



PRE-BUDGET SUBMISSION TO THE COMMONWEALTH GOVERNMENT

JANUARY 2022

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FOREWORD

Business NSW welcomes the opportunity to provide a pre-Budget submission ahead of the 2022/23 Federal 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 Australian and NSW Governments supporting business, business owners, their staff and employees and the local communities in which they operate.

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.

This submission therefore considers how to embrace a growth agenda whilst re-engaging policy makers and businesses of all sizes to pursue a significant period of productivity enhancements and reforms.

Section 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.

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

SECTION 1: CURRENT BUSINESS CONDITIONS IN NSW

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.

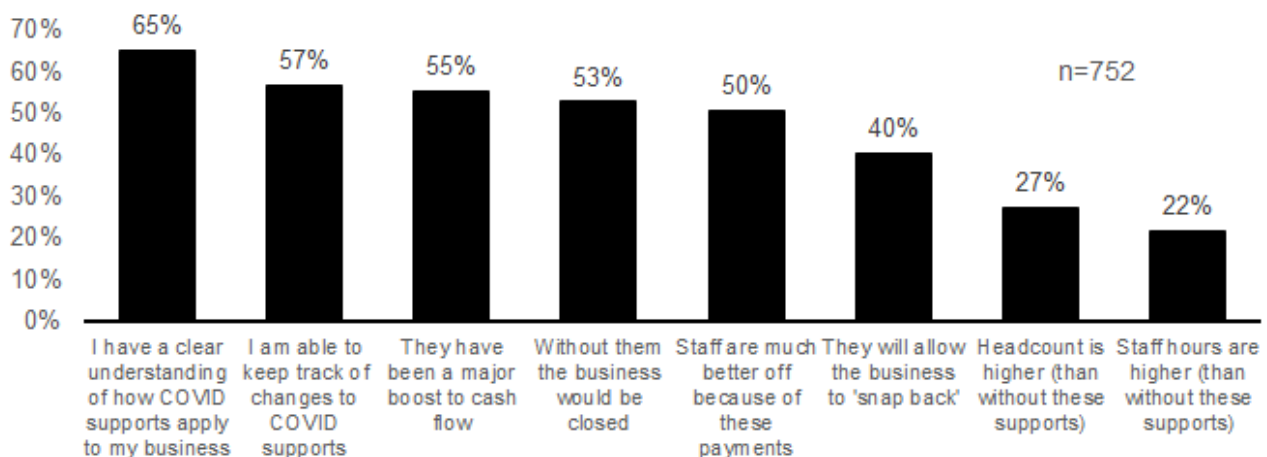
In 2020

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

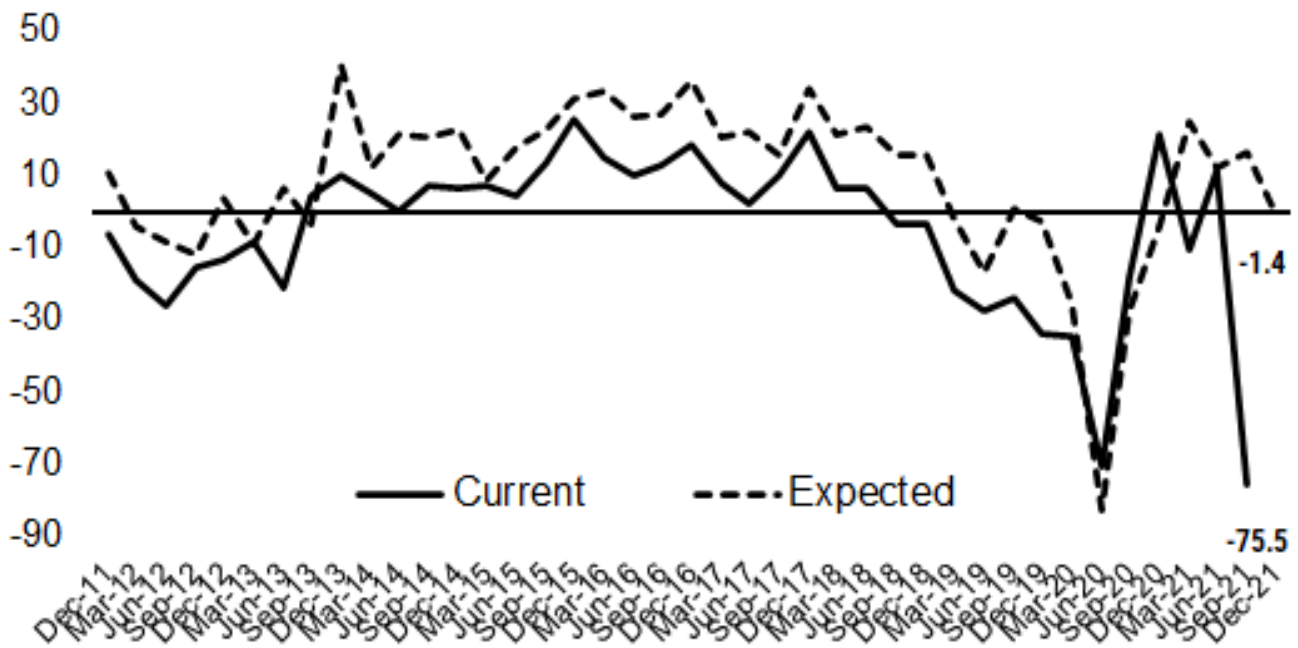


Source: Business Conditions Survey, *Business NSW*, September 2021.

As restrictions eased in October 2021

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

Business confidence in the December quarter



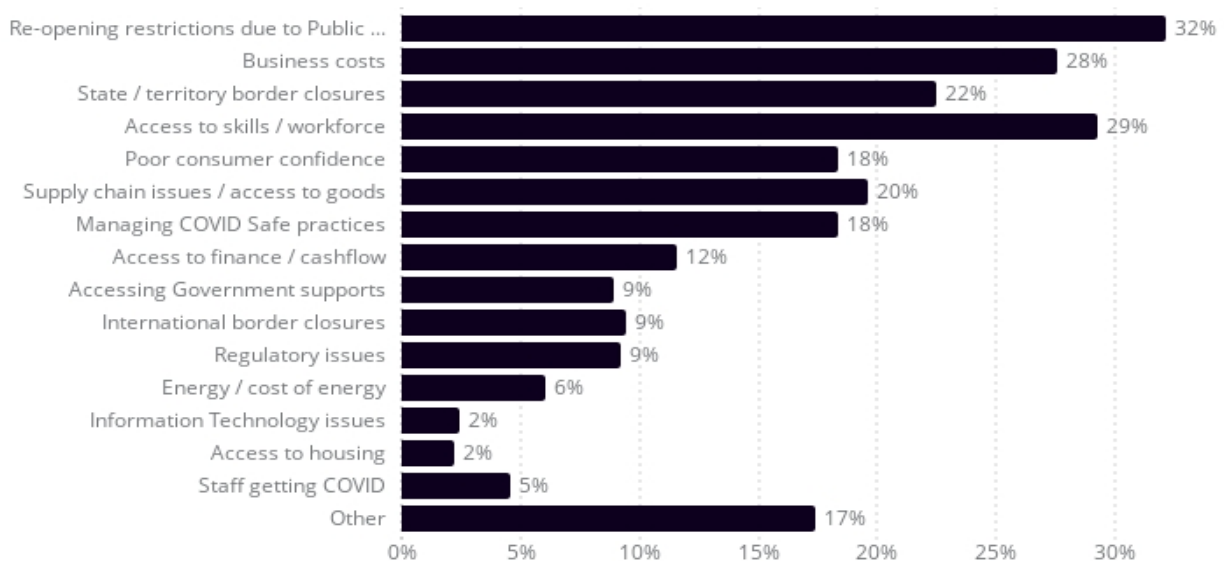
Source: Business Conditions Survey, **Business NSW**, September 2021.

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

That confidence appeared to have been well-founded, as businesses resumed operations as restrictions eased. However, there were still numerous challenges facing NSW businesses, mainly 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.

Biggest challenges to business currently 414 Responses



Source: Reopening of the Economy Survey, **Business NSW**, November 2021.

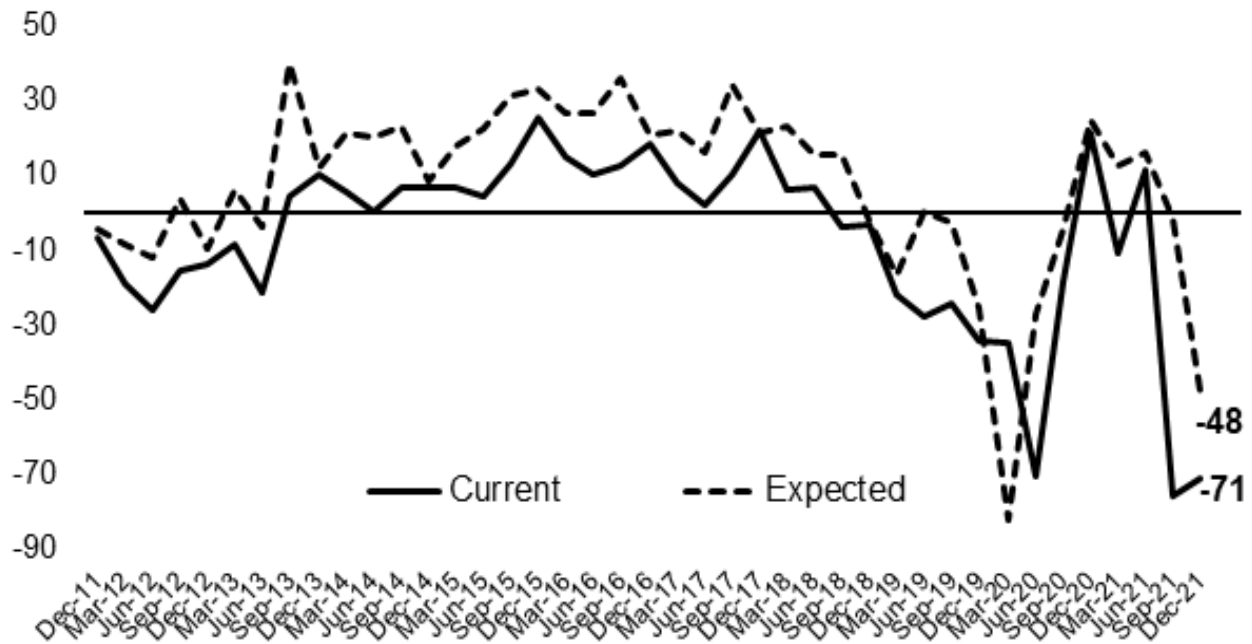
The impact of Omicron on NSW business

As businesses were getting back on their feet, a new COVID variant, Omicron, took hold.

Business confidence in NSW plummeted in its wake.

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.

A sharp fall in business confidence due to Omicron

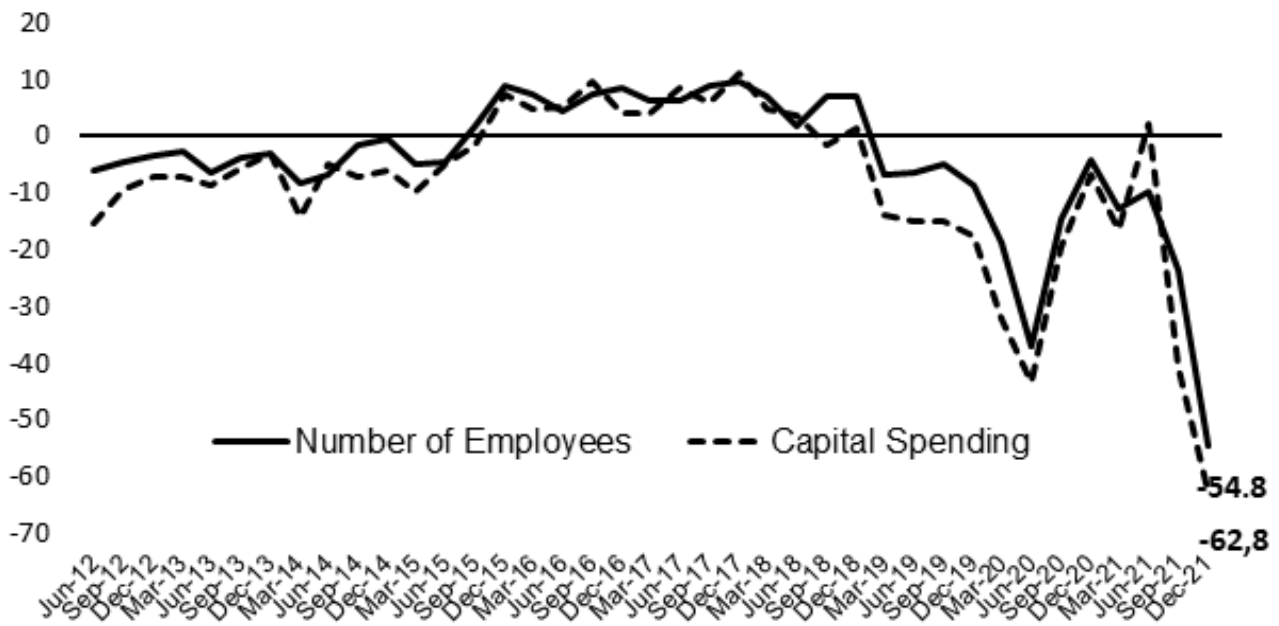


Source: Business Conditions Survey, **Business NSW**, January 2022: *Current and expected performance of the economy.*

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.

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

Staff numbers and capital spending

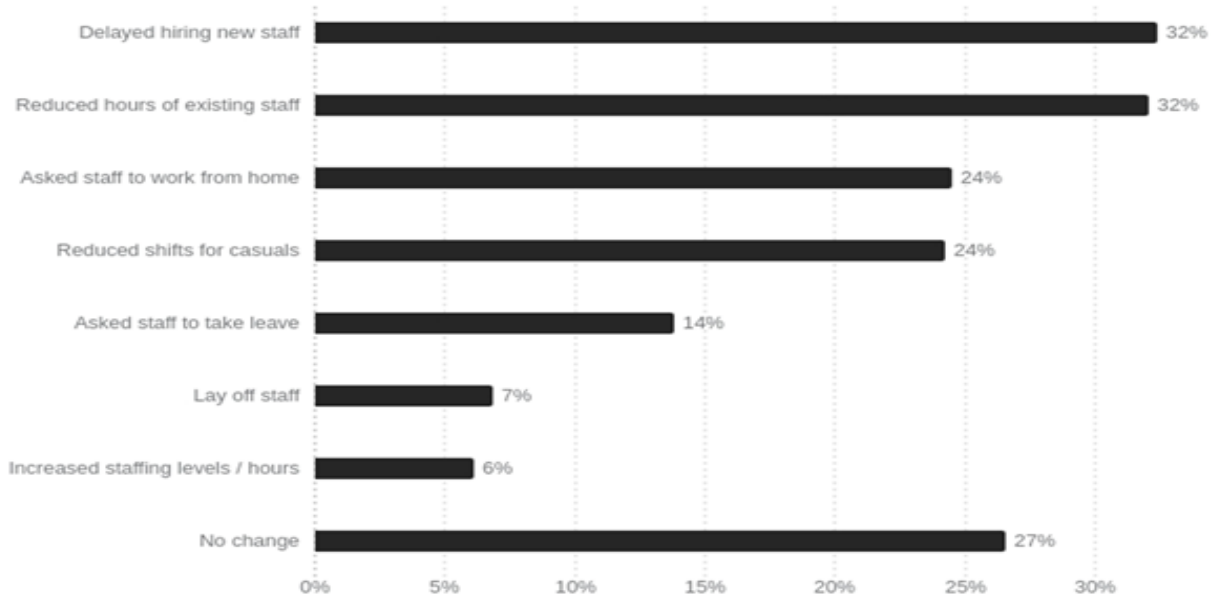


Source: Business Conditions Survey, **Business NSW**, January 2022: *Performance of staffing and capital spending*

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).

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



Source: Business Conditions Survey, **Business NSW**, January 2022: *Business staffing responses to the surge in Omicron.*

Around two weeks into the Omicron surge, businesses reported revenue to be 32 per cent lower than the previous 3 months.

This is somewhat equivalent to 2 weeks into the first major lockdown in March 2020.

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 THE OMICRON SURGE	-32%

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.

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. **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% 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 particularly 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, alongside our counterparts at ACCI, 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.

Government should treat claims for special treatment with caution and we welcome the considered and focussed example set by Investment NSW to supporting the development and growth of key skills, industries and sectors. A risk-based approach is needed where there may be avoidable exposure to single geographies, monopoly supply or imbalanced exposure to the critical operation of key markets.

One of the key areas of focus must be the Digital economy. For our high-tech precincts to compete globally, they must have world-leading connectivity and storage to compete with the likes of Boston, Silicon Valley and London. Within Australia, we must now recognise the essential nature of digital infrastructure for every-day life which requires that we ensure no Australian is digitally left-behind. Addressing the real challenges of Cyber threats and the development of resilient trading networks and partners, especially in strategically important sectors and projects will add further robustness to the economy. Further work is needed to retain the Venture Capital eco-systems so that Atlassian success, becomes the norm rather than the exception.

We commend the Australian Government's timely response to the most recent Urea/Ad-Blue challenge and the ability for Australian supply to expand domestic production by 800% avoiding failure of the transport network. We note that Australia's Department of Defence has an existing framework for sovereign supply that could be adapted for a broader analysis of risks in market segments and used as a response framework when supply challenges emerge.

As stated by Flinders University in their recent analysis of Australian Sovereign Capability and Supply Chain Resilience:

Sovereign capability is fundamentally about ensuring a degree of self-sufficiency and security for a nation and avoiding the vulnerability of external dependency in key areas of national interest including national defence, population health, security of energy and essential materials, food, and environmental sustainability (climate abatement and response).

Government can improve facilitation of trade, particularly in regional NSW. We are working with Austrade to connect to regional players, and this is emerging as a successful partnership as Austrade increases its remit to support expert marketing development, especially in the regions.

SECTION 2: LOCKING IN A RECOVERY

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

Infrastructure

Under the current funded infrastructure plan, 80 per cent of the infrastructure spend is for transport projects many of which are focused on the pre-COVID commuter challenge of delivering a workforce to Sydney's CBDs. The level of disruption in the last two years alone would suggest that this strategy may need review. Existing analysis by Infrastructure Australia looking at the Market Capacity to deliver the program as currently defined was already likely to be challenged by existing people movement restrictions and the lack of workforce capacity. Many of the current projects may still be valuable however it is likely the planned patronage and BCR (Benefit Cost Ratio) has changed.

There is an opportunity to re-balance this work program toward a greater emphasis on digital infrastructure and place-making social infrastructure programs. The key benefits of enhancing the digital infrastructure prioritisation include reducing the digital divide, maximising the opportunities presented by 5G, developing a sustainable economic approach for 5G infrastructure in Local Government Areas (LGAs), addressing weak links in the NBN through an emphasis on economic corridors and rewarding innovation that develops smart manufacturing, education, health, mining and agriculture.

Regionalisation presents another key driver of change – accelerated post COVID.

A focus on Social Infrastructure in our regions is often a critical determinant to creating and sustaining regional communities. Whether this is in education, health, social housing, destination or a combination of all these facets, the opportunity to invest in local communities may address the likely permanent change to work/life balance and living with COVID.

Prioritising regional rail connections for faster passenger journeys and more efficient freight movement would also facilitate regionalisation outcomes and create a more diverse and resilient state and nation

Transport infrastructure

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

When projects that have been assessed are still waiting for funding, government would be well advised to avoid committing to unevaluated or poorly rated alternatives. New ideas should be rigorously guided through the Infrastructure Australia assessment process, with a formal business case and cost-benefit evaluation.

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.¹ 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.²
- 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.³

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. **Business NSW** endorses the conclusion from our colleagues at the Australian Chamber of Commerce and Industry (ACCI) that:

"there is a lot of room for improvement in modernising and improving the efficacy and efficiency of our border crossing processes to make Australia an attractive destination for international shipping lines, increase the competitive Australian exporters in overseas markets, and reduce the cost of imported goods for Australian businesses and consumers."

Businesses in NSW and across the nation face inflationary pressures across their global supply chains in 2022-23. Renewing modernisation and avoiding additional cost pressures at our own border must remain a point of focus for resourcing in the Federal Budget.

¹ <https://www.infrastructureaustralia.gov.au/map/newcastle-sydney-and-wollongong-sydney-rail-line-upgrades>

² <https://www.infrastructureaustralia.gov.au/map/picton-road-safety-and-capacity> and <http://www.pictonroad.com/>

³ <https://www.infrastructureaustralia.gov.au/map/national-highway-electric-vehicle-fast-charging>

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' 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. That is why **Business NSW** called in our response to the Regional Telecommunications Review,⁴ and repeats that call here, for telecoms to be classed as an essential service for regulatory purposes.

Recommendation

Telecommunications should be given full essential service status, with matching obligations to provide service to all potential users including those in regional and remote locations.

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 when the next funding rounds for coverage improvement initiatives like the Regional Connectivity and Mobile Blackspot Programs.

Recommendation Government and industry should invest in eliminating mobile coverage gaps along major arterial highways and rail routes in NSW, including: • M1 Princes Motorway / Princes Highway • M31 Hume Motorway / Hume Highway • M23 Federal Highway • Pacific Highway • Great Western Highway • Picton Road

⁴ <https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Regional%20Telecoms%20Review%20-%20Regional%20Telecommunications%20Independent%20Review%20Committee%20-%20September%202021.pdf>

Problems with the physical infrastructure of telecommunications networks can be compounded by poor customer service from telecommunications providers.

Businesses have described some of the challenges in getting issues solved or new connections installed. One member reports still waiting (as of mid-September 2021) for the connection of an order placed in February 2021.

The absence of a consistent point of contact can be a particular source of frustration, with offshore call centres being a focus for complaints. Barriers with language, time zones, calls not being returned and having to speak to a different person every time complaints are followed up lead to unsatisfactory customer experience.

Early in the Covid-19 pandemic, Telstra promised to bring call centres back onshore, which may address some of these concerns, but that process is not expected to be completed until the middle of 2022.

Telecommunications markets rely on competition between providers to maintain pressure on prices and ensure adequate customer service. Unfortunately, in parts of regional NSW there is only one provider, resulting in worse outcomes for customers. As a result of its historical position, Telstra is usually the sole provider in communities where there is only one, and as such tends to be the focus of the bulk of member issues raised. But Telstra is also the preferred provider for many businesses – for example one who said they select Telstra because, despite being “expensive, at least [Telstra is] more reliable”.

Where Telstra, or any other provider, is the sole available operator in a location, there should be additional expectations placed on them to meet customer services and pricing objectives and ensure that an effective monopoly position is not being abused. It may be appropriate to engage the ACCC in investigating the specific competition issues affecting business telecoms customers in regional and remote locations, building on the 2018 ‘regional mobile issues’ investigation.

However, given the fast-changing pace of technology policy needs to look beyond addressing immediate telecoms. For some businesses this may mean 5G mobile service scan 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 The following list includes communities in NSW highlighted by **Business NSW** members as coverage blackspots. These locations should be targeted in future rounds of Regional Connectivity and Mobile Blackspot programs:

- 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

Fixing the Federation

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 crueLLing 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.

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.

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.

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

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

Such an approach could be designed with the aid of a series of small pilots 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.

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.⁵

The Commonwealth can play an important role in opening up reform options that may be impractical for states to implement in isolation.

Key priorities from a business perspective are to:

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

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

Recommendation

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

Reopening the international borders

It is critical for international borders to be re-opened as soon as it is safe to do so.

Recommendation

Business NSW has been involved in the development of and supports the recommendations contained in the Australian Chamber-Tourism's *Pre-budget Submission 2022-23*.

⁵ <https://www.businessnsw.com/content/dam/nswbc/businessnsw/submissions/191122-Thodey-Review.pdf>

Housing

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 currently being faced by all businesses operating throughout NSW.

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.

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.

Recommendations

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.

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

SECTION 3: IMPROVING AUSTRALIA'S SKILLS BASE

Recent events have only exacerbated Australia's skills shortages

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.

And 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, with 40 per cent of businesses expecting to "snap back" during October and November, portending future skills shortages.

And predictably, these are now being widely reported 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.

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

National Skills Commission data supports our findings: job vacancies in NSW peaked in May 2021 and were at their highest number since 2008. While the last few months have been tumultuous, vacancies in NSW remain 41.5% higher than pre-COVID.⁶

Over the longer term, it will be a fundamental requirement for Government to reconsider migration and how skilled migration can complement the skills and productivity of the current Australian population.

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.

Supporting people (back) into work

Participation rates in NSW have not yet rebounded to pre-COVID levels, with only 64.9% participation in November 2021 compared to 65.2% in November 2019.⁷ Female and youth participation remain lower than pre-COVID. Youth participation in the workforce in NSW for those not attending full-time education is at 80.4% in October 2021, compared to 87.3% in October 2019.⁸

To help address the significant skills shortages being experienced, more needs to be done to encourage people to join the workforce and increase these participation rates, particularly in cohorts where participation remains low.

⁶ <https://lmip.gov.au/default.aspx?LMIP/GainInsights/VacancyReport>

⁷ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release#states-and-territories>

⁸ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release#data-download>

There are various initiatives that could be considered around income thresholds for people in receipt of benefits or the Age Pension. For example, the Age Pension forms part of an individual's taxable income if they receipt any other income. The full Age Pension is above the tax-free threshold limit, so any additional earnings would be immediately taxed at 19c on the dollar.

Further, a single pensioner is only able to earn around \$480 per fortnight, including the Work Bonus, before their pension is reduced. For JobSeeker, income test limits are even lower at around \$150 per fortnight, which is around 3.5 hours of work per week at the minimum wage.

Recommendation

Increase income test limits for the Age Pension.

Increase income test limits for Job Seeker to be consistent with limits for the Age Pension.

Businesses want to employ someone reliable that wants to work. To that end, we are supportive of the Skills Checkpoint for Older Workers program to help people transition into new roles.⁹ It is pleasing that the entry criteria have been reduced to 40 years of age or older from 1 January 2022. We are interested in understanding how significant the uptake for the program has been and would be interested in working with the Government to support this program.

Youth engagement and unemployment rates remain concerningly high despite efforts to support young people into employment. In a previous Skillsroad Youth Census¹⁰, we found that:

- working is consistent with higher levels of well-being for young people;
- apprenticeship pathways result in the highest level of well-being for students than any other pathway;
- feeling cared for and supported at work was consistent with higher levels of well-being.

In particular, it is our experience that personalised human support for young people results in improved job outcomes. It is pleasing that Transition to Work has been extended and will be brought into the Government's new employment services model, from July 2022, ensuring that the learnings from the program's evaluation are implemented.

Recommendation

Work with **Business NSW** and other state chambers to promote and support the Skills Checkpoint Program.

⁹ <https://www.dese.gov.au/skills-checkpoint-older-workers-program>

¹⁰ <https://www.skillsroad.com.au/youth-census-2018>

Supporting skills development

Apprentice and trainee commencements

Our report [Skilling Australia for a Better Future: supporting apprenticeships through COVID-19](#) forecast 54,000 fewer commencements across Australia in 2020 and a cancellation rate of around 20 per cent. Without significant intervention, **Business NSW** estimated that only around 180,000 apprentices would have been in training in 2021, reducing Australia's skilled workforce pipeline to levels not seen since 1998.

The Commonwealth's significant commitment in this area is acknowledged. The wage subsidies introduced have stemmed the tide of cancellations and suspensions and resulted in a 28.5% increase in commencements in 2021 compared to 2020.¹¹ Such an outcome should prove for once and for all that the apprenticeship / traineeship model is not broken, but that the cost/benefit ratio for a business taking on an apprentice has generally been imbalanced.

We consider this success largely attributable to the introduction of wage subsidies by the Commonwealth Government, which we strongly commend. It is clear that subsidies for apprentices have a significant impact and, to that end, the BAC (Boosting Apprentice Commencements) should be extended indefinitely.

Recommendation

That the Commonwealth Government introduce a permanent wage subsidy similar to the BAC rate for employers employing an apprentice or trainee, in addition to existing incentives.

It is recommended that the subsidy taper over the course of the apprenticeship / traineeship, in line with current subsidies due to expire on 31 March 2022.

Apprenticeship completions

Given the significant investment by employers and the Commonwealth Government in training the next generation, it is of concern that completion rates for apprentices / trainees were at around 56% in 2020.¹²

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 such as:

- Support for travel
- Pre-apprenticeship pathways

¹¹ <https://www.ncver.edu.au/research-and-statistics/publications/all-publications/apprentices-and-trainees-2021-march-quarter-australia>

¹² <https://www.ncver.edu.au/research-and-statistics/publications/all-publications/completion-and-attrition-rates-for-apprentices-and-trainees-2020>

Support for apprentice travel

We regularly receive feedback that an issue negatively affecting completion rates is the availability of transport for apprentices/trainees to their place of employment as well as their place of training. Incentives directed at apprentices are primarily designed to supplement wages (such as the Living Away From Home Allowance) and the costs associated with training (for example, for tools and equipment not paid for by an employer).

The cost of purchasing and maintaining a vehicle can be prohibitively expensive for young people, coupled with apprentices and trainees in rural and remote areas often not being able to access public transport. This results in apprentices investing in the significant cost of securing and maintaining a vehicle. As a result, younger apprentices often have to rely on others, particularly family members, to travel to work and/or training.

These options may not be available for many young people experiencing disadvantage. The Commonwealth should consider introducing a \$1,000 National Apprentices Transport Subsidy to offset part of the cost burden associated with transport and address a key barrier to the supply of people interested in undertaking an apprenticeship or traineeship. The subsidy could be used to limit the cost impact of travel (e.g. for vehicle registration, public transport costs).

Recommendation

That the Commonwealth Government introduce an apprentice transport subsidy grant.

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 Commonwealth 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

That the Commonwealth Government, in partnership with States and Territories, introduce an industry-led pre-apprenticeship pathway into full apprenticeships and traineeships.

National Partnership Agreement for Skills

Skills funding is an area where our Federation has led to suboptimal outcomes.

Investment in Vocational Education and Training (VET) has been falling to its lowest level for some time, with government funding in 2019 lower in real terms than 2009. This is despite strong growth in schools and higher education funding.

Investment levels in VET vary between states, as do course costs and student outcomes. It is clear that shared funding arrangements with the states and territories are failing young people, with a lack of clarity and accountability. The new National Agreement for Skills must streamline and clarify funding mechanisms between the Commonwealth and states, potentially transferring more responsibility to the Commonwealth while supporting an increase in funding tied to job outcomes, stronger regulatory arrangements, faster development of qualifications and access to better marketing of the sector and the job outcomes that can be achieved. Any reforms must be supported by an increase in overall funding available to all Registered Training Organisations to deliver the training needed by employers.

It is critical the new National Agreement for Skills carries over the commitment in the Heads of Agreement that funding for the VET sector, and by extension, TAFE, receives a long-term commitment to a real-terms funding increase.

Recommendation

That the Commonwealth Government, in partnership with States and Territories, commit to a real-terms funding increase to the VET sector over the life of the agreement.

University / higher education

With reports that competitor countries international student numbers have rebounded¹³, while Australia's numbers have continued to decline, it is paramount that the Commonwealth Government work with universities to ensure that any remaining barriers for the return of international students should be removed. This should commence by supporting the estimated 160,000 international student visa holders currently stranded overseas¹⁴ to be able to enter Australia.

Recommendation

That the Commonwealth Government prioritise the arrival of current international student visa holders from overseas.

¹³ <https://www.vu.edu.au/sites/default/files/student-interrupted-international%20students-and-the-pandemic.pdf>

¹⁴ <https://www.dese.gov.au/international-data/student-visa-holders-and-outside-australia>

Supporting the return of migrants

Business NSW expects the reopening of international borders will have a significant impact on many businesses ability to recruit the people they needed. Our research has found that between a quarter and a third of all businesses will be directly impacted by the return of skilled migrants although it appears that some industries have relied on temporary visa holders more than others.

We agree with the Australian Chamber of Commerce and Industry's (ACCI's) position on a temporary increase in skilled migrants to catch-up on the shortfall of skilled migrants over the last two years.

However, in order to support that, any increase in numbers be supported by an increase in capacity within the Department of Home Affairs. This is particularly concerning as we are already receiving reports of skilled migrant visas taking more than 18 months to process. Given the skills crisis, BNSW recommends that the Department receives additional resources to increase its visa processing capacity, particularly for skilled migrants.

Recommendation

That the Commonwealth Government increase the number of skilled migrants and an increase capacity within the Department of Home Affairs to process skilled migrant visa applications.

Sadly, our treatment of temporary migrants in 2020 and the international border closure may mean that we struggle to attract the skilled migrants we need, particularly in light of demands for skilled workers around the world as governments globally make significant investments in infrastructure. We envisage there will be a global crisis in engineers and that demand for these skills will be extremely competitive.

Accordingly, making Australia attractive again will be critical in ensuring we can attract the skills we need from overseas to complement the skills we have within the local community.

Recommendation

That the Commonwealth Government introduce short-term incentives to facilitate return of temporary migrants and Working Holiday Makers – such as reducing cost of visas, reducing processing times and/or increasing country cap limits, increasing length of stay and offering more streamlined pathways to permanent residency.

Until 2014, the Federal Government previously had an Immigration Outreach Officer program. This was an extremely successful program through which industry employer bodies (including **Business NSW**) hosted Skilled Migration Advisers to help businesses identify and access migration opportunities to fill skilled job vacancies.

Given the many changes to skilled visa categories and the anticipated increase in migrant numbers as we recover from the pandemic, it is our view that such a program should be reintroduced.

Recommendation

That the Commonwealth Government fund an Immigration Outreach Officer program

SECTION 4: CREATING A SUSTAINABLE RESILIENT FUTURE

The environment

2021 was a landmark year for climate policy in Australia, with the adoption of a national objective aligning with all states and territories of aiming to reach net zero greenhouse gas emissions by at least 2050. However, despite the creation of a national target, businesses face a wide diversity of climate-related regulations and effective carbon prices, depending on which state they are in, which sector of the economy they operate in, and which technologies they are contemplating using. While much commentary has focused on the question of whether Australia should have a carbon price or not, a truer representation of businesses' experiences would ask whether Australia should have a single unified carbon price, or hundreds of differing implied carbon prices.

There is still a wide gap between the state and Federal net zero objectives, and the incentives currently faced by businesses making investment decisions. If allowed to persist, there is a risk that this will lead to undesirable outcomes – either by decreasing the likelihood of targets being met, or by increasing the cost of meeting it.

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.

The Illawarra region is a hydrogen hub for NSW government purposes, but not recognised Federally, creating a disconnect in policy and meaning funding opportunities are more limited than in the mutually recognised Hunter Valley region hub.

Recommendation

Give Federal recognition to the Illawarra region as a hydrogen hub.

Funding for key technologies such as hydrogen, batteries, EVs and industrial energy efficiency, while totalling in the billions of dollars, still falls well short of the amounts needed for the transformational results being sought. As the Australian Government has made clear, it does not intend to put in place pricing structures to dissuade use of greenhouse gas emitting options, and to focus efforts exclusively on technology development, which increases the hurdle rate for technology to be successful.

The level of development required for new zero-carbon technologies to be adopted by business is higher for them to beat out incumbent technologies without a carbon emissions penalty than would be the case if they only had to outcompete incumbent technologies plus the cost associated with their emissions.

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% '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 Australian Government attended Glasgow with a fresh ambition of reaching net zero by 2050 but retained its existing interim target of reducing emissions by 26-28% by 2030.

The climate commitments made by governments at COP26 will only be achieved if governments can successfully mobilise businesses towards net zero; pressure will increasingly be imposed on investment and industry to reduce emissions, reshaping the landscape in which businesses operate.

COP26 has sent a clear message to companies: measure your carbon footprint and instigate a plan to move towards net zero, or risk lagging behind competitors.

Recommendation

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

Transition to a smart, affordable, reliable future grid by implementing regulatory reforms, introducing incentives for customer participation in energy system management and planning cross-sector integration.

Business NSW, through its commercial arm Business Australia, delivers the Business Energy Advice Program (BEAP). The BEAP is funded by The Department of Industry, Science, Energy and Resources and delivers trusted advice to help small business and their representatives get better energy deals and increase their energy efficiency.

This energy advisory service delivers face-to-face, phone and digital advice to small businesses across Australia. This service helps small businesses:

- understand their energy savings opportunities
- choose the best energy plan for their business
- receive tailored advice on energy efficiency opportunities best suited to their industry.

To date, we have delivered over 13,000 consultations across Australia and help these small businesses take back control of their energy spend. Demand has remained strong throughout the pandemic as businesses look for actionable ways to reduce energy bills. This has never been more important as small businesses work on their COVID 19 recovery plans.

Recommendation

The Federal Government continue to fund the Business Energy Advice Program beyond June 2022 and increase its scope to include the project management support for energy efficiency upgrades and installation of onsite solar and battery solutions.

Tax Reform

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."¹⁵

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

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

The following recommendations should be pursued in the near and medium term. Achieving comprehensive reform with our system of government remains challenging in the extreme – nevertheless the sheer fiscal and public policy challenges of the post-COVID decade make cooperation and collaboration between our Commonwealth, State and Territory Governments essential. From Payroll Tax and Stamp Duty to 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 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.

As Australia sets a renewed path towards growth, business 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%). Our record on company tax (3rd 18.5%) is not much better. These matters need to be addressed through a staged approach commencing with a realignment of base rate of 25% corporate tax rate for SMEs with an aggregate turnover less than \$250 million.

¹⁵ <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.

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

Recommendations:

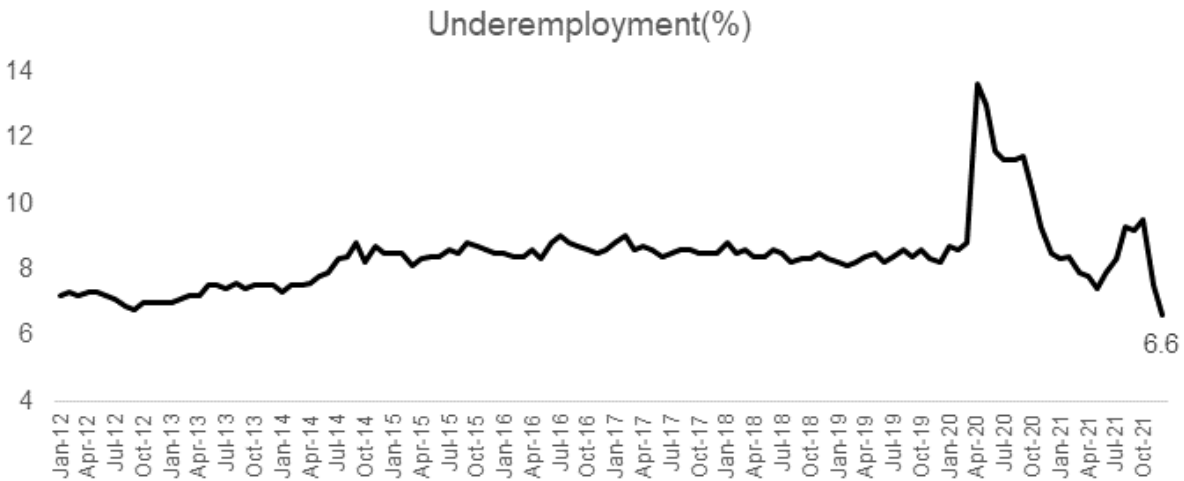
- The Commonwealth and State Governments should come together through the Council of Federal Financial Relations (CFFR) to commence a standing agenda of tax reform. This should include Payroll Tax, the GST, personal and corporate income taxes.
- The CFFR should consider:
 - the breadth of options available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

Encouraging innovation

As stated in Treasury's *The 2021 Intergenerational Report*¹⁶, the COVID-19 pandemic has caused the most severe global economic shock since the Great Depression.

Business NSW agrees with the Australian Chamber of Commerce and Industry (ACCI) when it says that labour productivity "*is the most important source of economic growth in Australia.*"

Given the current levels of underemployment (see below), the ability to lift labour productivity needs urgent attention.



Source: ABS, Labour Force, Australia, Feb 2020, Catalogue No. 6202 Table 12.

We also share ACCI's concerns that the Treasury's forecasted average rate of growth of 1.5% per year, over the next 30 years will simply not be enough to drive long-term economic recovery.

Within Australia, consumer confidence has taken a battering and, perhaps more alarmingly, so has business confidence, with capital spending having dramatically nose-dived in the most recent quarter.

Recommendation

That the Commonwealth Government extend the instant-asset write-off

¹⁶ © Commonwealth of Australia 2021

The COVID-related supply chain disruptions have shown us that Australia needs to decrease its reliance on overseas manufacturers and look to boosting its domestic manufacturing capacity.

This requires a significant structural adjustment to Australia's economy.

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

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

Recommendation

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

For further information:

David Harding

Executive Director

Policy and Advocacy

Business NSW

t. 02 9466 4899

e. David.Harding@businessnsw.com

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