



PRE-BUDGET SUBMISSION TO THE NSW GOVERNMENT

FEBRUARY 2022

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FOREWORD

Business NSW welcomes the opportunity to provide a pre-Budget submission ahead of the 2022-23 NSW Budget.

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

Business NSW acknowledges the health and economic policy achievements of the NSW Government supporting business, business owners, their staff and employees and the local communities in which they operate.

The NSW Government's leadership and collaboration supporting businesses has again been demonstrated in January 2022. **Business NSW** commends the NSW Government for delivering, without Federal Government assistance, the \$1billion business support package including direct payments to businesses up to \$5,000 per week (20 per cent payroll) for businesses with turnover between \$75,000 and \$50 million who suffered a 40 per cent downturn in January and project to do the same in February, extending the Small Business Fees and Charges Rebate to \$3,000 and now including 50 per cent of the costs incurred to acquire RATs for the workplace and extended comms support businesses with a further \$1billion

Business NSW welcomed the direct support measures committed in response to the winter 2021 lockdown, including cash flow support for businesses and non-profits, support for highly impacted industries, tenancy protection and incentives for commercial and residential landlords, \$410 million on FY22 payroll tax waivers for smaller businesses and more than \$330 million to support individuals and vulnerable communities.

As we enter the third year of the COVID-19 pandemic, the ability to deploy agile and tailored policy making responses remain key. Blunt instruments such as state-wide lockdowns and national wage subsidies should be avoided at all costs.

The ability to trade safely, to welcome back customers and staff with certainty, and the ability to plan for the future are top priorities for business.

The rebuilding of consumer and business confidence and tailored support for particular business sectors and localities doing it tough are key priorities for the first months of 2022 and may remain an important part of the public policy risk management tool kit should the pandemic evolve further through new variants or a winter wave.

In the medium-term, businesses continue to grapple with how best to meet pent up demand whilst navigating the supply side consequences of the pandemic such as vastly reduced migration, interruptions to supply chains and access to skilled labour.

Safely removing remaining COVID-related restrictions remains a top priority for business.

Increased freedom and flexibility to safely get on with what business does best, and making sure future restrictions are avoided, consistently top both the biggest challenges for business as well as action items they would like to see from government.

The rise of the Omicron variant has threatened the recovery plans of many businesses that have seen worried consumers cancel gatherings and apply self-imposed isolation strategies irrespective of government intervention.

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

In January 2022, **Business NSW** conducted a survey to evaluate the impact of the November 2021 Omicron outbreak.

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

The second theme concerns the nature of the challenges being faced by NSW businesses when trying to navigate 'living with COVID'. In short, those challenges are becoming increasingly complex and multi-layered, needing a more nuanced and sophisticated approach. Through the extensive consultation mechanisms currently on foot between the NSW Government, **Business NSW**, other peak business groups and across the key agencies of government, we continue to support this agile approach policy making in 2022.

Business NSW supports the targeted and staged approach adopted in the NSW Government's *COVID-19 Economic Recovery Strategy* (the Strategy), which sits alongside the *Reopening NSW Roadmap* (Roadmap) and forms part of the *NSW Budget 2021-22 half-yearly review*.

This submission is split into four parts.

- Part 1 - outlines the current business conditions in NSW from a range of sources including our January 2022 **Omicron Surge Business Conditions Survey** of over 3,000 NSW businesses.
- Part 2 - contains recommendations relating to **COVID-19 Economic Recovery Strategy**
- Part 3 - contains recommendations relating to the **NSW Budget 2021-22 half-yearly review**
- Part 4 - addresses **outcome budgeting and driving a performance culture**

1. CURRENT BUSINESS CONDITIONS

The state of business in NSW

The last three years have been a time of dramatic swings in business conditions and confidence. As the pandemic has evolved, the state of business in NSW has changed continuously and frequently throughout.

In 2020

In 2020, many businesses drew into reserves as they contended with the initial impacts of the pandemic and the first major lockdowns, putting them in a severely weakened state as they entered 2021.

Throughout 2021

Throughout 2021, we consistently heard the importance of government support initiatives in keeping businesses open with more than half of NSW businesses reporting that they wouldn't have survived without government support in September 2021 (please refer to *Figure 1*).

As restrictions eased in October 2021

As restrictions eased in October 2021, 40 per cent of businesses surveyed announced they were ready to "snap back". At that time, whilst the *Current Business Performance Index* remained low, the *Expected Business Confidence Index* for the December 2021 quarter was notably high (please refer to *Figure 2*).

That confidence appeared to have been well-founded, as businesses resumed operations as restrictions eased. However, there were still numerous challenges facing NSW businesses, particularly on the supply side and mainly due to international border closures and disrupted global supply chains.

In November 2021, 29 per cent of businesses reported that access to skills and workforce was their biggest challenge and 20 per cent of businesses reported supply chain issues (please refer to *Figure 3*).

The impact of Omicron on NSW business

As businesses were getting back on their feet, a new COVID variant, Omicron, took hold and despite some of the highest vaccination rates in the world, consumer behaviour was weaker than expected and for many businesses effectively resembled a shadow lockdown.

Business confidence in NSW plummeted.

Concerningly, unlike previous surveys throughout 2021 where business owners felt the next quarter would improve, that wasn't the case this time, with low expectations around the performance of the economy. There appears to be a high degree of concern regarding the uncertainty of the impact of the surge in Omicron cases on business operations (please refer to *Figure 4*).

In contrast to the July – September 2021 lockdown in NSW, during which time businesses mainly worried about lower demand on goods and services due to movement restrictions, the Omicron variant has impacted employers in multiple ways, particularly on the key performance metrics of staffing and capital spending (please refer to *Figure 5*).

In fact, they show the worst staffing and capital spending performance on record in the **Business NSW's** Business Conditions Survey.

It is not only weaker consumer spending (like in the previous lockdowns) but also workforce shortages that are affecting businesses.

Despite a large proportion of businesses reporting their staffing has been affected, only 7 per cent of businesses reported laying off workers at this stage. Most businesses are maintaining close ties with employees but are reducing hours of existing staff (32 per cent), delaying hiring new staff (32 per cent) or asking staff to work from home (24 per cent) (please refer to *Figure 6*).

Around two weeks into the Omicron surge, businesses reported revenue to be 32 per cent lower than the previous 3 months (please refer to *Figure 7*).

Concerningly, this is somewhat equivalent to 2 weeks into the first major lockdown in March 2020.

In its 2021-22 NSW Budget half-yearly review, an observation was made that the “*emergence of the COVID-19 Omicron variant adds significant uncertainty to the fiscal and economic forecasts, as will future variants of COVID-19.*”

Given **Business NSW's** Omicron survey results, this is looking more and more likely to be the case, in the medium term, despite robust household balance sheets. NSW customers need confidence to again resume spending and support and encouragement that they can do so safely. The NSW Government is to be commended for supporting business throughout the global pandemic and remaining ready, willing and able to adjust these supports and policy settings as events unfold.

Business Conditions Graphs

Please indicate whether the following statements are true for your business due to these COVID-19 assistance programs?

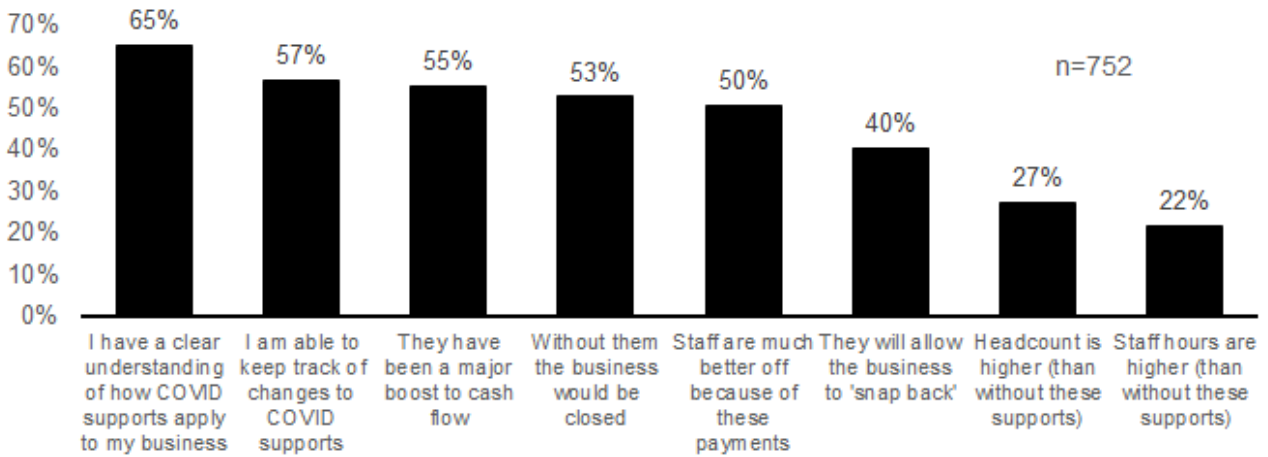


Figure 1 (Source: Business Conditions Survey, **Business NSW**, September 2021)

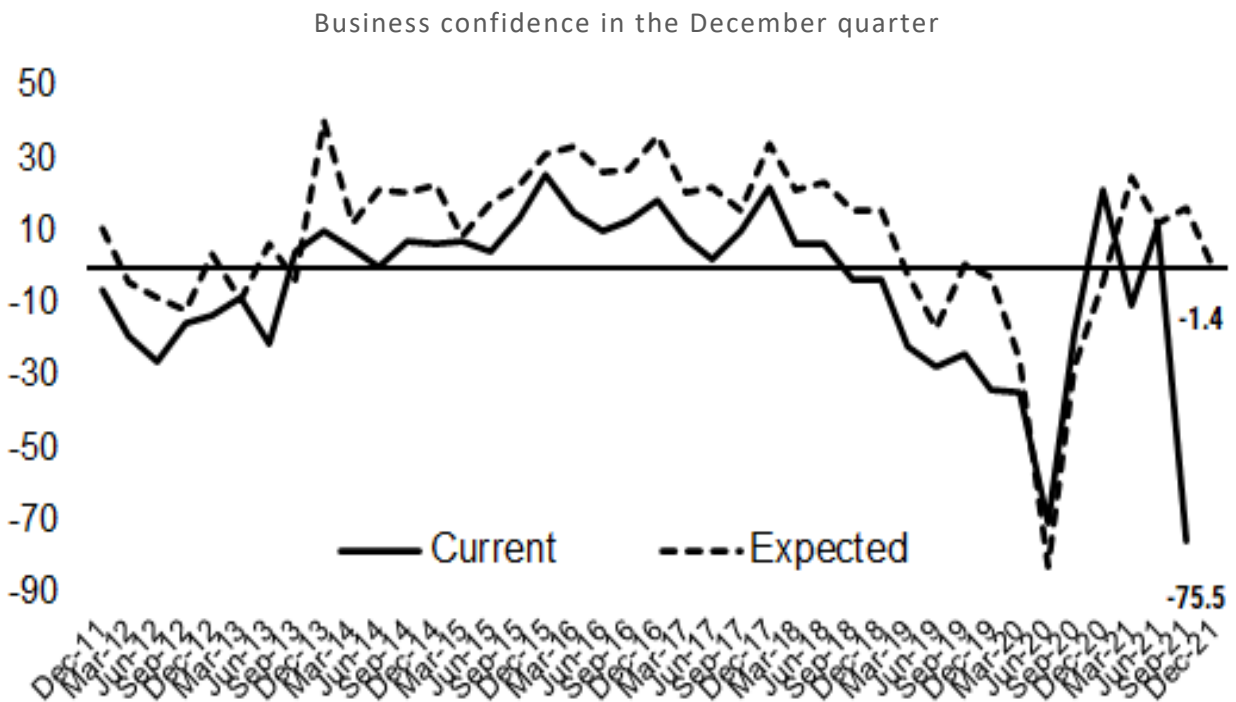


Figure 2 (Source: Business Conditions Survey, **Business NSW**, September 2021)

Note: *Expected* is for the December 2021 quarter. See full report for details on index values.

Biggest challenges to business currently 414 Responses

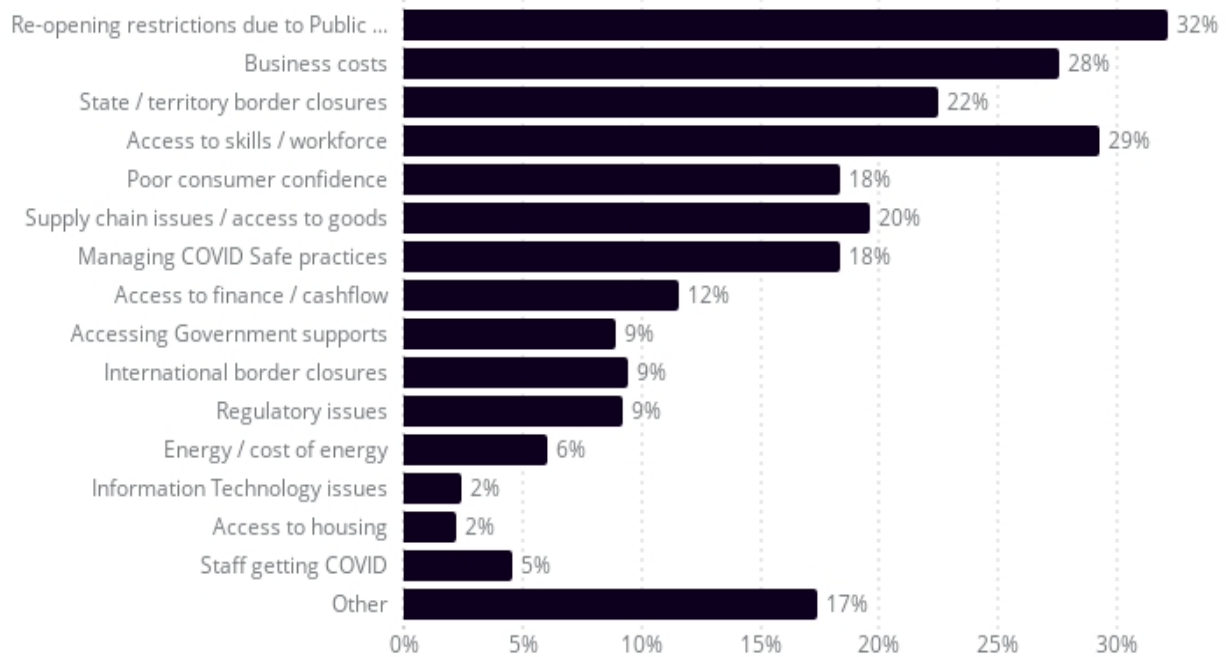


Figure 3 (Source: Reopening of the Economy Survey, **Business NSW**, November 2021)

A sharp fall in business confidence due to Omicron

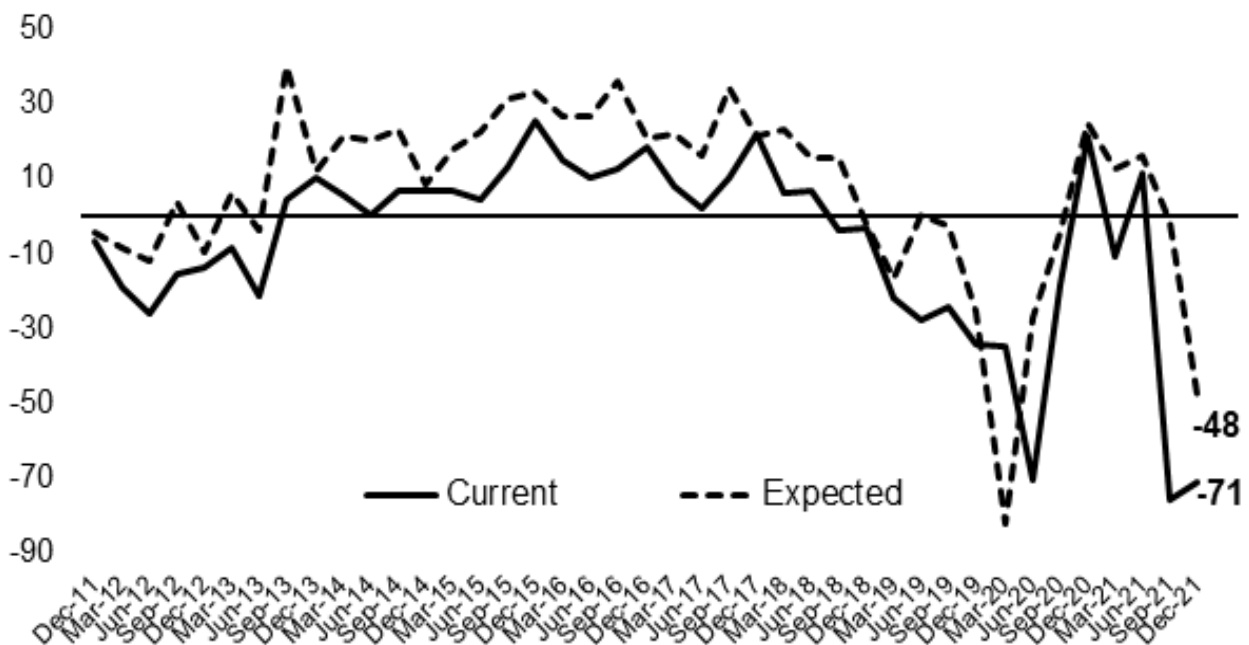


Figure 4 (Source: Business Conditions Survey, **Business NSW**, January 2022: Current and expected performance of the economy)

Staff numbers and capital spending

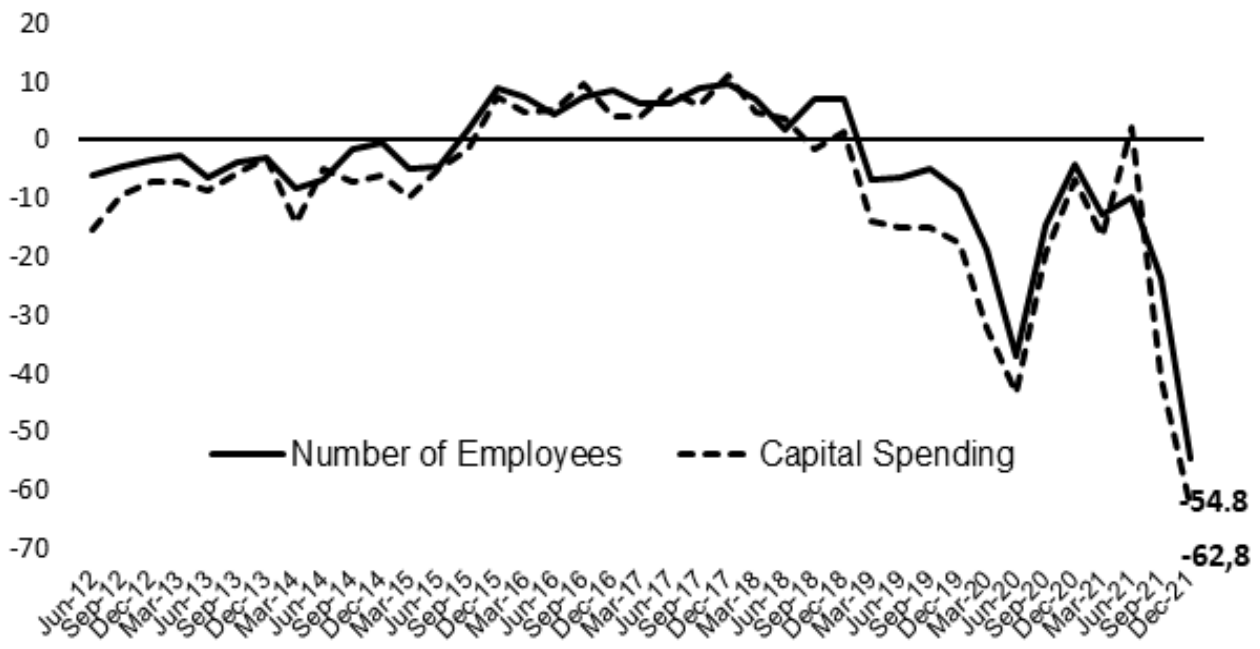


Figure 5 (Source: Business Conditions Survey, **Business NSW**, January 2022: Performance of staffing and capital spending)

Has your business undertaken any of the following in the past 4 weeks (since Omicron cases started to increase rapidly mid-December 2021)?

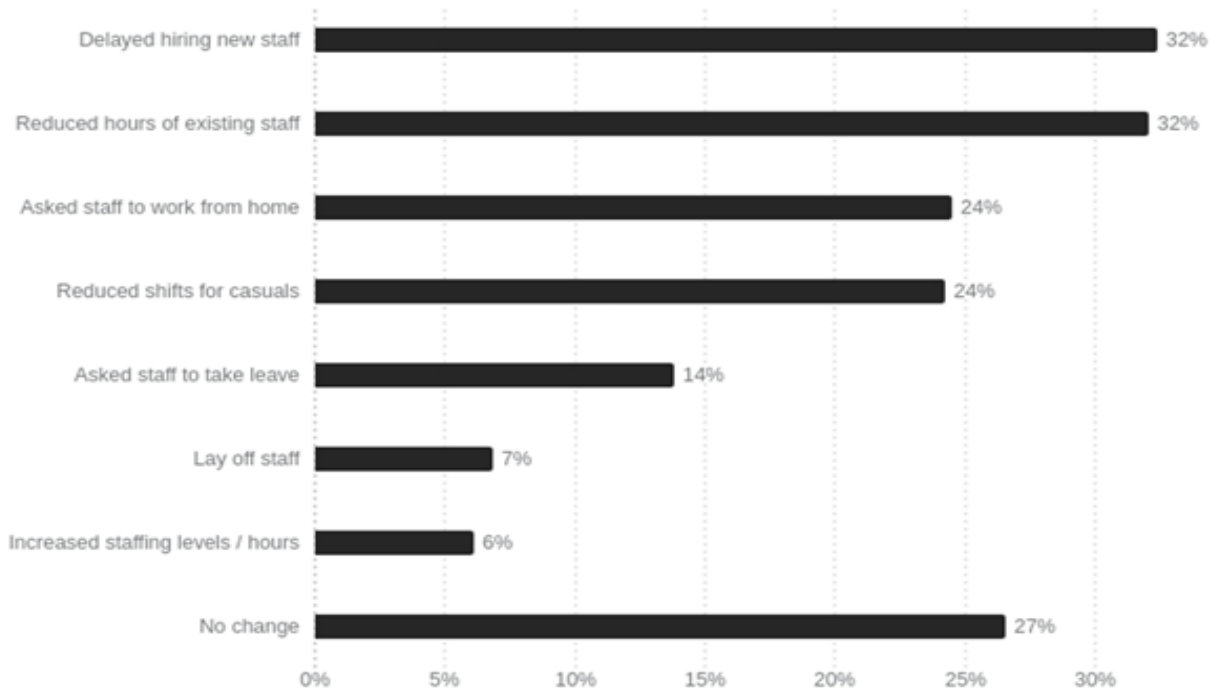


Figure 6 (Source: Business Conditions Survey, **Business NSW**, January 2022: Business staffing responses to the surge in Omicron)

Average revenue impact

REVENUE IMPACT (%)

| | |
|--|------|
| 2 WEEKS INTO MARCH 2020 LOCKDOWN | -30% |
| 2 MONTHS INTO MARCH 2020 LOCKDOWN | -43% |
| 2 WEEKS INTO JULY 2021 LOCKDOWN | -48% |
| 2 WEEKS SINCE THEOMICRON SURGE | -32% |

Figure 7 (Source: Business Conditions Survey, **Business NSW**, January 2022: Average revenue impact)

Note: Revenue impact of lockdowns and Omicron surge are calculated as average weighted losses based on questions about current revenue compared to revenue during normal business operation before the lockdown and Omicron surge. Sample size number refers to the Omicron surge survey.

2. THE COVID-19 ECONOMIC RECOVERY STRATEGY

The achievements of the Australian and State and Territory Governments in managing the health system are undeniable and to be commended.

Economically there have also been great policy successes in avoiding economic collapse – nevertheless the 2022-23 Budget preparation presents a key period to reassess and regroup. The combined effect of COVID, natural disasters and the inability of all levels of government to act in concert in a coherent manner on matters including border openings and ongoing targeted business support have contributed greatly to the current state of the economy and the particular sectoral and structural challenges businesses now face.

Business NSW agrees with the sentiment that this once-in-a-century crisis presents a profound economic challenge. As we have seen from Omicron, each new variant seems to present unintended consumer outcomes and new policy challenges.

Business NSW welcomed the direct support measures committed in response to the winter 2021 lockdown, including cash flow support for businesses and non-profits, support for highly impacted industries, tenancy protection and incentives for commercial and residential landlords, \$410 million on FY22 payroll tax waivers for smaller businesses and more than \$330 million to support individuals and vulnerable communities.

Following the arrival of the first Omicron variant in November 2021, the NSW Government recalibrated its support packages and restrictions and acted swiftly.

Given that a subvariant of Omicron has only very recently arrived in Australia, with little known about it at this stage, that level of agility will be needed for the foreseeable future, especially as it is possible that state final demand may not exceed the levels recorded prior to the Delta outbreak in the near term.

This part of **Business NSW's** submission contains recommendations that can supplement those packages already featured in the NSW Government's *COVID-19 Recovery Strategy* and is designed to complement submissions and related policy work undertaken by our colleagues in **Business Sydney, Business Western Sydney, Business Hunter** and **Business Illawarra**

Objective #1

The first objective of this strategy is designed to secure a strong rebound with temporary and targeted stimulus and support measures aimed at:

- encouraging economic activity,
- building confidence, and
- supporting the restoration and creation of jobs for the people of NSW.

As can be seen by the Business Conditions component of this submission, the NSW economy is robust and has rebounded from previous challenging periods strongly. Nevertheless, we are concerned that this strategy's underlying assumptions (which are based on the experiences of the post-Delta variant economic recovery), remain aligned with real world trading conditions and the particular challenges facing the SME sector, in particular CBD (especially Sydney and Parramatta), and tourism and hospitality exposed firms, that will continue to face trading difficulties in the medium term. Confidence has been shaken and uncertainty needs to be continually addressed.

Encouraging economic activity and building confidence

Given the results of our Omicron survey, it is clear that the restoration of confidence is key and should form the centrepiece of policy settings designed to result in a strong rebound.

Business NSW notes the critical role the suite of vouchers to stimulate economic activity have played. We also note that in periods of uncertainty, such as the Omicron surge in January 2022, the limitations of this approach are apparent. Vouchers need to be supported by a **confidence roadmap for consumers**.

We are potentially witnessing a structural shift in the operating environment and businesses need to be equipped to adapt. Businesses owners should be supported to access the type of business advice needed to navigate their way safely out of COVID. In last year's submission, we called for the provision of vouchers for cash-strapped small businesses so they could turn to either their trusted advisers (such as their accountants) who are already familiar with their business's operations and systems or to advisers who are well-versed in business turnaround management.

If such a measure were adopted, it would achieve the outcome of a struggling business owner being able to access advice best suited to their particular circumstances in the current business environment (and that of the foreseeable future).

While the type of advice provided through programs such as Business Connect is valuable, they are best suited to businesses needing assistance in a 'business as usual' operating environment.

While we all hope for a restoration of open international borders and the return of a 'business as usual' operating environment, a prudent approach to the medium terms needs to also focus on assisting business resilience as they adapt and survive another year of COVID – potential variants to the global virus and the structural changes to the way people work and consumer goods and services impacting business in NSW. Many businesses and sectors have adapted and thrived through the pandemic. However, for businesses doing it tough, this requires access to a level of specialist knowledge and expertise which these advisory bodies cannot currently provide.

Recommendation 1

Expand the voucher system to include vouchers for SMEs who need to obtain advice from either an established turnaround management specialist (typically a member of ARITA) or from their accountant or business adviser who is already familiar with the business's operations and systems.

Recommendation 2

Provide a single source of truth not only to advise of support packages and restrictions, but to provide factual and up-to-date information to enable NSW residents to assess the risk profile of their surroundings (for example, being in fresh air outdoors as opposed to being indoors in a poorly ventilated area).

This will enable business owners to not only take steps to comply with their various workplace obligations but will help them identify the COVID-specific strengths and weaknesses of their business offering. It will also arm consumers with reliable information to enable them to make informed choices.

The restoration and creation of jobs for the people of NSW

Business NSW agrees that there is an urgent need to support the restoration and creation of jobs for the people of NSW. However, more needs to be done than simply introducing measures such as adapting the skills occupation list and the Smart and Skilled program.

COVID has created a structural shift causing many NSW residents to rethink the way they live and work.

During 2021, it became apparent to **Business NSW** that housing affordability was not only becoming an increasingly concerning issue for the NSW population at large, but that it was beginning to significantly erode the productivity of NSW businesses.

Housing shortages are exacerbating the skills shortage crisis both of which are being amplified by regionally specific attributes.

These are multi-faceted issues needing a coordinated and multi-layered approach involving all levels of government.

In this respect, a more detailed analysis and recommendations are contained in Part 3 of this submission.

Objective #2

The second objective of the strategy is to ensure the sectors, localities and communities hit the hardest by the recent outbreak have the timely, targeted support they need to get back on their feet, back to growth, and back to building a stronger future.

Covid related rest leave for frontline workers

Business NSW has been a long-standing advocate for improving mental health. It was and still is heavily involved in the development and implementation of the NSW Government's *Mentally Healthy Workplaces Strategy*.

The \$130 million package for mental health recovery, providing immediate access to help is an important piece of the puzzle.

However, **Business NSW** notes the high rates of burnout, especially amongst frontline workers.

This aligns with the increase in psychological injuries being experienced within the NSW workers' compensation scheme.

Recent reports about the anticipated exodus of frontline workers, especially those within the health system are extremely concerning.

Recommendation 3

Support the recovery from COVID and the retention of staff through the introduction of additional rest leave subject to consultation with the sectors most directly affected to enable them to maintain operations.

Financial support for workers who contract diagnosed 'long COVID-19'

Given the circumstances, the introduction of section 19B into the *Workers Compensation Act 1987* in May 2020 was understandable. Little was known about COVID-19 and it wasn't known whether the development of a vaccines would even be possible.

However, circumstances have changed. We are transitioning away from COVID-19 being a pandemic towards it being endemic. This supports **Business NSW's** view that the retention of section 19B is no longer appropriate and should be removed from the legislation.

Business NSW understands that testing, tracing and genomic sequencing is no longer being undertaken and given the most recent outbreak, may no longer be logistically possible.

The practical consequence of this, from a workers compensation perspective is that, not only are NSW businesses unable to rebut the section 19B presumption, but workers who have contracted COVID-19 in the workplace will find it difficult to prove causation under the Act.

There is the added problem that, for those workers who contract COVID-19 in a social setting and are unable to work, the current social security system is not fit for purpose.

Although different types of vaccines, methods of testing and therapeutics are available with more in development, people are still contracting and transmitting COVID-19 at a much higher rate than seen before and despite the high vaccination rates, are still getting very sick.

Added to this is the fact that the current high infection rate is causing the related set of close contact rules to create significant disruption to NSW businesses, with many struggling to keep their doors open.

Given the NSW government's focus is on providing timely, targeted support that is needed to help people get back on their feet, a short-term safety net needs to be developed as a matter of urgency.

Recommendation 4

Contingent upon the repeal of section 19B of the *Workers Compensation Act 1987*, that the NSW government consider allocating some of COVID-19 contingency set aside in its 2021-22 Half-Yearly Review, towards a scheme that provides financial support to people who contract COVID-19 and are unable to attend work and lost time and require rehabilitation (Long COVID) subject to expert health advice and diagnosis.

Measures needed to revitalise our CBDs

A key focus must be on revitalising Sydney's multiple CBDs, including Parramatta.

Business NSW supports bringing workers back to the city in a safe and structured way.

We recognise that people need to be incentivised to resume normal safe activities.

This could be done through a range of targeted initiatives, including public transport incentives and targeted events. In the medium term, our CBDs need to pivot and become more liveable residential precincts featuring child-care centres, educational institutions, late-night shopping and commercial hubs.

It goes without saying that supporting the visitor economy, both domestic and international is fundamental to revitalising our CBDs.

Recommendation 5

That the NSW Government consider the following initiatives as possible solutions for revitalising our CBD's:

- free travel on public transport from 9am – midday, 7pm – midnight (Monday - Friday) and all day on weekends for 6 months,
- increase of Child Care Facilities in office towers,
- potential to rezone CBD offices in residential,
- allow late night trading to continue long term,
- establishment of Tech High School in the CBD, and
- removal of the FBT on lunches for 12 months.

Objective #3

This objective relates to beginning the process of applying the lessons learned over the past 18 months to build a better future for our entire state, overcoming the economic challenges of the pandemic, and pursue new economic opportunities that have come to light.

There are three aspects to this objective:

- building a better future,
- applying lessons learned over the past two years, and
- taking advantage of emerging trends that are shaping the future.

The Thodey Review

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.¹

National Cabinet has been a game-changer in facilitating effective collaboration between the Commonwealth and the states and territories. It should continue and consider how to implement key recommendations and address areas for improvement identified by the Thodey review.

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, and
- 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).

Recommendation 6

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

These issues need to be considered at the First Minister level, not delegated to other Ministerial Forums.

¹ <https://www.businessnsw.com/content/dam/nswbc/businessnsw/submissions/191122-Thodey-Review.pdf>

Re-thinking 'red tape'

The 'living with COVID' experience of business owners, especially small to medium enterprises (SMEs), has confirmed there is an urgent need for all levels of government to ensure that a greater level of clarity, currency and flexibility is provided to SMEs who are struggling to navigate their changing business conditions while remaining compliant with the regulatory framework that governs those conditions.

A mechanism is needed to ensure that all levels of government are able to provide a regulatory framework that, instead of creating barriers to economic growth, help SMEs overcome the challenges they are currently facing.

Simple solutions, such as allowing a greater degree of outdoor dining in the Sydney CBD to better manage the risk of contracting COVID is a standout example of how the hierarchy of regulations is crueing the chances of SMEs surviving the most recent outbreak of COVID.

SMEs are crying out for clarity, flexibility and currency to help them adapt to their changing business conditions and stay afloat.

Clarity

An example of the current lack of clarity relates to how different pieces of legislation intersect.

The current 'living with COVID' operating environment has highlighted how the intersection between workplace relations laws and work health and safety laws can create an unnecessary level of confusion, with many NSW employers becoming increasingly concerned that, in complying with one set of rules, they are unwittingly in breach of the other.

Flexibility

So called 'wage theft' - often the unintentional consequence of payroll regulation complexity - is just one of many examples where a degree of flexibility in regulatory approach is needed. The underpayment of wages cannot be solely attributed to deliberate and fraudulent behaviour. Much of the 'blame' can be attributed to the complexities contained in various industrial instruments which result in wages being miscalculated.

Currency

In terms of currency, the 'gig economy' is of particular concern. Regulating the gig economy cannot be confined to being a workplace issue as it has arguably contributed to housing supply issues and skills shortages, especially in regional areas.

Although these topics 'belong' to different ministerial portfolios and levels of government, a mechanism to ensure the regulatory landscape remains relevant and effective is crucial.

Recommendation 7

Consider adopting a new collaborative and effective approach to regulating SMEs.

This aspect of the strategy is addressed in Part 3 of this submission.

3. THE NSW BUDGET 2021-22 HALF-YEARLY REVIEW

Business NSW notes, from the 2021-22 Half-Yearly Review that the NSW government has set aside \$7 billion of funding for future productivity reform and COVID-19 contingency.

The opportunities identified by the NSW Government in its half-yearly review align with **Business NSW's** policy priorities.

This part of **Business NSW's** submission addresses each of those opportunities identified in the 2020-21 NSW Intergenerational Report (IGR):

- improving housing affordability,
- increasing productivity,
- increasing workforce participation rate, particularly amongst women,
- addressing climate risks, and
- managing the transition to net zero.

Improving housing affordability

Based on our investigations to date, in our view, although the planning system presents a significant barrier to the delivery in housing supply, which is driving the decline in housing affordability, the NSW Government is to be commended on the progress it has made towards overcoming planning barriers.

Regionally specific issues are also contributing to the lack of housing supply and affordability. The NSW Government will be missing an opportunity to achieve the desired outcome of over 300,000 more people to own their home, should regionally specific characteristics fail to be identified and incorporated into policy solutions.

It is also apparent to **Business NSW** that the problems facing NSW businesses, especially in regional areas, are multi-faceted and extremely complex.

It is for this reason that **Business NSW** is working on a series of projects to identify and better understand what all the relevant issues are, how they relate to each other and whether there are any regionally specific considerations that need to be taken into account when developing solutions.

Greater emphasis on Affordable Housing: Based on our investigations to date, in our view, although the planning system presents a significant barrier to the delivery in housing supply, solutions designed to overcome planning barriers alone will not solve the problem of housing shortages throughout NSW nor will it promote the necessary improvement in the provision of Affordable Housing.

Successful solutions will require a coordinated all-of-government and all-levels-of-government approach.

Recommendation 8

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

- the lack of qualitative data to help us understand the complex nature of the problem (including geographically specific drivers),
- the lack of 'fit-for-purpose' funding models,
- the inability of NSW's regulatory frameworks to adapt to changing social conditions in a timely way, and
- social housing needs to be part of the conversation or risk even greater government intervention in the years ahead.

Increasing Productivity

Recognising the nexus between housing affordability and skills shortages

During 2021, it became apparent to **Business NSW** that housing affordability was not only becoming an increasingly concerning issue for the NSW population at large, but that it was beginning to significantly erode the productivity of NSW businesses because it was exacerbating the skills shortage crisis currently being faced by all businesses operating throughout NSW.

Recommendation 9

- Broaden the housing affordability agenda to incorporate regionally specific solutions for solving skills shortages issues facing NSW businesses in those areas.
- Such an approach could be designed with the aid of a series of local pilot programs adopting a workplace relations mechanism such as a collective agreement for a regional area which is designed to address a specific set of separate but interrelated issues that are preventing a cohort of SMEs from trading out of their challenging business conditions and causing locals to become homeless and/or out of work.

Tax reform can lead to better employment and land use outcomes.

Business NSW welcomes the \$410 million in FY22 payroll tax waivers for smaller businesses. This has been a critical tool supporting business.

The NSW Government is also to be commended for taking a leadership role in pursuit of tax reform. **Business NSW** acknowledges tax reform requires an active Australian Government in partnership with the States and Territories to achieve meaningful outcomes. We also accept that, politically, the timing for this critical area of policy maintenance and reform will always be challenging.

As we enter the third year of the pandemic, the full impact upon Australia's economy, public finances, future demand for government programs and services and the current tax and transfer system to meet these demands remains unclear.

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

Tax reform remains unavoidably central to this task. While the final budget of the current electoral term will not be the opportune time to launch broad structural reform, the discussion needs to be renewed, the momentum rebuilt so that the next opportunities for reform are not missed.

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

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

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

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 re-alignment of company tax and reform of the GST, business and the broader Australian community need a more efficient, globally competitive and therefore sustainable tax system.

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

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

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

Despite the considerable reform of the late 1990s, Australia still relies disproportionately upon taxing income. Even after successive efforts at returning bracket creep, Australia continues to rank at the of OECD rankings for dependence upon personal income tax (2nd at 40.6 per cent). Our record on company tax (3rd 18.5 per cent) is not much better. These matters need to be addressed through a staged approach commencing with a realignment of base rate of 25 per cent corporate tax rate for SMEs with an aggregate turnover less than \$250 million. While this is a Commonwealth matter, NSW Government leadership is critical and is acknowledged in placing these issues before the Board of Treasurers and Council of Federal Financial Relations (CFFR).

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

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

As a starting point, steps should be taken to reduce the administrative and compliance burden of payroll taxes upon NSW 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 2022-2023.

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

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

Recommendation 10

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.

Recommendation 11

The CFFR should consider:

- the breadth of options available to ultimately abolishing payroll tax,
- reducing dependency upon stamp duties and supporting initiatives to transition to broad based land tax,
- a pathway to aligning the rate and base of the GST to more sustainably reduce income taxes, especially for low and middle-income earners, and
- commencing 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.

Transport infrastructure

It is clear that current funded projects will bring significant benefits to the liveability of Sydney.

The record of the NSW Government in planning, funding and delivering transport infrastructure over the last decade has been strong and the future pipeline of projects remains a critical driver of economic activity and productivity.

Possibly the most significant project from a public transport perspective is West Metro that will directly link the two major CBDs by fast efficient Metro services, with an opportunity to create the major East-West link to the Aerotropolis.

The advent of the 6 Cities strategy by NSW creates an opportunity to develop a strong North-South corridor with a major interchange with West Metro in Olympic Park. This North-South faster rail connection has the potential of integrating the 6 city economies while also integrating the ACT/Goulburn/Southern Highlands economic corridor into Sydney.

As existing projects near completion and the time for consideration of additional projects arises, the expert analysis and advice of Infrastructure Australia to identify and prioritise projects which offer the best value for money should be front and centre of government decision making.

Recommendation 12

Of those transport projects on the Priority List yet to be committed to, **Business NSW** has particular interest in seeing progress on:

- Implementation of a strategy for passenger rail in NSW to upgrade rail travel between Newcastle-Sydney and Wollongong-Sydney. We await publication of the NSW Government's Passenger Rail Strategy, and alongside that a plan for funding between State and Commonwealth. We also believe that the Sydney-Canberra rail link would provide significant regional integration of the NSW/ACT economies.
- Freight efficiency and regional access for Wollongong by improving safety and capacity on Picton Road with the goal of bringing it up to motorway standard.
- The National highway electric vehicle fast charging program to bring together Federal, State and private investments to create a seamless travel system as the market share of electric vehicles increases.

Freight and ports

Supply chain issues continue to pose enormous challenges for businesses of all sizes who deal in physical goods.

67 per cent of manufacturers, 45 per cent of construction businesses, and 36 per cent of retail businesses responded to our most recent survey indicating that supply chain issues are among the three biggest challenges to their business.

Further reopening of international borders, and the resultant increase in the number of international flights will have additional benefits in the form of increased air freight capacity.

At a time when seaborne shipping is so congested and secondary routes disrupted, air freight can serve as a vital source of additional capacity and effective ceiling for the prices shippers can charge.

Beyond responding to present disruptions, there is scope for streamlining and improving the efficiency of Australia's ports and border crossings, for goods as well as people. The coordination of NSW and Australian Governments is critical in the ongoing planning for and operation of our freight and logistics supply chains.

Businesses in NSW and across the nation face inflationary pressures across their global supply chains in 2022-23.

Recommendation 13

Renewing modernisation and avoiding additional cost pressures at National border must remain a point of focus for the Australian Government – supported by NSW-based infrastructure, planning and systems improvements.

Telecommunications

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

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

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

Being cut off from the internet can be as debilitating for a business as being cut off from power supply.

Recommendation 14

That telecoms to be classed as an essential service for regulatory purposes.

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

Mobile connectivity is patchy around many regional towns.

Business NSW invited member businesses and local Chambers of Commerce to identify locations where mobile connectivity needs to be strengthened.

The list is not meant to be comprehensive but does highlight some potential priority locations in NSW.

Recommendation 15

Treat the following as priority locations when considering opportunities to improve mobile connectivity in partnership with the Australian Government:

- All public transport networks need connectivity and data.
- M1 Princes Motorway / Princes Highway.
- M31 Hume Motorway / Hume Highway.
- M23 Federal Highway.
- Pacific Highway.
- Great Western Highway.
- Picton Road.

Given the fast-changing pace of technology, policy needs to look beyond addressing immediate telecoms.

For some businesses, this may mean 5G mobile services can enable migration from hard-wired connections; for others, it may mean fast satellite-based services giving good quality connections in the remotest parts of the bush and replacing the aging infrastructure.

Recommendation 16

The following list includes communities in NSW highlighted by **Business NSW** members as coverage blackspots and should be given priority when future planning for upgrades:

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

We also need to support world-class connectivity into NSW Investment and Technology precincts. Future in-ground connectivity requirements need to be included as planning pre-requisites for these essential highest speed data connections.

Meeting the workforce needs of business

The last 18 months have been a rollercoaster for businesses and their employees, especially when it comes to recruiting (and keeping) the people that businesses need.

Whenever asked, at any stage of the ups and downs of the pandemic, **access to workforce skills is always at the very top of business concerns**, whether it has been trying to keep them engaged during the pandemic or trying to find employees as restrictions eased.

In June 2021, a week before a lockdown commenced in NSW, almost three quarters of businesses reported currently experiencing a skills shortage.

It didn't matter the industry sector, location, size or even whether they were trying to fill highly skilled or lower skilled occupations.

Until the COVID-induced lockdown again turned the employment market on its head, resulting in dramatic falls in employment.

As vaccination rates quickly increased and restrictions were forecast to ease, our September 2021 Business Conditions Survey heard a sense of optimism, as referred to earlier, 40 per cent of businesses expected to "snap back" during October and November, portending future skills shortages.

And predictably, these skills shortages eventuated as lockdown restrictions eased, with 50 per cent of NSW businesses reporting in November that skills shortages were affecting their business, and 29 per cent of businesses reporting that access to workers was one of their biggest challenges.

Since that time, the Omicron surge has resulted in staff shortages, with 60 per cent of businesses reporting in our January 2022 survey that business continuity due to staff contracting COVID-19 or being forced into isolation was their biggest concern.

The theme that is consistently raised by our members over the last 12 months is that access to skills will be the biggest handbrake on growth as restrictions ease.

Accordingly, our recommendations consider how to support people back into work, how to help the current population upskill or reskill, and how the migration system can complement these efforts.

Information for job seekers

In our 2021 Workforce Skills Survey (results unpublished at time of writing), it was clear that careers advice in schools remains an issue.

Only 8.2 per cent of respondents agreed that sufficient career advice is available in schools. Many respondents continued to raise concerns about careers advice in schools not promoting trades well enough and university still frequently being promoted as the preferred pathway post-school.

Which is why it was so pleasing that the NSW Government launched Careers NSW in November 2021. However, it is available only in certain regions and industry sectors and not available to school students.

Recommendation 17

Ensure that school students have access to contemporary careers information by expanding the Careers NSW service into schools and covering additional industry sectors.

Increasing participation in the workforce

Youth unemployment remains persistently high, more than double the rate than for the general population in December 2021 (9.4 per cent compared with 4.0 per cent), with some regions in NSW recently reporting unemployment rate of over 18 per cent. (December 2021 ABS Labour Force data)

And yet, youth engagement and employment programs remain variable.

There is sufficient data from current and programs for the Government to identify which youth employment programs are successful, particularly for disadvantaged young people, and increase investment in those programs.

Business NSW, through its Skillsroad platform, delivered a pilot program as part of the Youth Employment Innovation Challenge (YEIC). YEIC aimed to find new approaches to support young people find work through an innovative procurement process and outcomes-based funding framework

Skillsroad delivered YEIC by combining its digital tools and human intervention (via Skillsroad Career Coaches) to reach disengaged youth (those not in employment, education, training or in receipt of income support) to provide career advice, improve work readiness and connect to employment. Over the duration of YEIC, participants who chose to engage human support were four times more likely to gain employment over those who chose a completely digital experience

Despite positive outcomes, this program is not funded beyond its pilot period. It is understood that the NSW Government has reviewed the successes and failures of these recent youth employment programs.

Recommendation 18

Extend the Youth Employment Innovation Challenge (YEIC) program incorporating findings from the recent review of the program.

Helping people prepare for work

Almost two-thirds of respondents (62.4 per cent) felt that young people they had employed were either not at all or only somewhat prepared for the workplace. This was mainly due to their attitude and professionalism, or a lack of 'soft' skills such as communication and teamwork. This was a significant increase from our 2019 Workforce Skills Survey (50.9 per cent). A minority of respondents identified poor attitude and work ethic as being significant barriers to employing more young people.

Poor literacy and numeracy continue to challenge with over 30 per cent of respondents identifying it as the key reason why young people were unprepared for the workforce.

Recommendation 19

Partner with business to develop workplace numeracy and literacy programs.

Over half (56.1 per cent) of business respondents to the 2021 Workforce Skills Survey felt that the education system was not equipping young people with the skills, knowledge and capabilities they need when entering the workforce. This remains a significant issue.

Many felt that poor preparation for work could be addressed by providing young people with more work experience (66.5 per cent of respondents), more development of soft skills (67.4%) and more training in employability / professionalism (64.5 per cent) to help young people understand what employers expect in the workplace.

Over half of businesses reported they would be interested in supporting more school students into work by mentoring young people or providing more work experience.

Recommendation 20

Provide support to schools to develop partnerships between schools and businesses for work experience and additional insight into local industries.

Supporting people to develop their skills

Given the significant investment by employers and the NSW and Commonwealth Governments in training the next generation, it is of concern that completion rates for apprentices / trainees were around 56 per cent in 2020.

While it is pleasing to see the introduction of the Completing Apprentice Commencements (CAC) policy, there are opportunities to introduce additional support for apprentices and trainees to improve completion rates.

Pre-apprenticeship programs

To help improve completion rates, **Business NSW** recommends greater focus on pre-apprenticeship programs to help young people understand the requirements of them at work and to try the occupation, before committing (as well as committing the employer) to an apprenticeship or traineeship.

Pre-apprenticeship programs are currently poorly defined and lack recognition. The lack of a nationally accepted and applied definition of pre-apprenticeships means they often operate in a training limbo. Too often, pre-apprenticeship programs are unable to deliver outcomes for students because they are developed and delivered without shared expectations or industry engagement.

There is an opportunity for the NSW Government to address this failing by introducing industry-supported pre-apprenticeship programs, that could potentially receive Recognition of Prior Learning towards a formal apprenticeship qualification.

Recommendation 21

That the NSW Government work with Commonwealth Government, to introduce an industry-led pre-apprenticeship pathway into full apprenticeships and traineeships.

Apprenticeships and traineeships

Businesses generally report high rates of satisfaction with employing apprentices and trainees. In our 2021 Workforce Skills Survey, over three-quarters (77.1 per cent) of businesses were *satisfied* or *very satisfied* with the process for employing their apprentice or trainee and two-thirds (67 per cent) were either *Satisfied* or *Very Satisfied* with the training being provided.

This is borne out in the excellent employment outcomes for apprentices and trainees with the NCVET reporting that, in 2019, 87.7 per cent of completers (of an apprenticeship / traineeship) and 73.8 per cent of non-completers were employed after training (2020 Apprentice and trainee experience and destinations, NCVET).

However, businesses overwhelmingly supported more flexible training approaches with almost half of businesses in our 2021 Workforce Skills Survey (49.2 per cent) preferring rolling enrolment dates at any time throughout the year, and a third (32.3 per cent) of businesses preferring multiple training commencements dates.

Recommendation 22

The NSW Government should ensure that all Registered Training Organisations (RTOs) offer greater flexibility in when training can commence and where it is delivered.

School-Based Apprenticeships and Traineeships

In our 2021 Workforce Skills Survey, only 7 per cent of businesses reported they were *Dissatisfied* with the process of employing a SBAT and no businesses were *Very Dissatisfied*. Only 11 per cent of businesses reported they were *Dissatisfied* or *Very Dissatisfied* with the training that the SBAT was receiving.

It is pleasing therefore that SBAT approvals increased by more than 25 per cent in 2021. This is the highest number of approvals since records began in 2012.

School Based Approvals by School Sector Updated: 01/02/2022

| School Sector | Approval Date | | | | | | | | | | |
|---------------|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Catholic | 355 | 445 | 427 | 425 | 464 | 558 | 497 | 530 | 543 | 658 | 22 |
| Government | 1,595 | 1,736 | 1,593 | 1,263 | 1,393 | 1,381 | 1,348 | 1,372 | 1,271 | 1,695 | 54 |
| Independent | 128 | 120 | 130 | 110 | 137 | 150 | 176 | 199 | 176 | 221 | 11 |
| TAFE | 1 | | 1 | 1 | 1 | | | 1 | | | |
| Grand Total | 2,079 | 2,301 | 2,151 | 1,799 | 1,995 | 2,089 | 2,021 | 2,102 | 1,990 | 2,574 | 87 |

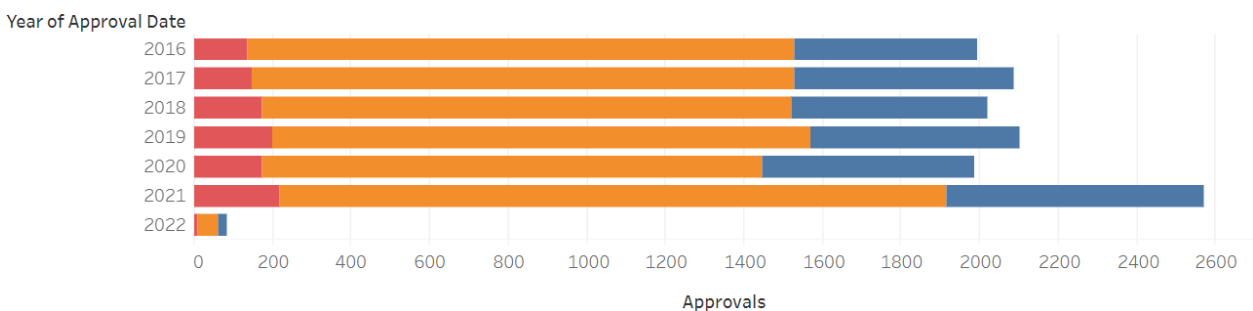


Figure 8 Source: Tableau Public Business Reporting, February 2022



Tableau

Figure 9 Source: Tableau Public Business Reporting, February 2022

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

It is pleasing therefore that the EPP has been extended to a further 120 schools in 7 new regions.

It is important however that the program continues beyond its current timeline to 2023 in order to embed the successes and ensure that there is a commensurate increase in full-time apprenticeships and traineeships beyond school.

Recommendation 23

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

National Partnership Agreement for Skills

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

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

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

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

Recommendation 24

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

Institutes of Applied Technology

TAFE is partnering with the NSW Department of Education and Training to deliver two pilot Institutes of Applied Technology (IATs) – one in Kingswood focused on construction (due to open in early 2023), and one in Meadowbank focused on IT (due to open August 2022).

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

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

The IAT model has received widespread support from **Business NSW's** Regional Managers and many have expressed a desire for an IAT in their region, pending successful rollout of the pilot. In particular, the Murray-Riverina region has a ~\$20B infrastructure pipeline over the next 10 years and will become a Renewable Energy Zone (REZ) which will both require the availability of relevant education and training locally and would make an ideal location for a regional IAT.

Additionally, the New England area has the Narrabri gas project, the New England REZ, Inland Rail, various pumped hydro projects and the Special Activation Precincts at Narrabri and Moree in its infrastructure pipeline.

Recommendation 25

Expand the Institute of Applied Technology (IAT) model beyond Sydney.

Improving industry engagement

Since the start of COVID, TAFE has been forced to move much of its training online and has successfully increased its capacity to deliver via this method. It has also increased its usage of flexible learning centres (particularly CLCs).

However, there have also been reports of some courses in regions moving entirely to online learning in 2022.

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

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

Accordingly, the NSW Government and TAFE should work with business to consider which courses are suitable for online delivery and which are not, and which courses are required in which locations.

Recommendation 26

Improve consultation between business and the NSW Government (particularly including TAFE) to provide input to which courses should be funded, in what locations and by which delivery methods they should be offered.

Addressing climate risks and the transition to net zero

Climate change

Climate change is occurring and greenhouse gases from human activity are the significant driver. **Business NSW** supports policies that aim to achieve the long-term goal of net zero emissions by 2050, at the least cost to Australian businesses and the public. It is important that Australia acts in concert with international partners.

All Australian states and territories have adopted targets to reach net zero emissions by 2050 (or earlier in the case of the ACT), a target which was also announced by the Commonwealth Government in October 2021.

Business NSW has expressed support for the intent to reach this target and is advising government and industry counterparts on an ongoing basis about business needs during this transition. Reaching net zero emissions by 2050 will be a challenging task, and an impressive achievement should it be accomplished. Australia's per capita carbon footprint is the second highest in the G20, behind only Saudi Arabia

Businesses are increasingly likely to indicate that addressing climate change is important to them. In our 2019 survey, 58 per cent of businesses agreed to some degree with the statement that reducing their carbon footprint is an important part of their business plan. Only 15.2 per cent disagreed to any degree.

On a crucial issue where a harmonised national approach is likely to be most efficient, we are instead seeing a growing trend for states to go it alone. These discrepancies play out in a variety of detrimental ways. The continuing fragmentation of the National Electricity Market has concerned **Business NSW** for some time, with the lack of a clear overarching strategy towards the climate aspects of the electricity system, driving states to come up with their own, disconnected solutions. The ESB's post-2025 review, which it had been hoped would provide a unifying vision for the future that addresses the need for climate action while maintaining reliability and affordability has instead become another fault line for disagreements between the different jurisdictions.

Recommendation 27

It is important that public policy programs support directing resources to the most cost-effective ways of reducing emissions. There should be a focus on using methods such as auctioning to procure low-carbon energy at least cost, and on technology neutrality that allows the largest number of plausible solutions to compete to deliver emissions reductions.

Act in concert with international partners

COP26 did not produce the major breakthroughs that many climate activists (and some countries) had called for. Post-COP26, the emissions reduction pledges made by countries still leave a 15-17 per cent 'emissions gap' that would see end-of-century global warming at 2.4°C, well above the Paris Agreement goal of limiting warming to 1.5°C.

The climate commitments made by governments at COP26 will only be achieved if governments can successfully mobilise and support businesses towards net zero; pressure will increasingly be imposed on investment and industry to reduce emissions, reshaping the landscape in which businesses operate. COP26 sent a clear message to companies: measure your carbon footprint and instigate a plan to move towards net zero, or risk lagging behind competitors.

NSW Electricity Infrastructure Roadmap

Launched in 2020, the Electricity Infrastructure Roadmap has become the central policy driver for investment in NSW electricity generation and transmission capacity. While the structure for the Roadmap was legislated last year, the scale and complexity of the policy has meant that there has been ongoing consultation with customers and industry through 2021, and development of the regulatory framework will continue into 2022.

We support the intent of the proposals in the NSW electricity roadmap plans and have also raised some concerns about implementation through our submissions. We will continue to work with the NSW government developing the plans throughout the coming year.

NSW's businesses are key to the successful delivery the state's strong climate agenda. It is vital that these policies create incentives to reduce emissions without deterring productive business activity.

We also support the Infrastructure Australia recommendation to develop a proactive plan that transitions consumers and businesses to a net zero future.

Recommendation 28

Transition to a smart, affordable, reliable future grid by implementing regulatory reforms that ensures:

- high levels of transparency of the assumptions which inform the Roadmap's design choices,
- choices made will lead to the most cost-effective path to deliver electricity system decarbonization, and
- the availability of the workforce to deliver all the infrastructure needed to achieve the Roadmap's goals.

4. OUTCOME BUDGETTING

Business NSW supports the NSW Government's approach to Outcome Budgeting which focuses on driving performance culture and using data to inform investment decisions.

Business NSW notes that the outcomes for the Customer Service cluster include "*Excellence in Customer Service*" and "*Fair, secure and efficient markets*"

Affordable and effective insurance schemes

In relation to the former, key programs include "*Service excellence for businesses*", while in relation to the latter, key programs include "*affordable and effective insurance schemes*".

Business NSW's position on the manner in which the NSW workers' compensation scheme has been managed is well-documented and based on recent member feedback, our position has not changed.

While we applaud the current attempts to improve the Nominal Insurer's performance, we cannot ignore the fact that, given the legislative funding model of the scheme, NSW employers have effectively underwritten the costs of these management mis-steps that have occurred since the 2015 legislative changes were implemented. Rectification of this requires oversight strengthened by way of legislative change.

Having to fund these losses through their workers compensation premiums on the back of natural disasters such as drought, bushfires and flooding, presented NSW employers with particularly challenging trading environment. Then COVID hit.

Despite icare's financial statements not being included in the Agency Financial Statements 2021-22, **Business NSW** nevertheless believes it is appropriate for the NSW Government to support the Workers' Compensation Insurance Fund directly.

Recommendation 29

Given that the focus of the 2022-23 budget is on productivity and NSW businesses are a key component of NSW's productivity agenda, **Business NSW** recommends that the NSW Government support the NSW workers' compensation scheme to the extent necessary to minimise premium increases in the medium term.

Trade Strategy and Economic Sovereignty

International trading relationships are under pressure.

As Australia emerges from the COVID-19 restrictions and international borders reopen, restoring conditions supporting free trade and investment is necessary to repair the damage inflicted on the Australian economy.

This is not the time for Australia to pull back from a pro-trade agenda.

That's why the NSW Government's renewed efforts supporting investment and trade are critical and as Minister Ayres stated:

"The establishment of the Department of Enterprise, Investment and Trade is at the heart of the NSW government's commitment to economic development, embracing science, innovation and emerging technology while setting up the NSW economy for sustained success into the future."

Business NSW is pleased, therefore, that Government has reaffirmed Australia's commitment to an open, liberalised trading order, including the recent Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the UK Free Trade Agreement.

Existing markets remain strong, despite existing trading disagreements, China remains our largest export and trading partner. In fact, the value of Australia's exports to China has jumped 24 per cent from a year ago, to reach over \$180 billion Australian dollars as of the latest August data, according to research firm Oxford Economics.

Business NSW commends Minister Tehan's comments in London when he said that *"the most serious threat I see is the domestic pressure in a lot of countries to move towards greater protectionism... [Australia and the UK are] saying to others that their approach is wrong... Managed trade, where [countries think they] can dictate what comes in and out, how businesses relate with each other ... is not the way we want to see this globe go"*.

As a result, we believe that as Australia emerges from the COVID-19 restrictions and international borders reopen, restoring conditions supporting free trade and investment is necessary to repair the damage inflicted on the Australian economy. This includes a renewed emphasis on building and retaining the skills needed to sustain a competitive economy.

Recommendation 30

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

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