Small Business Commissioner

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Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Via website: https://www.pc.gov.au/inquiries-and-research/business-dynamism/

Dear Commissioners

Thank you for the opportunity to provide a submission to the Productivity Commission's inquiry into reducing barriers to business dynamism in Australia. The NSW Small Business Commissioner also appreciates the opportunity to meet with the Commissioners as part of this consultation. Building on that discussion, this submission highlights the challenges faced by small businesses when establishing, growing and closing a business.

The NSW Small Business Commission (the Commission) is an independent statutory office of the NSW Government. It provides strategic advice, advocacy, and affordable dispute resolution services across NSW, and serves as the Registrar of Retail Tenancy Disputes under the Retail Leases Act 1994 (NSW).

Small businesses play a critical role in the Australian economy, contributing to employment, innovation, competition and the vitality of local communities. The Commission welcomes this inquiry into reducing barriers to business dynamism and the opportunity to provide insights from its engagement with small businesses across NSW on opportunities to improve the regulatory environment.

Small business perspectives

Small businesses are fundamental to business dynamism, creating employment, fostering innovation and increasing competition across the economy. There are approximately 890,000 small businesses operating across NSW, each navigating different stages of the business lifecycle. The ability of a business to successfully progress through these stages depends on a range of factors, including the regulatory environment, access to finance and broader operating conditions. Businesses may encounter a range of barriers that influence their ability to enter the market, expand their operations or exit efficiently. While some barriers are specific to a particular stage of the business lifecycle, many affect businesses across multiple stages and have cumulative impacts on productivity, investment and innovation.

The Commission’s monthly Small Business Momentum Survey tracks business performance, confidence in future prospects, key business concerns, and attitudes towards emerging issues among small businesses across NSW. The May 2026 Momentum Survey included 674 respondents, with 45 per cent located in rural and regional NSW. The top concerns raised by small businesses were the cost of business inputs (87 per cent), red tape (76 per cent), and cash flow (72 per cent).

The Commission supports the intent of the inquiry and welcomes efforts to reduce regulatory and administrative burdens and improve the operating environment for small businesses across NSW.

Barriers to business dynamism

The Commission's engagement with small businesses across NSW indicates barriers to business dynamism often coincide with the cumulative impact of multiple regulatory, administrative and operational challenges.

While individual regulatory requirements may appear reasonable in isolation, their combined effect can create significant costs and complexity for small businesses, which often operate with limited financial resources, time and specialist expertise. Unlike larger organisations, which often have dedicated staff to manage regulatory obligations, small business owners frequently undertake multiple roles within their businesses, including operations, finance, compliance, marketing and workforce management. As a result, time and resources spent navigating complex regulatory requirements are diverted from activities that support productivity, innovation and business growth.

The Commission also recognises that some groups of small business owners may experience additional or more pronounced barriers to business dynamism. Aboriginal and Torres Strait Islander business owners, culturally and linguistically diverse (CALD) business owners, women in business, and businesses operating in rural and regional areas may face unique challenges in accessing information, navigating regulatory requirements, securing finance, and accessing support services. These additional barriers should be considered when designing and implementing reforms to ensure regulatory settings support business dynamism across the diverse small business community.

Regulatory burden

Regulatory complexity affects businesses at every stage of the business lifecycle. It can delay business entry by making it more difficult for prospective business owners to understand and comply with regulatory requirements, constrain business expansion by increasing ongoing compliance costs and administrative burdens, and create additional complexity for businesses seeking to restructure or exit.

The Commission's engagement with small businesses indicates that regulatory requirements can be particularly challenging for first-time business owners to understand. Regulatory information is often fragmented across multiple agencies and online portals, making it difficult for businesses to identify which approvals are required and the order in which they should be obtained. Businesses have also reported uncertainty about the most appropriate business structure when applying for an Australian Business Number (ABN), the licences and permits required for their operations, and the regulatory obligations that apply to their business. Feedback from businesses navigating permit requirements also suggests that the wording used in permit conditions is often vague and confusing, and that businesses are frequently unable to obtain clarification.

Small businesses also experience administrative complexity in complying with their obligations. Responsibilities are spread across multiple government agencies, each with different systems, processes and information requirements. Feedback from small businesses indicates that they are frequently required to provide similar information to multiple agencies, navigate separate online portals and comply with overlapping administrative requirements. This duplication increases the time and cost of establishing and operating a business.

The Commission’s research reinforces the challenges small businesses experience when navigating regulatory processes. In an April 2026 survey focused on creating sustainable economic growth, 21 per cent of respondents identified regulatory or approval requirements as a barrier to growing, diversifying or accessing new markets.

Intelligence received by the Commission indicates business registration, planning and development approvals, licensing requirements and ongoing compliance obligations are challenging for small businesses.

Planning approval pathways are frequently raised by small businesses as a significant concern. Business registrations and development applications can be costly, complex, time-consuming and involve lengthy processing timeframes. These challenges may delay investment decisions, discourage expansion and reduce businesses' ability to respond quickly to changing market conditions. This is reflected in the Commission’s April 2026 survey, in which 34 per cent of respondents reported local council processes had a somewhat or very negative impact on their ability to expand, diversify or grow over the past three years.

The Commission has also heard that licensing frameworks can create barriers to business entry and expansion, particularly where operations are conducted across jurisdictions. Differences in licensing categories, qualification requirements, scopes of work and administrative processes between states and territories can increase compliance costs and reduce workforce mobility. Feedback received by the Commission suggests that inconsistent occupational licensing frameworks create unnecessary administrative burden for small businesses seeking to expand interstate or deploy workers across multiple jurisdictions.

While Australia's mutual recognition arrangements have improved labour mobility, businesses continue to report uncertainty regarding licensing obligations and the recognition of equivalent qualifications. Greater national consistency, clearer guidance and improved administrative processes would reduce duplication while maintaining appropriate professional standards.

The Commission also notes that continuing professional development (CPD) requirements can create additional administrative burden, particularly where course content has limited relevancy. For example, feedback from businesses in the accommodation industry highlights concerns about being required to complete mandatory CPD courses and seminars that are not relevant to their profession, such as being required to attend a forum on underquoting laws.

The Commission considers there are opportunities to improve business dynamism by reducing duplication, improving coordination and information sharing between government agencies and ensuring regulations are proportionate and relevant. Coordinated approaches that provide businesses with a single point of contact for planning, licensing and approval processes also have the potential to reduce administrative burden while maintaining appropriate regulatory oversight. Additionally, the provision of clear and accessible guidance, especially for CALD small business owners, will support businesses in understanding regulatory requirements and compliance obligations.

<u>Business operating environment</u>

The Commission recognises that business dynamism is influenced not only by regulation, but also by the broader operating environment in which small businesses operate.

Through its engagement with small businesses, the Commission consistently hears that rising operating and input costs are a significant challenge to business growth and expansion. This is reflected in the Commission's April 2026 survey, in which 51 per cent of respondents identified high operating and input costs as a barrier to growing, diversifying or accessing new markets. These challenges are more pronounced for small businesses operating in rural and regional NSW. In the same survey, 73 per cent of rural and regional businesses reported that increased fuel and operating costs had a somewhat negative or very negative impact on their ability to grow, diversify or expand over the past three years, compared with 62 per cent of respondents located in Greater Sydney.

Of particular concern were fuel costs, wages and insurance. Fuel security, including both affordability and supply reliability, remains a challenge for small businesses, particularly those that rely on road transport, freight networks and fuel-dependent machinery to undertake day-to-day operations. Higher fuel costs and supply disruptions can increase freight expenses, delay production and reduce businesses' capacity to invest in growth and access new markets, particularly in remote locations.

Wages and payroll are frequently raised as concerns by businesses. Increases in average wages along with payroll tax obligations can represent a substantial additional cost. For many businesses that operate on tight financial margins, this may limit their ability to employ staff and present a financial barrier preventing or dissuading them from expanding their operations. While the Commission recognises that responsibility for payroll tax rests with the NSW Government, the impact on business growth and viability should be considered in the context of this consultation.

Access to insurance is another operating constraint experienced by small businesses. Feedback from the Commission's engagement activities indicates that small businesses experience a range of barriers and challenges when assessing insurance needs, identifying and accessing relevant policies, paying annual premiums, and making claims. As with the broader market, affordability and availability also remain persistent challenges. These pressures are particularly acute for small businesses that are required to maintain insurance in order to operate.

Insurance affordability and availability constraints are especially pronounced for rural and regional businesses and businesses that operate in higher-risk locations, including areas exposed to natural hazards such as flood. The impacts of insurance availability are reflected in the Commission's April 2026 survey, where more than half of the respondents (58 per cent) in rural and regional NSW reported that insurance availability had a somewhat negative or very negative impact on their ability to expand, diversify or grow over the past three years. In comparison, 35 per cent of businesses in Greater Sydney reported insurance availability as having a negative impact, further highlighting that insurance challenges are felt more acutely by businesses in rural and regional NSW.

The significant premium pressure facing regional businesses has been highlighted by peak business bodies in NSW. Business NSW regional representatives report that operators in regional and remote areas are experiencing acute affordability challenges, with many noting that rising insurance costs, compounded by state insurance levies such as the Emergency Services Levy (ESL) and stamp duty, are placing an unsustainable burden on local operations[1].

In addition to affordability and availability challenges, stakeholders have raised concerns about the suitability of insurance payout structures. The prevailing "build back as before" model often requires businesses to reinstate damaged premises in the same location and configuration, even where that site has demonstrated repeated vulnerability. This limits flexibility for operators to adopt more resilient rebuilding approaches or relocate within their community, leaving some businesses exposed to ongoing risk and perpetuating affordability and availability pressures.

Addressing these issues will require improvements to risk modelling, incentives for insurer participation in thin markets, and ongoing monitoring of how products are designed and priced, particularly in rural and regional locations.

Access to finance

Access to finance is an important enabler of business dynamism. It influences the creation of new businesses, the expansion of existing businesses and whether financially viable businesses can restructure or adapt during periods of economic stress.

The Commission has heard from small businesses that accessing finance can be challenging, particularly through major banks (Tier 1 lenders). While newer businesses may have limited trading histories, established small businesses can also face difficulties meeting lending criteria or providing the security required to access finance. As a result, businesses have reported that they are often required to seek finance through non-bank or lower-tier lenders, which may offer finance at higher interest rates and on less favourable terms.

While lending decisions are commercial in nature, the Commission considers that government-backed loan programs can play an important role in supporting viable businesses that experience difficulty accessing traditional finance. There may be value in reviewing the accessibility, awareness and effectiveness of these programs to ensure they continue to meet the needs of small businesses.

[1] New England Times (2026), Business NSW demands insurance reform.

Workforce challenges

Workforce availability remains a significant challenge for many small businesses across NSW, particularly those in rural and regional areas. Feedback from the Commission's engagement with small businesses suggests shortages of skilled workers continue to constrain business operations and productivity. Businesses report difficulty attracting and retaining workers, with labour shortages often intensified by competition from higher-paying sectors and smaller local labour pools. In some cases, these constraints delay expansion plans, reduce productivity and limit the ability of businesses to diversify into complementary activities or respond to emerging market opportunities. According to the Commission's April 2026 survey on creating sustainable economic growth, 23 per cent of respondents identified workforce limitations, such as skills shortages, capability gaps or staff availability, as a key barrier to growing, diversifying or accessing new markets, including exports. More broadly, 43 per cent reported that staff and skills shortages had negatively affected their ability to expand or grow over the past three years.

Feedback also indicates that higher wages are often necessary to attract and retain workers in regional areas. While these wages are essential to securing staff, they can place additional financial pressure on businesses operating on narrow margins, further constraining investment and growth.

Business restructuring and insolvency

An effective restructuring and insolvency framework is an important component of business dynamism. It enables viable businesses experiencing financial distress to recover where possible while facilitating the orderly exit of businesses that are no longer sustainable.

The Commission supports the intent of the Small Business Restructuring (SBR) framework and recognises the important role that early restructuring can play in preserving businesses, employment and economic activity. However, stakeholders have identified several barriers limiting the effectiveness of the framework. A key concern is the limited availability of appropriately qualified restructuring practitioners and turnaround specialists, making it difficult for financially distressed businesses to obtain timely advice and access restructuring pathways before financial difficulties become irreversible.

Stakeholders have also identified instances where NSW industry-specific licensing and insurance arrangements may unintentionally undermine restructuring outcomes. For example, in the building and construction sector, businesses have raised concerns that participation in restructuring processes may affect licensing or insurance arrangements required to continue trading, reducing the effectiveness of the SBR framework for small businesses that have the potential to recover.

The Commission considers that effective restructuring frameworks should support legitimate business recovery while maintaining strong safeguards against illegal phoenix activity. Reviewing unintended regulatory barriers that discourage restructuring, improving access to restructuring practitioners and strengthening early intervention mechanisms would better support business dynamism by enabling viable businesses to recover and facilitating the efficient exit of businesses that are no longer sustainable.

The Commission appreciates the opportunity to contribute to this consultation and supports continued collaboration to reduce barriers to business dynamism. Through its ongoing engagement with small businesses across New South Wales, the Commission is well placed to provide practical insights into the challenges affecting business establishment, expansion, restructuring and closure.

The Commission also welcomes the opportunity to continue engaging with the Productivity Commission as this work progresses, and to contribute to the development and implementation of future policies and initiatives that support small business dynamism.

Yours sincerely

Kalina Koloff
Commissioner
NSW Small Business Commission

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