2022-23 NSW BUDGET SUBMISSION

February 2022

Introduction

CPA Australia represents the diverse interests of more than 168,000 members working in 100 countries and regions supported by 19 offices around the world. This includes over 42,000 members in NSW. We make this submission on behalf of our members and in the broader public interest.

Current conditions are challenging for NSW business. Many businesses face labour shortages, supply disruptions, increasing costs and weak customer demand. While some of these challenges are fading, the risks of weaker than expected global growth, further supply and labour shortages, inflation and future COVID-19 outbreaks and variants add considerable uncertainty to the short-term outlook.

Professional accountants are at the frontline of supporting businesses, including those in distress. Our members are telling us that business confidence is fragile, and the outlook is highly uncertain.

Given this challenging environment, we recommend that this year's budget include a business support package that helps businesses to:

- manage through current risks
- strengthen their ability to respond to future COVID-19 outbreaks
- take advantage of the recovery.

Not all support needs to be financial. We recommend that this package focus on building small business capability, and that emergency financial aid should only be offered in limited circumstances.

Our research shows that the digital capability of Australian small businesses is typically well behind their counterparts in Asia. This is likely to be a major reason why smaller numbers of Australian small businesses experience growth than small businesses in Asia. More extensive government incentives for business to use technology will help to address this digital gap.

While NSW net debt is forecast to exceed $100 billion by June 2025, we caution against raising state taxes and turning to austerity in this budget. Low population growth, low business and consumer confidence, high levels of business uncertainty and inflationary pressures mean that increasing the tax burden or austerity will impact business activity and standards of living.

We also recommend that the budget have fewer measures. New budget measures often include new compliance requirements. Less measures in this budget should therefore give businesses extra time to focus on themselves and their recovery.

CPA Australia believes that the budget should include important announcements on:

- building small business capability
- small business digitalisation
- tax reform
- addressing skills shortages
- reducing regulatory changes
- stakeholder engagement.

Our detailed recommendations on each of these topics are included below.

This budget will be framed against the backdrop of a virus that is likely to throw up further challenges and surprises. Therefore, future business support should be designed to build businesses' ability to manage through without the need for significant additional government support.

For more information

If you have any questions about this submission, please contact Gavan Ord, Senior Manager Business and Investment Policy, on gavan.ord@cpaaustralia.com.au or 0419 547 782.

Recommendations

Building small business capability through advice

COVID-19 continues to throw up new challenges for business. With new outbreaks and variants possible for some time, trading conditions are likely to wax and wane. Businesses need support to respond effectively to this changing environment. Future support packages should emphasise building the capability of businesses to respond to crises and position themselves for growth. For future outbreaks, emergency financial aid should only be offered in limited circumstances.

Recommendation 1

To support small businesses through the ongoing and evolving challenges of COVID-19, the government should provide financial incentives to small businesses to access tailored advice from advisers of their choice.

Smaller businesses can build their business capabilities in a variety of ways. It is our experience that one of the best and fastest ways is through professional advice.

Our members have informed us that because of current business challenges, many of their small business clients don't have the capacity to pay for advice or have not prioritised seeking advice due to competing pressures. We know this can potentially endanger the viability of such businesses and limit their options for recovery.

This reluctance to seek advice can grow when small business gets further into difficulty. Our members find that businesses in distress increasingly avoid communicating with others, including their trusted adviser. They attribute this to concerns over the cost of advice and a fear of appearing to be a failure.

With many businesses soon having to begin repaying deferred rent, taxes and loans, the risk of increasing numbers of business facing financial problems is rising. Such businesses should be reaching out for advice. However, we fear many will not without incentives to do so.

The consequence of not seeking advice is that the range of options available to business owners to respond to their difficulties can reduce significantly. This may lead to otherwise viable businesses needlessly struggling. In a worst-case scenario, decisions on the future of a business may be made by creditors, not the business owner.

Expanding or extending the business advisory services provided by governments or their contractors, such as Business Connect is only part of the solution.

This service only reaches a small proportion of businesses. Small businesses are instead significantly more likely to seek advice from a private provider, especially accountants. For example, yet to be published research by CPA Australia shows that 44 per cent of Australian small businesses received advice from an accountant or business consultant in 2021, compared to eight per cent who received advice from government.

Given the risks of future COVID outbreaks and shocks, the government should aim to quickly and efficiently build the capability of significant numbers of NSW businesses to respond to those challenges. To do this, we suggest the Government roll out support programs that leverage the considerable reach, scale, skill and community trust of existing professional advisers. This is likely to influence far greater numbers of small businesses to seek advice than if governments rely solely on their own advisory channels.

CPA Australia proposes that the government provide small businesses, especially those in difficulty, a financial incentive to access advice. This incentive could be in the form of a voucher or grant (we suggest around $1500). The small business would use it to access the advice they need from an adviser of their choice (for example, their existing professional accountant, lawyer or technology consultant).

Such a voucher or grant should encourage greater numbers of small businesses to access the tailored advice and guidance they need. This should improve their business, financial and planning skills, thereby enhancing their ability and confidence to manage through future COVID-related shocks without the need for significant emergency aid from government or extending the commercial rent relief scheme. It would also put them in a better place to manage the cash flow pressures that will come from repaying deferred rent, taxes and loans.

This proposal would assist with the emergence of stronger, more competitive and sustainable small businesses in the longer term. It would benefit not only the business, but also their employees and the broader economy.

The Tasmanian Government's COVID-19 Small Business Advice and Financial Guidance Program provides an example of such a scheme.

Digitalising small business

Over the past 13 years, CPA Australia has surveyed over 35,000 small businesses across the Asia-Pacific region. The results, presented in our annual Asia-Pacific Small Business Survey, show that the digital capability of Australian small businesses is typically well behind their counterparts in Asia. This gap is likely to be an important contributing factor to the low growth rates and poor productivity amongst many Australian small businesses.

Recommendation 2

Funding be significantly increased for programs that assist small businesses to improve their capability and capacity to digitally transform.

Recommendation 3

Increase the technology training available to small business. Such training should include cybersecurity and data privacy.

Australian small businesses are generally well behind their counterparts from Asia on technology adoption.

Examples of this gap include the percentage of businesses selling online. Of Australian small businesses included in our survey, 37.3 per cent generated more than 10 per cent of their revenue online in 2021 compared with the Asia-Pacific average of 60.6 per cent.

Another example is investment in technology. Australian small businesses were the most likely not to invest in technology in 2021 (35.1 per cent did not invest in technology compared with the survey average of 17.5 per cent).

When Australian small businesses do invest in technology, many do not seem to be making the best decisions. Of those that invested in technology in 2021, only 40.1 per cent said it increased their short-term profitability compared with the survey average of 67.4 per cent.

The digital gap between small business in Australia and small business in Asia is likely to have contributed to Australia's small businesses reporting lower growth in 2021 than their peers in the region (32.2 per cent of Australian small businesses reported growing in 2021 compared with the survey average of 47.3 per cent).

In turn, this is likely to have contributed to Australia's small businesses being the least likely in the region to have increased employee numbers every year since 2014 (only 7.1 per cent of Australian respondents reported that they increased employee numbers in 2021 compared with the survey average of 28.7 per cent).

For policymakers considering measures to support NSW's small businesses, improving the digital capability of the sector is essential. With a large majority of NSW's small businesses having less than five employees, access to professional advisers will be critical to achieving this improvement.

The size and scope of programs to improve the levels of small business digitalisation should match the scale and ambition of programs in other jurisdictions.

For example, Singapore's SME Go Digital (one of several SME digitalisation programs in Singapore), includes spending of S$250 million (A$259 million) to help businesses digitalise in partnership with digital platform solution providers. Hong Kong's HK$1.5 billion (A$270 million) Digital Business Programme supports enterprises to adopt IT solutions. Spain's Acelera PYME (SME Accelerate Plan) incentivises SMEs to accelerate the use of digital technologies. This plan comprises a EUR 200 million (A$316 million) fund to lend to SMEs for the purchase and leasing of equipment and services for digitalisation.

One local example of a technology support program the government should also consider is the Victorian Government's Small Business Digital Adaptation Program. This program provided a $1200 rebate to assist small businesses acquire a range of pre-approved technologies.

With Australian small business digital adoption rates well behind those in Asia, and with a strong link between digital adoption and business growth, the government should study and adapt some of these programs into NSW.

Soon to be released academic research commissioned by CPA Australia shows that uncertainty over how to best manage security and privacy is a major barrier to technology adoption. Other barriers include the attitude of senior management, compatibility, infrastructure and systems issues.

The research shows that these barriers can be reduced through better access to technology training, including on security and privacy issues, businesses developing their own technology strategy and through more extensive incentivisation of technology use by governments.

Tax reform

NSW faces significant debt challenges arising from COVID-19. This will impact the budget strategy for many years. However, with the economy facing several significant challenges, now is not the time to increase the tax burden or pursue austerity.

The government should prioritise reform of the state's tax system, with existing structural challenges having been exacerbated by COVID-19. Tax reform is fundamental to raising NSW's and the nation's productivity and achieving strong economic growth that will lift future living standards.

Reforms of the tax system can support economic recovery by improving the efficiency of revenue collection, reducing the costs of tax administration and compliance, and improving the balance between state tax revenues and federal government grants.

There remain opportunities for targeted improvements to support taxpayers and the economy in the coming years.

Additionally, opportunities exist to consider reducing some expenditures, for example, deferring or cancelling capital projects that don't have a demonstrable and immediate positive impact on business recovery and private sector growth.

Recommendation 4

Continue to progress GST reform with the federal government and state and territory governments.

The current dependence on personal and corporate taxes stands in contrast to other OECD economies that generate significantly more of their revenues from indirect taxes such as GST.

Reforming the GST system by broadening the base and considering an increase in the tax rate will not only improve the efficiency of federal taxes but will also allow NSW to reduce its dependence on more inefficient taxes, including stamp duty.

The NSW government should continue its leadership role in this essential reform by continuing to engage the federal, state and territory governments and the Australian public in meaningful and progressive discussion on the GST system for the future.

Increased revenues from GST grants will then enable state tax reform to progress as grant revenue replaces inefficient and comparatively high state taxes.

Recommendation 5

Continue efforts to reform land taxes.

With growing numbers of people from NSW unable to enter the residential property market, reforms that seek to stabilise house prices should be implemented. The inefficiencies and distortions introduced by stamp duties are well-understood and accepted. The government should continue its efforts to transition from stamp duty to annualised land and property taxes.

Recommendation 6

Improve the design of payroll tax.

For businesses that operate between and across our state and territory borders, payroll tax is disjointed, inefficient and time-consuming. The Australian Chamber of Commerce and Industry (ACCI) 2021 Issues Paper sets out the key challenges for business. We support efforts to unify, simplify and streamline payroll taxes across the nation.

Working with the Deregulation Taskforce on streamlining business reporting to integrate state payroll tax reporting requirements into a RegTech solution such as Single Touch Payroll will enable the government to enhance business productivity, improve certainty for employers and reduce expenditure on compliance activity. The outcome should involve nationally consistent concepts, definitions and reporting requirements using a nationally integrated platform.

Recommendation 7

Establish a tax to GSP cap.

A tax to gross state product (GSP) cap should be established to ensure that state taxes are proportionate to the level of economic activity and don't increase dead weight losses from taxation. This would also assist in integrating fiscal sustainability into the management of the state budget.

Addressing skills shortages

Skills shortages were present before the emergence of the Omicron variant. Identifying where such shortages are most pressing and increasing the size of the skilled labour pool, including professionals is critical to supporting businesses, jobs and the economy.

Recommendation 8

Work with the Federal Government, other states and territories and industry to identify where workforce pressures are greatest and increase the number of free or highly subsidised training places in those areas.

Recommendation 9

Work with industry and educators to provide career advisers with better information about occupations with the greatest skills shortages.

Recommendation 10

Work with industry and educators to improve the design of work experience programs.

Australian businesses have for some time found it difficult to access the skilled labour they need, including professionals. Engagement with members indicates this is having a negative impact on businesses in many different industries across the nation.

As a first step, identifying where the shortages are most acute will allow government to focus its efforts. Providing free or highly subsidised vocational training in areas identified as of greatest short-term need will increase the size of the skilled labour pool, reducing skills shortages.

Longer term shortages should be addressed through measures that encourage more people to complete vocational or tertiary education courses in areas of skills shortages, and greater skilled migration.

Measures to increase the local supply of in-demand skills include:

- providing career advisers in high schools and tertiary institutions with better knowledge of what occupations are in greatest demand and improving their knowledge of those occupations
- improving the design of work experience programs. This should include considering whether employers should be paid to take on work experience students. One example of this is the Victorian Government's SummerTech LIVE program, although for NSW, such a program should include students in other disciplines, not just technology given the significant shortages of professionals.

Reduce regulatory changes

In this challenging and uncertain environment, businesses need to focus on managing risks and challenges, and positioning themselves for a potentially very different future. Reducing the volume of budget announcements that involve regulatory change would decrease the time commitment required by businesses to comply with new laws, allowing them to better respond to the current environment.

Recommendation 11

The volume of regulatory changes announced in this budget be reduced to give businesses more time to focus on their risks and opportunities.

Recommendation 12

The government should ask its agencies to manage, delay or not proceed with regulatory changes to give businesses more time to focus on their recovery and growth.

A budget that has fewer short-term reform announcements than usual, and one which pushes back previously announced measures, will give businesses more time to focus on their business recovery and growth.

The time required to comply with new measures can be significant, especially for small business. Reducing the volume of proposed law changes in this budget (and administrative changes by government agencies) reduces the time required to understand and comply with such obligations. In turn, this gives businesses and their advisers extra time to focus on themselves in this difficult period.

Such an approach would be welcomed by many business advisers. Their workloads have remained significantly higher than usual since the beginning of the pandemic. This is primarily due to assisting clients with JobKeeper, JobSaver, the COVID-19 Business Grant, the new Small Business Support Program and rent relief for commercial tenants. They now need to focus their efforts on assisting clients through this current period.

Improving stakeholder engagement

Effective stakeholder engagement by government is not only essential to good policy development and its successful implementation, but also to driving NSW's economic transformation.

Recommendation 13

The introduction of a centralised stakeholder engagement function within government agencies to coordinate external consultation.

As an organisation that is regularly engaged by governments around Australia and the world, we believe the NSW Government has been very good with how they have consulted the business and professional community throughout COVID-19 and in earlier consultations on tax reform. However, as with all things there is opportunities for improvement.

Insufficient, rushed or overlapping consultations increases the risk of stakeholders not being able to appropriately respond to consultations. This can lead to poor policy development, unintended consequences and implementation issues.

In designing effective engagement processes, government agencies should recognise that external parties don't have the same level of resources as the government. They should also ensure they engage with relevant national, as well as local, organisations to get a broader perspective on important issues.

To improve stakeholder engagement, CPA Australia recommends that centralised engagement teams be established within agencies to:

- coordinate the timing of consultations across the agency (and with related agencies), ensuring that stakeholders have sufficient time to respond to consultations
- ensure there are a variety of ways stakeholders can provide feedback, and consider developing new and innovative approaches to engagement
- advise agencies of process improvements and best practice, as well as measure the effectiveness and inclusiveness of the process
- coordinate the running of regular consultative meetings between the agency and key stakeholders and consider having an external co-chair for such meetings.