



# PRE-BUDGET SUBMISSION TO THE COMMONWEALTH GOVERNMENT

**JANUARY 2021**

**BUSINESS  
NSW**

# FOREWORD

*Business NSW* welcomes the opportunity to provide a pre-Budget submission ahead of the 2021/22 Federal Budget.

As NSW's peak business organisation, *Business NSW* has more than 30,000 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 achievements of both the Commonwealth and NSW Governments in supporting the recovery of businesses from the ravages of COVID-19 pandemic.

Compared to many other countries around the world, Australia has not only managed to minimise the health impacts but, at least at time of writing, has also avoided the significant economic damage witnessed in many other countries.

While Australia has performed well, the risk of continuing outbreaks remains, as shown by the experiences in Sydney and elsewhere during December 2020. These risks are now expected to be 'the new normal', at least until the widespread administration of vaccines.

This submission therefore considers how to accelerate towards this new normal whilst ensuring that businesses and jobs continue to be supported across the country.

**Part 1: The state of NSW** identifies the existing conditions in NSW collated from a range of sources including our December 2020 [Business Conditions Survey](#) of more than 500 businesses.

**Part 2: Progress and recommendations** considers progress against each of the immediate priorities and the longer-term recovery drivers identified in the *Business NSW* report [Back on Track](#).

Whilst there has been significant progress against many of the recovery drivers, particularly the immediate priorities, this submission includes recommendations to further hasten the recovery from the effects of the pandemic.

# PART 1: THE STATE OF NSW

## Current business conditions

### The state of businesses in NSW and the impact of COVID-19

The impact of COVID-19 over the last 12 months has been significant. However, prior to Christmas, our research indicated that businesses were recovering.

In our December 2020 Business Conditions Survey, the NSW Business Confidence Index reached positive territory for the first time since the June quarter in 2018.

This strong performance came before new COVID-19 restrictions were introduced over the Christmas-New Year period due to the cluster outbreaks in the Northern Beaches and Western Sydney.

Those restrictions reduced confidence and business conditions, particularly in affected regions and industries.

However, the improvement in business confidence prior to those outbreaks reflected growing optimism about the economic situation as major restrictions from earlier in 2020 were lifted. Business communities responded positively to the reopening of both the NSW-Victoria and NSW-Queensland borders, with the heavily impacted Murray and New England and North West regions showing the strongest rebound compared to the September 2020 quarter.

Each of the key measures assessed in our survey showed improvement. With government restrictions easing, consumer spending continued to recover, helping more businesses to increase sales revenue and profitability.

This improved operating environment helped more businesses to hire staff and increase capital spending compared to the September 2020 quarter.

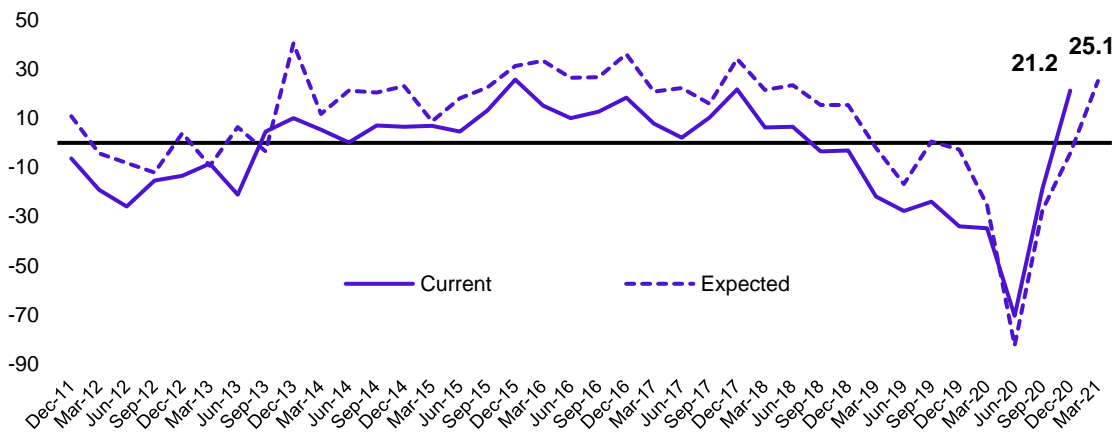
Despite these findings, it was clear from our research that full recovery remains a long way off.

Businesses continue to struggle financially, with more reporting decreases in staff and reduced capital spending than reporting increases. It will require further strengthening in consumer spending for these businesses to operate at a capacity level where they begin to rehire and reinvest.

One quarter of respondents reported a high risk of business failure when support measures including JobKeeper end in March 2021.

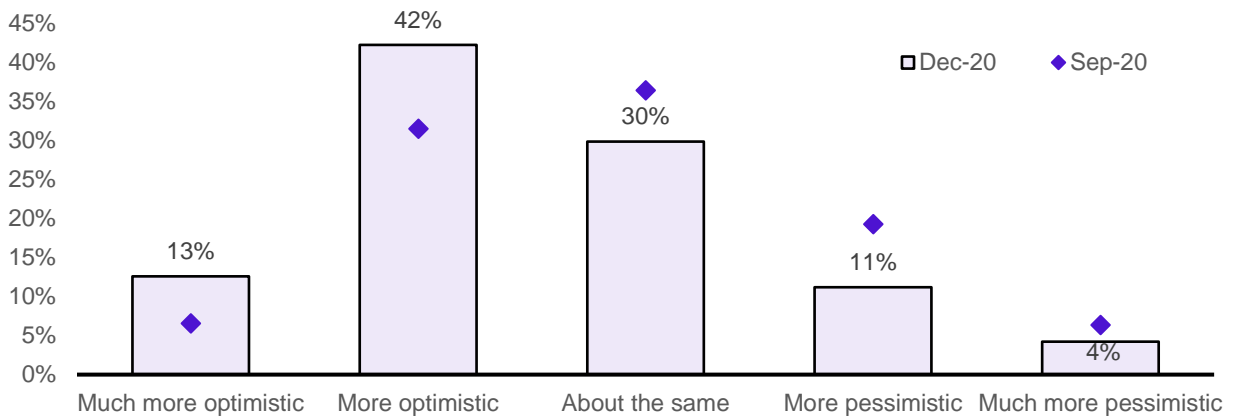
JobKeeper is not the only form of support scheduled to conclude by 31 March 2021. Payroll tax deferral arrangements, loan repayment holidays and other key support mechanisms are also scheduled to conclude by this time.

**Chart 1 – Business confidence (December 2020)**



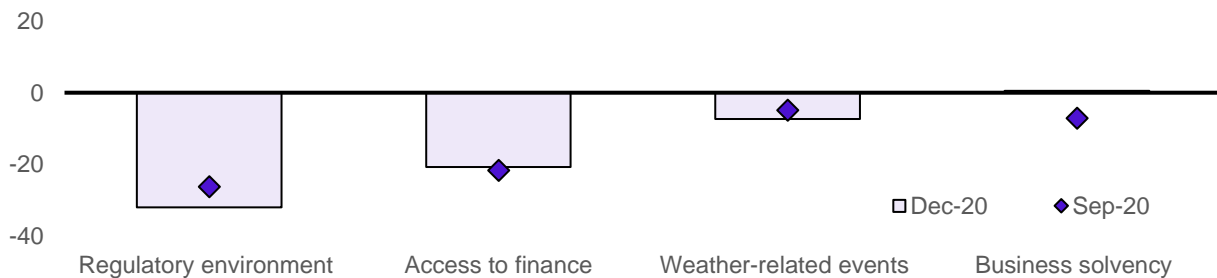
Source: Business Conditions Survey, *Business NSW*, December 2020. Note: Expected is for the March 2021 quarter. See full report for details on index values.

**Chart 2 – When thinking about your business, how optimistic are you about the impact of COVID-19 compared to three months ago?**



Source: Business Conditions Survey, *Business NSW*, December 2020.

**Chart 3 – Factors weighing on business\***



Source: Business Conditions Survey, *Business NSW*, December 2020.

\*Index scores calculated as the percentage of respondents indicating the factor was more favourable minus those indicating the factor was less favourable. A positive number implies an improvement whereas a negative number implies a deterioration.

## Jobs growth and expansion is still slow

Hiring still lags improvements in other key measures. Only 16.7 per cent of respondents to the Business Conditions Survey reported increased staffing levels over the December 2020 quarter, though this represents an improvement from the September quarter (11.4 per cent).

There was also a modest increase in businesses reporting increased capital spending over the previous quarter (28.8 per cent in December compared to 23.6 per cent in September).

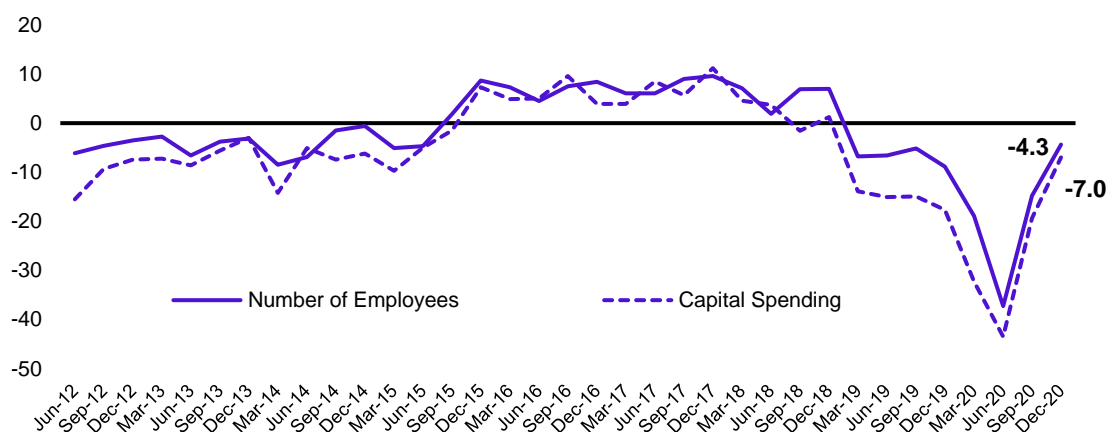
An increasing number of businesses are looking to expand their capacity to meet demand, with more businesses prioritising expansion (38.4 per cent) than those who are prioritising downsizing their business (29.9 per cent) for the first time since the December quarter of 2019.

The economic costs of COVID-19 have been most evident through its impact on jobs.

Whilst unemployment reached 7.1 per cent in May, the national unemployment rate fell to 6.6 per cent in December. During the month, around 50,000 new jobs were created nationally. The participation rate rose by a further 0.1 percentage points to a new high of 66.2 per cent. This reflected the broad recovery in the labour market through to the end of the year.

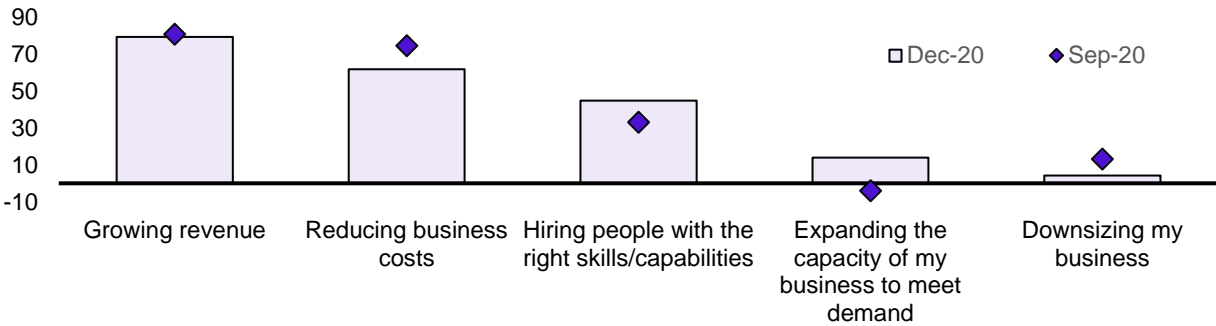
Despite national improvement, NSW unexpectedly recorded more than 17,000 jobs lost in December as participation fell by 0.4 percentage points to 65.5 per cent. This data was collected in the first half of the month so would not have been affected by later COVID-19 related lockdowns, potentially leading to a worse result in the first quarter of 2021.

**Chart 4 – Staff numbers and capital spending**



Source: Business Conditions Survey, *Business NSW*, December 2020. Note: Expected is for the March 2021 quarter. See full report for details on index values.

**Chart 5 – Business priorities\***



Source: Business Conditions Survey, *Business NSW*, December 2020.

\*Index scores calculated as the percentage of respondents indicating the priority was more important minus those indicating the priority was less important. A positive number implies a priority is becoming more important whereas a negative number implies a priority is becoming less important. Note: Expected is for the March 2021 quarter. See full report for details on index values.

## Some regions and industries still lag behind

Despite overall improvement, regions directly impacted by the recent southern and northern border closures tracked behind the rest of the state.

Regions that are most reliant on interstate and international visitors, including Illawarra, Newcastle, and Eastern Sydney (including the CBD and Northern Beaches), reported relatively lower activity than other parts of the state. This suggests that businesses in these regions have less capacity to absorb a further hit from a re-imposition of stricter restrictions in the event of future outbreaks.

Accommodation, food services and retail continued to bounce back after being hardest hit in the June 2020 quarter. Arts and recreation services are falling behind relative to the rest of the economy as restrictions still in place severely affect their operations.

While the December survey showed signs of recovery, the survey period preceded the implementation of tighter restrictions within NSW and in the other states in late December. These restrictions are expected to slow business activity, with the regions and industries already most severely impacted at greatest risk of further deterioration.

Table 1 – Regional performance

Region	Business Confidence <sup>#</sup>		Unemployment rate*	Youth Unemployment rate*
	December 2020	Past Four Quarters		
	Quarter (Index)	(Index)		
NSW	21.2 (n=546)	-34.5 (n=3924)	6.5%	13.2%
Central Coast	22.2 (n=19)	-28.5 (n=137)	5.3%	9.9%
Capital Region	13.8 (n=33)	-54.0 (n=226)	4.3%	7.1%
Central West	24.0 (n=26)	-37.2 (n=172)	4.2%	8.9%
Coffs Harbour – Grafton	33.3 (n=16)	-31.5 (n=130)	8.3%	13.7%
Far West and Orana	11.1 (n=10)	-29.8 (n=84)	1.8%	3.9%
Hunter Valley	15.8 (n=22)	-30.5 (n=190)	5.7%	14.6%
Illawarra	4.8 (n=24)	-46.0 (n=189)	7.0%	16.1%
Mid North Coast	58.8 (n=19)	-41.2 (n=170)	7.9%	16.1%
Murray	41.2 (n=18)	-24.4 (n=172)	4.6%	7.0%
New England and North West	17.9 (n=40)	-34.5 (n=194)	6.4%	13.4%
Newcastle and Lake Macquarie	31.6 (n=19)	-28.8 (n=212)	7.6%	17.5%
Richmond – Tweed	31.7 (n=43)	-25.9 (n=243)	5.0%	9.5%
Riverina	21.4 (n=15)	-33.1 (n=127)	5.4%	6.3%
Southern Highlands and Shoalhaven	40.9 (n=23)	-25.2 (n=123)	4.7%	8.4%
Sydney	14.1 (n=125)	-36.3 (n=1449)	6.0%	12.9%

\*Data updated as of 12 January 2021, annual averages used for regional unemployment rates (excluding NSW). This averaging method obscures the full impact of COVID-19 on regional labour markets. #Index is calculated as the percentage of respondents reporting a stronger economy minus the percentage reporting a weaker economy. A positive number implies improving conditions while a negative number implies conditions are weaker. ^Eastern Sydney includes Eastern City, North and South districts; Western Sydney refers to Western and Central cities as designated by the Greater Sydney Commission. Full regional results available at:

<https://www.businessnsw.com/advocacy/surveys/business-surveys>

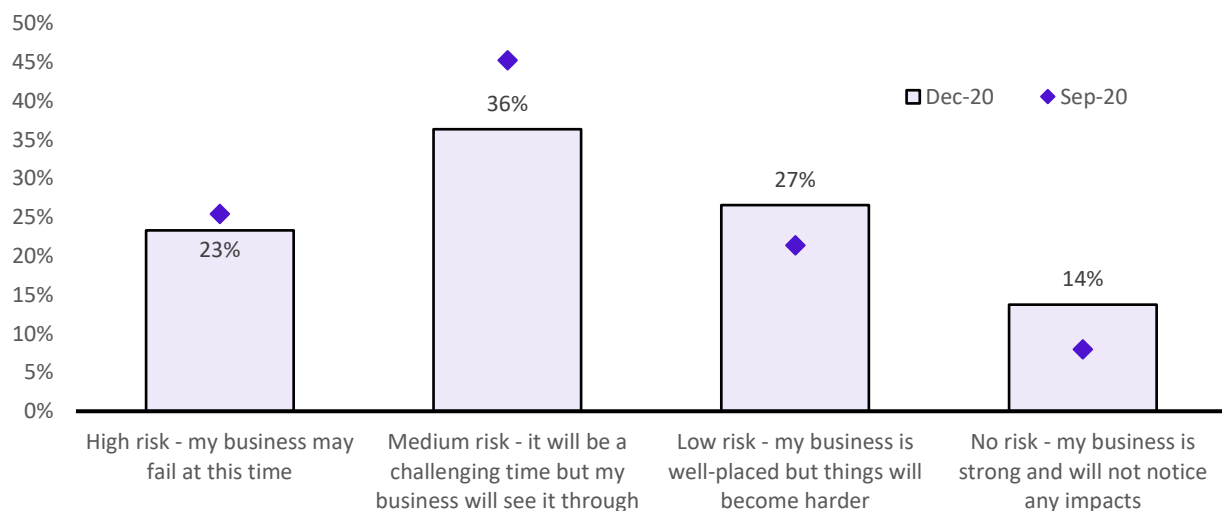
# Winding back policy support

The December 2020 Business Conditions Survey raised concerns about the preparedness of many businesses for the end of JobKeeper in March. While some businesses are getting ready for when this happens, many are not.

Despite overall increases in confidence, 23 per cent of businesses state that they are at a high risk of failure when supports such as JobKeeper, tax relief, interest waivers and other measures end. This vulnerability will hang over the small business sector for much of the year and will need to be factored into decisions around when and how support measures are withdrawn.

A rapid scaling back of JobKeeper and other support may result in a second wave of instability as businesses are forced to re-examine the viability of their current operations. This is particularly relevant in light of potential future COVID-outbreaks, as seen during December and January. That is why *Business NSW* is calling on the Commonwealth Government to provide a new program of wage support for businesses affected by ongoing government restrictions.

**Chart 6 - What is the risk your business will face serious challenges when support measures such as JobKeeper, tax relief, interest waivers and other measures end?**



Source: Business Conditions Survey, *Business NSW*, December 2020.



## Skills and human capital needs persist

In December 2020, almost half of all businesses (44 per cent) reported experiencing a skills shortage and 40 per cent reported that COVID-19 had made it more difficult to address their skills needs.

The percentage of businesses experiencing a skills shortage increased from September 2020 (39.8 per cent with a shortage) but was lower than historical trends (55.4 per cent in July 2019 and 59.8 per cent in March 2017).

The largest skills shortages were identified in Agriculture, Forestry and Fishing (71.4 per cent), Construction (67.9 per cent), Manufacturing (60.6 per cent), and Accommodation and Food Services (57.4 per cent).

These industries have been most severely impacted by a combination of:

- increased demand
- the closure of international borders limiting access to working holiday makers and skilled migrants
- longstanding skills shortages in some occupations.

This data is consistent with anecdotal feedback received by *Business NSW* over the last few months.

Businesses reported a wide variety of occupations in shortage, including numerous vacancies for electricians, automotive mechanics, fitters and turners, hairdressers and baristas and front of house staff.

Across all industries and occupations, the majority of businesses (60 per cent) reported that it was harder to fill experienced positions than entry-level positions. Half of respondents (51 per cent) reported that shortages were due to applicants not having the right skills, capabilities, qualifications or experience.

A third (33 per cent) of respondents attributed their skills shortages to the JobSeeker rate being too high, and 29 per cent reported that applicants' wage demands were too high.

Whilst the lack of skilled migration had a relatively low impact on businesses' ability to access skills overall (14 per cent overall), almost half (42 per cent) of those businesses were in the Accommodation and Food Services industry.

Overall, 72 per cent of businesses reported that the shortages had resulted in increased workload for current staff. Almost half (45 per cent) reported that the shortages had resulted in lost business.

### Business needs: what businesses told us about skills and human capital

"The biggest issue we are facing in the next few years is labour. Access to labour is primarily the issue, which has been compounded by the border closures and our reliance on foreign workers to pick fruit. We've tried a lot of things, but we can't get locals to pick fruit."

*Agriculture, Forestry and Fishing business, Coffs Harbour-Grafton*

"The growth and productivity of my business will be directly affected by the absence of skilled labour. The more I have to outsource, the more it costs me to manufacture my product."

*Retail Trade, Newcastle*

"Regional towns need willing workers otherwise the opportunity will be lost. Please provide incentives to people in cities to at least temporarily move to regional areas."

*Accommodation and Food Services business, New England and North West.*

# PART 2: PROGRESS AND RECOMMENDATIONS

## Introduction

Last year, *Business NSW* released *Back on Track*, which identified the following 10 'Recovery Drivers' to assist business recover from the economic impacts of COVID-19. In this section, *Business NSW* has assessed progress against each of the 'Recovery Drivers' and made additional recommendations for Government to consider in the 2021/22 Budget.

### 1. Return unemployment to below 6 per cent

The Commonwealth has committed to continuing fiscal support until the unemployment rate returns below 6 per cent.

### 2. Think beyond 'step three'

It is still unclear to businesses when and under what conditions remaining restrictions will be lifted.

### 3. A Youth Jobs Guarantee

The Commonwealth Government has introduced a range of measures to support our youth.

### 4. JobKeeper

JobKeeper has been vital for businesses. What replaces it will need to be more targeted at businesses that still require support.

Immediate priorities  
Protect and steady the economy

### 5. Regulatory reform for growth

The Commonwealth should support regulatory reform to drive business growth and work with states to remove duplication.

### 6. Provide affordable, reliable energy

Electricity market reform provides much-needed direction but risks further fragmentation of the national market.

### 7. Fix the Federation

The Commonwealth and state governments should work better together to deliver better government and improvements in key areas such as tax.

### 8. Solve payroll tax

In partnership with NSW and other state governments, the Commonwealth should ensure payroll tax does not deter employers from hiring staff.

### 9. Improve workplace relations

The Commonwealth Government should create a workplace relations system that cuts red tape, creates jobs and boosts living standards through improved productivity.

### 10. Build a seamless economy

The Commonwealth Government should work with state governments to build a seamless economy that connects all regions of the country and deepens labour markets.

Longer-term initiatives  
Go for growth

# Recovery driver #1

## Return unemployment to below 6 per cent

### **The Commonwealth has committed to continuing fiscal support until the unemployment rate returns below 6 per cent**

The Commonwealth Government has consistently emphasised the importance of getting people back into work to minimise the human-level impacts of COVID-19.

In September 2020, the Treasurer announced a welcome commitment to continue fiscal support until unemployment returns to below six per cent. Particularly crucial to meeting this target will be the future of support for COVID-affected businesses (recovery driver #4).

In the October 2020 Budget, business again took its place at the heart of our economic recovery with a range of measures to support investment and the creation of jobs. This included wage rebates, investment incentives, new skills initiatives, direct support for employers, business tax cuts and strategies to boost our manufacturing sector. Businesses also benefited indirectly from personal income tax cuts, infrastructure spending and broader fiscal support aimed at boosting public demand.

However, *Business NSW's* research has indicated that, despite all the government support, certain industries continue to suffer. Chief amongst them are the tourism and international education sectors which are still hindered by the closure of international borders.

#### **Recommendations:**

1. Prioritise the 6 per cent unemployment target in the upcoming budget.

## Recovery driver #2

### Think beyond 'step three'

#### It is still unclear to businesses when and under what conditions remaining restrictions will be lifted

Australia's performance during the COVID-19 pandemic has continued to be exemplary. Since the Victoria outbreak in May-June 2020, there have not been outbreaks of a similar scale. Those clusters of cases which have appeared, such as those centred on Sydney's Northern Beaches in December 2020, have been contained.

While restrictions on travel and business activity have come in and out of effect over the period, care has been taken to ensure most business activity can continue in a COVID-safe way. Australia has avoided the economic damage seen in peer countries across the G-20 and OECD (see Figure 1).

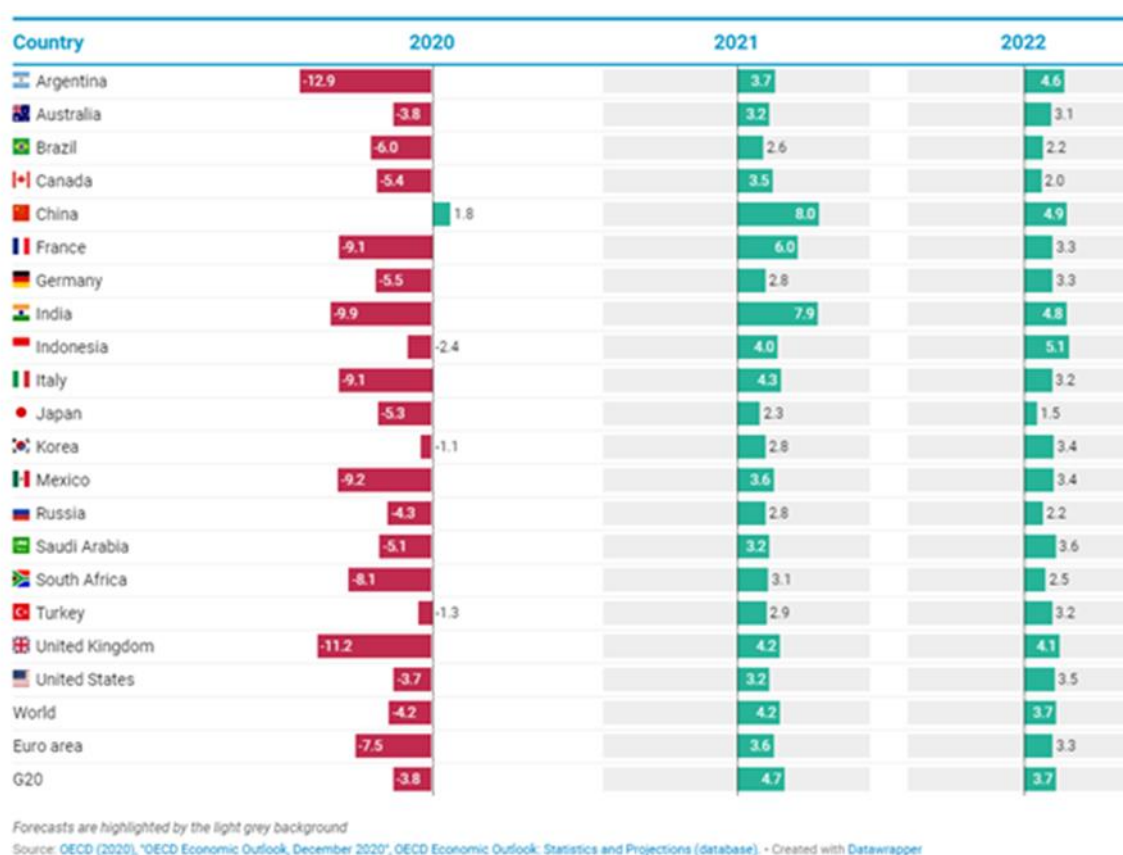


Figure 1 - OECD Economic outlook December 2020

These concerns are greatest in businesses catering to international visitors and group activities – businesses in the Arts and Recreation Services, Education and Training, and Retail Trade sectors were among those most likely to report being at greatest risk. While borders stay closed to international tourists and international students, these sectors will face ongoing challenges and may need targeted support if they are to resume activity when borders open.

State premiers have continued to impose border closures and travel restrictions in an ad hoc and unpredictable manner. The outbreak in Greater Sydney over the Christmas-New Year 2020-21 period has again highlighted the tendency for neighbouring states to close borders as an action of first resort, and to be reluctant to reopen even after multiple days without community transmission of COVID-19. Clarity and

consistency over the conditions in which states will close and reopen their borders would be preferable to the current pattern of arbitrary decision-making.

Vaccination against COVID-19 has begun overseas, with the Australian vaccination campaign now scheduled to begin in mid-February 2021. The vaccination programme appears central to understanding “what comes next” as businesses look to emerge from remaining restrictions. With a significant proportion of the population vaccinated, particularly those most vulnerable to the effects of COVID-19, there will be a diminishing justification for states to resort to the most damaging types of restrictions on social and commercial activity. The faster the vaccine is deployed, the better the conditions for society and the economy.

Questions remain over the future of international travel. As vaccination of overseas citizens gathers pace, and as more Australian residents are themselves vaccinated, there is the potential for those that have been vaccinated to be admitted into the country. Actions currently underway to verify and mutually recognise other countries’ vaccination efforts will be vital to facilitating international travel once more.

While recognising it is still too early to identify when borders will reopen, *Business NSW* encourages the development of a strategy covering:

- the conditions upon which the border will reopen
- the Australian Government’s position on international travel bubbles
- outbound restrictions on Australian residents
- arrangements for international students
- the use of digital ‘vaccine passports’

### Recommendations:

2. Accelerate the roll out of COVID-19 vaccinations across Australia
3. Develop a plan to safely reopen international borders including when and how international borders will operate in a COVID-safe way, and which cohorts will be prioritised to enter Australia.
4. Develop clear and consistent criteria, in collaboration with states and territories, for when state border closures may occur, allowing businesses and individuals to plan with confidence.

## Recovery driver #3

### Youth Jobs Guarantee

#### The Commonwealth Government has introduced a range of measures to support our youth.

In line with our proposal for a Youth Jobs Guarantee, the October 2020 Commonwealth Budget included significant support for young people looking for work.

The JobMaker hiring credit in particular has meant that businesses that take on a jobseeker will receive a payment of \$200 a week for an eligible young person aged 16-29 years and \$100 a week for a young person aged 30 to 35 for up to 12 months. It is estimated the \$4 billion scheme will support around 450,000 young Australians into jobs. This will help employers get young people back into work and ensure a generation of workers is not lost as a result of the COVID-19 crisis.

Other significant investments made by the Commonwealth include the Boosting Apprenticeship Commencements (BAC) subsidy. This initiative resulted in the Commonwealth Government providing an additional \$1.2 billion to support Australian businesses to employ 100,000 new apprentices or trainees by September 2021. This subsidy has been a huge success, with reports around the country of unprecedented demand for new apprentices and trainees.

When it was released in July, the *Business NSW* report *Skilling Australia for a Better Future: Supporting Apprenticeships* forecast a reduction of 54,000 apprentice and trainee commencements across Australia in 2020 compared to 2019. Following the introduction of the BAC subsidy, it is highly likely that commencements in 2020 exceeded those in 2019. This is an amazing result and testament to the Commonwealth Government's commitment to supporting businesses and young people through this very challenging period.

However, this initiative could be the victim of its own success, with the 100,000 places exhausted before the planned cessation of the subsidy in September 2021.

Reports indicate that around 50,000 places have already been taken up with a significant backlog still being processed. Data from our apprenticeship centre, Apprenticeship Support Australia, indicate that the total number already allocated could in fact be as high as 70,000 – leaving few places to be filled.

However, the precise number is unknown and unavailable, with businesses unaware of how many places remain. This could result in businesses taking on an apprentice with the expectation that they would be eligible for the BAC subsidy only to be informed, once their application is processed and finalised, that all places have been expended. This could lead to high cancellation rates and disappointed employers.

Similarly the Supporting Apprentices and Trainees (SAT) subsidy has been hugely successful and has resulted in a significant reduction in the number of cancellations and suspensions. Given ongoing economic uncertainty, the Commonwealth is encouraged to extend the availability of this subsidy beyond its current expiry date in March 2021.

#### Recommendations:

5. Expand and extend the Boosting Apprenticeship Commencements (BAC) subsidy with an additional 20,000 places available until the end of December 2021 to support 2021 school leavers.
6. Provide greater transparency around the availability of BAC places.
7. Extend the Supporting Apprentices and Trainees (SAT) subsidy beyond March 2021 to the end of December 2021.

## Recovery driver #4

### JobKeeper

**JobKeeper has been vital for businesses. What replaces it will need to be more targeted at businesses that still require support.**

JobKeeper has been one of the most important policy measures introduced to support businesses and their workers during the pandemic. JobKeeper has been successful in enabling millions of businesses to survive during forced shut-downs and trading restrictions introduced to deal with the COVID-19 pandemic. By maintaining a connection with their employees, businesses were able to quickly get back up and running when restrictions were eased.

Over time, tighter eligibility criteria has reduced the numbers of businesses participating. However, for many of those businesses still covered by the program it remains vital to their continued viability. In *Business NSW's* December Business Conditions Survey, 23 per cent of respondents said their business was at risk of failure when supports including JobKeeper are withdrawn.

Government has indicated that it does not intend to continue JobKeeper beyond the end of March. However, there are businesses in some sectors of the economy that will continue to be heavily impacted by Government restrictions, such as the closure of international and state borders. When these businesses can operate normally they will quickly return to a strong financial position. For the time being, their economic viability continues to be weighed down by the Government imposed restrictions. These businesses will need support after JobKeeper ends to allow them to contribute to the economy when normal operations resume.

*Business NSW* supports calls made by the Australian Chamber of Commerce and Industry (ACCI) to introduce a new program of wage subsidy support targeting businesses heavily impacted by international and state border closures. Aimed at preserving future jobs and skills, the wage subsidy support would have the following characteristics:

- A payment set at \$450 per week per employee if business turnover is down over one third, or \$700 per week per employee if business turnover is down over two thirds, relative to the same quarter in 2019 in most cases.
- Eligibility for the subsidy is tested quarterly.
- Eligible staff are those employed on or before 1 January 2021.
- The industrial relations flexibilities of the JobKeeper payment are retained.

*Business NSW* does not believe an industry test (for example, restricting eligibility to prescribed ANZSIC codes or business types) is appropriate given the complexity of supply chains and indirect flow-on impacts from restrictions such as border closures. However, tighter criteria in relation to revenue loss, the period over which revenue loss is assessed, or the value of the payment, may be appropriate if cost-containment is the primary concern.

*Business NSW* also supports keeping administrative arrangements for any JobKeeper replacement as similar as possible to those used during JobKeeper. It is undesirable to impose a new understanding and compliance hurdle for those businesses still in need of support. Retaining as much as possible of the existing requirements for information provided by businesses will simplify participation.

#### Recommendations:

8. The Commonwealth Government should provide a new program of wage support for businesses affected by ongoing government restrictions on their activity

# Recovery driver #5

## Regulatory reform for growth

### **The Commonwealth should support regulatory reform to drive business growth and work with states to remove duplication.**

Deregulation and regulatory efficiency are critical priorities for NSW businesses, who are currently disadvantaged by a large volume of regulation and a high degree of regulatory churn. Excessive and bureaucratic regulation is consistently cited as one of the top impediments to business growth and success. Tackling the issue of red tape is not about letting businesses do whatever they want, but rather it is about reducing costs that are unnecessary and can be avoided.

The NSW Government has had significant success in making it easier to interact with the NSW Government and is streamlining application processes through Service NSW and the Minister for Customer Service. The Commonwealth should explore further opportunities to partner with NSW to streamline regulation processes.

Most recommendations contained within this Recovery Driver are for action by the NSW Government. The NSW Productivity Green Paper released in August contained a range of regulatory reform proposals, including many recommendations made by *Business NSW* in *Back on Track* and elsewhere.

One area of leadership for the Commonwealth is mutual recognition. Mutual recognition usually only works where there is a direct match with the licensed activities. Licensing bodies from each jurisdiction for each category of licence should be encouraged to develop as many nationally recognised licence categories (each covering the same scope of activities) as possible. Temporary exemptions should be granted when there is an urgent need for the skills in another jurisdiction (for example, rebuilding efforts after a natural catastrophe or post-pandemic skills needs).

#### **Recommendations:**

9. The Commonwealth Government should reinvigorate the National Business Simplification Initiative (NBSI) and consider opportunities to harmonise with state regulatory initiatives, for example, through Service NSW.
10. The Commonwealth Government should lead the development of nationally recognised licence categories in collaboration with jurisdiction licensing bodies.
11. Oversee the introduction of temporary exemptions to licenses when there is an urgent need for the skills in another jurisdiction.



## Recovery driver #6

### Reliable affordable energy

#### **Electricity market reform provides much-needed direction but risks further fragmentation of the national market.**

2020 saw major developments in NSW's energy policy. The Electricity Infrastructure Investment Bill (2020) has set the stage for a sweeping makeover of NSW's electricity market, introducing a new auction-driven process for renewable generation, storage, and electricity firming capacity. The implementation plan for that roadmap will develop through 2021. If NSW can deliver the bill savings it has projected, it will be welcome relief for businesses in NSW for whom energy costs remain a concern. The policy design challenges for such a large and complex reform are substantial. Done well, it has the potential to put the NSW economy on track to cut greenhouse gas emissions by 2050, while keeping the costs of the transition under control. Done poorly, it could leave billpayers on the hook for growing costs while reliability deteriorates. Decisions taken over the next few months will determine which track we are on.

Meanwhile, efforts at modernising the National Energy Market (NEM) through the Energy Security Board's (ESB) Post-2025 Review have made slower progress. With momentum on electricity system reform having shifted from the ESB to the states, a renewed effort will be needed to avoid further fracturing of the NEM. Sharing resources across states allows for a more cost-effective allocation of investment. There is a growing risk that measures introduced in an attempt to optimise the electricity market within each state will result in increased inefficiency between states.

There has also been much-needed progress to address NSW's short-term gas supply challenge. The Narrabri Gas Project received clearance from both the Commonwealth and NSW governments and now just requires the proponent Santos to make its final investment decision. The Port Kembla LNG import terminal has also shown promising signs, with fast tracked planning approval for the terminal and its connecting pipeline, and a potential FID in the first quarter of 2021.

The Commonwealth Government's 'gas fired recovery' plan looks likely to address the pipeline capacity constraints that need to be removed. The longer-term outlook for the sector is less clear. Pilot projects for hydrogen and biogas indicate possible future directions, but much more work is needed before the full extent of the role either will be able to play is fully understood.

The Commonwealth's Technology Investment Roadmap identified some of the most promising technologies to help Australia reduce its climate footprint. However, with Australia still to set a firm target for decarbonization, it remains to be seen how far along that journey the Roadmap will be able to direct us.

The cancellation of the Glasgow climate change conference (due to the pandemic) deferred the need for the Government to set out additional expectations. The , but the new deadline at the end of 2021 will need to be matched with greater clarity, both about the extent Australia intends to reduce emissions by 2050, and about the policies that will be used to accomplish those reductions.

Drought and bushfires may have receded behind COVID-19 in the public eye, but the impacts of climate change on NSW's businesses, especially those in regional and coastal areas, will continue to grow.

#### **Recommendations:**

12. Manage the ESB post-2025 review to avoid further fragmentation of the National Electricity Market.
13. Match states' commitments with a firm Commonwealth objective to cut greenhouse gas emissions by 2050.

# Recovery driver #7

## Fix the Federation

### **The Commonwealth and state governments should work better together to deliver better government and improvements in key areas such as tax.**

The creation of the National Cabinet has been an invaluable initiative to find solutions to the health and economic consequences of COVID-19.

Despite this, there are still some areas of the inter-governmental decision-making processes that require significant improvement. For example, the interplay of federal and state policies on energy and climate change policy is driving a concerning trend towards states 'going it alone' on reform. Perception of a lack of commitment and a lack of action in Canberra have led states to occupy what has been seen as a vacant playing field.

While *Business NSW* supports the principles behind the NSW electricity infrastructure roadmap, it continues to be our preference that reforms take place across the National Electricity Market. We now also have a situation where all states and territories have committed to reach net zero emissions, but the Commonwealth has not. At best this leads to uncertainty, and at worst incoherence as businesses attempt to make sense of the expectations from different tiers of government.

A second area of concern is the potential impact of productivity improvements on GST receipts, the NSW Government recently announced a proposal for property tax reform with a plan to replace stamp duty with an annual tax on land value. Under the proposal, homebuyers would be able to choose whether to pay stamp duty or the new land tax. It is estimated the proposal would boost the NSW economy by 1.7 per cent which may consequently impact GST receipts.

Skills remain a key area of concern and require further consideration given the commencement of negotiations for a new National Agreement for Skills from August 2021. This new national agreement must carry forward the commitment made by all governments in the Heads of Agreement to a real increase in overall Vocational Education and Training (VET) funding. It represents the opportunity to put in place a long-term funding solution for VET that delivers real growth in funding, as well as greater consistency and certainty.

#### **Recommendations:**

14. As per the Thodey Review recommendations, the Commonwealth should ensure that states will not be disadvantaged with a lower GST share as a result of undertaking productivity enhancing tax reforms, such as replacing Stamp Duty with a broad-based land tax.
15. The Commonwealth Government, in partnership with state governments, should commit to long-term funding growth for the Vocational Education and Training sector in the new National Agreement for Skills due in August 2021.

## Recovery driver #8

### Solve payroll tax

**In partnership with NSW and other state governments, the Commonwealth should ensure payroll tax does not deter employers from hiring staff.**

Payroll tax reform remains a priority for businesses. There is scope for the Government to begin tackling payroll tax in 2021 to ensure payroll tax does not become an obstacle to economic recovery and employment.

Payroll taxes are state taxes, but payroll tax reform will require Commonwealth involvement. Payroll tax accounts for around a third of NSW's own-source revenue. State governments rely on payroll tax to deliver services and alternative revenue sources must be found. Alternative state-based taxes such as stamp duty are even more inefficient than payroll tax, and so are unsuitable to replace foregone payroll tax revenue.

As a result, there is still a need for the Commonwealth and state governments to come together to set themselves the challenge of ensuring payroll tax does not get in the way of employers' ability to hire staff during our economic recovery. There are a range of options available, some of which were considered in Australia's Future Tax System Review (the Henry Review), though most would require a degree of partnership with the Commonwealth, including:

- a cash flow tax
- giving states and territories a share of income tax
- a broad-based labour value-added tax, and
- collecting payroll tax through the PAYG withholding system.

Each of these options requires further detail including analysis of costs, benefits and SME impacts. But all can reduce the tax administration costs associated with the current payroll tax system. There is no reason why the states and territories together with the Commonwealth shouldn't be exploring the merits of these proposals so we can get rid of a tax that will obstruct our economic recovery.

During the pandemic, other tax measures were introduced which have encouraged productive uses of businesses' capital. The Treasurer should extend the end date on the \$150,000 Instant Asset Write-off, as small business will need that support for at least the next 12 months to achieve the government's growth expectations.

Given the ongoing impact of COVID-19 on trading and supply chains, many small businesses were not in a position to order necessary capital items before 31 December 2020, or are unable to guarantee installation and first use by 30 June 2021. Allowing additional time to order and install equipment will encourage productive investment. It will also enable some businesses affected by lasting changes to demand to pivot, as Government has encouraged them to do, to new products or new markets.

#### Recommendations:

16. Commonwealth and state governments should come together to consider the breadth of options available to ultimately abolishing payroll tax.
17. The Commonwealth Government should extend the \$150,000 Instant Asset Write-Off through 2021.

## Recovery driver #9

### Improve workplace relations

**The Commonwealth Government should create a workplace relations system that cuts red tape, creates jobs and boosts living standards through improved productivity.**

The workplace relations system remains overly complex and not easily understood. Australian businesses need a more streamlined workplace relations system that is easier to navigate and that is compatible with reaching win-win outcomes.

Smaller businesses in particular must spend considerable resources understanding and ensuring compliance with their obligations, time better spent ensuring business success. The system must provide businesses with more support in hiring and complying with employment and other workplace-related laws.

The impact of industrial action at Australia's ports continues to act as a drag on trading businesses in NSW. Members are affected not only by increased shipping costs and surcharges, but also by delays and increased uncertainty about when shipments will arrive and depart. This has consequences along the supply chain, as products dependent on imported goods are subject to manufacturing delays, causing disruption to cascade to non-importing businesses. An enduring and cost-effective resolution of the disputes will be essential as businesses seek to recover through 2021.

#### Recommendations:

18. The Commonwealth Government should reform the workplace relations system to provide small to medium sized businesses with more support in complying with employment and other workplace-related laws.
19. Resolve industrial relations disputes impeding the efficient operation of ports in NSW and across Australia

# Recovery driver #10

## Build a seamless state economy

**The Commonwealth Government should work with state governments to build a seamless economy that connects all regions of the country and deepens labour markets.**

The pandemic has renewed attention on the need to better integrate regional and urban economies in NSW and across Australia. Observers such as Infrastructure Australia had predicted working from home would become more popular over time, but the arrival of COVID-19 rapidly accelerated the change to workplaces. It remains to be seen how enduring changes to workers' and businesses' preferences are, but the last year has demonstrated both the possibilities and the constraints for these new workplace arrangements.

The implications for investment in infrastructure are particularly far-reaching. Plans for transport infrastructure such as roads and rail lines are scaled to commuter rush-hour demand. Planning for urban growth and development will need to accommodate at least uncertainty, if not outright change, in people's preferences about where they want to live. Telecommunication services, both mobile and fixed line, will be even more critical to underpin future working arrangements from any location.

The COVID-19 pandemic put unanticipated strains on businesses' telecommunications services, but for the most part networks have held up well and coped with surging demand. Switching to online retailing and order processing, teleconferences and Zoom meetings, has made business more telecommunications-dependent than ever.

Fundamentals of speed and reliability remain the primary concerns for businesses. In the next year, NBN Co will begin a new phase of deploying Business Fibre Zones in regional towns and city suburbs, which may bridge the gap between businesses' expectations and the service they are receiving.

As the pandemic and associated lockdowns forced businesses to become accustomed to remote working, many are looking to make some of those changes permanent. The NSW economy that emerges from the pandemic is more likely to be one where employees have greater freedom about how they work. This has already led to speculation about increasing options for workers to live outside of NSW's metropolitan centres, while still having access to the opportunity from businesses based there.

The ABS June 2020 data noted that capital cities had a net loss of 10,500 people from internal migration, the largest quarterly net loss on record. This increased demand for living in regional areas will lead to a growing pressure to significantly improve telecommunications services from those areas.

### Recommendations:

20. The Commonwealth Government should invest in capacity building infrastructure to expand markets and ensure economic inclusion.
21. The Commonwealth Government should review procedures for discounting benefits in light of low interest rates with a renewed focus to properly value projects capable of delivering benefits over its full lifespan.
22. The Commonwealth Government should work with state governments to increase procurement opportunities for local SMEs by continuing recent progress to address issues relating to risk aversion, state capacity, perceptions/knowledge, red tape, market access, industry participation and delegations.

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