BUSINESS NSW

PRE-BUDGET SUBMISSION TO THE COMMONWEALTH GOVERNMENT

2024-25

January 2024

Contents

FOREWORD

Business NSW welcomes the opportunity to provide a pre-Budget submission ahead of the 2024/25 Federal Budget.

As NSW's peak business organisation, ***Business NSW*** has more than 40,000 member businesses across NSW and a further 50,000 across Australia. We work with businesses spanning all industry sectors including small, medium and large enterprises. Operating throughout a network in metropolitan and regional NSW, ***Business NSW*** represents the needs of business at a local, state and federal level.

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

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

Last year we continued to speak about the fragility that many firms are facing in the aftermath of COVID. This hasn't changed. We saw record bankruptcies in some industries, this must remain centre at all decisions that could push businesses over the cliff. Businesses have been battling the same suite of economic challenges all year, with the rising cost of doing business most persistent. Insurance and energy costs are the top two business cost concerns, followed by taxes, levies and other government charges. Business confidence remains firmly in negative territory while official forecasts by the NSW Government and the Reserve Bank of Australia (RBA) suggest sluggish economic activity will continue in 2024.

Since the last budget the cash rate businesses are subjected to has risen from 3.85% to 4.35%. We need to ensure that businesses have the adequate support and knowledge to navigate these increased financial burdens.

Productivity year on year continues to grow as an issue for our economy and businesses. We need a greater focus on investment and productivity as our economy shifts towards less productive areas such as services. Without this growth in productivity combined with a strong tax reform agenda, the structural deficit of the budget will worsen, likely increasing the burden on businesses in the future.

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

Section 1 outlines the current business conditions in NSW from a range of sources including our December 2023 ***Business Conditions Survey*** of 845 NSW businesses.

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

SUMMARY OF RECOMMENDATIONS

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Recommendation 7:	The following barriers to the housing shortage should also be addressed: - Social housing needs to be part of the conversation or risk great government intervention in the years ahead. - Increase the proportion of CBD residential housing (double) in the next decade supported with mixed use development of childcare and essential services. - Increase medium density housing. - Set targets (such as 30 per cent) for affordable housing on surplus government-owned land to support key workers to live closer to where they work. - Provide grants where feasible for upgrading of existing rail infrastructure to service higher patronage per hour and increasing housing supply along those corridors. - Look at stamp duty reform to allow for greater mobility across our cities while also reducing a significant barrier to home ownership. We continue to support the Infrastructure Australia recommendation to expand the pipeline of well-located, high quality social and affordable rental housing by prioritising and implementing efficient medium to long term financing programs. Access to affordable and social housing has become a critical issue from the CBDs to the regions.	17
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Recommendation 12:	Maintain the skilled migration cap at 190,000 for access to all skilled occupations under employer-sponsored streams.	21
Recommendation 13:	The Federal Government should ensure policy and funding settings support innovation in collaborative cross-sector models for education and training.	21
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	and where there is no other body (such as the AER) with relevant oversight of the project.	
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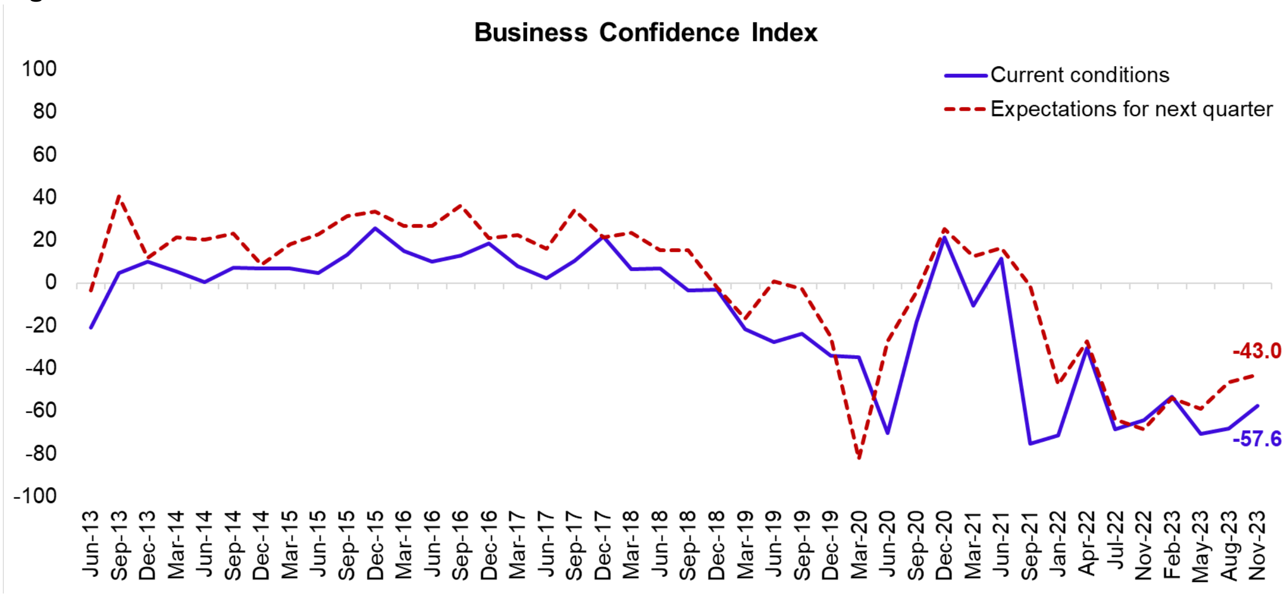
SECTION 1: CURRENT BUSINESS CONDITIONS IN NSW

Business NSW conducts the Business Conditions Survey on a quarterly basis to gauge business conditions across NSW, identify emerging challenges facing the business community and seeking business feedback on topical matters. The latest survey was conducted during 29 October to 13 November 2023. It received 845 responses from all key industries and regions. Key findings are highlighted in this section.

Business confidence still in negative territory

Business confidence remained subdued in the final quarter of 2023. Nevertheless, the headline Business Confidence Index climbed to -57.6, the highest reading in three quarters (Figure 1). The business confidence readings were negative across all industry sectors. The lowest scores came from “Transport, Postal and Warehousing”, followed by “Agriculture, Forestry and Fishing”.

Figure 1: Business confidence in NSW



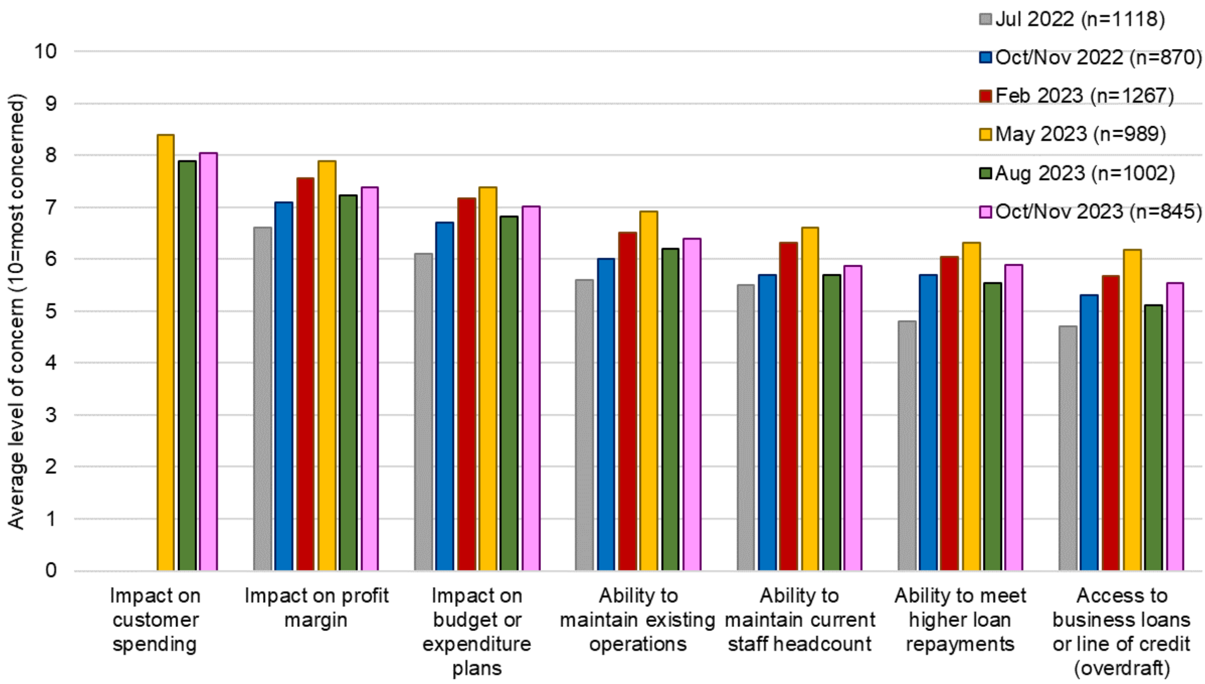
Source: *NSW Business Conditions (December 2023)*, Business NSW

The interest rate hike handed down by the RBA on 7 November 2023 – the 13th increase in the current monetary tightening cycle – has slowed the recovery of business confidence. A deeper analysis of the survey data found that the cohort that completed the survey after the RBA rate hike had a confidence level of -66.2, notably lower than the confidence level of -52.1 for those who submitted their survey responses before the rate hike.

Higher interest rates weigh on business sentiment

Concerns about the impact of rising interest rates intensified in the final quarter of 2023, after a mild improvement the quarter prior (Figure 2). While the impact of rising interest rates on customer spending remained the top concern amongst businesses, the issue that recorded the largest increase in the level of concern was access to business loans or line of credit. The average level of concern regarding profit margin also indicated that businesses had limited capacity to absorb further rate hikes.

Figure 2: Business concerns about the impact of rising interest rates



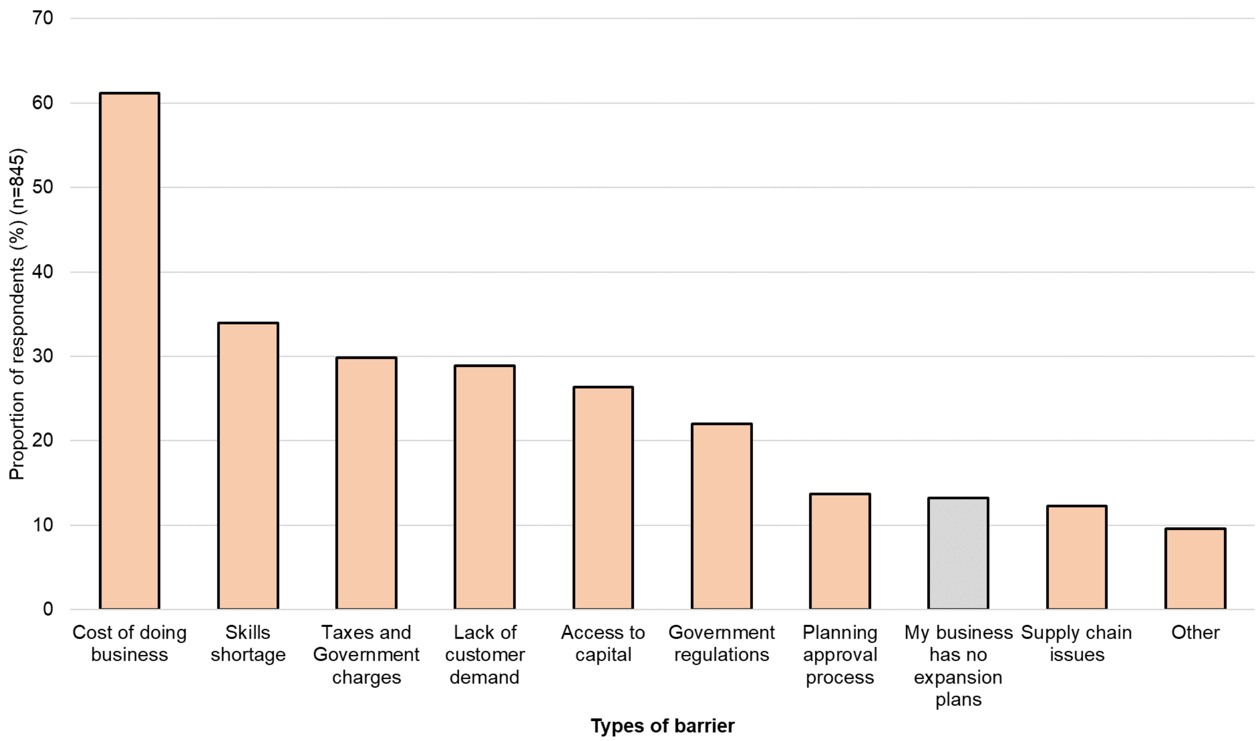
Source: *NSW Business Conditions (December 2023)*, Business NSW

Despite the challenging business environment, 87% of businesses had expansion plans or aspirations to expand (Figure 3). The biggest barrier to expansion was the cost of doing business, followed by skills shortage, taxes and government charges, a lack of customer demand, and access to capital.

To provide further insights into what business cost categories are causing the greatest concern, the latest Business Conditions Survey identified the following ranking:

1. Insurance cost
2. Energy cost
3. Taxes, levies and other government charges
4. Wages
5. Supplier cost
6. Transport cost (including toll charges)
7. Rent
8. Loan repayment.

Figure 3: Barriers to business expansion



Source: *NSW Business Conditions (December 2023)*, Business NSW

Apart from being a barrier to business expansion, the cost of doing business was also reported by 76% of respondents as a barrier to achieving higher profit growth. Other factors limiting profit growth were: taxes and government charges (44%), a lack of customer demand (35%) and regulatory and compliance requirements (34%).

SECTION 2: BOOSTING PRODUCTIVITY

Productivity has continued to be an issue plaguing our economy, recent figures addressing Australia's productivity growth rate will be one of the primary challenges of this parliamentary term.

Tax Reform

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

The alterations to the legislated Stage 3 cuts holds some degree of risk, in potentially affecting the investment capacity of aspirational Australians. Not only could they damage the authenticity of a first term government, they may also weigh on the confidence and investment appetite of small business leaders, who drive our economy. However, we also recognise that increased spending capacity in the lower tax brackets is likely to have a limited, yet positive effect on retail and essential spending.

Business NSW views it as important to see the Stage 3 debate in the context of the need for broader the tax reform. Amongst other priorities, state based taxes, especially stamp duties and payroll tax, are in urgent need of reform. Without Commonwealth involvement, the prospects for tax reform at state levels will falter. We must also look to the competitiveness of our company tax rate to understand whether a lower rate may foster greater productivity within the economy, allowing companies to grow and invest appropriately.

The discussion needs to be renewed, and momentum rebuilt so that the next opportunities for reform are not missed.

> *"Tax reform is not an end in itself. It is an indispensable part of a broader coordinated policy approach that has as its goals greater incentive, security, consistency and simplicity."*[1]

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

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

The following recommendations should be pursued in the near and medium term. Achieving comprehensive reform with our system of government remains challenging in the extreme – nevertheless, the sheer fiscal and public policy challenges of the post-COVID decade make cooperation and collaboration between our Commonwealth, State and Territory Governments essential. From Payroll Tax and Stamp Duty to realignment of company tax and GST reform, business and the broader Australian community need a more efficient, globally competitive and therefore sustainable tax system.

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

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

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

Despite the considerable reform of the late 1990s, Australia still relies disproportionally upon taxing income. Even after successive efforts at returning bracket creep, Australia continues to rank at the top of OECD rankings for dependence upon personal income tax (2^{nd} at 40.6 per cent). Our record on company tax (3^{rd} 18.5 per cent) is not much better. These matters need to be addressed through a staged approach commencing with a realignment of the base rate of 25 per cent corporate tax rate for SMEs with an aggregate turnover less than $250 million.

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

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

Recommendations:

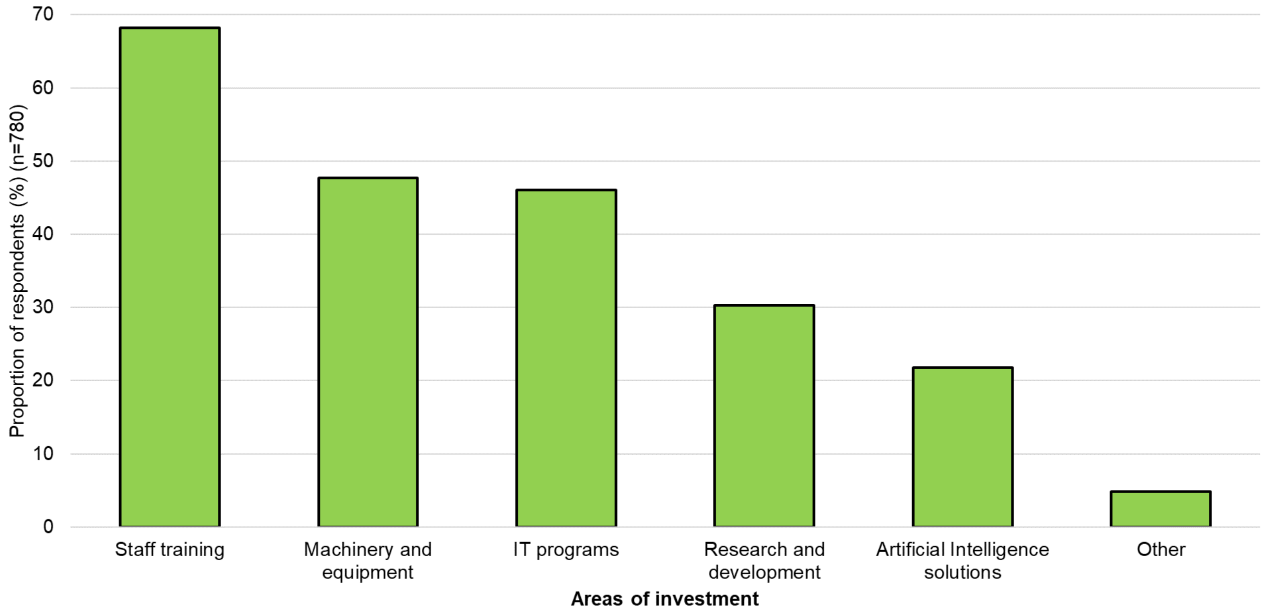
- The Commonwealth and State Governments should come together through the Council of Federal Financial Relations (CFFR) to commence a standing agenda of tax reform. This should include Payroll Tax, the GST, personal and corporate income taxes.
- The CFFR should consider:
  - the breadth of options available to ultimately abolishing payroll tax.
  - reducing dependency upon stamp duties and supporting initiatives to transition to broad based land tax.
  - a pathway to aligning the rate and base of the GST to reduce income taxes more sustainably, especially for low and middle-income earners.
  - Commence a phased reduction of Australia's corporate tax rate to 25 per cent by extending the 25 per cent small business corporate tax rate to cover SME's with an aggregate turnover less than $250 million.

Encouraging business investment and growth

Productivity growth is one of the key drivers of economic growth. However, labour productivity peaked in the March quarter of 2022 and has been on a downward trend since. The latest labour productivity measure – GDP per hour worked in the September quarter of 2023 – was near levels last seen in 2019 (Australian National Accounts (September 2023), ABS).

Despite the decline in productivity recorded, the Business NSW Business Conditions Survey found that a majority of businesses have invested in lifting productivity over the course of 2023. Of the businesses that have reported investment in productivity, staff training was by far the most common response (Figure 4). There is scope to encourage more investment in other areas such as research and development and Artificial Intelligence solutions that also have potential to raise productivity.

Figure 4: Business investment in productivity



Source: *NSW Business Conditions (December 2023)*, Business NSW

BNSW supports the reintroduction of the instant asset write off in the upcoming budget. The measure expired on 30 June 2023, and a targeted reintroduction of the measure may go a long way to allowing business to invest in the productivity of their businesses. Business investment needs to be supported as a key driver of growth and productivity. We need to ensure that the tax system can be used to facilitate productivity enhancing investments.

Recommendation

That the Commonwealth Government reintroduce the instant-asset write-off.

We also need to look at the regulatory environment of our economy. It needs to be easier to do business, encouraging and fostering innovation and creating a culture of entrepreneurialism.

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

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

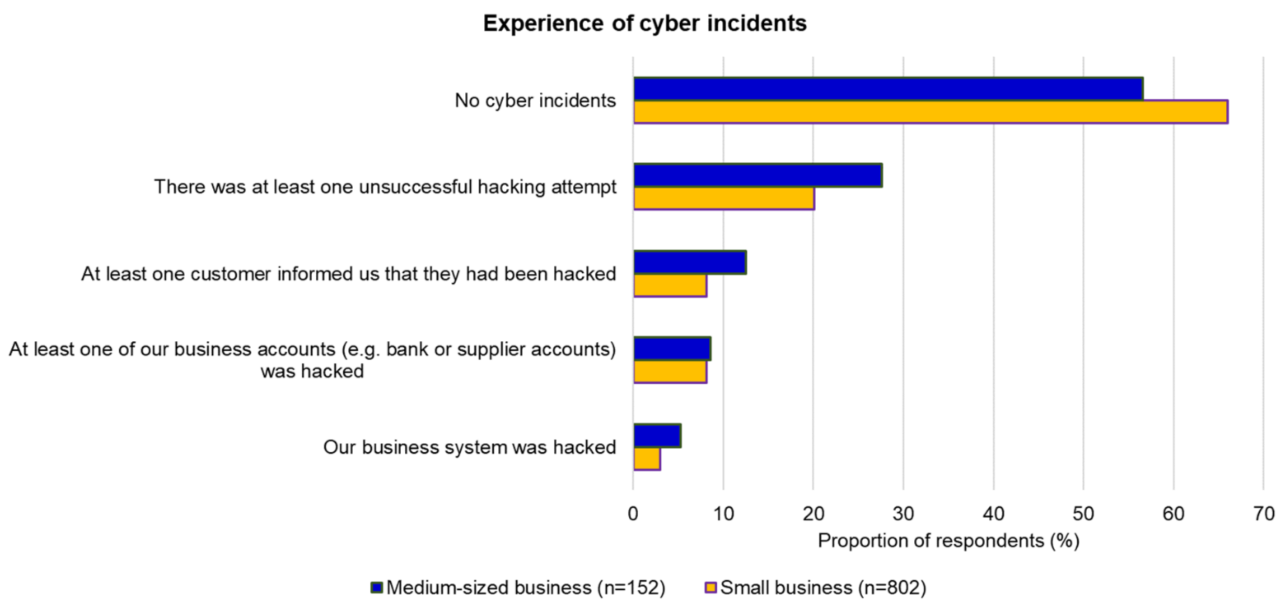
Recommendation

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

Cyber security

Cyber security is a growing business risk. SMEs with limited resources to invest in cyber security measures or limited expertise in preventing cyber incidents can be particularly vulnerable. The Business NSW Business Conditions Survey found that about one-third of small businesses and over 40% of medium-sized businesses had encountered cyber incidents in the 12 months to June 2023 (Figure 5). Although most of these incidents were “unsuccessful hacking attempts”, close to one in ten SMEs reported having at least one of their business accounts hacked. Falling victims to cyber incidents impact SMEs not only financially, but it can also take a mental toll on business owners.

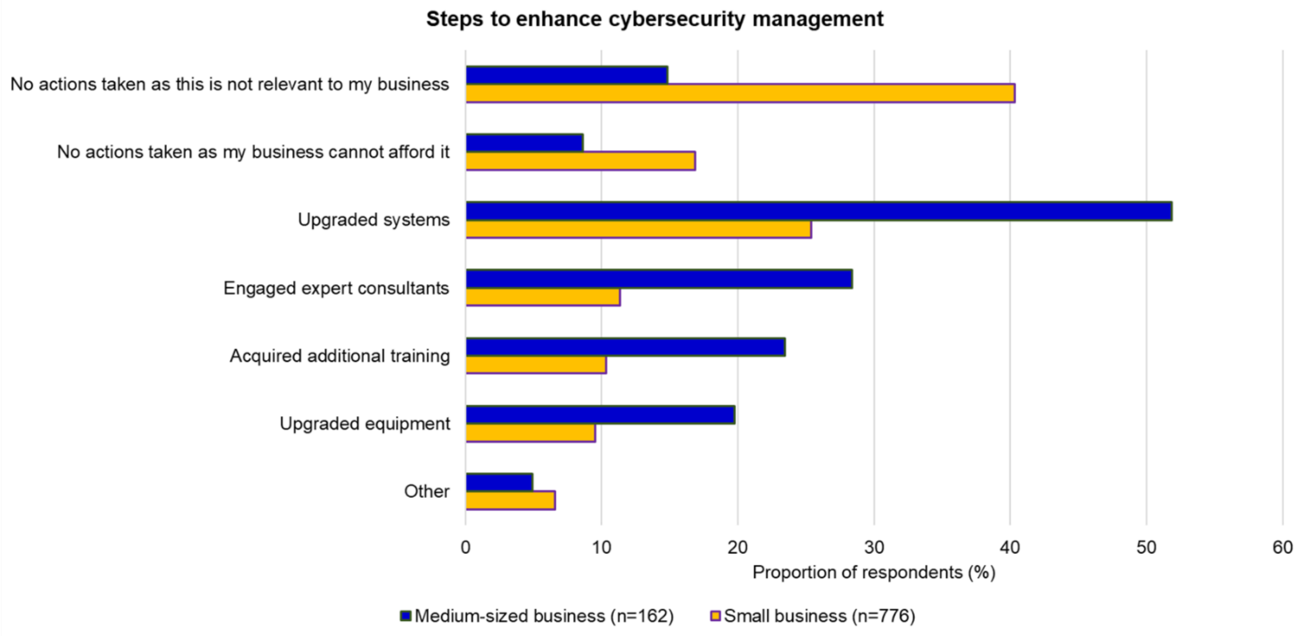
Figure 5: SME cyber incidents



Source: *NSW Business Conditions (June 2023)*, Business NSW

Despite the growing threat of cyber incidents, the Business Conditions Survey found that some SMEs could not afford to enhance their cyber security management (Figure 6). Apart from financial constraints, 40% of small businesses had not taken actions to enhance cyber security because they considered this irrelevant to their business. This highlights a potential gap in cyber security awareness amongst SMEs.

Figure 6: SME cyber security management



Source: *NSW Business Conditions (June 2023)*, Business NSW

The extension of the Privacy Act to cover small businesses will create a significant compliance requirement. We agree with ACCI that "it is critical that the appropriate resources and supports are in place to assist small businesses with their additional regulatory requirements following the removal of the small business exemption, as well as a two-year transition period to provide small businesses with the opportunity to equip themselves and implement the required changes." [2] The costs of compliance are not trivial. To ensure that IT systems are correct and legal documentation appropriate, most small businesses will need to bring in outside expertise. With 2.4 million small businesses in Australia, and a median estimate of compliance costs of around $10,000 per business, a support program alone could require around $24 billion if it is to adequately prepare the small business community for the application of the Act.[3]

[2] https://consultations.ag.gov.au/integrity/privacy-act-review-report/consultation/download_public_attachment?sqId=pasted-question-1676440442.95-78210-1676440443.24-67813&uuId=325710812
[3] 40 per cent of European Union (EU) small businesses reported costs of compliance with EU Privacy legislation exceeded AU$15,000, and 18% reported spending over AU$78,000.

Recommendation

Provide resources and supports to assist small businesses adjust to meet the additional regulatory requirements of the Privacy Act following the removal of the small business exemption.

Fixing the Federation

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

Our submission to the Thodey Review noted the most fruitful reform opportunities would necessitate close collaboration between all tiers of government in Australia.[4] As we approach the 5-year anniversary of the Review this year, it is disappointing how little progress has been made. With significant demographic and economic challenges continuing to grow, Business NSW encourages the Government to revisit the review, and embark on the long-overdue process of reform of Federal financial relationships.

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

Key priorities from a business perspective are to:

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

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

Recommendation

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

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

Housing

Business NSW led a housing alliance in NSW, advocating for an increase of housing supply and density through a range of measures. Many of the asks of the alliance have been adopted, however, additional work and support can be provided by the Federal Government to ensure the delivery of housing.

This includes planning acceleration grants, funding vital infrastructure such as stormwater, sewerage, electricity and NBN to new areas and providing funding for upgrades in areas with increasing density.

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

Recommendations

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

- Social housing needs to be part of the conversation or risk great government intervention in the years ahead.
- Increase the proportion of CBD residential housing (double) in the next decade supported with mixed use development of childcare and essential services.
- Increase medium density housing.
- Set targets (such as 30 per cent) for affordable housing on surplus government-owned land to support key workers to live closer to where they work.
- Provide grants where feasible for upgrading of existing rail infrastructure to service higher patronage per hour and increasing housing supply along those corridors.
- Look at stamp duty reform to allow for greater mobility across our cities while also reducing a significant barrier to home ownership.

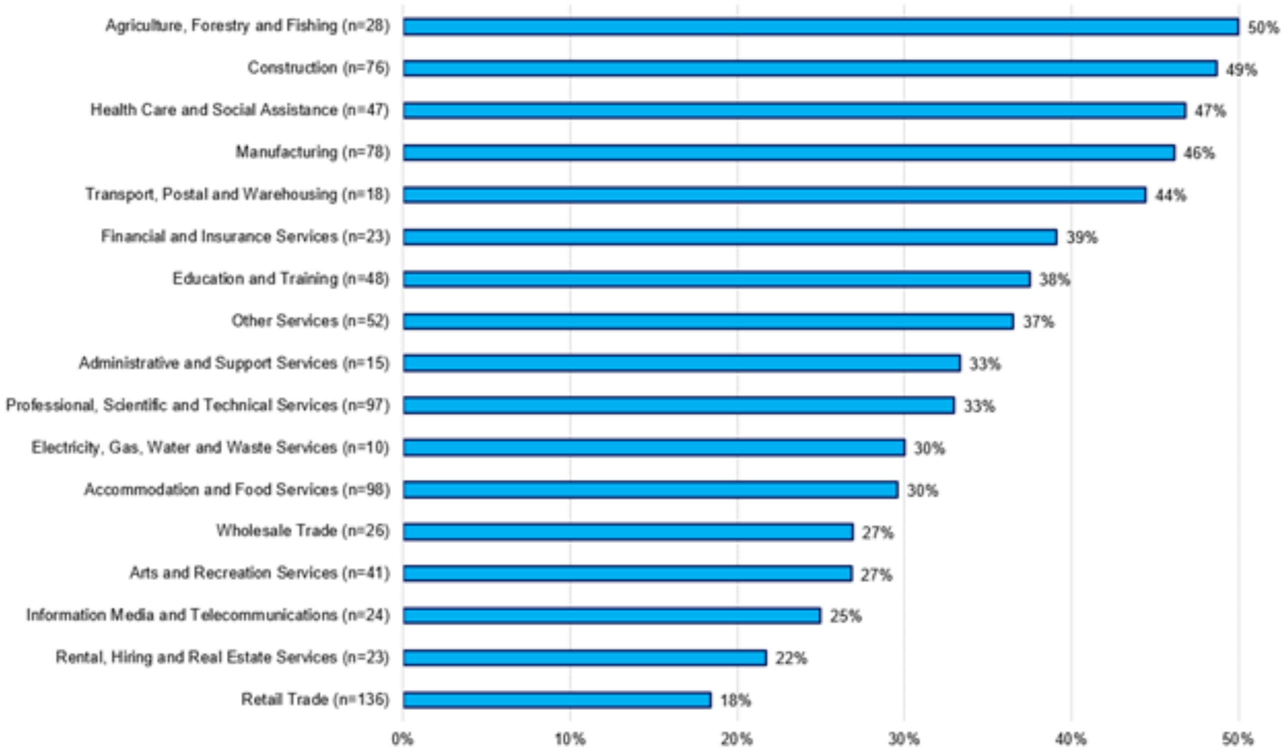
We continue to support the Infrastructure Australia recommendation to expand the pipeline of well-located, high quality social and affordable rental housing by prioritising and implementing efficient medium to long term financing programs. Access to affordable and social housing has become a critical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

SECTION 3: GROWING OUR HUMAN CAPITAL

Australia's skills shortages persist

Skills shortages remain a challenge for businesses in NSW. While labour market conditions may show early signs of easing, they continue to be tight in some sectors. Thirty-four per cent of respondents to our December *NSW Business Conditions* Survey pointed to skills shortages as a barrier to expansion second only to the cost of doing business.[5] These challenges are particularly salient in primary industries, construction, health care, manufacturing, transport and logistics, as shown in Figure 7 below.

Figure 7: Proportion of NSW businesses indicating skills shortage as a barrier to expansion (by industry)



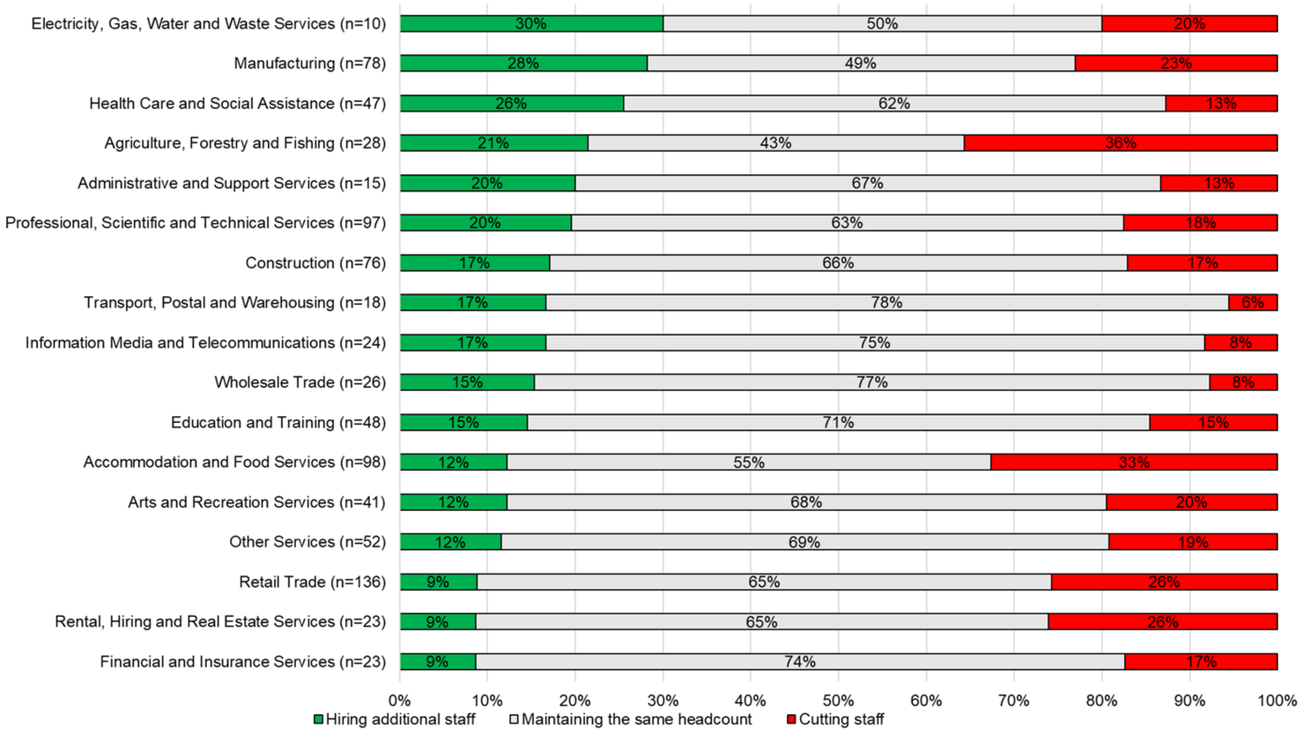
*Mining and Public Administration and Safety have been omitted due to low response rates for those fields.

Source: *NSW Business Conditions (December 2023)*, Business NSW

Hiring intentions remain robust overall, with a more dynamic employment environment becoming evident in some sectors, as shown in Figure 8 below. Primary industries, construction, health care and manufacturing again feature among industry sectors where businesses are intent on hiring additional staff. These are joined by utilities, administration, scientific and technical services as sectors where businesses are looking to grow their human capital, emphasising the need for an adaptive and agile workforce to keep pace with transforming economies and changing business needs.

[5] Business NSW. *NSW Business Conditions*, December 2023.

Figure 8: 3-Month hiring intentions of business by sector.



*Mining and Public Administration and Safety have been omitted due to low response rates for those fields.

Source: *NSW Business Conditions (December 2023)*, Business NSW

Recent efforts on the part of State and Federal governments reflect a broad consensus in helping businesses meet their skilled workforce needs. These initiatives are certainly welcome. The Federal Government needs to ensure continued success through the renewal of existing programs, and through matching responses to recommendations from various reviews and inquiries with sustainable funding commitments in the medium and longer term.

Vocational education and training

Australia's vocational education and training sector serves a critical role in supporting workforce participation, and ensuring businesses have access to the skills they need. We need an education and training system that grows the national skills base and maximises the contribution of business to national prosperity. Vocational education and training serves a critical role in skills development across Australia. It is highly valued by employers in keeping pace with the increasingly diverse capabilities required in the modern workplace. To meet evolving skills needs, Australia needs an education and training system that is both reliable and robust.

Inconsistency and uncertainty have hindered the ability of providers of vocational education and training to meet the demands of businesses and students. Regional business, for example, report that VET courses are often full, cancelled, or unavailable due to funding and staffing constraints. Others have reported a poor alignment between the training on offer and contemporary skills needs. This is reflected in the sustained downtrend evident in employer satisfaction with VET. NCVER reporting on overall satisfaction among employers in NSW who use vocational qualifications as a job requirement has seen a gradual decline over a ten-year period from 79.2 per cent in 2013 to 74.6 per cent in 2023. Satisfaction among employers with apprentices has similarly declined over the same period, from 77.2 per cent to 74.3 per cent. Twenty-nine per cent of respondents to our December *NSW Business Conditions* survey also highlighted a lack of relevance in TAFE and university offerings, indicating room for improvement in the ability of providers to align their offerings with industry needs.

There are significant reforms occurring at both the State and Federal level that promise to substantially improve the quality, availability and relevance of vocational education and training in Australia. The National Skills Agreement provides the opportunity to put in place a long-term funding solution for VET that delivers real growth as well as greater consistency. However, these reforms will need to be matched by ongoing funding commitments if they are to be sustainable. The sector should be aiming for an additional 300,000 funded students annually across various qualifications and industry sectors. The agreement also provides an opportunity for greater clarity, transparency and consistency around funding responsibilities for Australian vocational education and training.

Recommendation

Ensure sustained investment in Australian vocational education and training, including support for an additional 300,000 students per annum across all qualifications.

Apprenticeships and traineeships

The apprenticeship and traineeship system are key incubators of the future workforce. While the current model has delivered positive results, feedback from industry points to the need for substantial investment and further reform. The Federal Government has recently announced a fresh review of Australian apprenticeships and apprenticeship incentives. This review is expected to address financial support for apprenticeships and evidence-based improvements to apprenticeships system. The review also provides an opportunity for implementing a more integrated approach to supporting Australia's apprenticeship system.

The availability of pre-apprenticeship programs, for example, remains an area in need of improvement. These programs provide aspiring apprentices with foundational knowledge and skills along with valuable industry workplace learning and professional networking opportunities. They also provide an economical means for building resilience into our ability to respond to current and future workforce needs. A continued commitment to apprenticeship wage subsidies, without limitation, is needed to drive an increase in commencements and assist in retention to completion. The reinstatement of $2,500 completion incentives for employers will further incentivise investment in development and support activities for apprentices. This investment should be match by financial support for all apprentices and trainees of up to $5,000 to assist in the completion of their training. In support of this, the *Australian Apprenticeships Incentives System* should be extended to at least June 2025.

Recommendations

- That the Commonwealth Government, in partnership with States and Territories, ensure appropriate policy and funding arrangements to support the development and delivery of pre-apprenticeship programs in skill shortage areas.

- Reinstatement of $2,500 completion incentives for employers, and $5,000 for all apprentices and trainees, to support them in the completion of their program.

- That the Commonwealth Government introduce a permanent apprenticeship wage subsidy similar to the Boosting Apprentice Commencements initiative.

Skilled migration

A comprehensive workforce strategy must also have a streamlined migration policy that complements the national investment in skills, education and training. Australia's skilled migration program is a valuable component of workforce planning and development. It enables employers to adapt and respond to workforce shortages in areas of critical skills need. Australia's skilled migration program is critical part of our ability to sustain an agile and responsive workforce.

Thirty-four per cent of respondents to the Business NSW 2022 *Workforce Skills Survey* rated their experience with the migration system as being poor or very poor. Prominent concerns included delays in visa processing time, timeliness in responding to queries and the overall challenge in navigating the complexity of Australia's skilled migration framework.

The Federal Government has recently announced some welcome reforms to Australia's skilled migration program – many of which remain subject to further review. The end-result should be a streamlined migration system; one that is responsive, economical and effective. It should be easy for both workers and employers to navigate, with needlessly complex and onerous requirements removed.

Recommendation

Maintain the skilled migration cap at 190,000 for access to all skilled occupations under employer-sponsored streams.

Collaborative cross-sector models for education and training

Industry-engaged collaborative training models provide an innovative means for building capacity in the state's education and training system. They support the development of industry-relevant skills and facilitate mobility between vocational and higher education. TAFE is partnering with the NSW Department of Education and Training to deliver two pilot IATs: one in Kingswood focused on construction, and one in Meadowbank focused on IT. The IAT model has received widespread support from our members. There is particular interest in regional NSW, where substantial infrastructure investment and renewable energy initiatives are projected to lead to huge demand for skilled workers in regional areas. Collaborative training initiatives of this kind have the potential to increase the state's capacity for responding to current and emerging skills needs, particularly in regional NSW.

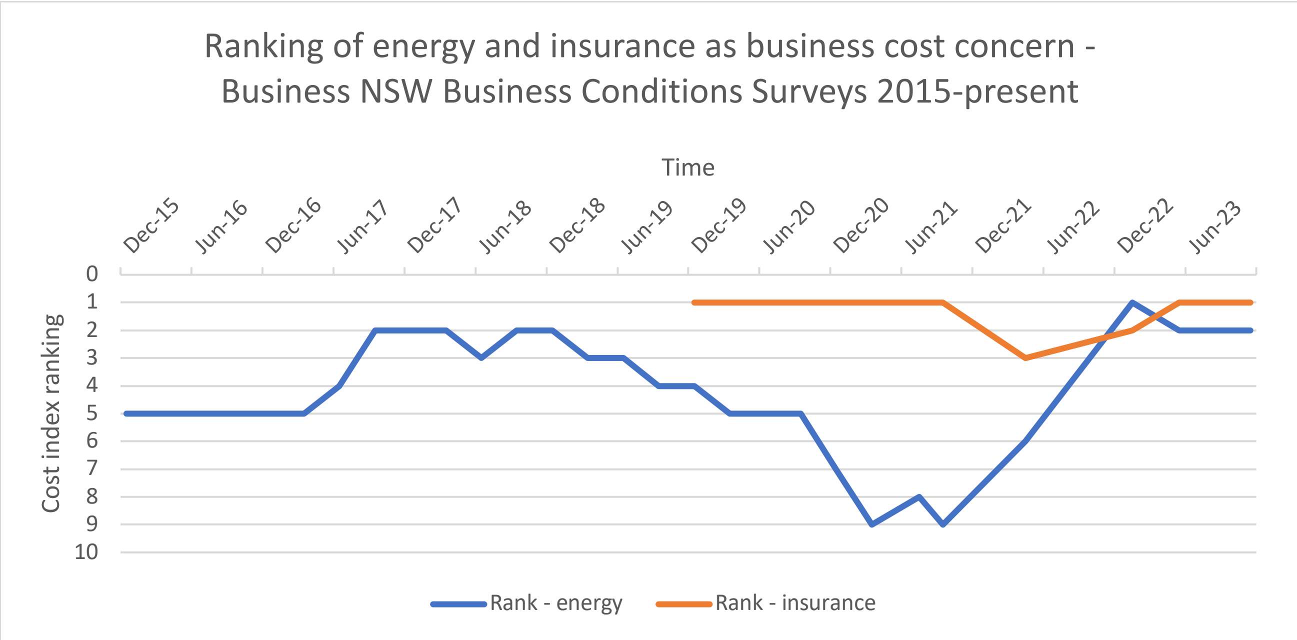
Recommendation

The Federal Government should ensure policy and funding settings support innovation in collaborative cross-sector models for education and training.

SECTION 4: A SUSTAINABLE AND RESILIENT FUTURE

Over the past year, energy and insurance costs have occupied positions 1 and 2 in Business NSW's Business Conditions Survey rankings of business cost concerns (Figure 9). While insurance has regularly taken the top position since being added to the list of response options in 2019, the return of energy to the top two for the first time since 2018 demonstrates the significant deterioration that has occurred in the energy market.

Figure 9: Ranking of energy and insurance as business cost concern



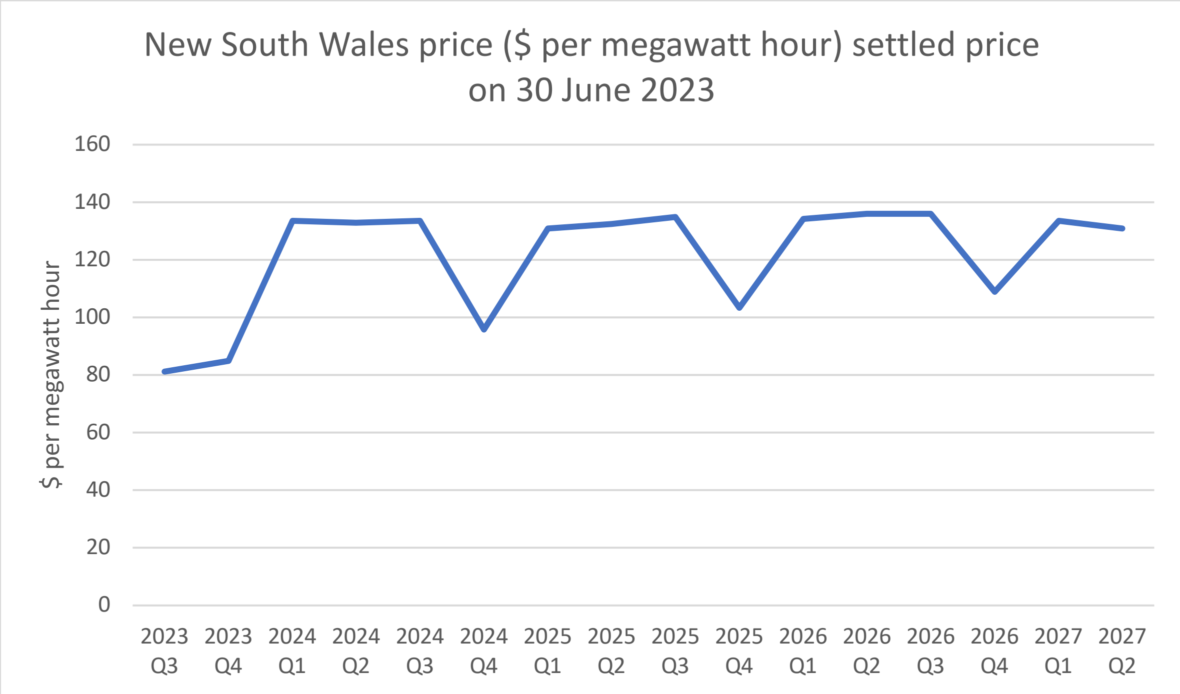
Source: *NSW Business Conditions Surveys (2015 – present),* Business NSW

Energy

Slow progress on development of clean energy infrastructure has left businesses facing an undesirable confluence of rising prices and thinning reliability margins. Futures markets do not foresee reductions in wholesale electricity prices (Figure 10) in NSW over the 4-year horizon, while network contributions will increase in the next regulatory period and as the costs of the NSW Electricity Infrastructure Roadmap add to bills.[6] AEMO's 2023 Electricity Statement of Opportunities warns of reliability risks exceeding the relevant standard in New South Wales from 2025-26, brought about by the deteriorating reliability of existing plant and delays in commissioning new generation and transmission assets.[7]

[6] https://www.aer.gov.au/industry/registers/charts/quarterly-base-futures-prices-and-volume-traded
[7] https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-reliability/nem-electricity-statement-of-opportunities-esoo

Figure 10: Ranking of energy and insurance as business cost concern



Source: *Australian Energy Regulation; ASX Energy*

The benefits that may eventually be realised from major transmission and generation projects are years away from making a material difference to business energy users. The task facing the Commonwealth and State Governments, and the energy market bodies, is to speed up the decision-making process for new energy investments without weakening the processes that ensure businesses and other energy consumers are not paying over the odds for those investments.

We reiterate the concern raised in Business NSW's 2023 Commonwealth Pre-Budget Submission[8], also reflected by ACCI in its 2024-25 Pre-Budget submission, that recent years have seen the beginnings of fragmentation between the states and territories on energy and climate policy, just at the point at which collective action is most critical. While the steps taken by individual states may have merit on their own terms, the actions particularly of the key East Coast states of NSW, Victoria and Queensland have diverged from one another to a concerning degree. While activities such as the AEMO Integrated System Plan aim to weave these disparate activities into a coherent whole, there is a risk should states pull further apart that investments will be duplicated and opportunities for integration and systemwide optimisation lost, driving up the costs of transition for all energy users. It is important that the Australian Government takes the time to rebuild confidence in the National Energy Market. With unity of purpose on the need to cut emissions re-established; it would be a great loss if we revert to a disaggregated grouping of state-based energy systems.

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

[8] https://www.businessnsw.com/advocacy/submissions/pre-budget-submission-to-the-commonwealth-government-2023

Recommendation

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

Initiatives including the Capacity Investment Scheme and the Rewiring the Nation program, which have been implemented or extended since the last Budget, seek to address financial constraints. However, their ability to also overcome planning and environmental approval barriers and skills and supply chain constraints is so far unproven.

Improving the productivity of businesses' usage of energy is one of the ways that businesses can combat these cost pressures. Using less energy for a given unit of output (or increasing the units of output for any given unit of energy) improves competitiveness, and can contribute to improving businesses' growth outlook, encouraging investment, and reducing inflationary pressures. Business NSW has been disappointed by slow progress on business energy productivity measures. At time of writing the National Energy Performance Strategy has not reported, many months after its initial intended release date. The extent to which the NEPS will focus on matters affecting businesses, especially smaller businesses, is unclear. The longer we wait for the strategy to be determined, the longer businesses also must wait for meaningful measures to be introduced to assist them. Business NSW's submission to the NEPS, and our 2022 report *Unfinished Business*, set out the measures required to improve SME's energy performance and productivity. [9] These measures are:

Recommendations

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

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

Introduce subsidy for the SME sector focused on heating, ventilation, and air conditioning solutions, as previously done for LED lighting.

Establish a loan / grant program to allow SMEs to overcome financial barriers to battery purchases to enable more efficient utilisation of solar resources. Investigate the merits of an REC-style certification scheme for distributed batteries.

[9] https://www.businessnsw.com/advocacy/submissions/national-energy-performance-strategy; https://www.businessnsw.com/content/dam/nswbc/businessnsw/thought-leadership/November_2022_ECA_Survey_Report_low-res.pdf

The 2023 Budget announced the creation of the Small Business Energy Incentive, intended to encourage small businesses to implement energy upgrades in their operations. While welcome in principle, the SBEI was announced with far too short a time horizon: eligible assets would need to be installed between 1 July 2023 and 30 June 2024. At time of writing this submission, the measure had yet to become law. The window of opportunity in which a business could be certain about the measure's implementation, and in which eligible assets could be installed has been reduced to less than 6 months. This is inadequate when improving energy efficiency will require significant planning, design, reorganisation, evaluation and training to integrate a new or different piece of equipment into their business. Alongside ACCI and a coalition of other peak bodies, Business NSW is calling for the SBEI to be extended to 2025 at minimum.[10]

Recommendation

Extend the timeframe for the Small Business Energy Incentive to apply until at least 30 June 2025.

Insurance

In November 2023, Business NSW released *Insurance at the Speed of Business*, our review of the declining availability and increasing costs of insurance for small businesses.[11] In it, we propose a number of measures for national and state governments, insurers and the insured, to enable insurance to remain as a bedrock for Australian businesses' competitiveness. The flooding in Queensland and Victoria which has occurred over the summer, and which is putting further pressure on premiums, highlights once again the need to find solutions, and not just those which rely on decade-long investments in protective infrastructure.

Australian businesses are facing increasing pressure from rising insurance costs. Insurance has taken the top spot in Business NSW's survey of leading causes for concern in 9 out of 11 surveys in which the question has been asked, since being added to our list of survey options in 2019.

Insurance is a business cost that has risen considerably in recent years, putting pressure on the competitiveness and viability of Australian businesses, especially small businesses. While insurance premiums are rising across the board, for a subset of businesses undertaking specific types of activity or located in flood and bushfire-prone locations, insurance is either not commercially available, or only available at such prohibitively high prices that the business is in effect uninsurable. These businesses, which range from critical activities underpinning economically vital sectors such as construction, to those which typify Australiana such as camping and caravanning sites and outdoor recreation centres, face choices about whether to continue operating.

Many enterprises are experiencing escalating insurance premiums and diminishing product availability. Competition in insurance is deteriorating. This is especially evident in the foundational business insurance classes of professional indemnity (PI), public liability (PL) and asset insurance. Premiums in some classes are escalating by about 30% per year, and that is where businesses can still access insurance at all. Standard insurance products are not capable of operating 'at the speed of businesses.

[10] https://treasury.gov.au/sites/default/files/2023-08/c2023-402752-joint-submission-.pdf
[11] https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Insurance%20at%20the%20Speed%20of%20Business.pdf

Current models with slow decision-making and rigid payout structures are failing to meet contemporary small business needs. Businesses receiving insurance payouts are often obliged to build back as before the insured incident occurred, in some cases exposing them to the same vulnerabilities that left them susceptible to floods or bushfires in the first place. Businesses need insurance products that deliver the speed and flexibility to enable them to operate in the way that meets their circumstances.

Long-term solutions cannot by themselves address the acute crisis in insurance affordability and access. Government and the insurance industry are discussing measures to address the long-term issues with business insurance affordability and availability. Most of the solutions proposed by the insurance sector would take many years before they translate into relief for NSW businesses, even if the work commenced today. The insurance sector has also not committed to reducing premiums if these solutions were implemented, nor specified how much they expect premiums would drop.

Businesses need solutions that can be implemented on a timetable meaningful to their operations — they need solutions that take effect in months, not decades. Government — and ultimately taxpayers — are bearing increased exposure to the gaps left by commercial coverage. Trends in the commercial insurance market, combined with the increased incidence of natural disasters, are likely to impose ever-greater risk on the NSW Treasury as the effective ‘insurer of last resort’ as more parts of the economy become uninsurable.

Unreasonably high insurance is a barrier to business, especially small business. It also serves to transfer risks to the taxpayer as, when businesses and individuals go uninsured, government is often obliged to step in to fill the gap. Local Australian and NSW risk profiles have been moving further away from global reinsurers’ risk appetites for covers for decades. Climate change has made this more apparent in recent years, as have some government procurement policies and private sector practices. Tapping local expertise and knowledge is part of the answer. Covers and funds, managed by those best placed to bring the most effective mitigation, resilience and recovery, should be brought to bear on a fast-rising mountain of uninsured risk in regions.

Many businesses lack understanding of insurance pricing. Businesses typically purchase liability and indemnity insurance at rates 150 – 300 times the average national claim, meaning many of them are paying high premiums they will not benefit from. This can stem from excessive requirements included in government tenders and procurement processes. However, it is also more commonly a case of the business itself or its insurance broker viewing maximal insurance coverage as being ‘best practice’, regardless of the cost or fit to a particular business’ circumstances. Small business needs a clearer voice in the discussion. It cannot be left to the insurance industry and governments alone to stitch up a set of solutions. The needs of business customers must be represented in working groups aimed at resolving these problems.

The *Insurance at the Speed of Business* report recommends, amongst others:

Recommendations

The NSW Government and Federal Government to co-fund a support and training program for business to uplift the level of education around risk management. Such a program would be similar to the currently funded energy education and selection support tools such as Energy Made Easy.

ASIC to audit the insurance market model to ensure brokers give at least two quotes and adhere to a minimum standard in explaining the pros and cons of the options.

Include business and consumer representation in the funded Hazard Insurance Partnership (HIP) project to ensure that there is clear linkage between inputs (investment, policy development, etc) and outputs (premium reduction, affordability, coverage, resilience, etc). Ensure the premium reduction can be achieved in under three years. Prioritise HIP recommendations based on a benefit realisation model including criteria such as investment required, regulatory impact, measurable benefits to business, premium reduction.

Create a permanent insurance working group across the Australian Federal Government, States and Territories where innovations, market testing and policy alignment can be actioned. Focus on product innovation and premium reduction.

Infrastructure

The past year has necessitated some difficult decisions being taken about major infrastructure projects in NSW. Both the Commonwealth and NSW Governments have been forced to defer or cancel several projects in the face of the workforce and supply chain capacity crunch Business NSW and others have been warning about.[12] This government can make a meaningful contribution to putting infrastructure delivery on a more sustainable footing by ensuring that projects are subject to rigorous evaluation before commitments are made, and that the desire to invest in key infrastructure does not exceed the market's ability to deliver on it. The past year's reviews of Infrastructure Australia and the infrastructure pipeline represent a strong starting point, but the real test will come as new projects are considered.

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

Recommendations

All proposed infrastructure investment should be independently assessed by Infrastructure Australia and have a proven business case following a rigorous cost-benefit analysis.

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

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

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

Freight transport

Critical transport infrastructure will, when completed, improve freight transport productivity across the state and nation. Key projects include Inland Rail, Western Sydney Airport and its surrounding roads and rail networks, the Port Botany Gateway project and associated road and rail upgrades, the upgrading of Newcastle Airport to handle widebody jets and Port of Newcastle to handle container shipping. With so much still to be completed, and with infrastructure market capacity stretched, ***Business NSW***'s preference remains on seeing Government focus on completing existing commitments rather than calling for new works that may not be achieved for more than a decade. Slow progress in the development of employment areas surrounding Western Sydney Airport, particularly in the new city of Bradfield, is increasingly concerning, and runs the risk that the Commonwealth's investment in the airport will not yield the economic benefits it should.

The Federal Government has reduced its investment around the Aerotropolis. The reduced spending, citing inflationary spending may be better rerouted towards accelerating planning and investment attraction for the area.

Furthermore, Industrial action at Australia's ports has not subsided but escalated. Business NSW recognises the Australian Government focus on Industrial Relations Reform and notes, our ports are too critical to business and the communities they serve to be subject to ongoing industrial disputes.

Recommendation

Prioritise resolution of industrial disputes at Port Botany and other Australian ports. Make use of provisions in the Fair Work Legislation Amendment (Secure Jobs, Better Pay) Act 2022 to arbitrate a lasting resolution if needed, and to prevent the escalation of industrial disputes as other port-based contracts come up for renewal.

High Speed Rail

Having appointed the inaugural CEO of the High Speed Rail Authority, government will begin setting out its expectations in regard to proposed high speed rail projects including a potential route from Newcastle to Sydney. In remarks made by ministers Business NSW observes both causes for confidence and causes for concern. Minister King's promises to "to get the structures right, the governance right, the planning right, the engineering right" and not to "just rush out and start spending money before [knowing] how much a project is actually going to cost" strike the right tone.[13]

However, especially in the context of a project with final costs which could easily stretch well beyond a hundred billion dollars, depending on the exact characteristics and speed capability chosen, it is essential to have a firm grasp of 'what is it for?'. Comparisons with European and Asian high-speed lines only go so far – population density and overall population is far lower in Australia; terrain around Sydney is mountainous and challenging to traverse, further hindering the economics.

Government must develop a clear, informed understanding of what the goal of the high-speed rail initiative is and why it is preferable to other options for investing such large sums of capital, before committing to the project. In doing so, it must avoid the "commitment fallacy" by undertaking, as has been promised, thorough business case analysis and avoid rushing to commitments and construction[14]. That business case analysis has to consider the question of whether high speed rail is the right option to back, not just how it will be built. If the evaluation of the business case is a *fait accompli*, in which the option not to proceed is not considered, then it will be little better than past processes which have delivered mismanaged, poor value for money infrastructure.

Further, since Minister King stated that she has "been over and had a look at High-Speed Rail One and High-Speed Rail Two [in the UK]" it is to be hoped that she has learned from the bad as well as the good. The Minister describes that "High Speed Rail Two is transforming the city of Birmingham", but it cannot have escaped her notice that it is also vastly over budget, no longer planned to reach any of its original termini in Manchester, Leeds or London Euston, and even the pared back remaining line's value for money is contested, to say the least.

High speed rail projects can be delivered successfully, but it is a high-risk megaproject class in which, when budgets get blown out, they blow out a lot – according to global analysis by megaproject expert Prof Bent Flyvbjerg more than a quarter (28%) of rail projects exceed their original budget by more than 50%, and of those that do the average overrun is 116%. Australian East Coast high speed rail has a number of significant risk factors including difficult terrain and a lack of local experience in delivering such projects. Government and the HSRA must source the best knowledge and experience from around the world in delivery of high-speed rail projects – and

[13] Press Conference; Heatherbrae, New South Wales; Tuesday, 16 January 2024
[14] Business NSW report forthcoming Q1 2024

even with the best preparation and plans in place, the project team will need to be capable of responding when things go wrong.

Electrification of road transport

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

The influence of taxation decisions on the EV market is becoming increasingly apparent. The October High Court decision in the case *Vanderstock vs Victoria* necessitates a swift engagement from the Commonwealth on future road user charging and vehicle taxation policy. Business NSW shares ACCI's concern that the Luxury Car Tax is leading to perverse environmental outcomes and is not consistent with the Government's Electric Vehicle Strategy. The removal of the LCT would provide an important boost to the uptake of low emissions vehicles. Finally, as businesses add electric vehicles to their fleets, the role of fringe benefits tax needs to be clarified as it pertains not just to the vehicle itself, but also to charging which may occur at employees' homes, places of work, or in public locations. At present FBT implications for EVs are highly unclear (as Business NSW itself is discovering as we begin incorporating EVs into our own corporate fleet).

Recommendations

Federal Government to resolve in the coming year its role and policy regarding road user charging and vehicle taxation in collaboration with states and territories.

Eliminate Luxury Car Tax (LCT)

ATO to review and clarify Fringe Benefit Tax impacts of EVs within business fleets, including in relation to charging at home, at work, or in public places.

Recommendations

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

Trade and investment

New South Wales is a significant exporter of goods and services. Our exporters are successful and resilient. NSW businesses, wary of geopolitical events and previous reliance on one key market, also need support to pursue the growth of our state's and nation's needs.

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

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

Early efforts at nurturing economic relationships with southeast Asian economies are encouraging, but there is scope for much more to be done. That is why Business NSW also supports the Australian Government's reformed Export Market Development Grant (EMDG). Latest figures at the time of writing from Austrade as of 13 September 2023, more than 4,700 Round 1 grantees were paid $183.7 million in total. This support has assisted thousands of small and medium enterprises seeking to build new markets and underpin Australia's growth. Business NSW supports the continuation of the scheme and further expansion of the EMDG in the 2023-24 budget. Greater promotion and awareness of Austrade programs direct to SME firms and consider raising the eligibility (turnover of $20 million) ceiling.

Recommendations

Improve trade and economic data collection and analysis capability of Austrade.

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

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

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

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