

BUSINESS NSW

12 October 2020

The Hon. Dominic Perrottet MP
NSW Treasurer
GPO Box 5341
SYDNEY NSW 2001

Supplementary submission to the 2020-21 NSW Budget and meeting request

Dear Treasurer

I would like to thank the NSW Government for its commitment and success in managing both the health and economic impacts of COVID-19.

Despite the successes, many businesses remain heavily impacted by the pandemic and are looking for greater certainty about the next phase of our recovery, particularly as JobKeeper starts to be wound back.

Business NSW provided a pre-Budget submission to the NSW Government in early March 2020. Since this time, COVID-19 has dramatically altered the business environment and heightened the need for many of the recommendations in our pre-Budget submission. Our submission also included proposals relating to business resilience, skills and education, infrastructure and regional development.

While much of our initial submission remains relevant, the attached supplementary submission is provided in light of subsequent changes to both the policy and economic environment. We would particularly welcome initiatives that make it easier for employers to create new jobs, including our proposal for a payroll tax rebate as outlined in this submission. This will complement initiatives announced in the recent Commonwealth Budget.

Our General Manager Advocacy and Engagement, Ben Riley, will contact your office to confirm your availability. Alternatively, your office can contact Ben on ben.riley@businessnsw.com or 0423 582 756.

Yours sincerely



Nola Watson
Chief Executive Officer

Supplementary submission to the 2020-21 NSW Budget

Business NSW welcomes the opportunity to provide this submission to the 2020-21 NSW Budget, which is supplementary to our pre-Budget submission¹ in early March 2020.

Our submission:

- Expands on the proposals presented in *Business NSW's* COVID-19 recovery plan, *Back on track*
- identifies additional priorities for consideration.

Back on track

In July 2020, *Business NSW* released its COVID-19 recovery plan, *Back on track*², outlining ten business recovery drivers and a further forty measures to support our recovery. It also presented the results of a survey of more than 1,000 businesses to inform what businesses need to recover from the economic impacts of COVID-19.

The 10 Business Recovery Drivers identified in *Back on track*, which span Commonwealth, state and local government, include:

- Signing a compact to return unemployment to below 6 per cent
- Providing greater certainty about when remaining restrictions will be lifted
- Establishing a Youth Jobs Guarantee
- Replacing JobKeeper with a new rebate to protect vulnerable jobs
- Delivering regulatory reform
- Expanding NSW energy supply to provide affordable, reliable energy
- Fixing the Federation, including comprehensive tax reform
- Ensuring payroll tax does not deter employers from hiring staff
- Improving the workplace relations system
- Building a seamless state economy to better connect regional NSW.

Business NSW is pleased there has been subsequent policy announcements relating to the challenges and recovery drivers identified in *Back on track*.

The policy proposals presented in *Back on track* remain relevant for consideration ahead of the 2020-21 Budget. *Business NSW* has identified some potential areas of further action below.

¹ <https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/200310%20-%20NSW%20Pre-Budget%20Submission.pdf>

² <https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/Back%20on%20track%20-%20July%202020.pdf>

A strong jobs narrative

Political leaders have emphasised the importance of getting people back into work to minimise the human-level impacts of COVID-19. While the substantive policy measures that put people back into work are fundamental, *Back on track* proposed adopting employment targets to give consumers greater confidence about their futures.

Business NSW supports the utilisation of labour market outcomes as a benchmark to determine the degree of fiscal support needed in the economy. Fiscal policy is playing a more active role in macroeconomic management than it has in recent decades. As confirmed in their recent Budget, the Commonwealth has assumed a substantial role in boosting the economy. State and territory governments must also play a role in supporting our economic recovery, even if it accounts for a smaller share of total economic support. In reviewing NSW's fiscal strategy over the medium term there is an opportunity to leverage heuristics based on labour market outcomes. In this respect, such targets should be viewed as a feature of the macroeconomic policy architecture much like the inflation target is for monetary policy.

An employment target is a no-regrets measure that has the potential to amplify the impact of initiatives aimed at boosting jobs. *Back on track* proposed for the Commonwealth and the states to work towards returning the unemployment rate to below 6 per cent by June 2022. We note the Commonwealth has since committed to retaining fiscal support measures until the unemployment rate is below 6 per cent.³ A similar commitment from the NSW Government would provide confidence that all tiers of government are working towards a jobs-led recovery.

Principles for reopening

Back on track called for the Commonwealth and state governments to provide greater certainty about when and under what circumstances remaining restrictions will be lifted. *Business NSW* supports the work of the Australian Chamber of Commerce and Industry in advocating for greater certainty for businesses affected by restrictions. *Business NSW* supports the set of policy principles ACCI has provided to Commonwealth, state and territory governments for consideration.⁴

As we continue to perform well in containing the spread of COVID-19 in the community, there is a strong case to reduce the economic impact of remaining restrictions. This includes revisiting the four square metre rule, as well as specific restrictions on types of venues and events. The relaxation of restrictions must be complemented with reliable and robust procedures, including COVIDSafe plans, so that consumers can have confidence in their safety when visiting venues and events.

Return to work will also need to be facilitated by accompanying changes in transport protocols and amendments to the public health orders. Under NSW public health orders, an employer must allow an employee to work at the person's place of residence where it is reasonably practicable to do so. Many employers will come to see merit in revitalising their workplace to encourage different modes of collaboration, facilitate innovation and support a continuity of organisational culture. Over time, the need for current requirements may become obsolete as we make further progress towards containing the health risks.

³ <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/speeches/speech-australian-chamber-commerce-and-industry-canberra>.

⁴ *Business NSW* is able to provide this document separately upon request

Payroll tax

Back on track presented an ambition to solve payroll tax noting it inhibits employers' ability to create jobs and economic opportunities in their communities. *Business NSW* accepts that more fundamental reforms to payroll tax would require careful consideration and supports draft recommendations of the Thodey Review of Federal Financial Relations and the Productivity Green Paper which call for a national approach to reform. This approach is in line with the approach recommended in *Back on track*.

While more substantive reform will take time, there is an opportunity to ensure payroll tax is not an impediment to employment growth in the near term. A new job will need to be created for every job lost to restore the labour market to pre-COVID conditions. While previous support packages have rightly focussed on the need to support employers in retaining their staff, there is merit in supporting employers that are positioned to absorb spare capacity in the labour market.

The Commonwealth recently announced measures to support the return of young job seekers into work. There is an opportunity for the NSW Government to join the jobs push for all workers by offering payroll tax incentives for businesses that are positioned to grow their workforce.

Business NSW proposes the introduction of an automatic payroll tax rebate based on taxable payrolls recorded during the COVID-19 period (for example, average monthly payrolls recorded between April and September 2020). The payroll tax rebate would be calculated to offset any additional payroll tax liabilities incurred by an employer whose taxable payroll has expanded when benchmarked to the COVID-19 period. Importantly, it could be calculated automatically so that only minimal information would need to be supplied by employers that do not already lodge monthly returns (should they wish to access the rebate).

Example: *Average monthly payroll April to September = \$250,000*
 New monthly payroll = \$300,000
 Monthly payroll tax rebate = (\$300,000 – \$250,000) x 0.0545 = \$2,727

Additional eligibility criteria or limitations could be adopted to ensure payroll tax relief is targeted to where it can deliver the highest impact in terms of new jobs.

Public service pilot

There is an opportunity for the NSW Government, as the state's largest employer, to pilot new initiatives to accelerate a sustainable return to work. This is needed to revitalise both metropolitan and regional CBDs.

Back on track highlighted the potential for the NSW Government to pilot remote worker hubs in regional locations. Remote worker hubs would involve the NSW Government establishing multi agency workspaces for public servants to co-locate in a regional centre. Remote worker hubs would allow the NSW public service to gain access to a much deeper labour market that extends beyond metropolitan Sydney while revitalising regional CBDs and boosting economic inclusion.

Financial advice vouchers

Back on track called on Government to issue vouchers for small businesses to obtain professional advice from trusted advisers such as their accountant. This will support businesses in gaining ongoing access to professional advice in the crucial period when lending support measures and other programs are wound back.

Emergency Services Levy

Business NSW is aware of modelling suggesting that the contribution of the Emergency Services Levy (ESL) to insurance premiums could increase by 50 per cent for some SMEs. Given the ESL is a highly unfair and inefficient tax, there could be few compelling reasons justifying an increase in the ESL at this time (notwithstanding the need to ensure the appropriate provision of emergency services).

The ESL should be abolished. In the absence of broader reform, *Back on track* recommended there be flexibility for increases in the ESL to be smoothed out to avoid dramatic increases in the contribution of the ESL to insurance costs.

Discount rates

Back on track recommended that procedures for discounting benefits be reviewed, particularly in light of low interest rates, to properly value projects capable of delivering benefits well into the future.

The purpose of re-examining discount rates is to ensure that future benefits are not undervalued when considering the merit of shovel-ready projects. Aside from the opportunity cost of capital, *Business NSW* does not believe there is a compelling reason to discount benefits accruing to future generations. It is therefore appropriate to adjust discount rates to reflect the lower interest rate environment within which governments now operate.

Discount rates can have a profound impact on BCR appraisals. For example, a forthcoming report from the Illawarra Business Chamber examines options relating to the South West Illawarra Rail Link. The project is assessed to have a BCR of more than 1 at a 7 per cent discount rate. However, when examining future benefits with a 4 per cent discount rate, the full project is assessed to have a much higher BCR of 1.67. The future orientation of the project's benefits gives rise to the potential that alternative projects with lower lifetime benefits could perform more favourably under a 7 per cent discount rate.

The need to review discount rates is heightened due to COVID-19. A much broader range of considerations are relevant to project selection than would normally be the case. This includes the need to maximise utilisation of spare capacity in the economy. Some types of projects, although they may have a relatively favourable BCR, may be less effective at absorbing spare capacity given their long lead times and specialised capability needs (which may be subject to capacity constraints).

Other aspects such as the discounting of benefits that flow across state borders could also be examined as part of the review.

Local government

Business NSW identified additional priorities to maximise the potential role that local government can play in our economic recovery. These are outlined on page 28 of *Back on track*.

ADDITIONAL PRIORITIES

Building additional automatic stabilisers

In an environment of radical uncertainty, *Business NSW* believes it is appropriate for funding envelopes for business support initiatives to be sufficiently flexible. The need for support initiatives, and their subsequent cost, may ebb and flow according to the prevailing circumstances. A recovery support program should be implemented even if it is difficult to estimate its likely cost. An advantage of automatic stabilisers is that they increase and decrease the level of fiscal support in response to changing economic circumstances.

Additional automatic stabilisers could, for example, include a more generalised border assistance program available to businesses that can demonstrate they are affected by ongoing border closures, no matter where they are located. A generalised border assistance program could operate as an automatic stabiliser as the cost and duration of the program would depend on the severity of impacts associated with state border closures.

Supporting business transformation

A priority for Government support should be to facilitate the utilisation of economic capacity. Many businesses have had to undertake very significant transformations to change the way they do business. For many, this has required significant investments to upgrade facilities and alter business processes to adapt to COVID-19.

As JobKeeper starts to be wound back there is likely to be a new wave of business transformation as old business models can no longer be supported. *Business NSW* believes there is a strong case for the Government to support these businesses in successfully transitioning to the new normal. *Business NSW* has developed more detailed proposals outlining the type of advice and support the Government could provide, including in areas such as tourism.⁵

Measures to boost customer demand for CBD businesses

Many CBD businesses have suffered due to the significant reduction in foot traffic associated with working from home arrangements. This applies to both metropolitan and regional CBDs.

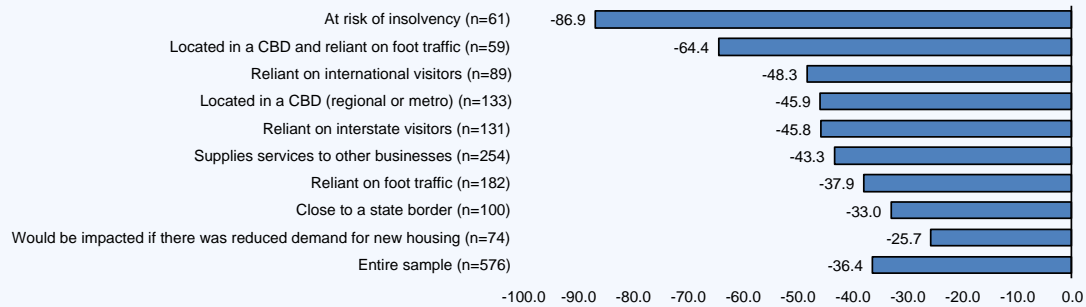
A recent survey conducted by *Business NSW* reveals that businesses located in a regional or metropolitan CBD that rely on foot traffic are among the most vulnerable (see Box 1). A larger share of these businesses reported revenue reductions, were more pessimistic about the impact of COVID-19 and were at a higher risk of facing serious challenges once support measures end. CBD businesses relying on foot traffic performed more poorly than other categories of affected businesses, including those reliant on international visitors and those that depend on demand for new housing. The only category that performed worse was businesses indicating they were at risk of insolvency.

⁵ *Business NSW* is able to provide these proposals separately upon request.

Box 1 – COVID-19 impacts by reported characteristic

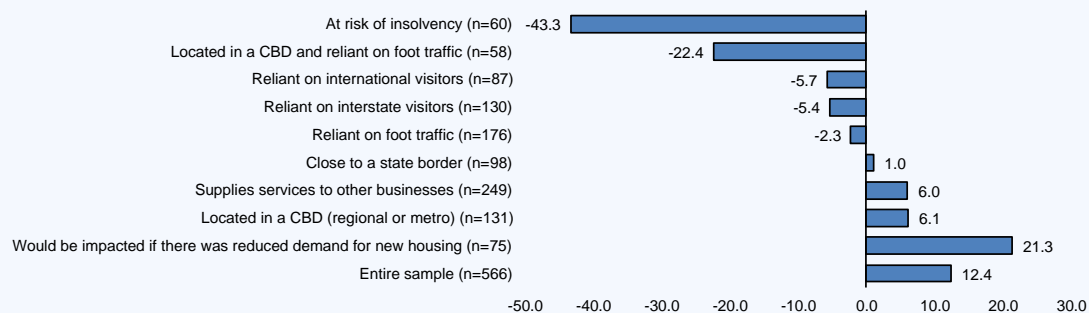
As part of our Business Conditions Survey, conducted in the second half of September 2020, *Business NSW* asked businesses to indicate whether a series of risk characteristics applied to their business, as well as about their recent business performance and outlook during COVID-19.

Revenue impact: Most affected businesses by reported characteristic



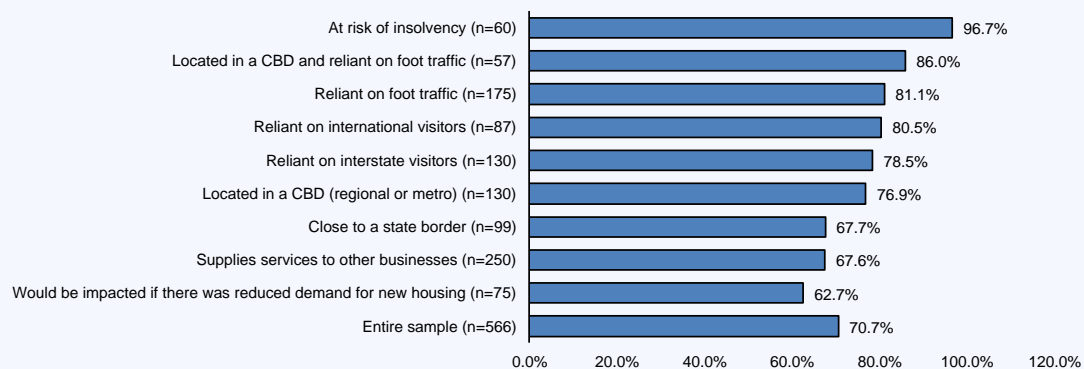
Question: Please indicate how you would rate the current performance of the following business factors: Total sales revenue.
 Note: Net scores calculated as the percentage reporting higher revenue minus the percentage reporting lower revenue.
 Businesses asked to self report whether the characteristic applies (multiple characteristics could be selected).

**Optimism about COVID-19:
Least optimistic businesses by reported characteristic**



Question: When thinking about your business, how optimistic are you about the impact of COVID-19 compared to three months ago?
 Note: Net scores calculated as the percentage reporting they were optimistic minus the percentage reporting they were pessimistic.
 Businesses asked to self report whether the characteristic applies (multiple characteristics could be selected).

**Businesses at medium-to-high risk:
Risk of serious challenge by reported characteristic**



Question: What is the risk your business will face serious challenges when support measures end?
 Note: Percentages are those indicating medium or high risk.
 Businesses asked to self report whether the characteristic applies (multiple characteristics could be selected).

Business NSW notes there have been a range of measures to boost demand in some industries acutely affected by COVID-19. For example, construction businesses have been supported by transfer duty concessions and the Commonwealth-funded HomeBuilder grant administered by Revenue NSW. These measures have boosted demand for the services of businesses acutely affected by COVID-19 and partially account for their relative strong performance when compared to CBD businesses that rely on foot traffic that have so far received less targeted support.

Similar initiatives, albeit on a smaller scale and designed in a way to maintain COVID safety, could help to reinvigorate CBDs and support small businesses that are dependent on CBD workers.

Taskforce to drive CBD revitalisation

Business NSW welcomes outcomes from the 2020 Summer Summit held on 18 September 2020. However, these initiatives must be quickly converted into action. This will require collaboration, coordination and commitment from local government, industry and business, along with relevant State Government agencies.

Business NSW supports a proposal by the Sydney Business Chamber to establish a 'Sydney Taskforce' comprising local government, industry and business representatives together with key State Government agencies. This Taskforce would take a whole-of-city approach and drive delivery of the priority actions for the summer period, as well as develop a medium and long-term action plan, to navigate the challenges to creating an even better and more liveable city.

The Sydney Taskforce would leverage and complement the work already underway across government, including through the Outdoor Dining Taskforce and the 24-Hour Economy Strategy.

The next round of infrastructure

The 2020-21 NSW Budget is an opportunity for the Government to commit to Stage 2 of the Parramatta Light Rail. It can also settle unresolved funding arrangements for major projects including future Metro lines (Metro West and Metro – Western Sydney Airport) and the Western Harbour Tunnel. This budget should also pave the way for upgrading Picton Road between the Illawarra and south Sydney to motorway standard.

Reviewing Restart NSW

The Government has committed to spend 30 per cent of Restart NSW funding in regional NSW. Between projects that have been advanced due to the pandemic, and others which may have been delayed, it is clear that published figures no longer accurately depict the status of this commitment. The Government should publish up-to-date figures showing current and expected Restart NSW spending with regional composition.

Pre-apprenticeship support

Our report *Skilling Australia for a Better Future: supporting apprenticeships through COVID-19* forecast 54,000 fewer commencements across Australia in 2020 and a cancellation rate of around 20 per cent.

Without significant intervention, *Business NSW* estimated that only around 180,000 apprentices will be in training in 2021, reducing Australia's skilled workforce pipeline to levels not seen since 1998. Fortunately, the Commonwealth's commitment to extend existing wage subsidies to new apprentices

and trainees should improve the outlook. However, there remains scope for additional measures to complement this initiative.

Business NSW recommends that NSW Government introduce additional pathways for young people into work. One such initiative would see a focus on funding and promoting pre-apprenticeship programs.

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

The pandemic offers an opportunity for the NSW Government to address this failing by introducing an industry-supported pre-apprenticeship program that would receive Recognition of Prior Learning towards a formal apprenticeship qualification. This would expand pathways into apprenticeships for many young people currently at risk of disengaging from the workforce.

Additional support for Group Training Organisations

Group Training Organisations (GTOs) have a critical role in post COVID recovery by reducing the risk for businesses when taking on apprentices. *Business NSW* believes Government could mirror the South Australian model by providing funding for employers to take on an apprentice through a GTO. South Australia's *Group Training Boost* also provides a travel and accommodation allowance for rural businesses to cover apprentice travel and accommodation expenses.

Return of international students

A Mitchell Institute study found the university sector faces cumulative losses of between \$10 billion and \$19 billion over the next three years due to lost international student revenue. The report also found the Australian economy could lose between \$30 billion and \$60 billion by 2023 due to reduced international student numbers.⁶ These broader economic losses are due to the loss of flow-on benefits such as tourism spending, accommodation and living expenses.

The recent announcement that a 'travel bubble' would be created between NSW and New Zealand further demonstrates NSW's leadership throughout the COVID-19 pandemic. *Business NSW* encourages Government to continue its leadership by supporting the return of international students to NSW, ideally with a plan agreed with the Commonwealth, for the start of the 2021 academic year.

Continuing efforts to boost R&D

Business NSW welcomes the Government's efforts to accelerate R&D commercialisation in NSW, including through the initiative led by the Hon. Gabrielle Upton MP.

We support and encourage the continuation of the Boosting Business Innovation Program as a mechanism to build closer links and stronger collaboration between our SME and university sectors.

⁶ <https://www.vu.edu.au/sites/default/files/australian-investment-in-education-higher-education-mitchell-institute.pdf>

Business NSW is also aware of proposals to boost the discovery-translation-commercialisation nexus, including the establishment of a network of Translational Research Centres. There is an opportunity for NSW to be at the forefront of efforts to build stronger partnerships between government, industry and research organisations.

For further information

For further information about our submission or *Back on track*, please contact Mark Frost, Chief Economist, on 0403 965 846 or mark.frost@businessnsw.com.