

### Recommendation

- Increase 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 NSW.
- Conduct review of the investment attraction process that NSW undertakes compared to other states to assess efficacy and make improvements where possible to ensure both value for money but also national competitiveness.

## Innovation Precincts

Earlier this year, Business NSW through the Innovation District Alliance supported the release of the report “The Role of Government in Innovation Districts” alongside the Committee for Sydney and the Property Council of NSW. Further, BNSW supports Business Western Sydney's ongoing work on innovation precincts and districts. The government is yet to implement a clear strategy, such as appointing a minister with a clear responsibility for innovation districts 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 drive 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.
- The Government consider the recommendations of *The Role of Government in Innovation Districts For the Innovation Districts Alliance May 2024*.



## PILLAR 5: THRIVING IN NSW

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

### Housing

Business continues to lead the Housing debate through the HousingNow! Alliance chaired by Business Western Sydney Executive Director David Borger. The alliance released an updated manifesto calling for the following recommendations that we support:

- A Coordinator General for Housing
- Set a clear roadmap for TOD affordable housing targets
- Enforcing housing targets
- Greater clarity for NSW affordable housing policy Set social and key worker housing targets to go alongside broader housing targets
- Reduce red tape for affordable housing delivery
- Rezone places of worship to allow housing
- Creating a prioritised pathway for university student accommodation
- Providing security for renters
- Priority infrastructure list to support housing

Some of these recommendations have already been announced, but we continue to watch their implementation and success. Access to affordable housing near workplaces, for example, is critical for business growth and sustainability, whether in Sydney's CBDs or regional towns. The persistent lack of housing, however, has become a significant business barrier, consistently raised by our members.

Steps to expedite planning approvals, encourage higher-density development near public transport, and boosting support for housing is positive progress. Despite the NSW Government's commitment to an affordable housing target, our state has continued to struggle to meet its housing supply.

More information on the asks and the alliance can be found at <https://www.housingnow.com.au/>

### The Visitor Economy

To ensure our state's Visitor Economy reaches its full potential, it is essential to request increased investment from Destination NSW beyond the current projected figure of \$91 billion by 2035 in the Visitor Economy Strategy.

The rapid growth of the Western Sydney region, coupled with the establishment of the Western Sydney International Airport, presents unprecedented opportunities to attract and accommodate visitors to the local economy. Realising this potential requires enhanced funding to support the development infrastructure, marketing initiatives, and visitor experiences tailored to the region. Increased investment would ensure the strategy aligns with regional expansion and leverages the area, such as the Western Sydney Airport as a gateway for tourism growth, driving significant economic and cultural benefits for NSW.

The Western Sydney Visitor Economy holds immense potential to become a major driver of regional growth, particularly with the development of the Western Sydney International Airport. To maximise this opportunity, a robust strategy is essential to activate the areas in and around the airport, including creating a seamless visitor experience, fostering tourism infrastructure, and leveraging the airport as a gateway to attract both domestic and international travellers. By integrating transport, accommodation, attractions and events, such strategy could ensure that the airport becomes a vibrant hub not only serving as a transit point, but also as a catalyst for economic and cultural enrichment for Western Sydney.

Shellharbour Airport's current designation as a metropolitan airport limits its ability to access critical funding for upgrades, such as runway enhancements, which are essential to its operation and regional connectivity. Rezoning Shellharbour Airport as a regional airport would address this issue, aligning its zoning with the needs and characteristics of the surrounding area. The rezoning would open the airport to qualifying for funding opportunities specifically designed to support regional infrastructure, ensuring it can meet growing demand, enhance safety, and bolster its role as a key transport hub for the Illawarra region, as well as contribute to regional tourism and its broader economy.

### **Recommendations**

- Increased investment from Destination NSW is essential, as the current projected figures in the Visitor Economy strategy must adequately reflect the rapid growth of Western Sydney
- The development of a comprehensive strategy, alongside targeted activation in and around the airport, is essential to capitalise on the Western Sydney region's investment in tourism
- Rezoning Shellharbour Airport as a regional airport would unlock critical funding for essential upgrades and help enhance its role as a key transport and economic hub for the Illawarra region.

### **Next steps**

Over the coming months, we will continue to work on these asks, building out further economic analysis to articulate the need for change and what it would mean for both Metropolitan and Regional NSW. We look forward to continuing to work with the Government to help NSW be the best state to live, work and play. If there are any policy specific questions please contact Mustafa Agha, Head of Policy, Business NSW at [Mustafa.agha@businessnsw.com](mailto:Mustafa.agha@businessnsw.com).

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