BUSINESS NSW

PRE-BUDGET SUBMISSION TO THE COMMONWEALTH GOVERNMENT

2022-2023

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Foreword

Business NSW welcomes the opportunity to provide a pre-Budget submission ahead of the 2023/24 Federal Budget.

As NSW's peak business organisation, Business NSW has more than 40,000 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.

As a shareholder of the Australian Chamber of Commerce and Industry (ACCI), Business NSW also contributed to and supported their submission and nation-wide priorities. The following submission outlines the economic conditions facing businesses in NSW and recommends funding and policy initiatives based on member priorities. These top priority areas consistently remain:

- Access to Skills and Labour
- Tax Reform (with a focus on state-based taxes)
- Energy (managing energy costs and supporting the transition to net zero)
- Rising business costs (and targeted support for investment)

Business NSW acknowledges the health and economic policy achievements of the Australian and NSW Governments supporting business, business owners, their staff and employees and the local communities in which they operate through three very challenging years.

In framing the May 2023 Budget, it is important to keep in mind the fragility of many firms grappling with the after-effects of the pandemic while adjusting their operations in the face of economic headwinds and continued disruptions to global supply chains and energy markets.

Business costs continue to be a top concern of our members. Business confidence remains firmly in negative territory and most industries and regions expect a deterioration in the first quarter of 2023, according to our November 2022 survey results (Section 1).

Numerous interest rate hikes are impacting businesses intensely, as well as increasing energy prices and their effect on business operations. Our members have made it clear that the latest Commonwealth Budget (October 2022) is not doing enough to support businesses in NSW.

This submission therefore considers how to embrace a growth agenda whilst re-engaging policy makers and businesses of all sizes to pursue a significant period of productivity enhancements and reform. Business understands the need to build a stronger, more resilient economy and the need to tackle inflation. That's why we support governments, state and federal, pursuit of skills and tax reforms, providing support during the energy transition, more investment in innovation and a coordinated state-federal productivity agenda.

Section 1 outlines the current business conditions in NSW from a range of sources including our November 2022 Business Conditions Survey of 870 NSW businesses.

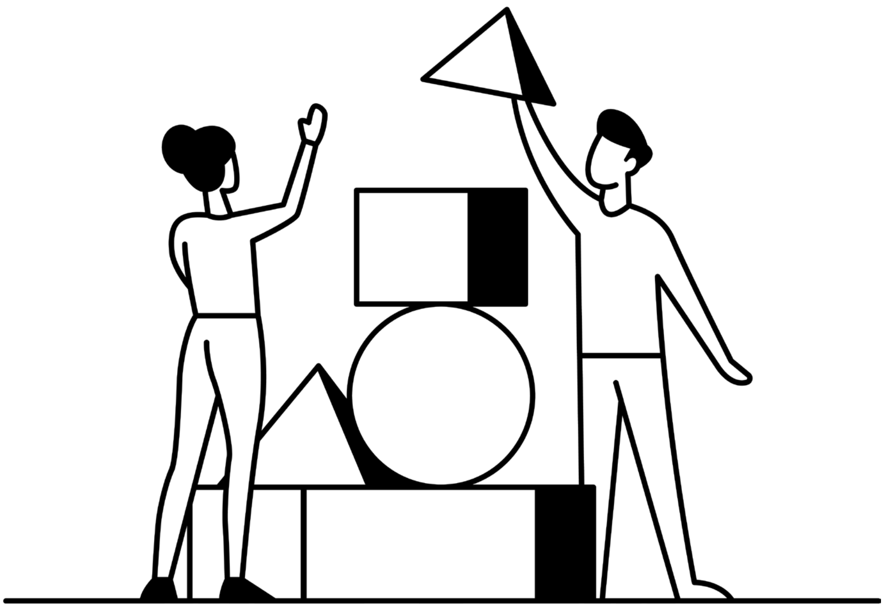
Each of sections 2 to 4 contains one of three key themes plus recommendations (both short-term and longer term) which we consider to be essential for ensuring the Australian economy can continue to recover from past pitfalls and prepare for the future.

Section 1: Current business conditions in NSW

The NSW economy has been resilient in recent years despite COVID-related challenges. Amid strong demand for workers across many sectors, the NSW unemployment rate hit record lows during 2022, ending the year at 3.2 per cent. Also, with low interest rates by historical standards, consumer spending has been solid, providing much needed support for economic growth.

However, there are signs that the Australian economy is beginning to slow, and the NSW economy will not be immune. GDP data for the September quarter of 2022 showed that NSW's State Final Demand rose 0.7 per cent q/q, which was a notable slowdown from the previous quarter. The rapid pace of monetary tightening by the RBA seems to have eventually weighed on consumer demand, with the year-on-year growth of retail trade decelerating for the third straight month in November.

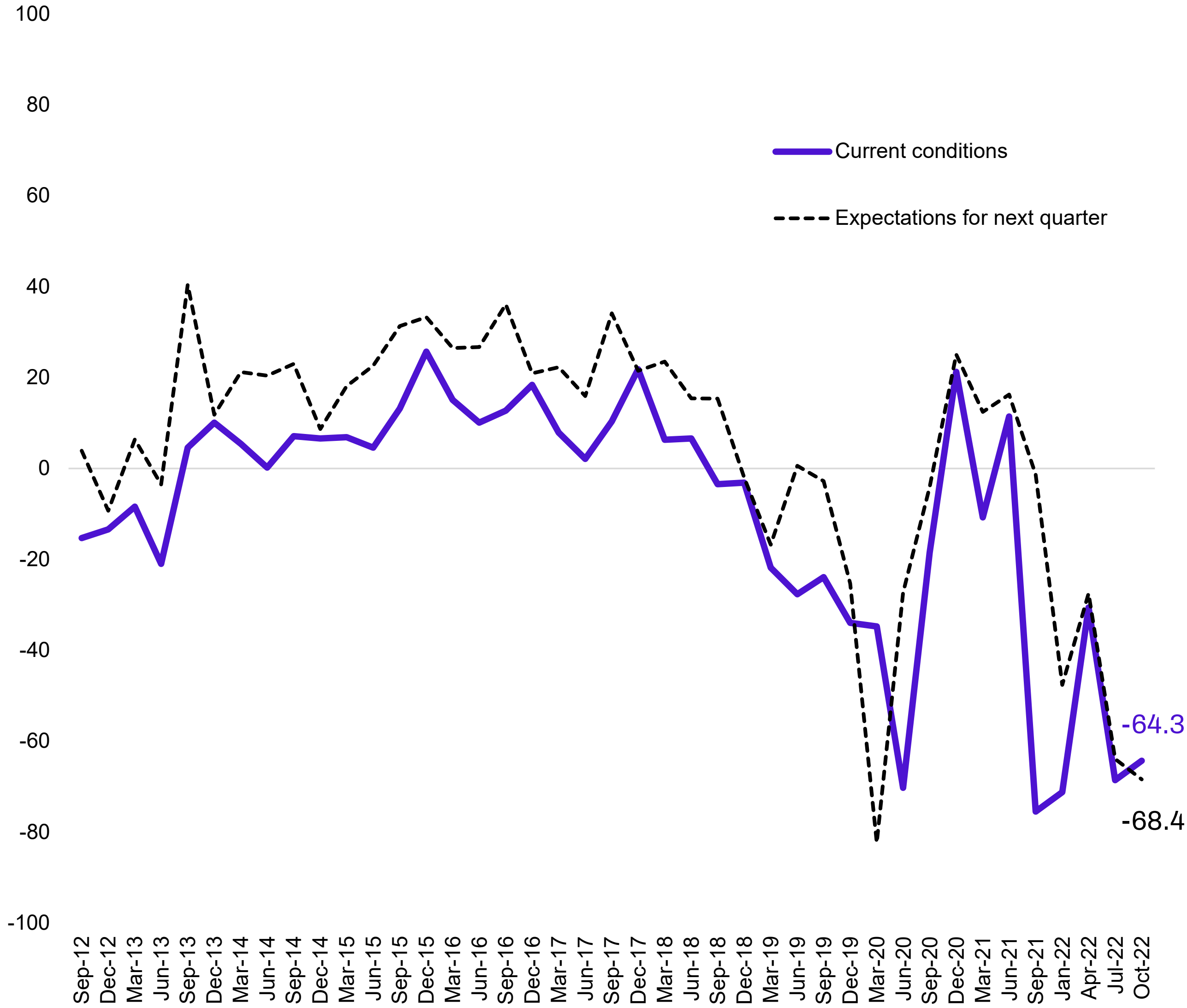
Business NSW conducts the Business Conditions Survey on a quarterly basis to gauge business conditions across NSW, identify emerging challenges facing the business community, and to seek business feedback on topical matters such as government budgets. The latest survey was conducted during 27 October to 7 November 2022. It received 870 responses from all key industries and regions. Core findings are presented below.



Business confidence in need of a boost

The headline Business Confidence Index remained firmly in negative territory in the final quarter of 2022, coming in at -64.3 (from a range of -100 to 100). Business sentiment was downbeat across all regions and sectors. The forward-looking indicator, with a reading of -68.4, showed that businesses did not expect business conditions to improve in the first quarter of 2023. In fact, this was the first time since the start of the pandemic in March 2020 that the forward-looking indicator dipped below the headline index.

Figure 1: Business Confidence Index

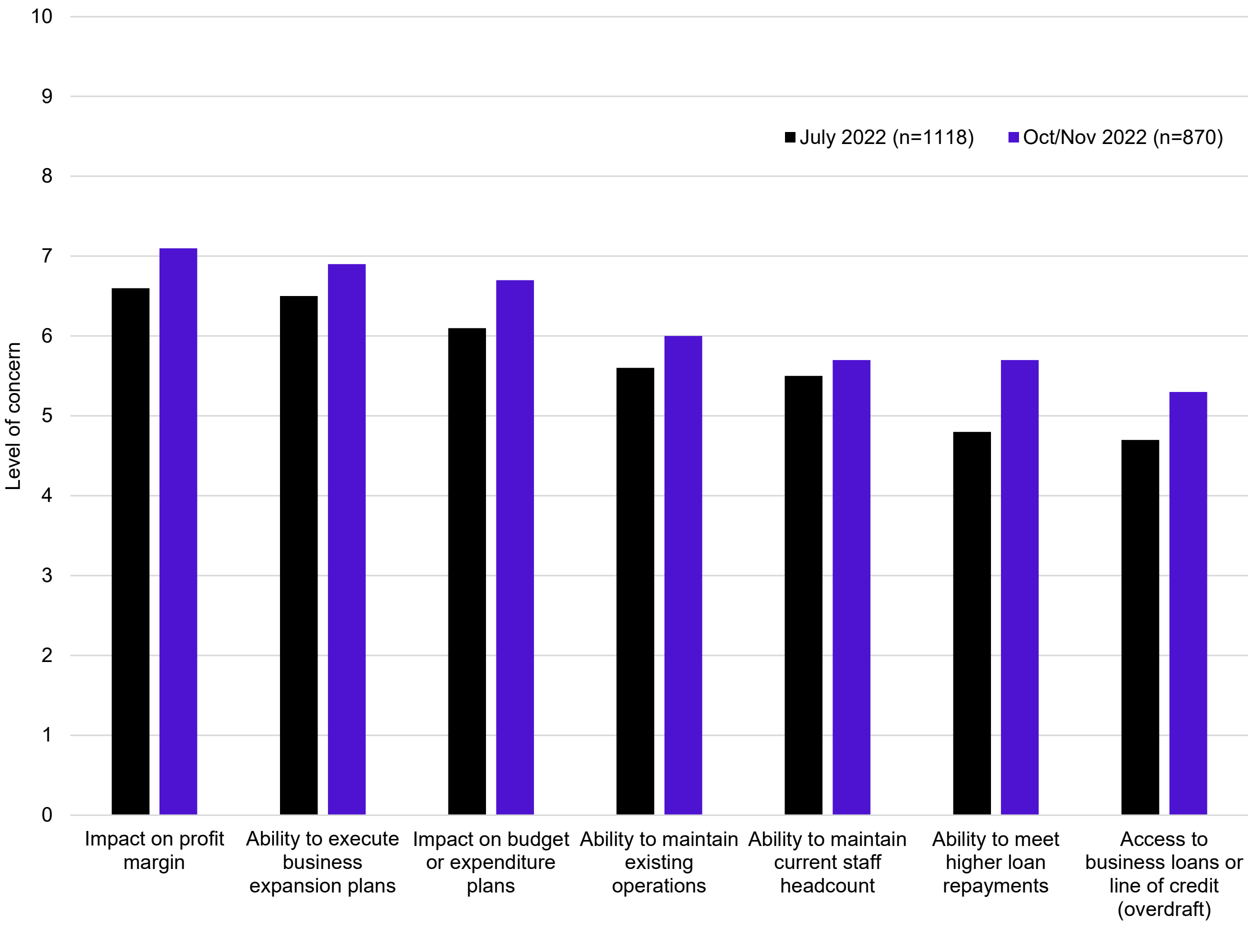


Source: NSW Business Conditions – October/November 2022, Business NSW

Concerns about rising interest rates

The RBA has hiked rates at every monthly monetary policy meeting since May 2022. Businesses' concerns about interest rates have grown accordingly. Business NSW first gauged the impact of rising interest rates in the survey conducted in July, when the RBA cash rate target was at 1.35 per cent. At the time, business concerns were generally moderate across the various indicators. When the question was repeated in the latest survey, the cash rate target was at 2.85 per cent for the majority of the survey period. Business concerns have clearly intensified across all indicators, with the biggest change seen in 'ability to meet higher loan repayments.' Survey findings also showed that small businesses expected the most severe impact from rising interest rates compared to their medium-sized counterparts.

Figure 2: Concerns about the impact of rising interest rates

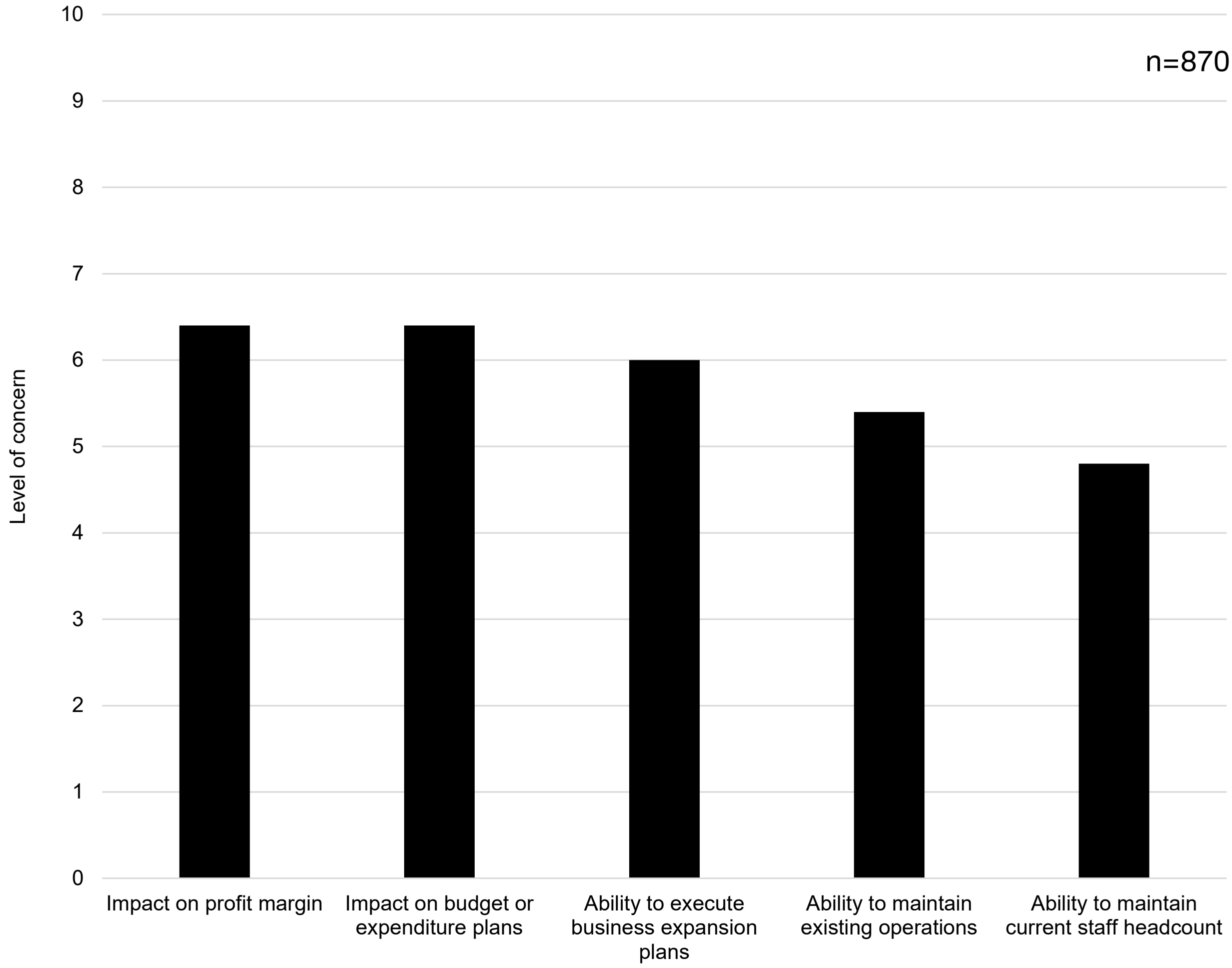


Source: NSW Business Conditions – October/November 2022, Business NSW

Surging energy costs to weigh on business performance

Many businesses have experienced energy price increases in recent months. The survey found that rising energy costs were having the greater impact on businesses' profit margin and budget / expenditure plans. Higher energy costs were also limiting businesses' ability to execute expansion plans.

Figure 3: Concerns about energy cost



Source: NSW Business Conditions – October/November 2022, Business NSW

Government support needed

The survey collected business feedback on the Commonwealth Budget handed down just two days prior to the survey on 25 October. On a scale of 0 to 10, two-thirds of respondents rated the Budget with a score of four or below in terms of its support for the NSW business community. On average, survey respondents did not expect to benefit substantially from many of the featured initiatives.

To improve the ease of doing business, survey respondents have nominated the following areas that require policy attention:

- **Tax reforms** (in the NSW Government context)
- **Energy** – e.g., cost relief measures and subsidies for transition to renewal energy
- **Financial support** – e.g., grants for capital equipment upgrade and low-interest loans for small business
- **Business confidence** – e.g., through promoting the benefits of doing business in NSW and cutting red-tape
- **Access to skills** – e.g., subsidies for apprenticeships and training.

Section 2: Boosting Productivity

Addressing Australia's productivity growth rate will be one of the primary challenges of this parliamentary term.

Tax Reform

Tax reform must remain on the national agenda. Improving Australia's tax and transfer system remains central to the task of building a public policy framework expressly designed to achieve stronger sustainable growth, higher productivity, thriving businesses, more jobs and rising living standards.

The discussion needs to be renewed, and 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 coordinated policy approach that has as its goals greater incentive, security, consistency and simplicity." [1]

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 both Labor and Coalition 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.

The following recommendations should be pursued in the near and medium term. 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.

[1] 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.

From Payroll Tax and Stamp Duty to realignment of company tax and GST reform, business and the broader Australian community need a more efficient, globally competitive and therefore sustainable tax system.

Business NSW has a long history of working collaboratively with Government, peak industry bodies, the Community Services sector and other key stakeholders towards tax system reform. 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 Australia sets a renewed path towards growth, business faces 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 at the top of OECD rankings for dependence upon personal income tax (2nd at 40.6 per cent). Our record on company tax (3rd 18.5 per cent) is not much better. These matters need to be addressed through a staged approach commencing with a realignment of the base rate of 25 per cent corporate tax rate for SMEs with an aggregate turnover less than $250 million.

Payroll tax reform remains a priority for businesses. The States remain highly dependent on payroll tax (around a third of own source revenue for NSW alone) 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. As a starting point, steps should be taken to reduce the administrative and compliance burden of payroll taxes on business. The pursuit of digitisation and integration of better state and territory systems would also have the added benefit of reducing payroll error or unintentional wage theft. Payroll tax alternatives considered through the Henry Review of Australia's Tax System form a solid starting point for the CFFR in 2023-24.

Business NSW recognises tax reform requires State Government leadership and partnership across the board. The Board of [State and Territory] Treasurers will be a critical forum for

Recommendations:

- The Commonwealth and State Governments should come together through the Council of Federal Financial Relations (CFFR) to commence a standing agenda of tax reform. This should include Payroll Tax, the GST, personal and corporate income taxes.
- The CFFR should consider:
  - the breadth of options available to ultimately abolishing 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 per cent by extending the 25 per cent small business corporate tax rate to cover SME's with an aggregate turnover less than $250 million.

consideration of tax reform options before the CFFR.

Encouraging business investment and growth

Current business cost pressures such as increasing energy and funding costs are impacting business expansion and expenditure plans. Business investment needs to be supported as a key driver of growth and productivity.

That's why BNSW supports ACCI in calling for the extension of Temporary Full Expensing in the May Budget. The measure is currently set to expire on 30 June 2023 and was not addressed in the October Budget. Failure to renew would damage SME investment at a time they need support, and the economy will be experiencing the full impact of monetary policy tightening.

Recommendation

That the Commonwealth Government extend the instant-asset write-off or Temporary Full Expensing Measure beyond 2023.

There is a strong case in the face of economic conditions to retain the full expensing until at least June 2025 to keep the elevated level of investment this initiative supported through 2022 ongoing.

Within Australia, consumer confidence has taken a battering and, perhaps more alarmingly, so has business confidence, with capital spending remaining fragile in the face of cost pressures.

Geopolitical and pandemic related supply chain disruptions have shown us that Australia needs to decrease its reliance on overseas manufacturers and look to boosting its domestic manufacturing capacity.

This requires a significant structural adjustment to Australia's economy.

Such an adjustment is only achievable if it is underpinned by an easily navigable regulatory environment that:

- encourages collaboration,
- drives research and development,
- attracts investment, thus enabling start-ups to weather the 'valley of death', and
- encourages businesses to remain based in Australia.

Recommendation

That the Commonwealth Government review the current regulatory environment and funding mechanisms that govern research and development, especially as they apply to start-ups and SMEs, to facilitate the development of and encourage investment in emerging technologies.

Telecommunications

The experience of natural disasters and pandemic has fundamentally re-emphasised the critical role of telecommunications for Australian businesses.

From meetings via Zoom, expanding online retail and e-commerce, to seeking out new overseas suppliers or customers, accessing Government services or checking in customers with COVID-Safe QR codes, business' dependence on telecoms infrastructure is greater than ever.

Yet the regulatory environment has not kept pace with the evolving business environment. Telecoms services are still treated as if they are optional extras for businesses, rather than essential infrastructure for sustaining their existence.

Being cut off from the Internet can be as debilitating for a business as being cut off from power supply. That is why **Business NSW** called in our response to the Regional Telecommunications Review,[2] and repeats that call here, for telecoms to be classed as an essential service for regulatory purposes.

Recommendation

Telecommunications should be given full essential service status, with matching obligations to provide service to all potential users including those in regional and remote locations.

Gaps in mobile phone coverage are one of the biggest sources of business irritation with telecommunications. With a large geographic area to cover, providing gapless mobile coverage is a challenge. Nevertheless, there are still key locations for business activity where improving connectivity should be a priority.

Mobile connectivity is patchy around many regional towns. **Business NSW** invited member businesses and local chambers of commerce to identify locations where mobile connectivity needs to be strengthened. The list is not meant to be comprehensive but does highlight some potential priority locations in NSW when the next funding rounds for coverage improvement initiatives occur, like the Regional Connectivity and Mobile Blackspot Programs.

Recommendation

Government and industry should invest in eliminating mobile coverage gaps along major arterial highways and rail routes in NSW, including: • M1 Princes Motorway / Princes Highway • M31 Hume Motorway / Hume Highway • M23 Federal Highway • Pacific Highway • Great Western Highway • Picton Road

[2] https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Regional%20Telecoms%20Review%20-%20Regional%20Telecommunications%20Independent%20Review%20Committee%20-%20September%202021.pdf

Problems with the physical infrastructure of telecommunications networks can be compounded by poor customer service from telecommunications providers.

Businesses have described some of the challenges in getting issues solved or new connections installed, with lengthy waiting times that can expand several months.

Telecommunications markets rely on competition between providers to maintain pressure on prices and ensure adequate customer service. Unfortunately, in parts of regional NSW there is only one provider, resulting in worse outcomes for customers. It may be appropriate to engage the ACCC in investigating the specific competition issues affecting business telecoms customers in regional and remote locations, building on the 2018 ‘regional mobile issues’ investigation.

However, given the fast-changing pace of technology policy needs to look beyond addressing immediate telecoms. For some businesses this may mean 5G mobile service scan enable migration from hard-wired connections; for others it may mean fast satellite-based services giving good quality connections in the remotest parts of the bush and replacing the aging infrastructure.

Recommendation

The following list includes communities in NSW highlighted by Business NSW members as coverage blackspots. These locations should be targeted in future rounds of Regional Connectivity and Mobile Blackspot programs:

• Central Tilba and Tilba • East Wardell • Eurobadalla • Myocum • Mystery Bay • Rylstone • Suffolk Park • Tocumwal • Wingham • Yamba • Areas surrounding Berrigan and Barooga, NSW, and Cobram, Vic • Areas surrounding Boorowa • Areas surrounding Gunnedah and Mullaley • Areas surrounding Narooma • Areas surrounding Nimbin

Fixing the Federation

The NSW Government-commissioned Federal Financial Relations Review chaired by David Thodey AO (the Thodey Review) provided an opportunity to consider how governments can work better together, including in important areas such as tax reform.

Our submission to the Thodey Review noted the most fruitful reform opportunities would necessitate close collaboration between all tiers of government in Australia.[3]

The Commonwealth can play an important role in opening up reform options that may be impractical for states to implement in isolation – an approach Business NSW encourages the first term Albanese Government to look at.

Key priorities from a business perspective are to:

- facilitate comprehensive tax reform (including elimination of highly inefficient taxes such as stamp duty)
- ensure more effective, efficient and stable funding arrangements in key areas such as skills
- leverage the core competencies of each tier of government to improve outcomes for the community in key areas such as tax administration (including inconsistencies in definitions used).

National Cabinet has been a game-changer in facilitating effective collaboration between the Commonwealth and the states and territories. Its maintenance by the new Australian Government is to be commended. The National Cabinet should continue and consider how to implement key recommendations and address areas for improvement identified by the Thodey review.

Recommendation

Continue and bolster the National Cabinet process and utilise it to consider how to respond to the Thodey Review.

Recommendation

Business NSW has been involved in the development of and supports the recommendations contained in the Australian Chamber-Tourism's *Pre-budget Submission 2022-23.*

[3] https://www.businessnsw.com/content/dam/nswbc/businessnsw/submissions/191122-Thodey-Review.pdf

Housing

Housing shortages continue to exacerbate the skills shortage crisis currently being faced by all businesses operating throughout NSW. Business NSW acknowledges the Australian Government's renewed interest in social and affordable housing.

Recommendations

The following barriers to the housing shortage should also be addressed:

- Social housing needs to be part of the conversation or risk great government intervention in the years ahead.
- Increase the proportion of CBD residential housing (double) in the next decade supported with mixed use development of childcare and essential services.
- Increase medium density housing.
- Set targets (such as 30 per cent) for affordable housing on surplus government-owned land to support key workers to live closer to where they work.

We support the Infrastructure Australia recommendation to expand the pipeline of well-located, high quality social and affordable rental housing by prioritising and implementing efficient medium to long term financing programs. Access to affordable and social housing has become a critical issue from the CBDs to the regions.

Section 3: Growing our Human Capital

Australia's skills shortages persist

NSW continues to experience a workforce challenge not seen since the end of the second World War. Workforce shortages are affecting every region of NSW, every industry sector and every occupational skill level – from entry level to niche specialist skills.

In every forum, Council meeting or member engagement activity undertaken by Business NSW, access to workers is frequently the number one issue raised by businesses.

This is supported by findings from our 2022 Workforce Skills Survey in which a staggering **93 per cent of businesses told us that they couldn't find the staff they needed.**

That's why access to Skills and Labour remains a top issue to be addressed in the near term through the Budget as well as other welcome reform processes the Government has on foot and business is heavily engaged with.

Our research has consistently demonstrated the impact shortages have on existing workers, the impact on businesses' productivity, competitiveness and innovation and the impact on the community – particularly due to shortages in health and social care and education and training.

Skills shortages are often conflated with labour shortages. However, many employers report extreme difficulty in filling lower-skilled jobs with Australians due to the nature of the work involved, seasonality of the jobs, location of jobs, poor salaries and lack of career prospects.

These workforce shortages were created by a perfect storm following the pandemic due to:

- Fewer overseas workers including skilled migrants, working holiday makers and other visa holders with work rights;
- Increased demand for goods and services, particularly in regional areas, due to internal migration and increased local tourism; and
- Increased demand due to significant government investments to support the economy in, for example, infrastructure, childcare, and the NDIS.

These recent impacts have exacerbated many of the long-standing and unresolved issues in the Australian skills sector. Business NSW has for many years focused on:

- Availability of industry-led careers advice in schools;
- Poorly articulated and understood pathways into the workforce from school and a lack of partnerships between industry and schools;
- Perceptions of the Vocational Education and Training (VET) sector across the community and reduced government funding to the sector which has resulted in fewer students studying VET qualifications;
- Increased employer dissatisfaction with the VET sector due to a lack of industry engagement and the sector's inflexibility, bureaucracy and slowness to respond to business needs;
- Extended training pathways with undergraduate degrees now frequently considered the de facto entry-level qualification; and
- Reductions in training investment by some businesses.

Against this backdrop, BNSW supports reforms in three key areas:

- Providing training for the Australian population;
- Increasing workforce participation; and
- Supporting the return of overseas workers and skilled migrants.

These three areas form the basis for the key priorities for action in this area and are complementary to one another. Initiatives in each of these areas need to be considered holistically to consider how they will work together to meet the job requirements of today and into the future.

Supporting people (back) into work

Given the low unemployment rate and the extensive labour shortages, there is no better time to support people into work. The number of Australians today that have been unemployed for more than 52 weeks has fallen to 105,700, the lowest number since 2011.[4] However, this means that almost a quarter of all unemployed people (453,900) are long-term unemployed. Accordingly, it is the view of Business NSW that there are opportunities to decrease the number of long-term unemployed even further, by reducing barriers to employment, and increasing motivation, sense of self-worth and job readiness. Many businesses consulted during development of this submission reported that they prefer to recruit on attitude rather than solely on skills and experience.

The new Workforce Australia digital platform appears to have simplified business access to jobseekers in the digital caseload. Business NSW anticipates that the new platform will address many of the complaints received from businesses to date. However, businesses continue to raise concerns around the process to engage with Workforce Australia and particularly the need to create a digital identity.

Business NSW notes that the Select Committee on Workforce Australia Employment Services is calling for submissions on key issues with Workforce Australia, as well as advice and proposals to improve employment services in the future. It is anticipated that the findings from this Inquiry will assist with addressing issues in this area.

[4] Australian Bureau of Statistics, 2022b.

Supporting skills development

Apprentice and trainee commencements

Our report Skilling Australia for a Better Future: supporting apprenticeships through COVID-19 forecast 54,000 fewer commencements across Australia in 2020 and a cancellation rate of around 20 per cent. Without significant intervention, **Business NSW** estimated that only around 180,000 apprentices would have been in training in 2021, reducing Australia's skilled workforce pipeline to levels not seen since 1998.

The Boosting Apprentice Commencements (BAC) subsidy stemmed the tide of cancellations and suspensions and resulted in a 28.5 per cent increase in commencements in 2021 compared to 2020.[5] Such an outcome should prove once and for all that the apprenticeship/traineeship model is not broken, but that the cost/benefit ratio for a business taking on an apprentice has generally been imbalanced.

In 2022, the hugely successful BAC was replaced with the Priority Wage Subsidy. This wage subsidy is for employers of Australian Apprentices training towards an occupation listed on the Australian Apprenticeships Priority List. Employers can claim 10 per cent of wages paid to the Australian Apprentice for the first and second 12-month period (up to $1,500 per quarter) and 5 per cent of the wages paid to the Australian Apprentice for the third 12-month period (up to $750 per quarter).

A continued commitment to apprenticeship wage subsidies, without limitation, is needed to drive an increase in commencements and assist in retention to completion.

Recommendation

That the Commonwealth Government introduce a permanent wage subsidy similar to the Boosting Apprentice Commencements initiative for employers employing an apprentice or trainee.

[5] https://www.ncver.edu.au/research-and-statistics/publications/all-publications/apprentices-and-trainees-2021-march-quarter-australia

Pre-apprenticeship programs

Pre-apprenticeships are highly valued by employers, regardless of labour market conditions. Employers tend to view candidates that have successfully completed a pre-apprenticeship as more suited to the role, less likely to leave due to lack of interest in the role and show commitment to the industry. In a market where there is heavy demand to employ full apprentices, the issue tends to lie with training provider capacity to deliver pre-apprenticeships, as they tend to allocate their trainers to deliver full qualifications, as there is more willingness to pay and often more RTO funding available. This creates access and availability issues for pre-apprenticeships.

Recommendation

That the Commonwealth Government, in partnership with States and Territories, ensure appropriate funding mechanisms are in place to support training providers to deliver pre-apprenticeships in skill shortage areas.

National Partnership Agreement for Skills

Skills funding is an area where our Federation has led to suboptimal outcomes.

Investment in Vocational Education and Training (VET) has been falling to its lowest level for some time, with government funding in 2019 lower in real terms than 2009. This is despite strong growth in schools and higher education funding.

Investment levels in VET vary between states, as do course costs and student outcomes. It is clear that shared funding arrangements with the states and territories are failing young people, with a lack of clarity and accountability. The new National Agreement for Skills must streamline and clarify funding mechanisms between the Commonwealth and states, potentially transferring more responsibility to the Commonwealth while supporting an increase in funding tied to job outcomes, stronger regulatory arrangements, faster development of qualifications and access to better marketing of the sector and the job outcomes that can be achieved. Any reforms must be supported by an increase in overall funding available to all Registered Training Organisations to deliver the training needed by employers.

In the previous Heads of Agreement for Skills Reform published in August 2020, there was a commitment to increase real investment in VET, while undertaking agreed reforms needed to ensure this investment will improve outcomes for Australians and the economy.[6]

However, the recent Vision and Principles agreed by Skills Ministers and endorsed by the National Cabinet on 31 August 2022 notably does not contain such as commitment.[7]

It is unclear whether this means whether there will be an increase in VET funding in the future and how this will impact the sector.

[6] Department of Prime Minister and Cabinet, 2020.
[7] Department of Employment and Workforce Relations, 2022.

Recommendation

That the Commonwealth Government, in partnership with States and Territories, commit to a real-terms funding increase to the VET sector over the life of the agreement.

Continue supporting the return of migrants

Migration, including working holiday makers and other visa holders with work rights, are a critical component of the Australian labour force. The immediate focus of the newly elected Australian Government on supporting and accelerating migration has been welcomed by business. The issue is so critical that an agile and responsive approach must be maintained in the near term.

With the creation of Jobs and Skills Australia, there is an opportunity to develop a detailed whole of workforce plan considering how the three workforce streams (skill development; increasing participation; and migration) will combine to deliver the skills that we need. This should also consider workforce projections previously developed by the National Skills Commission to inform policy in delivering the required workforce.

Recommendation

Task Jobs and Skills Australia to develop a detailed workforce strategy detailing how skill development, increased participation, and migration will complement one another to deliver the skills that Australia needs.

When businesses utilise the migration system, their experience has not been positive. Thirty-four per cent of respondents to the Business NSW 2022 Workforce Skills Survey rated their experience with the migration system as being poor or very poor and 47 per cent average. The biggest issues were with timeliness and delays although 30 per cent reported that the migration system was too complex.

Recommendation

Increase visa processing capacity permanently and increase capacity within the skills assessment program.

Continue to support the Business and Industry Regional Officer (BIRO) program.

Section 4: A Sustainable AND Resilient Future

Years of disruptions to the national and international economy have highlighted the importance of resilience to Australia's businesses. In 2019 we saw the impacts of drought and bushfires. 2020 and 2021 were dominated by the COVID-19 pandemic, and the impacts it had on trading conditions and supply chains, both within Australia and around the world. 2022 highlighted the vulnerability of Australian businesses to energy shocks, as the reverberations of the Ukraine conflict pushed up prices and stretched the capability of an energy system in transition. It was also a year where major communities in NSW were severely flooded, from Lismore in February to Eugowra and Menindee at the year's end.

2022 was also a year in which the national conversation moved decisively in the direction of preparing for a more sustainable future. The legislation of a nationwide net zero objective and interim 2030 emissions reduction target, bringing the Commonwealth in line with states and territories earlier targets, crystallises the challenge to be met in the years ahead. While the business community is broadly supportive of these efforts, there is still a significant lack of awareness, particularly in the Small and Medium-sized Enterprise (SME) community about what exactly the move to a net zero emissions economy means for them.

Energy and climate

Managing energy costs

The steep escalation in energy costs through 2022 puts pressure on businesses, particularly those who are particularly energy intensive or gas dependent. The package of measures legislated in December as the energy price relief plan will provide businesses with short-term respite from the most severe impacts of price rises and this is welcome.

Energy costs are still up significantly compared to previous years, and businesses whose previous supply contracts are expiring will face much higher prices on new contracts – up to 400 per cent depending on how competitive their previous arrangements were. It is unclear how the rebate measures included in the legislation (but to be implemented by states) will be passed through to SMEs. Specifically, it remains to be seen how SMEs will be defined, when any rebates will be made, and the value of the rebates.

The longer-term impacts of the package are also still to play out. The Government has confidently stated that it expects no impact on investment in future supply; **Business NSW** finds it hard to share this confidence. For many years we have supported measures to improve supply of gas as an interim measure until emissions-free alternatives (such as hydrogen and/or electrification of industrial processes) are commercially viable. In a NSW context, this has primarily focused on the development of the Narrabri Gas Project along with supporting measures to increase the capacity of the inter-state gas transmission network to enable more gas to flow southward from Queensland to NSW and Victoria, and to support energy efficiency improvements in gas-using businesses. In this context, we think it important that the impact on future investment and supply be monitored, and that the Government set out a clearer indication of the conditions in the gas market that would be required for the government to be comfortable withdrawing its power to determine "reasonable prices". **Business NSW** is a member of the Australian Chamber of Commerce and Industry (ACCI) and contributed to ACCI's submission in response to the draft legislation, which set out these concerns.[8]

Recommendation

Set out a timetable or clear set of market conditions after which the Government will relinquish its power to set prices in the gas market.

Against the backdrop of elevated energy prices, there is scope for considerably more support for businesses to reduce their energy consumption and prepare the way for the transition to a net zero emissions economy. **Business NSW** has responded to the consultation on the National Energy Performance Strategy setting out the case for a new program to provide advice and support for SMEs, incorporating energy efficiency and net zero preparedness alongside getting the best deal for energy supply. **Business NSW** set out the case for a new SME-oriented energy advice and support program in its November 2022 report Unfinished Business, available at the link below.[9]

To get good outcomes from the energy system, businesses are expected to interact with the system in a variety of ways. However, outcomes often fall short of what is desirable, as outlined extensively by the ACCC in its 2018 Retail electricity Pricing inquiry. In the follow-up to that inquiry, the Commonwealth Government established the Business Energy Advice Program (BEAP), which **Business NSW** delivered.

[8] Australian Chamber of Commerce and Industry; Competition and Consumer (Gas Market Emergency Price) Order 2022. Submission to the Treasury; 15 December 2022. https://www.australianchamber.com.au/news/targeted-price-relief-welcome-but-price-caps-will-cause-supply-problems

[9] Business NSW; Unfinished Business; https://www.businessnsw.com/content/dam/nswbc/businessnsw/submissions/November_2022_ECA_Survey_Report_low-res.pdf

Business NSW is not pretending to be a disinterested bystander. We are proud of the BEAP's record and its accomplishments. despite operating most of its life against the backdrop of the COVID-19 pandemic, the BEAP still managed to reach one in every 14 Australian businesses in the target demographic (6-20 employees or 1-20 employees in drought affected areas).

Yet despite the outreach by the BEAP, the problems faced by small businesses – as identified by the ACCC in 2018 – have not gone away, and in some cases are worse now than they were. A changing energy market, with an explosion of new technology, new service types, new data and new needs, is more complex to navigate than ever. Thanks to the global events of early 2022, costs are once again high. And with BEAP now closed, businesses have fewer places to turn for help than they did a year ago.

The report shows what small and medium-sized enterprises (SMEs) need from future energy policy programs, and what could be accomplished by policymakers with a renewed focus on SMEs. it indicates how to get quality energy advice to businesses; where to focus energy efficiency efforts for the SME sector; and the necessity of incorporating net zero readiness into future SME-oriented energy programs. SMEs struggle to access useful advice, and all too often have to resort to poorly rated sources of advice, such as from energy companies or Internet searching, rather than being able to access the highest-rated, independent advice from engineering experts or peak bodies. SME owners are interested in making their businesses net zero ready but have limited knowledge and understanding of the implications for their business directly.

Recommendations

Establish a new energy advice and support program targeting the SME sector, that:

- Expands businesses' access to advice from trained engineers or peak bodies with industry sector expertise.
- Emphasises environmental and community benefits as well as financial impacts.
- Embeds net zero and energy transition support
- Is tailored to meet the needs and operating environment of SMEs

Preparing for a net zero economy

The transition to a net zero economy will have profound implications for the business community over the coming years. Beyond the need for advice and support for SMEs, as outlined above, a number of other actions are needed to ensure that net zero ambitions are met as cost-effectively, and with as little disruption to the wider economy, as is possible.

It is disheartening, then, that recent years have seen the beginnings of fragmentation between the states and territories on energy and climate policy, just at the point at which collective action is most critical. While the steps taken by individual states may have merit on their own terms, the actions particularly of the key East Coast states of NSW, Victoria and Queensland have diverged from one another to a concerning degree. While activities such as the AEMO Integrated System Plan aim to weave these disparate activities into a coherent whole, there is a risk should states pull further apart that investments will be duplicated and opportunities for integration and systemwide optimisation lost, driving up the costs of transition for all energy users. It is important that the Australian Government takes the time to rebuild confidence in the National Energy Market. With unity of purpose on the need to cut emissions re-established, it would be a great loss if we revert to a disaggregated grouping of state-based energy systems.

The complexities of managing a renewable energy-dominated system make the pooling of generation, transmission and storage resources more important than ever. States must be discouraged from trying to solve problems solely within their borders, and instead look to the shared interests they all have in common in maintaining a stable low-emissions electricity system.

Recommendation

Use the designation of an emissions reduction objective in the National Energy Objectives as the basis for rebuilding confidence in the National Energy Market. Discourage further actions by states that work contrary to integration of state energy systems.

Australia's energy regulatory environment has always been complex, and the transformation demanded by the transition to clean energy offers the opportunity to rethink some of its regulatory structures. In recent years we have seen an ever-growing role for government financial guarantees underpinning all investment in major infrastructure. Guaranteed revenues initially developed for regulated monopoly businesses have been transferred to the generation and storage sectors, as seen with the development of Snowy 2.0 or the NSW electricity infrastructure roadmap. Meanwhile genuine innovation, particularly in retail markets and demand-side services, is still relatively rare. Investors appear to be more attracted by the promise of ever-larger guaranteed returns underwritten by taxpayers or energy billpayers, than by the possibility of entering into a marketplace which rewards innovation and customer-focused business practices.

While it is important to avoid creating regulatory uncertainty that would discourage investment, **Business NSW** believes this is an opportune time to review the complexity of institutional arrangements in the sector and the role of regulation in ensuring the capital required to facilitate the energy transition is delivered. This would incorporate a re-evaluation of the Federal-state relationships in the energy sector, the ongoing role of the Energy Security Board, the Energy National Cabinet Reform Committee (ENCRC) and the Energy Ministers' Meeting (EMM) and the energy market bodies. The labyrinthine institutional arrangements in the Australian energy market increase the barriers to entry for new participants or those coming in from overseas, and it is difficult to see that the incremental addition and reshaping of these bodies over recent years has delivered significant benefits in terms of policy clarity, prices, competitiveness or any other market outcomes. Indeed, it is telling that when things came to a head in 2022, it was political legislation, not actions from the assortment of regulators, that delivered any meaningful response. The overwhelming need is for streamlined, unified and active decision-making and regulatory systems to enable the speed of change, magnitude of investment, roll-out of new products and development of technologies required for a resilient energy transition.

Recommendation

Treasury support a broader review aimed at reducing regulatory complexity and nurturing greater innovation and new market entry in the energy sector.

Proposed reforms to the Safeguard Mechanism will shape the operating environment for larger industrial emitters. **Business NSW**, along with ACCI, supports the direction of the reforms.[10] Our views were captured in the ACCI submission to the consultation on the reforms. Complementing reform of the Safeguard is the work to improve the integrity of the carbon credits market. For larger businesses with a regulated duty to reduce emissions, and for smaller businesses voluntarily seeking to reduce their emissions footprint to reach net zero, a well-functioning credits market is vital. Without a viable offsetting market, sectors whose emissions reductions are likely to be non-linear (i.e., reached through major investments in replacing critical equipment rather than through incremental process improvements) or which require as-yet uncommercial technologies (e.g., 'green steel', aviation or cement) have no 'safety valve'. To the extent that genuine abatement can be achieved in other sectors or companies at lower cost, having a credit market that nurtures this lower-cost abatement is helpful on the journey to a net zero emissions economy. However, credibility is crucial, and past experiences with some international and some domestic credits has increased wariness among policymakers and businesses alike, that credits will achieve the reductions being paid for.

Recommendation

Update and maintain a credible abatement credit market for business subject to the Safeguard Mechanism Reform Review.

One of the most significant threats currently facing the energy transition is the tightness in market capacity. Shortages of skilled workers and critical equipment have caused delays and budget overruns, and further impacts are inevitable. This threatens a precarious scenario in which closures of old and dirty electricity generation (coal and some gas) remains on schedule or is even accelerated, while the timetables for replacement investments (inter-state transmission interconnectors, renewable energy zones, Snowy 2.0) slip back ever further. While AEMO continues to downplay the risks of outright shortages in its forecasting documents, its analysis appears to omit some of the more recent announced delays and to treat the likelihood of all new infrastructure being delayed as unlikely. Businesses are not so sanguine. **Business NSW** observes that the supply chain and skills challenges are systemic, not project specific. In other words, delays to one project make delays to another project more likely.

There are some countervailing trends: improvements in energy efficiency continue, and the spread of solar PV is helping to reduce demand on the system for some key periods. However, a scenario in which ageing generation needs to be kept available to compensate for delays to commissioning new infrastructure may still be necessary, even if it is not particularly attractive from an emissions point of view – given the deteriorating reliability of those ageing assets it is a bad option when the only other options are even worse.

Last year **Business NSW** published Down to the Wire, making a number of key recommendations for the improved coordination of critical infrastructure to improve the chances of timely and to-budget delivery.[11] The Government has already begun the welcome implementation of one of our major recommendations, with an overhaul of the duties of Infrastructure Australia. The need for

[10] Australian Chamber of Commerce and Industry; Safeguard Mechanism Reforms Submission; September 2022. https://www.australianchamber.com.au/wp-content/uploads/2022/09/Submission-Department-Climate-Change-Energy-Environment-and-Water-Safeguard-Mechanism-Reforms-September-2022.pdf

[11] Business NSW; Down to the Wire; https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Riverina%20Project%20-%20Down%20to%20the%20Wire%20Report.pdf

increased ‘on the ground’ coordination of megaprojects, particularly in regional areas where many such projects overlap remains. There are opportunities for better sharing of workforce, housing and other critical inputs, but contractors and commissioning Government departments have proven reluctant to make plans and data publicly available. Instead of a coordinated approach to delivery of the major infrastructure in the Riverina-Murray region of NSW, we found a ‘beggar my neighbour’ approach with contractors poaching each other’s workers, refusing to share plans and with the sponsoring Government departments fighting each other for prioritisation rather than identifying solutions that could support all the different projects being built.

Recommendations

Infrastructure NSW and Infrastructure Australia should be empowered to reassess business cases for major infrastructure projects when there is a material change in estimated costs, and where there is no other body (such as the AER) with relevant oversight of the project.

The ongoing review of Infrastructure Australia should empower IA to advise on the sequencing of infrastructure investments, both to ensure that the highest-value projects are prioritised, and to manage workloads within particular geographic areas or skill types.

A regional infrastructure Coordinator General for the Riverina Murray region (and other regions with multiple major infrastructure project builds taking place) should be appointed with a scope of responsibility including pipeline scheduling, portfolio management, macro resource alignment and reporting to local governments. this service must be able to analyse the cumulative impacts of infrastructure projects whose geography and/or timing overlap.

Projects reliant on public funding (through taxation or through mandatory charges such as energy network costs) should be required to publish information on their expected workforce requirements.

Cumulative impacts of labour market impacts should be considered in EIS processes alongside cumulative environmental impacts of multiple projects in a location. Where cumulative impacts are found, project proponents or developers should be encouraged to find solutions collaboratively with the other projects contributing to the impact, such as through combined training offerings or ‘pooled’ workforce arrangements to facilitate workers moving from one project to another to efficiently deliver multiple projects.

The development of a hydrogen economy sits at the centre of state and Federal visions for the future net zero Australian economy. Hydrogen is envisaged playing a central role in revitalising domestic manufacturing, in becoming an export commodity bringing revenues into Australia, and conceivably in providing an alternative pathway to electrification for decarbonising transport.

Supply chain resilience

The experience of the COVID-19 pandemic and its aftermath, and the subsequent invasion of the Ukraine by Russia, has brought considerable attention to the issue of supply chains and economic resilience. Through the pandemic the impacts of supply chain disruptions on **Business NSW** members were mixed, with some seeing serious problems due to shipments stuck in Chinese ports or held up in warehouses in locked-down suburbs, while others saw little to no material impacts on their business.

As Governments evaluate what interventions may be justified to minimise the effects of any future crises on the Australian economy **Business NSW** thinks it important that the right lessons are learned and the right actions taken, to avoid the risk of proposing a ‘cure’ that turns out to be worse than the ‘disease’. We see a number of significant areas where Governments can support a more diversified, more resilient supply base. We also highlight some of the pitfalls that we recommend that Governments avoid.

Transport infrastructure

During the pandemic the freight transport system suffered a number of shocks. Air freight collapsed as flights were curtailed by travel restrictions. Prolonged closures of several ports, particularly in China but also other parts of southeast Asia, saw shipments held up. The prices of cargo containers rose more than fivefold, with new fees also introduced on shippers penalising time taken to return empties. Port Botany was the site of ongoing industrial action (still unresolved at the time of writing). State borders were closed with Western Australia shut off for almost two years. Lockdowns affecting suburbs in Western Sydney shuttered many key logistics and warehousing facilities. Even the Suez Canal was briefly blocked.

Some of these problems are still ongoing. International aviation has not yet reached pre-pandemic levels, meaning less space in cargo holds for freight shipments. China’s troubled emergence from COVID-19 lockdown has meant ports continue to struggle. Industrial action at Australia’s ports has not subsided but escalated. Business NSW recognises the Australian Government focus on Industrial Relations Reform and notes, our ports are too critical to business and the communities they serve to be subject to ongoing industrial disputation.

Recommendation

Prioritise resolution of industrial disputes at Port Botany and other Australian ports. Make use of provisions in the Secure Jobs Better Pay Legislation to arbitrate a lasting resolution if needed, and to prevent the escalation of industrial disputes as other port-based contracts come up for renewal.

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 is to see Government focus on completing existing commitments rather than calling for new works that may not be achieved for more than a decade.

New proposals should be rigorously guided through the Infrastructure Australia assessment process, with a formal business case and cost-benefit evaluation. In our proposals for reforming Infrastructure Australia, we called for greater utilisation of its cost-benefit analyses and formation of a ‘true’ Priority List. In keeping with that recommendation, we support Infrastructure Australia evaluating which projects on the list are suitable for future investment, while Business NSW will suggest future projects for evaluation by IA for inclusion on the list at a later date.

Maintenance of existing infrastructure is crucial for keeping the arteries of the economy flowing. With the exceptional levels of rainfall and widespread flooding this year, NSW’s roads and railways are in terrible condition, contributing to accidents and reducing access to key agricultural and industrial equipment. Councils lack the funds to tackle the backlog. We have called for the State Government to devote funding to make up the difference, and welcomed their response, but with the costs of repairs estimated at potentially in the region of $2-3 billion in NSW alone, it may be necessary for the Federal Government to join forces with the states to ensure that fractured, potholed, and fundamentally unsafe roads do not become a drag on the economy, especially in regional and rural areas.[12]

Recommendation

The Commonwealth should provide 2023-24 funding package to support state and local governments in addressing the post flood Roads Maintenance Emergency.

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

Bringing down the costs of electric vehicles would support more widespread business investments in EVs. Increasing the supply of vehicles entering the market would certainly support this outcome, but at this early stage in the move towards EVs there is still also space for direct incentives, including the tax incentives set out in the October 2022 Budget and complementary policies from the state of NSW to incentivise EVs and EV charging infrastructure. However, as yet the combination of high upfront vehicle costs relative to non-EVs is not yet sufficient to justify investing in EV replacement for many businesses' vehicles. As a result, we think it is appropriate to consider additional measures, or to prolong the duration of measures already in place, in order to continue to encourage EV adoption by businesses.

Disruption to vehicle supply chains during the pandemic have helped to slow momentum for EV sales, as accessing new EV models has meant dealing with long lead times and inflated prices. As the market returns closer to normal operating conditions, these constraints should ease giving a clearer sense of the effectiveness of current incentive schemes without facing the headwinds of the supply chain disruptions.

Manufacturing strategy

The post-pandemic geopolitical landscape has led to growing calls for governments to assert a 'sovereign' approach to aspects of the economy, particularly manufactured goods and some primary commodities. **Business NSW** supports an audit of manufacturing capabilities and objectives at the state level to avoid the potential risks in asking Governments to steer large sectors of the economy such as rolling stock manufacture from the centre. A nationally coordinated approach to industry policy is now critical.

[12] Local Government NSW; Local Government NSW declares a Statewide Roads Emergency; https://www.lgnsw.org.au/Public/Public/Media-Releases/2022/1103-Statewide-Roads-Emergency.aspx

The AdBlue supply chain example remains pertinent. While this supply chain was excessively vulnerable to interruption, we hesitate to conclude that this vulnerability would have been apparent to a government agency before industry participants and observers concluded that an AdBlue shortage was likely to unfold. The inherent unpredictability and complexity of global supply chains mitigates against the ability to pre-empt crises in this way. In a complex modern economy, even relatively simple manufactures have deeply sophisticated supply chains. Take the surgical face mask: “face masks have at least four components: the medical grade fabric, the elastic, the thin metal strip that bends over your nose and the stitching that holds it together. Having genuine sovereign capability in the production of face masks means being able to produce all four of these things domestically, and then assemble them domestically, too”.

Furthermore, with the pandemic still on many policymakers’ minds, there is a significant risk of ‘preparing for the last crisis’ when it comes to developing a ‘sovereign supply’ strategy for manufacturing and stockpiles. Face masks were in high demand during the pandemic, but a stockpile of medical PPE is of less relevance to a terrorist attack, or a major flood, or a financial collapse. As any business owner can tell you, storage of stockpiles is not cheap. It is not possible to stock up for every eventuality. Far better to ensure access to supplies of all kinds from a diversity of companies and locations, entering the country through many ports of entry, responding to needs that emerge.

Finally, the most significant risk encompasses all of the previous issues. They risk diverting activity away from developing products and services that customers want, and towards cultivating relationships with the regulators and policymakers who control these key decisions. If businesses see an easier path to success by pursuing being listed as an essential product to access trade protections or financial handouts, they will become less competitive internationally, weaken the value received by their customers and ultimately reduce Australian productivity.

Trade and investment

Recommendations

Support a state-based industry audit of manufacturing capabilities (and co-ordinate with Federal Agencies) with a view to taking advantage of manufacturing capacity strengths and focussing on more resilient supply chains

New South Wales is a significant exporter of goods and services. Our exporters are successful and resilient. NSW businesses, wary of geopolitical events and previous reliance on one key market, also need support to pursue the growth our state and nation need. The first year of the first term of a new Australian Government has seen a welcome re-engagement with our largest trading partner and also a refreshing pursuit of alternate growth markets from our own region (such as India) as well as further afield (Europe and North America).

[13] Adam Triggs and Shiro Armstrong; Four fallacies that mean sovereign capability won’t work; Research Institute of Economy Trade and Industry https://www.rieti.go.jp/en/papers/contribution/shiro-armstrong/08.html

Business NSW supports our VCCI colleagues in calling for the Federal Government to consider funding an industry-led business mentoring and support program for potential exporters to improve their capability and previous exporters bruised by events of the past three years again embrace growth opportunities. Through State and Federal Trade and Investment agencies, business needs practical support and tools to confidently enter export opportunities.

A strategy of deeper engagement with potential trading partners is desirable, within the Asia Pacific in the first instance, and also with the wider world. Instead of an approach that seeks simply to substitute ‘made in China’ for ‘made in Australia’, we need an approach that brings into play allies and potential allies across the region. There is scope to make use of comparative advantages, including a highly educated workforce and the future potential for abundant low-cost renewable energy, to attract higher value-add activities in the future.

Early efforts at nurturing economic relationships with southeast Asian economies are encouraging, but there is scope for much more to be done. Australia must remain a key pillar of open trading relationships in the Pacific region and across the world and avoid resorting to the same kind of economically nationalistic conduct that Australia has (rightly) criticised others for in the past.

That’s why Business NSW also supports the Australian Government’s reformed Export Market Development Grant (EMDG). Latest figures at the time of writing from Austrade show 3,600 Round 1 grantees were paid $92.4 million (October 2022 Austrade) with more following through 2023. This support has assisted thousands of small and medium enterprises seeking to build new markets and underpin Australia’s growth. Business NSW supports the continuation of the scheme and further expansion of the EMDG in the 2023-24 budget. Greater promotion and awareness of Austrade programs direct to SME firms and consider raising the eligibility (turnover of $20 million) ceiling.

Recommendations

Improve trade and economic data collection and analysis capability of Austrade

Fund an industry-led mentoring program to help more Australian businesses become export ready with practical tools and guides.

Maintain the Export Market Development Grant (EMDG) to help more businesses enter diversified export markets and consider expanding funding and scheme eligibility.

Continue work to improve diversified trading relationships across Asia Pacific region and beyond.

FOR FURTHER INFORMATION

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