

9 June 2020

Committee Secretary
Select Committee on Regional Australia
PO Box 6021
Parliament House
CANBERRA ACT 2600

Business NSW response to Inquiry into Regional Australia

Thank you for the opportunity respond to the *Inquiry into regional Australia*.

Businesses in regional Australia faced a challenging business environment even before the bushfires of 2019-20 and the emergence of the COVID-19 crisis. This inquiry provides a valuable opportunity to reflect on the Government's approach to regional Australian businesses and recalibrate policy so that regional areas can recover from these back-to-back crises.

Business conditions in NSW

Business NSW conducted a [Business Conditions Survey](#) of its membership in March 2020 to understand the relative impact of COVID-19, bushfires, drought and other weather events that impacted NSW in the first quarter of this year.

The survey provided insight into how business attitudes changed during the critical transition period between the first wave of shutdown measures, which commenced from 16 March, through to the implementation of more aggressive measures from 23 March.

Business conditions deteriorated rapidly, with respondents reporting a doubling of COVID-19-related revenue losses during the first and second weeks of the survey period. Business expectations for the next quarter also indicated that business confidence had fallen at unprecedented rate.

In addition to COVID-19, some regions and industries have also been acutely impacted by other factors such as the 2020 bushfires and drought which have had a concentrated impact in some parts of NSW. Businesses experiencing the cumulative impact of two or more adverse events have been the hardest hit.

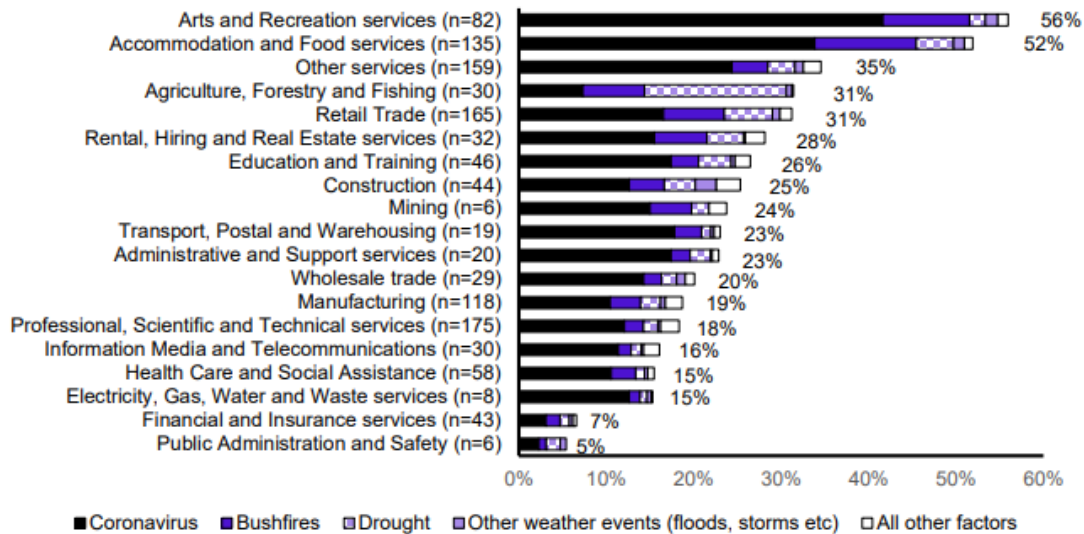
On an industry basis, tourism businesses were the most severely impacted with Arts and Recreation services and accommodation and food services impacted by the combined effect of COVID-19 and the 2020 bushfires. Businesses in the Capital Far South and New England North West were more severely affected by the 2020 bushfires and drought; the business impacts of COVID-19 were proportionately higher in metro areas. The survey's staffing and capital spending indices fell sharply suggesting businesses are no longer investing and, prior to the introduction of JobKeeper, were in the process of reducing staffing costs. Business revenue also fell sharply.

Formerly 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

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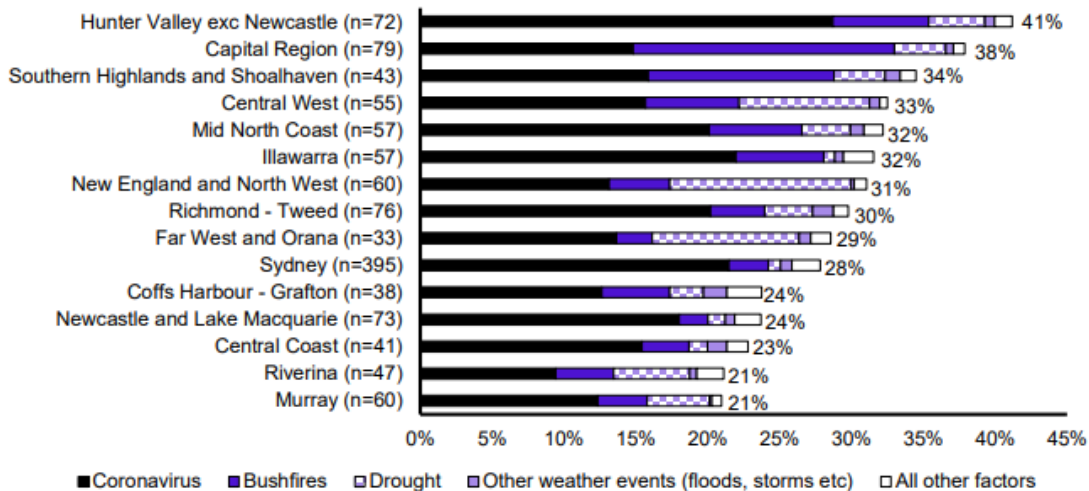
Business NSW is currently undertaking additional business conditions research and would welcome the opportunity to update the Committee on the results once they are available.

***Cumulative revenue impacts by industry and cause**



*Calculated as a weighted average using responses to the following questions:
 -To what extent is current revenue below what you expected it to be?
 -Out of 100, what share of your business's lower revenue do you attribute to each of the following factors?

***Cumulative revenue impacts by region and cause**



*Calculated as a weighted average using responses to the following questions:
 -To what extent is current revenue below what you expected it to be?
 -Out of 100, what share of your business's lower revenue do you attribute to each of the following factors?

Recovery in the regions

Relative to its international peers, Australia has been less severely affected by COVID-19. Because of its success in keeping the number of cases of the virus low, and the measures taken to prevent its spread, many regional towns avoided having any cases of the disease. This early preventative action should prove helpful as Australia begins the process of restoring economic activity following the shutdowns.

If COVID-19 is kept from re-emerging, Australia may be perceived as a safe haven, making it more attractive as a trade partner and for visitors once travel is permitted. Regional businesses and attractions stand to benefit if case numbers in those regions remain low or absent. This opportunity has been reflected in recent calls to accelerate re-opening regions where no COVID cases have been registered. An opportunity exists to build on this reputation of safety.

Business NSW recently provided feedback on our members' experiences as part of a [pre-Budget submission to the NSW Government](#). This submission:

- notes estimates of the economic impact of the bushfires, including early estimates of potential job losses and business impacts (page 8)
- outlines anecdotal feedback received from NSW businesses including key concerns relating to cash flow and accessing government support (page 8)
- recommends policy measures to build resilience and to protect from natural disasters (pages 11-15)
- recommends tax changes to enable better risk mitigation into the future, including the impact of the Emergency Services Levy and other stamp duties on insurance premiums which have the potential to contribute to underinsurance (page 13)
- includes the results of a survey describing the impacts of the bushfires on NSW tourism businesses (pages 16-18).

Export support

The Export Market Development Grant (EMDG) scheme provides export promotion support for eligible enterprises in order to boost exports of Australian produced goods and services. However, the EMDG scheme's funding levels have not been maintained, undermining the scheme's role as an enabler for businesses exploring opportunities abroad.

While export assistance programs involve an outlay from the Budget, the return from this investment can be significant. For example, [KPMG's analysis](#) of the EMDG scheme estimated that 88 per cent of its gross costs were self-funded; that is, paid back through increased tax revenue generated from additional economic activity. That same analysis estimated that the EMDG scheme generated more than seven dollars for every dollar invested. Despite a \$20 million boost in 2019, the EMDG provides a vehicle to scale up Australia's presence in international markets.

For these reasons, Business NSW proposes that funding for the EMDG scheme be restored to \$200 million and for additional targeted support for small and regional-based businesses to secure export opportunities. For example, the grant could be adjusted to reimburse eligible small businesses up to 75 per cent of their export promotion expenses.

Regional workplaces

The change in working practices necessitated by social distancing orders increased the reliance of Australian businesses on internet connections. A recent survey of Business NSW membership showed that rollout of NBN in regional NSW had overtaken that in metro areas. [Over 90 per cent of businesses](#) in the Central Coast, Central West and Riverina regions report being connected to NBN. By contrast only 51 per cent businesses in Sydney, 56 per cent in New England and North West and 58 per cent in the Capital Region report being connected to NBN. Connection speeds available to users in regional areas still lag those in more populated areas, even after the speed upgrades initiated by NBNCo and other telecoms operators during the shutdown.

It remains to be seen whether there will be a permanent adjustment to business practices in the wake of the COVID-19 crisis. It is at least plausible that the experience of businesses over an extended period of remote working could lead to adaptations that are favourable to regional growth and development. If workers are required to be present for less time in city-based offices, we may see a trend of workers living further out, where house prices are more affordable and other quality of life benefits may exist.

Without the need to commute, or at least not to commute every day, areas such as the Central Coast, Illawarra-Shoalhaven and the Central West could see an influx of residents. Their jobs might formally be based in the city, but their individual economic activity would occur in these regional areas. While it is too soon to tell whether this will occur, the opportunity exists for regional areas to build momentum for these types of changes to happen.

Aviation connectivity

During the COVID crisis, a significant challenge to regional businesses has been the loss of regular air freight connections. As passenger flights also carried cargo, the collapse in demand for travel limited aircraft movements and curtailed the availability of cargo shipments. What was available was unpredictably scheduled, more expensive than previously and subject to price fluctuations.

Business NSW acknowledges that the Commonwealth stepped in to [bailout airlines](#) during this unexpected and unprecedented crisis, preventing a much more serious decline in air travel (and air freight) than the one that occurred. However, the bailout was accompanied by conditions, including which routes airlines must continue to operate and at what degree of frequency. This meant that some routes with commercial needs (e.g. medical equipment freight and fly-in, fly-out workers) were not able to fly, while other routes were required to fly with near-empty planes.

Given the circumstances, Business NSW recognises the need to learn ‘in real time’ what would deliver the right balance for the aviation sector and recommends a review of the way this was dealt with once the situation settles. This will ensure regional connectivity can be maintained in the case of any future aviation disruption.

Water access

Access to water continues to be an issue of significant concern for member businesses, particularly those in the Murray-Riverina, New England and the North West and Far West NSW. Effects of drought in those areas have not receded, and though recent rainfall has improved conditions, a loss of output during the drought continues to suppress business activity.

Furthermore, unresolved issues over water abstraction and water use licenses and the absence of agreement over the management of the Murray-Darling basin have added to pressures on agricultural businesses in affected areas. Recent announcements of works to build additional water storage/dams may form part of the solution. Continuing to support businesses and towns in drought-affected areas become more water-efficient will also be a vital contribution to the long-term sustainability of these communities.

Productivity

Policies that improve productivity will help the prospects of businesses in regional and metro areas alike. Regional members cite issues with planning and development, red tape, and taxation as frequently as their metro counterparts. Business NSW has produced several documents with recommendations for productivity-improving policy in recent months. Each of these submissions includes our proposals for policy changes to help all businesses, including those based in regional areas.

- [NSW Pre-Budget Submission](#)
- [NSW Small Business Strategy](#)
- [2020-21 Federal Budget Submission](#)
- [Submission to the Thodey Review of Federal Financial Relations](#)

NSW has recently undertaken its review of Federal Financial Relations. A variety of tax changes at the State and Federal level could benefit regional businesses. These changes should be undertaken as part of a holistic review of the relationship between Federal and State tax systems and transfers. As we noted in our submission to that review:

“It is a disservice to the Australian community for the states and territories to be expected to reform in isolation. The most fruitful reform opportunities would necessitate close collaboration between all tiers of government in Australia. As a result, the Chamber welcomes the FFR Review and encourages the Commonwealth to be a constructive partner to this conversation.”

Migration

The COVID-19 pandemic has resulted in closure of international borders and restrictions on entry for international citizens. For the foreseeable future, this will reduce Australia’s ability to recruit skilled workers from overseas, with some analysts predicting that there will only be 34,000 overseas visa holders entering the country during 2020-21.

The Federal Government forecasts that this will result in a reduction in the number of long-term immigrants into Australia by almost 300,000 over the next two years.

This is likely to have significant impact on a range of industries, particularly construction and tertiary education, and significantly impact regional areas in critical areas such as health, construction, mining and advanced manufacturing. Short-term arrivals have also reduced with disproportionate impacts on the tourism sector in regional areas.

Global competition for talent will likely increase after the COVID-19 pandemic. This will result in pre-existing skills shortages in regional areas exacerbated in certain industries due to fewer skilled migrants.

The recovery process provides an opportunity to realign Australia's approach to migration. The reputation for safety gained through the pandemic gives Australia an advantage (possibly temporary) in attracting skilled overseas migrants. This may require increasing the number of skilled migrants permitted grants an opportunity to boost productivity across the country, including in regional areas, and ensuring that it keeps its existing migrants.

Business NSW recommends that Australia:

- conduct a targeted and proactive overseas recruitment campaign of highly skilled and in demand occupations for regional areas
- deliver fast-tracked visas for people recruited through the campaign
- increase its permanent migration cap
- fast-track subclass 186 visa applications which allow existing temporary migrants sponsored by a business to quickly move seamlessly to a permanent resident visa
- temporarily relax conditions for the 186 visa such as:
 - reducing the amount of time that a visa-applicants must have worked for an employer from three-years full time to one-year full time
 - removing the requirement for visa applicants to be under 45 years of age.

Employment

There is a significant risk that regional Australia could see an entire generation without work. Unemployment rates are increasing significantly, particularly for young people in regional areas, which is combined with the mental health impacts of the COVID-19 pandemic.

Business NSW recommends that a new \$100 million youth re-engagement fund be created to further support young people who have disengaged from seeking employment or undertaking further training. The fund would facilitate additional reach-out and mentoring services to help young disengaged people build confidence, develop skills and prepare to enter the jobs market.

Vocational education and training (VET)

Training the future workforce will be critical to ensuring productivity in regional Australia. Students, particularly in regional areas often report that one of the barriers to undertaking a VET qualification is the availability of training.

Business NSW strongly recommends that both public and private VET training providers receive greater subsidies for regional delivery to encourage the delivery of more courses with clear local job outcomes in areas with smaller margins. These courses could be determined in consultation with local businesses to ensure that training providers are meeting local industry demand, whilst also increasing student employment outcomes.

While the temptation may be to provide additional online training, evidence shows that face to face training delivers higher completion rates, provides a better learning experience for students and improves outcomes for future employers.

Yours sincerely

Simon Moore

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