

Making Western Sydney Greater

Foreword

Western Sydney is the fastest growing region in Australia and a heartland for Australian businesses and opportunities.

National accounting and advisory firm William Buck, in partnership with St George, the University of Western Sydney and Western Sydney Business Connection, is researching the experiences of businesses in Western Sydney.

The project originated from the commitment to Western Sydney that these four organisations share. The research seeks to identify the issues and opportunities faced by businesses in Western Sydney, and drive positive change.

In preparing our first Making Western Sydney Greater report, we have been able to draw on the responses of over 200 business owners and managers from across the region. Amongst all the research, three key themes that emerge are employment, infrastructure and business sentiment.

In this report we have identified what impacts the most on particular types of business in Western Sydney. From this flows a range of ideas on how these issues can be addressed, and how the opportunities in Western Sydney can be capitalised on.

Making Western Sydney Greater is an ongoing effort. The next survey of businesses will be undertaken in May 2015 and you are encouraged to participate. Contact us on research@williambuck.com for details.

Your participation will help make Western Sydney greater.

Highlights

Many of Sydney's greatest opportunities lie in Western Sydney. At the same time many of the challenges Sydney faces are most pressing in Western Sydney¹.



The engine room:
\$2m to \$30m turnover
businesses



The big opportunity:
Developing a workforce
for the future



Weaker performance:
+\$100m turnover
businesses



The big issue:
Employment related
regulations



Business sentiment:
Neutral to slightly
negative

Western Sydney By Numbers²

GRP (Gross Regional Product)

\$114 billion

Approx. Western Sydney GRP annually

38%

Approx. % of overall Sydney GRP

Population

2 million

in Western Sydney

4.3 million

in Sydney metropolitan

2026

Over 50% of the Sydney metropolitan population will live in Western Sydney by 2026

Key Centres

1 CBD



3 Regional Cities



8 Strategic Centres



2 Transport Gateways



3rd Largest Economic Region

1 Sydney

2 Melbourne

3 Western Sydney

Business Population³

28%

The percentage by which the Western Sydney workforce exceeds Western Sydney employment opportunities



Self Employed (no employees)*

- 60.1% of businesses
- Approx 78,000 businesses

226,000

The number of Western Sydney residents that need to travel outside the region each day for work



Micro (1-4 employees)*

- 28.2% of businesses
- Approx 36,700 businesses



Small (4-19 employees)*

- 8.7% of businesses
- Approx 11,300 businesses

80%

The percentage of the Western Sydney workforce employed by the SME & Large Business segments (15,200 businesses)









Other (Medium and Large, 20 or more employees)*

- 3% of businesses
- Approx 3,900 businesses

*Based on ABS classification

Economic Performance

	 Revenue	 Profits	 Capex
 GWS Region	3.5% ahead of budget	3.5% ahead of budget	0.8% ahead of budget
 SME Business	6% ahead of budget	6% ahead of budget	0.7% ahead of budget
 Large Business	2.2% ahead of budget	3.1% ahead of budget	3.1% ahead of budget

GWS Business Sentiment Index

-4.9

Neutral to slightly negative



The engine room:
\$2m to \$30m turnover
businesses



Weaker performance:
+\$100m turnover
businesses

The forecast financial results for businesses in Western Sydney are positive. On average, businesses expect to slightly exceed their revenue and profit targets and maintain capital expenditure.

Financial performance is strongest for SME Businesses, in particular those with turnover of \$2-\$30m. Capex is strongest in the +\$100m turnover businesses but financial performance is weakest in this group.

Despite this, businesses in the region are not positive about the outlook for their business in the short term. Analysis of the responses indicates that whilst the majority of businesses are close to neutral in their outlook, a material number are quite negative.

Business sentiment across the broader Australian economy continues to be below long term averages⁴. However in Western Sydney, the business sentiment is marginally more negative than that of the broader Australian business community.




Employment Trends

+2.3%

Increase in full time employees for SME Businesses

-1.7%

Reduction in full time employees for Large Businesses

	 GWS Region	 SME Business	 Large Business
Full Time	0.0%	2.3%	-1.7%
Part Time	-1.2%	-0.1%	-1.2%
Casuals	0.6%	-0.3%	-0.6%
Contractors	-0.6%	1.9%	0.6%
Employment Intent	Neutral	Slightly positive	Slightly negative

Employment Trends

As a region, employment intentions are essentially neutral, with limited change expected in the short term. Economic conditions and price pressure from customers are cited as the key contributors to this. This position is consistent with the outlook for the broader Australian economy.

When assessing employment trends for Western Sydney, it is important to recognise the three distinct subsets of employers in the region; self-employed and Micro Businesses, SME Business and Large Business.

When the three employer groups are separately considered, the situation is somewhat different.

Large Businesses, on average, are intending to reduce their workforce. Reductions are most likely to be achieved through termination of underperforming employees and via natural attrition. This approach is consistent with a group of businesses that foresee economic conditions remaining tight for some time. On the positive side, the responses did not indicate a likelihood of larger scale redundancy programs which are often an indicator of deteriorating economic conditions.

It is the SME Businesses that are the most positive in their employment intentions. As a group these businesses are expecting to increase employee numbers, in particular full time employees and contractors. This is consistent with their expectations of exceeding revenue and profit targets, but is perhaps surprising in light of the slightly negative business sentiment result for this group.

Interestingly, these same business cite workplace regulation and employment taxes as two of the most significant impediments to their businesses.





The responses clearly indicate the strength and potential of the SME Businesses in the region. Where increasing employment in Western Sydney is a key priority for State or Federal Governments, greater focus on the issues impeding SME Businesses would be an effective strategy.



Impediments To Business

Top 3

Impediments affecting businesses in priority order.

 GWS Region	 Micro Business	 SME Business	 Large Business
Workplace regulation	Calculating and reporting business taxes	OH&S	Workplace regulation
Multiple levels of Government	Payroll and employment taxes	Payroll and employment taxes	Multiple levels of Government
OH&S	Multiple levels of Government	Workplace regulation	OH&S

Impediments To Business

The Big Issue: Employment related regulation

More than taxation, and materially more than import/export regulation and environmental laws, it is employment related regulation that is negatively impacting businesses.

It is clear that changes to the current arrangements are required, however history tells us how challenging making these changes can be.

Micro Businesses do not consider employment related regulation an issue, whilst for SME Businesses it's 2 of their top 3 issues.

Revising the “phase in” of employment laws for businesses that grow beyond the existing exemptions could be beneficial.

Payroll Tax

Payroll tax is much more of an issue for SME Businesses than Micro Businesses (which tend to be under the thresholds) or Large Businesses (where other issues are relatively more important).

The NSW threshold and rate are \$750,000 and 5.45% respectively. In contrast, the Queensland threshold and rate are \$1,100,000 and 4.75%. SME Businesses are significant employers in the Western Sydney region, and are positive in their expectation of increasing employment.

Removing or modifying the imposition of payroll tax (itself an impediment to employment) would act as a real boost to SME Businesses, with flow on benefits to the broader economy.

SME Businesses are the ones that are entering the payroll tax system. A higher threshold for when businesses enter the system and a lower or progressive rate of tax once in the system should be considered.

Impediments To Business

Contractors

The treatment of contractors for payroll and employment tax purposes is a key area of complexity.

The dividing line between a person who is a contractor and a person who is an employee is not clear and differs for different laws. An individual may be classed as an employee for PAYG withholding, but a contractor for work place laws, or payroll tax.

With many businesses in the region expecting to maintain or increase their use of contractors in their workforce, greater clarity and reform of “employer” obligations for contractors should assist in reducing compliance costs for businesses.

Multiple Levels of Government

Dealing with multiple levels of government is a significant issue for micro businesses (that have limited resources to draw on) and Large Businesses (that are more likely to be exposed to complex issues involving multiple levels of government).

The impact of this issue on businesses should be kept clearly in mind by Governments seeking to change the current system.

Genuine harmonisation of State based laws or centralisation of laws to a Federal level would be beneficial to business.

The idea of devolving Federal Government powers and responsibilities to the States would potentially create bigger impediments to businesses, and reduce their growth potential.

Tax Reform Is Needed

Taxation compliance is a clear issue for Micro Businesses and smaller SME Businesses. This is linked to the availability of resources to deal with these compliance requirements, as the issue is relatively less important for Large Business.

Most businesses believe that they have a reasonable understanding of how the tax system applies to their business, but incur high compliance costs which are an impediment. The responses suggest that it is not the principles underlying the taxation system that are the issue, but rather the way in which the principles are being put into practice. Bureaucracy and unnecessary complexity in the laws would be two examples of this.

All businesses, but in particular Micro Business and SME Businesses, believe that they spend more money with their accountant and advisors on complying with tax laws than they spend on obtaining advice that would help improve their business.

On a positive note, electronic reporting to and interaction with the Australian Taxation Office has helped reduce compliance costs for businesses in Western Sydney. Ongoing enhancements to the electronic reporting systems should continue to deliver compliance reduction benefits.

There is strong support across businesses of all sizes, but especially Micro Businesses and Small Businesses, for the introduction of a simplified taxation system for businesses with turnover of less than \$25 million. This is a significantly higher threshold than those which currently apply for many of the exemptions and concessions.

A higher threshold allows more economically significant businesses to access the simplified system and benefit from the reduced compliance costs. A single threshold, as opposed to the current multitude of various thresholds, would be a worthwhile simplification in itself.

Unfortunately businesses are not optimistic about these changes occurring. Most businesses are of the view that the Government does not have a clear program for reducing tax compliance costs in a way that will help their business.

Priorities in Western Sydney

The 3 State Government Priorities for Western Sydney⁵:

1

Building new housing and urban renewal around centres in Western Sydney.

2

Fostering economic development in strategic centres and transport gateways in Western Sydney.

3

Connecting centres in Western Sydney to support their development.

The 3 Priorities Identified by Businesses in Western Sydney:

1

Improving public transport infrastructure throughout the region.

2

Creating employment and business hubs throughout the region.

3

Developing an integrated transport and logistics hub in the region.

A Workforce For The Future

We have a once in a generation opportunity emerging in Western Sydney, which will drive the future productivity of Sydney and New South Wales.

If the benefits of a major project such as the Badgerys Creek Airport can be harnessed to drive and grow development of SME Businesses the benefits for Western Sydney, and New South Wales, could be enormous.

Local procurement combined with employee skills development, targeted at SME Businesses, will be a way to achieve this.

Western Sydney businesses perceive a real need for prioritising local businesses as preferred suppliers for the airport's construction. This trend is strongest amongst Micro and SME Businesses. Whilst not as strong for Large Businesses, it is still in their top three priorities.

For the smaller businesses, there are particular issues around access to decision makers, development of skills and financial capacity which impede their ability to participate in larger infrastructure projects.

With a detailed plan for Western Sydney's development and growth, the skills and attributes of the workforce needed for its implementation can be identified. Businesses in the region can then be supported to invest in their employees and develop these skills and capabilities in a targeted way.

The most beneficial way that Government (at all levels) can provide structured support to businesses in Western Sydney is through additional funding for training of employees.

Targeted training combined with improved local procurement processes, can be the catalyst for development of Western Sydney's workforce for the future.

It is the SME Businesses that are the lifeblood of economic activity across Western Sydney. Supporting their growth is crucial to the region's long term success.

Public Transport

Since the 1960s, transport corridors have continued to focus on central Sydney. Many centres in Western Sydney are not as well serviced by public transport compared to centres in other parts of Sydney.

Businesses in the region have identified this as the number one State Government policy that could benefit business.

To encourage economic growth in Western Sydney, the State Government would do well to prioritise public transport improvement.

The existing State government transport priorities for the region are biased towards road improvements and motorways, which will further entrench car dependency in the region. These projects have their place, but an increased emphasis on public transport is needed.

Public transport is a high priority for business, regardless of size or industry.

Expanding existing public transport options to integrate with the Badgerys Creek Airport is seen by businesses as the standout priority for the airport.

A corridor for a heavy rail connection to the second airport is being preserved, but at present it is unlikely the rail infrastructure will be constructed until after the airport is developed. In the view of Western Sydney businesses, this will limit the economic and social benefits for the area.

Smaller projects linking strategic centres should be implemented in the shorter term, for example: linking Parramatta to surrounding centres such as Norwest, Macquarie Park, Westmead and Sydney Olympic Park. Larger infrastructure should be planned for the longer term.



Employment and Business Hubs

The recognition of Parramatta as the second CBD in Sydney and the importance attached to the other Regional Cities and Strategic Centres in Western Sydney is consistent with the desire of businesses to see employment and business hubs throughout the region.

Linked with health, medical and education precincts in the region, this should over time act to increase the knowledge based workforce in Western Sydney.

For employment to thrive in a Parramatta CBD, public transport for potential employees living in surrounding areas needs to be in place.

A strong CBD needs to be efficiently linked to surrounding business centres – by road and public transport.

A well connected second CBD in Greater Parramatta will increase our national and metropolitan reach. There will be new opportunities for business to invest.



Transport and Logistics Hub

Like public transport, an issue which is key to business in Western Sydney is the development of an integrated freight hub in the region.

This is seen by business as a key success factor for the Badgerys Creek Airport development and one of the main State Government policies that could support businesses across the region.

Sydney's freight infrastructure is currently concentrated on the Port Botany/Sydney Airport area. Over the coming years, the balance will need to shift so that greater infrastructure is developed to service the second airport, and through this obtain the economic benefits for Western Sydney.

Timing of the development will be a challenge, as the greatest economic benefits will be achieved if the freight infrastructure is online on or before the second airport is operational.

The State government has recognised this issue as a priority, for example, by reserving lands for future development as a freight hub. Policies to support businesses in making the necessary investment in infrastructure is now what is needed.

Increasing capital allowances (depreciation deductions) for the construction of new business premises in the region was the preferred financial incentive for all businesses.

Stamp duty exemptions on property acquisitions in the area were particularly attractive to SME and Large Businesses.

Increased capital allowances and exemptions from stamp duty help defray the large upfront cost of infrastructure-style investment, and present useful techniques for the Federal and State Government to use to support new development in the area.



Badgerys Creek

Businesses in Western Sydney identified three key priorities for ensuring the Badgerys Creek Airport delivers economic and social benefits for the area:

1

Expanding existing public transport options to integrate with the airport

2

Developing an integrated freight hub

3

Prioritising local businesses as preferred suppliers for the airport's construction

Over the longer term, Badgerys Creek Airport is seen as a catalyst for transforming and driving future investment and jobs growth in Western Sydney. It should generate new employment opportunities, give residents access to jobs close to home and directly link Western Sydney with global markets.





35,000

jobs will be created by 2035

60,000

jobs in the longer term

Supporting Businesses

 <p>GWS Region</p>	 <p>Micro Business</p>	 <p>SME Business</p>	 <p>Large Business</p>
<p>Funding for training of employees</p>	<p>Co-contribution for advisors</p>	<p>Funding for training of employees</p>	<p>Funding for training of employees</p>
<p>Tax incentives for research and development</p>	<p>Funding for training of employees</p>	<p>Payroll tax rebates</p>	<p>Tax incentives for research and development</p>
<p>Co-contribution for advisors</p>	<p>Forums for businesses to collaborate</p>	<p>Tax incentives for research and development</p>	<p>Payroll tax rebates</p>

Supporting Businesses

There are a range of ways that Government can provide structured support to businesses.

Funding for training of employees is a clear preferred option for businesses across the region.




Tax incentives for research and development is the next most preferred approach. This support, which is currently principally delivered through the Federal Government's R&D Tax Incentive, provides financial benefits to businesses that invest in creating new and improved technology, systems and products. It is these businesses that will increase the knowledge based jobs in the region.

SME Businesses and Large Businesses identify payroll tax rebates as a preferred approach for Government to deliver structured support to businesses. Reducing or removing the impediment to increased employment that is created by the payroll tax system would help support the economic growth of the region.

SME Businesses and Large Businesses show a preference towards Governments providing a level of financial support or incentive for activities that the businesses will undertake as part of their own operations – including training, research, and expanding their workforce.

For Micro Businesses the preference is slightly different. For these businesses the preferred approaches for Government to deliver structured support is through initiatives that overcome some of the inherent limitations of being a Micro Business. Accessing specialist skill sets that the business does not otherwise have the capacity to access through co-contribution for advisors was the number one preference. Creating forums for businesses to collaborate (which can be available internally within a large organisation but not a smaller one) was also an approach Micro Businesses value.

Key Concepts

 Micro Business less than \$2m turnover	 SME Business \$2m to \$100m turnover	 Large Business over \$100m turnover
Privately owned	Privately owned	Includes public companies, Government entities and some other businesses
Australian owned	Australian owned, but includes some foreign owned businesses	Australian and foreign owned
Self-employed / employ small number of individuals	Generally employ 10-100 individuals	Generally employ more than 50 employees, usually more than 100

About the Respondents

This report is based on a survey of 200 businesses based in Western Sydney that was conducted in November 2014.

The respondent businesses were approximately 20% Large Business, 50% SME Business and 30% Micro Business.

Approximately 90% of the individuals completing the survey identified themselves as business owners or senior management (CEO, CFO, Director or equivalent).

Source Information

¹ Highlights

A Plan for Growing Sydney
NSW Planning & Environment

² Western Sydney by Numbers

Parramatta 2038 Community Strategic Plan,
Parramatta City Council June 2013
Australian Bureau of Statistics

³ Business Population

A Plan for Growing Sydney, NSW Planning & Environment
Parramatta 2038 Community Strategic Plan,
Parramatta City Council June 2013
Australian Bureau of Statistics

⁴ GWS Business Sentiment

NAB Quarterly SME Survey September Quarter 2014

⁵ Priorities in Western Sydney - The 3 State Government priorities for Western Sydney

A Plan for Growing Sydney, NSW Planning & Environment
Parramatta 2038 Community Strategic Plan,
Parramatta City Council June 2013



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