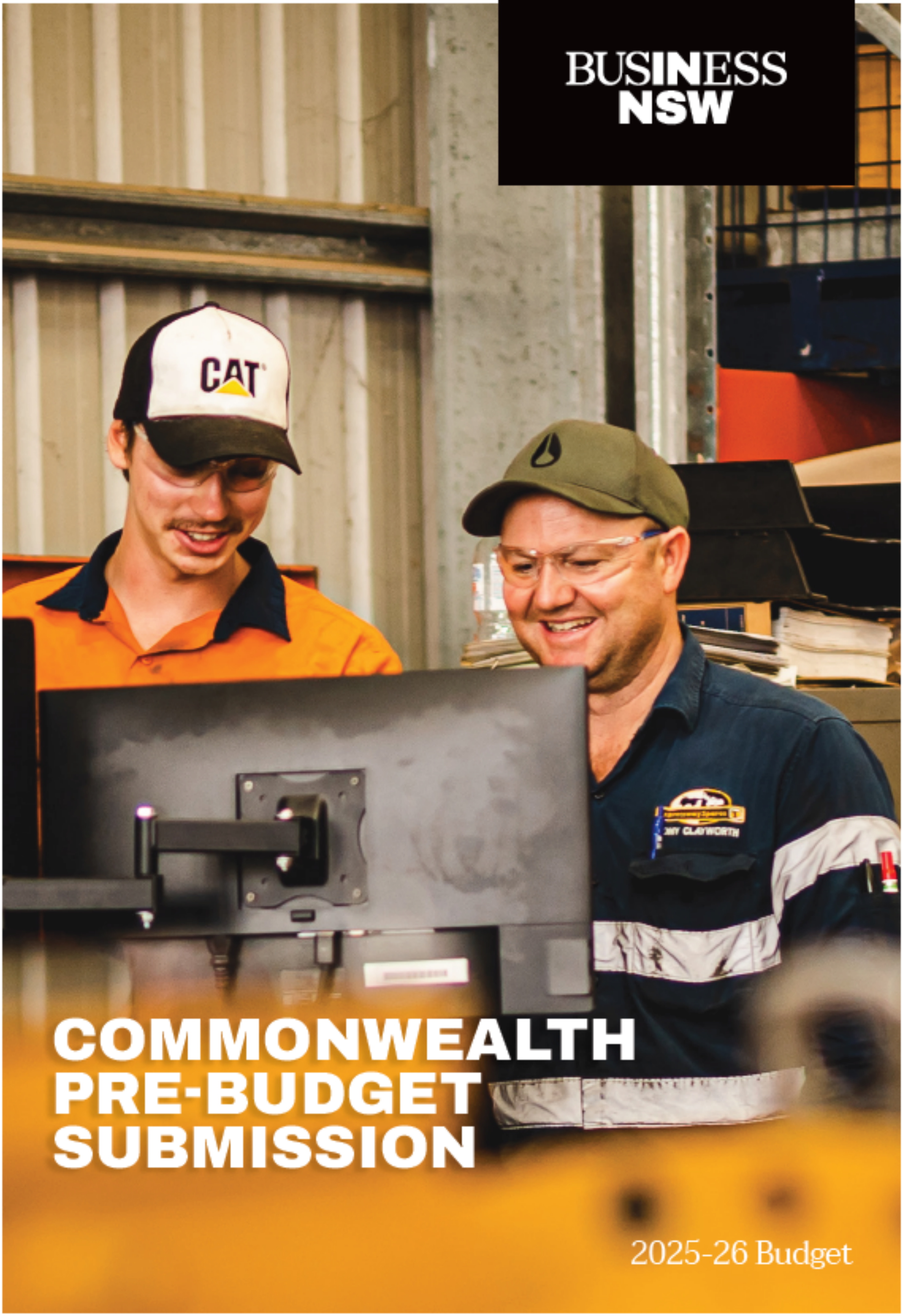
BUSINESS NSW



COMMONWEALTH PRE-BUDGET SUBMISSION

2025-26 Budget

Foreword

As we approach the 2025 Federal Election, Australia stands at a crossroads. The economic decisions made in the coming months will shape the future of our nation's businesses, workforce, and overall prosperity. Whoever forms government after election day, one thing is clear: small and medium-sized enterprises (SMEs) must be at the centre of any serious economic growth agenda and at the forefront of Australia's response to rapidly changing global trade and geopolitical conditions

Business NSW represents almost 100,000 businesses, from family-run enterprises to major employers. Our members are the backbone of the economy, driving job creation, innovation, and productivity. Small business employs 42% per cent of the workforce. Private sector employees make up 82.5% per cent of the national workforce, and 84% of the NSW workforce (the nation's highest). Yet, small businesses and the local communities they serve have long been overlooked in national economic planning.

Just as households struggle with a once in a generation cost of living crisis, SMEs face a cost of doing business crisis. Insurance, energy, wages and job killing taxes like payroll tax, stamp duty and uncompetitive company tax rates risk strangling the most productive sectors of our economy. Since the pandemic, NSW is the only state which has seen average yearly insolvencies increase, according to Business NSW analysis of ASIC data.

In 2023-24, NSW had 42% of Australia's insolvencies yet only 31% of the country's population. There were 4634 insolvencies in total.

Conditions are tough. To stay globally competitive and economically resilient, we must empower small businesses to grow into medium and large enterprises producing the output and employment opportunities an advanced economy depends upon.

Modern Australia has been built upon an entrepreneurial spirit, strong migration and the belief that people can get ahead if they have a go. If we stifle this drive by shying away from genuine reform, we risk becoming a poor imitation of what our country has the potential to be.

At the core of this reform is an urgent reimagining of our tax system. Our outdated, complex system is a drag on productivity and prosperity. Payroll tax punishes businesses for growing and hiring, while company tax rates – already globally uncompetitive before the election of the Trump Administration and their promised company tax rate cuts – are about to become a real barrier to investment in this country. It is time for a national conversation on making taxation fairer, simpler, and more conducive to business growth.

This submission outlines key reforms to remove barriers to expansion and investment – enabling businesses to reinvest in their people, technology, and the future.

A key challenge for the Australian government is lifting productivity to maintain our prosperity. While businesses innovate, rising costs and regulatory hurdles stifle efficiency. Our members need policies that improve skills, cut unnecessary red tape, and incentivise investment. Prioritising productivity-enhancing measures is crucial. With an ongoing skills shortage, we need an education and migration system that better aligns with business needs.

In 2025 the time has come for the major parties of government to make a strong case to the business community – to the individuals and families who put it all on the line to build dynamic enterprises serving local communities and employ the vast majority of Australians. Policies that support SMEs make it possible to lift wages, sustain employment, and foster genuine economic resilience. Regardless of which party forms government, our message remains clear - business success equals national success.

We look forward to working with the Australian government to ensure the 2025-26 Federal Budget delivers bold reforms that unlock Australia’s business potential. Together, we can build a stronger, more productive economy and prosperous local enterprises for all Australians.

Daniel Hunter

Chief Executive Officer, Business NSW

Contents

EXECUTIVE SUMMARY 4
SUMMARY OF RECOMMENDATIONS 5
CURRENT BUSINESS CONDITIONS IN NSW 12
BOOSTING PRODUCTIVITY 18
  Tax reform 18
  Red Tape 19
  Encouraging business investment and growth 20
  Cyber security 21
  Fixing the Federation 22
  Housing 24
GROWING OUR HUMAN CAPITAL 25
  Strengthening investment in VET 26
  Supporting apprentices and trainees 27
  Widening participation 28
  Leveraging managed migration 30
  Enhancing industry engagement 31
A SUSTAINABLE AND RESILIENT FUTURE 33
  Energy 33
  Supporting businesses energy needs now 37
  Business energy advice and support 38
  Unlocking more gas 39
  Insurance 41
  Infrastructure 43
  Electrification of road transport 45
  High Speed Rail 47
  Improve and revalue telecommunication connectivity 48
  Trade and investment 49

EXECUTIVE SUMMARY

Business NSW welcomes the opportunity to provide a pre-Budget submission ahead of the 2025-26 Federal Budget.

As NSW's peak business organisation, **Business NSW** has almost 100,000 member businesses. across Australia. We work with businesses spanning all industry sectors including small, medium, and large enterprises. With a network spanning metropolitan and regional NSW, **Business NSW** advocates for business needs at the local, state, and federal level.

As a major member to the Australian Chamber of Commerce and Industry (ACCI), **Business NSW** contributed to and supported its submission and national priorities. This submission outlines the economic conditions facing businesses in NSW and recommends funding and policy initiatives aligned with member priorities. The top priority areas are:

- Access to skills and labour
- Tax reform (with a focus on company tax rates)
- Red tape
- Energy (managing energy costs and supporting the transition to net zero)
- Cost of insurance
- Productivity

Throughout the year, businesses have grappled with persistent economic challenges, with rising operating costs remaining a major concern. Over the past two years, the top four cost pressures have remained consistent: insurance, followed by taxes, levies, and other government charges. Energy costs, once a top three concern, have decreased in priority marginally, while wages have emerged as a key issue. Despite this shift, it remains crucial to align carbon emissions policy with energy strategy. Business confidence remains low, although the latest forecasts by the Reserve Bank of Australia (RBA) projects moderate economic growth in 2025. The latest inflation figures (as of January 30, 2025) offer some hope for businesses that they will see a much-needed rate cut in February.

Subdued business confidence is unsurprising, reflecting the challenges of 2023-24. Rising costs and falling household incomes have squeezed profit margins and dampened sentiment. The Stage 3 tax cuts, introduced in July 2024, have done little to boost spending, especially in the context of the cash rate holding steady at 4.35% since the May 2024 Budget. These challenges have intensified calls for tax reform to relieve the financial strain on businesses.

As we approach the 2025 Federal Election, this Budget presents a pivotal opportunity to address ongoing macroeconomic challenges. We urge all levels of government to advance skills and tax reforms, provide support for businesses navigating the energy transition, maintain a strong infrastructure pipeline, and revive discussions on high-speed rail.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATIONS	DESCRIPTION	PAGE NUMBER
Recommendation 1:	The Commonwealth and State governments should work together through the Council of Federal Financial Relations (CFFR) to establish a standing agenda of tax reform. A Tax and Federation Commission should also be formed to advise on reform options and support a comprehensive tax reform process.	19
Recommendation 2:	Incrementally reduce the company tax rate to 25 per cent for all small to medium-sized businesses, while increasing the base turnover threshold to $250 million.	19
Recommendation 3:	The Commonwealth should lead efforts, working with State and Territory governments to reduce the payroll tax burden.	19
Recommendation 4:	To reduce red tape, the Australian Government should: • Establish a baseline and implement measures to monitor and publicly report on progress • Make red tape reduction a key focus of the small business strategy • Increase efforts to harmonise regulations across jurisdictions to reduce compliance burden on businesses operating across various jurisdictions in Australia • Streamline compliance reporting to ensure businesses do not need to submit the same information multiple times • Ensure fund distribution is proportionate to economic impact, allocating more to initiatives that deliver significant results and less to those that don’t.	20
Recommendation 5:	The Commonwealth Government should: • Ensure the instant asset write-off continues permanently past 30 June 2026 for businesses. • Increase the instant asset write-off threshold to $50,000 for eligible assets and introduce a 20% investment allowance for large-scale assets over $100,000 to support substantial, long-term business investments. • Provide advice on how key investments will impact a business’s productivity in the short, medium and long-term.	21

Recommendation 6:	To improve cyber security in the SME sector, which also protects the broader community, the Commonwealth Government should: • Offer a 20% deduction bonus on all cyber security-related expenditure to help businesses invest in cyber security. • Partner with the NSW Government to review the uptake and effectiveness of small business cyber security initiatives. • Collaborate with the NSW Government, industry leaders and membership organisations to support SMEs in securing their operations.	22
Recommendation 7:	Continue and bolster the National Cabinet process to address the recommendations of the Thodey Review.	23
Recommendation 8:	The following barriers to the housing shortage should be addressed: • Increase funding for the Housing Support Program to improve infrastructure, especially in regional NSW, where ageing stormwater and sewerage systems are hindering new land releases. • Work with the NSW Government to identify transport projects that can unlock housing supply and provide greater mobility for residents across the state. • Work with the NSW Government to begin planning the next metro project following the West Metro in 2032. • Provide grants to upgrade existing rail infrastructure, increasing capacity for higher patronage and supporting housing supply along those corridors. • Support state governments in reforming stamp duty to enhance mobility across cities and reduce a major barrier to home ownership. • Ensure that new Nature Positive legislation and regulations do not hinder housing and are fully consulted with industry stakeholders. • Support Infrastructure Australia's recommendation to expand the pipeline of well-located, high quality social and affordable rental housing by prioritising and implementing efficient medium-to-long-term financing programs. Access to affordable and social housing has become a critical issue from the CBDs to the regions.	24
Recommendation 9:	Ensure sustained investment in Australian vocational education and training, including support for an additional 300,000 students per annum across all qualifications.	27
Recommendation 10:	Ensure sustainable investment in VET through the assurance of ongoing funding for the sector via the *National Skills Agreement*.	27

Recommendation 11:	Ensure the *Strategic Review of the Australian Apprenticeship Incentive System* leads to substantial improvements in expanding participation and supporting the success of apprenticeships and traineeships across Australia.	28
Recommendation 12:	Invest in strategic initiatives that attract, retain, and support apprentices and trainees, in partnership with industry.	28
Recommendation 13:	Invest in strategic initiatives for apprenticeships in regional areas, ensuring access to training, support and skills development opportunities.	28
Recommendation 14:	In partnership with states and territories, ensure policy and funding arrangements support the development and delivery of pre-apprenticeship programs in areas of skills shortage.	28
Recommendation 15:	Increase the pipeline of individuals undertaking VET courses in line with the participation objectives for national priorities in the *National Skills Agreement*.	30
Recommendation 16:	Double the Work Bonus program limit for the age pension to $600 per fortnight to allow senior and retired workers greater flexibility to contribute to the workforce.	30
Recommendation 17:	Expand the *Universal Access to Early Childhood Education* program to provide better support for parents to re-enter the workforce.	30
Recommendation 18:	Implement retention strategies and education pathways to build and retain the skilled workforce needed to support families and children in their early years.	30
Recommendation 19:	Investigate the introduction of Fringe Benefits Tax concessions for employer-provided housing in areas of acute skills shortage.	30
Recommendation 20:	Review the effectiveness of Commonwealth programs and initiatives supporting the participation of disadvantaged and underrepresented groups.	30
Recommendation 21:	Improve the timeliness of Australia's skilled migration program, including faster responses to inquiries and reduced visa processing times. Seventy-five per cent of skilled visa applications should be processed within 120 days, and 90 per cent of Working and Holiday Visa applications within 90 days.	31
Recommendation 22:	That the Federal Government increase the NSW allocation of regional skilled visas (subclass 491) from 2000 to 3000 places to assist regional employers in meeting their skills needs in areas of critical shortage.	31
Recommendation 23:	The Federal Government should implement the widespread adoption of *The Innovation and Early Careers Skills Exchange,* along with the *Skills Development Exchange* pilot initiatives under Australia's free trade agreements with the UK and Indonesia, by 2026.	31

Recommendation 24:	Ensure Commonwealth education policies and programs are developed and implemented for the purposes of education, with migration goals achieved through Australia's newly reformed migration policy framework.	31
Recommendation 25:	Restore the status of Australia's international education sector as a world-leading example of education and innovation.	31
Recommendation 26:	Ensure evidence-based decision making through multi-level engagement with industry on current and future workforce skills needs, particularly in the 2-5-year timeframe.	32
Recommendation 27:	Invest in structured opportunities for engaging with small and medium businesses on meeting their skills needs, particularly in regional Australia, including place-based collaborative models that integrate industry involvement with education and training.	32
Recommendation 28:	Ensure learning opportunities are both available and aligned with the needs of employers in both urban and regional areas.	32
Recommendation 29:	Ensure policy and funding settings support cross-sector models for employer engagement in innovation, workforce development, education and training.	32
Recommendation 30:	Achieve net zero at the lowest cost by focusing on market-based solutions.	36
Recommendation 31:	Adopt a fuel source-neutral approach for future energy supply to ensure that emissions targets are met in the most efficient, low-cost manner.	36
Recommendation 32:	Accelerate reform for the energy sector using regulatory systems such as sandboxing.	36
Recommendation 33:	Increase transparency regarding the future energy transition task to build investor and business confidence.	36
Recommendation 34:	Establish an emissions reduction objective within the National Energy Objectives to rebuild confidence in the National Energy Market. Discourage state actions that hinder the integration of state energy systems.	36
Recommendation 35:	Extend the Small Business Energy Incentive until at least 30 June 2026.	38
Recommendation 36:	Introduce a subsidy for the SME sector focused on heating, ventilation, and air conditioning solutions, similar to the previous LED lighting initiative.	38
Recommendation 37:	Establish a loan or grant program to help SMEs overcome financial barriers to purchasing batteries, enabling more efficient use of solar resources. Investigate the merits of an REC-style certification scheme for distributed batteries.	38

Recommendation 38:	Fund the roll out of smart meters for all small businesses and review time-of-use tariffs for business to ensure options for saving energy costs.	38
Recommendation 39:	Establish a new energy advice and support program targeting the SME sector, that: • Expands businesses’ access to advice from trained engineers or peak bodies with industry sector expertise. • Emphasises environmental and community benefits as well as financial impacts. • Embeds net zero and energy transition support. • Is tailored to meet the needs and operating environment of SMEs.	39
Recommendation 40:	The Commonwealth’s Future Gas Strategy should be updated to include renewable gases, such as biomethane and e-methane, to support businesses that rely on gas and cannot easily electrify.	41
Recommendation 41:	Work with state governments to unlock restrictions on gas exploration and streamline approvals to increase domestic supply and cut prices.	41
Recommendation 42:	The *Insurance at the Speed of Business* report recommends, amongst others: • The NSW Government and Federal Government to co-fund a support and training program for business to uplift the level of education around risk management. Such a program would be similar to the currently funded energy education and selection support tools such as Energy Made Easy. • ASIC to audit the insurance market model to ensure brokers give at least two quotes and adhere to a minimum standard in explaining the pros and cons of the options. • Include business and consumer representation in the funded Hazard Insurance Partnership (HIP) project to ensure that there is clear linkage between inputs (investment, policy development, etc) and outputs (premium reduction, affordability, coverage, resilience, etc). Ensure the premium reduction can be achieved in under three years. Prioritise HIP recommendations based on a benefit realisation model including criteria such as investment required, regulatory impact, measurable benefits to business, premium reduction. Create a permanent insurance working group across the Australian Federal Government, States and Territories where innovations, market testing and policy alignment can be actioned. Focus on product innovation and premium reduction.	43

Recommendation 43:	Adoption and adherence to the new Federation Funding Agreement Schedule Land Transport Infrastructure Projects (2024–2029) processes to support active pipeline management.	44
Recommendation 44:	Consideration of small business as part of the National Construction Strategy.	45
Recommendation 45:	Investigate the impact of contractual arrangements and outsourced services to construction supply-chain resilience and sustainability.	45
Recommendation 46:	Provide a platform on the myGov app that includes all electric vehicle charging stations across the country, assisting with EV uptake.	46
Recommendation 47:	Resolve, in the coming year, its role and policy regarding road user charging and vehicle taxation in collaboration with states and territories.	46
Recommendation 48:	Eliminate the Luxury Car Tax (LCT)	46
Recommendation 49:	ATO to review and clarify Fringe Benefit Tax impacts of EVs within business fleets, including impacts to charging at home, at work, or in public places.	46
Recommendation 50:	Support the NSW Government to accelerate the delivery of critical transport projects that support freight. These include Inland Rail, Western Sydney Airport and its surrounding roads and rail networks, the Port Botany Gateway project and associated road and rail upgrades and the upgrading of Newcastle Airport to handle widebody jets.	47
Recommendation 51:	Release to the public the business case for NSW high-speed rail and allow for industry consultation before a decision is made.	48
Recommendation 52:	Draft a National Digital Infrastructure Strategy that: • Reviews the most important digital infrastructure gaps across the country and provides support for states and territories to fill these gaps and boost productivity. • Partners with states, territories and industry to identify opportunities for collaboration and optimised investment, to maximise connectivity outcomes across Australia. • Ensures telecommunications are given full essential service status, with matching obligations to provide service to all potential users including those in regional and remote locations.	49
Recommendation 53:	Improve Austrade's capacity to collect and analyse trade and economic data.	50
Recommendation 54:	Fund an industry-led mentoring program to help more Australian businesses become export ready with practical tools and guides.	50

Recommendation 55:	Maintain the Export Market Development Grant (EMDG) to help more businesses enter diversified export markets and consider expanding funding and scheme eligibility.	50
Recommendation 56:	Continue work to improve diversified trading relationships across Asia Pacific region and beyond.	50

CURRENT BUSINESS CONDITIONS IN NSW

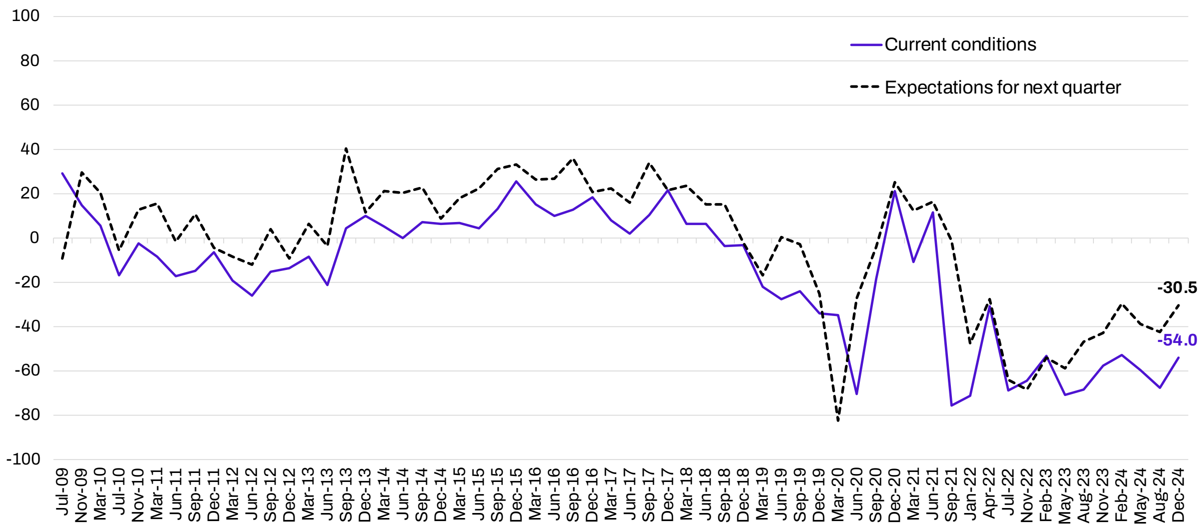
Business NSW conducts its Business Conditions Survey on a quarterly basis to gauge business conditions across the state, identify emerging challenges facing the business community and gather feedback on topical matters. The latest survey, conducted from 27 October to 12 November 2024, received 789 responses from key industries and regions. Key findings are highlighted in this section.

Business confidence still in negative territory

Businesses have been cautious about NSW economic conditions in recent years. The headline Business Confidence Index has been in negative territory for 13 consecutive quarters. Following two quarters of decline, the Business Confidence Index staged a sharp rebound in the December quarter (Figure 1). The latest reading of -54.0 is just below the reading of -52.9 at the start of 2024.

Figure 1: Business Confidence Index in NSW

	Current conditions	Expectations for next quarter
2024 Q4 (n=789)	-54.0	-30.5



Source: *Business Conditions Survey (December 2024)*, Business NSW

Concerns About business costs

Over the past two years the top four business cost concerns have remained consistent with insurance holding the top spot followed by taxes, levies and other government charges. Energy costs have slipped out of the top three, allowing wages to jump into the top three concerns.

Table 1: Business cost concerns over time

Q1 2023	Q2 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Energy cost	Insurance cost	Insurance cost	Insurance cost	Insurance cost	Insurance cost	Insurance cost
Insurance cost	Energy cost	Energy Cost	Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges
Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges	Energy cost	Energy cost	Energy cost	Wages
Wages	Supplier cost	Wages	Wages	Wages	Wages	Energy cost
Supplier cost	Wages	Supplier cost	Transport cost (including toll charges)	Supplier cost	Supplier cost	Supplier cost
Transport cost (including toll charges)	Transport cost (including toll charges)	Transport cost (including toll charges)	Supplier cost	Transport cost (including toll charges)	Transport cost (including toll charges)	Transport cost (including toll charges)
Rent	Rent	Rent	Loan repayments	Loan repayments	Rent	Rent
Loan repayments	Loan repayments	Loan repayments	Rent	Rent	Loan repayments	Loan repayments

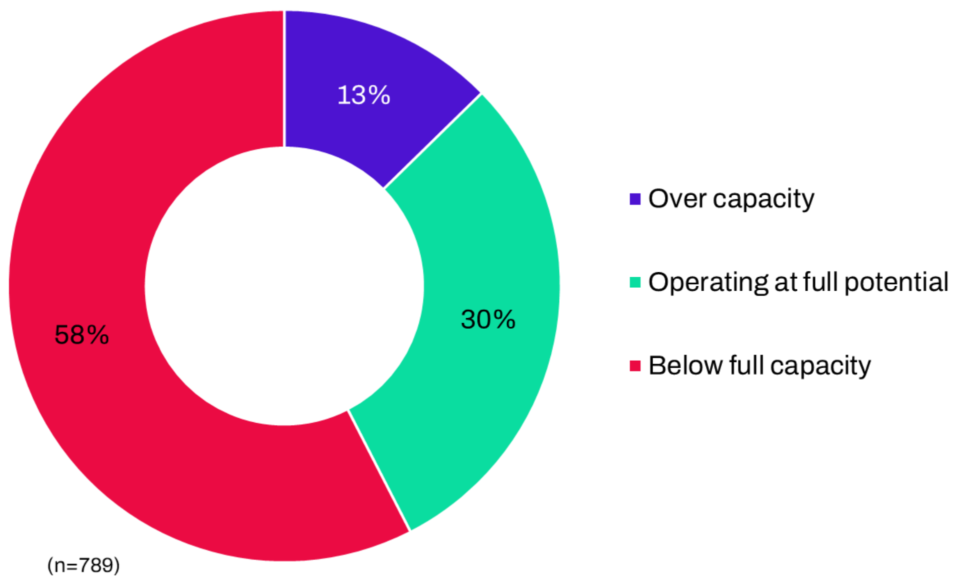
Source: *Business Conditions Survey (December 2024)*, Business NSW

Self-rated operational efficiency

The survey asked businesses to rate their operational efficiency. Findings (Figure 2) show that:

- 58% are operating below full capacity (defined as having inefficiency, wastage or room for improvement in operations)
- 30% are operating at full potential (defined as having all resources utilised as intended)
- 13% are over capacity (defined as having staff and resources unsustainably over-stretched to meet demand).

Figure 2: Self-rated operational efficiency



Note: Results sum to more than 100% due to rounding.

Source: *Business Conditions Survey (December 2024)*, Business NSW

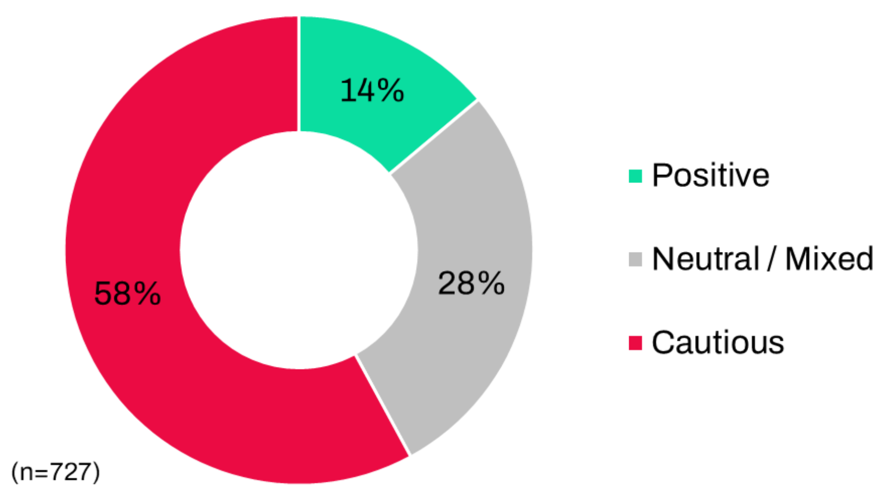
Business expectations for 2025

In the December 2024 BCS, businesses were asked:

"How is 2025 shaping up for your business?"

The research team then coded all the responses to assess the general sentiment. Most respondents (58%) remain cautious about the business outlook for 2025. While 14% are optimistic about next year, 28% have a neutral or mixed view (Figure 3).

Figure 3: Business expectations for 2025

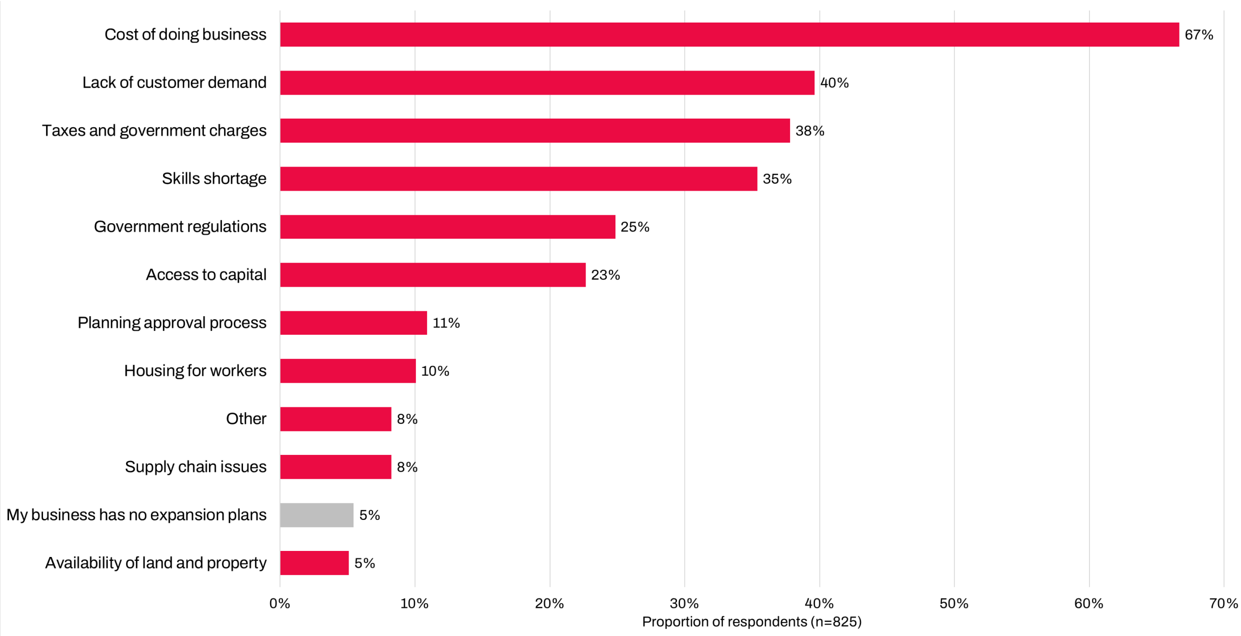


Source: *Business Conditions Survey (December 2024)*, Business NSW

Barriers to business expansion

Due to a sizeable gap between the supply and demand for goods and services that emerged during the pandemic, inflation has been a persistent economic challenge. Inflation is not only affecting household budgets, but also constraining business expansion as high operating costs erode profits. The cost of doing business has been the most common business barrier, according to surveys conducted by **Business NSW** in the past two years. In the August survey, 67% of respondents consider the cost of doing business as a barrier to business expansion.

Figure 4: Barriers to business expansion



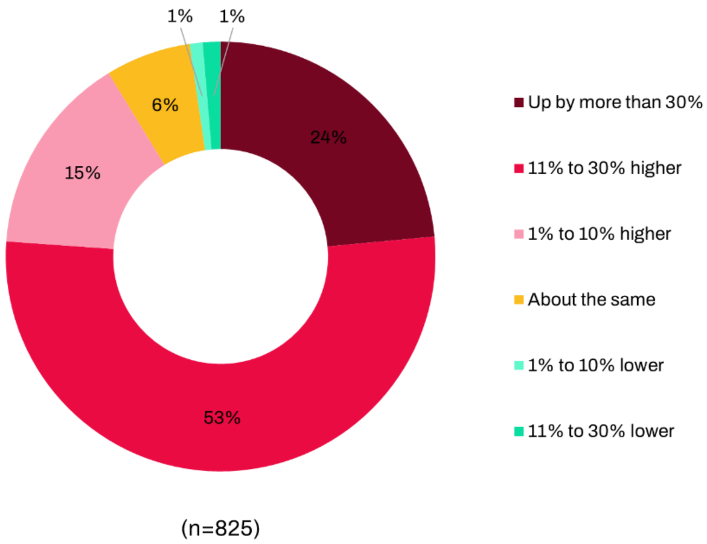
Note: Results sum to more than 100% as respondents were able to select multiple options.

Source: *Business Conditions Survey (August 2024)*, Business NSW

General insurance costs in the past 12 months

General insurance includes property and contents, public liability, professional indemnity, equipment and business continuity. Over 90% of businesses have experienced an increase in general insurance costs in the past 12 months (Figure 5), the majority of which reported an increase of between 11% and 30%. However, about one in four businesses reported an increase of more than 30%.

Figure 5: General insurance costs in the past 12 months

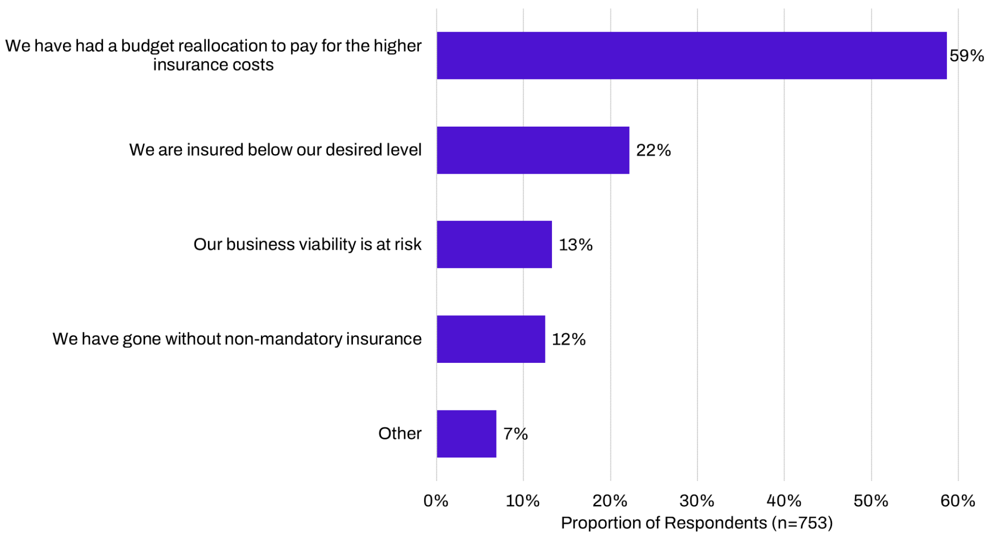


Source: *Business Conditions Survey (August 2024)*, Business NSW

Response to increase in general insurance costs

Among businesses that have faced an increase in general insurance costs, 59% have reallocated their budgets to cover the higher expenses, 22% are insuring below their desired level and more than one in 10 report their business viability is at risk as a result (Figure 6).

Figure 6: Response to increase in general insurance costs



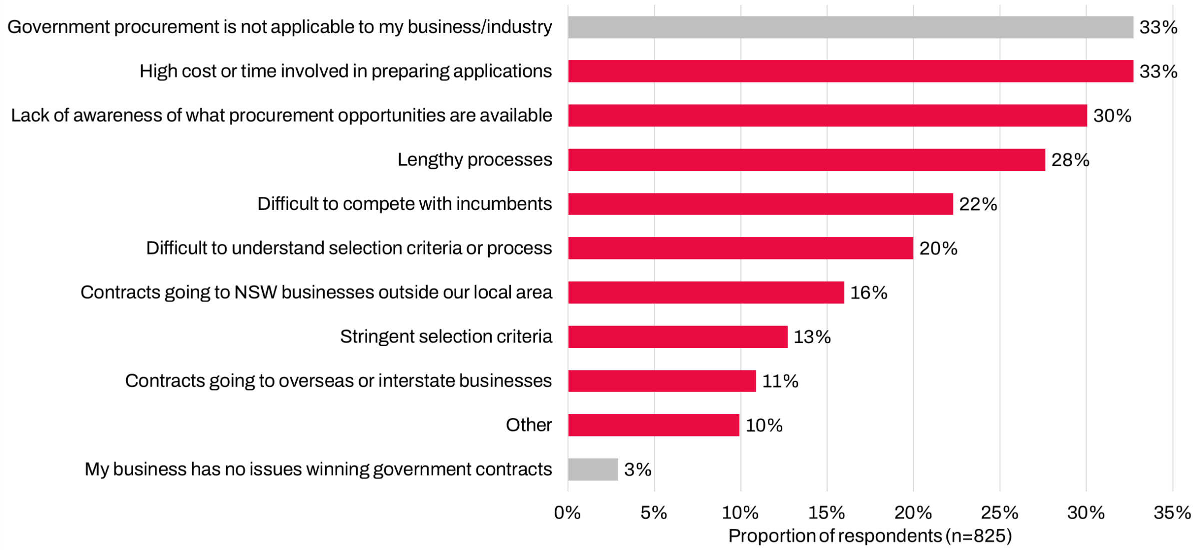
Note: Results sum to more than 100% as respondents were able to select multiple options.

Source: *Business Conditions Survey (August 2024)*, Business NSW

Barriers to winning government Contracts

64% of businesses have identified barriers to winning government contracts, with the most common barrier being the high cost or time involved in preparing applications (33%) (Figure 7). A lack of awareness of what procurement opportunities are available (30%) is the next most common barrier, followed by lengthy processes (28%) and difficulty competing with incumbents (22%).

Figure 7: Barriers to winning government contracts



Note: Results sum to more than 100% as respondents were able to select multiple options.

Source: *Business Conditions Survey (August 2024)*, Business NSW

BOOSTING PRODUCTIVITY AND PROSPERITY

Productivity continues to be challenge, with recent figures highlighting it as a key issue for this parliamentary term. Australia is a wealthy and prosperous country – we need reform to keep it that wa**y.**

Tax reform

The Australian tax and transfer system is overly complex and costly to manage, making reform a national priority. Modernising the system to make it simpler, more efficient, and fairer, would drive growth, boost productivity, support businesses, create jobs, and improve living standards. While the Stage 3 tax cuts of July 2024 aimed to stimulate spending and business growth, most households channelled the extra income into savings or covering higher mortgage and rental costs. Achieving meaningful long-term tax reform is vital to alleviating business costs and demands stronger leadership from the Commonwealth to unlock Australia's full economic potential. Tax reform is about more than tinkering with bracket creep and indexation.

As highlighted in **Business NSW**'s NSW 2025-26 pre-budget submission ('State submission'), stamp duty and payroll tax have significantly hindered economic growth in NSW. Payroll tax discourages business expansion and forces trade-offs between hiring and investment, while stamp duty limits workforce mobility, making it harder for employees to relocate closer to their jobs, leading to longer commutes and added strain on the economy. This issue is likely reflected across the nation.

To boost economic growth and support business expansion, the establishment of a Tax and Federation Reform Commission, alongside the Council on Federal Financial Relations (CCFR), would provide critical advice on addressing key barriers. This aligns with ACCI's call for clear pathways to tax reform and better-defined responsibilities between the Commonwealth and States.

Payroll tax reform is a key priority for businesses. While payroll tax, makes up about a third of NSW's own-source revenue, it remains inefficient, with alternative taxes like stamp duty proving even less effective. To tackle the job-damaging, wage-suppressing impact of payroll tax, efforts should focus on reducing administrative and compliance burdens for businesses. As highlighted in last year's budget submission, advancing digitisation and integrating state and territory systems would help reduce payroll errors and prevent unintentional wage theft.

Another area requiring urgent reform is the competitiveness of Australia's company tax rate. The rate starkly contrasts with those of other OECD nations, where the average stands just above 21 per cent. The 30 per cent rate imposed on large entities (with an aggregate turnover exceeding $50 million) is not only proportionately high compared to the 25 per cent rate for smaller entities but is especially pronounced against the average rates of comparable OECD nations.

We support ACCI's recommendation to consider an incremental reduction of the company tax rate to 25 per cent for all businesses. This gradual approach would help alleviate the fiscal pressures the government might face if the rate were to be lowered across the board immediately. Concurrently, it would be prudent to increase the base rate threshold to a turnover of $250 million.

Further additional thoughts will be articulated in our forthcoming submission on Payroll tax.

Recommendations:

- The Commonwealth and State governments should work together through the Council of Federal Financial Relations (CFFR) to establish a standing agenda of tax reform. A Tax and Federation Commission should also be formed to advise on reform options and support a comprehensive tax reform process.
- Incrementally reduce the company tax rate to 25 per cent for all small to medium-sized businesses, while increasing the base turnover threshold to $250 million.
- The Commonwealth should lead efforts, working with State and Territory governments to reduce the payroll tax burden.

Red Tape

Business NSW, as the leading advocate for business in the state, has long recognised the importance of cutting red tape to create a more dynamic and competitive environment.

Government red tape, as defined by **Business NSW**, refers to the unnecessary administrative and regulatory burdens imposed on businesses due to poorly designed and implemented government regulations and rules. Examples of red tape include duplication between different levels of government, prescriptive and/or lacking clarity regulations, excessive record keeping and reporting requirements, and unnecessary compliance activities.

Government red tape remains a pressing challenge for businesses in NSW. Excessive regulation and administrative burdens stifle growth, discourage innovation, and increase operational costs, particularly small and medium size enterprises.

Business NSW is about to publish a report which explores the far-reaching effects of red tape across multiple sectors, highlighting the most affected industries and providing insights into the rising operational costs businesses face due to regulatory demands. The findings reveal that, despite the NSW Government's efforts to streamline regulations, the overall regulatory burden continues to grow, disproportionately impacting SMEs.

Results of our surveys show that:

- In November 2024, regulation and compliance was ranked the second most challenging aspect of running business in NSW in the current economic environment. This is a dramatic spike from being ranked sixth in November 2023.
- Three in five (63%) businesses that responded in May 2024 deemed the level of regulatory requirements to be on the tough side, up from 52% in August 2023.
- The percentage of small business respondents perceiving regulations as tough nearly doubled in 10 months (from 35% in August 2023 to 61% in May 2024), and those finding it excessive ballooned from 1% to 17%.
- In August 2024, more than one in five small businesses reported that regulations were keeping them from expanding.

- 41% of small businesses are considering selling or closing because of regulatory and compliance requirements, compared to 36% of medium businesses and 19% of large businesses.
- In the 12 months to May 2024:
    - Businesses in 40% of industries reported an increase in time spent on meeting regulatory and compliance requirements
    - 87% of businesses reported that they absorbed all or some of compliance costs.
- 72% of businesses fully or partially support data sharing as a potential solution to reducing the time and cost associated with regulatory and compliance requirements
- 90% of businesses reported feeling confident about meeting all regulatory and compliance requirements.

As global competition intensifies and businesses strive to remain competitive, it is essential for the Australian Government to eliminate excessive red tape. This will unlock the potential for economic growth, foster innovation, and enable businesses to thrive in a less restrictive environment. In November 2024, the federal Treasurer announced the $900 million National Productivity Fund to boost competition and productivity across the economy. A portion of this fund will be available to states implementing policies to cut red tape. **Business NSW** advocates for such reforms that simplify regulatory processes, reduce duplication, and ensure that rules are clear and fair. This approach will allow businesses to focus on their growth and contribute to the prosperity of Australia.

Recommendations:

To reduce red tape, the Australian Government should:

- Establish a baseline and implement measures to monitor and publicly report on progress
- Make red tape reduction a key focus of the small business strategy
- Increase efforts to harmonise regulations across jurisdictions to reduce compliance burden on businesses operating across various jurisdictions in Australia
- Streamline compliance reporting to ensure businesses do not need to submit the same information multiple times
- Ensure fund distribution is proportionate to economic impact, allocating more to initiatives that deliver significant results and less to those that don’t.

Encouraging business investment and growth

Productivity growth is a key driver of economic growth, yet labour productivity has faced challenges in recent years. After peaking in the March quarter of 2022, labour productivity has trended downward, with GDP per hour worked in the September quarter of 2023 nearing levels last seen in 2019 (REF). However, market sector labour productivity showed a modest economy in the 2023-24 financial year, rising by 1.1 per cent after a record decline the previous year.

The **Business NSW** *Business Conditions Survey* explored productivity solutions prioritised from businesses’ perspective. It found that to boost productivity, businesses must have the strongest focus on workers. Businesses consider having access to workers with relevant skills to be the most important, followed by continuously upskilling their existing staff. Technological means (such as Artificial Intelligence, automation, and digitisation) rank third in importance.

Business NSW supports the Commonwealth Government’s reintroduction of the instant asset write-off, which is crucial for enabling businesses, especially small businesses, to invest in productivity-enhancing assets. However, despite its effectiveness, the instant asset write-off's impact has been undermined by delays in legislation, creating uncertainty among businesses and discouraging uptake.

To support sustainable business growth and investment confidence, the instant asset write-off should be made permanent in this upcoming Budget. Permanency will reduce uncertainty, encourage long-term planning, and ensure the tax system effectively facilitates productivity-enhancing investments.

We also agree with ACCI that an additional consideration should be given to raising the threshold for eligible depreciable assets to $50,000 and extending eligibility to businesses with an aggregated turnover of $50 million, together with the introduction of a 20 per cent investment allowance for assets over $100,000 which would support larger scale investments. It would enable more substantial investments for businesses, help businesses manage upfront costs, boost productivity, and broaden access to the instant asset write-off.

Support for businesses – to better understand the impact that key investment choices will have on their productivity will improve the scheme's efficacy. Greater support needs to take place. The Federal Government must play an active role in lifting small business productivity across NSW and the country.

Australia's regulatory environment must evolve to foster innovation and a culture entrepreneurialism. Achieving this requires a streamlined framework that encourages collaboration, drives research and development, attracts investment to help start-ups overcome the 'valley of death', and incentivise businesses to remain and thrive in Australia.

Recommendation

The Commonwealth Government should:

- Ensure the instant asset write-off continues permanently past 30 June 2026 for businesses.
- Increase the instant asset write-off threshold to $50,000 for eligible assets and introduce a 20% investment allowance for large-scale assets over $100,000 to support substantial, long-term business investments.
- Provide advice on how key investments will impact a business's productivity in the short, medium and long-term.

Cyber security

Cyber security has been a growing concern for SMEs across Australia. In September 2024, Business NSWs released its SME Cyber Security Management Report (September 2024). It highlighted the growing frequency and severity of cyber threats, with cybercrimes now reported once every six minutes in Australia. SMEs are increasingly vulnerable due to limited resources, insufficient awareness, and a lack of affordable, effective protections.

SMEs are fundamental to Australia's economy, but their survival is at risk as cyber criminals target businesses with ransomware, phishing scams, and system breaches. The average financial loss from cybercrimes in 2022-23 was $45,965 for small businesses and $97,203 for medium businesses, with many struggling to recover from such attacks. Beyond financial losses, cyber incidents inflict operational disruptions, reputational damage, regulatory penalties, and severe stress on business owners and staff.

Despite the risks, 41 per cent of small businesses have taken no action to improve their cyber security, citing affordability concerns, while 17 per cent perceive cyber security as irrelevant to their business operations. As businesses become more digitally dependent, these gaps in security leave them exposed to significant financial and operational harm. The 2025-26 Federal Budget provides a critical opportunity to address this challenge by equipping SMEs with the tools and support needed to mitigate cyber threats.

Recommendation

To improve cyber security in the SME sector, which also protects the broader community, the Commonwealth Government should:

- Offer a 20% deduction bonus on all cyber security-related expenditure to help businesses invest in cyber security.
- Partner with the NSW Government to review the uptake and effectiveness of small business cyber security initiatives.
- Collaborate with the NSW Government, industry leaders and membership organisations to support SMEs in securing their operations.

Fixing the Federation

For several years Business NSW has been calling on Federation taxation reform. The need for action has only become more important. Actions from the NSW Government-commissioned Federal Financial Relations Review chaired by David Thodey AO (the Thodey Review 2021) provide an opportunity to consider how governments can work better together, including in important areas such as tax reform.

Our previous submission to the Thodey Review at the time noted the most fruitful reform opportunities would necessitate close collaboration between all tiers of government in Australia.[1] As we approach the five-year anniversary of the Review, it is disappointing how little progress has been made. With significant demographic and economic challenges continuing to grow, Business NSW encourages the Government to revisit the review, and embark on the long-overdue process of reform of Federal financial relationships.

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

Key priorities from a business perspective are to:

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

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

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

Recommendation

Continue and bolster the National Cabinet process to address the recommendations of the Thodey Review.

Housing

Business NSW leads a housing alliance in NSW (Housing Now!), bringing together business, civil society and the unions to advocate for an increase of housing supply and density through a range of measures. Many of the asks of the alliance have been adopted, however, additional work and support can be provided by the Federal Government to ensure the delivery of housing. This includes planning acceleration grants, funding vital infrastructure such as stormwater, sewerage, electricity and NBN to new areas and providing funding for upgrades in areas with increasing density.

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

Much of the responsibility for housing remains at a state level, however, further support and funding is needed to ensure communities have the appropriate infrastructure to thrive, including roads, rail, water, electricity and appropriate public amenity including parks, pools and community centres.

Recommendations

The following barriers to the housing shortage should be addressed:

- Increase funding for the Housing Support Program to improve infrastructure, especially in regional NSW, where ageing stormwater and sewerage systems are hindering new land releases.
- Work with the NSW Government to identify transport projects that can unlock housing supply and provide greater mobility for residents across the state.
- Work with the NSW Government to begin planning the next metro project following the West Metro in 2032.
- Provide grants to upgrade existing rail infrastructure, increasing capacity for higher patronage and supporting housing supply along those corridors.
- Support state governments in reforming stamp duty to enhance mobility across cities and reduce a major barrier to home ownership.
- Ensure that new Nature Positive legislation and regulations do not hinder housing and are fully consulted with industry stakeholders.
- Support Infrastructure Australia's recommendation to expand the pipeline of well-located, high quality social and affordable rental housing by prioritising and implementing efficient medium-to-long-term financing programs. Access to affordable and social housing has become a critical issue from the CBDs to the regions.

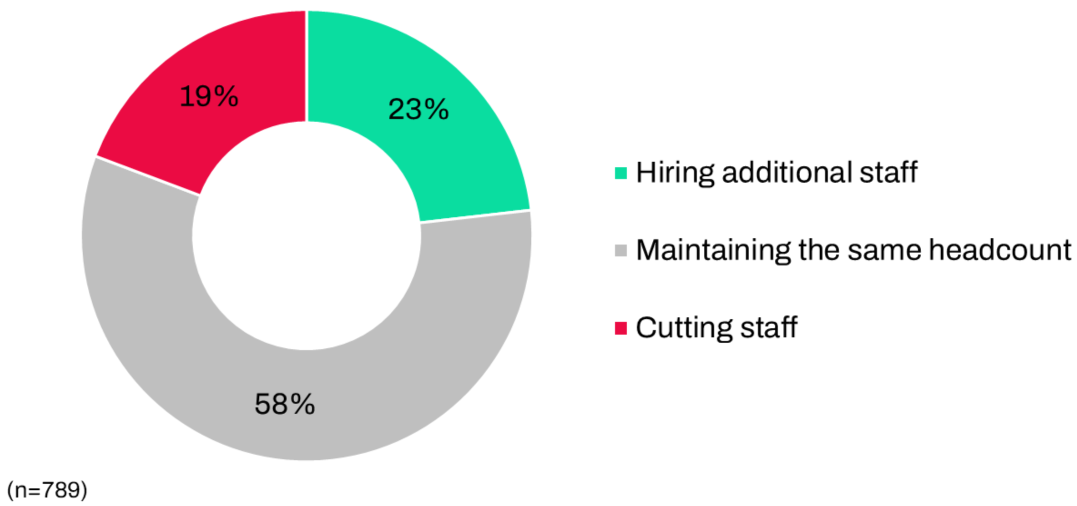
GROWING OUR HUMAN CAPITAL

In 2024 we conducted our largest skills survey in over two years, culminated in our *State of Skills 2024* Report. The 2024 survey found that many NSW employers continue to experience a skills shortage, with 77% of survey respondents reporting they had considerable difficulty in recruiting or were unable to recruit the people they need. This figure was 81% for employers of five or more staff. The report found that 38% of NSW employers anticipated significant negative impacts through being unable to meet their skills needs. A further 4% of respondents to the 2024 survey indicated their business may not survive if current circumstances continue.

Shortages were particularly acute in sectors such as healthcare, manufacturing, hospitality, and across the skilled trades. More than 80% of employers in the Hunter, Western NSW, Western Sydney and Riverina Murray regions continue to experience significant difficulty in meeting their skills needs. The incidence of employers facing a skills shortage in the Mid North Coast, Riverina Murray, New England and North-Western NSW was 10% higher for firms with five or more employees.

Findings from our December 2024 *NSW Business Conditions* survey indicate the NSW labour market is likely to remain tight in the near term, with 58% of businesses maintaining the same headcount and 23% are hiring additional staff (as shown in Figure 8 below). Our survey points to the emergence of a 'multi-speed economy', with smaller businesses coping with shrinking margins amid tightening economic conditions. While labour market conditions appear to be easing in some sectors, many of the associated challenges that NSW businesses face still remain.

Figure 8: Hiring intentions for Q1 2025



Source: *Business Conditions Survey (December 2024)*, Business NSW.

The NSW Productivity Commission's White Paper recommended ensuring that the State's education and training system is relevant to industry needs, accessible to learners, and accountable for its outcomes. Our December 2024 *NSW Business Conditions* survey found upskilling existing staff and access to relevant skills feature as the top two priorities for NSW employers in enhancing productivity, as shown in Table 2 below. Our December 2024 *NSW Business Conditions* survey found upskilling existing staff and access to relevant skills feature as the top two priorities for NSW

employers in enhancing productivity, as shown in Table 2 below.[2] Our December 2024 *NSW Business Conditions* survey found upskilling existing staff and access to relevant skills feature as the top two priorities for NSW employers in boosting productivity, as shown in Table 2 below.[3]

Table 2: Ways to boost productivity (ranked by importance from businesses' perspective)

Rank	Productivity improvements
1st	Access to more workers with relevant skills
2nd	Continuously upskilling existing staff
3rd	Adoption of Artificial Intelligence, automation and digitisation
4th	Reliable supply chains
5th	Reliable telecommunication services (e.g. internet and mobile services)
6th	Reliable energy supply
7th	Transport infrastructure for our region
8th	Resilience against natural impacts (e.g. extreme weather events)

Source: *Business Conditions Survey (December 2024)*, Business NSW.

To ensure Australia and NSW does not fall behind, we need to invest in a skilled and capable workforce. We need to build flexibility and resilience into our education and training system. We need to ensure our priorities for education and training align with the state's current and future skills needs. Recent efforts on the part of state and federal governments reflect a broad consensus in helping businesses meet their skilled workforce needs. These initiatives are certainly welcome. The Federal Government needs to continually renew existing programs, and match responses to recommendations from various reviews and inquiries with sustainable funding commitments in the medium and longer term.

Strengthening investment in VET

The Vocational Education and Training (VET) sector serves a critical role in the NSW economy. It provides pathways to education and work and helps ensure that businesses have access to the skills they need. There are significant reforms occurring at both the state and federal level that promise to substantially improve the quality, availability and relevance of vocational education and training opportunities. However, these reforms will need to be matched by ongoing funding commitments if they are to be sustainable. They will be essential if we are to keep Australia on track for productivity and prosperity.

Australia needs a vibrant and productive skills ecosystem if we are going to be able to meet our skills needs now and in the future. Our VET system needs to be able to keep pace with current and future workforce needs. It must be responsive to the needs of both employers and students. Substantial investment in vocational education will be essential if NSW is to sustain a skilled workforce in the longer term.

Inconsistency and uncertainty have hindered the ability of providers of VET to meet the demands of businesses and students. Regional business, for example, report that VET courses are often full, cancelled, or unavailable due to funding and staffing constraints. Others have reported a poor alignment between the training on offer and contemporary skills needs. This is reflected in the

[3] Business Conditions Survey *(December 2024)*, Business NSW.

sustained downtrend evident in employer satisfaction with VET. NCVER reporting on overall satisfaction among employers in NSW who use vocational qualifications as a job requirement has seen a gradual decline over a ten-year period from 79.2 per cent in 2013 to 74.6 per cent in 2024. Satisfaction among employers with apprentices has similarly declined over the same period, from 77.2 per cent to 74.3 per cent.

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

Recommendations

- Ensure sustained investment in Australian vocational education and training, including support for an additional 300,000 students per annum across all qualifications.
- Ensure sustainable investment in VET through the assurance of ongoing funding for the sector via the *National Skills Agreement*.

Supporting apprentices and trainees

NSW's apprenticeship and traineeship system is a key incubator of the future workforce. While the current model has delivered positive results, feedback from industry and the continued decline in participation clearly indicates further reform is needed. The Federal Government is due to release findings from the recent *Strategic Review of the Australian Apprenticeship Incentive System*. The review report is expected to address financial support for apprenticeships and evidence-based improvements to apprenticeships system, with a view to supporting individual wellbeing, productivity and successful outcomes for both apprentices and employers. The Federal Government needs to ensure findings from this review are matched with substantial investment in making the most of the strategic opportunities available through this review. The review also provides an opportunity for implementing a more integrated approach to supporting Australia's apprenticeship system. The availability of pre-apprenticeship programs, for example, remains an area in need of improvement. These programs provide aspiring apprentices with foundational knowledge and skills along with valuable industry workplace learning and professional networking opportunities. They also provide an economical means for building resilience into our ability to respond to current and future workforce needs.

A strategic, broad-based policy response is needed if we are to build a sustainable skills base for our economy - one that involves employers, RTOs and government. Opportunities for improvement include supporting and promoting good practice in recruiting, retaining and supporting apprentices to succeed, in line with the *Apprenticeship and Traineeship (A&T) Roadmap 2024-2026* recently released by the NSW Government. The Federal Government needs to make the most of the *Strategic Review of the Australian Apprenticeship Incentive System* in supporting a collaborative, broad-based and strategic approach to building and sustaining apprenticeships and traineeships in the broader context of renewal and reform of vocational education and training in NSW.

Recommendations

- Ensure the *Strategic Review of the Australian Apprenticeship Incentive System* leads to substantial improvements in expanding participation and supporting the success of apprenticeships and traineeships across Australia.
- Invest in strategic initiatives that attract, retain, and support apprentices and trainees, in partnership with industry.
- Invest in strategic initiatives for apprenticeships in regional areas, ensuring access to training, support and skills development opportunities.
- In partnership with states and territories, ensure policy and funding arrangements support the development and delivery of pre-apprenticeship programs in areas of skills shortage.

Widening participation

The Australian labour market has tremendous un-tapped potential. This remains underutilised due to structural constraints both state and federal. Reforming policies that restrict workforce participation will help unlock a valuable labour resource that is readily available. While the Federal Government currently supports a wide range of initiatives with the aim of widening participation in education and work, more can be done to support and promote the participation of those keen to make their contribution to a thriving national economy.

The Federal Government's target for 80% of Australians to hold a post-school qualification by 2050 underscores the importance of expanding access to education and training. Achieving this ambition requires financial support for students to study with a broader range of providers, including private institutions. A diverse provider ecosystem is essential to ensure the capacity and flexibility to accommodate the increasing demand for skills training. Students should have the freedom to choose the institution best suited to their needs, fostering competition and driving improvements in the quality and innovation of education delivery. Australia needs a more integrated tertiary education system if we are to achieve our national objectives for participation and prosperity.

Employers in regional NSW are facing particular challenges in meeting their skills needs. These include challenges in recruitment, access to affordable housing and access to relevant education and training opportunities. There remains a need for stable, adequate funding to ensure the provision of high-quality training, especially in rural and remote areas and in courses with higher delivery costs. Federal investment in regional education and innovation is vital for building Australia's future workforce and competitive advantage.

There are substantial opportunities for enhancing productivity and widening participation in regional Australia. Our 2024 *Workforce Skills Survey* found that geographical location itself posed a challenge for 27% of NSW employers (29% of those facing a skills shortage), with many struggling to attract workers to regional locations. Difficulty accessing relevant local training opportunities also remained a challenge for 17% of employers. These challenges are accompanied by a range of follow-on impacts for regional communities. Employers also found it difficult to attract workers to remote locations, putting even greater pressure on existing staff challenged with maintaining service standards across regional NSW.

Opportunities also exist for supporting the participation of parents and older workers. Many employers are re-employing staff and employing older workers in meeting their skills needs. This emerged as a clear trend in the 2024 *Workforce Skills Survey*. They highlighted a range of benefits that follow from recruiting more experienced staff, from enhancing productivity to facilitating workplace training and improving workplace culture. Strategies used by NSW employers in the past 12 months to meet their skills needs include employing young people or recent graduates (53% of employers and 56% of those facing a skills shortage), employing an apprentice or trainee (29% of employers and 33% of those facing a skills shortage), and offering more entry-level roles (26% of employers, and 29% of those facing a skills shortage), as shown in Table 3 below.

Table 3 Strategies used by employers in the last 12 months in meeting their skills needs*

Strategy	Count	% of all	% of in shortage
Employed young people or recent graduates	225	53%	56%
Employed an apprentice or trainee	125	29%	33%
Employed more entry-level roles	112	26%	29%
Employed a recent graduate	117	27%	29%
Employed a person aged 24 or under (not including apprentices or trainees)	123	29%	29%

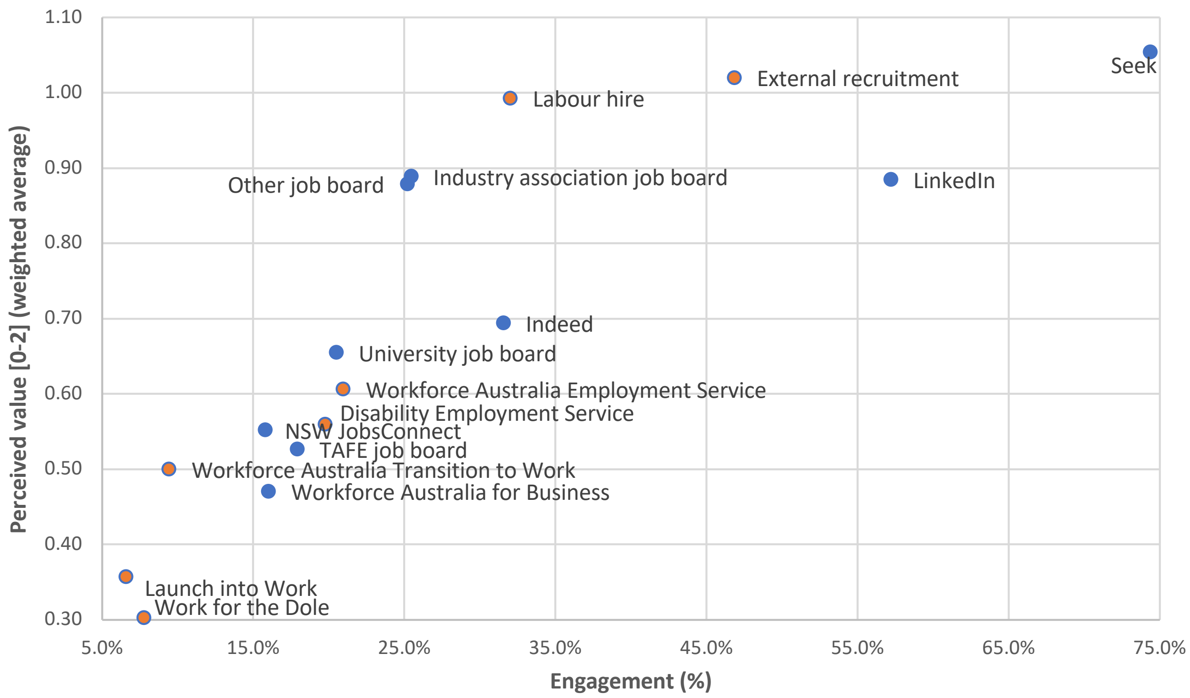
* Multi-select items. Percentages are of all respondents to the 2024 survey (n=425) and employers facing a skills shortage (n=326).

Many employers responding to our 2024 *Workforce Skills Survey* also pointed to the value of supporting the participation of parents in the workplace, highlighting the un-tapped potential available through better support for childcare and early learning. Strategic investment in supporting access to affordable childcare will also help unlock a valuable labour resource that is readily available.

Employers responding to the 2024 *Workforce Skills Survey* were invited to indicate which programs or initiatives they had made use of over the last 12 months, and how valuable they had been. Programs or initiatives included for consideration were those dedicated to supporting recruitment efforts, workforce development programs and targeted workplace participation initiatives supported at both the state and federal level. Findings from the 2024 survey pointed to widespread use and high perceived value of web-based job platforms, recruitment services and labour hire firms, with declining engagement and diminishing perceived value for more targeted initiatives.

Government programs and services aimed at helping employers meet their skills needs show good levels of engagement and offer reasonable value for many employers. The notable exceptions here are the Launch into Work and Work for the Dole schemes. Job boards maintained by education providers, Indeed, NSW JobsConnect, Workforce Australia for Business and Disability Employment Services showed comparable levels of engagement among employers in the range of 16-20%, with perceived value for these services ranging from 0.47 in the case of Workforce Australia for Business through to 0.69 in the case of Indeed. Launch into Work and Work for the Dole showed the lowest levels of engagement and perceived value, with 6.6% and 7.8% of employers using these programs, and a perceived value score of 0.36 and 0.3 respectively (from a minimum score of 0 and a maximum possible score of 2), as shown in Figure 9 below.

Figure 9 Employer engagement with employment programs, services and initiatives



Feedback from employers responding to the survey confirm these findings, pointing to both low engagement and low levels of satisfaction with Commonwealth programs delivered with the aim of supporting underrepresented and disadvantaged groups into work. Opportunities remain for the Australian government to review the effectiveness of these programs.

Recommendations

- Increase the pipeline of individuals undertaking VET courses in line with the participation objectives for national priorities in the *National Skills Agreement*.
- Double the Work Bonus program limit for the age pension to $600 per fortnight to allow senior and retired workers greater flexibility to contribute to the workforce.
- Expand the *Universal Access to Early Childhood Education* program to provide better support for parents to re-enter the workforce.
- Implement retention strategies and education pathways to build and retain the skilled workforce needed to support families and children in their early years.
- Investigate the introduction of Fringe Benefits Tax concessions for employer-provided housing in areas of acute skills shortage.
- Review the effectiveness of Commonwealth programs and initiatives supporting the participation of disadvantaged and underrepresented groups.

Leveraging managed migration

Skilled migration has long been a key pathway for employers to meet their workforce needs, and will remain so, especially in regional NSW. However, there remain features of Australia's skilled migration program that deter employers from making greater use of it. A comprehensive workforce strategy includes a streamlined migration policy that complements the national investment in skills, education and training. Our skilled migration program is an essential component of Australia's workforce planning and development. It enables employers to adapt and respond to workforce shortages in areas of critical skills need. The Federal Government has recently announced some welcome reforms to Australia's skilled migration program. The end result should be a streamlined migration system; one that is responsive, economical and effective. It should be easy for both workers and employers to navigate, with needlessly complex and onerous requirements removed.

International education is a cornerstone of Australia's $48 billion export sector. It also plays a critical role in strengthening the nation's skills base. Our December 2024 *NSW Business Conditions* survey found the majority of NSW businesses (56%) recognised the economic benefits available through supporting Australia's once-thriving international education sector.[4] Current policy settings, such as caps and limits on student numbers, risk stifling the sector's growth and damaging legitimate providers. A thriving international education sector will not only bolster the economy but also contribute to a more diverse and dynamic workforce, with international students bringing global perspectives and in-demand skills to Australian industries. If the Federal Government continues to pursue policies which bridle our international education sector, we risk further damage to our hard-earned reputation as a welcoming and high-quality education provider.

Recommendations

- Improve the timeliness of Australia's skilled migration program, including faster responses to inquiries and reduced visa processing times. Seventy-five per cent of skilled visa applications should be processed within 120 days, and 90 per cent of Working and Holiday Visa applications within 90 days.
- That the Federal Government increase the NSW allocation of regional skilled visas (subclass 491) from 2000 to 3000 places to assist regional employers in meeting their skills needs in areas of critical shortage.
- The Federal Government should implement the widespread adoption of *The Innovation and Early Careers Skills Exchange,* along with the *Skills Development Exchange* pilot initiatives under Australia's free trade agreements with the UK and Indonesia, by 2026.
- Ensure Commonwealth education policies and programs are developed and implemented for the purposes of education, with migration goals achieved through Australia's newly reformed migration policy framework.
- Restore the status of Australia's international education sector as a world-leading example of education and innovation.

Enhancing industry engagement

Industry engagement is vital in ensuring the quality and relevance of VET. There remains substantial scope for employers to play a greater role in informing the strategic direction of education and training across Australia. This includes informing both current and future skills needs over a two-to-five-year time horizon. Opportunities for leveraging industry engagement include in the development and use of shared data assets, and through collaborative initiatives for bringing sector stakeholders together.

[4] Business Conditions Survey *(December 2024)*, Business NSW.

Industry-engaged collaborative training models also provide an innovative means for building capacity in the state's education and training system. They support the development of industry-relevant skills. They also facilitate mobility between vocational and higher education. Innovations of this kind are of particular interest in regional Australia, where substantial infrastructure investment and renewable energy initiatives are projected to lead to huge demand for skilled workers in regional areas. The Australian Government has an opportunity to play a leading role in this context through the continued development of training institutes, centres of excellence, skills hubs and other collaborative models for engagement, education and training.

Recommendations

- Ensure evidence-based decision making through multi-level engagement with industry on current and future workforce skills needs, particularly in the 2-5-year timeframe.
- Invest in structured opportunities for engaging with small and medium businesses on meeting their skills needs, particularly in regional Australia, including place-based collaborative models that integrate industry involvement with education and training.
- Ensure learning opportunities are both available and aligned with the needs of employers in both urban and regional areas.
- Ensure policy and funding settings support cross-sector models for employer engagement in innovation, workforce development, education and training.

A SUSTAINABLE AND RESILIENT FUTURE

The cost of doing business has continued to rise over the last year, testing business resilience and threatening the future of many businesses. Insurance costs continue to be the highest cost concern, with energy costs not far behind, according to our **Business NSW**'s *Business Conditions Survey* rankings of business cost concerns (Table 1). While energy has recently dropped against other primary concerns such as taxes, levies and other government charges and wages, it continues to reflect the cost of energy is still a challenge for most businesses as the country continues its path to Net Zero.

Energy

Energy outlook

The way we supply and use energy in Australia continues to transform through the energy transition, from fossil fuels such as gas and coal to new renewable energy zones made up of wind and solar generators, hydro-electric generation, grid-scale batteries and demand response. In 2024, renewable electricity generation was at record levels, supplying up to one third of all electricity.

Once again, there were delays in the progress on development of clean energy infrastructure, with many planned projects expected last year now forecast to enter the market in 2024-25 according to AEMO's 2023 Electricity Statement of Opportunities (ESOO). AEMO has stated that if current energy infrastructure planned for state and government programs are delivered fully and on time, then our growing electricity demands will be met with sufficient reliability standards over the next 10 years. However, any deviation from planned delivery of infrastructure, will cause reliability gaps in certain regions.

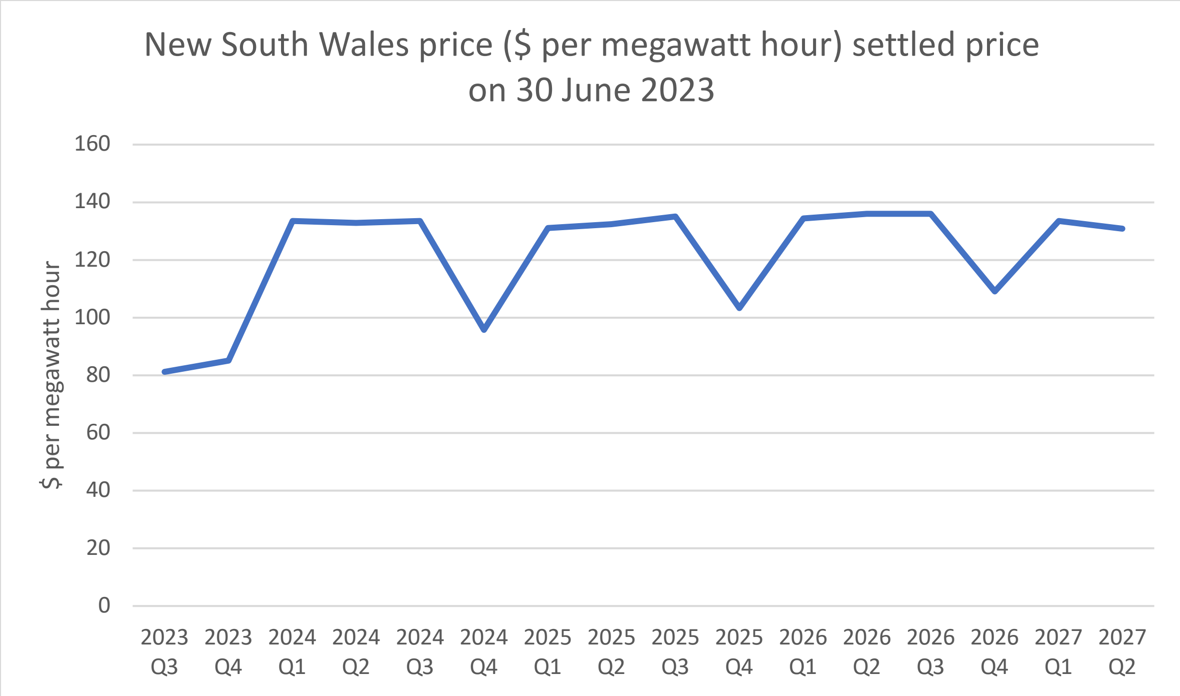
Wholesale electricity prices are now close to levels prior to the wholesale market volatility of 2022. However, network costs are expected to increase through 2025 continuing to put pressure on already struggling businesses.

Futures markets do not foresee reductions in wholesale electricity prices (Figure 10) in NSW over the four-year horizon, while network contributions will increase in the next regulatory period and as the costs of the NSW Electricity Infrastructure Roadmap add to bills.[5] AEMO's 2024 ESSOs' warns of reliability risks exceeding the relevant standard in New South Wales from 2025-26, brought about by the deteriorating reliability of existing plant and delays in commissioning new generation and transmission assets.[6] This has left businesses facing an undesirable confluence of rising prices and thinning reliability margins.

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

[5] https://www.aer.gov.au/industry/registers/charts/quarterly-base-futures-prices-and-volume-traded

[6] https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-reliability/nem-electricity-statement-of-opportunities-esoo



Source: *Australian Energy Regulation; ASX Energy*

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

Building a confident energy market

Energy is once again a primary source of cost concern for businesses. Since the sharp rises in energy prices in 2022, energy cost concerns have risen in **Business NSW**'s *Business Conditions Survey*. This concern is not only reflected in feedback from Business NSW members but is also evident in the broader energy outlook and market trends, which indicates that the current trajectory of the energy system is at risk of collapse. Businesses need both affordable and reliable energy, where both affordability and reliability are valued equally. An unaffordable and unreliable energy system will lead to predictable outcomes such as more businesses moving operations offshore and unpredictable outcomes that could include non-payment, social cohesion issues, uncontrolled off-gridding, and market sectoral partial collapse. We must learn from other nations which have followed similar paths before us. For example, the United Kingdom's (UK)(Britain) rapid transition to an all-renewables energy approach has led to soaring electricity bills, rising by as much as 80 per cent, while also compromising the reliability of their grid. Britain's energy grid has become increasingly dominated by wind power, which reached new records for clean power generation in 2024. The grid operator, however, has been forced to pay millions of pounds to safeguard Britain's electricity supplies when high demand for electricity combined with low wind speeds, increased the reliance on gas power plants. The UK now has an estimated two thirds of the population into measured energy poverty (spending over 10 per cent of income on energy costs) compared to 13.2 per cent in 2020.

Similarly, California scaled-up renewables drastically over the past decade. As of May 2024, wind and solar accounts for more than 49 per cent of its mix. Yet Californians pay the highest residential electricity prices on the United States' mainland. Businesses are fleeing the state. California has seen the sharpest electricity price increases of any American state.

Many of the problems faced are universal in nature. Despite the differences between the UK and Australia – of which there are many – there are also significant parallels, particularly when it comes to what the energy transition means for businesses. It is often worth paying attention to those who have endured similar experiences and are just slightly ahead of our journey, to ensure we do not repeat the same mistakes do better for our economy.

Business NSW supports the government's target in lowering emissions and reaching Net Zero. Renewable energy sources and the clean electricity produced is part of the future. However, an all-electric system is only effective when the provision of electricity is both affordable and reliable at the point of use. From international examples, it appears to be that wherever renewables are overbuilt and there is insufficient baseload firming power, the story is the same. There are exponential increases to energy bills, unreliable grids, and energy rationing. As the DMO continues to rise amid growing uncertainty about the ultimate capital costs of REZ and transmission projects, we need to actively support businesses. Businesses cannot afford any more increases to energy bills.

The rise in energy costs since 2022 is the reason why we have seen a significant increase in the number of manufacturers closing shop in recent years. It is the reason why we are seeing more and more businesses move their operations to other states and overseas. A 'Future Made in Australia' hangs in the balance, with the next six months being key. We are on a path where we will be importing more products rather than manufacturing ourselves due to cheaper overseas energy processes. While our emissions will decrease, global emissions will not, as countries with weaker environmental standards will be producing our manufactured goods.

Australia has reached an inflection point once more, where we need to consider the current energy outlook, and whether the path we are on is going to provide businesses with affordable, reliable and sustainable energy in the short and long term as well as support our economy.

Energy is our economy. A productive, full-time and functioning economy needs an affordable full-time energy system. If our national goals are for cheaper, cleaner and reliable energy, then Australia must consider a hybrid energy system with a mix of energy sources.

The need of a hybrid energy system

Business NSW believe the government should make the journey to net zero at the lowest cost by focusing on market-based solutions that stimulate private sector investment and increase competition in the market. This would reinstate Australia's status as a low-cost energy producer and allow us to realise the energy competitive advantages in our domestic economy.

Similarly, a fuel-source-neutral approach should also be adopted for future energy supply to ensure that emissions targets are met in the most efficient, least-cost manner. All options should be examined to ensure that businesses are not forced to use limited higher cost energy sources. The focus should be on technologies that enhance productivity and strengthen the economy, while at the same time delivering cost-effective emissions reduction. By doing this, it will attract investment, market growth and innovation.

As stated above businesses not only need affordable energy, but they need reliable energy too. The government needs to ensure that energy, climate change and industry policies are underpinned by robust analysis about our future energy needs and where that energy will come from, particularly as we look to maintain Australia's sovereign capability in traditional industries and develop new ones to grow our economy.

Additionally, there needs to be increased transparency regarding the future energy transition task to build investor and business confidence. **Business NSW** echoes ACCI's position in supporting the government's emissions reduction targets but believe greater transparency regarding progress along the pathway will help to reassure investors and the public that targets are being met and can continue to be without undue costs. Significant policy decisions will continue to be necessary over coming years, and maximising the transparency around progress, costs, trade-offs, and opportunities will be vital to ensure the future policies are based on the best quality information.

Reforming energy regulation

Our current regulatory system is outdated, based on a fossil fuel driven energy system and therefore unfit for the rollout of renewables and other energy technologies. The pace of energy technologies hitting the market needs to be met with regulatory system that can keep up.

We need reformed regulation that allows us to accelerate our understanding of the different models to overcome barriers to access, deployment and orchestration of distributed energy resources (DER), including consumer energy resources (CER), or create incentives for it to occur, in a way that is both effective for, and protective of, consumer interests. We must provide energy consumers with the option to effectively transition into a regulated off-grid system, to manage their own generation, storage, and retailing of energy. This will allow the energy retail market to evolve with the times and continue to add value.

CER and DER already provide over 22GW of generation capacity in the National Electricity Market (NEM). The 2024 Integrated System Plan suggests this could rise to 133GW1 by 2050, making it our largest source of generation capacity. However, at present not all consumers can access the benefits of DER and there are limited signals and mechanisms for the integration of these benefits into the energy system. Effective access, deployment and orchestration of DER is necessary to deliver a least-cost energy system for businesses.

A reformed, progressive and proactive regulatory system would allow low-to-medium energy users to be de-latched from the rising DMO by provision of local community and region-based solutions. **Business NSW** welcomes the arrival of innovative regulatory solutions like regulatory sandboxing. This could support the market to meet renewable energy goals and needs of any other energy sources that grow on the market, encouraging investment at the most efficient cost for consumer, and with the greatest benefits.

Recommendations

- Achieve net zero at the lowest cost by focusing on market-based solutions.
- Adopt a fuel source-neutral approach for future energy supply to ensure that emissions targets are met in the most efficient, low-cost manner.
- Accelerate regulatory reform for the energy sector using regularly systems such as sandboxing.
- Increase transparency regarding the future energy transition task to build investor and business confidence.
- Establish an emissions reduction objective within the National Energy Objectives to rebuild confidence in the National Energy Market. Discourage state actions that hinder the integration of state energy systems.

National cohesion

We reiterate the concern raised in **Business NSW**'s 2023-24 Commonwealth Pre-Budget submission[7], also reflected by ACCI in its 2024-25 Pre-Budget submission, that recent years have seen the beginnings of fragmentation between the states and territories on energy and climate policy, just at the point at which collective action is most critical. While the steps taken by individual states may have merit on their own terms, the actions particularly of the key East Coast states of NSW, Victoria and Queensland have diverged from one another to a concerning degree. While activities such as the AEMO Integrated System Plan aim to weave these disparate activities into a coherent whole, there is a risk should states pull further apart that investments will be duplicated and opportunities for integration and systemwide optimisation lost, driving up the costs of transition for all energy users. It is important that the Australian Government takes the time to rebuild confidence in the National Energy Market. With unity of purpose on the need to cut emissions re-established; it would be a great loss if we revert to a disaggregated grouping of state-based energy systems.

The complexities of managing a renewable-energy-dominated system makes the pooling of generation, transmission and storage resources more important than ever, and any other energy system that grows in the market. States must be discouraged from trying to solve problems solely within their borders, and should instead embrace collaborative, shared solutions.

Supporting businesses energy needs now

Financial support initiatives

Whilst **Business NSW** believes government needs to rethink our energy path, we acknowledge current schemes and incentives to assist businesses with their energy costs. The Commonwealth has supported NSW in implementing energy bill relief measures which were included in the 2023 Commonwealth Budget. Although the $650 payment did not address the structural causes of recent rises in energy costs, it has nevertheless provided some welcome relief for NSW's small businesses.

Addressing the structural causes of high energy costs to businesses, however, will require considerably more than a one-off payment. Improving the productivity of businesses' usage of energy is one of the ways that businesses can combat these cost pressures. Using less energy for a given unit of output (or increasing the units of output for any given unit of energy) improves competitiveness, and can contribute to improving businesses' growth outlook, encouraging investment, and reducing inflationary pressures.

Business NSW has been pleased to see progress, albeit slow, on business energy productivity measures. The National Energy Performance Strategy was released in April 2024, and Business NSW welcomes the objective to assist small to medium businesses to improve energy performance.

Overcoming barriers to improving energy performance, including lack of information and awareness of benefits, competing priorities, limited financial resources, and lack of in-house skills are all vital as business manage cost through the transition. Government backed finance and investment initiatives such as the Clean Energy Finance Corporation (CEFC) and the expansion of the Capacity Investment Scheme (CIS) are also welcomed. We encourage both the extension of the Small Business Energy Incentive (SBEI) - that delivered $310 million in tax relief to businesses - and the

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

Energy Efficiency Grants for Small and Medium Enterprises (SMEs) program, which delivered $62 million to improve business energy efficiency and implement energy upgrades in their operations.

The window of opportunity to benefit from the SBEI, however, was unreasonably small, especially for small businesses with limited resources. The timeframes in which a business could be certain about the measure's implementation – in which eligible assets could be installed from announcing to being available – was reduced to less than six months. This is inadequate when improving energy efficiency requires significant planning, design, reorganisation, evaluation and training to integrate a new or different piece of equipment into a business. Alongside ACCI and a coalition of other peak bodies, Business NSW is calling for the SBEI to be extended to 2025 at minimum.[8]

Tax relief and grants are vital to improving the productivity of business energy usage. Using less energy for a given unit of output (or increasing the units of output for any given unit of energy) improves competitiveness, and can contribute to improving businesses' growth outlook, encouraging investment, and reducing inflationary pressures. Small businesses struggle to have the means to upgrade to more energy efficient equipment.

Smart meters are another way some businesses can manage their energy costs. The Australian Energy Market Commission (AEMC) has made a draft rule that would accelerate the deployment of smart meters to energy customers by 2030, bringing to life foundational recommendations from its smart meter review and placing consumers at the forefront of the transition to net zero.

A smart meter is a device that measures your electricity use digitally and sends data back to your electricity provider. They give the ability for the consumer to monitor energy consumption and are therefore used to smooth out consumption by impacting consumer behaviour.

The theory is that higher prices at peak times will encourage consumers to shift their electricity usage away from peak times to times when electricity prices are cheaper – making more efficient use of the poles and wires network. However, some time-of-use tariffs are currently not saving energy costs as expected. In NSW, the cost of installing a smart meter is approximately $600–$800. This is very costly for small business and should have funding support for the rollout.

Recommendations

- Extend the Small Business Energy Incentive until at least 30 June 2026.
- Introduce a subsidy for the SME sector focused on heating, ventilation, and air conditioning solutions, similar to the previous LED lighting initiative.
- Establish a loan or grant program to help SMEs overcome financial barriers to purchasing batteries, enabling more efficient use of solar resources. Investigate the merits of an REC-style certification scheme for distributed batteries.
- Fund the roll out of smart meters for all small businesses and review time-of-use tariffs for business to ensure options for saving energy costs.

Business energy advice and support

Funding avenues are not the only support the government should be providing to businesses during the transition. Businesses, especially smaller businesses need support on measures and steps they can take to lower their energy costs. They need more tailored advice available to them to cover the diversity of needs for energy for small businesses across Australia.

[8] https://treasury.gov.au/sites/default/files/2023-08/c2023-402752-joint-submission-.pdf

Expanding business access to advice from trained engineers or peak bodies with industry sector expertise potentially offers a significant improvement in the value businesses place on the advice received.[9] As a peak body which has provided expert energy consultancy to businesses over recent years, Business NSW is certainly supportive of efforts to expand this model of advice delivery to SMEs. Until August 2022, **Business NSW** was supported to offer this advice by the Commonwealth via the Business Energy Advice Program. This program has ceased, and the gap in providing this type of useful advice to businesses has grown. The Business Energy Advice Program reached 7 per cent of eligible SMEs across Australia during its three years of operation. To reach more businesses in the years ahead requires a new program with an expanded remit and with resourcing to maintain advice that is free and independent.

Business NSW views the establishment of a successor advice and support program targeting small and medium sized business as a critical component of the energy transition, ensuring that smaller businesses are not left out as governments and industry target their efforts on households and the largest energy-using industries.

Recommendations

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

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

Unlocking more gas

The cost and availability of gas is also a concern for many of those businesses who depend on it. Australia's east coast gas market is dysfunctional, with annual domestic gas supply shortfalls forecast from 2028. NSW has many gas-reliant businesses who cannot electrify all their heating, refining and reforming processes required in their operations. **Business NSW**'s August 2024 *Business Conditions Survey*, which showed that 18 per cent of all businesses and 64 per cent of Accommodation and Food service businesses are still totally reliable on gas as an energy source.

Business NSW has been a strong advocate of further gas resource development during the period of energy transition and for the long-term energy security of NSW. Gas will aid Australia's energy security and reliability by catering to both basic energy demands and peak loads, reducing the risk of shortages and price spikes to enhance energy security for all consumers. Further, if the Albanese Government is to realise its Future Made in Australia plan for domestic manufacturing, gas must be affordable and reliable in the medium term.

Supply side measures across Australia, including the approval by the NSW Government of the Narrabri Gas Project, have not yet converted into increased supply reaching the market. Of the measures **Business NSW** recommended in 2019 in its report *Running on Empty*, several remain

[9] For further detail see Business NSW; *Unfinished Business*; 2022; https://www.businessnsw.com/content/dam/nswbc/businessnsw/thought-leadership/November_2022_ECA_Survey_Report_low-res.pdf; especially p. 35

unenacted.[10] Narrabri, though approved by government, at time of writing is still awaiting a Final Investment Decision, and its supporting pipeline infrastructure is not yet fully permitted. Pipeline connections to Queensland have only seen very limited capacity upgrades, despite a growing dependence of all southern states on northern production as Victorian gas fields deplete. As LNG prices have risen, the commercial prospects of an LNG import facility have deteriorated even though the insurance one would provide still has value.

Gas will continue to play an important role in the transition to net-zero and beyond. Gas supports energy reliability whilst renewable power generation grows. Sectors like manufacturing and minerals processing will remain heavily reliant on gas, until alternative forms of energy are developed and made economically viable.

Recent Ernst & Young (EY) analysis, commissioned by the Australian Energy Producers as part of the Future Gas Strategy consultation, found that natural gas must be a key tenet of Australia's energy and climate plans, and that underinvestment in new gas capacity in Australia risks narrowing energy security options, increasing energy costs and jeopardises reaching net zero in Australia and the region[11].Gas policy decisions made by the Commonwealth and in other states will affect NSW. **Business NSW** welcomes the Commonwealths' Future Gas Strategy released in 2024. The strategy shows the role gas will play and how it will change as we reach net zero in Australia by 2050. It also acknowledges that even in net zero scenarios, Australia and the world will still need gas at lower levels through to 2050 and beyond.

Australian gas will play an important role in an orderly global and domestic energy transformation and should be reflected in the Budget. The Commonwealth government needs to take action that recognises the ongoing importance of the gas industry to the Australian economy and the urgent need for new gas supply. Gas is vital for 'Future Made in Australia' and the continued operation of many businesses and transport systems.

The Future Gas Strategy must place greater priority on addressing forecasted structural gas shortfalls in the near-to-medium-term by bringing on the new gas supply needed to securely and affordably power Australian homes and businesses. It should also consider all gas supply opportunities, including existing and greenfield developments, and renewable gas sources includes renewable gases such as biomethane and e-methane. Biomethane is a renewable and carbon-neutral replacement for natural gas. It can aid in the decarbonisation of Australia's gas network whilst supporting those gas reliant businesses.

As the EY analysis found, for Australia to establish the pipeline of gas supply needed through 2050 and beyond, all levels of government will need to be involved in delivering a long-term price signal and investment certainty, lowering costs, enhancing project commerciality, and developing a robust and lasting project approvals framework.

The Federal Government needs to work with gas producers, energy users and state governments on an action plan to urgently bring on new gas supply to address near term structural gas shortfalls in eastern Australia.

---

[10] https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/015-Running-on-Empty-Report-7_PRINT.pdf

[11] Australia Energy Producers. 2023. The future role of natural gas in Australia and the region. https://energyproducers.au/wp-content/uploads/2023/11/231127-EY-report-The-future-of-natural-gas-in-Australia-FINAL.pdf

Ultimately, we need to unlock new gas supply to deliver cleaner, reliable and affordable energy.

Recommendations

- The Commonwealth's Future Gas Strategy should be updated to include renewable gases, such as biomethane and e-methane, to support businesses that rely on gas and cannot easily electrify.
- Work with state governments to unlock restrictions on gas exploration and streamline approvals to increase domestic supply and cut prices.

Insurance

In November 2023, Business NSW released *Insurance at the Speed of Business*, our review of the declining availability and increasing costs of insurance for small businesses.[12] In it, **Business NSW** proposes a number of measures for national and state governments, insurers and the insured, to enable insurance to remain as a bedrock for Australian businesses' competitiveness. Climate change continues to place pressure on premiums, highlights once again the need to find solutions, and not just those which rely on decade-long investments in protective infrastructure.

Since the release of the report, the situation has only worsened for our members. At a state level the Government is seeking ways of abolishing the Emergency Services Levy. This levy adds a significant burden on businesses by punishing those who chose to take insurance for the misgivings of those who don't.

Australian businesses are facing increasing pressure from rising insurance costs. Over the past six quarters, it has remained the top issue in our quarterly Business Conditions Survey (BCS), surpassing energy costs, tax, rent, and wages.

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

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

12 https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Insurance%20at%20the%20Speed%20of%20Business.pdf

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

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

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

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

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

Recommendations

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

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

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

- Include business and consumer representation in the funded Hazard Insurance Partnership (HIP) project to ensure that there is clear linkage between inputs (investment, policy development, etc) and outputs (premium reduction, affordability, coverage, resilience, etc). Ensure the premium reduction can be achieved in under three years. Prioritise HIP recommendations based on a benefit realisation model including criteria such as investment required, regulatory impact, measurable benefits to business, premium reduction. Create a permanent insurance working group across the Australian Federal Government, states and territories where innovations, market testing and policy alignment can be actioned. Focus on product innovation and premium reduction.

Infrastructure

Infrastructure underpins the growth of our economy – it supports business productivity and the liveability of Australian communities. The successful planning and delivery of infrastructure is critical in supporting Australian businesses in the cities and regions, particularly as we navigate the growth in investment across renewable energy and social infrastructure projects, while continuing to deliver record levels of investment in major transport projects.

This last year has seen the delivery of impressive and productivity creating infrastructure such as the Sydney Metro and the progress seen on the new Western Sydney Airport. This is quite an achievement considering the 2023 tough decisions taken about major infrastructure projects in Australia and specifically in NSW. Both the Commonwealth and NSW Government were forced to defer or cancel several projects in the face of the workforce and supply chain capacity crunch Business NSW and others had been warning about.

Whilst 2024 has seen the delivery of more infrastructure across Australia, government still needs to accelerate delivery and ensure a consistent healthy. The government can make a meaningful contribution to putting infrastructure delivery on a more sustainable footing by ensuring that projects are subject to rigorous evaluation before commitments are made, and that the desire to invest in key infrastructure does not exceed the market's ability to deliver. They can also keep improving their procurement processes for infrastructure to save on costs and delivery times and allow growth of the market.

The timely delivery of certain infrastructure projects across Australia and NSW the state is vital to a significant number of businesses. Additionally, optimising and expanding certain infrastructure in regional NSW will need to become a priority in the near future with the development of the REZ's and NSW Government's regional plans to grow strategically important regional towns and cities.

Maintaining a healthy infrastructure pipeline

Whilst 2024 has seen the delivery of more infrastructure across Australia, government still needs to accelerate delivery and ensure a consistent healthy pipeline. Australia's Major Public Infrastructure Pipeline 'five-year outlook', is down 8 per cent compared with the projection of 12 months earlier for the corresponding outlook period[13]. This outcome represents a significant management of demand by governments across Australia to reduce the gap between supply and demand. Demand, however, continues to outstrip supply overall.

Business NSW supports the new Federation Funding Agreement Schedule, which defines the partnership between the Australian Government and state and territory governments through which land transport infrastructure will be delivered. These reforms demonstrate governments' intentions to actively manage their transport infrastructure pipelines and reduce the gap between the supply and demand for resources in infrastructure delivery. This has been reflected in a more manageable public infrastructure pipeline coming off the big infrastructure boom seen in the past few years.

However, demand still significantly outweighs supply, and construction productivity growth remains low compared to other industries (such as transport or telecommunications). Following the renegotiated Federation Funding Agreement Schedule processes will support active demand management of the transport infrastructure pipeline. The timely delivery of certain infrastructure projects across Australia and NSW is vital to a number of businesses. The Commonwealth government needs to continue to work with state government to manage cross-sector demand in the face of budget and inflationary pressures over the short-to-medium term.

Recommendation

Adoption and adherence to the new Federation Funding Agreement Schedule Land Transport Infrastructure Projects (2024–2029) processes to support active pipeline management.

Increasing construction productivity

Construction businesses support the delivery of the bulk of the infrastructure pipeline in Australia and NSW. According to the 2024 *Infrastructure Market Capacity 2024 Report* by Infrastructure NSW, transport infrastructure investment remains the largest expenditure category, accounting for 59% of the Major Public Infrastructure Pipeline[14]. This year has seen growth the building and utilities sectors reflecting governments' ambitions to boost housing stock and transition our energy sources towards a net zero future.

[13] Infrastructure Australia. *Infrastructure Market Capacity 2024 Report*. December 2024. https://www.infrastructureaustralia.gov.au/reports/2024-infrastructure-market-capacity-report
[14] Infrastructure Australia. *Infrastructure Market Capacity 2024 Report*. December 2024. https://www.infrastructureaustralia.gov.au/reports/2024-infrastructure-market-capacity-report

The cost of construction materials continues to remain high, with most materials experiencing year-on-year growth for three straight years. However, the rate of growth appears to have eased over the past 12 months, driven largely by drops in the price for some steel products.

Although growth rates of material costs have eased, current high costs and other inflationary pressures are putting strain on construction businesses and the ability to deliver much needed infrastructure. Construction industry productivity has continued to decline over the past year, with construction industry insolvencies being high compared to other sectors. Small business insolvencies accounted for 82% of total insolvencies in the construction sector and their profits are in decline. Residential construction businesses account for a significant share of total construction insolvencies (24%), compared to non-residential construction businesses (5%) and heavy and civil engineering businesses (3%)[13].

With the current housing crisis, and infrastructure pipeline, Australia needs enough high-quality construction business to deliver on government commitments. Australia needs a more productive construction industry. An ACA commissioned report from Oxford Economics Australia estimates that bringing construction productivity growth into line with the economy-wide average would unlock an additional $56 billion in construction capacity every year.

Barriers for SME's in the construction industry include material costs, skilled labour availability and therefore outsourcing costs, government procurement processes, an ability or otherwise to gain business in public infrastructure contracts due to contractual arrangements (including risk allocation) and lack of access to digital technologies.[15]

Business NSW embraces the completion of the National Construction Strategy and implementation of associated actions. We encourage consultation and research and associated actions that can support SME in the construction industry. The strategy focus should be on creating the conditions under which opportunities for productivity growth can be harnessed for industry as a whole but considers both small and larger businesses. Additionally, government should include or separately investigate the impact of contractual arrangements and outsourced services to construction supply-chain resilience and sustainability, which will identify ways to lift performance and productivity for the industry and their businesses.

Recommendations

- Consideration of small business as part of the National Construction Strategy.
- Investigate the impact of contractual arrangements and outsourced services to construction supply-chain resilience and sustainability.

Electrification of road transport

Emissions from road transport make up the majority of some businesses' carbon footprint. The renewed interest by the Australian Government in EVs is timely and welcome. While progress was made in the past year, Australia remains behind its peers in facilitating the uptake of electric vehicles. Businesses who wish to electrify their fleets are thwarted by high upfront prices, a lack of availability and choice of vehicles, and patchy charging infrastructure.

[15] Australia Construction Association. Nailing construction productivity – A blueprint of Reform. https://www.constructors.com.au/wp-content/uploads/2023/08/Nailing-construction-productivity-FA_web.pdf

The influence of taxation decisions on the EV market is becoming increasingly apparent. The October 2023 High Court decision in the case Vanderstock vs Victoria necessitates a swift engagement between the Commonwealth and states on future road user charging and vehicle taxation policy. **Business NSW** shares ACCI's concern that the Luxury Car Tax is leading to perverse environmental outcomes and is not consistent with the government's Electric Vehicle Strategy. The removal of the LCT would provide an important boost to the uptake of low emissions vehicles. Finally, as businesses add electric vehicles to their fleets, the role of fringe benefits tax needs to be clarified as it pertains not just to the vehicle itself, but also to charging which may occur at employees' homes, places of work, or in public locations. At present FBT implications for EVs are highly unclear.

Additionally, government needs to support energy providers in finding solutions for current barriers or disincentives to buy and drive EV's. One issue that Ausgrid recently found a solution to is the ability to charge EVs in high density areas, where parking is limited, and many people cannot install a charger at home. Ausgrid recently revealed a new program retrofitting their poles in high density areas with chargers to support the uptake of EV drivers.

Another barrier government should be considering solving, is the multitude of different apps required to charge your EV. There are about 15 different apps a driver needs to download in order to cover all the charger providers. The Commonwealth Government should consider how this could be amalgamated through the myGov app to incentivise people and make it easier for older people to switch to driving EVs. We urge government to work with electricity providers to find and implement similar solutions to retrofitting poles with chargers to incentivise a rapid and efficient update.

Recommendations

- Provide a platform on the myGov app that includes all electric vehicle charging stations across the country, assisting with EV uptake.
- Resolve, in the coming year, its role and policy regarding road user charging and vehicle taxation in collaboration with states and territories.
- Eliminate the Luxury Car Tax (LCT).
- ATO to review and clarify Fringe Benefit Tax impacts of EVs within business fleets, including impacts to charging at home, at work, or in public places.

Freight transport

Critical transport infrastructure will, when completed, improve freight transport productivity across the state and nation. Key projects include Inland Rail, Western Sydney Airport and its surrounding roads and rail networks, the Port Botany Gateway project and associated road and rail upgrades, the upgrading of Newcastle Airport to handle widebody jets and Port of Newcastle to handle container shipping. With so much still to be completed, and with infrastructure market capacity stretched, Business NSW's preference remains unchanged. We want government to focus on completing existing commitments rather than calling for new works that may not be achieved for more than a decade.

Whilst 2024 has seen some progress, the lagging development of employment areas surrounding Western Sydney Airport, particularly in the new city of Bradfield, is increasingly concerning. It runs the risk that the Commonwealth's investment in the airport will not yield the economic benefits it should.

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

Industrial action at Australia's ports impacted development. More than half of NSW businesses have reported experiencing a supply chain disruption in the first quarter of 2024, according to our March 2024 *Business Conditions Survey*. These disruptions are corrosive to the NSW economy and, in future, must be resolved immediately. **Business NSW** recognises the Australian Government's focus on Industrial Relations Reform. There are six enterprise agreements for ports in NSW due to expire in December 2024/2025. These are located in Port Kembla, Newcastle and Port Botany. With this in mind, it is critical that both the Commonwealth and NSW Government work together to ensure businesses are not forced to incur further price hikes and delivery delays. Businesses cannot afford another round of industrial action on our ports. Businesses are already overpaying for ports services as it is.

Ports and freight transport are critical to NSW businesses and the communities they serve. Regional businesses and others need accelerated delivery of freight transport projects. Additionally, Government should ensure opportunities from our NSW ports are fully released for businesses and for Australia competitiveness in imports and exports in global markets.

Recommendation

Support the NSW Government to accelerate the delivery of critical transport projects that support freight. These include Inland Rail, Western Sydney Airport and its surrounding roads and rail networks, the Port Botany Gateway project and associated road and rail upgrades and the upgrading of Newcastle Airport to handle widebody jets.

High Speed Rail

The High-Speed Rail Authority commenced work in 2024 on a business case for a proposed high speed rail project from Newcastle to Sydney. Previous attempts at a high-speed rail in Australia have failed.

The 2013 East Coast High Speed Rail Study found high speed rail would produce a positive economic benefit, would be technically feasible, and would have a transformational effect on how most Australians live, work, and travel. Detailed work by the NSW Government in 2019 on the Newcastle to Sydney corridor confirmed that fast, reliable rail travel between major centres and growth areas supports housing and jobs growth. Since then, Australia has seen population growth and changing settlement patterns on the east coast, new ways of working as a result of the COVID-19 pandemic and the impact of a changing climate.

A decade of massive rail infrastructure investment across Australia, worth more than $100 billion, has included Sydney Metro, Cross River Rail, Melbourne Metro and Inland Rail. This has seen the creation of a construction sector skills base that did not exist in Australia previously at this scale, bringing with it world-class construction techniques and a workforce and sector looking for ongoing opportunities and certainty.

Business NSW supports the concept of a high-speed rail along the NSW east coast and how it would provide new opportunities for affordable housing, regional economic growth opportunities such as tourism, new jobs and industries, as well as local manufacturing opportunities and construction sector viability. In 2024, **Business NSW** attended several industry consultations sessions with the High-Speed Rail Authority on the business case.

Through the business case government can develop a clear, informed understanding of what the goal of the high-speed rail initiative is and why it is preferable to other options for investing such large sums of capital. **Business NSW** welcomes the completion of the business case for phase 1 and encourages the Australian Government to make the business case public. There should be public industry consultation before a decision on the future of high-speed rail in NSW is made.

Recommendations

Release to the public the business case for NSW high-speed rail and allow for industry consultation before a decision is made.

Improve and revalue telecommunication connectivity

Digital infrastructure investments are transforming regional connectivity through expanded and more reliable internet coverage, bringing services up to metropolitan standards. The rollout of 5G networks in regional centres is accelerating business capabilities and enabling new technologies. Digital hubs are being funded to support the growing remote workforce, providing professional spaces and high-speed connections. Additionally, enhanced cybersecurity infrastructure is being implemented to protect regional businesses as they increasingly operate in the digital space, ensuring they can participate safely in the digital economy.

However, there are still many gaps in digital infrastructure across the country a that need to be addressed for businesses to operate and expand to their full potential. NSW for example still has numerous areas with poor or no connectivity. Around 15 per cent of major roads do not have mobile coverage and around 30 per cent of the rail network has poor or no coverage. There are 4,000 reported mobile black spots in NSW that impact around 10,000 premises whilst Sydney ranks 24 out of 30 global peers for resident satisfaction with internet speed and reliability. This is simply not good enough. Improving and expanding digital infrastructure are not just regional investments but rather national economic enablers that will strengthen Australia's productivity, support decentralisation, and create more resilient supply chains for our nation's future.

Digital connectivity is no longer a luxury – it is essential infrastructure for modern business and community prosperity. Yet the regulatory environment has not kept pace with the evolving business environment. The experience of natural disasters and pandemic has fundamentally re-emphasised the critical role of telecommunications and digital connectivity for Australian businesses. However, telecommunication 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** calls for telecoms to be classed as an essential service for regulatory purposes.

Recommendations

Draft a National Digital Infrastructure Strategy that:

- Reviews the most important digital infrastructure gaps across the country and provides support for states and territories to fill these gaps and boost productivity.
- Partners with states, territories and industry to identify opportunities for collaboration and optimised investment, to maximise connectivity outcomes across Australia.
- Ensures telecommunications are given full essential service status, with matching obligations to provide service to all potential users including those in regional and remote locations.

Trade and investment

NSW is a significant exporter of goods and services. Our exporters are successful and resilient. NSW businesses, wary of geopolitical events and previous reliance on one key market, also need support to pursue growth.

Business NSW supports calls for the Federal Government to consider funding an industry-led business mentoring and support program for *potential* exporters to improve their capability. It would also assist previous exporters – bruised by events of the past three years – to again embrace growth opportunities. Through state and federal trade and investment agencies, businesses need practical support and tools to confidently enter export opportunities.

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

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

Recommendations

- Improve Austrade's capacity to collect and analyse trade and economic data.
- Fund an industry-led mentoring program to help more Australian businesses become export ready with practical tools and guides.
- Maintain the Export Market Development Grant (EMDG) to help more businesses enter diversified export markets and consider expanding funding and scheme eligibility.
- Continue work to improve diversified trading relationships across Asia Pacific region and beyond.

For further information:

David Harding
Executive Director
Business NSW

t. 02 9466 4899
e. David.Harding@businessnsw.com

BUSINESS NSW