

**BUSINESS
NSW**

SMALL BUSINESS STRATEGY

MARCH 2020



**140 Arthur Street
North Sydney NSW 2060
P: 13 26 96**

Introduction

Business NSW welcomes the opportunity to provide a submission to the Government's Small Business Strategy.

Formerly the NSW Business Chamber, Business NSW is the peak policy and advocacy body which has been representing businesses in NSW since 1826. Business NSW is one of Australia's largest business support groups with a direct membership of 20,000 businesses. Business NSW works with government, industry groups, as well as business and community leaders to provide a voice for our members. Operating throughout a network in metropolitan and regional NSW, Business NSW represents the needs of business at a local, state and federal level.

2020-21 pre-Budget submission

Business NSW's 2019-20 pre-Budget submission is attached to this document (see Attachment A) as many of Business NSW's priorities ahead of the Budget overlap with the needs of small business. Business NSW intends for these submissions to be read in combination.

Recent and ongoing reviews

Business NSW is pleased to have participated in key Government consultations including the *Review of Federal Financial Relations* (FFR Review) and the *Productivity White Paper* process (Productivity Review). Business NSW also welcomed the release of the NSW Economic Blueprint.

We welcome the FFR Review as an opportunity to examine the efficiency and sustainability of the NSW tax base, including inefficient and costly business taxes. Similarly, the Productivity Review will provide an opportunity to examine some of the longer-term regulatory and productivity challenges faced by the businesses of NSW.

Business NSW made 93 recommendations in its submissions to the FFR Review¹ and Productivity Review². These submissions spanned areas such as human capital, energy, transport, tax, regional development and regulatory reform. Business NSW also made a submission³ to the Legislative Assembly Inquiry into *Support for drought-affected communities in NSW*. This submission should be viewed in the broader context of these recent submissions which more comprehensively set out Business NSW's medium-term priorities.

¹ See [https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/191122-Thodey-Review%20\(1\).pdf](https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/191122-Thodey-Review%20(1).pdf).

² See <https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/191127-Productivity-Review-Final.pdf>.

³ See <https://www.parliament.nsw.gov.au/ladocs/submissions/66856/Submission%2046%20-%20NSW%20Business%20Chamber.pdf>.

The unique needs of small business

Ready access to help, information and advice relevant to their circumstances is essential to creating an environment which not only enables but encourages individuals to start up, run and grow a small business.

While there are many similarities between small businesses (size being an obvious one), there are also significant differences. It is only after these similarities and differences are considered that an over-arching strategy fit for purpose can be developed.

Issues common to many small businesses include:

- being time poor (there is no such thing as a 38-hour week)
- needing to rely heavily on business networks to succeed
- struggling to find the time to work on their business (as opposed to 'in' their business)
- being able to manage their cash flow, which is typically uneven and based on extremely tight profit margins, especially in the start-up phase or when there is disruption to their business operations
- finding the burden of red tape frustrating and the pace of regulatory change challenging
- being deeply committed to their business and prepared to make significant sacrifices (such as mortgaging or selling the family home and foregoing a wage) to ensure its success
- tending to look to member and/or industry associations for help, information and advice in relation to all of the above.

The differences can generally be understood in terms of:

- stage of business lifecycle
- the industry they operate in
- their geographical location.

This submission addresses common themes in relation to the type of help, information and advice typically required by and available to small business owners and operators in NSW and includes recommendations for the NSW Government's consideration.

For more information contact:

Elizabeth Greenwood
Policy Manager, Workers Compensation, WHS and Regulation
Business NSW
Tel: 02 9458 7078
Email: Elizabeth.Greenwood@businessnsw.com

List of recommendations

Recommendation 1

The *Easy to do business* initiative should be expanded to more policy and local government areas. The Small Business Strategy should consider how greater participation in this initiative could be incentivised and encouraged. It should also identify and communicate case studies that demonstrate the benefits to small businesses and local economies.

Recommendation 2

The Government should facilitate opportunities for collaborations between developers of new technology and users to identify new opportunities for solving policy challenges including streamlining compliance burdens. The Government should establish an unsolicited proposal framework so that developers can gain access to Government and propose novel solutions to regulatory challenges.

Recommendation 3

The Government should, when developing public policy positions (especially for a policy area that is being addressed at both a state and federal level), ensure that:

- recommendations of 'best practice' are clearly identified and differentiated from those business practices that need to be put into place to ensure legal compliance;
- the overarching legislative framework is taken into consideration to avoid any conflict or divergence of well-understood legal concepts; and
- it is not imposed upon an employer as a matter of regulatory convenience where responsibility for a particular matter properly lies elsewhere.

Recommendation 4

The Government develop a single portal to communicate and link small businesses with Government services and programs and utilise different communication channels (for example, targeting Facebook groups) to ensure information cuts through.

Recommendation 5

Review the Business Connect program with a view to supplementing the service offering.

Recommendation 6

The needs of small business, including their lack of scale to deal with compliance challenges, needs to be front of mind when considering the impact of regulatory changes on small business.

Recommendation 7

All 'generic' small business information being developed and produced by government agencies should ensure that it does not mislead about the potential for additional industry-specific requirements (where materials do not include those requirements).

Recommendation 8

Small business information should be delivered in a way that accommodates the attributes particular to businesses situated in regional areas.

Recommendation 9

The NSW Government should explore opportunities to leverage analysis and recommendations from the *Review of Payroll Tax Administration* to reduce the complexity of other legislation that applies to the workforce of small businesses.

Recommendation 10

Progress should be made toward recommendations 6 and 12 of the PRT Review.

Recommendation 11

Revenue NSW should ensure clarity for businesses engaging in chain of on-hire arrangements by adhering to revenue rulings relating to these arrangements.

Recommendation 12

The NSW Government should continue to engage and work with small business employers to identify barriers, such as declining return to work outcomes within the NSW workers compensation scheme.

Recommendation 13

The Government should monitor the ongoing impact of recent reforms to NSW Government procurement and fine-tune where necessary.

Recommendation 14

Progress and evolve NSW procurement practices based on new work streams identified in Table 2 of this submission.

Recommendation 15

That the Government partner with Business NSW to develop a campaign to communicate workforce programs to small business.

Recommendation 16

Extend and expand funding for the Models for Workplace Engagement project, specifically with a focus on building engagement with small businesses.

Recommendation 17

To support responses to future shocks, the NSW Government should examine how it can support businesses in mitigating the risk of risks which cannot easily be avoided through standard business insurance policies. Potential responses include Business NSW's 2019 NSW Election Campaign which proposed a concierge service and an effective and timely triage service underpinned by a Natural Disaster Recovery Fund.

Recommendation 18

Review the current regional economic plans and consider each region's ability to complement the economic activity of the others, including across borders.

Recommendation 19

The NSW Government should take on a stewardship role in supporting local governments' economic development strategies. In doing so, the NSW Government should examine how it can support local Regional Economic Development Officers, including by supporting their skills, capacity and building local capability.

Recommendation 20

The small business strategy should maximise opportunities by engaging closely with the *NSW Women's Strategy for 2018-22*, which aims to improve economic, social and physical well-being for women.

Recommendation 21

The SBC should prioritise program delivery and support for small business. The SBC should also provide feedback received from small businesses to policy agencies.

Recommendation 22

The SBC's office establish a new engagement architecture to build greater connections with local business organisations — including local Chambers of Commerce and Business NSW in all areas including regional offices.

Recommendation 23

Boost funding for training and support for new and expanding businesses with a view to supporting businesses as they take on new challenges such as hiring staff.

Recommendation 24

The Government should consolidate existing grants, support and other forms of business assistance into a streamlined grants program. Grants should be more visible to practitioners, application processes simplified, and likely grant outcomes clear to applicants.

Table of contents

Part 1 — Making it easier to do business	8
Setting the scene: Business NSW's 2020 Red Tape Survey	8
Expanding the <i>Easy to do business</i> initiative	10
Technology can improve the regulatory experience	11
Identifying opportunities to improve regulatory systems.....	11
The risk of 'regulation creep'	12
Part 2 — Easier access to business information.....	13
Multiple sources of information.....	13
Business Connect.....	14
Business lifecycle considerations	14
Industry considerations.....	15
Geographic location.....	15
Part 3 — Making it easier to employ people	16
Complexity of definitions.....	16
Contractor provisions in the <i>Payroll Tax Act 2007</i>	17
Chain of on-hire arrangements	17
Workers compensation.....	17
Part 4 — Contracting with government	19
Procurement survey results.....	19
Further work streams.....	19
Part 4 — Building small business capability.....	24
Access to a skilled workforce	24
Building business resilience	25
Needs in regional NSW	25
Women in business	25
The Small Business Commissioner.....	26
Training and support for new and expanding businesses.....	26
Reviewing business grants.....	27

Part 1 — Making it easier to do business

When referring to ‘red tape’ or ‘regulatory burden’, the concerns of small business are not confined to the time it takes to fill out a particular form or having to provide the same information to a number of different government agencies. They include all of the steps leading up to the form-filling exercise including knowing which regulations apply and what the business owner has to do to comply with those regulations. Business NSW encourages a more holistic approach which recognises the various pain points which impact businesses in NSW.

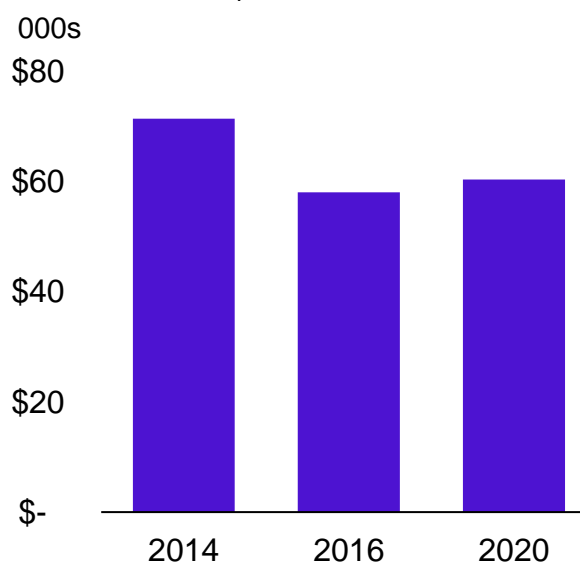
Setting the scene: Business NSW’s 2020 Red Tape Survey

Business NSW conducted a survey of members to understand how changes in the regulatory environment are impacting NSW businesses.

Overall businesses report the burden of regulation, including from Commonwealth, State and local government, to be higher than when we last conducted the survey in 2018. Key metrics such as hours spent on compliance activities and the annual cost of regulatory burden were slightly higher (see Charts 1 and 2). Disappointingly, 67 per cent indicated the overall burden of regulation had increased over the past three years with 29 per cent indicating it was much higher compared to 21 per cent in 2016 (see Chart 3).

Chart 1 — Average cost

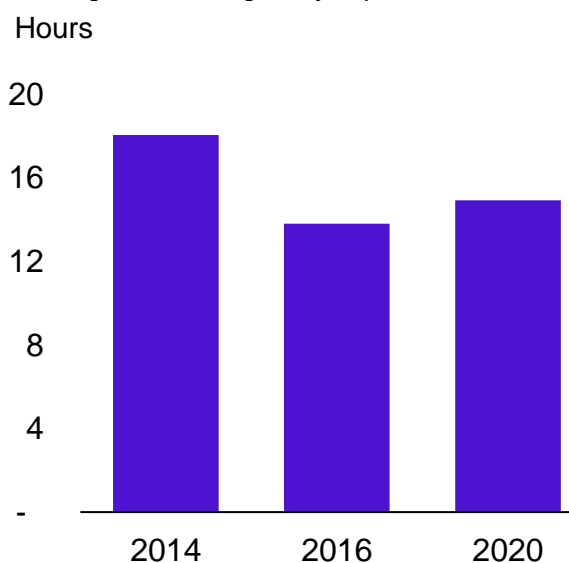
Question: What is your estimated overall annual cost of complying with government regulatory requirements?



Source: Business NSW Red Tape Surveys, 2020, 2016 and 2014.

Chart 2 — Average hours

Question: Approximately how much time does your business spend per week on complying with government regulatory requirements?



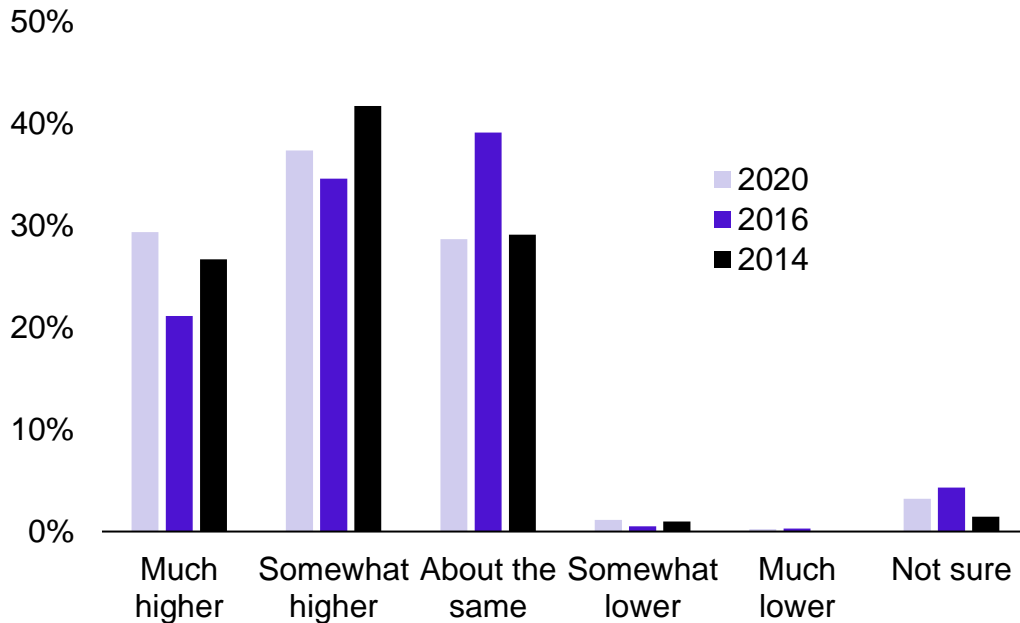
Source: Business NSW Red Tape Surveys, 2020, 2016 and 2014.

Respondents were asked to identify areas of regulation warranting regulatory or compliance changes to make it easier to do business in NSW (see Chart 4). Many respondents raised concerns about tax, the majority of which cited payroll tax. Some raised tax in the general sense as it relates to business competitiveness, while others specifically referred to tax administration challenges. Many endorsed a higher payroll tax threshold as a means to reduce regulatory burden. Workplace relations was another concern with topics such as unfair dismissal, redundancies and the complexities of Awards raised frequently. Workers compensation was another common issue. Many referenced premiums while others noted concerns about the entire system.

Respondents were also invited to indicate areas where they had seen some improvements. Specific agencies were listed with the ATO and Service NSW the top performers. Business NSW believes these agencies are embracing models of best practice that should be more widely adopted across government.

Chart 3 — Change in red tape

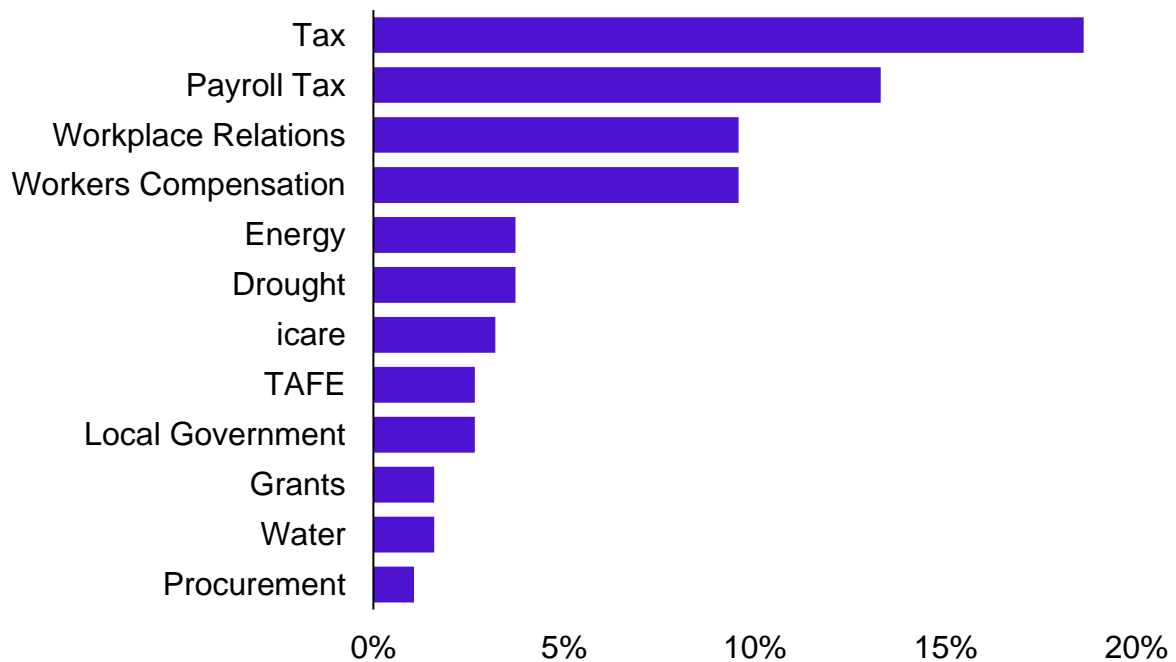
Question: How has the overall burden of regulation on your business changed over the past three years?



Source: Business NSW Red Tape Surveys, 2020, 2016 and 2014.

Chart 4 — Unprompted areas for improvement

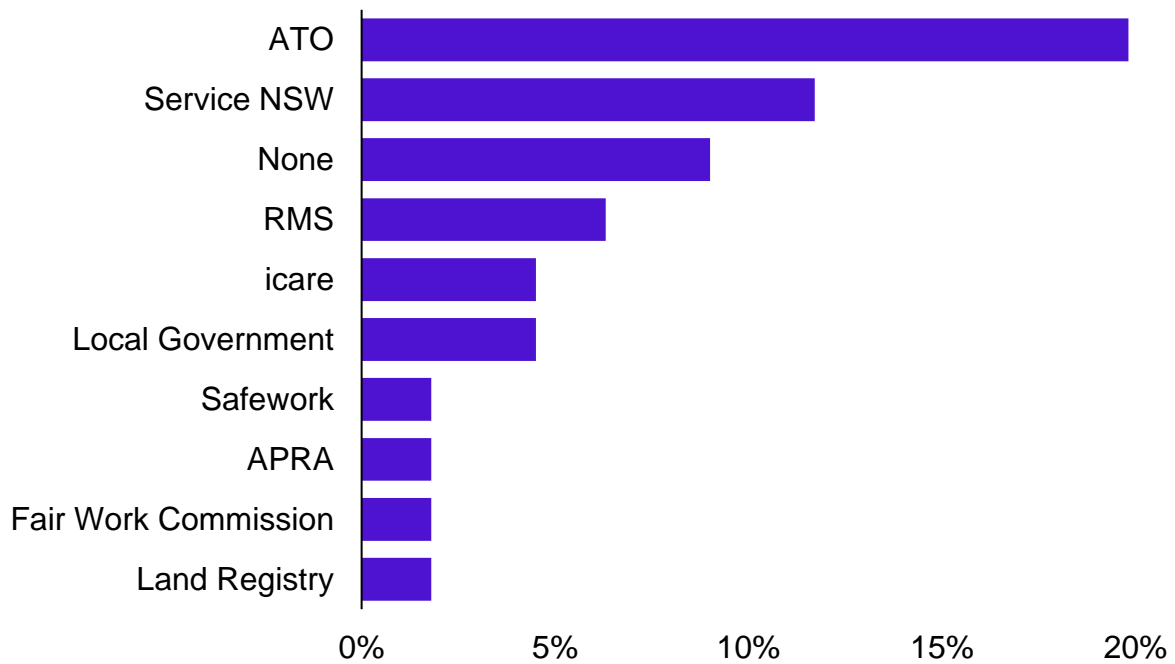
Topics raised in response to the question: Do you have any specific practical suggestions of regulatory/compliance changes that would make it easier to do business in NSW?



Source: Business NSW Red Tape Survey (2020).

Chart 5 — Most improved agencies

Agencies raised in response to the question: Which government agency (or agencies) has made the most improvement in terms of how they deal with you as a business?



Source: Business NSW Red Tape Survey (2020).

Expanding the *Easy to do business* initiative

Recommendation 1

The *Easy to do business* initiative should be expanded to more policy and local government areas. The Small Business Strategy should consider how greater participation in this initiative could be incentivised and encouraged. It should also identify and communicate case studies that demonstrate the benefits to small businesses and local economies.

Business NSW welcomes the Government's approach to reducing red tape by making it easier to interact with the NSW Government and streamlining application processes. The *Easy to do Business* initiative has launched several successful pilots which have reduced red tape for businesses involved.

Many of these pilots have required close partnership with local governments who, in turn, have had to review how they engage with business. A key to the ongoing success of the program is to scale-up the benefits by expanding to a greater number of local government areas. Progress must also continue to identify new focus areas for streamlining application processes in areas such as planning and improving cooperation between governments. Business NSW welcomes further implementation of the program to new industries and local government areas. Efforts to improve outcomes under the initiative could include:

- providing greater transparency around local governments that have opted into the program ahead of local government elections
- addressing impediments to local government participation (such as where there are financial impediments)
- incentivising participation by initiating targeted payments to local governments to compensate for revenues forgone (such as where work streams require fees to be waived)
- enhancing the communication of case studies that demonstrate the benefits of the initiatives.

Technology can improve the regulatory experience

Business NSW welcomes the appointment of the Minister for Customer Service to further streamline and improve the delivery of government services. A focus on service and the user experience will ensure NSW is well-placed to benefit from new technologies.

Business NSW notes that many of the most notable improvements precipitated by technology are not the result of advances along the technological frontier but rather innovations in the way we interact with technology. For example, one of the key innovations of ridesharing platforms is to reduce frictions in the user experience such as by integrating payment and providing certainty as to waiting times (by allowing the user to see where their driver is located).

Similar benefits can be gained through the adoption of technology when considering the compliance challenges of business. For example, a streamlined regulatory environment allows businesses to dedicate fewer resources to compliance without compromising regulatory objectives.

Identifying opportunities to improve regulatory systems

Recommendation 2

The Government should facilitate opportunities for collaborations between developers of new technology and users to identify new opportunities for solving policy challenges including streamlining compliance burdens. The Government should establish an unsolicited proposal framework so that developers can gain access to Government and propose novel solutions to regulatory challenges.

A top-down approach (whereby the government designs and implements solutions) is unlikely to realise the full potential of technology. Governments do not always have visibility of user pain points where technology could solve compliance challenges. Even once pain points are identified, governments may not have visibility over what are the best solutions. There may also be resistance to change due to internal factors and legislative frameworks which limit the scope for technology to offer an alternative solution (such as in the case of payroll tax administration where the definition of wages makes it hard for software platforms to streamline payroll tax reporting).

By contrast, some of the best examples of the NSW Government's embrace of technology have come from bottom-up solutions developed through collaboration between developers and users. For example, open data has facilitated a range of transport apps that have improved experiences for users of public transport.

A successful bottom-up approach requires governments to embrace new opportunities presented by, on some occasions, small providers that have limited experience in engaging with or dealing with government. For example, RegTech providers are offering new approaches for meeting policy objectives in financial services (RegTech refers to technological solutions that streamline and improve regulatory processes).⁴ The key to success in the RegTech sector has been the willingness of financial regulators to engage new technologies.

Many of the aspects of assurance being delivered by RegTech providers could have applications across a broad range of regulatory areas. Business NSW encourages the Government to explore partnership with technology providers including through close engagement with the emerging RegTech industry.

A further way to harness bottom-up regulatory innovation is to have a framework for unsolicited proposals to government (such as the existing framework for infrastructure proposals).

⁴ The RegTech Book, 2019, p.vii.

The risk of 'regulation creep'

Recommendation 3

The Government should, when developing public policy positions (especially for a policy area that is being addressed at both a state and federal level), ensure that:

- recommendations of 'best practice' are clearly identified and differentiated from those business practices that need to be put into place to ensure legal compliance;
- the overarching legislative framework is taken into consideration to avoid any conflict or divergence of well-understood legal concepts; and
- it is not imposed upon an employer as a matter of regulatory convenience where responsibility for a particular matter properly lies elsewhere.

Business NSW has previously expressed concerns about overlapping regulatory obligations that make it harder for businesses to understand what they need to do and ultimately more costly to comply. This can occur where subject-specific solutions are initiated even though statutory frameworks already protect and govern a particular legal relationship (for example, engaging labour).

Governments need to demonstrate how existing regulatory frameworks are insufficient before introducing new requirements, and should play an educative role in clarifying how those existing requirements are capable of addressing alleged deficiencies in the law. Without this important step, there is a risk of imposing new legal obligations that overlap or conflict with those prescribed by other statutes, including Commonwealth legislation.

We are aware of recent examples where regulators have allocated resources toward identifying and promoting best practice in the workplace. Although commendable, there is a risk of conflating best practice with compliance. For example, the desire to promote going 'above and beyond' the minimum statutory requirement needs to be clearly spelled out so the expectations of various stakeholders can be appropriately managed.

Part 2 — Easier access to business information

Given that small business owners are extremely time-poor, they need to have ready access to business information in a manner that is easy to understand and apply. This includes the ability to ensure their business systems can accommodate new and existing regulatory requirements.

A good example of where this works well is SafeWork NSW's '*Easy to Do Work Health and Safety Toolkit*'. The document is well-written and extremely easy to navigate and its contents are easy to incorporate into a small business's operations and systems.

Whenever there is a change in regulation, small business owners not only need to be aware that the change has taken place, but they also need to appreciate how that change affects their business (if at all) and how to incorporate that change into their business systems.

Multiple sources of information

Recommendation 4

The Government develop a single portal to communicate and link small businesses with Government services and programs and utilise different communication channels (for example, targeting Facebook groups) to ensure information cuts through.

There is a plethora of government initiatives and programs (at both state and federal level) designed to help businesses, especially small businesses. The discussion paper to this consultation lists several government programs and initiatives which small businesses would find useful. All of those programs and/or initiatives are found through one of the following websites:

<https://mybusiness.service.nsw.gov.au>

<https://invest.nsw.gov.au/>

<https://www.business.nsw.gov.au>

<https://www.jobsfornsw.com.au/>

<https://www.nsw.gov.au>

<https://www.women.nsw.gov.au/>

<https://www.procurepoint.nsw.gov.au/>

<https://buy.nsw.gov.au/> (which is about procurement processes as opposed to buying NSW products)

<https://www.smallbusiness.nsw.gov.au>

<https://www.fairtrading.nsw.gov.au/>

<https://icn.org.au/new-south-wales>

<https://www.olg.nsw.gov.au/>

<https://www.safework.nsw.gov.au>

<https://business-connect-register.industry.nsw.gov.au/>

<https://skillsforbusiness.edu.au/>

<https://www.industry.nsw.gov.au/>

<https://www.innovation.nsw.gov.au/>

<https://sydneystartupclub.com/>

<https://www.raa.nsw.gov.au/>

<https://www.ncoss.org.au/>

<https://nswcybersecurityinnovationnode.com.au/>

<https://www.dpi.nsw.gov.au/>

<https://energy.nsw.gov.au/>

<https://www.ess.nsw.gov.au>

While each of these websites might be relatively easy to navigate, being able to find these websites is a barrier for some small businesses to access that information.

In some instances, although relating to the same subject matter (for example, cyber security and energy efficiency), the information available for business owners is split across a number of different websites. Without having access to an overarching register or publication listing all government programs and initiatives designed to help small business, business owners have to rely on their search engine, which will not necessarily include any of the above websites in its search results. Websites and information portals must also be complemented with additional media channels to maximise their impact. This includes greater use of social media.

Business Connect

Recommendation 5

Review the Business Connect program with a view to supplementing the service offering.

Business Connect is an extremely valuable resource, but does have gaps in its service offering, especially for small businesses located in regional areas

Small businesses are often in need of more specific advice on legal issues such as the protection of intellectual property. By focussing on business management services instead of business law services, the services offered by Business Connect do not encompass all of the services required by small business owners. In many cases the questions small businesses have may not necessarily warrant formal professional advice, but rather general guidance to support them in making decisions within their business.

Business lifecycle considerations

Recommendation 6

The needs of small business, including their lack of scale to deal with compliance challenges, needs to be front of mind when considering the impact of regulatory changes on small business.

Those starting a business have to conquer a very steep learning curve, both in terms of the regulations that apply to their business and the establishment of appropriate business systems.

Established businesses are more familiar with their regulatory obligations, but need to remain updated about any changes to those obligations. Any such changes need to be brought to their attention along with an understanding on whether (and if so how) they should adapt their business systems.

Those wishing to grow their business are in a similar position to those starting a new business, especially if the business owner wishes to diversify or tap into new markets (for example, by exporting or diversifying their business operations).

By comparison, larger businesses are more able to respond to emerging regulatory challenges as they have the benefit of economies of scale and compliance teams. This needs to be kept front of mind when considering the impact of regulatory changes on small business.

Industry considerations

Recommendation 7

All 'generic' small business information being developed and produced by government agencies should ensure that it does not mislead about the potential for additional industry-specific requirements (where materials do not include those requirements).

In addition to industrial relations instruments such as Awards, some regulations are industry specific (for example, portable long service leave requirements for the construction and cleaning industries).

Small businesses subject to additional industry-specific regulations need to be aware of those requirements as well.

Geographic location

Recommendation 8

Small business information should be delivered in a way that accommodates the attributes particular to businesses situated in regional areas.

Regional businesses face additional challenges. Examples include ready access to internet and mobile phone networks, susceptibility to adverse weather events, reliance on transport infrastructure and the ability to enter into objective, arms-length transactions with others within their community. For this reason, businesses should be able to access information in a variety of ways, including through more traditional channels such as trusted local advisers and delivery channels such as local post offices or libraries.

There is also a need to create tailored information to meet the needs of specific communities where they face unique challenges related to their geographic location. For example, proactive outreach is needed to provide relevant information to businesses operating in bushfire-affected communities.

Part 3 — Making it easier to employ people

Operating a business becomes more complex when there is a need to expand and employ people. Many business owners take great pride in reaching a stage where they can create opportunities for people within their local communities. Employers face multiple regulatory and tax compliance frameworks which make becoming an employer a complex and multi-faceted task. For these reasons small employers become particularly frustrated at the significant challenges they face upon reaching this phase of business growth.

Complexity of definitions

Recommendation 9

The NSW Government should explore opportunities to leverage analysis and recommendations from the *Review of Payroll Tax Administration* to reduce the complexity of other legislation that applies to the workforce of small businesses.

Not only do a number of different NSW statutes apply to a small business's labour force, but federal legislation also applies. Additionally, there is some overlap between some of these statutes (for example, the 'reasonable management action' exemption in the NSW workers compensation legislation that applies to psychological injuries). Despite this overlap, it is not unusual for the various government agencies responsible for each piece of legislation to adopt a different approach in the application of that part of the legislation.

The difficulty in navigating the employer/deemed worker dichotomy is a significant barrier to small businesses, regardless of which stage of the lifecycle the business finds itself in. Significant productivity gains will flow from a small business's ability to easily:

- determine whether an individual is an employee or independent contractor at common law
- identify the subset of independent contractors to whom they have PAYG withholding or superannuation contribution obligations
- identify which independent contractors are 'deemed workers' (and how to calculate their 'wages') for workers compensation purposes
- recognise when the payroll tax 'deemed worker' (and 'wages') provisions will apply and, if they operate across borders, which jurisdiction they will be subject to in any given year
- incorporate any additional industry-specific obligations
- accommodate the different reporting requirements attaching to each of the above.

The difficulties associated with being able to comply with all these statutory requirements are exacerbated by the inability of accounting software packages to incorporate those requirements into their programs. In some instances, small business owners will need to perform additional calculations and keep different types of business records to ensure they comply with all those requirements. Developments in regulation technology have reduced many compliance challenges. However many of the key compliance tasks for businesses do not lend themselves to a technological solution, particularly in areas such as record keeping for payroll tax.

These issues are compounded when a small business undergoes an audit conducted by one of the above regulators.

Recommendation 10

Progress should be made toward recommendations 6 and 12 of the PRT Review.

An outstanding area of concern is the interaction of the contractor and employment agent provisions of the *Payroll Tax Act 2007*. In our submission to the *Review of Payroll Tax Administration* (PRT Review), Business NSW argued that the complexity of these provisions create significant uncertainty and administrative burden for businesses in determining their payroll tax obligations.

Business NSW notes that the definition of wages for the purposes of payroll tax is unique. For example, the definition of wages for payroll tax and workers compensation purposes are not aligned mainly due to the fact that they are designed to achieve different public policy outcomes. But this does not mean these policy trade-offs cannot be re-examined.

Business NSW reaffirms recommendations made in its submission to the PRT Review which recommended the contractor and employment agent provisions be simplified to make reporting, record keeping, and understanding and practicing obligations easier for employers. This includes making progress on the implementation of recommendations 6 and 12 of the PRT Review, both accepted by Government, which relate to the complexity of the contractor provisions.

Chain of on-hire arrangements

Recommendation 11

Revenue NSW should ensure clarity for businesses engaging in chain of on-hire arrangements by adhering to revenue rulings relating to these arrangements.

Business NSW has become aware of significant uncertainty as to which party is liable for payroll tax in chain of on-hire arrangements (where an employment agent on-hires a service provider to another employment agent who in turn on-hires the service provider to its client).

There is ambiguity over which party is liable for payroll tax as Revenue NSW has the discretion to impose a liability on any one of the employment agencies existing in the chain of on-hire arrangement. Business NSW is aware of a number of cases where there has not been consensus as to which party is liable.

The many businesses using chain of on-hire arrangements now have no certainty as to whether they are liable for payroll tax or not. A lack of certainty gives rise to the risk of overpaying payroll tax (and potentially double taxation if multiple parties report payroll tax liabilities on the same wages) or risking an ex-post payroll tax assessment against them where they will be unable to recover these costs from their clients.

Workers compensation

Recommendation 12

The NSW Government should continue to engage and work with small business employers to identify barriers, such as declining return to work outcomes within the NSW workers compensation scheme.

Especially for businesses in regional areas, not being able to engage meaningfully with icare/EML to find out an injured worker's progress, arrange for suitable duties and achieve a timely and appropriate return to work has significant ramifications for their business operations.

These issues have been ongoing since the 2015 structural changes to the NSW workers compensation scheme and are becoming progressively worse.

Business NSW called for an independent review into the scheme. SIRA's *Compliance and Performance Review of the NSW Nominal Insurer (icare)* was held throughout 2019 with the review confirming the existence of a number of systemic issues with the scheme.

Business NSW is strongly of the view that robust action is needed to address these systemic issues which result in widespread inefficiencies and waste which ultimately pose a constraint on employment growth in NSW.

Part 4 — Contracting with government

Business NSW recently surveyed its members regarding government procurement. Our survey showed there is broad interest in supplying to government, but that experiences with procurement (across all tiers of government) were generally unfavourable. Negative experiences with procurement can be accounted for by the higher level of requirements and processes needed to supply to government when compared with the cost of supplying to other businesses. Business NSW recognises the importance of key policy objectives such as probity and ensuring value for money for the taxpayer. However, some requirements may be redundant, unnecessary or unjustifiable given the imposition of cost on potential suppliers.

Procurement survey results

Our survey indicated recent reforms implemented by the NSW Government had the potential to improve outcomes for business (see Box 1). Reduced red tape and greater ability for agencies to purchase direct from small business were rated as having the most potential to benefit small business respondents.

The survey also suggested that the NSW Government performed more favourably than the Commonwealth and other state governments (see Table 1). Views on local government procurement were more favourable than other tiers of government, though net satisfaction was negative.

Table 1 – Procurement Survey Results

	Very Poor	Poor	Neither good or poor	Good	Very good
Local Government	19.2%	23.2%	29.1%	25.6%	3.0%
NSW Government	22.2%	23.7%	28.9%	4.1%	25.3%
Other State Governments	22.1%	23.8%	36.1%	16.4%	1.6%
Federal Government	20.9%	23.6%	31.1%	20.3%	4.1%

Further work streams

Recommendation 13

The Government should monitor the ongoing impact of recent reforms to NSW Government procurement and fine-tune where necessary.

Business NSW made a recommendation to the Productivity Review noting the need to monitor the ongoing impact of recent procurement reforms (see Recommendation 13 below). This recommendation recognised that reforms were relatively recent and that some components of the reform agenda were yet to be fully implemented.

Recommendation 14

Progress and evolve NSW procurement practices based on new work streams identified in Table 2 of this submission.

Business NSW has workshopped a number of NSW Government procurement issues with our members to better understand potential causes of poor user experiences. The outcomes of this work, including potential areas for further action, can be found in Table 2.

Table 2 – Areas for further action

Procurement issue	Nature of the problem	Recent actions	Possible areas for further action
Risk aversion	<ul style="list-style-type: none"> Procurement processes, as applied in practice, do not always appropriately balance risk. Incentives are structured asymmetrically such that officials are more inclined to avoid risks rather than engaging in what is an optimal level of risk. 	<ul style="list-style-type: none"> Advice to officials structured around risk assessment tools. 	<ul style="list-style-type: none"> Large agencies to engage procurement risk advisors to advise and facilitate a balanced approach to procurement. Online tools be framed in a hierarchy based on contract size or other risk categories. Annual survey of officials engaged in procurement to understand drivers of risk aversion. Performance review criteria for procurement officials to establish clear protocols for managing risk. Establish a process for officials to elevate procurement risks so they can balance risks appropriately.
State capacity	<ul style="list-style-type: none"> Knowledge of market, supplier capacity and emerging technologies/capabilities is not complete. Weak knowledge of best-practice procurement processes can create frictions. 	<ul style="list-style-type: none"> Commitment to introduce a “feedback tool”. Monitoring – reporting on SME engagement. Buy.nsw guides officials to training opportunities. Additional resources in response to 2017 review of Public Service Capability which noted procurement needs to be a focus. 	<ul style="list-style-type: none"> Establish minimum training expectations and standards across Government (rather than leaving accountability with individual agencies). Publish regular market guides for key supplier markets which take officials through key market developments and things to consider for marketplace research.
Perceptions/ Knowledge	<ul style="list-style-type: none"> Business perceptions around the opportunities available may not match reality. May be some perception issues around what is meant by “value for money” and non-price factors. 	<ul style="list-style-type: none"> Pre and post tender briefings to be provided on request. 	<ul style="list-style-type: none"> Government to report on the progress of implementation for 2020 procurement changes. SME procurement information page to present data which establishes some basis for businesses to ascertain the likelihood of receiving work. Frank guidance made available to businesses that are unlikely to be selected based on factors that can be known upfront.
Red tape	<ul style="list-style-type: none"> Businesses may have to provide the same information multiple times and in a different format which impedes efficient engagement. Overall the quantity of information that needs to be provided is onerous and an impediment to access. 	<ul style="list-style-type: none"> Standardised contracts. Length limits for supplier tender responses. 	<ul style="list-style-type: none"> Pre-registration system to pre-fill basic firm information and other information relating to economic contribution and industry participation (optional for firms to complete to the extent this is useful). Flexible length limits to recognise that for some businesses word limits generate additional work in the process of refining tender documents. Samples and case studies to be presented as part of guidance to support firms in understanding how to pitch relevant tender documents. Reconfiguring tender processes to elevate the substance of the proposal, rather than tender-writing capability.

Market access	<ul style="list-style-type: none"> Some businesses may have difficulties accessing procurement opportunities due to factors such as their size, insurance/regulatory requirements. Information about procurement opportunities may be more accessible to incumbent businesses. 	<ul style="list-style-type: none"> Building a suite of simple online resources to support SMEs bidding for contracts. Digital marketplaces established and developed through buy.nsw. Procurement Service Centre – one-on-one advice. Advance notice is required, Annual Procurement Plans must be published on website. Reasonable insurance requirements – minimum possible levels of public liability and professional indemnity insurance. 	<ul style="list-style-type: none"> Regular reporting on SME and regional spend. Insurance requirements as part of pre-qualification schemes should be more flexible so that businesses can view opportunities without being screened out due to current insurance levels being too low (so they can decide to adjust their policy).
Industry participation	<ul style="list-style-type: none"> Local SMEs could benefit from indirect access to procurement opportunities through participation in larger projects. The prominence of non-price factors, such as economic contribution and jobs, could support a broader view of benefits. 	<ul style="list-style-type: none"> SME participation has increased by 20% compared to 14% spend increase since 2012. 15% non-price valuation criteria (10% SMEs). 	<ul style="list-style-type: none"> Regular reporting on SME and regional spend.
Delegations and discretion	<ul style="list-style-type: none"> Multiple layers of review and decision-making can create additional administrative burden for business. Small purchases do not warrant the same level of oversight. 	<ul style="list-style-type: none"> Regional or SME first for direct procurement. 50k small business exemption (compared to 10k). 	<ul style="list-style-type: none"> Establish more consistent approaches across agencies for the implementation of the 50k and 10k protocols. Report on the volume of SME procurement delivered through these channels.

Box 1 – Procurement survey overview



2019 PROCUREMENT SURVEY

n = 635 respondents

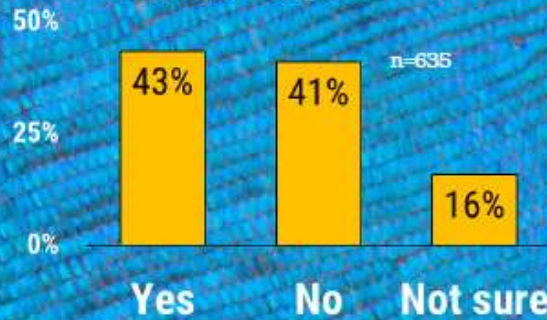


Getting procurement right has the potential to reduce red tape and make it easier for businesses to grow, and create jobs, in their communities.



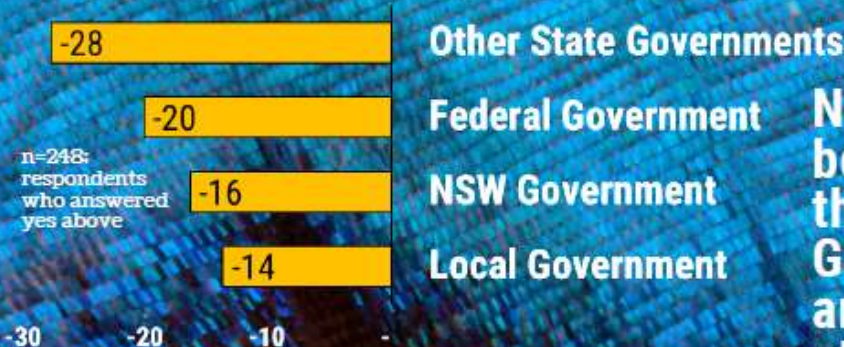
There is broad interest in supplying to governments:

Has your business considered supplying to government (including where you have decided not to because it is too difficult/complex)?



Overall businesses find procurement a poor experience:

How would you rate procurement in the following areas?



Index calculated as percentage of respondents rating procurement as 'good' minus percentage rating procurement as 'poor'.

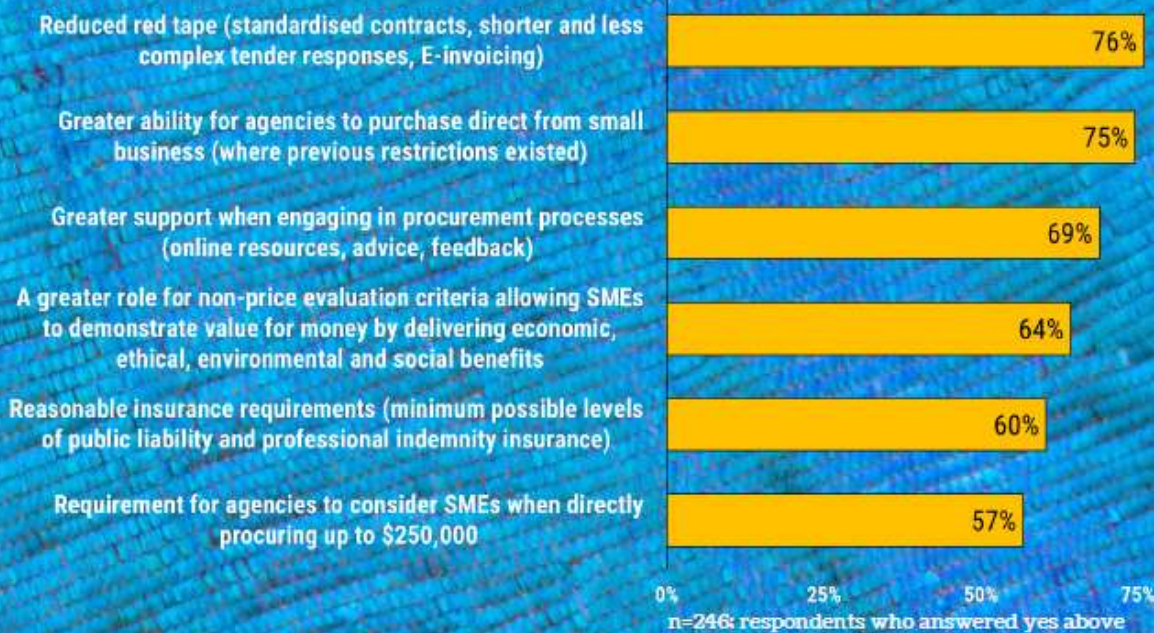
NSW is rated better than the Federal Government and other states.



Recent changes to procurement in NSW have the potential to benefit business, but time will tell.

Businesses welcome reduced red tape and flexibility:

The NSW Government recently launched a new policy to improve procurement outcomes for SMEs. The policy made several changes to procurement processes in NSW. Please indicate the extent to which you believe the following changes have or could benefit your business.



What more can be done?

- "Further reductions in application processes and red tape"
- "More opportunity to get in front of decision makers"
- "Thinking beyond the big end of town"
- "Transparency and honest feedback"
- "Training, education and advice"
- "Reduced decision-making time"
- "Greater consideration of whole-of-life costs"
- "Fewer silos within government"
- "buy locally"

Part 4 — Building small business capability

Government can play a supportive role in building business capability. Our economy relies on a range of social infrastructure including our education system and the provision of many other public goods and services. Business NSW supports a proactive approach to identifying and building business capacity in a manner that supports NSW communities, including those in regional NSW.

Access to a skilled workforce

Recommendation 15

That the Government partner with Business NSW to develop a campaign to communicate workforce programs to small business.

In July 2019, Business NSW conducted its second Workforce Skills Survey and received more than 1250 responses from businesses across NSW. Of those, around two-thirds of respondents were small businesses (less than 20 employees). A quarter of those respondents were in construction with the remainder distributed across a range of industries.

Over half of small businesses reported experiencing a skills shortage. Over 60 per cent of those respondents reported that this was due to being unable to hire suitable staff. The key skills in shortage were trade skills in the construction, particularly carpentry, electrical and plumbing. Almost a quarter of businesses reported that the skills shortage resulted in the business facing significant negative impacts such as losing customers or missing opportunities, or worse, potentially having to close.

Despite these issues, only 10 per cent of all businesses reported having accessed a relevant State or Commonwealth Government service to support them in their pursuit of skills in the last 12 months. Only one respondent (of 817) reported having accessed a NSW Government workforce program (JobCover) in the previous 12 months. Others had used Commonwealth Government programs to build their business capability.

It is clear therefore that there is a disconnect between the availability of NSW Government capability programs and business knowledge and use of those programs. It is recommended that NSW Government create an online one-stop shop or hotline for businesses to get better information. Also, it is recommended the Government develop closer relationships with Business NSW and undertake regular campaigns in partnership with Business NSW to communicate existing and new workforce initiatives.

Recommendation 16

Extend and expand funding for the Models for Workplace Engagement project, specifically with a focus on building engagement with small businesses.

Only a third of small businesses reported in the 2019 Workforce Skills Survey that they currently partner with schools to provide careers advisory support to young people. However, it is clear that there is significant appetite within the small business community to do more, with almost 60 per cent of small businesses reporting that they would be interested in offering more work placements or work experience to students, mentoring students, or providing other opportunities for careers exposure.

The Models for Workplace Engagement pilot project conducted in 11 NSW public schools was an excellent initiative for encouraging and facilitating partnerships between schools and industry.

Business NSW would be keen to see the pilot extended and expanded to more schools to provide greater support and opportunity for schools and small businesses to work together

Building business resilience

Recommendation 17

To support responses to future shocks, the NSW Government should examine how it can support businesses in mitigating the risk of risks which cannot easily be avoided through standard business insurance policies. Potential responses include Business NSW's 2019 NSW Election Campaign which proposed a concierge service and an effective and timely triage service underpinned by a Natural Disaster Recovery Fund.

Business operations can be disrupted by events lying well outside the business owners' control and any disruption to a small business's operations will have a significant impact on cash flow. As we have seen from the recent bushfires, in many cases small businesses were indirectly impacted by adverse weather events, which were not covered by their insurance policies.

An example of an indirect impact of the bushfires is that of winemakers who have been affected by smoke-damaged grapes which are no longer suitable for producing wine.

Both direct and indirect impacts need to be considered and accommodated for. These could include impacts from future events such as drought or acts of terrorism.

Needs in regional NSW

Recommendation 18

Review the current regional economic plans and consider each region's ability to complement the economic activity of the others, including across borders.

Recommendation 19

The NSW Government should take on a stewardship role in supporting local governments' economic development strategies. In doing so, the NSW Government should examine how it can support local Regional Economic Development Officers, including by supporting their skills, capacity and building local capability.

Current government initiatives tend to be applied to each regional area in isolation and assume that each of these areas are homogeneous.

For example, many regional centres have prioritised the establishment of start-up hubs. However, they may not always be justifiable as the best use of community resources given the local entrepreneurial ecosystem. Adopting a 'cookie-cutter' approach may result in adjoining regions being in competition with each other instead of complementing each other in terms of their relative strengths and weaknesses.

Women in business

Recommendation 20

The small business strategy should maximise opportunities by engaging closely with the *NSW Women's Strategy for 2018-22*, which aims to improve economic, social and physical well-being for women.

Only 28 per cent of small business owners in NSW are female. Business NSW encourages a continued emphasis on ways to overcome barriers to greater female participation in starting and running a business. The small business strategy should maximise opportunities by engaging closely with the *NSW Women's Strategy for 2018-22*, which aims to improve economic, social and physical well-being for women.

The Small Business Commissioner (SBC)

Recommendation 21

The SBC should prioritise program delivery and support for small business. The SBC should also provide feedback received from small businesses to policy agencies.

Recommendation 22

The SBC's office establish a new engagement architecture to build greater connections with local business organisations — including local Chambers of Commerce and Business NSW in all areas including regional offices.

Business NSW is strongly supportive of the role of the Small Business Commissioner (SBC). Business NSW believes the primary role of the SBC should be to fulfil its functions in program delivery and connecting businesses to support across government. The SBC should also play an active role in providing feedback, where it is received from small businesses, to agencies responsible for policies affecting small businesses.

The SBC has previously played a strong complementary role by working closely with local Chambers of Commerce and Business NSW to understand and respond to the needs of business. Not all businesses are alike and local organisations are best placed to understand the unique challenges faced in those communities.

Business NSW encourages the SBC to connect to these local networks to better understand the range of issues faced by the NSW small business community.

Training and support for new and expanding businesses

Recommendation 23

Boost funding for training and support for new and expanding businesses with a view to supporting businesses as they take on new challenges such as hiring staff.

The complexity of operating a business increases along with business expansion. The vast amount of information available to businesses, from a range of sources, can be overwhelming and difficult to navigate. In this regard, many business owners — many of whom operate as a 'jack of all trades' within their business — have the potential to benefit greatly from support services that guide them through the process of setting up and expanding their business.

The Business Concierge service provided by Service NSW is a valuable tool for entrepreneurs looking to take the leap and start a business. Further, training supported by the *Skills for Business* fund has the potential to boost the business acumen of business owners with limited experience operating a commercial enterprise.

Business NSW has previously proposed these services be expanded, via a range of delivery partners, with a view to focussing on challenges that emerge as businesses grow and expand. For example, new training and support services could be targeted to support businesses as they grow from being a non-employing business to an employer with permanent staff.

Reviewing business grants

Recommendation 24

The Government should consolidate existing grants, support and other forms of business assistance into a streamlined grants program. Grants should be more visible to practitioners, application processes simplified, and likely grant outcomes clear to applicants.

There is merit in streamlining and consolidating existing grants to give greater prominence to the support available to businesses. Our members have cited several concerns relating to NSW government grants:

- NSW government grants in key areas such as research and development (R&D) are either non-existent or not visible to practitioners that support businesses with R&D activities
- grants are typically of low value and do not justify the paperwork or resources required to apply (such as the Jobs Action Plan rebate)
- businesses do not have strong visibility over their likelihood of success and so they divert significant resources to apply before being rejected on a basis that was not apparent to them from the start.

A further challenge relates to competitive dynamics associated with generous grant programs offered by other states such as Victoria and Queensland. Our members report favourable experiences and attractive incentives when engaging with support programs offered by neighbouring jurisdictions. For example, the Queensland Industry Attraction Fund offers support for businesses considering opportunities to expand their business or relocate interstate. Similar arrangements exist in Victoria.

In this respect the challenge is two-fold: ensuring businesses operating in NSW have access to similar support as their competitors in other jurisdictions; and ensuring the support that currently exists can be easily accessed by business. Streams could include and consolidate existing arrangements in areas such as (but not limited to):

- the small business grant available to businesses not liable for payroll tax
- support for businesses undergoing digital transformation
- export promotion and international market development
- incentives for businesses considering business expansion into regional NSW
- investments to reduce business exposure to weather events such as drought and floods
- business initiatives to build soft skills and capabilities that cannot be developed through formal vocational and tertiary education (but through modes such as on the job training and experiential learning).

Where possible, grant programs should align with local government initiatives and there should be matching grants where possible. For example for the night time economy there can be a local state matching grant as this would align with the objective of having a distributed night time economy.

ATTACHMENT A

SUBMISSION

NSW BUDGET PRIORITIES MARCH 2020

Introduction

Business NSW welcomes the opportunity to provide a submission to outline our priorities ahead of the 2020-21 NSW Budget.

Formerly the NSW Business Chamber, Business NSW is the peak policy and advocacy body which has been representing businesses in NSW since 1826. Business NSW is one of Australia's largest business support groups with a direct membership of 20,000 businesses. Business NSW works with government, industry groups, as well as business and community leaders to provide a voice for our members. Operating throughout a network in metropolitan and regional NSW, Business NSW represents the needs of business at a local, state and federal level.

Small Business Strategy submission

Business NSW's submission to the Small Business Strategy is attached to this document (see Attachment A) as it contains a number of measures that can be considered ahead of the 2020-21 Budget. Business NSW intends for these submissions to be read in combination.

Recent and ongoing reviews

Business NSW is pleased to have participated in key government consultations including the *Review of Federal Financial Relations* (FFR Review) and the *Productivity White Paper* process (Productivity Review). Business NSW also welcomed the release of the NSW Economic Blueprint.

Business NSW's 2019-20 pre-Budget submission recommended for the Government to commission an independent review of state taxes and intergovernmental finances to improve the efficiency and sustainability of NSW finances. We welcome the FFR Review as an opportunity to examine these questions. Similarly, the Productivity Review will provide an opportunity to examine some of the longer-term regulatory and productivity challenges faced by the businesses of NSW.

Business NSW made 93 recommendations in its submissions to the FFR Review⁵ and Productivity Review⁶. These submissions spanned areas such as human capital, energy, transport, tax, regional development and regulatory reform. Business NSW also made a submission⁷ to the Legislative Assembly Inquiry into *Support for drought-affected communities in NSW*. This submission should be viewed in the broader context of these recent submissions which more comprehensively set out Business NSW's medium-term priorities.

For more information:

Mark Frost
Chief Economist
Business NSW
Tel: 02 9458 7259
Email: mark.frost@nswbc.com.au

⁵ See [https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/191122-Thodey-Review%20\(1\).pdf](https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/191122-Thodey-Review%20(1).pdf).

⁶ See <https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/191127-Productivity-Review-Final.pdf>.

⁷ See <https://www.parliament.nsw.gov.au/ladocs/submissions/66856/Submission%2046%20-%20NSW%20Business%20Chamber.pdf>.

List of recommendations

Recommendation 1

The NSW Government should ensure the NSW Budget does not have a contractionary effect on the economy given vulnerability in the economic outlook.

Recommendation 2

Sufficient financial resources should be made available to meet the genuine needs of those (including businesses) affected by recent events such as bushfires, COVID-19, drought and floods. This support should be offered in a timely and effective way.

Recommendation 3

Nominal gross state product should be used as the predominant basis for benchmarking expenditure growth to address the emerging fiscal gap. The *Fiscal Responsibility Act 2012* should be examined so it remains fit for purpose in ensuring the sustainability of state finances.

Recommendation 4

Windfall gains resulting in unexpected improvements in Budget parameters should be quarantined to support future tax reform endeavours.

Recommendation 5

To support responses to future shocks, the NSW Government should examine how it can support businesses in mitigating risks which cannot easily be avoided through standard business insurance policies. Potential responses include proposals in Business NSW's 2019 NSW Election Campaign which proposed a concierge service and an effective and timely triage service underpinned by a Natural Disaster Recovery Fund.

Recommendation 6

The Government should ensure other government-related fees and charges, such as workers compensation premiums, do not increase at a time when businesses are facing significant cost pressures relating to COVID-19 and other events.

Recommendation 7

The Government should establish a targeted payroll tax relief program to support regional communities affected by events such drought, bushfires and COVID-19. Additional rebates and support should also be provided to support small employers' ability to maintain current staffing levels where they are not currently liable for payroll tax.

Recommendation 8

The Government should establish a broader payroll tax deferral scheme to mitigate cash flow constraints experienced by businesses affected by events such as drought, bushfires and COVID-19.

Recommendation 9

Further tax changes are needed to avert the consequences of underinsurance and mitigate the acute impacts felt by regional communities. Measures from the Legislative Assembly *Inquiry into Zonal Taxation* should be considered.

Recommendation 10

The Government should direct some of its already committed funding toward the provision of vouchers so that small businesses can get financial advice from their local accountant or adviser on the best way to recover and rebuild.

Recommendation 11

The Government should initiate a process to expedite approvals for low-impact tourism projects.

Recommendation 12

The Government should back the creation of Business Events Western Sydney.

Recommendation 13

Further efforts are needed to revitalise Sydney's night time economy, including improved public transport and a diversification of night time activity. The development of the NSW Government's 24 hour economy strategy needs to address planning impediments for small businesses and provide incentives for businesses to operate outside of the standard 8am to 6pm period.

Recommendation 14

The Government should increase funding to increase the number and availability of careers advisors increasing the ratio to at least 1.5 FTE careers advisors per 1300 students.

Recommendation 15

That the NSW Government commit to an agreement with the Commonwealth to long-term funding growth to the VET sector, with at least a 20 per cent funding increase over the forward estimates.

Recommendation 16

That the NSW Government review the extent of financial disincentives to schools for delivering VET to students and cease applying those disincentives.

Recommendation 17

Further asset recycling should be undertaken to support additional investments in NSW's strategic infrastructure

Recommendation 18

Published information on projects and programs funded by Restart NSW should be consolidated and regularly updated to allow citizens to track government's commitment to regional infrastructure spending.

Recommendation 19

The NSW Government should work with the Commonwealth to advance projects included on the Infrastructure Priority List.

Recommendation 20

Government should support development of additional projects outlined below, with the intent to develop viable business cases and ultimately successful improvements to cultural and regional infrastructure.

Recommendation 21

NSW should reflect Infrastructure Australia's emphasis on the growing importance of resilience for businesses and citizens. This will necessarily include measures aimed at reducing the impacts of future drought and fire conditions on people throughout the state.

Recommendation 22

Regional employers should be given immediate access to the \$1 million threshold.

Recommendation 23

Alternative rebates and schemes should be considered for regional employers.

Recommendation 24

Further relief targeting new investment in regional areas, based on recommendations from the Inquiry into Zonal Taxation, should also be explored.

Recommendation 25

The Government should ensure the proportion of annual Restart NSW funding that goes to regional projects should be consistent with the 30 per cent target overall. Approaches to project assessment should balance the need to have high quality projects while recognising the challenges associated with assessing projects in regional centres.

Recommendation 26

The NSW Government should continue to take a pragmatic approach to directly address cross-border issues as they arise. All future policies should be assessed for any impacts on cross-border communities, including as part of new regulatory impact assessment processes implemented as a result of the Greiner review. The regulatory and policy environment in neighbouring jurisdictions should be monitored and, if required, changes made to ensure NSW is competitive with the rest of Australia.

Table of contents

Part 1 — The fiscal and economic outlook.....	8
Fiscal policy amid economic uncertainty	8
Fiscal sustainability over the medium to long-term	10
Quarantining unexpected budget improvements to support future tax reform	11
Part 2 — Measures to support businesses affected by recent natural disasters and shocks ...	12
Business resilience and protecting NSW from natural disasters.....	12
Payroll tax	13
Payroll tax deferral	14
Other tax changes	14
Expedited approvals for tourism-related projects	15
Business Events Western Sydney	16
Continue to promote the night time economy.....	16
Part 3 — Skills and education.....	20
Part 4 — Infrastructure	22
The next phase of infrastructure investment	22
Infrastructure Priority List.....	23
Additional infrastructure priorities	24
Importance of resilience	26
Part 5 — Regional development	27
Payroll tax for regional employers	27
Taking forward recommendations from the Zonal Taxation Inquiry	28
Fast-tracking regional infrastructure	28
Ensuring cross-border competitiveness	28

Part 1 — The fiscal and economic outlook

NSW is facing a number of fiscal and economic challenges. Weak household demand has impacted GST receipts while the NSW economy now faces significant risks. Renewed strength in the NSW property market is likely to boost revenue, however transfer duties remain among the most costly economic taxes in Australia and are a drag on housing affordability, labour mobility, construction and investment.

Recent events such as bushfires, drought, floods and now COVID-19 have warranted considerable outlays from all tiers of government. Business NSW encourages a flexible approach in responding to our current economic challenges and accepts this may imply increased expenditure to support the recovery of affected regions and businesses.

Fiscal policy amid economic uncertainty

Recommendation 1

The NSW Government should ensure the NSW Budget does not have a contractionary effect on the economy given vulnerability in the economic outlook.

Recommendation 2

Sufficient financial resources should be made available to meet the genuine needs of those (including businesses) affected by recent events such as bushfires, COVID-19, drought and floods. This support should be offered in a timely and effective way.

The first quarter of 2020 has been heavily impacted by unforeseen events such as the unprecedented magnitude of the bushfires and the uncertainty caused by COVID-19 (see Box 1). COVID-19 is likely to weigh heavily on the economy for the remainder of 2020. Business NSW would also like to emphasise the impact of other lesser talked about events such as recent flooding and storms which have had acute impacts in affected regions. Drought continues to weigh on regional economies.

Business NSW's December Business Conditions Survey⁸ suggests business confidence was down even before the bushfires and COVID-19. Many businesses are operating in a holding pattern with factors such as elections, drought and international developments creating uncertainty over the past year (see Chart 1). Once accounting for the full effects of more recent shocks, there is a strong possibility of a further deterioration in business confidence in our March survey.

Business NSW maintains that over the next four years the focus of government should be on limiting the impact of government taxes, fees and charges so that businesses can grow, invest and create jobs in their communities. Importantly, given the weaker economic outlook, government should ensure the NSW Budget does not have a contractionary effect.

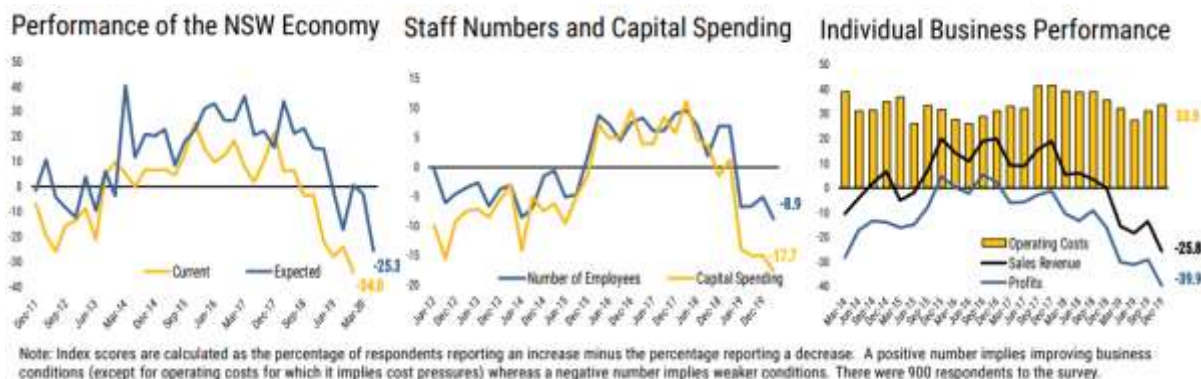
Equally, some flexibility is needed to ensure there are sufficient resources to look after those affected by recent and ongoing events such as drought, bushfires and COVID-19. This must also include support for businesses which are vital to employment, amenity and long-term sustainability of NSW's regional centres. Business NSW proposes some specific policy responses in Part 2 of this submission as well as in our submission to the NSW Small Business Strategy.

Business NSW is pleased that all tiers of government have so far worked to ensure that sufficient financial resources are available to meet the genuine needs of those impacted by the bushfires. The

⁸ See <https://www.businessnsw.com/advocacy/surveys>.

need for additional stimulus is likely as the impact of COVID-19 deepens. An ongoing concern is getting these financial resources to those who need it in a timely and effective way. Fiscal objectives are important over the medium-to-longer term but should not be seen as an impediment to offering support where there is strong policy merit.

Chart 1 — Overview of the December Business Conditions Survey



Source: Business NSW Business Conditions Survey, December 2019.

Box 1 – Business impacts from bushfires and COVID-19

Business NSW has undertaken to better understand business impacts from the bushfires and COVID-19. Business NSW will receive further feedback in responses to our March 2020 Business Conditions Survey.

Bushfires

While indicative only, a preliminary analysis performed by Business NSW suggests that around 26,000 businesses — or 3.4 per cent of all businesses in NSW — were in some way impacted by the bushfires. These preliminary estimates were based on counts of businesses operating in affected areas and survey feedback indicating the extent of impacts for businesses operating in different industries. More comprehensive data may now be available from alternative sources.



Anecdotal feedback suggests several ongoing issues such as:

- cash flow impacts
- difficulty accessing government concessional grants and loans
- incomplete coverage of insurance products and underinsurance
- logistical constraints including lack of appropriate business facilities
- difficulty for businesses experiencing indirect impacts to access support.

Box 1 – Continued from previous page

COVID-19

The impacts of COVID-19 are ongoing, evolving and not yet fully understood.

Locally, Business NSW has heard of some very significant impacts, with some parts of Sydney experiencing revenue impacts of 30-80 per cent depending on their exposure to overseas visitor arrivals (particularly from China). More generally, many commercial centres has suffered, with many domestic consumers avoiding certain areas due to perceptions and fear.

Travel bans have had very significant impacts for tourism operators. On the other hand, travel bans may be underpinning confidence for domestic consumers. On top of tourism impacts, many employers have now placed very tight restrictions on corporate travel which is having business impacts for suppliers and disrupting engagement and exploration of commercial opportunities (including two-way investment).

COVID-19 was not anticipated and many business are now unprepared. In many cases there is insufficient flexibility to pivot operations or supplier relationships to maintain business as usual. Alternative export markets take a prohibitively long lead-time to develop while domestic operators that sit within supply chains relying on inputs from Asia have also been affected. There is speculation that many supply arrangements will be subject to force majeure.

Some businesses can absorb the impacts for a limited time but will need to make more substantial adjustments if current impediments persist.

There are reports the Chinese customs authorities have been prioritising essential goods and services and that this, combined with the extended Chinese New Year shut down, has created some confusion and/or delays for exporters. Chinese demand for non-essentials (such as wine) has been severely impacted.

Employers are increasingly grappling with several workplace issues including how to manage quarantine periods and strategies to mitigate risks. Business NSW has received increasing enquiries about personal leave arrangements.

Business NSW continues to gather intelligence as events unfold.

Fiscal sustainability over the medium to long-term

Recommendation 3

Nominal gross state product should be used as the predominant basis for benchmarking expenditure growth to address the emerging fiscal gap. The *Fiscal Responsibility Act 2012* should be examined so it remains fit for purpose in ensuring the sustainability of state finances.

Notwithstanding the need to take a flexible approach in the short-term, robust expense management remains the most important mechanism to ensure prudent fiscal management over time. Business NSW notes that budget surpluses expected over the forward estimates rely on slower expenses growth (with expenses projected to grow at a slower pace than nominal gross state product and revenue). Business NSW supports efforts to realise efficiencies across government agencies as well as considering how digital transformation can drive improvements and efficiencies in government service delivery.

The NSW Government currently commits itself to maintaining expenses growth below long-term average revenue growth as set out in the *Fiscal Responsibility Act 2012*. Expenses growth has been maintained below long-term average revenue growth of 5.6 per cent as defined in the *Fiscal Responsibility Regulation 2013*.

Business NSW notes the Government's fiscal responsibility architecture does not directly establish a robust constraint on the size of government given the 5.6 per cent expenses growth ceiling exceeds projected growth of nominal gross state product. It is also significantly higher than forecast revenue growth over the forward estimates. Business NSW has previously recommended that nominal gross state product be used as the predominant basis for benchmarking expenditure growth to address the emerging fiscal gap.

Quarantining unexpected budget improvements to support future tax reform

Recommendation 4

Windfall gains resulting in unexpected improvements in Budget parameters should be quarantined to support future tax reform endeavours.

The fiscal outlook is subject to uncertainty and there is always the potential that outcomes will vary from projections. Windfall gains resulting from fiscal conditions that are more favourable than expected should not be used to underwrite government expenditure that cannot realistically be afforded into the future.

Business NSW believes there is merit in building a fund which could provide a buffer for a future Government that embarks on the difficult task of tax reform. For example, such a fund could be used to offer temporary relief for taxpayers most sensitive to an altered tax regime. While such a fund is somewhat illusory, hypothecating windfall Budget improvements represents a pre-commitment that it will refrain from engaging in unsustainable expenditure increases. It also establishes future accountability insofar as the Government would only be able draw on the funds for the purposes of pursuing reform.

The Government has previously invested windfall tax revenues into Restart NSW. This has resulted in \$2.3bn in payments as at 30 June 2019. While this has supported fiscal discipline, NSW is beginning to reach infrastructure delivery and project constraints. For this reason there is merit in considering alternative purposes to direct windfall amounts.

There is also the potential to expand the scope of pre-commitment by including improvements in other Budget parameters (such as general-purpose payments from the Commonwealth, or on the expenditure side).

Part 2 — Measures to support businesses affected by recent natural disasters and shocks

The recent bushfires have devastated many regional communities and local economies. COVID-19 is having significant impacts which have the potential to deepen. Flooding and storms have also affected many parts of NSW while drought conditions persist despite recent rain.

It is essential that measures to support regional communities are implemented in a timely manner. The first response phase to the bushfires rightly focussed on securing working capital for businesses facing significant cash flow interruption and support for those most heavily impacted by the fires. However, as we move into the second response phase, and as further crises such as COVID-19 deepen, there is a need to transition toward initiatives that can help local communities withstand enduring challenges and vulnerabilities. Local SMEs are vital to this, as they are major employers and conduits of social capital in many of the locations most heavily impacted.

In the case of the bushfire response, efforts must be taken to ensure the full breadth of regions impacted are given appropriate attention. While coastal regions were a core focus of early recovery efforts, there is a need to ensure there is sufficient focus on all NSW communities and businesses.

Business resilience and protecting NSW from natural disasters

Recommendation 5

To support responses to future shocks, the NSW Government should examine how it can support businesses in mitigating risks which cannot easily be avoided through standard business insurance policies. Potential responses include proposals in Business NSW's 2019 NSW Election Campaign which proposed a concierge service and an effective and timely triage service underpinned by a Natural Disaster Recovery Fund.

Recommendation 6

The Government should ensure other government-related fees and charges, such as workers compensation premiums, do not increase at a time when businesses are facing significant cost pressures relating to COVID-19 and other events.

Business NSW advocated for policy measures to protect NSW from natural disasters ahead of the 2019 election. Key priorities included reducing taxes on insurance, providing flexible payroll tax arrangements for impacted businesses, allocating resources to establish business concierge services and ensuring timely relief for businesses (see Figure 1).

Business NSW maintains that additional steps are needed to better prepare NSW in responding to natural disasters and other economic shocks. Particular care is needed to contain the cost of other government-related fees and charges such as workers compensation premiums.

Business operations can be disrupted by events lying well outside the business owners' control, and any disruption to a small business's operations will have a significant impact on cash flow. As we have seen from the recent bushfires, many small businesses were indirectly impacted by adverse weather events which were not covered by their insurance policies. Both direct and indirect impacts need to be considered and accommodated for. These could include impacts from future events such as drought or acts of terrorism. An example of an indirect impact of the bushfires is winemakers whose grapes have been affected by smoke and are no longer suitable for producing wine.

Figure 1 – Campaign pillar for the 2019 election (brochure excerpt)



Source: Keeping NSW Number 1 Campaign.

Payroll tax

Recommendation 7

The Government should establish a targeted payroll tax relief program to support regional communities affected by events such drought, bushfires and COVID-19. Additional rebates and support should also be provided to support small employers' ability to maintain current staffing levels where they are not currently liable for payroll tax.

There is an urgent need to improve business and consumer sentiment and accelerate economic recovery in affected regions. Robust measures are also needed to support industries most severely impacted by COVID-19.

Business NSW has requested the introduction of a payroll tax relief package as part of its response to the bushfires and ongoing drought. A payroll tax relief package would improve business resilience so they can continue to employ people and return to more normal trading conditions sooner. Additional rebates and support should also be provided to support small employers' ability to maintain current staffing levels where they are not currently liable for payroll tax.

Business NSW proposes earlier programs targeted to affected businesses be revisited. The NSW Government previously offered the *Business Drought Assistance Program* which provided payroll tax relief during the Millennium drought. Under the program, businesses could apply where Annual Sales or Earnings before Interest and Taxation was sufficiently below a benchmark established prior to the drought. This approach would target support to affected businesses making the cost of the program small relative to the boost it would give to affected local economies.

A tax relief package would send a strong signal of support that will provide businesses and consumers with the confidence to spend, hire staff and invest. The benefits would extend beyond the

direct relief offered to eligible employers by giving communities, including employees and small business suppliers, greater confidence of their financial resilience during these tough times.

Payroll tax deferral

Recommendation 8

The Government should establish a broader payroll tax deferral scheme to mitigate cash flow constraints experienced by businesses affected by events such as drought, bushfires and COVID-19.

While Business NSW is advocating for substantive relief from payroll tax, we also note the Queensland Government's recent decision to allow businesses to defer lodging and paying payroll tax returns until 31 July 2020.⁹ Queensland employers may be eligible for deferral if employers pay \$6.5 million or less in Australian taxable wages and the business has been directly or indirectly affected by COVID-19.

Business NSW maintains there is a strong case for targeted payroll tax reductions to support employers most at risk of reducing staffing levels. However, there is also a strong case for a broader deferral mechanism to support employers that may now face significant cash flow issues. Similar initiatives such as the \$60 million payroll tax relief package offered to BlueScope Steel have been successful in supporting employment and business operations during tough times.

Other tax changes

Recommendation 9

Further tax changes are needed to avert the consequences of underinsurance and mitigate the acute impacts felt by regional communities. Measures from the Legislative Assembly *Inquiry into Zonal Taxation* should be considered.

Other more complex tax changes should also be considered.

Business NSW notes the Victorian Government has announced it would offer stamp duty and land tax relief for those affected by the bushfires. We welcome the recent announcement for stamp duty relief for homeowners and encourage an expanded approach, including support for businesses and other assets such as vehicles.

Business NSW's *Keeping NSW Number 1* campaign advocated for changes that would make it easier for businesses and consumers to take-up insurance. The Emergency Services Levy and stamp duties on insurance policies contribute to underinsurance which increases exposure to risk.

As noted in Part 5 of this submission, Business NSW encourages the NSW Government to revisit recommendations made in the Legislative Assembly Inquiry into Zonal Taxation which considered tax-based measures to support regional NSW. These recommendations could be further developed and adopted as part of a time-limited economic package.

⁹ See <https://www.business.qld.gov.au/running-business/employing/payroll-tax/lodging/coronavirus-tax-relief>.

Vouchers for local financial advice

Recommendation 10

The Government should direct some of its already committed funding toward the provision of vouchers so that small businesses can get financial advice from their local accountant or adviser on the best way to recover and rebuild.

Business NSW has previously called on the Federal and NSW Governments to direct some of its already committed funding toward the provision of vouchers so that small businesses can get financial advice from their local accountant on the best way to recover and rebuild. Impacted businesses desperately need tailored advice from local advisors that are already familiar with their circumstances. Local advisors know what is possible for each of the businesses and they can advise accordingly, with a full understanding of the business owner's circumstances, as well as the local economy, demography and consumer sentiment.

Specific measures to support tourism

Tourism businesses have been most acutely affected by both the bushfires and now COVID-19. The combined impact justifies a need to consider more targeted measures aimed at supporting NSW businesses which rely heavily on overseas visitors.

Business NSW recently released a survey of consumers to better understand the impact of the bushfires on the tourism sector (see Box 2). The survey revealed that 67 per cent of consumers that had planned to travel to affected areas had either cancelled trips or were thinking about cancelling. Holidaymakers indicated they wanted to return but were hesitant, with 96 per cent indicating they would consider returning, but only 11 per cent indicating they would return immediately. Safety, access and potential for cancellation were the top concerns. There was overwhelming support for regional communities with 85 per cent indicating that knowing their holiday would support jobs and economic recovery would make them more likely to return.

With COVID-19 having further exacerbated the operating environment for tourism operators, it is even more important to develop initiatives that encourage domestic tourism. That is why Business NSW recently launched the *Backing the Bush*¹⁰ campaign which is calling on city-based businesses to pledge to take one Board, management or staff meeting that would normally be held in the city to a bushfire or drought affected part of NSW. We are pleased that more than 110 companies have already pledged to do so.

There will also be an opportunity for NSW to benefit once concern regarding COVID-19 settles and conditions return to normal. Decisions need to be made today to ensure NSW is well placed to capitalise off this opportunity.

Expedited approvals for tourism-related projects

Recommendation 11

The Government should initiate a process to expedite approvals for low-impact tourism projects.

Business NSW members have raised concerns about the time it takes to have low-impact tourism operations approved by their local councils. Some local councils have identified potential work

¹⁰ See: <https://www.backingthebush.com.au/>.

streams to streamline and expedite approval processes. These schemes are yet to commence or have been identified by councils as a priority but have not been developed.

The NSW Government can encourage streamlined approval processes by adopting an approach similar to the *Easy to do business initiative* or by leveraging the Small Business Friendly Council program.

Business Events Western Sydney

Recommendation 12

The Government should back the creation of Business Events Western Sydney.

Business NSW's Tourism Industry Division, the Sydney Business Chamber, Western Sydney, Tourism Accommodation Australia (TAA), and Western Sydney Regional Organisation of Councils (WSROC) have previously joined together to make the case for a Business Events Western Sydney.

This collaboration resulted in the release of a project report¹¹ which identifies a need for the business events bureau — working closely with existing business events organisations in Sydney — to attract domestic conferences and meetings to Western Sydney and the Blue Mountains.

The report was prepared following wide consultation with the industry in the region and the voicing of strong support for such a bureau to be established to promote the region's business events hosting Potential.

Continue to promote the night time economy

Recommendation 13

Further efforts are needed to revitalise Sydney's night time economy, including improved public transport and a diversification of night time activity. The development of the NSW Governments 24 hour economy strategy needs to address planning impediments for small businesses and provide incentives for businesses to operate outside of the standard 8am to 6pm period.

A robust night-time economy is needed to help anchor Sydney and NSW as Australia's most significant tourist destination. Sydney's night time economy generates more than \$3.64bn in revenue every year and employs more than 32,000 people. But there remains incredible opportunity and scope for growth. It also promotes employment, investment, and helps encourage the public to participate in trade, culture and the arts beyond standard workhours.

Business NSW and the Sydney Business Chamber have continually advocated to revitalise Sydney's night time economy, recommending strong and simultaneous action in areas such as late-night transport and diversifying night time activity (both geographically and for a wide demographic patronage). For example the standard operating hours for any business are by default 8am to 6pm and you have to apply for a change whereas there could be longer standard hours especially in designated areas or designated uses that then can be reduced by application.

The development of the NSW Governments 24 hour economy strategy needs to address planning impediments for small businesses and provide incentives for businesses to operate outside of the standard 8am to 6pm period.

Changes such as these are needed to complement recent reforms to Sydney's lock-out laws.

¹¹ See: <https://www.thechamber.com.au/Projects-and-Campaigns/Projects/Business-Events-Western-Sydney>.



TOURISM SURVEY



Supporting NSW tourism's bushfire recovery

n = 1344 respondents

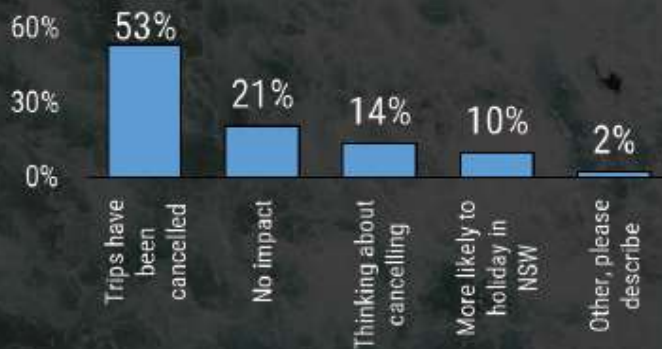
Significant bushfire impact:

67%

had either cancelled trips or were thinking about cancelling

Q: How have the bushfires impacted your travel plans

n=519: respondents who answered they planned to travel to bushfire affected areas

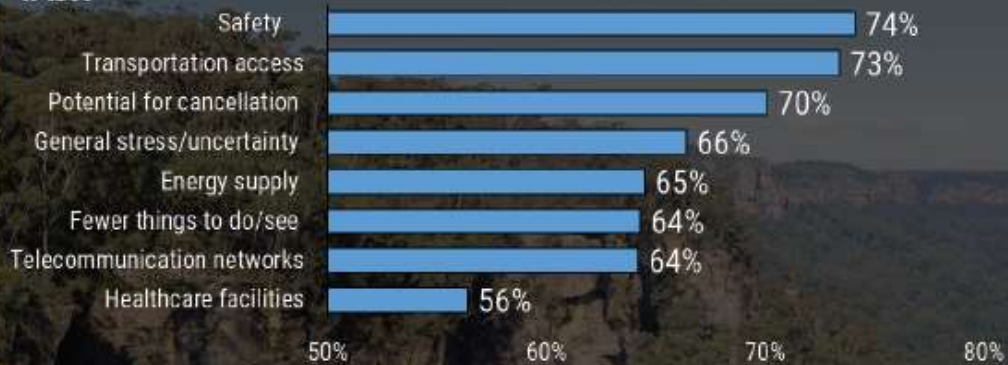


Holidaymakers want to return but are hesitant:

safety, access and cancellation the top concerns impacting decision to holiday in NSW

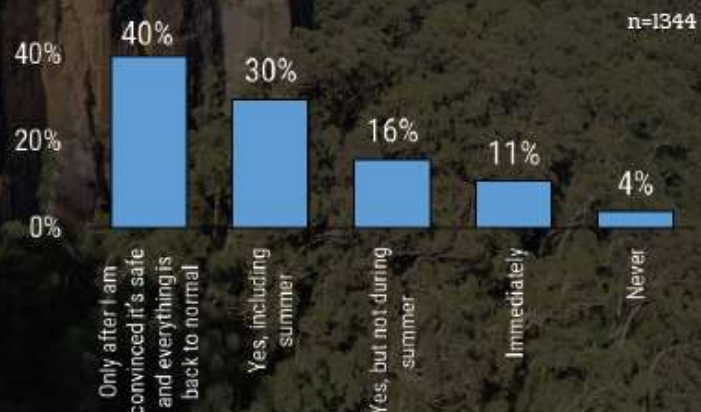
Q: To what extent do the following bushfire-related factors impact your decision to holiday in NSW?

n=1344



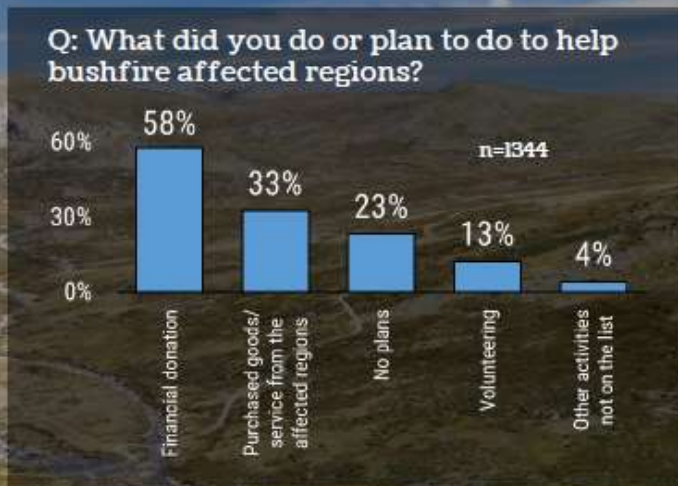
96% would consider returning but only **11%** would consider returning immediately

Q: Will you consider visiting bushfire impacted areas in the future?



Holidaymakers want to support NSW businesses:

33% said they had or planned to help by purchasing from affected regions



Knowing holidays will support economic recovery is front of mind

10% were more likely to holiday in affected areas as a result of the bushfires



Part 3 — Skills and education

Recommendation 14

The Government should increase funding to increase the number and availability of careers advisors increasing the ratio to at least 1.5 FTE careers advisors per 1300 students.

While NSW has the lowest unemployment rate of any state, youth unemployment remains twice that of the general population 10.6 per cent. In some areas it still exceeds 20 per cent. At the same time, more than half of employers across NSW report they are experiencing skills shortages. This continues to point to an ongoing mismatch between the skills and capabilities that young people are getting, and those needed in business.

While recognising the need for more comprehensive measures, Business NSW has identified three key immediate priorities to address this mismatch:

- increasing the availability and quality of careers advice in schools
- committing to an increase in funding to the VET sector
- ensuring that any financial penalties for schools supporting students to undertake VET courses are removed.

Business NSW continues to call on the NSW Government to overhaul the provision of careers advice across the state. The Careers Immersion Model being trialled in 24 schools across the state is a start and Business NSW is keenly interested in the progress of the pilot. However, without significant increases in resourcing for careers advisors, this model is unlikely to be successful given it is still reliant on careers advisors to deliver support to students. Only having one careers advisor per 1,300 students in public secondary schools severely limits the ability of young people to access high quality careers advice.

Accordingly, Business NSW recommends an increase in the number and ratio of careers advisors, to at least, 1.5 FTE per 1,300 students in the current model. Given there are around 800 public high schools in NSW, this would equate to around \$50 million per annum.

Recommendation 15

That the NSW Government commit to an agreement with the Commonwealth to long-term funding growth to the VET sector, with at least a 20 per cent funding increase over the forward estimates.

NSW Government funding to the VET sector increased by over 20 per cent between 2017 and 2018 – from \$836 million to \$1 billion¹². This is a commendable start in ensuring the longer term viability of the sector. However, this level of funding still represents a decrease in real-terms funding compared to 2009¹³. Funding has not kept pace with the growth in population, growth in salaries, infrastructure investment nor the growth in government funding to other forms of education.

Funding inconsistency and uncertainty hinders the ability of providers to meet the demands of students and business, with businesses reporting that VET courses, particularly in regional areas, are often full, cancelled or unavailable due to funding constraints.

There are significant reforms occurring at both the State and Federal Governments in 2020, including the roll out of fee-free traineeships, the NSW Government Education Pathways Pilot, the introduction

¹² Productivity Commission, *Report on Government Services (2020)*

¹³ Productivity Commission. *Report on Government Services (Reports between 2005 – 2020)*

of the National Skills Commission and Skills Organisation pilots. However, these changes must occur within the context of a commitment to increase real funding levels overall.

Recommendation 16

That the NSW Government review the extent of financial disincentives to schools for delivering VET to students and cease applying those disincentives.

Evidence has shown that student perceptions are one reason why fewer people are choosing vocational pathways, such as apprenticeships and traineeships, despite the excellent employment outcomes available. These perceptions are exacerbated by the dichotomy between 'academic' and 'vocational' pathways in schools and the limited exposure to VET pathways.

The delivery of VET in Schools is expensive compared to other forms of education leading to inconsistent availability.¹⁴ Business NSW has received reports that some schools have government funding reduced as a result of students undertaking VET qualifications which is likely to further reduce schools' willingness to offer or recommend VET qualifications as a potential pathway.

¹⁴ *What makes vocational training programs in schools work? A study of New South Wales and Queensland schools*, NCVER (2006).

Part 4 — Infrastructure

Recent years have seen a significant increase in infrastructure activity. After decades of relatively low investment, lost ground is starting to be caught back up. This progress is welcome. Yet with population growth and rising demand for infrastructure services, this pace of infrastructure development will need to be maintained for the foreseeable future. When infrastructure to transport people and goods, water and energy supplies or bytes of data is inadequate, business activity is constrained and productivity declines. On top of this, a succession of crises – drought, fire, floods – has placed additional burdens on infrastructure delivery as repairs get underway. Government must keep up its good recent record of identifying opportunities to improve infrastructure provision – both by creating new routes and connections, and maintaining, repairing, and enhancing existing ones.

The next phase of infrastructure investment

Recommendation 17

Further asset recycling should be undertaken to support additional investments in NSW's strategic infrastructure

To support further investment in infrastructure, there is scope for additional 'asset recycling' (i.e. long-term leases of previously government-owned assets and companies) to make better use of the state's balance sheet. Remaining government-held stakes in energy networks, some transport facilities (for example, WestConnex), and water companies are among the possible candidates for future asset recycling program.

Recommendation 18

Published information on projects and programs funded by Restart NSW should be consolidated and regularly updated to allow citizens to track government's commitment to regional infrastructure spending.

The Restart NSW program, funded by past asset recycling initiatives, has been a significant source of funding for infrastructure renewal, especially in regional NSW. However, Restart NSW continues to be undermined by poor information provision and accounting. Because funding is allocated through multiple different government departments, as well as through specialised subsidiary programs such as the Fixing Local Roads and Fixing Country Bridges schemes, monitoring spending across the Restart NSW portfolio is very difficult. Information is spread over multiple government websites, in a variety of formats, with little consistency about what will be published when.

Budget surpluses and low government borrowing costs help make this an opportune time for infrastructure developments. Discount rates for project cost-benefit assessment should reflect these prevailing costs of government debt. If Cost-Benefit Analyses (CBAs) assume, based on higher historical rates, that borrowing costs are above those that government presently faces, there is a risk that projects with positive cost-benefit ratios will be rejected. For long-lived infrastructure, we are also concerned that current discounting practices leads to the undervaluation of benefits which accrue in the later years of a project's lifespan, and leads to CBAs rejecting advantageous proposals.

Infrastructure Priority List

Recommendation 19

The NSW Government should work with the Commonwealth to advance projects included on the Infrastructure Priority List.

Infrastructure Australia has developed the *Infrastructure Priority List* over the last several years, identifying projects and ‘initiatives’ (i.e. groupings of smaller projects or early-stage proposals in need of greater definition or refinement). This submission will not replicate that effort by covering projects already on the *Infrastructure Priority List 2020* (see Table 1 below). Instead, we will highlight some proposals which have not (yet) been included.

Table 1 – Infrastructure Priority List 2020

Table 1: National priorities with NSW components (<i>italics</i>) and priorities for NSW	
High Priority Projects	
M4 Motorway upgrade Sydney Metro City and Southwest	Western Sydney Airport
Priority Projects	
<i>Inland Rail</i>	Nowra Bridge
High Priority Initiatives	
<i>Regional road network safety improvements</i>	Sydney Gateway
<i>Town and city water security</i>	Parramatta Road + Victoria Road public transport capacity
<i>National water strategy</i>	Sydney rail network capacity
<i>Coastal inundation protection strategy</i>	Southern Sydney to CBD public transport enhancement
<i>National waste and recycling management</i>	Sydney Metro West
<i>Rail network optimization program</i>	Port Botany freight rail duplication
<i>Road network optimization program</i>	Chullora Junction upgrade
<i>National freight and supply chain strategy</i>	Corridor preservation for Western Sydney Airport fuel pipeline
<i>Corridor preservation for East Coast High Speed Rail</i>	Corridor preservation for Western Sydney Freight Line and intermodal Terminal access
<i>Remote housing overcrowding</i>	Corridor preservation for Outer Sydney Orbital road and rail/M9 and Castlereagh connection
<i>National Electricity Market connectivity and reliability</i>	Corridor preservation for Western Sydney Airport rail connections
<i>National electric vehicle fast-charging network</i>	
Regional NSW road network safety improvements	

Priority Initiatives

<i>Indigenous art and cultural facilities program</i>	Newell Highway upgrade
<i>Mobile telecommunications in regional and remote areas</i>	Pacific Highway (A1): Coffs Harbour bypass
<i>Advanced Train Management System implementation on the interstate rail network</i>	Pacific Motorway (M1) extension to Raymond Terrace
<i>Sydney-Canberra rail connectivity and capacity</i>	Western Sydney Infrastructure plan
<i>Connection between eastern gas markets and gas suppliers</i>	Freight rail access to Port Kembla
<i>Near-term optimization of National Electricity Market</i>	Moorebank Intermodal Terminal road connections upgrade
<i>East Coast deep water container port capacity</i>	Great Western Highway improvements – Katoomba to Lithgow
John Hunter Health and Innovation Precinct capacity	Princes Highway safety and capacity – Nowra to Victoria border
Active transport (walking and cycling) access to Sydney CBD	Southern Sydney Freight Line upgrade
Sydney CBD motorways optimization	New England Highway upgrade
Prospect Highway capacity	Picton Road safety and capacity
A3 and A6 corridor capacity	Western Sydney Airport public transport connections
Public transport access to Parramatta CBD	Northern Sydney Freight Corridor Stage 2
Central Station redevelopment	Newcastle-Sydney and Wollongong-Sydney rail line upgrades
M6 motorway	Sydney cruise terminal capacity
Western Harbour Tunnel and Beaches Link	South Creek integrated land use and water cycle management
	Hawkesbury-Nepean Valley flood management

Additional infrastructure priorities

Recommendation 20

Government should support development of additional projects outlined below, with the intent to develop viable business cases and ultimately successful improvements to cultural and regional infrastructure.

Parramatta Light Rail Stage 2

Parramatta Light Rail Stage 2 has reached the point in its development where further meaningful work needs to be sustained by a government commitment to move forward with the project. Connecting hubs of major activity at Parramatta and the Sydney Olympic Park, and joining up the heavy rail, Metro and ferry transport networks, Light Rail Stage 2 serves a fast-growing part of the city. Infrastructure Australia note the importance of public transport to Parramatta CBD, but the next major deliverable that can improve matters has been stuck in a holding pattern since the completion of early business case development. This budget should allocate funding to allow the next stage of project development to be completed, with an eye to moving towards construction as Stage 1 is completed.

Newcastle Airport Runway and Terminal Upgrade

A terminal upgrade and runway expansion at Newcastle Airport will open new opportunities for trade, tourism, employment and economic investment. Upgrading the runway to Code E standard and expanding the size of the terminal would position Newcastle Airport to accommodate larger, wide-bodied aircraft with long-haul capability into Asia, the Middle East, the US and beyond. This would increase its viability as a destination for airline partners, significantly boost the local visitor economy and open new trade and tourism opportunities internationally.

Increased capacity for international flights from Newcastle Airport would offer travellers and commuters from the Hunter, New England and North Coast areas an alternative starting point for overseas flights, relieving pressure on Sydney Airport and enhancing accessibility and viability of regional aviation services. More detail on this proposal can be found in the Hunter Business Chamber's pre-budget submission.

Williamstown Special Activation Precinct (SAP)

A declaration of an SAP at Williamstown was pre-empted in last year's budget, which set aside \$20 million from the Snowy Hydro Legacy Fund to investigate Special Activation Precincts in NSW.

The SAP would take in the defence and airport precincts and the Astra Aerolab, a planned commercial aviation and aerospace park to which the State Government has contributed \$11.7 million in seed funding. The SAP is important to leverage the opportunities provided by Williamstown RAAF Base being the premier base for Australia's Joint Strike Fighter fleet and maintenance hub for the Asia-Pacific, as well as the growth of the commercial airport.

Wollongong Entertainment Precinct

Business NSW supports Illawarra Business Chamber's (IBC) calls to fund for the proposed Wollongong Entertainment Precinct. Funding needs to be allocated in the 2020-21 NSW Budget to develop a detailed concept plan and strategic business case, similar to the process being followed for the Hunter Sports and Entertainment Precinct.

Regional stakeholders are united in their support for an Entertainment Precinct concept plan and process that incorporates a broad geographic area on the Wollongong foreshore. For Wollongong to realise its potential as a regional conferencing and major event destination, a modern purpose-built conference facility is required alongside new branded hotel stock (up to four hundred rooms) and an appropriate mix of residential and commercial developments. More detail on this proposal is contained in IBC's pre-budget submission.

Sydney Showground Upgrade

For the first time in decades, Western Sydney is starting to get the attention it deserves, and from all tiers of Government. It has a new airport under construction and new railways in the pipeline. Industry is responding with new investments, and jobs growth is exceeding all expectations. But Western Sydney is more than just a place to live or to work. To truly reach its potential it must also be a place of play. Over the next decade Western Sydney's main town centres will all experience dramatic changes as our population surges past three million and new industries cluster to take advantage of this growing population's talents. But to become a truly successful region, it also needs to ensure there are also places where we can see a band or catch a show. Sydney Showground receives approximately 900,000 visitors outside of the Easter Show period. However, the site is ageing and requires reinvestment to continue to meet stakeholder needs and market demand. The RAS as custodians of the site is proposing a \$440 million upgrade that would provide NSW and Sydney a second major convention and exhibition centre at a third of the cost of a new convention centre elsewhere, with transport links and capability of handling large visitor numbers already established.

Importance of resilience

Recommendation 21

NSW should reflect Infrastructure Australia's emphasis on the growing importance of resilience for businesses and citizens. This will necessarily include measures aimed at reducing the impacts of future drought and fire conditions on people throughout the state.

The events of the past summer have demonstrated the importance of improving the resilience of NSW's infrastructure. If events such as the extended drought conditions and subsequent bushfires are to become more common or intense in coming decades, infrastructure is one of the areas that need to be prepared.

Dams in key watersheds will be needed to ensure that more of the rain which falls in non-drought periods is stored and made available for use during times of shortage. Sydney Water is proposing to expand its desalination plant at Kurnell. In January, the government passed the proposal to IPART for expedited review. After the heavy rains which fell in February, dam storage levels have recovered a year's worth of stored water, easing the urgency of the project. If warranted, IPART should be given more time to determine whether the proposals will deliver maximum value for consumers' investment. However, provided that IPART is able to limit the impacts on water users' bills of the expansion, additional desalination capability looks to be a necessary part of adapting to a climate where drought is more common or lasts longer.

Improving the water efficiency of the economy is an ongoing process. The new developments around the Western Sydney Aerotropolis will present a world-leading example of how to design water-efficiency into major developments from the start. Achieving similar levels of performance in retrofitting existing communities will be more challenging, but will help ensure the state is better prepared to face future drought conditions.

Part 5 — Regional development

Many of Business NSW's members are based in regional NSW. The state's regions have the potential to contribute significant additional economic capacity so long as the right investments in physical and social infrastructure are made.

While the opportunities are immense, many of our regional communities face existential challenges. Threats to the viability of a business can impact a whole community. That is why it is important to manage the pace of change and, where appropriate, protect against threats which challenge the long-term sustainability of our regional communities.

Payroll tax for regional employers

Recommendation 22

Regional employers should be given immediate access to the \$1 million threshold.

One of the reasons Business NSW advocated for an increase in the payroll tax threshold was to reduce payroll tax administration costs incurred by employers. Based on survey feedback from our members, we estimate these costs to be around \$10,000 for a business as they become liable for payroll tax.

With NSW previously having one of the lowest thresholds in the country, overall tax administration costs were higher in NSW than in other jurisdictions (in absolute and relative terms). A \$1 million threshold will go some way to reducing the number of businesses caught up in the administratively onerous tasks associated with complying with payroll tax.

Business NSW has advocated for regional NSW to have immediate access to the \$1m payroll tax threshold rather than waiting until 2021-22 when it applies across NSW. This would be particularly welcome by regional businesses given the impact of drought and bushfires.

Recommendation 23

Alternative rebates and schemes should be considered for regional employers.

While a \$1 million payroll tax threshold remains a recommendation of Business NSW, it is now some time since an immediate threshold for regional NSW was first proposed. As a result, the economic impact of the proposal is not as large as it could have been in previous years.

For this reason Business NSW also supports consideration of more targeted initiatives which could support regional employers. For example, Business NSW has previously proposed a reconfigured Jobs Action Plan rebate which would confer rebate benefits to employers automatically (without having to fill in paperwork) as payrolls increase. Such an initiative could be made available to regional employers.

Business NSW has also previously proposed the potential for a special drought rebate which could apply to employers that meet certain tests (such as their integration into supply chains for primary producers or being an employer in a drought-affected community). It is noted that Recommendation 7 of this submission proposes targeted payroll tax relief for businesses heavily impacted by recent events such as the bushfires.

Given payroll tax is growing and is now the largest state-based tax in NSW, Business NSW believes there is scope for substantial payroll tax relief concentrated in the areas of most severe need.

Taking forward recommendations from the Zonal Taxation Inquiry

Recommendation 24

Further relief targeting new investment in regional areas, based on recommendations from the Inquiry into Zonal Taxation, should also be explored.

Business NSW welcomed the final report from the *Inquiry into Zonal Taxation* when it was released in May 2018. The Inquiry contained many sensible suggestions to make it easier to do business in regional NSW. These include:

- payroll tax relief for businesses relocating from interstate into regional NSW
- fast-tracking increases to the payroll tax threshold for regional businesses located outside of metropolitan Sydney
- stamp duty exemptions for purchases of commercial and industrial property located outside of metropolitan Sydney.

It is appropriate to reconsider these recommendations in light of some of the significant economic challenges now faced in regional communities.

Fast-tracking regional infrastructure

Recommendation 25

The Government should ensure the proportion of annual Restart NSW funding that goes to regional projects should be consistent with the 30 per cent target overall. Approaches to project assessment should balance the need to have high quality projects while recognising the challenges associated with assessing projects in regional centres.

Many of Business NSW's regional members have expressed concern at the pace of infrastructure delivery in regional NSW.

While funds are available to regional NSW under Restart NSW, regional communities face challenges associated with developing business cases for projects where the benefits are more challenging to quantify than for larger scale projects in metropolitan centres.

Business NSW considers the proportion of annual Restart NSW funding that goes to regional projects should be consistent with the 30 per cent target overall. This will require a stronger and more consistent focus from Government in both identifying, prioritising and progressing projects in regional NSW.

Regional infrastructure is an important policy lever for promoting regional development while at the same time ensuring that NSW residents have access to sufficient opportunities and amenity no matter where they live. An approach to project assessment that helps identify base levels of service provision from public infrastructure would help ensure all regions receive increased levels of infrastructure investment

Ensuring cross-border competitiveness

A number of policy issues arise for businesses operating close to state boundaries. Border communities rely on their natural strengths and endowments to be resilient against competitors

operating in a neighbouring jurisdiction with more favourable policy settings. However, policy changes — no matter which side of the border they occur — can create imbalances and disproportionately impact communities located close to the border. In recent times these impacts have been seen with the implementation of the container deposit scheme (CDS) and changes to payroll tax in neighbouring jurisdictions which have disadvantaged businesses on the NSW side of the border. Border communities are also disadvantaged in BCR processes due to the discounting of benefits.

Business NSW welcomes the pragmatic approach taken to address concerns relating to cross-border issues and recommends this approach be adopted for any future issues that become apparent (such as by maintaining, and extending where necessary, compensation to border retailers affected by the CDS and ensuring the competitiveness of the payroll tax system by increasing the threshold to \$1 million).

To ensure future policies do not give rise to new cross-border issues, Business NSW believes all new policies should be subject to specific consideration as to how border communities will be affected. Business NSW notes it is difficult for this to occur without robust regulatory impact assessment processes. The NSW Cross-Border Commissioner has a vital role in advocating for the interests of border communities, however it is challenging for the Commissioner to properly assess policies if a broader assessment of costs and benefits (including proper stakeholder consultation) is not performed.

The NSW Government should also continually monitor policy changes in neighbouring jurisdictions and make changes to the regulatory and policy environment to ensure NSW businesses are not disadvantaged.

Recommendation 26

The NSW Government should continue to take a pragmatic approach to directly address cross-border issues as they arise. All future policies should be assessed for any impacts on cross-border communities, including as part of new regulatory impact assessment processes implemented as a result of the Greiner review. The regulatory and policy environment in neighbouring jurisdictions should be monitored and, if required, changes made to ensure NSW is competitive with the rest of Australia.