BUSINESS NSW

PRE-BUDGET SUBMISSION

2023-24 NSW State Budget

AUGUST 2023

Table of Contents

PRE-BUDGET SUBMISSION

Foreword

Business NSW welcomes the opportunity to provide a pre-Budget submission ahead of the 2023-24 Budget. As NSW's peak business organisation, ***Business NSW*** has almost 50,000 member businesses across NSW. We work with businesses spanning all industry sectors including small, medium and large enterprises. Operating throughout a network in metropolitan and regional NSW, ***Business NSW*** represents the needs of business at a local, state and federal level.

Business NSW acknowledges this is the first budget for the newly formed NSW Government following the 2023 June Economic update by Treasurer Mookhey. The recommendations within this submission are made with recognition of the constrained fiscal environment in which the government finds itself. The NSW Government's leadership and collaboration with business to this point, promising no new taxes and looking to support the SME sector is to be applauded.

Building both consumer and business confidence into the 2023-24 financial year is vital. Against headwinds of deteriorating business confidence, rising costs of energy and insurance and the short supply of housing, it is important that this budget continues to build NSW as the best state to start a business in, move a business to, or expand a business in. The focus for ***Business NSW*** and our members is to ensure that the conditions are right for businesses to continue doing what they need to do to thrive.

With an extensive infrastructure pipeline stretching delivery capacity, ***Business NSW*** has been supportive of the NSW Government's reviews of critical infrastructure since the election. ***Business NSW*** recognises that not all projects currently funded will meet their intended budgets and timetables. We have advised the various infrastructure reviews that a continued focus on productivity and wellbeing measures will ensure that capital expenditure is best targeted for the present and future.

Increased freedom and flexibility to safely get on with what business does best - and making sure future restrictions are avoided - consistently top both the biggest challenges for business as well as the action items they would like to see from government. We encourage the Government to seek ways to remove blockages, especially in streamlining and bringing consistency to the planning system, which impede businesses' ability to grow and become more productive. We especially encourage the automation and standardisation of basic statutory planning across the state to enable key-worker housing to be rolled out at scale.

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

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

Dan Hunter

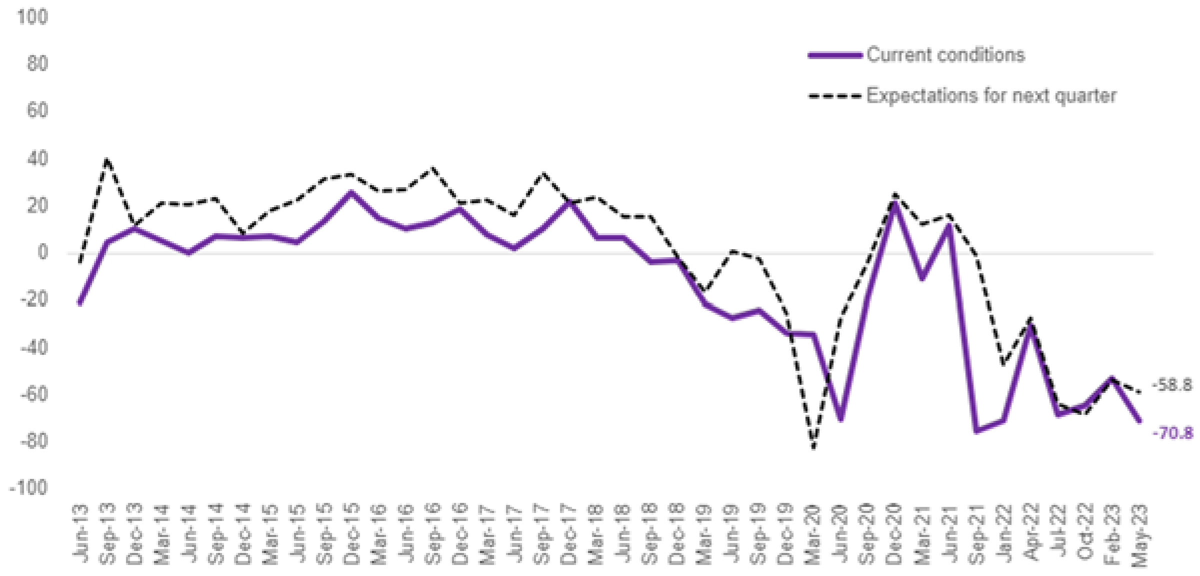
CEO
Business NSW

Current Business Conditions

The state of business in NSW

The Business Confidence Index compiled by ***Business NSW*** has been deep in negative territory since September 2021 (see Figure 1). Across the NSW business community, the number of pessimists has far outweighed the number of optimists. The latest reading for the June quarter of 2023 shows that business confidence was near its all-time low. Some businesses even reported that their recent trading conditions were worse than their experience during COVID lockdowns.

Figure 1: Business Confidence Index



Source: ***Business NSW***

Business confidence has been weak across all regions and all industries. Concerns regarding the impact of interest rate hikes have gradually intensified since the start of the RBA's monetary tightening cycle in May 2022. Businesses have been most concerned about the impact of higher interest rates on customer spending, with the self-rated level of concern averaging 8.4 (out of 10) from a sample of 989 survey respondents.

Amid a high-inflation environment, the rising cost of doing business has been a major challenge to business owners in NSW. As at May 2023, the top three business cost categories causing the most concern were insurance costs, energy costs and taxes, levies and other government charges. Rising energy prices have prompted one in two businesses surveyed to explore ways to reduce energy use or improve energy efficiency. However, more than 40% of surveyed businesses still had to absorb the higher energy prices by reducing their profit margin and more than 20% had to reduce staff headcount or work shifts.

Heightened financial pressures are also constraining business investment, even in essential areas. For example, ***Business NSW*** research found that one in three businesses have taken no actions to enhance cyber security management as they cannot afford such investment.

Although some regional areas are still reportedly dealing with worker shortages, overall demand for workers across the state is showing signs of moderation. The latest ***Business NSW*** survey found that only 15% of businesses had plans to hire additional staff in the September quarter, while 27% were already planning to cut staff. Job losses, or even an uncertain employment outlook, will weigh on consumer spending, which will in turn dampen business prospects.

The 2023 NSW Economic Statement

Business NSW notes the information provided by the Treasurer in the June Economic Statement.[1]

The cost-of-living crisis highlighted by the Treasurer is in part driven by a 'cost of doing business' crisis, which is putting businesses, especially smaller businesses, under strain, and causing them to pass on costs to consumers which adds to the cost of living. This is especially difficult as many small business owners are sole traders. They're living a dual crisis. Firstly, their ability to run a profitable business is being threatened through the cost of doing business crisis. Secondly, their household bills are also skyrocketing as a result of the cost-of-living crisis. Many of the causes are the same, from heightened energy bills, high interest rates, and ballooning inflation including essential inputs from insurance to food.

Business NSW recognises the strained condition of the state's finances and supports the Treasurer's approach to spend judiciously and mitigate the risks of inflationary impacts. Now, more than ever, the government must prioritise NSW businesses and the communities that rely on them.

Business commitments made by the NSW Government during the 2023 election

Business NSW congratulates the NSW Government for the work that has already been undertaken in addressing its election commitments and looks forward to further detail in relation to these priorities.

They include the commitments to:

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

Recommendations: The NSW Budget 2023-24

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

1. Make doing business **easier** in NSW through lower taxes and red tape
2. Make business **smarter** in NSW by futureproofing the workforce with a pipeline of quality workers
3. Make NSW businesses **confident** to face the future through balanced and agile energy and infrastructure policy
4. Make NSW a **better** place to grow start-ups and setup businesses by doing more to attract investment and remain competitive
5. Make NSW **thrive** by 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.

Following the election in March, this Budget represents the first major opportunity for the new government to orient policy to deliver on these pillars.

Pillar 1: Easier in NSW

Payroll tax

During the COVID pandemic, the NSW Government moved quickly to reduce payroll tax to 4.85%. For two years, this supported NSW business cashflow and kept staff employed. This ended on 1 July 2022, with the tax rate returning to 5.45%.

With continued tough business conditions on the horizon, NSW businesses need a more competitive payroll tax. Payroll tax is a tax on jobs and the administration is time-consuming and complex. Streamlining payroll tax administration would make business owners' lives easier.

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

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

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

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

Tax reform

Recommendations

- Lower the payroll tax rate from 5.45% to below 5 % and increase the threshold to at least $1.3million - easing the tax burden of businesses and not punishing businesses who wish to invest in staff
- Continue to reduce the red tape burden on business by streamlining payroll tax administration
- Investigate a regional payroll tax rate in line with Victoria (1.21%) to ensure regional businesses are competitive with other states.

The NSW Government is to be commended for taking a leadership role in pursuit of tax reform. Treasurer Mookhey signalled his passion for reforming tax in the medium-long term. ***Business NSW*** acknowledges tax reform requires an active Federal Government in partnership with the states and territories to achieve meaningful outcomes. We also accept that, politically, the timing for this critical area of policy maintenance and reform will always be challenging.

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

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

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

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

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

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

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

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

Despite the considerable reform of the late 1990s, Australia still relies disproportionally 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 (3rd at 40.1%).[3] Our corporate tax rate is tied for second-highest in the OECD at 30%.[4]

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

These matters need to be addressed through a staged approach commencing with a realignment of the of the 25% corporate tax rate for SMEs with an aggregate turnover less than $250 million. While this is a Commonwealth matter, NSW Government leadership is critical in placing these issues before the Board of Treasurers and Council of Federal Financial Relations (CFFR).

Payroll tax reform also remains a priority for businesses. The states remain highly dependent upon payroll tax (NSW alone around a third of own source revenue) to deliver services.

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

Payroll tax alternatives considered through the *Henry Review* of Australia's Tax System form a solid starting point for the CFFR in 2022-2023.

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

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

Recommendations

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

The CFFR should consider:

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

3 OECD; Tax revenue as a percentage of total taxation; https://stats.oecd.org/Index.aspx?QueryId=78166. Australia trails only Denmark and Iceland on this measure.
4 OECD; Statutory corporate income tax rate; *ibid*. Australia trails only Colombia on this measure.

Workers' compensation scheme

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

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

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

The premium formula is, in part, supposed to provide an incentive which drives safe behaviours in the workplace. Given what is known about the current formula, this objective is not being achieved. Instead, NSW employers, who are the primary funders of the scheme, are being held financially responsible for inefficiencies that lie well outside their control.

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

Recommendations

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

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

PRE-BUDGET SUBMISSION

Cost of insurance

Australian businesses are facing increasing pressure from rising insurance costs. In June 2023, insurance took over the number one spot in ***Business NSW***'s Business Conditions Survey of concerns about business costs. Businesses in NSW now consider insurance to be a more severe driver of cost pressure than energy, tax, rent and wages. Insurance is one of a number of business costs that have risen considerably in recent years, putting pressure on the competitiveness and viability of Australian businesses, especially smaller businesses.

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, however, 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.

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 around 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 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 desire insurance products that deliver the speed and flexibility to enable them to continue in business in the way that meets their circumstances.

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

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

Recommendations

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

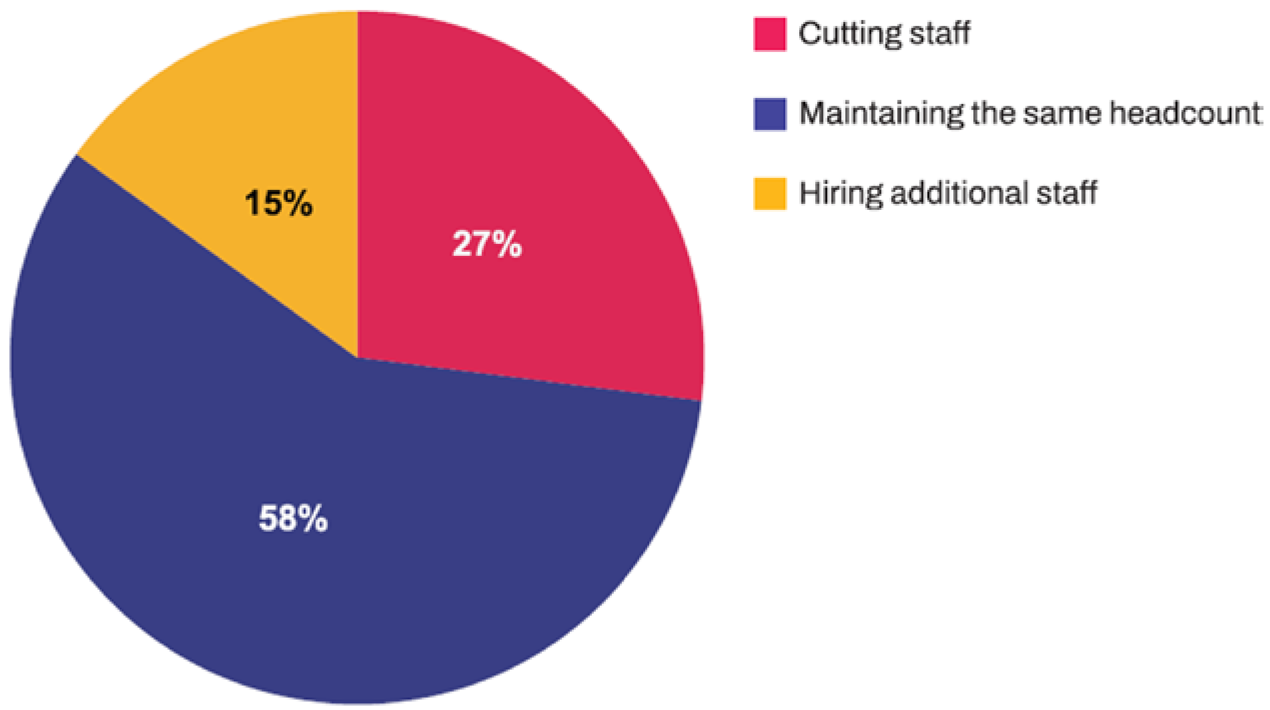
Pillar 2: Smarter in NSW

Meeting the workforce needs of business

Access to skills and labour remains a significant challenge for businesses. Tight labour market conditions in regional areas continue to pose a challenge for businesses intending to expand their workforce or replace departing staff.

However, labour market conditions have started to soften in some sectors and some locations. The RBA forecasts the unemployment rate will rise through the remainder of 2023 and 2024, to peak at 4.5% in 2025. This is backed up by ***Business NSW*** research indicating that 27% of businesses expected to cut staff in the September 2023 quarter, up from 22% in the previous quarter (Figure 2).

Figure 2: Plans for staff headcount for the September quarter 2023 (n=989)



Source: ***Business NSW***

In June 2022, 93% of businesses told us that they couldn't recruit the people they need.[5] Subsequent ***Business NSW*** research conducted in January 2023 identified high wage levels demanded, shortages of housing, and TAFE training not meeting business needs to be the primary explanations offered for their difficulty.[6]

To justify higher wages, employers are seeking to improve the productivity of their workforce. Improving training and education, making offerings more relevant to businesses' needs, will be a critical component of an NSW government productivity strategy.

5 ***Business NSW***; *Workforce Skills Survey*; 2022; https://www.businessnsw.com/advocacy/surveys/other-surveys/workforce-skills-survey

6 ***Business NSW***; *NSW Business Conditions*; February 2023; https://www.businessnsw.com/advocacy/surveys/business-conditions-surveys/january-2022-business-conditions-survey1

PRE-BUDGET SUBMISSION

Our key priorities to address these challenges include:

- Increasing workforce participation
- Increasing education and training for our community, particularly by increasing funding to the VET sector
- Supporting the return of overseas workers and making it faster, easier and cheaper for businesses to navigate the migration system
- Improving information to jobseekers.

The NSW Government has particular influence in education and training and improving information for jobseekers. Young people, especially those with lesser work experience and skills, are at higher risk of becoming and remaining unemployed in NSW. Many of the initiatives in these areas introduced over the last few years are having effective outcomes and helping businesses meet their workforce needs.

Continued funding for effective workforce programs

Business NSW understands that a number of programs are unfunded beyond 30 June 2024 including:

- The Educational Pathways Program
- Regional Industry Education Partnership (RIEP) Officers
- Careers NSW
- Skills Brokers
- Workforce Development team in Training Services NSW.

Feedback from businesses regarding each of these programs is generally positive and each should have its funding renewed across the forward estimates. Further detail is included below.

Educational Pathways Program / School-Based Apprenticeships and Traineeships

Business NSW considers that school-based apprenticeships and traineeships are a critical pathway into employment, and this is a suitable option for many students. Accordingly, it is pleasing that SBAT approvals remained high in 2022, more than 20% higher than 2019. This is the highest number of approvals since records began in 2012.

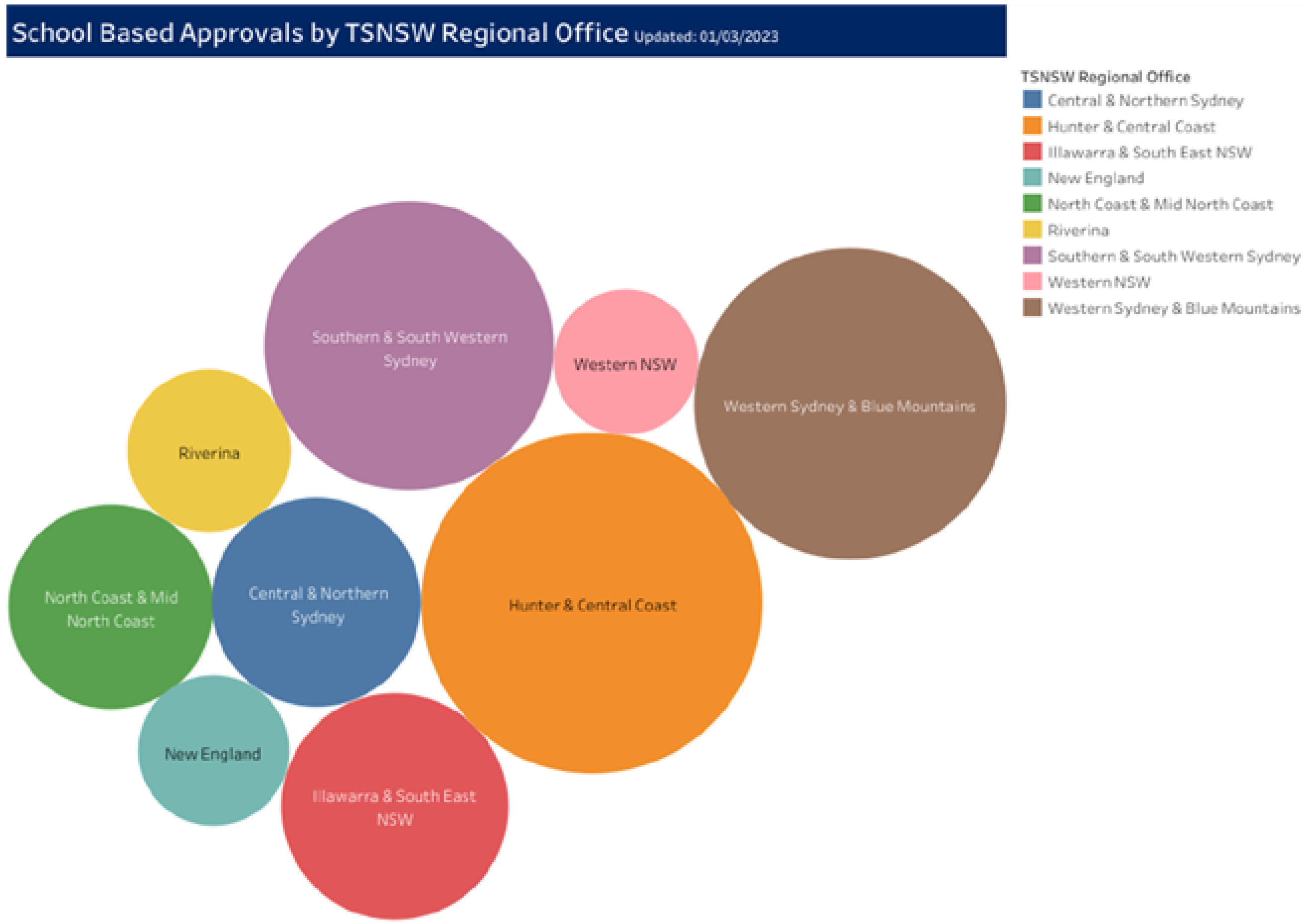
Figure 3

School Based Approvals by School Sector Updated: 01/03/2023

	Approval Date										
School Sector	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Catholic	446	428	427	464	558	500	529	542	633	705	68
Government	1,736	1,593	1,263	1,393	1,381	1,348	1,372	1,266	1,608	1,596	171
Independent	119	129	108	137	150	173	198	175	203	244	26
TAFE		1	1	1			1				
Grand Total	2,301	2,151	1,799	1,995	2,089	2,021	2,100	1,983	2,444	2,545	265

Source: Tableau Public Business Reporting, June 2023

Figure 4



Source: Tableau Public Business Reporting, March 2023

There appears to be a correlation between the location of the Educational Pathways Program (EPP) and the locations where the SBATs are commencing.

It is important that the program continues beyond its current timeline to 2023 in order to embed the successes and continue the increases in SBATs.

Recommendation

The NSW Government continues the Educational Pathways Program beyond 2023 and extend the program beyond the existing regions given the successes in increasing SBAT commencements.

Careers advice and Careers NSW

Only 5% of respondents to our 2022 Workforce Skills Survey agreed that sufficient careers advice was available in schools to inform students and parents on the breadth of future careers options.

Accordingly, in last year's Pre-Budget Submission, we recommended that Careers NSW be expanded into schools. It is pleasing that this recommendation was implemented. However, we understand that the program is not funded beyond 30 June 2024.

Recommendation

Continue funding Careers NSW over the forward estimates and expand its reach to additional schools following completion of the pilot.

The Regional Industry Education Partnerships (RIEP) Program

Since its inception, the RIEP program has created valuable partnerships between many of our member businesses and NSW secondary schools. Through these partnerships, and with the assistance of the tools and resources on our youth platform, Skillsroad, businesses have been able to promote career options for young people in vocations that support business growth.

Struggling to connect with school leavers and entry-level talent is a key issue regularly identified by businesses across the state in our annual Workforce Skills Survey.

Business NSW continues to play a key role in the RIEP program, actively supporting connections between businesses and schools. ***Business NSW*** frequently receives positive feedback from members, schools, industry and other stakeholders about the program's efficacy.

In an ongoing tight labour market, there will continue to be high demand for the RIEP program.

Recommendation

Extend the Regional Industry Education Partnerships Program with funding provided over the forward estimates

TAFE NSW

TAFE NSW is a frequent area of discussion for businesses with consistent feedback in the Workforce Skills Survey around the lack of courses, slow sign-up processes and lack of engagement. In particular, TAFE moving much of its training online since the start of the pandemic has not been widely supported in some regions/courses.

While there is merit in the online delivery of some courses, many businesses advise that apprentice training is often less suitable for online delivery – particularly in construction and manufacturing – and face-to-face delivery on campuses is the preferred method.

There are also significant equity issues with transitioning to a wholly online model. Online delivery requires access to IT and support when the student requires it. Our research has found that apprentice satisfaction with training is lower when delivered online and lower completion rates than face to face learning.

The new NSW Government in its election platform committed to conducting a comprehensive review of the vocational education and training system, including TAFE, and this will be a major area of focus for ***Business NSW*** and our members.

As part of that review, the NSW Government and TAFE should consider how to consult with business to determine which courses are suitable for online delivery and which are not, and which courses are required in which locations.

Recommendation

Ensure that Business NSW members are offered regular consultation during the review of TAFE in order to provide input to which courses should be funded, in what locations and by which delivery methods they should be offered.

Refining the NSW Skilled Migration program

The Commonwealth Government recently commissioned a significant review of the Migration System. The Review's Final Report identified that state and territory governments would like more involvement in migration planning. The Review concluded that there "could also be value in considering whether states and territories should be provided with greater flexibility to determine how to allocate permanent visas with respect to the needs of their jurisdiction. Under this approach, the State and Territory Nominated Category of the Migration Program could be increased by reallocating some or all of the places under the current Regional Category."

A reallocation of places / increase in the NSW Skilled Nomination Visa would keep NSW businesses competitive in the global skills market.

Recommendation

Work with the Commonwealth Government's Migration Review team to ensure that NSW receives at least double the number of visas in the NSW Skilled Nomination program.

Digital skills support

As the NSW Government is aware, the Tech Council estimates Australia needs an extra 650,000 people to join the tech workforce in the next eight years. While the IT workforce is softer than recent times, with major tech businesses reporting significant layoffs, it is our view that this is a correction following over-expansion during the pandemic rather than a broader long-term reduction in the need for tech workers.

Over the last couple of years, ***Business NSW*** has been supporting the development of the NSW Digital Skills and Workforce Compact. While the Compact was not finalised before the election, the NSW Government is encouraged to progress and finalise this work.

Recommendation

Finalise the NSW Digital Skills and Workforce Compact

National Partnership Agreement for Skills

For many years, funding for the VET sector has fluctuated. The 2022 Productivity Commission Report on Government Services evidenced these fluctuations – with overall Government funding for VET lower than it has been at almost any point over the last 20 years. Over the last two years, ***Business NSW*** notes that the NSW Government has significantly increased its quantum of VET funding – from $877 million in 2017 to $1.14 billion in 2020.

While this is a significant investment, it still falls far behind what NSW needs and is less than Government investment in VET in 2001 ($1.4 billion in 2005 dollars). The end result is lower participation rates and businesses reporting poorer quality training, a lack of available courses, particularly in regional areas, and, ultimately, low employer satisfaction with VET.

This is confirmed by NCVER data which has seen a 12.5% reduction in employer satisfaction with the VET system between 2011 and 2019.

Accordingly, the new national agreement provides an opportunity to reset the relationship between the Commonwealth and NSW, and provide greater clarity, transparency and consistency around funding responsibilities, ensuring the right balance between quality, compliance and efficiency.

Recommendation

Ensure that the new national agreement for skills carries over the commitment to a real increase in overall VET funding.

Manufacturing Centres of Excellence

We note that the delivery of three Manufacturing Centres of Excellence were an election commitment of the new NSW Government and that these centres are likely to operate in a similar model to the Institutes of Applied Technology (see below).

However, we note that the Parliamentary Budget Office in its policy costings stated that “The policy notes the intention to pay for these courses by reallocating funds already allocated to existing fee free courses.”

The PBO also assumed that “the manufacturing training centres can be provided using existing TAFE resources and facilities. Therefore, there are no costs related to refurbishment or construction.”

It is our view that local manufacturing businesses should be consulted broadly prior to finalising the model for the new centres and that the assumptions made by the PBO are tested with local businesses before being finalised.

Recommendation

Consult with manufacturing businesses in the three regions prior to finalising the Manufacturing Centre model.

Institutes of Applied Technology

The Manufacturing Centres of Excellence model appears very similar to the existing Institute of Applied Technology model. TAFE is partnering with the NSW Department of Education and Training to deliver two pilot Institutes of Applied Technology (IATs) – one in Kingswood focused on construction, and one in Meadowbank focused on IT.

These IATs will forge closer links between TAFE, employers and universities. The aims are to:

- deliver more ‘work ready’ graduates with the skills that employers need
- make it easier for students to transition between TAFE and university and back again as upskilling / reskilling requirements change
- deliver more opportunities for workplace training.

The IAT model has received widespread support from BNSW Regional Directors, and many have expressed a desire for an IAT in their region, pending successful rollout of the pilots.

In particular, the Murray-Riverina region has a $20B infrastructure pipeline over the next 10 years and will become a Renewable Energy Zone (REZ). New England has the Narrabri gas project, the New England REZ, Inland Rail, various pumped hydro projects and the Special Activation Precincts at Narrabri and Moree in its infrastructure pipeline. In the Hunter region, there is also a strong desire to provide training and educational support to sustain jobs required by the energy transition. All of these will require the availability of relevant education and training locally. It is unclear whether the proposed model for Manufacturing Centres of Excellence or Institutes of Applied Technology as currently envisaged would service these needs. Ensuring that the IAT and/or MCE operating model accommodates major infrastructure and energy transition skills requirements will be a big test of their ultimate value.

Recommendation

Expand the operations of the Institute of Applied Technology (IAT) model beyond Sydney, incorporating learnings from the two pilots.

Pillar 3: Confident in NSW

Containing the cost of doing business

Energy

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

NSW has now implemented the energy bill relief measures which were included in the 2023 Commonwealth Budget and pledged in the 2023 election campaign. Although the $650 payment will not address the structural causes of recent rises in energy costs, it will nevertheless provide 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. Since the cessation of the Commonwealth-funded Business Energy Advice Program last year, businesses have been left without a trusted, independent, free to use source of advice about how to lower their energy costs, nor about how to engage with the energy transition more broadly. ***Business NSW*** views the establishment of a successor advice and support program targeting small and medium sized business as a critical component of the energy transition, ensuring that smaller businesses are not left out as governments and industry target their efforts on households and the largest energy-using industries.

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

Recommendation

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

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

PRE-BUDGET SUBMISSION

Energy transition

The energy transition presents a considerable challenge for NSW's businesses. The volume of investment required in energy infrastructure to replace aging and polluting energy sources with clean alternatives is considerable, and it is needed at a time when business costs across the board are surging. Business, therefore, wants to know that the transition is being delivered efficiently, and unnecessary extra costs are not being incurred along the way and ultimately passed onto them.

The NSW Government has commissioned a review of the state's energy policies, being carried out at time of writing by Cameron O'Reilly. We observe growing anxiety in quarters of the business community about the ability of the Roadmap to deliver on the new infrastructure it is intended to build, ahead of the closure of existing plant, most prominently Eraring in 2025. This leaves a very narrow path for policy to follow – the ability to build anything of significant scale not already planned before 2025 is constrained by supply chain and workforce availability, such that it would come with a significant price tag attached. Yet businesses have no appetite either to incur major additional costs in the near term, when energy costs (and other costs of doing business) are at such unpalatable levels.

While early outcomes from generation auctions under the auspices of the NSW Electricity Infrastructure Roadmap have been encouraging, the situation in respect of transmission has been significantly more concerning. Since the long term Roadmap plan rests on the development of Renewable Energy Zones anchored by new transmission, the slow progress and increased cost of transmission projects under the Roadmap and the AEMO Integrated System Plan is troubling. Those costs are currently expected to be passed on to consumers in their entirety. Business NSW sees a greater role for government (state as well as Commonwealth) in shouldering some of the costs of transmission infrastructure development. Rather than merely offering financing for projects which still have ready access to private finance solutions, governments could make a bigger difference for end users by supporting the costs of transmission directly, removing them from energy bills altogether.

Recommendation

In partnership with the Commonwealth and other states, NSW government should take additional steps to cover the cost of the transmission infrastructure build out to support Renewable Energy Zones, removing those costs from user bills.

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.[8] 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.

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

Recommendation

Establish a program to support medium-sized gas using businesses in converting from gas to electricity consumption in their processes.

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

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

PRE-BUDGET SUBMISSION

Delivering the infrastructure business depends on

With an extensive infrastructure pipeline stretching delivery capacity, ***Business NSW*** has been supportive of the NSW Government's reviews of critical infrastructure since the election. ***Business NSW*** recognises that not all projects currently on the books will be deliverable on the timetables or budgets initially indicated. Nor, given current budget constraints, would all projects that made the cut for approvals in previous years pass that test today. We accept that some changes have to be made.

Business NSW's priority is on completing projects already in the infrastructure pipeline, funded and ready to build or already underway. Deferring projects with weaker business cases or which cannot be delivered with current workforce availability may be necessary and is preferable to outright cancellation in those instances where a favourable business case has been evaluated. The Mrdak and Kenofski Reviews should provide Government and the public with the evidence base to properly re-evaluate priorities and direct work accordingly.

Media speculation at time of writing about the future of Sydney Metro West highlights the sensitivities at play. The project is critical to unlocking housing and economic development across a stretch of the city with considerable untapped potential, from the Bays via the Olympic Park to Parramatta and Westmead. Western Sydney has been poorly served by public transport, and Metro West has the potential to redress that. But the project has overrun its original budget estimate and timetable significantly.

Business NSW would strongly oppose the cancellation of Metro West, but could support actions to improve the cost-effective delivery of the project, and to enhance its ability to unlock further housing development along the route. Any proposed delay to the delivery timetable should be used productively to ensure the project is deliverable, fit-for-purpose and budgeted according to a realistic appraisal of costs (and benefits) that reflect market conditions today. Used well, time spent on better planning for the project can facilitate faster and more effective delivery. Elements of the design that can be consolidated to use standard parts and systems will improve cost-effective deliverability compared to utilising bespoke and unique components for different stations.

Recommendation

Business NSW supports the work being undertaken by the Sydney Metro Review and encourages government to adopt its findings once completed.

Previous governments have taken actions in infrastructure policy that we would not wish to see repeated, including:

- Announcing or committing to projects without carrying out a business case assessment.
- Advancing projects where the business case assessment indicates they do not provide positive net benefits.
- A lack of interdepartmental coordination leading to multiple major projects in the same locales, overstretching local labour and housing markets.[9]

These issues have also been raised across formal reviews of infrastructure delivery, most recently in the Interim Report of the Sydney Metro Independent Review. Addressing these steps upfront reduces the risk and extent of budget blowouts, delays and provides certainty to businesses. Businesses seeing projects announced, then delayed and ultimately cancelled impacts their ability to invest in the market appropriately. While it is too late for projects currently under construction, Government can strengthen processes for future projects to ensure that planning and preparation is done well, in keeping with best international practice.

9 For further detail see ***Business NSW***; Down to the Wire; 2022; https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Riverina%20Project%20-%20Down%20to%20the%20Wire%20Report.pdf

Pillar 4: Better in NSW

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

Venture funding

Venture capital (VC) is a critical tool for nurturing innovative start-up businesses, yet Australia's VC sector is less than half the size of the OECD average. A state-backed Venture Capital Fund would help retain and grow talent onshore, boost the economic output of businesses and the state, while fostering a new generation of entrepreneurs. This can also help fund regional start-ups that often miss out on traditional VC funding due to their proximity to the big cities.

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

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

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

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

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

Recommendation

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

Government Procurement

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

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

These initiatives have gone a long way towards giving NSW small and medium businesses a level playing field to compete with multinationals and their subsidiaries for local and regional procurement opportunities at a scale they can handle. It also provides the best possible outcome for taxpayers through competition, quality and accountability at the local level.

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

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

Recommendations

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

PRE-BUDGET SUBMISSION

Investment attraction overseas

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

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

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

Recommendation

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

Pillar 5: Thriving in NSW

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

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

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

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

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

Recommendations

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

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

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

Recommendation

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

FOR FURTHER INFORMATION

David Harding
Executive Director
Business NSW

0428 549 616
David.Harding@businessnsw.com

BUSINESS NSW