BCA

Business Council of Australia

Unshackling the private sector – a business-led recovery

Budget Submission 2022-23

February 2022

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Overview

A growth agenda is the only way forward

> The budget has two tasks: to drive a strong recovery by releasing the brakes on the private sector and to lay the foundations for sustained higher economic growth to create the conditions for higher wages and paying down debt.

The spread of the Omicron strain of COVID during the Christmas and January period is forcing the nation to rethink the way it deals with the virus, reopening and recovery. Where once it was presumed the pandemic would have an end date, Australia must now shift its focus to getting on with the recovery while the virus becomes endemic.

This means that private sector led growth is the only option for the 2022-23 Budget. The focus must be on addressing the immediate constraints to recovery, particularly labour shortages, while at the same time building the foundations for higher and sustained economic growth to set Australia up for a secure and prosperous future.

The Business Council of Australia's budget submission therefore puts forward practical actions which will help lay the groundwork for higher real wages and improve the capacity to pay down debt without eating into our ability to fund major structural spends in aged care and disability. Without generating faster private sector led growth, Australians cannot realise higher living standards or seize new opportunities to get ahead.

The budget must fast-track the baton change from the government to the private sector, unshackling business so it can hire, invest, export, innovate and expand.

This means addressing the speedhumps that threaten to stall the recovery and continue to stand in the way of building a more dynamic, competitive, globally facing and advanced economy.

With all efforts rightfully focused on managing the pandemic, there has been little room to address ongoing economic issues, some of which have deepened while new ones have been exposed. The window to remove the barriers to growth is rapidly closing.

The budget cannot miss this opportunity.

Recovery and growth is driven by the private sector

Public spending continues to put a floor under the economy, but it is now time to unleash the private sector so it can continue the job of recovery and lay the foundations for the future. The private sector is currently constrained by worker shortages and supply side constraints that hold back investment. These shortages will continue to be exacerbated by workplace absences due to the Omicron variant of COVID. These need to be urgently addressed. Without action, activity will stall and the economy risks eventually floundering.

By putting in place targeted, common-sense and practical measures, Australia can recover lost ground. Restarting the private sector engine of growth will support investment, productivity and jobs. Labour productivity has been by far the single most important driver of Australia's economic growth over the long term. It has accounted for 80 per cent of the improvement in average income growth over the past 40 years. This is the only way to sustain higher wages and create the revenues needed to begin repairing the budget.

Increasing productivity growth from 1.2 per cent a year to 1.5 per cent would by 2060-61 deliver:

- $13,300 higher GDP per person
- an almost halving of the budget deficit, or $47 billion lower in today's dollars
- almost 40 per cent lower net debt, or around $480 billion lower in today's dollars

To address worker and skills shortages, a three-pronged response is required. We must do more with the people who are here such as making it easier for women to return to work and advance. We must provide greater and better ways for Australians to rapidly upskill in areas of shortage through a more ambitious National Skills Agreement that provides greater flexibility and support for lifelong learning. We also need a two year 'catch up' in the annual permanent migration program that targets skills shortages and helps the economy grow.

There must be a continuous, reliable and predictable way of bringing people into Australia, regardless of new strains of the virus. The imminent full reopening of Australia's international borders to all vaccinated travellers, including tourists, business-related visitors, students and other visa holders, is a welcome step.

The shortage of workers affects everything from whether people can get a table at their favourite restaurant, or a small business has the staff to expand, and right through to the scarcity of highly skilled and experienced surveyors, engineers and construction managers vital to getting big projects off the ground. These projects unlock jobs and opportunities for Australians and support communities.

Unleashing the private sector to realise our potential

The two key tasks are to release the handbrake on growth and create the new investment opportunities to sustain growth. We must create the conditions to attract greater levels of foreign investment and for Australian companies to have the confidence to invest in major projects. Temporary incentives have been effective in encouraging short term increases in plant and equipment spending but to achieve a structural turnaround in investment more fundamental changes are needed.

We must reface the world and reorientate into the global economy.

This is one of the key benchmarks of the budget – has it made it easier for investment dollars to flow into Australia and for companies to spend that investment in driving the recovery as well as laying the foundations for the future through strengthening existing industries, creating new ones and delivering sustained higher wages?

It's why our recommendations go to unlocking the investment potential in Australia by removing unnecessary and burdensome regulation that stands in the way of innovation and growth and ensuring an efficient tax system.

Greater levels of investment and coordination are the vital ingredients to developing new industries, commercialising homegrown ideas into export-sized ventures, and accelerating the adoption of a digital economy.

There are significant new opportunities arising in the global economy in areas like clean energy and advanced tech – but these require new strategies. Without attracting capital to these new opportunities, it's impossible to invest in the future; it's harder to get the right foundations in place for a more modern and advanced economy.

Alongside the budget focus of growing the economy faster, we must start doing the structural work on controlling the growth in spending.

We have accumulated a large public debt during COVID which must eventually be repaid. Net debt is at its highest ever level as a share of GDP and is expected to grow. Debt is more than a bookkeeping entry. It reduces our flexibility to respond to a shock. And a strong budget enables us to pay for quality schools, hospitals and a social safety net now and into the future.

Debt is not costless; the interest bill alone means there is less money to pay for services. It also leaves us vulnerable to even modest movements in interest rates to service that debt.

In fact, the Intergenerational Report projected that annual interest payments will more than double over the next few decades to almost two per cent of GDP. This is around $40 billion a year on interest payments alone – enough to pay for Medicare each year.

Growth is the only way out.

Without growing and profitable businesses – that provide revenue to government coffers as well as employing more workers who pay tax – we constrain the nation's ability to provide new services and create new opportunities. Growth enables us to build a better society.

The 2022-23 Budget needs to be judged on its ability to maintain the momentum of the recovery while placing the nation of a trajectory of growth that allows Australia to become a more advanced, diverse and innovative nation.

The recommendations in this budget submission provide practical ideas on how these challenges can be met, through rebuilding the labour force, making the tax and regulatory environment more competitive for business, building future capability and putting government finances on a more sustainable footing.

Top priorities

Rebuilding the labour force

1. Catch up on lost skilled migration to maintain the recovery by raising the annual permanent migration program to 220,000 people in 2022-23 and 2023-24, reverting to 190,000 in 2024-25, and reweighting the skills stream to 70 per cent.
2. Encourage more women back into the workforce and sharing of parental responsibilities by introducing a shared carer paid parental leave bonus.

Making the tax and regulatory environment more competitive for business

3. Support the business-led recovery by making permanent the reduction of red tape measures during COVID-19 such as delivery curfews and retail trading hour restrictions.
4. Enhance the competitiveness of Australian businesses by raising the turnover threshold for the 25 per cent company tax rate to either $250 million, $500 million or $1 billion and switch to a domestic turnover test.
5. When fiscal conditions permit, drive a sustained increase in investment in the medium term through either:
    a. A lower company tax rate, phased through a higher turnover threshold, or
    b. Introduce a broad-based investment allowance of 20 per cent for all companies to provide for more sustained improvements in investment. It could initially be targeted at investment in emerging areas where competition for investment dollars will be strongest such as clean energy and digital technology/software.
6. Send a positive signal to foreign investors by introducing a fast-track approvals lane for regular and trusted clients of FIRB.

Building future capability

7. Increase investment in VET through an ambitious new National Skills Agreement, with accompanying reforms to ensure training is better targeted to the needs of learners and their employers, consistent with the priorities set out in the Heads of Agreement, including improved consistency, transparency and efficiency of funding, and support for lifelong learning.
8. Build up world-class nationally significant industry precincts by establishing a central future industries fund that supports local industries to develop capabilities, scale up and compete globally.
9. Make the most of the significant public infrastructure pipeline by tasking Infrastructure Australia and the state-based infrastructure bodies to coordinate and share information on the timing of procurements and sequencing of projects.
10. Accelerate the development of clean energy technology by scaling up funding to CEFC and ARENA to encourage private sector co-investment in untested and emerging clean energy technologies that may not otherwise reach the scale required to be commercial.

More sustainable government finances

11. Provide productivity payments to states and territories that implement beneficial reforms, including tax and regulatory changes. This funding should be 'at risk' and only available for jurisdictions that fully meet their commitments and follow through with reforms.
12. Support states that want to progress much needed tax reform, such as phasing out stamp duty, by providing them with a clear guarantee of no disadvantage in the allocation of GST revenues.

A growth agenda is the only way forward

The challenge will be how growth is sustained after this initial budget bounce back and after the effects of government stimulus fully work through the economy.

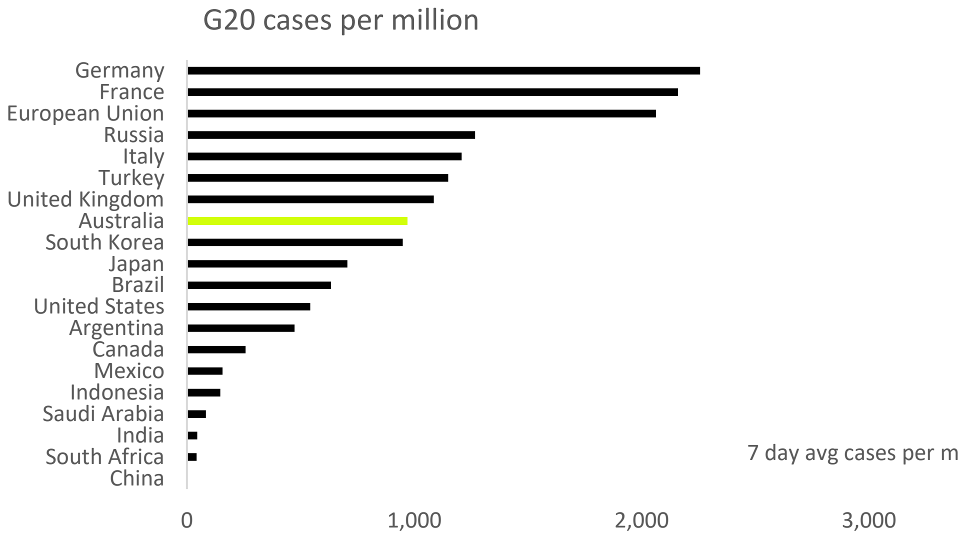
A sustained business-led recovery is only possible if there is a recovery in private investment.

Where are we now?

The economy

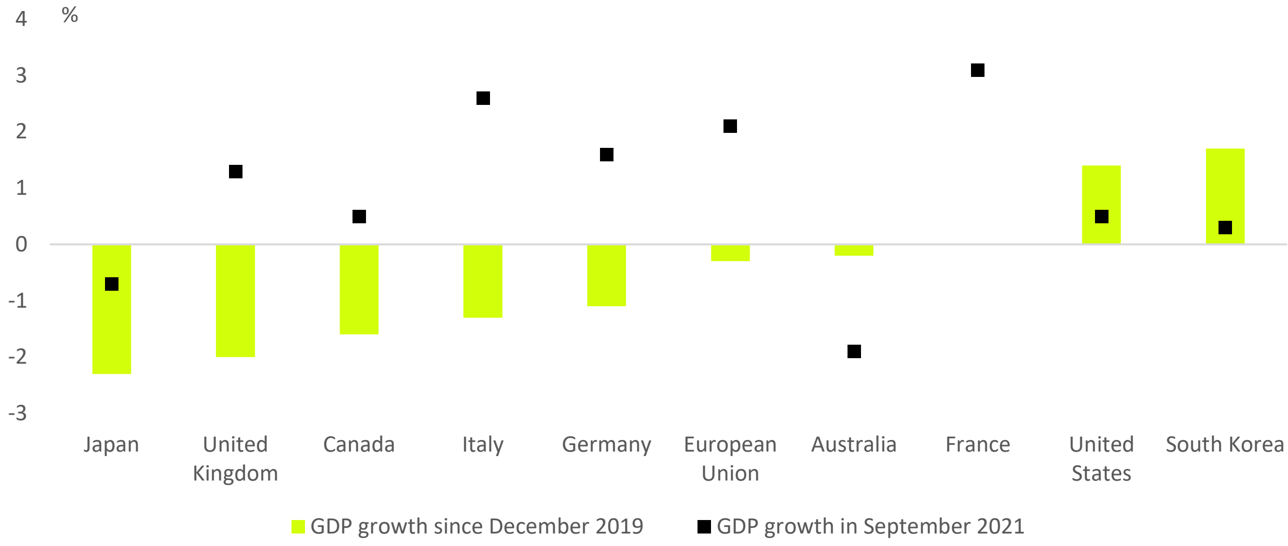
While Australia originally led the world out of recovery, this proved to be something of a false dawn, with other countries overtaking Australia during its period of vaccine catch-up. Australia is gradually reopening with the rest of the world and there have been signs of recovery following the end of the recent lockdowns in the eastern states. The Omicron outbreak saw cases surge across the world, with the outbreak particularly large in Australia relative to the size of our population. Australia is now no longer a COVID 'safe haven' with recent infection rates rising to levels comparable with other advanced economies.

Figure 1: Omicron surged and Australia is no longer a 'safe haven'



Source: Our World In Data

Figure 2: Australia's early COVID-19 advantage may have slipped



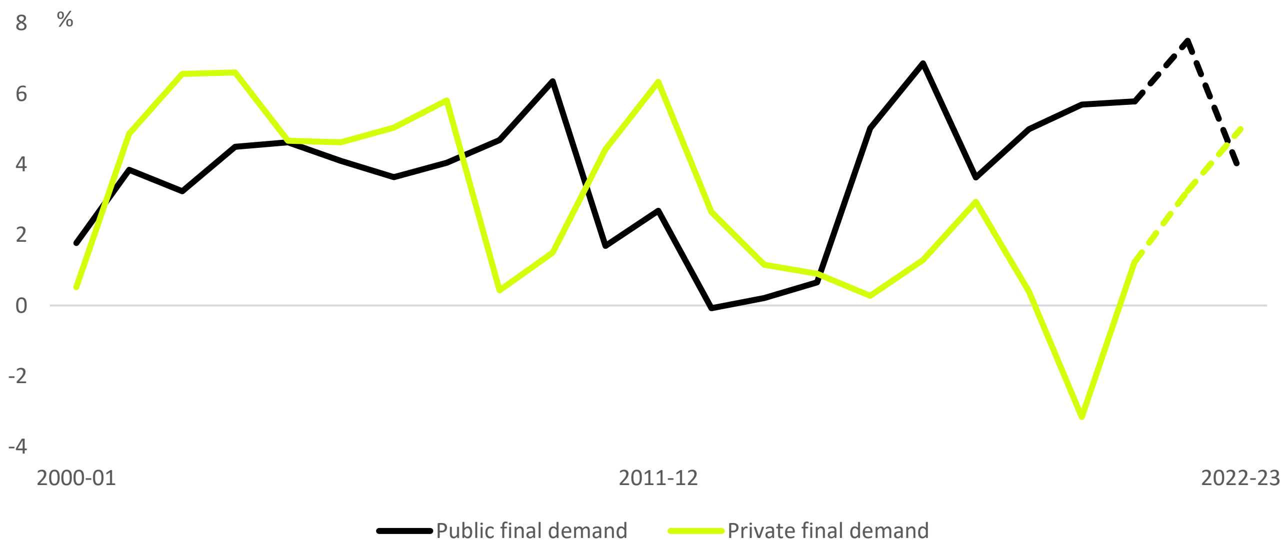
Source: ABS

Inflation pressures have emerged as a concern in Australia and the rest of the world. They reflect a combination of pent-up and changing demand as economies reopen and bounce back, extensive fiscal support and supply constraints (e.g. materials, labour, supply chains etc). The challenge for businesses and policymakers is to identify the extent to which these inflationary pressures reflect temporary factors that will soon pass versus factors that will contribute to enduring higher inflation across the economy. Government can play a role in relieving these supply pressures, especially in respect of the labour market.

Australia can expect a bounce in activity in the short term as the economy reopens as has happened in other countries that have emerged from extended periods of lockdown. This will be supported by the ongoing effects of fiscal stimulus and record low interest rates. The challenge will be how growth is sustained after this initial bounce back and after the effects of government stimulus fully work through the economy.

Public spending has supported economic growth and the recovery in recent years. A recovery in the private sector is the only sustainable growth path going forward, and official forecasts suggest private sector demand will take over from the public sector from next year for the first time in seven years.

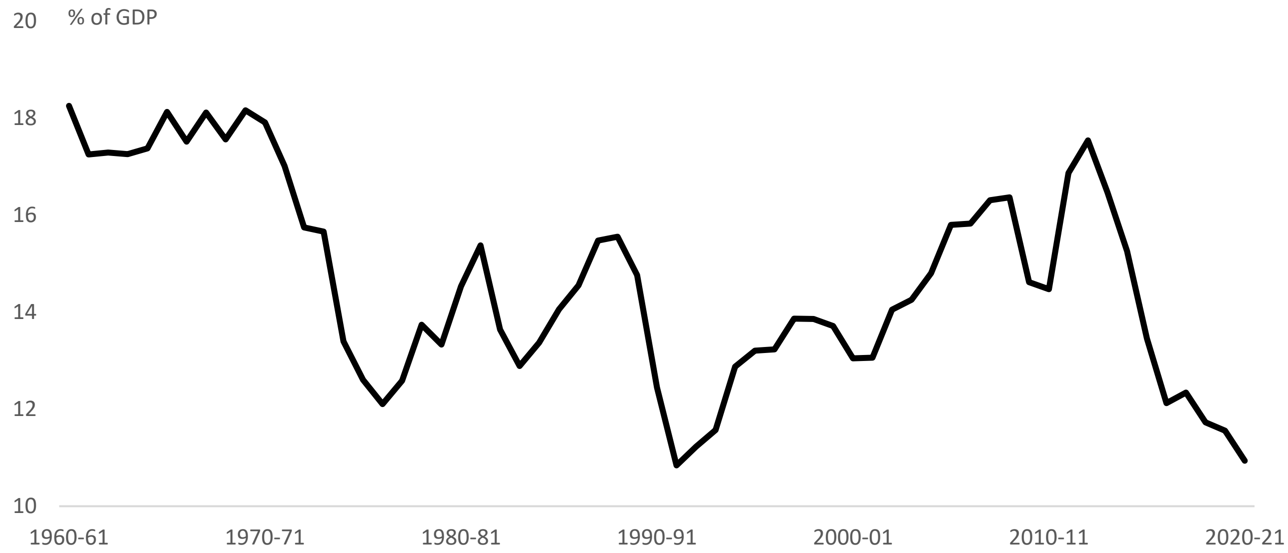
Figure 3: The private sector is forecast to drive growth next year



Source: ABS and MYEFO 2021-22

A sustained business-led recovery is only possible if there is a recovery in private investment. As a share of GDP, new business investment remains stuck at one of its lowest levels on record.

Figure 4: New business investment is around a record low



Source: ABS

Prior to COVID-19, business investment was already on a weak trajectory. There are global forces that are depressing business investment, with value being created more through intangible investment than traditional 'nuts and bolts' investment. In Australia, this trend has been reinforced by the fall from the peak of the resources investment boom, but also by more weakness in non-mining investment than is being experienced in other countries.

Weak investment has contributed to weak productivity in recent years. Productivity growth averaged less than half a per cent per annum for the five years pre-COVID-19, well below the rates of previous decades and below the rates observed in other OECD countries.

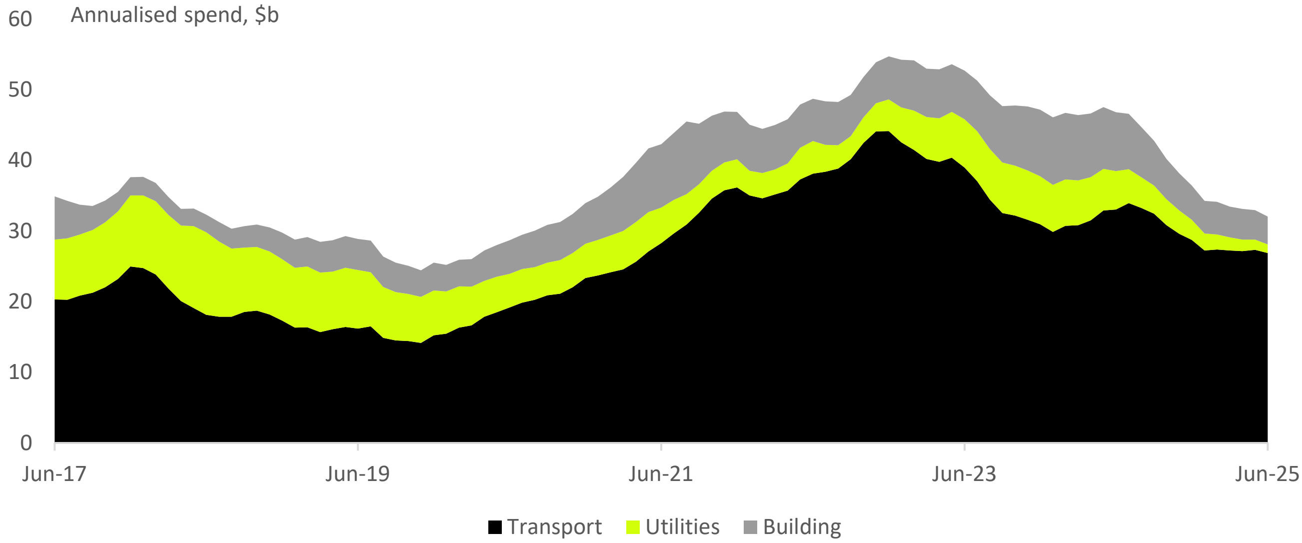
Productivity has been the single most important driver of Australia's economic growth. And it is investment that drives productivity growth and creates the basis for sustainable growth in real wages.

Businesses will hire an extra person when the value of what that person produces at least matches the wage paid. When a business invests, they expect to increase revenues and profits (and taxes), which leads them to employ more people and increase output per worker. This allows higher wages to be paid.

A lift in productivity growth is therefore needed to support sustainable increases in wages. Wage rises that simply reflect short term supply pressures are unlikely to support sustained increases in real incomes but will contribute to inflationary pressures. The recovery in productivity growth needed to support wages growth will in turn depend on a recovery in investment.

A bright spot for investment is the strong pipeline of public infrastructure investment. Infrastructure Australia reports that annual spending on major public infrastructure is expected to double in three years and to reach $290 billion over the next 10 years. The challenge is to ensure the pipeline of projects is managed in a way that adds to productivity and growth and doesn't create inflationary pressures through competition for resources from the same projects. The rising cost of building materials has been a contributor to recent inflation outcomes.

Figure 5: Major public infrastructure activity will almost double over the next three years



Source: Infrastructure Australia

Labour constraints risk being a hand brake on growth in the near term. Australia's relatively low unemployment rate is a welcome development, but it is also a sign that labour is becoming increasingly scarce, and this is a major challenge for businesses across the country. Growth will be anaemic until the labour supply constraint is eased and policies to lift productivity growth are adopted.

Getting the budget back on track

Strong growth is critical to securing a strong budget. People depend on this if governments are to continue delivering the services on which they rely. There are significant pressures to meet the ongoing costs of the health system, National Disability Insurance Scheme (NDIS), aged care, quality schools and a higher education system. A strong fiscal position is also needed to survive future economic shocks.

A domestic or global shock can happen quickly. To illustrate, over just two years:

- the global financial crisis triggered a $70 billion deterioration in the budget, and
- the COVID-19 pandemic triggered a $160 billion deterioration in the budget.

Whilst Australia's fiscal position has been significantly impacted by these events, Australia is in a better position than many countries globally, precisely because of the strength of the budget prior to the onset of the pandemic. This strong budget position was the product of years of fiscal restraint, as well as a strong economy to generate the revenues needed to fund services. It is imperative that our efforts focus now on restoring our budget to ensure our sustained ability to respond to future crises and navigate our way through the pandemic.

Net debt is at its highest level as a share of GDP – and expected to grow. Debt is not costless – it restricts the fiscal flexibility of future generations and the interest bill means there is less money available today for more services or lower taxes. It places a burden on the younger generation of working Australians who already face weaker income growth than in the past and a more difficult equation in getting on the housing ladder. The IGR projects annual interest payments will more than double over the next few decades to almost 2 per cent of GDP. This is around $40 billion a year spent on interest payments – enough to pay for Medicare each year. IGR sensitivity analysis shows a sudden increase in interest rates to the long run rate could leave the budget more than 1 per cent of GDP a year worse off next decade – or $21 billion a year.

One of the most enduring effects of COVID-19 is likely to be a smaller and older population than previously expected. The latest IGR projects the population will be smaller than that of the previous IGR.

Over the next decade alone, the population is expected to be smaller by 1.6 million people, which could see a cumulative GDP loss over that time of more than $1 trillion. This would mean around $250 billion less revenue than if the population had been higher.

Australians would be more than $7,000 worse off per person over the decade.

Both the IMF and OECD continue to point to the need for Australia to embark on tax reform to help promote efficiency, which includes reducing the reliance on company tax, replacing stamp duty with a land tax, and shifting the tax mix towards indirect taxes. For example, Australia's reliance on income taxes for raising revenue is the second highest in the OECD.

Long run fiscal pressures remain

The Intergenerational Report 2021 forecasts the budget will remain in deficit over the next 40 years, reaching a deficit of 2.3 per cent of GDP in 2060-61. Australia faces a structural spending and deficit problem, with spending projected to continue to grow while revenue is projected to decline due to falling non-tax receipts. The result is an ever-growing and unsustainable fiscal gap and debt build up.

- **Spending** is projected to continue to grow and to be higher than it was in the 2015 IGR. This will place pressure on efforts to contain and reprioritise spending growth. The growth in spending is largely driven by increases in health, aged care and interest payments. Upward revisions since the 2015 IGR reflect a smaller population and weaker prices and wages growth.
- **Revenue** is projected to increase the next 15 years until the tax cap is reached – largely driven by growing personal tax collections due to bracket creep. Company tax is expected to remain around its current share of GDP – albeit with some volatility due to the reliance on a small number of large taxpayers, and the finance and mining sectors. Total revenue falls despite the tax cap due to falling non-tax receipts, mainly due to a reduction in NDIS state contributions and Future Fund earnings.

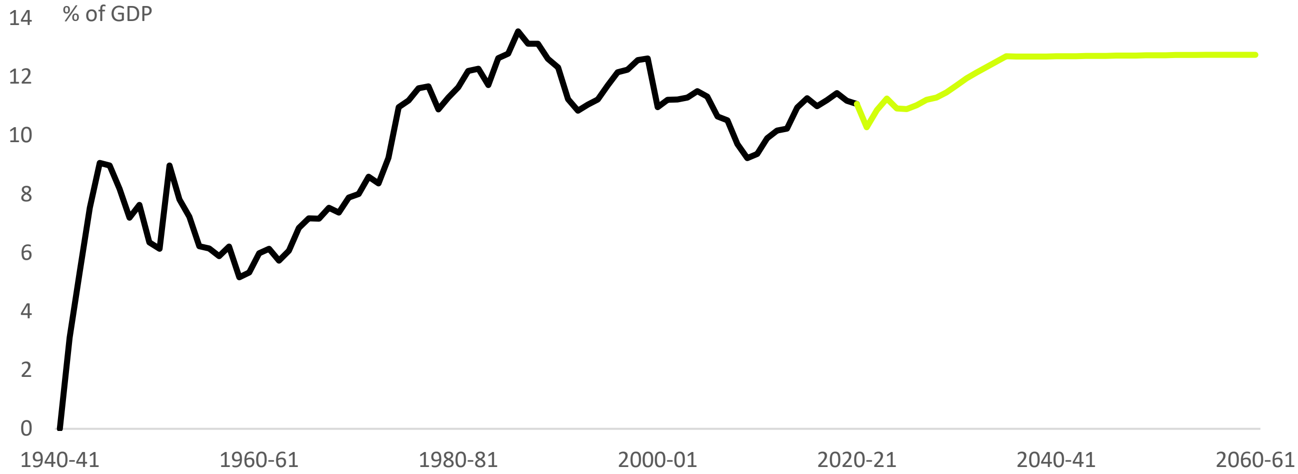
A coherent pathway back to a strong budget

It is critical that the budget sets out a coherent and credible long-term path for restoring the budget position progressively over time. It is important that the government maintains the budget discipline of a 23.9 per cent of GDP tax cap. Together with a commitment to stabilise then reduce gross debt, this will impose a disciplined approach to spending and a reconsideration of funding models for major expenditure items that will put pressure on budgets into the future.

A credible fiscal consolidation path will also need to be supported by a tax system that can deliver sustainable revenues into the future. Although personal income tax rates have been adjusted in recent years, bracket creep continues to erode incentives to work, save and invest.

The latest IGR confirms essentially all the recovery in tax receipts is projected to come through bracket creep in the personal income tax system, with company tax collections and GST projected to be quite stable as a share of GDP. By 2035-36, personal tax is expected to settle at 12.7 per cent of GDP – a level not seen since the late 1980s. Compared with today, personal taxes would be some $35 billion higher in today's dollars – or an average $2,400 higher for each taxpayer.

Figure 6: Without change, personal tax collections will soar to record highs



Source: IGR 2021

The Business Council strongly supports the government's legislated Personal Income Tax Plan. Australians will have more money in their pockets and the economy will receive a much-needed boost. The reforms remove disincentives that discourage workers from entering the workforce, working extra hours, or getting a new job. It achieves this while maintaining a progressive and fair tax system overall.

However, constant recalibration or indexation of tax thresholds is required to manage bracket creep. Average tax rates will continue to rise over the next few decades, disproportionately and unfairly hurting lower- and middle-income wage and salary earners.

Our tax system is also heavily reliant on the top income earners and a few key industries like mining and banking to generate the revenues to fund government services. The top three per cent of taxpayers pay over 30 per cent of all personal tax and the top 10 companies pay 30 per cent of all company tax. In part, this reflects Australia's heavy reliance on a few key industries and on a few key commodities such as iron ore.

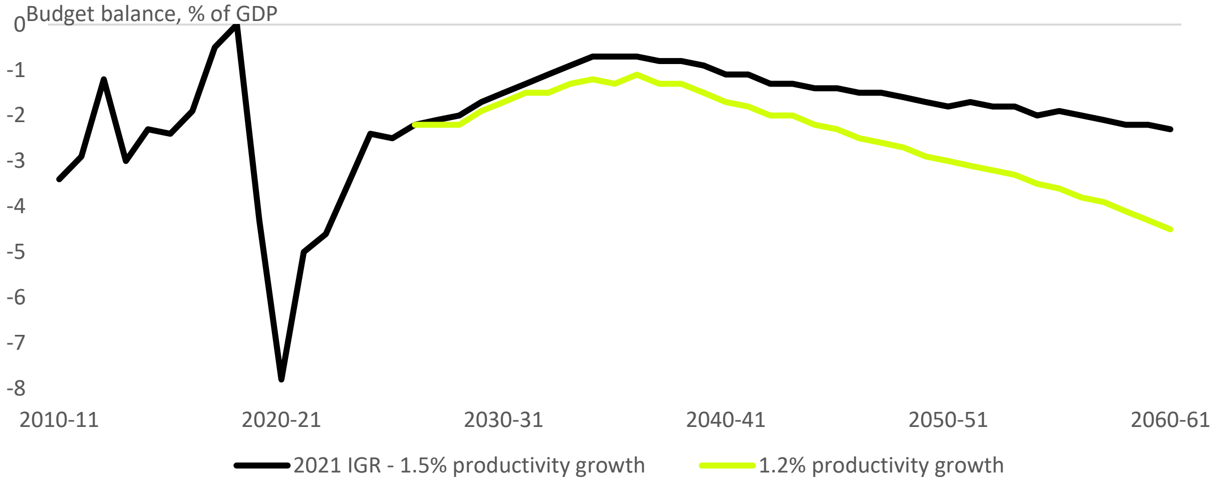
The fiscal dividend from higher growth

Solid productivity and economic growth is needed to support a strong budget. The IGR provides a comparison of economic and budget outcomes under a scenario of 1.2 per cent a year productivity growth versus 1.5 per cent a year productivity growth. Significant reforms will be needed to raise our current lacklustre productivity performance.

The benefits from higher of labour productivity growth are clear. By 2060-61, higher growth could see:

- GDP per person that is $13,300 higher – that means substantially higher incomes for average Australians
- an almost halving of the budget deficit, or $47 billion lower in today's dollars
- almost 40 per cent lower net debt, or around $480 billion lower in today's dollars.

Figure 7: Slower productivity growth spells a budget disaster



Source: IGR 2021

The low growth case could be the more likely scenario. Productivity growth has been averaging around this growth rate over the past decade. Indeed, consistent labour productivity growth above this rate has only been sustained for a brief period in recent history.

This underlines the importance of a private sector led recovery to support the budget. Only if we lift our investment performance and drive new industry opportunities will we achieve the productivity outcomes needed to improve our fiscal outcomes.

Recovery and growth is driven by the private sector

The recovery from COVID-19 must unleash the potential of the private sector and lay the foundations for a more modern and advanced economy. The first priority is rebuilding the labour force by addressing the supply constraints that threaten to hold back the recovery. These actions will also begin the reskilling process to achieve long-term, sustained growth.

Rebuilding our labour force

Australia's unemployment rate has hit lows not seen in over a decade and our labour force participation rates have held up, in contrast to the experience of many other countries. Australia now finds itself in a position where labour shortages are a key constraint holding back the business-led recovery. A strategy of rebuilding the labour force through migration and ensuring we fully utilise the existing workforce will be critical.

This means we need to catch up on lost skilled migration, make the most of our people including retaining COVID-19 skills programs to support the pipeline of apprentices, and by making it easier for women to re-enter the workforce, take on extra hours and advance.

The recovery and foundations for future growth cannot exacerbate inequality, and we must ensure people are better supported to gain the skills and training they need throughout their lives and no one is left behind.

Return of permanent skilled migrants is essential

Australia's migration intake does not depress local jobs or wages. To the contrary, skilled migrants boost demand, increase productivity and workforce participation.

With job vacancies high and rising, and travel restrictions easing, Australia must urgently seek to recover lost ground on population and economic growth through a boost to migration that goes beyond getting back to 'business as usual'.

Putting in place a medium-term strategy to re-invigorate permanent skilled migration is a critical step to maintaining the recovery while simultaneously building up a highly skilled workforce as a key plank of growth.

Modelling by the Productivity Commission (PC) in 2016 found that a continuation of Australia's migration program, with its weighting toward skilled and younger migrants, would increase GDP per person by around 7 per cent in 2060 (equivalent to around $7,000 per person in 2013-14 dollars).[1] Multiple studies have shown that Australia's migration intake does <u>not</u> depress local jobs or wages. [2] To the contrary, skilled migrants boost demand, increase productivity and workforce participation, and deliver talent and experience that complements local workers.[3]

Recent Treasury modelling has also shown that migrants, especially those from the skilled stream, make a positive contribution to the nation's finances over their lifetimes.

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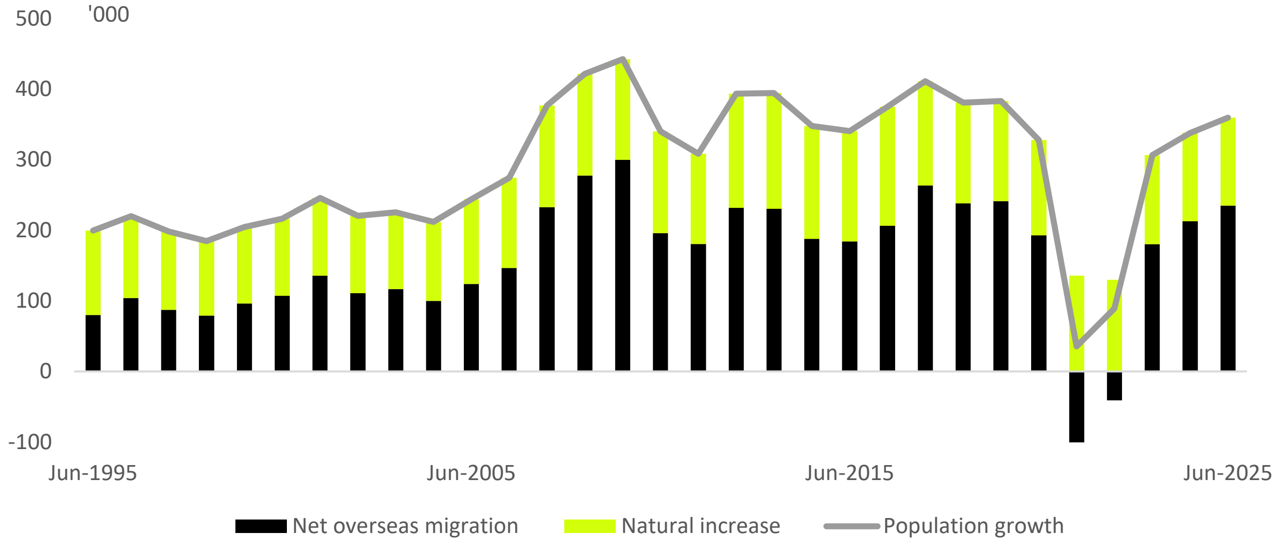
[1] Productivity Commission. 2016. *Migrant Intake into Australia*. Inquiry Report No. 77. Canberra.

[2] Breunig, R., Deutscher, N. and To, H.T. 2016. '*The relationship between immigration to Australia and the labour market outcomes of Australian workers*'. Technical Supplement A to the Productivity Commission Inquiry Report *Migrant Intake into Australia*. Canberra; D'Souza, G. 2020. *Migration and Labour Market Outcomes*. Appendix to the Committee for the Economic Development of Australia report *Effects of Temporary Migration – Shaping Australia's Society and Economy*. Melbourne.

[3] Commonwealth Government Treasury & Department of Home Affairs. 2018. *Shaping A Nation: Population Growth and Immigration Over Time*. Canberra.

The Centre for Population's projections suggest that after two years of net outflows, net overseas migration is not projected to return to its pre-COVID-19 average level until 2024-25. This trajectory would leave Australia with around 1.5 million fewer people by 2030-31 than were expected in a pre-pandemic scenario, with two-fifths of this reduction resulting directly from the fall in net overseas migration.

Figure 8: Australia's migrant intake has collapsed



Source: ABS and 2021 Population Statement

Australia has particularly felt the loss of skilled migrants over the past three years. Prior to COVID-19 around 110,000 skilled migrants were entering Australia each year as part of the permanent migration program. This dropped to around 85,000 skilled migrants on average through 2019-20 to 2021-22, amounting to a loss of 75,000 migrants compared with what was expected pre-pandemic. The loss of skilled migrants is being felt acutely in skills shortages across industries.

If the government adopts a deliberate catch-up strategy to boost migration as travel restrictions ease, Australia can recoup lost output and per capita incomes. This strategy would involve a faster recovery in net overseas migration. It would also involve reverting to a migration program weighted towards skilled migrants that deliver the greatest economic benefits for Australia.

The government should provide 'forward guidance' for the permanent migration program that sets and publicly communicates a profile of increasing ceilings for the three years beyond the 2021-22 planning year. Reweighting the skills stream to 70 per cent and temporarily raising the cap to 220,000 in 2022-23 and 2023-24 would raise the skilled migrant intake to 150,000 in each of those years, filling the gap from previous years.

The government should also consider policy changes that support improved access to global talent and labour through both temporary and permanent migration. Australia remains a potentially attractive destination for

Recommendation 1:

Catch up on lost skilled migration to maintain the recovery by raising the annual permanent migration program to 220,000 people in 2022-23 and 2023-24, reverting to 190,000 in 2024-25, and reweighting the skills stream back towards a 70 per cent share.

prospective migrants, but we have had our borders closed for two years and there is currently limited financial support provided for temporary migrants coming to our country. We have already lost skilled migrants and international students to countries like Canada and the UK that compete with us for global talent. To attract migrants back into our country, Australia needs to send a clear signal that it is open to the world once more.

The government has taken good initial steps in this direction. Targeted overseas marketing campaigns will help encourage travellers to return, accompanied by refunds of visa application charges for international students and working holiday makers who arrive before 19 March and 19 April 2022 respectively. The duration of these financial incentives may need to be extended though, as it will take time to get the message out and to allow new migrants to secure visas and travel. For that reason, the government should consider an extension of visa refunds further into 2022, once the initial response to them has been assessed.

We also need to make the most of temporary migrants already in Australia, including refugees and those on bridging visas, many of whom have valuable skills that are not fully utilised. Many members of this group came to Australia with skills, have acquired new skills and have done the right thing, including by moving to regional Australia. We note the government has already taken steps to make the most of temporary migrants in country through additional investment in skills assessments and expanded eligibility for pathways to permanent residency. Further flexibility and temporary measures of this sort would be welcome.

To support retention of temporary migrants and attract globally mobile talent, the government should temporarily revert to four-year visas for all new Temporary Skill Shortage (TSS) visa holders (with continuation subject to a review). Longer-term temporary visas will provide more of a pay-off for prospective skilled migrants who are weighing up the costs, inconvenience and uncertainty of travelling to Australia, and are considering opportunities elsewhere. Four-year visas will also provide greater certainty to businesses and support better forward planning, particularly in the delivery of larger projects that need to be scaled up over multiple years.

If two-year TSS visas are retained, the government should consider temporarily providing new holders of these visas with access to the pathway to permanent migration that is currently only available to holders of four-year TSS visas. Pathways to permanent residency could also be made more flexible by allowing time with a previous employer to qualify towards permanent residency time requirements.

Skills lists that define eligible occupations for skilled migration need to be up-to-date, agile and forward-looking, but they are often dated and inflexible. These lists and the ANZSCO codes that underpin them are due for an update, but a more permanent way to improve flexibility in high skilled fields would be to remove altogether the skills list eligibility requirements for some employer sponsored visas. To maintain integrity and community support, this could be limited to visas where the applicant's salary is above the Fair Work Commission's High-Income Threshold.

Another change that would better align access to skilled migrants with incentives to train the local workforce would be to revamp the Skilling Australians Fund (SAF) levy. The SAF levy, which is as much as $7,200 for a four-year TSS visa, is an additional tax on skilled labour that diverts funds that companies could use to train their own staff. The revenue is directed in-part to the Skilling Australians Fund that pays for largely unrelated state government vocational education and training programs. While the Fund is due to expire in mid-2022, the levy remains ongoing.

The SAF levy, in addition to increasing the costs of visa sponsorship, is not being used to train workers to fill the skill shortages for which the levy was designed. Businesses that pay the levy have no confidence that they will see any benefit in terms of an increased supply of skilled local workers in their industry or region.

The SAF levy should ideally be abolished with the expiry of the Skilling Australians Fund. However, if the SAF levy is to be retained beyond the term of the SAF Fund then it should be altered so that there is a stronger link between the businesses that pay the levy and the training provided to address skills shortages. One option would be for businesses to have a choice in either paying the levy or directly spending an equivalent amount on education and training for prospective or current employees in priority fields for their business.

Recommendation 2:

a. Extend visa application charge refunds for working holiday makers and international students further into 2022, once the initial response to them has been assessed.

b. Temporarily revert to four-year visas for all new TSS visa holders or extend the pathway to permanent residence to new two-year TSS visa holders, with continuation subject to a review.

c. Remove occupational skills list eligibility requirements for employer-sponsored visas where the applicant's salary is the above Fair Work Commission's High-Income Threshold (currently $158,500).

d. Revamp the SAF levy so that there is a stronger link between the businesses that pay the levy and the training provided to address skills shortages. The government should:

    i. Scrap the SAF levy entirely or, if it is to be retained, overhaul the scheme so that proceeds from the tax fund real benefits for the skilled migrants they sponsor; or

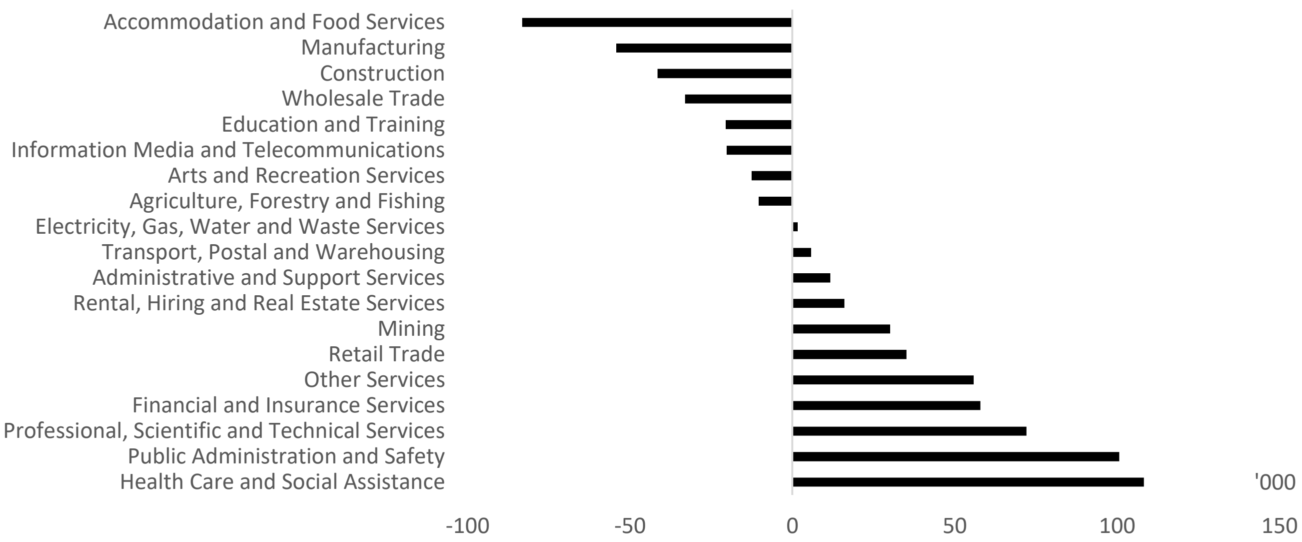
    ii. Allowing businesses to have a choice in either paying the levy or directly spending an equivalent amount on education and training for prospective or current employees in priority fields for their business.

Making the most of our people

The labour market has experienced significant dislocation. In addition to measures to reopen to skilled migrants, we need to bolster domestic participation and support people into finding meaningful work.

Sectors such as accommodation and food services have experienced substantial job losses since the onset of the pandemic, with around 83,000 fewer workers compared with prior to the pandemic. This has been driven by a mix of labour shortages and lockdowns.

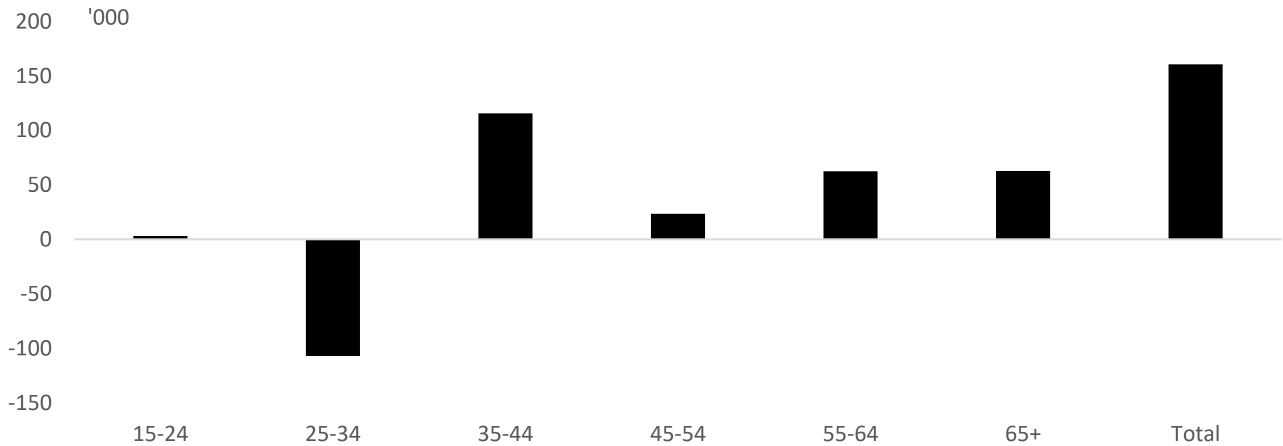
Figure 9: Change in employment by industry since pre-COVID-19



Source: ABS

The impact has been more severe for younger workers, who have been more heavily hit by the pandemic downturn than other age groups – particularly during lockdowns. Employment was up 0.4 per cent compared with the start of the pandemic equating to around 7,000 workers. Growth in the labour force has been weakest for workers aged under 35, with most of the increase driven by workers over 35.

Figure 10: Labour force change by age since pre-COVID-19



Source: ABS

Despite high levels of jobs vacancies, there is a risk that many young people will have more difficulty finding the right pathways to employment. A strong skills and education agenda will be critical to matching people to job vacancies.

Young people need to find pathways into further study or work, with an eye to the jobs in demand now and into the future. The National Skills Commission projects that 90 per cent of the million new jobs created out to 2025 will require a post-secondary school qualification, with over half requiring a bachelor degree of higher.

As it stands, close to 30 per cent of the current labour force, and the majority of Australians on the JobActive caseload lack these post-school qualifications. This mismatch is a challenge for finding new employment, but it also represents an opportunity if we can provide the right programs and incentives to support upskilling and reskilling at every level.

Women's participation

With Australia's population growth at historic lows and acute labour shortages, removing the barriers that prevent women from choosing to enter or re-enter the workforce or increase their hours has never been more critical to the recovery and Australia's economic future.

Nationally, women's workforce participation lags men by 9.3 percentage points.

Increasing women's participation in the workforce is critical to our economy and our economic future. In 2018, KPMG modelled that if the labour force participation gap was halved between men and women, Australia's GDP would increase by $60 billion in 20 years.

In 2015 the PC found that while there had been strong growth in the participation rate of mothers in the workforce, the proportion of women working part time remained stable over 20 years. Across the OECD, Australia is ranked 28th out of 42 countries for maternal participation in the labour force (sitting at 68.8%) – behind Canada, the United Kingdom, the United States and New Zealand, and even the OECD average (70.9%).[4]

Barriers to working mothers maintaining their connection to the workforce and advancing in their careers are multiple and often reflect entrenched cultural biases. Restructuring the Commonwealth paid parental leave scheme is an important policy lever that can help change incentives and shift attitudes that impact on the distribution of care and work responsibilities within families. This in turn can help break down barriers to female workforce participation and advancement and help reduce gender pay gaps.

Australia's current system provides for 20 weeks (18 of those weeks generally paid to the mother and two weeks paid to the father as Dad and partner pay) paid at the minimum wage. It is one of the least generous in the OECD. Concerningly, 99 per cent of females take the 18 weeks of Paid Parental leave with an equal percentage of male partners taking the two-week entitlement. There is flexibility under the scheme for greater sharing of responsibilities, but overseas experience shows that without a mechanism to incentivise a sharing of care by both parents current biases can be difficult to shift.

There is evidence internationally that incentivising more equal caring responsibilities prompts behavioural change. For example, when Canada introduced additional paid parental leave on a use it or lose it basis for the secondary carer it doubled the percentage of partners taking leave in the first year.

In Australia, many large companies have already taken steps to expand their paid parental leave offerings and reported similar significant increases in partner leave.

The Business Council supports an expansion of the scheme to facilitate sharing of care by both parents as outlined by the Grattan Institute. Grattan estimated costs of the scheme would be an additional $600 million a year but would contribute $900 million to Australia's GDP through increased workforce participation and boost average lifetime earnings for mothers.

[4] OECD, Maternal employment rates, 2019 or latest available.

Many large companies have already taken steps to expand their paid parental leave offerings and given fathers and partners access to the same amount of leave available to mothers. This proposal would provide an incentive to encourage more businesses to move in this direction.

Recommendation 3:

Extend paid parental leave to facilitate greater sharing of carer responsibilities between parents through:

- 26 weeks paid parental leave allowance comprised of six weeks 'use it or lose it' provision for each parent and 12 weeks to share between them; and an additional two weeks of bonus leave if the leave is shared.
- single parents would receive the full 26-week entitlement.

Building on COVID-19 skills programs to support the recovery

Several programs during the pandemic helped guard against the scarring of the labour market as well as ensuring young people continued to learn new skills.

One of these programs, the Boosting Apprenticeship Commencements wage subsidy has been a big success, resulting in the number of apprentices and trainees increasing around 60,000 during the pandemic, despite the uncertainty for businesses in taking on a new employee and investing in their training. The number of trade apprentices is now at the highest level since records began in 1963.

To encourage businesses to see their apprentices through to the finish line, the government has paired the first year 50 per cent commencement subsidy with a tapering completion subsidy of 10 per cent in the second year, and 5 per cent in the third year of an apprenticeship. It is important the commencement subsidy doesn't drop off a cliff while businesses are still recovering and young people and displaced workers are trying to find their feet.

As a priority, the eligibility for the program should be extended for another 12 months beyond the current closing date of 31 March 2022, with the rate of subsidy stepped down as necessary (e.g. to 25 per cent).

With strong demand for apprentices and trainees and many Australians considering a career change, we also have an opportunity to increase the participation of women in traditionally male-dominated occupations and industries, including in the construction and logistics sectors. Barriers to women's participation can be multi-faceted, and include cultural issues in some industries, but the surest way to improve the culture is to increase women's representation and shift attitudes about the kind of roles that women (and men) can take.

The government recently opened a new training pathway into one such industry by signing off on a new apprenticeship in truck driving. This is great to see, particularly in light of current workforce shortages in the logistics sector. With the support of state governments, this can be a highly successful training and employment opportunity, including for women who are severely underrepresented in the industry. An extension of the Boosting Apprenticeship Commencements subsidy would certainly help to boost take-up by employers in early stages.

Another option the government could take in this respect would be to extend eligibility for Additional Identified Skills Shortage (AISS) incentive payments to women taking up apprenticeships in occupations with skill shortages and low participation by women (including in construction). Currently, the AISS program provides a $1,000 payment following commencement and a further $1,000 payment at completion of an apprenticeship, but eligibility is limited to ten occupations. This program could be extended to other roles, with a goal of supporting around 10,000 apprenticeships for women and be accompanied by a targeted communications campaign to boost awareness.

In targeting jobs to women in traditionally male-dominated occupations, employers need to be able to promote vacancies directly to this group. The Anti-Discrimination Act can have the perverse effect of preventing employers seeking to improve gender balance from advertising roles exclusively for women.

The government should continue its support for responsive learning options in higher education and vocational

Recommendation 4:

a. Extend the Boosting Apprentice Commencements wage subsidy for a further 12 months at a stepped down rate (e.g. 25 per cent).

b. Extend the Additional Identified Skills Shortage program to incentivise women to take up apprenticeships in male-dominated occupations, including in the construction industry. The initiative should aim to support 10,000 apprenticeships for women, with incentive payments paired with targeted promotion.

c. Consider an exemption from the Anti-Discrimination Act for employers seeking to target positions to women where there is gender imbalance in the industry.

education and training (VET). In the VET sector, the JobTrainer program is supporting around 460,000 free or low fee training places through until the end of 2022. As governments negotiate on a new funding agreement for VET to replace the National Agreement on Skills and Workforce Development they should build on the success of JobTrainer by incorporating it into a new National Skills Agreement that increases real investment in the VET system by all parties.

This real increase in investment should be matched with greater transparency and consistency of funding, and ambitious reforms to ensure training is more timely and tailored to learners and their employers. Subsidised VET programs like JobTrainer traditionally focus on young people and the unemployed, but the disruption of COVID-19 will spur older workers to shift careers too. We need skilling options to enable this. Eligibility for subsidies and discounted courses (including skill sets and micro-credentials) should be expanded to help Australians of all ages re-enter the workforce, and allow older workers employed casually or part-time to retrain for a higher-skilled or full-time position.

Recommendation 5:

a. The Commonwealth and state governments should increase investment in VET through an ambitious new National Skills Agreement, with accompanying reforms to ensure training is better targeted to the needs of learners and their employers, consistent with the priorities set out in the Heads of Agreement, including improved consistency, transparency and efficiency of funding, and support for lifelong learning.

b. JobTrainer's subsidised VET courses should be sustained as part of a new funding agreement, with eligibility expanded to better support older Australians looking to re-skill or upskill, including through short courses and micro-credentials.

The Commonwealth Government should also support universities to provide more higher education certificate short courses into 2022 and beyond, building on the 50,000 courses funded in 2021. Priority should be given to courses that lead to in-demand jobs, including in IT, cyber security and the health and care sectors. By strengthening university teaching capability in these courses, we can also build on our universities' world-class reputation in teaching and research by becoming a global leader in the delivery of high quality micro-credentials.

Universities' funding for Commonwealth-supported degree-level courses could also be lifted in priority fields. This could be done through allocation of a set amount of additional ongoing National Priority Places, or by making funding for such courses demand driven. These changes would provide incentives for universities to supply more courses in these areas and complement the Job-ready Graduates changes that lowered course fees for students in fields with strong employment outcomes. The government should also consider increasing places delivered through new campuses that centre on nationally significant innovation and investment precincts.

Recommendation 6:

a. Continue higher education short courses for universities into 2022 and beyond, with priority given to courses in areas of future demand, or that support priorities for research and advanced manufacturing.

b. Lift universities' funding for Commonwealth-supported degree-level courses in priority fields of study, through additional National Priority Places or demand-driven funding, including for campuses centred on nationally significant precincts and in industries covered by the Modern Manufacturing Initiative.

Better support for lifelong learning

Getting the most out of our people also means providing them with greater opportunities to retrain and reskill and match those skills to jobs in demand. Australians need more flexible, timely and tailored education and training options to complement more traditional training options. These could include short courses; skill sets and individual micro-credentials delivered in a variety of ways to maximise labour force participation and address key areas of low participation including older Australians (especially women).

Governments should put more choice in the hands of learners to determine the education and training that suits them over their life and career. The Business Council has long called for the introduction of a Lifetime Skills Account model, similar to the SkillsFuture Credit used in Singapore.

A Lifetime Skills Account should ultimately be available for all Australians, but a first step would be to pilot the model for a couple of specific cohorts and get the settings right before scaling it up. The PC supports this approach and has recommended a trial focused on mature-age Australians.

The PC also recommended limits on eligibility to pre-approved providers and courses. This is reasonable to ensure integrity, but the suite of training options should not be too narrowly defined around government accredited courses. Industry-recognised, unaccredited short courses should also be supported, especially in fields like IT where enterprise training is often seen as more relevant and tailored to employer needs.

One cohort that would benefit from this approach is parents who are returning to the workforce after an extended period of absence while raising young children, including while on parental leave. Another cohort for which a Lifetime Skills Account could be piloted is aged and disability care staff, with a focus on opportunities to upskill current employees as well as re-engaging past employees who may have taken time out of the workforce. This would be consistent with recommendations from the Aged Care Royal Commission to support ongoing professional development and retention.

Financing for the Skills Account should not be limited to income contingent loans. Instead, loans should be available as part of a suite of options, including government-provided voucher credit and voluntary employer contributions. Mature-aged workers could also have the option of directing some or all the rise in the superannuation guarantee towards their Skills Account. Lifelong learning is an investment in itself, and Australian workers should have the option of directing some of their superannuation towards acquiring new skills that will lift their future earnings and better balance their income in work and retirement.

In addition to implementing a Lifetime Skills Account that provides resourcing for lifelong learning, governments should work together with industry to improve access to, and recognition of, micro-credentials. Industry micro-skilling platforms like SkillsFinder should continue to be supported by government and promoted through government channels like MySkills, YourCareer and the new Micro-credentials Marketplace.

The micro-credentials acquired by individuals through these channels should be easily shared and collated on skills passports and learner profiles (including on the National Credentials Platform) and then shared with employers or other education providers at the discretion of the user. This interoperable skills sharing system will support better matching of people, skills and jobs. It will speed up the skills development process and improve competition and responsiveness in the education and training system. And ultimately it will reward and incentivise lifelong learning. A good start would be to pilot this skills sharing system through the new Trusted Digital Identity Framework.

Recommendation 7:

a. Trial a Lifetime Skills Account modelled on Singapore's SkillsFuture Credit system, with:
    i. Initial cohorts of Australians over the age of 25, including a trial group of parents returning to the workforce and aged care staff looking to upskill within that profession.
    ii. Support for a wide range of courses from pre-approved providers, including micro-credentials and industry-recognised non-accredited short courses.
    iii. A suite of financing options tailored to the cohort chosen, including government-provided voucher credit of up to $1,000, income contingent loans, and voluntary employer contributions, including through the rise in the superannuation guarantee.
b. The SkillsFinder micro-skills platform should be funded for a further four years and promoted through government skills channels and platforms, with its scope expanded beyond digital skills. Functionality could be built in to support industry-recognition of non-accredited micro-credentials.
c. Government should work with industry and skills providers to pilot a skills sharing system that uses the Trusted Digital Identity Framework.

Leaving no one behind

As Australia recovers from the pandemic and lays the foundations for a more modern and dynamic economy, it is critical that we support participation by all Australians and do not create a skills divide. This includes support for the more than 5 per cent, or over 1.2 million Australians, who experience deep social exclusion through multiple challenges such as poor health, unemployment, and inadequate education. Australians more likely to experience deep exclusion are those with long-term health issues/disability, Aboriginal and Torres Strait Islanders and lower levels of educational attainment.

With at least 2 to 3 million adult Australians lacking the basic skills for modern life, we need to ensure that we maintain a focus on foundational skills in reading, writing, maths, English and digital literacy. As governments conclude negotiations on the new National Skills Agreement, it is critical that this include free foundation-level training for all Australians, supporting those out of a job to enter or re-enter the workforce and those in work to update their foundational skills.

A Foundational Skills Guarantee should expand on existing programs to create a more demand-driven system, increasing the number of people who can engage with targeted, modular training when they need. This could include fully subsidised provision of approved courses up to Certificate II level, but also support a micro-credentialling approach by funding individual units within approved qualifications.

Improving educational attainment for Indigenous Australians is critical. Through the National Plan on Closing the Gap, the nation has set a target of increasing the share of young Aboriginal and Torres Strait Islander people with a tertiary qualification to 70 per cent by 2031. This is an ambitious objective, requiring a 30 percentage point increase compared with 2016, so we need to commit efforts that are equal to the task. This requires a concerted effort at every learning stage – from early childhood, through to school and tertiary education – and at skill levels ranging from foundational skills to the advanced skills required in professional, technical and digital roles.

Governments should consider opportunities to extend existing VET and higher education programs and expand eligibility to support indigenous participation. As an immediate step, the Commonwealth Government should expand eligibility for demand-driven university funding to all Indigenous Australians from 2022. This would mean all Indigenous Australians are guaranteed a Commonwealth-supported place at university with access to a HELP loan. Universities and businesses should respond by providing outreach, mentoring and educational support programs to ensure that Indigenous students are set-up to succeed in the transitions to tertiary study and future employment.

Recommendation 8:

a. Provide a foundation-level training guarantee (via the new National Skills Agreement) for all Australians that need it, including fully subsidised provision of approved courses up to Certificate II level, but also support for a micro-credentialing approach.

d. Fund additional Commonwealth supported places on a demand-driven basis to guarantee such places for all eligible Indigenous candidates from 2022.

Unleashing the private sector to realise our nation's potential

Investment is critical to growing the economy and lifting productivity and wages in the longer term. We need to first overcome the obstacles that hold investment back then set the conditions to develop new opportunities in the medium term.

We must overcome the tax and regulatory barriers that make us increasingly unattractive to global capital.

We must address our uncompetitive tax rates, remove regulations that stand in the way of investment and send a more positive message to the global investment community that we are open for business.

Securing Australia's economic future by unleashing investment

To move forward and secure our economic future, action is needed on the pressure points in the economy that hold back private sector growth including addressing investment rates, uncompetitive taxes, regulation and foreign investment restrictions.

We need to overcome these to power the recovery as well as starting to lay the foundations for a more dynamic, more diverse and advanced economy to deliver better paid jobs with higher wages.

The private sector has historically been the main driver of Australia's economic growth and rising living standards. A sustained business-led recovery is only possible if there is a recovery in private investment. As a share of GDP, new business investment is at one of its lowest levels on record and lower than in comparable countries.

Prior to COVID-19, business investment was already on a weak trajectory. In part, this reflected the fall from the peak of the resources investment boom, but it also reflected weakness in non-mining investment.

Investment drives productivity and wages growth

Productivity has been the single most important driver of Australia's economic growth. And it is investment (capital deepening) and innovation (multifactor productivity) that drive productivity growth and create the basis for sustainable growth in real wages.

Businesses will hire an extra person when the value of what that person produces at least matches the wage paid. When a business invests, they expect to increase revenues and profits (and taxes), which leads to employing more people and increases in output per worker. This allows higher wages to be paid.

The overall effect of increased investment and increased demand for labour by individual businesses is for labour demand to rise across the economy. This translates to an increase in both the aggregate number of jobs and hours worked as well as the wages received by workers.

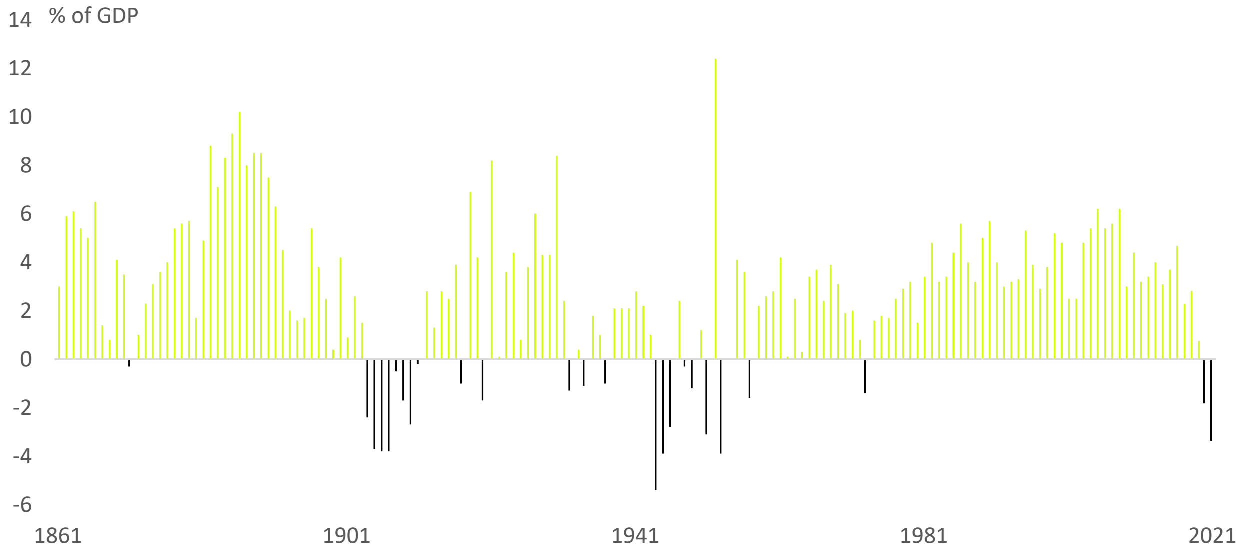
Investment has been the missing ingredient

Investment was weak prior to COVID and this was associated with a period of low wage growth and low productivity growth. There is no reason to expect investment will simply bounce back. Forecasts of an 'investment boom' appear driven by expectations of a short-term lift in some forms of investment as businesses take advantage of the end of the period of temporary investment incentives. There is no evidence that the fundamental incentives have changed and that we will see a structural turnaround in investment in the period that follows. In fact, the world has only become more challenging.

Investment is also flowing out of Australia when we most need it. Australia has been a net capital importer for most of the past 200 years. That is, foreign investors have tended to invest more in Australia than Australians have invested offshore. However, in 2019-20 there was a net outflow of capital for the first time since the 1970s. There was another outflow in 2020-21, with the two consecutive years of outflows a first since the late 1940s.

The capital account deficit is a mix of both falling investment into Australia and increased investment offshore, including by superannuation funds. If direct investment into Australia had held at the average of the previous decade, Australia's capital account would almost have been in balance in 2019-20 and surplus in 2020-21.

Figure 11: Australia's capital account is in a rare deficit

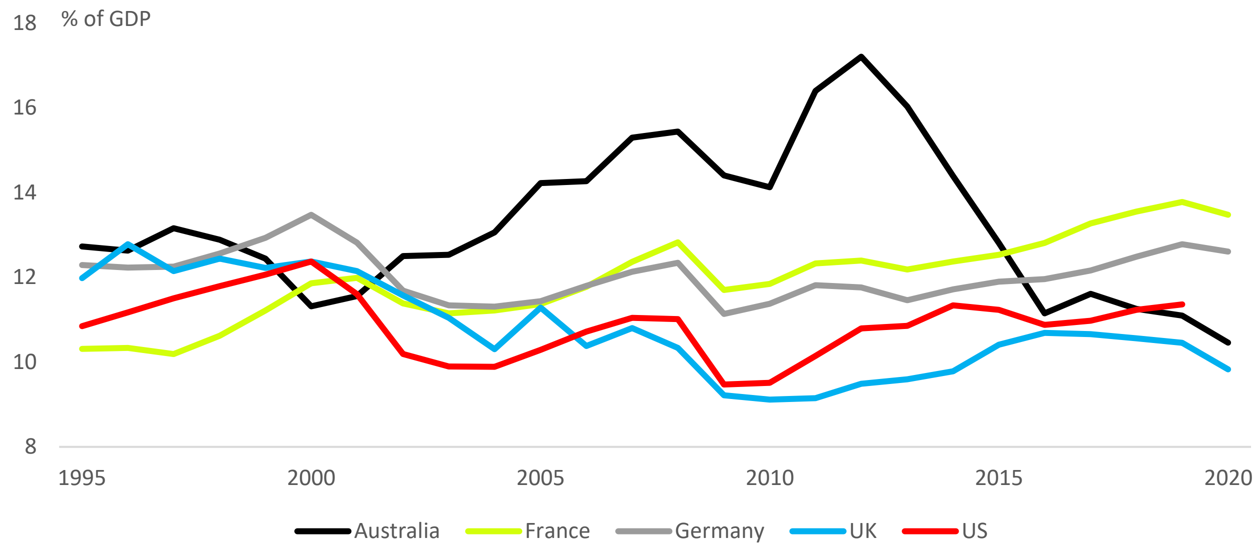


Source: ABS and PC

The contest for capital is becoming more intense

Total foreign investment in Australia recorded an outflow of $10 billion in 2019, compared with a $50 billion inflow the previous year, and this is the second year of outflow since 2001. UNCTAD reports that FDI flows into Australia fell 43 per cent over 2020, compared with a 35 per cent fall around the world. FDI flows almost halved in 2021 – a 71 per cent fall over two years.

Figure 12: Corporate investment has been weaker in Australia compared with other major advanced economies



Source: OECD

Strong global demand for Australia's resources has been a major influence on Australian investment trends in the past two decades. With that investment passing a peak, Australia needs to consider where the next opportunities will be found. Analysis commissioned by the Business Council suggests clean energy and technology as key investment opportunities for global capital moving forward. Australia has clear advantages as a destination for clean energy investment and has been able to grow successful technology companies. However, we also face some challenges:

- The small size of our domestic market and distance from key markets in North America and Europe is a disadvantage in getting new technologies to scale.
- Our relatively small domestic talent pool makes it more difficult to compete in emerging industries where human capital can be more important than physical capital.
- Our ability to deploy capital quickly relative to other markets can be held back by policy and regulatory constraints.
- Our corporate tax rate remains one of the least competitive in the OECD and investors care about post-tax returns.

While the response to these challenges is complex, governments have clear levers to pull in respect of tax, regulatory and spending decisions.

A national deregulation agenda

To facilitate a private sector led recovery and unshackle the private sector, it is critical that the government prioritises removal of unnecessary constraints on business.

Business Council member companies have identified achieving greater consistency across Australia's different jurisdictions as a key priority for a deregulation agenda. The patchwork of regulation that exists across Australia has a chilling effect on investment and creates costs on the economy due to:

- regulatory inconsistency and duplication that adds significant costs for businesses operating across multiple jurisdictions
- regulation of varying quality, in terms of its costs and timeliness and delivery of positive outcomes for society.

There are many examples of inconsistent regulations across the Federation that make it more difficult and costly to do business. An immediate concern is consistency in approach to living with COVID-19, such as around restrictions, QR codes etc. At the same time, national retailers must monitor frequent legislative updates in each jurisdiction, disseminate this information, and implement the changes across the country.

Previous efforts to harmonise state and territory laws under the Seamless National Economy initiative and elsewhere have had limited success due to difficulties in getting all jurisdictions to agree to a common set of laws. This could be revisited in the context of the economic recovery from COVID-19. This is fundamentally about fixing the Federation.

Recommendation 9:

The Council on Federal Financial Relations should drive a regulatory reform program focused on harmonisation and encouraging governments to reform their regulations in line with the best performing jurisdiction. This should include in areas such as COVID-19, plastics and container deposit schemes. This reform program could be supported by ongoing and 'at risk' funding from the Commonwealth to incentivise jurisdictions to fully meet their commitments and follow through with reforms.

Making temporary COVID-19 rule changes permanent

During the pandemic, some of the first rules to be relaxed where the artificial constraints on delivering goods, keeping workers connected to their employers and held back the day-to-day operation of business.

These temporary changes were introduced by all levels of government to allow individuals and businesses to respond and adapt at the onset of the pandemic. They included:

- the extension of delivery hours for supermarkets to ensure they could remain stocked for customers
- extending retail trading hours to offer more convenient and safer shopping for consumers, supporting employment and improving supply chain efficiency
- allowing digital documentation, electronic signatures, virtual meetings and online consultation where previously paperwork and in-person processes were required
- greater flexibility for pharmacists to fulfil prescriptions and for doctors to authorise prescriptions
- the relaxation of international student visa work conditions to support workforce continuity and shortages
- changes to planning approvals such as fast-tracking, exemptions and removal of some requirements
- extending construction working hours.

COVID-19 and the related disruptions and changes to the way we live and work will endure for some time. All governments should consider temporary changes and consider making them permanent on an 'if not, why not' basis – particularly where they deliver net benefits. Some of this is already underway:

- The Commonwealth Government recently legislated to allow companies to hold virtual meetings, distribute electronic documents and electronically execute documents.[5] These reforms are estimated to deliver deregulatory savings of around $450 million a year or $4.5 billion over a decade.
- The NSW Government evaluated temporary measures and announced it will make permanent extending opening hours for businesses including supermarkets, removing curfews on deliveries, no longer requiring physical copies of planning documents and the flexibility to hold public meetings and planning panels online, in person or as a hybrid of both. It is estimated these changes will help realise benefits of $3.1 billion over a decade.

All jurisdictions should aim to remove regulation that proved redundant during the pandemic. Further reforms to planning approvals are another critical element to a national deregulation agenda. These are discussed later in this submission as part of a better working Federation.

Recommendation 10:

Make permanent the temporary rules changes that were introduced to allow individuals and businesses to respond and adapt to COVID-19. This includes delivery curfews and retail trading hours.

Rethinking foreign investment screening

The Foreign Investment Review Board (FIRB) plays an important gate-keeper role for foreign investment. In the past two years, FIRB's powers and its regulatory reach has significantly expanded, first through a temporary lowering of monetary thresholds due to the pandemic, and then through major national security-related legislative reforms.

These changes have been important to support public confidence in the investment screening system, particularly to keep pace with emerging technologies and the changing strategic environment. However, while FIRB is empowered to identify and address these risks, much more can be done to address regulatory frictions and modernise a system that dates back to the 1970s.

Greater legal and regulatory certainty combined with a professional, client-focused approach would go a long way to attract and secure investment into Australia. This is not only about helping foreign firms; it is as much about supporting Australian-owned and Australian-managed firms to do business, to partner internationally and change and adapt with the global economy. As outlined in our submission to the *Evaluation of the 2021 foreign investment reforms*, we could accelerate inward foreign investment by streamlining non-sensitive investments and creating an express lane for frequent and trusted investors

[5] Corporations Amendment (Meetings and Documents) Bill 2021

Recommendation 11:

Send a positive signal to foreign investors by introducing a fast-track approvals lane for regular and trusted clients of FIRB. Where FIRB's regular clients can demonstrated a track record of appropriate and prudent decision making, a Trusted Investor profile could be established in which client ownership structures and equity changes are recorded and updated as required. This would allow a 'tell-us-once' regulatory approach to the specific transactions undertaken, reducing the time cost for both investors and FIRB.

A competitive company tax system

Immediate expensing is helping bring forward investment but does not address the longer-term stagnation of investment. Once the impact of the measure has faded Australia will be left with an uncompetitive corporate tax system that will hamper our ability to compete in the global race for capital.

Further measures are needed in the medium term to counter the disincentives of our uncompetitive company tax system. Wholesale reform is difficult when the budget is already under pressure, but steps should be taken as fiscal circumstances permit to get closer to a more competitive model.

Our middle size companies will face some of the biggest challenges in competing for global capital as the world recovers from COVID-19. Australia's 30 per cent company tax rate is globally uncompetitive and hurts companies in the market for mobile capital. In addition, the two-tier rate system increases complexity and potentially distorts investment by discouraging smaller businesses from expanding. Both the IMF and OECD continue to point to the need for Australia to embark on tax reform to help promote efficiency, which includes reducing the reliance on company tax.

While fiscal circumstances may not permit wholesale reform in this budget, steps could be taken to reduce the tax burden on medium sized businesses to support the recovery process. The $50 million turnover threshold for the 25 per cent company rate could be increased to:

- $250 million in line with the main JobSaver threshold and support over 4,000 more businesses
- $500 million in line with backing business investment and support over 4,500 more businesses, or
- $1 billion in line with the JobKeeper threshold for large businesses and the Significant Global Entity threshold and support over 5,000 more businesses. These companies may be subject to additional tax integrity and transparency measures (e.g. the multinational anti-avoidance law, diverted profits tax, and country-by-country reporting), as well as increased administrative and other penalties.

An updated small business threshold should be accompanied by a switch from the aggregated turnover test to a domestic turnover test. The ATO recently issued guidance to help companies navigate the complexities of the aggregated turnover test. However, a move away from it could be less complex and costly to comply with and administer. The alternative test for the temporary expensing measure provides one example of how this could be achieved. A domestic turnover test could also ensure the two-tier company tax rate can be used to attract mobile global capital.

The Organisation for Economic Cooperation and Development (OECD) continues to be the key multilateral forum for progressing changes to global tax laws, with over 130 jurisdictions participating. It is currently undertaking a major multilateral policy development process to address the tax challenges arising from the digitalisation of the economy.

Recommendation 12:

Raise the turnover threshold for the 25 per cent company tax rate to either $250 million, $500 million or $1 billion and switch from the aggregated turnover test to a domestic turnover test.

The Business Council strongly believes that all businesses in Australia must meet their tax obligations and do so in a transparent way. Where arrangements do not keep pace with community norms, they should be reviewed. Australia's integrity measures, institutions and enforcement all contribute towards and complement a high level of compliance with our tax system. Treasury has previously noted that "Australia continues to have some of the most robust tax integrity rules in the world."[6]

Recommendation 13:

Australia should continue to support the OECD process, and actively ensure it reflects best practice tax principles and avoids ad hoc responses that are unilateral, ignore best practice tax principles, and undermine competitiveness and jobs. The process should also recognise elements of Australia's tax system such as dividend imputation and ensure measure such as the global minimum tax attract franking credits.

[6] The Australian Government the Treasury (2018), *The Digital Economy and Australia's Corporate Tax System, Treasury Discussion Paper*, October.

Boosting longer term investment

The recent investment uptick and expected continued growth is concentrated in the types of investment that benefit from tax incentives such as temporary expensing and the instant asset write-off. For example, investment in new machinery and equipment is almost 5 per cent higher compared with pre-COVID. By contrast, investment in bigger projects such as non-dwelling construction (e.g. warehouses, industrial and commercial buildings, hotels, restaurants etc) is still almost 4 per cent lower compared with pre-COVID.

However, with temporary tax incentives due to expire mid-2023 there will be a need to drive a sustainable increase in investment in the medium term. Tax changes to drive a sustainable lift in investment should not favour one form of investment over another, such as big versus small business, but recognise the benefits of investment regardless of its source.

This could be achieved through a phased increase in the turnover threshold for the 25 per cent company tax rate. The Business Council has also previously argued for the introduction of a 20 per cent investment allowance that works as a bonus deduction on new investment for all companies. A broad-based investment allowance which creates a permanent book-to-tax benefit has greater potential to lift investment yields and encourage investment. This is even more critical in the present environment where businesses are facing heightened uncertainty. The level of the up-front (bonus) deduction is crucial to the potential of this reform to drive business investment.

A broad-based incentive available to all companies should include larger investments made by larger companies. These investments invariably have larger multipliers and benefits that flow through to more businesses across the supply chain. Many investment and technologies are also offered as services (rather than being capital investments), and may not typically be captured by existing support and incentive mechanisms offered by government. Any investment incentive should also be applied to purchases of services to support digital transformation and process improvement.

Recommendation 14:

Drive a sustained increase in investment in the medium term through either:

a. A lower company tax rate, phased through a higher turnover threshold as the fiscal position until it is eventually abolished; or

b. When fiscal circumstances permit, introduce a broad-based investment allowance of 20 per cent for all companies to provide for more sustained improvements in investment. It could initially be targeted at investment in emerging areas where competition for investment dollars will be strongest such as clean energy and digital technology/software.

Capturing new opportunities and creating new industries

The shift in global investment trends towards new technologies means we need to reimagine our industry strategy going forward. Governments around the world are actively supporting new industries to get to scale and Australia cannot sit back and hope that opportunities will fall into our lap.

Tax and regulatory measures can improve the business environment but more proactive strategies are needed to capture new opportunities. This involves de-risking new technologies and creating opportunities to build industries to a globally competitive scale.

Supporting future industries

If Australia is going to get in the box seat to meet changing global demands, we will need to make the investments needed to create future industries, whether that is driving national precincts that scale up new industries in key parts of Australia, bridging financing gaps, or investing in the infrastructure to stimulate growth.

Doing this groundwork is essential if we are to realise the ambition of a globally facing, more competitive and advanced economy with a thriving private sector capable of delivering better jobs with higher wages. But we need to drive the creation of new industries harder through incentives and national coordination.

Australia's current and emerging innovation, investment and research precincts can support the ecosystem of skilled talent, ideas, capital and production that sparks and sustains successful research translation and commercialisation and drives our future industries. This model has been proven overseas, most famously in Silicon Valley, but also in many other locations in the US and worldwide.[7]

As of 2019, there were at least 175 innovation precincts active or in development in Australia, but they range considerably in their breadth, depth and quality. To be globally competitive in emerging industries we must leverage our top tier, nationally significant precincts – such as Lot 14 in Adelaide, the Aerotropolis and Tech Central in Sydney, and Fisherman's Bend and the Monash Technology Precinct in Melbourne.

We need to support these and other places around Australia where it would make sense to bring together common activities into a single region and look for the appropriate supports needed to do so. One option would be to centre more Designated Area Migration Agreements around innovation precincts, following the example of the Adelaide Technology and Innovation Advancement Agreement. This would ensure that such regions can readily tap into the global talent needed to achieve global scale and appeal.

Other measures will be required, and this will need a combined effort from business and all levels of government. It will mean a shift from thinking about projects, to thinking about places. It also needs to be highly targeted – if we have too many priority precincts, we will dilute our effort and not get the scale needed to be globally competitive.

Instead, we should support precincts where we have competitive advantages. Existing precincts in Australia are already focused on several of the Modern Manufacturing Priorities, such as defence and advanced manufacturing. We should look at prioritising other key sectors where we have substantial export opportunities, such as for cyber, critical minerals and clean energy.

This should build on the $1.3 billion Modern Manufacturing Initiative. which includes a dedicated stream focused on a small number of large, transformational projects.

[7] Katz, B. and Wagner, J. 2014. *The Rise of Innovation Districts: A New Geography of Innovation in America*. Brookings Metropolitan Policy Program.

One of the barriers faced by some businesses, particularly SMEs, is access to the necessary capital to expand within Australia. Traditional lenders look to lend based on bricks and mortar assets.

As we have previously noted, Australia needs the right settings to unlock business investment. Lack of financing leaves a gap for businesses which may be looking to expand into new innovative processes or technologies. The venture capital market in Australia has grown substantially in recent years (up to US$2.5 billion in 2020-21). This is a substantial increase over past years but remains small relative to other markets – £3.8billion was raised in the UK in the final quarter of 2020 alone.

This lack of capital is driving innovation overseas – promising SMEs are being bought by overseas investors or choosing to relocate operations offshore, including those that received early-stage government support.

Other businesses may face challenges because the necessary infrastructure is not yet in place – whether that's road, rail, energy or digital. This can stymie the natural development of an ecosystem of businesses in an area.

The creation of future industries in Australia will need a whole of government effort – it cannot rely on a single portfolio providing a single kind of grant to individual businesses, or infrastructure investments made in isolation of wider factors. The recently announced University Research Commercialisation Plan will align research priorities with Modern Manufacturing Priorities. We can build on this through the rest of the government's efforts, and the positive steps already taken through the Modern Manufacturing Strategy.

Driving the growth of a small number of globally significant precincts will require high-quality place-based decision making. This means having:

- A clear vision and understanding about why a precinct can and will be important in a global context. This is not just the pure number of jobs created, but also the significance it has for global trade – be that access to a strategic port or airport, years of investment behind them, or demonstrated success and agglomeration.
- A focus on the people and collaboration. A precinct needs to draw together the skills and capital needed, from industry, tertiary institutions, and government. But it also needs to be a place where people want to live, not just work.
- A considered approach to infrastructure investment. This means structuring the investment needed to make it happen – not building a precinct to fit predetermined infrastructure choices.

The globally significant precincts will not just be in Australia's cities. Specific industries – such as green hydrogen and defence industries – lend themselves to regional locations.

We also need to think about how we attract international businesses and talent to our top tier precincts. At present, there are a range of state and territory initiatives aimed at promoting several different precincts to overseas investors. The Commonwealth Government has a leading role consolidating and coordinating promotion activities and facilitating investment in top tier precincts.

For the key precincts identified by the future industries fund, an integrated approach aligning state and territory initiatives with Austrade, DFAT and the Global Business and Talent Attraction Taskforce would help Australia claim a distinctive brand among international stakeholders and global investors.

A single industries fund could bring together the myriad of programs designed to support Australian industry and provide for a more coordinated and targeted way of directing this assistance.

Recommendation 15:

Establish a single future industries fund.

a. The fund should empower to make investments – grants, loans, or equity – into a small 'hit list' of regions, to develop the internationally significant precincts supporting future industries. The fund should be tied to private sector investment and empowered to make investments that suit the needs of the region: whether that is a grant to establish new transport links with key markets, an equity stake to foster investment and act as patient capital in a major transformational project, or small concessional loans to grow an ecosystem of small businesses working on common projects.

b. Given the diversity of support that may be required and the need for a holistic approach across government, this fund should be located in the Treasury portfolio, and overseen by an independent board.

c. This would build on the investments already made through the Modern Manufacturing Initiative, CEFC, EFIC and ARENA.

d. Centre more Designated Area Migration Agreements around innovation precincts to ensure our top tier precincts have access to global talent needed to unlock jobs for Australians.

e. Appoint private-sector Precinct Ambassadors for top tier precincts, with responsibility for coordinating Commonwealth and State promotion activities, leading overseas delegations, and welcoming incoming investors.

Supporting R&D in digital technology

As part of accelerating the shift to more modern and advanced economy, more needs to be done to encourage innovation and technology to drive productivity improvements.

Pro-investment policies tend to target traditional 'nuts and bolts' investment despite the profile of investment changing, with budget measures such as the instant asset write-off and temporary expensing prime examples. Investment can also be in 'soft' capital such as knowledge, firm-specific skills, computerised information and innovative property (such as research and development).

This can be seen in changes to the nature of R&D. Information and computing services has been the leading field of research for business R&D since 2015-16. It accounted for $7.1 billion, or almost 40 per cent of all business R&D in 2019-20. This share represents a doubling over the past two decades. This will support the modernisation of businesses across the economy, not just 'tech' businesses. For example, despite information and computing services being the leading field of research, manufacturing remained the largest objective of research for businesses' research expenditure.

As a share of GDP, Australia's R&D spending is comparable to countries like the UK or Canada, but well behind world leaders like South Korea or Israel, who spend almost five per cent of GDP on R&D. The key difference between Australia and countries like Israel is the portion of R&D expenditure by businesses – in Australia, businesses account for around half of gross R&D expenditure (with the higher education sector contributing around a third). By contrast, nearly 90 per cent of Israel's R&D expenditure is undertaken by businesses.

The rate of business R&D could be lifted through simple changes to the eligibility of computer software for tax incentives.

Recommendation 16:

Software expenditure eligibility around the Research and Development Tax Incentive should be expanded and better clarified. An alternative could be a new scheme with a bonus tax deduction for qualifying expenditure. It could support innovative software solutions which do not qualify for existing tax incentives or grants.

The ABS provides measures of digital activity in the Australian economy, as well as business use of IT in the 'Characteristics of Australian Business' releases. These provide detailed statistical information on the use of paid cloud computing, security incidents and e-commerce, among others. However, the existing approach has some limitations to understanding Australia's digital economy, including the digitisation of international trade, the inclusion of new digital services (such as Uber or fintech) or household uses of technology (the last release was made in 2018).

It will be important to both better understand how these new forms of investment are measured and ensure they are indeed measured in the National Accounts. This will provide a more accurate measure of whether Australia is reaching its goal of becoming a leading digital economy by 2030. Understanding key statistics, such as household interactions with the digital economy and the investments being made in new cloud and SaaS services will help measure the extent of the economy's digitisation.

Recommendation 17:

Provide additional funding to the ABS to undertake additional measurements of the digital economy.

An expanded patent box to spur innovation

Now is not the time to place limits on the creation of new ideas and innovations. As part of the Digital Economy Strategy released in last year's Budget, the government announced the introduction of a patent box for eligible corporate income associated with new patents in the medical and biotechnology sectors.

This effectively reduces the tax rate on income from eligible innovative research. This kind of scheme will support businesses basing their R&D operations and commercialisation activities in Australia – particularly given many of our competitors, such as the UK, Singapore and other European countries already have similar and more competitive regimes in place. The proposed patent box tax rate is relatively high compared with other regimes around the world. This means the proposed patent box regime should apply to a broad base to ensure it is competitive and effective in delivering on its policy intent.

Recommendation 18:

The Commonwealth Government should expand the patent box to cover all patents – at a minimum covering patents within the remaining five Modern Manufacturing Priorities. This will ensure the scheme is competitive, agile to evolving technology and innovations, and could simplify administration.

De-risking clean energy investment

One of the greatest opportunities Australia has to reposition the economy for a secure and prosperous future is making the most of the massive changes underway as the world transitions to a net zero economy by 2050. We have the first mover advantage with an abundance of resources that will power renewables and new energy sources.

In our recent report, 'Achieving a net zero economy', we make the economic case for transforming our energy system and economy to achieve the net zero emission goal by 2050.

International investment trends are moving faster than government action in pursuit of this goal globally. Domestic market signals must ensure Australia attracts the finance and investment we need to capitalise on these opportunities including new industry formation, the development of new technologies, new skills and new job creation.

In large part, this finance and investment will be needed to enable the development and deployment of emerging low and zero emissions technologies in harder to abate industries, where the associated costs and risks are highest. These industries' ability to decarbonise their production processes and output by 2050, will be impacted by how successful climate policy frameworks are at facilitating this finance and investment over the next two decades.

An investment allowance could be targeted at the clean energy sector to help de-risk investments in that sector by bolstering post-tax returns. It would act as a bonus deduction for new clean energy investment at a rate of 20 per cent and help accelerate decarbonisation.

In practice, an investment allowance reduces the tax payable on profits earned from investing. It does this by reducing taxable income in the early years of an investment. The effect is to increase the after-tax return on investment and help offset the effects of an uncompetitive company tax rate.

There is also a strong case to build on the successful work and outcomes of existing agencies, like ARENA and CEFC, having operated to deliver support to emerging renewable energy technologies. In combination, the use of grant funding by ARENA and concessional financing by the CEFC is a very effective way to support the commercialisation of emerging clean technologies across all sectors, where market failure would otherwise inhibit such commercialisation.

On the flip side, it is critical that governments avoid poorly targeted interventions in the market, where there is no market failure to correct for. Such interventions deter efficient private investment and inflate the cost of investing and decarbonisation overall. The Underwriting New Generation Investments scheme is an example of this type of intervention.

Recommendation 19:

a. Introduce an investment allowance targeted at the clean energy sector to support the transition to net zero. It would act as a bonus deduction for new clean energy investment at a rate of 20 per cent.

b. Scale up funding to CEFC and ARENA over time so that sufficient public co-investment is available to encourage private sector investment and participation in high-risk, clean energy technology opportunities that would not otherwise reach the scale required to be commercial.

Maintaining the momentum towards a digital economy

Digital technologies are a further growth area for global investment. Maintaining the momentum towards a digital economy is one of the centrepieces of securing Australia's economic future for the next 30 years – it is key to becoming a modern, advanced economy.

During COVID-19, the adoption of digital technologies and services turned into a stampede. Advances that previously would have taken five years were compressed to just three months.

If we are going to achieve the government's ambition of becoming a leading digital economy by 2030, every business will need to become a technology business. This will mean removing the barriers or disincentives for businesses and citizens to go digital, whether these are regulatory, financial or due to lack of confidence and access. If we do not, viable businesses will go under, and Australia's economy will not keep pace in a changing world.

Government needs to lead by example when it comes to digitisation. The enhancements made to myGov, the commitment to a Single Trade window and modernised business registers, and the establishment of the Single Touch Payroll systems remain key initiatives for supporting better regulatory practice and outcomes, as does the efforts to support the adoption of eInvoicing.

But there are other areas where digitisation of government can make it easier for businesses and citizens to interact with government and each other. The ambition should be that every engagement with government should have a digital option, and for all businesses to be able to purely online by 2030. Businesses should be digital from day one.

We have previously called for a voucher or grant scheme to encourage SMEs to adopt new digital technologies, in line with other jurisdictions such as Singapore and the UK. Building on this, the government should consider other approaches to help businesses adopt new technologies. This includes providing information to newly established businesses about the products that are in the market that can support their needs (such as accounting and bookkeeping software, CRMs and other SaaS and cloud-based offerings).

While government should not seek to highlight any particular businesses or specific products, helping newly formed businesses understand the types of options available will mean they can adopt high quality digital products and services from the start. This could include new, more efficient, cloud-based services for accounting and bookkeeping and rostering, as well as advice on what new businesses should consider to ensure they have adequate cyber security. This kind of information could be provided throughout the process of establishing a new business, such as when registering an ABN or a business name with ASIC.

This information should be developed in collaboration with businesses and would build on the measures that have already been implemented as part of the Digital Economy Strategy and the Digital Business Plan to support SME take-up of digital technology.

To assist with the cost of implementing new technologies, small businesses could be offered an investment allowance of 20 per cent for such spending.

Recommendation 20:

Working with business, develop and provide targeted advice to newly established businesses about digital products and services, such as cloud-based bookkeeping or rostering software, as well as the best ways to ensure adequate cyber security for themselves and their customers. This could be supported by an investment allowance of 20 per cent in excess of normal deductions for such expenditure.

Reintegrating into the global economy

Australian businesses rely on global markets as a destination for our exports, a source of goods and services and for the pool of talent and new capital.

Our recovery and future depends on ending Fortress Australia and re-integrating into the global economy. There are some easy regulatory wins that would free up the flow of trade across our borders.

As a large country that is distant from many of the world's biggest markets, Australia is dependent on global supply chains and strong domestic logistics networks.

Disruption from COVID-19 has placed acute pressure on global supply chains. Domestic supply chains have been impacted by reduced workforce mobility due to travel and border restrictions and reduced onsite productivity. Internationally, ongoing reduced air freight, stimulatory measures in the US and Europe, and a dramatic rise in online consumer purchases has increased demand for global shipping freight, contributing to a worldwide shortage of containers.

Shipping carriers have reoriented their vessels to more profitable routes leading to surplus containers in some places and a lack of container elsewhere, with unprecedented shipping bottlenecks developing. According to some estimates, by mid-August there were roughly 350 containerships waiting off ports around the world.[8] The Export Council of Australia estimates that freight costs have increased up to 300 per cent.

Systemic stress in shipping is not solely an issue for the shipping companies. The quality of transportation infrastructure across the board influences maritime shipping capacities, as do complementary port procedures, trade regulations and applicable international standards. Countries with modern efficient infrastructure and effective cross-border trade regulation are better placed to weather the current challenges and position themselves to rebound as the world emerges from the pandemic.

Australia's record leaves much room for improvement. In terms of infrastructure, an assessment of comparable container port performance released by the World Bank in 2021 revealed that all Australia's container ports, except for Brisbane, were in the 25 per cent worst-performing container ports in the world. Combined with Australia's slow and cumbersome cross border trade compliance system, it is no wonder World Bank's Ease of Doing Business 2020 ranked Australia 106th in the world for cross border trade, just behind Kazakhstan.

Tariff reform

While global supply bottlenecks in sea freight cannot be solved quickly, the government can take steps to remove other impediments to trade.

Despite progressive years of trade liberalisation, tariffs continue to be a feature of Australia's trade policy landscape. It is worth remembering that a tax on imports is a tax on consumers and domestic producers, and ultimately a tax on exports. It is a self-imposed hindrance on recovery.

As we continue to conclude preferential trade deals, tariffs have been eliminated on most of our imports. Once the agreements with the EU and UK are completed around 90 per cent of imports will be tariff free. The latest Budget estimates show revenue collection after drawbacks will be around $400 million a year in 2024-25.

Australia continues to impose a general 5 per cent tariff on a range of merchandise imports. The domestic protection that these tariffs provide is negligible. This is especially true of 'nuisance' tariffs that raise a fraction of

[8] Financial Times, "Shipping Bottlenecks", 15 August 2021

a few dollars but require that Australian importers comply with tariff paperwork. Compliance costs, including time, far outweighs the benefit in revenue terms.

There is strong precedent for eliminating nuisance tariffs. In 1999 following a review by the PC, the Howard Government removed 400 nuisance tariffs.

There is a case for more ambitious case reform of the tariff system to remove red tape at the border. At least one study suggests that Australia's GDP could increase by around 0.4 per cent to 0.6 per cent (or around $8 billion to $13 billion) over time once all remaining tariffs are abolished.[9] Moreover, there are over 84,000 lines of tariff schedules which businesses need to review to determine whether they can avoid a 5 per cent duty if the product satisfies preferential treatment. Unsurprisingly, around 30 per cent of imports from countries with a preferential trade agreement continue to attract a tariff because importers found the administrative cost outweighed the paperwork.[10]

Recommendation 21:

Eliminate 'nuisance' tariffs which attract negligible revenue and impose unnecessary red tape.

[9] https://crawford.anu.edu.au/publication/crawford-school-working-papers/11707/bilateral-and-regional-trade-agreements-detangling

[10] https://www.pc.gov.au/research/ongoing/trade-assistance/2015-16/trade-assistance-review-2015-16.pdf

Improving cross border trade

One of the handbrakes on cross-border trade is Australia's cumbersome and slow trade compliance system which needs major digital, technology and regulatory reforms to deliver a 21st century single trade window.

The 2021-22 Budget allocated $37 million over three years to simplify Australia's international trade regulations, modernise ICT systems and support economic resilience. The vehicle for this is the Simplified Trade System (STS) Taskforce led by the Minister for Trade, Tourism and Investment. This is an important step towards a comprehensive Single Trade Window, or a 'digital first' and 'tell us once' approach to cross border trade compliance.

The implementation of the single window trade platform in Singapore reduced the time taken to process trade documents from four days to 15 minutes. The potential cost saving to Australian businesses is around $400 million per year.

The STS Taskforce has initially identified 28 agencies involved in cross border trade, over 200 pieces of legislation/regulation, more than 130 government ICT systems supporting trade and 20 business facing trade portals. Reforms will likely involve incremental changes over several years, which makes it vital for the Taskforce to publish a snapshot of the existing system, a vision for a future system and a work agenda to get there. In some cases, this may involve legislative change, for example to enable data sharing across agencies or to reduce the need for paper in the trading system. High-level political commitment is also critical to ensure momentum, resources and interagency support that is sustained through implementation.

International Freight Assistance Mechanism

Recommendation 22:

a. The STS Taskforce should publish and release as much of its analytical work as possible, beginning with a comprehensive review of the regulations and various choke points in trade compliance. This should be accompanied by a vision for a future system and a work agenda to get there. Together they will support business to better understand and support the reforms and ensure critical momentum can be sustained through several years of implementation.

b. The STS reforms could prioritise the flow of import/export data for businesses using the customs system through an opt-in self-service portal. This will reduce the time it takes to obtain data from ABF, streamline business operations and make it easier for businesses to identify and manage risk in supply chains and develop mitigation plans. Timely provision of data will also support user compliance with more complex regulatory reporting on risks in supply chains.

c. The STS reforms could address the time and cost of administering Australia's biosecurity system by exploring the deployment of technologies, including artificial intelligence, that could speed up cross border processing while ensuring integrity and continued high levels of risk management are observed.

The Commonwealth Government's International Freight Assistance Mechanism (IFAM) has been successful in supporting the movement of time sensitive freight into and out of the country by air, at a time when flights otherwise fell precipitously. The program supports the importation of medical supplies and export of premium perishable Australian goods.

There remains significant uncertainly for 2022 in terms of international aviation and it is not clear what the outlook for the pandemic is in 2022. In this context, it is prudent for the government to extend funding available for the program beyond the mid-2022 cut-off date, until the end of the year.

Recommendation 23:

Commit funding to allow the extension of the International Freight Assistance Mechanism until the end of 2022, to provide certainty that freight flights will remain available throughout the year.

Making the most of infrastructure investment

Australia has an unprecedented pipeline of public infrastructure projects which can support our longer-term growth prospects through improving transport connectivity, building capability in local communities and improving service delivery.

But we need coordination between all jurisdictions and best practice planning. Otherwise, the risk is that significant competition between projects and broader supply constraints will mean we do not reap the full benefits of this investment but experience delays and cost blowouts.

Australia's unprecedented public infrastructure pipeline is an investment by all governments in fuelling the recovery and ensuring the nation has the springboard for future growth. In the global competition for talent and investment, it is imperative that Australia matches and beats our international rivals in delivering the infrastructure that people and businesses need.

Infrastructure Australia (IA) reports that annual spending on major public infrastructure is expected to double in three years, up to $53 billion in 2023, and to reach $290 billion over the next 10 years.

The Business Council acknowledges the short-term challenges in resourcing projects. The work produced recently by IA lays the groundwork in identifying where capability gaps exist and need to be filled.

These challenges must not be allowed to defer or diminish the government's commitment to investment in the infrastructure that supports the future success of the nation. Furthermore, a steady and consistent pipeline of projects is necessary to ensure that industry has the confidence to continue to build capacity for the medium and long term.

Recommendation 24:

The continued and sustained investment in productive infrastructure must remain a priority for the Commonwealth Government, irrespective of other short-term pressures. Certainty for the project pipeline and in long term expenditure needs to be maintained.

Improving procurement and delivery in the age of the mega-project

Both the scale of the overall pipeline and the recent prevalence of highly complex mega-projects presents challenges with respect to competition for inputs – demand for labour, equipment, and materials is expected to be two-thirds higher than the previous five years.

It is estimated that the peak of demand for skills will be 48 per cent higher than supply.[11] This suggests careful planning of projects in the face of peak demand, the need to address skills shortages (through skilled migration and further investment in skills) as well as streamlining of planning processes. Work to address this has already been commissioned by National Cabinet, with an extensive set of reporting produced recently by IA as the first component of this program.

[11] IA Market Capacity report

There are opportunities to reskill and upskill workers to fill these roles. Infrastructure Australia also highlights the significant gender disparity, with females making up only 12 per cent of the public infrastructure workforce. This presents both a challenge and an opportunity for the sector, as has already been discussed in the previous section covering training opportunities to encourage women into construction.

As time has progressed, governments have been more ambitious in the scale of project they are willing to tackle. The largest and most complex projects, the 'mega-projects', are less than one-fifth of the total major public projects by number but make up some 80 per cent of the total major project spend.

Better coordination of the national pipeline

Delivering the mega-projects for growth require an outsized effort on the part of their sponsor governments in terms of both capital and labour. Depending on the project, they often call upon specialised skills and the participation of the largest contractors in the industry.

In essence, these projects can supercharge competition for resources, both in the bidding phase and in delivery. This in turn drives up price and risk for the taxpayer.

In this context, better coordination of the infrastructure pipeline across the nation has been supported by the Business Council. It was also one of the recommendations from IA's *2021 Australian Infrastructure Plan*.

These projects are often both high profile and of key importance for their community and governments. While governments should strive for best practice, it is unrealistic to expect a fully coordinated pipeline across jurisdictions, each with competing priorities.

Given that, IA and the state-based infrastructure bodies should share coordinating information on these projects on a regular basis. This advice in turn should be provided back to their respective governments to allow better decisions to be made on the timing of procurements and staging of projects. It may also assist in understanding when specialist equipment and resources, such as that used for tunnelling, will be more acute. This would form the first step in a longer-term ambition for a better coordinated pipeline of projects across the country.

Beyond this, there needs to be improved signalling to industry on what is planned beyond the short term. Five years ago, the forecast for Australia's infrastructure pipeline showed an expected peak in 2019. Instead, the pipeline has grown further as more projects were added. Today, the pipeline forecast shows work peaking around 2023. These forecasts behave this way as known and programmed major projects come to completion, with governments not yet including future potential projects in their investment pipeline. In part this is driven by governments' budgeting approach. As such, historically, this decline is an artificial construct that does not necessarily manifest.

If we want industry and workers to have confidence to plan for the longer term, to invest in skills and capabilities that take time, effort, and money to build, there needs to be a demonstration that the nation's project pipeline does not simply fall away after two to three years. While there is always inherent uncertainty in longer term forecasts, a more realistic representation of governments' plans for the long term would help industry plan ahead. A decade long pipeline of projects would illustrate what skills will be needed in the medium and long term, rather than painting a picture of a short-term boom-and-bust cycle.

Recommendation 25:

a. Infrastructure Australia and the state-based infrastructure bodies should be tasked with coordinating information on the national project pipeline on a regular basis and feeding back to their respective governments. This advice will allow better informed decisions to be made on the timing of procurements and staging of projects.

b. Infrastructure Australia should work with their state counterparts to produce a ten-year pipeline of projects, with the express intention of giving industry and government a better picture of the nations' skills and capability needs beyond the short term.

Project Risk

Early identification of risk ensures that projects are more likely to be priced accurately, and more likely to be delivered successfully. Early works packages, targeting removal of contamination or relocation of utilities, are useful tools to de-risk subsequent major contract packages. These should become standard consideration for all large and complex projects.

Out-sized projects can produce out-sized financial risks. Inappropriate risk allocation on behalf of government can lead to uncompetitive procurement processes with fewer willing bidders, and a highly adversarial delivery environment. There have been a number of high-profile projects across Australia over the past several years that are testament to this.

Appropriate and fair allocation of risk, particularly in this context, is crucial. Government's approach to a project's risk allocation must consider whether the private sector delivery partner is well placed to control the risk being transferred.

Doing so is important not only for the individual project. Given the size of projects and risks now faced, this is also vital for the long-term sustainability of the construction sector involved in public infrastructure. This consideration should become a feature of federally funded projects.

Recommendation 26:

a. Early risk identification should be prioritised for large and complex projects. This includes commissioning early works to de-risk larger contract packages.

b. There must be an acceptance of a fair risk allocation between government and the private sector to ensure competitive tenders and a sustainable construction sector.

The Commonwealth Government is exposed to project risk through both projects that Commonwealth-owned businesses are delivering, such as Snowy Hydro, the Australian Rail Track Corporation, NBN Co. and the Western Sydney Airport Development Corporation; and through state and territory requests for funding.

The Commonwealth Government has the opportunity to support best-practice in risk identification and management. Building on the Infrastructure Australia business case review and the recent National Study of Infrastructure Risk Study, the Commonwealth Government should establish an independent gateway review process modelled on the Infrastructure NSW Infrastructure Investor Assurance Framework. This could be led by Infrastructure Australia, as independent of any delivery or funding agency in government.

Critically, this process should:

- Be focused on providing the project team with independent advice in identifying otherwise unforeseen risks, and providing feedback for improvement on the maturity of the project to ensure it is ready to progress to the next phase in its lifecycle.
- Give the Commonwealth Government confidence in making investment and procurement decisions as a sponsor and funder of a project.
- Must be designed in a way that dovetails with relevant state assurance and gateway processes where they are being deployed (i.e. for state government led projects), to ensure there is not a duplication of effort or additional red tape.
- Be clear in its purpose of providing independent advice to the project team and to government, not as a mechanism for public critique or commentary.

Recommendation 27:

The Commonwealth Government should strengthen its project assurance through the establishment of an independent gateway review process led by Infrastructure Australia, modelled on the NSW Infrastructure Investor Assurance Framework. Where projects are state government led, this process should be designed to work with existing state processes (where they are in place), rather than duplicating them.

Place based infrastructure investment

Ensuring places and regions across Australia share in the benefits of faster growth and a more modern economy is critical to ending geographic divides that threaten to hold the country back.

Place-based approaches in investment ensure there is broad alignment and sequencing across multiple disciplines, including statutory planning and the various economic and social infrastructure and services necessary for the success of a given place. This is about providing a place with the infrastructure and services it needs to generate the optimal outcomes for communities and businesses. As Australia advances, everyone no matter where they live should share in the dividends of growth.

A formalised framework to place-based investment, along the lines of the City or Regional Deal model, is one way this approach can be expanded. In addition to a long-term plan being brought to bear on shaping a particular place, this Deal model also brings together all levels of government. This provides for a more successful model of delivery by ensuring collaboration and alignment on the funding, planning, and regulatory powers of each level of government, delivering to the same agreed plan. Going forward, the opportunity for industry to be involved in these deals should also be incorporated.

Recommendation 28:

More emphasis should be placed on a place-based approach to infrastructure, so that it is delivered in a coordinated manner. Where relevant, the 'City or Regional Deal model' should be utilised to improve success by aligning multiple levels of government towards the same outcome. Industry should be invited to participate in this process.

A better working Federation

Most of Australia's largest employers work across state borders so for business to drive the recovery and growth, it is critical the Federation operates effectively.

Poor coordination, overlap and duplication act as handbrake on activity while taking steps towards a more effective Federation is central to securing a sustainable fiscal path forward for all governments.

Harnessing National Cabinet to drive reform

National Cabinet has been a vital vehicle for coordinating the management of Australia's pandemic response and should be leveraged to tackle some of the most pressing issues across the federation, particularly around deregulation and harmonisation. A well-functioning federation underpins efficient delivery of government services and better community outcomes for each dollar spent.

State and territory governments should pursue reforms that deliver net benefits to the economy. However, the design of Australia's tax system means a greater share of the tax revenue benefits of reforms may flow to the Commonwealth government.

Recommendation 29:

Provide ongoing funding of productivity payments to states and territories that implement beneficial reforms, including tax and regulatory changes. This funding should be 'at risk' and only available for jurisdictions that fully meet their commitments and follow through with reforms.

Removing barriers to sustainable tax reform

Some states have already proposed tax changes which, among their many objectives, seek to repair their budgets. However, some of these proposed changes will dampen the recovery and exacerbate existing problems with state taxes. For example, the last Victorian budget increased payroll tax and stamp duties – one of the most inefficient taxes. Such changes do nothing to address the state's fundamental fiscal challenges nor do they help drive the growth needed to support a sustainable fiscal position.

By contrast, the NSW Government has proposed to replace stamp duty with an annual property tax on an opt-in basis. Over time, it could raise the same amount of revenue with a lower cost to society, while helping to boost home ownership and improve mobility.

A key issue for the reform is the role of the Commonwealth government in ensuring that funding formulas for distributing GST revenue do not punish states such as NSW that pursue economy growing reforms. Without such action, the equalisation formula administered by the Commonwealth Grants Commission can negate the benefits for states that go it alone on tax reform.

The property tax reform proposal would shift tax collections to a more sustainable tax base. It would also likely deliver both economic and revenue benefits for the Commonwealth, further boosting the case for additional support to NSW to complement the reform.

Recommendation 30:

Support states that want to progress much needed tax reform such as phasing out stamp duty by providing them with a clear guarantee of no disadvantage in the allocation of GST revenues.

A consistent approach to electrical vehicles

There is an inconsistent approach across jurisdictions to electric vehicle tax policies. Support is delivered through stamp duty exemptions or reductions, registration relief, and rebates, alongside differing time periods and thresholds for this relief. A Victorian road-user charge was introduced 1 July 2021 for zero and low emissions vehicles. By comparison, both New South Wales and South Australia plan to introduce these road user charges either by 2027 or when electric vehicles are 30 per cent of sales. The NSW package also includes stamp duty exemptions, investment in charging infrastructure, rebates and increased government fleet procurement.

A coordinated, national approach is needed for both road user charges and charging systems to ensure long distance travel is possible and not needlessly costly and complex. Disincentives to the adoption of electric vehicles and inconsistencies with international regulations may also impact the supply and price of electric vehicles for domestic consumers and businesses.

Fuel excise collections have experienced the largest fall compared with any other tax base over the past two decades, down 0.8 per cent of GDP – around $17 billion in today's dollars. This was driven by factors such as the historical freeze in indexation (since reversed) and ongoing improvements in fuel efficiency. The fuel tax base will likely continue to erode, driven by continued improvements in fuel efficiency and increased uptake of electric vehicles. Issues around the sustainability of this tax base highlight the urgent need for tax reform. To the extent fuel excise continues to operate, fuel tax credits are an important complement to ensure 'that fuel tax on business inputs is minimised'.[12] Fuel tax is intended to be levied on final consumers and the purpose of the fuel tax credit scheme is to ensure that the incidence of fuel tax does not add to business costs.

Recommendation 31:

Develop a coordinated and national approach to both road user charges and charging systems. This will ensure policy and access to charging stations is not a disincentive to the uptake of electric vehicles. The NSW approach provides a benchmark to implementing road user charging and reducing disincentives to electric vehicle adoption.

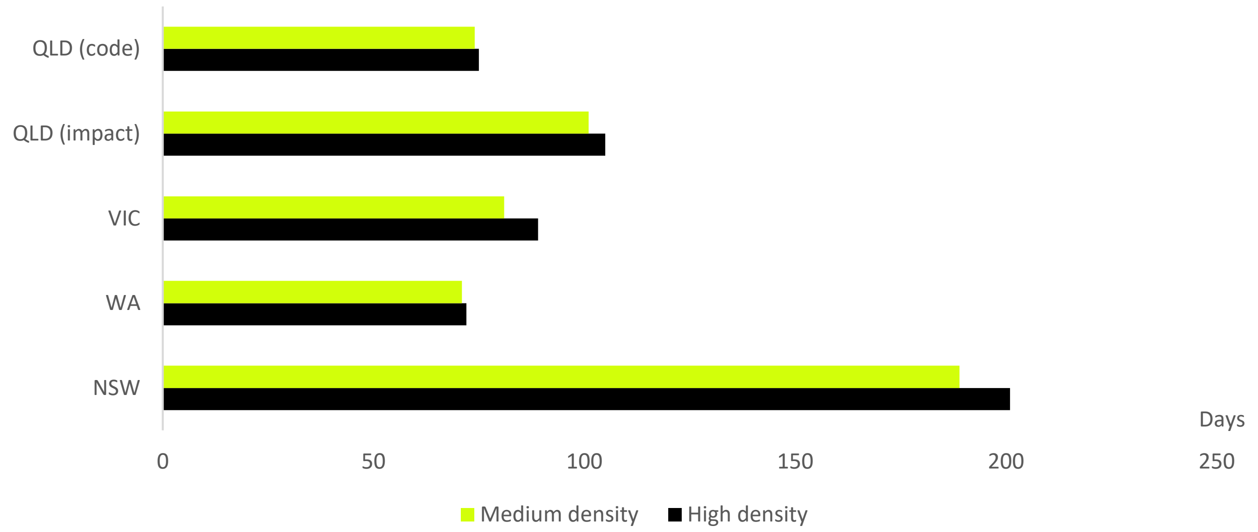
[12] Australian Government, *Re:think tax discussion paper*, 2015.

Driving improvements in planning approvals and supporting housing supply

Planning approval systems around the nation ensure that new construction and developments are aligned to broader community, economic, and environmental requirements. While they serve an important purpose, they also create significant red tape for investment. In the worst-case scenarios, they add significant uncertainty and risk around a project's outcome, together with substantial additional cost and delay. This creates barriers to job generating activity and meeting national housing supply needs, reducing the nation's competitiveness in attracting investment capital.

Assessment processes vary significantly across jurisdictions. In 2021 the NSW Productivity Commission released a white paper that included a comparison of planning approval times across NSW, Victoria, Queensland, and Western Australia. NSW fared the worst in this comparison, taking on average 200 days for medium density developments. By comparison, the Western Australian average was around 70 days.

Figure 13: Comparison of approval timeframes (indicative)



Source: NSW PC

Many jurisdictions, NSW included, have been making progress in improving the delays imposed by their planning approval systems. However, there is substantially more work to do to get to best practice.

Given the implication for the nation's competitiveness, the Commonwealth Government needs to take a more proactive approach. This should take the form of specific incentive payments for states to reform their system, to further drive down delays and costs for proponents, while also improving transparency.

An interrelated issue is that of housing supply, which is often impeded by lengthy planning processes. In many cases, approval of new housing supply is often tied up in requirements for supporting infrastructure.

At a minimum this can take the form of utilities and local roads. Often for a truly successful outcome, and to secure broader public support, it also requires major road improvements, public transport upgrades, new school capacity, better hospitals, and increased public spaces. This is the essence of successful place-based infrastructure planning and delivery.

Delay in supply of this infrastructure can lead to the delay in new housing supply, lower permissible dwelling numbers, or poor outcomes for new and existing residents.

The development industry contributes to the cost of this infrastructure through various mechanisms typically administered at a state level. There is also a cost burden placed on state and local governments to deliver works that support new housing supply. A number of jurisdictions already have specifically targeted funding programs for infrastructure that support housing supply.

There is an opportunity for the Commonwealth Government to also act to support the delivery of new housing, though its own infrastructure funding stream targeted at projects which unlock new dwellings.

Given their interrelation, these two proposals – incentives for improving the planning system, and funding infrastructure to support housing – should be tied together. Funding for infrastructure to support housing supply should be provided with explicit conditions that go towards tangible and measured improvements to the state's planning system. These should be tailored on a state-by-state basis.

Recommendation 32:

A new infrastructure funding stream should be made available specifically targeting infrastructure which facilitates new housing supply. Access to this funding should be tied to specific improvements agreed between the state government and the Commonwealth Government relating to improvements in time, cost to proponent, and transparency, for their planning approval system.

Conclusion

The Australia economy is emerging strongly from the lockdowns but we must now urgently take action to lock in the gains by removing the barriers to a sustained recovery while laying the foundations for longer-term growth.

We cannot be lulled into a false dawn as pent up demand surges through the cash registers supported by policy stimulus measures. Instead, it is imperative that we remove the supply side constraints on the economy to power a long and lasting recovery.

At the same time, we need to seize this moment to put the foundations in place to set the country up for long-term and sustained growth with permanent structural fixes to lift investment, address uncompetitive tax rates and reduce costs on business.

Australia faces two choices.

We can revel in a short-term economic surge that does little to put the groundwork in place for accelerated private sector-led growth over the long term, or we can get our house in order.

By taking the brakes off the economy and ushering in new industries, new opportunities and new jobs, it is possible to realise growth over the decade above 3½ per cent per year.

Doing this would mean the economy would see the cumulative benefits of $1 trillion over the decade.

Budget revenues would be some $250 billion higher over this period, allowing the government to turnaround our finances and make serious inroads into the debt.

Australians would also benefit from income per person more than $7,000 higher over the decade.

Higher growth means we can better withstand global volatility and potential movements in interest rates or inflation.

Higher growth gives us the means to lift living standards, create more opportunities and share the benefits with all Australians.

The Business Council encourages governments to be ambitious about the longer-term agenda as we head into this important election year.

BUSINESS COUNCIL OF AUSTRALIA

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