# PRE-BUDGET SUBMISSION 2022-23

**December 2021**

Australian Chamber of Commerce and Industry

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# Summary of Recommendations

### TAX REFORM

- Begin the process of comprehensive tax reform, including the GST, by placing tax reform as a standing item for discussion on the CFFR agenda.
- Extend the 25% small business corporate tax rate to cover all small to medium enterprises by increasing the base rate entity eligibility criteria to an aggregate turnover of less than $250 million.
- Take a leadership role, working with the state and territory governments, to reduce the burden of payroll tax on business.
- Remove fringe benefit tax on entertainment-related expenses for a limited time and childcare on a permanent basis to support employment and stimulate consumption in areas hardest hit by the COVID pandemic.
- Abolish the LCT to stimulate car sales and improve environmental performance.

### DEREGULATION AND REGULATORY REFORM

- Prioritise and adequately resource the development, design and implementation of a user-centric approach to regulation across the whole of Government.
- Work with states and territories to simplify and streamline the approvals process for major projects and avoid duplication in the regulatory process.
- Impose greater accountability requirements on the cost recovery process for regulatory agencies and ensure incentives are in place to drive efficient regulation.

### INVESTMENT, CAPITAL DEEPENING AND INNOVATION

#### Business Investment

- Stimulate investment through an extension of the Temporary Full Expensing measure beyond 2022.
- Introduce a broad-based investment allowance of 20% of the value of an asset purchased for all business investments in plant, equipment and machinery.

#### Investment in Digital Technology

- Establish a small business ICT Modernisation Fund to encourage greater investment in technology and digital innovation.

#### Investment in R&D

- Broaden the patent box to all industry sectors, not just medical and biotechnology.
- Extend the patent box support to grants and other financial assistance to assist businesses to commercialise R&D and innovation in Australia.

### Investment in Energy

- Maintain and lower energy prices through a technology neutral approach to electricity generation and supply.
- Provide greater incentives for investment in R&D and innovation in developing technologies, such as hydrogen, pumped hydro and batteries, by reallocating CEFC and ARENA funding from now proven technologies of wind and solar.
- Work with State Governments to streamline energy policy, to avoid duplicating schemes in relation to energy efficiency, the costs of which are ultimately borne by all energy consumers.

### Investment in the Circular Economy

- Accelerate the move to a circular economy through public procurement policies that create a market for, and incentivise use of, recycled materials produced in Australia, thereby driving greater investment in recycling capacity.
- Work with states, territories and local government to better ensure more consistent policy dealing with the circular economy and recycling schemes
- Establish a new fund, or expand the mandate of ARENA and CEFC, to mobilise capital investment in waste management, recycling, more efficient use of materials, research and development into new uses for waste materials, market development for recycled materials.
- Streamline the standards development and regulatory approval process for new innovative recycled materials.

### Investment in Infrastructure

- Work with states, territories and local government to more efficiently and effectively deliver infrastructure investment, including incentive to improve procurement practices to increase competition by enabling a larger number of smaller contractors to bid for projects.
- Greater focus on regional infrastructure as an enabler of decentralisation.
- Finance public infrastructure through the issuing of government securitised infrastructure bonds.
- Lower the hurdle rate on public infrastructure investment to encourage investment in a broader range of infrastructure, particularly those with high long-term social benefits.

## EMPLOYMENT, SKILLS AND TRAINING

### Vocational Education and Training

- Commit to long term, consistent funding for VET that delivers real funding increases to ensure the economy's skill needs are adequately met.
- Extend the apprenticeship/trainee wage subsidy program at the following levels:
  - 30% wage subsidy for 12 months for both trade apprenticeships as well as for two-year traineeships
  - 30% wage subsidy for 6 months for 1-year traineeships
  - A continuation of the current 50% subsidy level for those business who in the six months to December 21 were over 30% down in turnover compared to pre-COVID trading
- Establish a National Apprenticeship Advisory Board.
- All Diploma and Advanced Diplomas should be eligible for VET Student Loans and their funding caps should be reviewed,
- Fund the National Skills Commission to undertake a biennial National Workforce Development Strategy.

### Employment

- Adequately fund the enhanced services for the long-term unemployed to ensure it can function as intended.
- Replace PaTH with a more vocational traineeship-style program and extend it to other cohorts on the jobactive caseload, including people with disability and mature age jobseekers.
- Allow pensioners to keep more of their age pension when they earn income by materially raising the fortnightly income threshold and increasing the Work bonus, with this measure applying to both existing and new pensioners.
- Until June 2023, allow those already in receipt of the aged pension as at 1 January 2022 to earn at a significantly higher rate to unlock the potential for hours not otherwise worked. This figure needs to reflect the opportunity to bring pensioners back into the workforce for two to three days per week.
- Reintegrate the publicly funded disability employment service back into the core employment system.
- Introduce stronger policies to make childcare more accessible, with more options available to assist parents to return to the workforce sooner

### Migration and Population

- Increase permanent annual migration levels.
- Fund Industry Outreach Officer Initiative within the Department of Home Affairs.
- Remove the SAF Levy for temporary and permanent employer nominated visas.

## TRADE

- Create a streamlined dedicated two-way agency covering trade and investment
- Modernise and improve the efficacy and efficiency of our border crossing processes
- Advance reform of the World Trade Organisation (WTO)
- Remove Australia's remaining tariffs
- Lift the export market development grant funding to $200 million annually

## WORKPLACE RELATIONS

## WORK HEALTH AND SAFETY & WORKERS' COMPENSATION

### Intergovernmental Agreement

- Ensure appropriate funding for the independent review of the Intergovernmental Agreement for harmonised work health and safety laws in Australia, ensuring adequate incentive for ongoing harmonisation and a commitment to best practice regulation.

### Safe Work Australia (SWA) – Social Partner Funding Arrangements

- Reinstate government funding to Safe Work Australia social partner Members to support employers and workers to navigate the suite of regulatory changes as a result of the Boland Review and to tackle emerging issues as we transition to COVID Normal.

# Introduction

The 2022 Budget comes at a crucial time for the Australian economy in the recovery from the COVID-19 pandemic. The economy bounced back from the first wave of infections in the first half of 2020, with economic activity and employment returning to pre-COVID levels by the first quarter of 2021. However, this was interrupted by the second wave of infections associated with the Delta variant of COVID-19 imposing extended lockdowns in NSW, Victoria and the ACT (i.e. more than half the national economy) in the second half of 2021. While we can again expect a rebound from the second wave lockdowns, there remains some uncertainty around the how sustainable the recovery will be over the longer term.

Now that Australia has achieved a full vaccination rate of over 90%, restrictions are beginning to be eased despite the new variant and those businesses locked down are reopening. However, the reopening will be very different from last year, reliant on the success of the vaccination dealing with new variants and with COVID-19 still present in the community. Many people will take advantage of their new-found freedom and return to their earlier spending habits. Spending on services are expected to quickly return to earlier levels, while spending on goods may moderate from COVID peaks. The announcement of the reopening roadmap led to a strong recovery in consumer and business confidence.

As with the earlier lockdowns, the recovery is likely to be uneven. A level of restrictions will remain for some sectors, particularly hospitality and other customer-facing industries such as recreation, gyms and personal services, slowing their return to full operational capacity. Even with the announced opening of international borders and limited travel bubbles with New Zealand, Singapore, Japan and South Korea, most of the initial focus will remain on returning Australians. While Australians will have the opportunity to travel overseas, international tourists and foreign students are unlikely to be returning in any great numbers until the second half of 2022. This will likely have a negative effect on our balance of trade, flowing through to the overall economy.

Tensions between states remain, with borders to Queensland and Western Australia closed to NSW, Victoria and ACT residents and for WA likely to remain so into 2022. This will hold back the economic activity in these states and slow the national recovery.

Skills shortages has seen wages growth in some hard to fill roles, but overall wages growth has been weak, with Reserve Bank and Treasury forecasts indicating they will remain so in the near term. Therefore, despite supply chain disruptions for some goods and rising international energy costs putting pressure on prices, underlying inflation is expected to remain subdued over the next few years.

While we can expect the economy to rally as businesses reopen after the recent lockdowns, it is unknown how sustainable this will be. Recent Reserve Bank forecasts suggest, after an initial bounce in economic activity, GDP will settle back from 5½% in 2022 to 2½% in 2023 and 2024, which is below the long term (30 year) average of 3.3%. Regardless, the economic losses and fiscal spending over the previous two years

have been substantial and it will take many years to return the Budget to balance and reduce public debt to acceptable long-term levels.

The key to rebuilding the Australian economy and addressing the mountain of public debt built up during the crisis is to increase the size and productivity capacity of the Australian economy. If we are to maintain living standards to which we aspire in the future, then there needs to be a concerted effort by government to have in place the conditions for sustainable, strong, job creating growth.

Australia needs greater investment in productive capital, which can be increased through government and private sector initiatives that direct expenditure to high priority infrastructure and tax incentives targeted at lifting business investment. It also needs to increase business innovation and technical improvement through targeted tax incentives and funding arrangements with research organisations.

ACCI recently released our *A Better Australia* strategy, looking to the longer term. If our ambition is to deliver sustainable economic growth that raises the living standards of Australians, then we need comprehensive reform to restructure the economy, so that it is dynamic, resilient, competitive and fit for the future. Key features of this are:

- An industrial relations system that encourages employees and employers to engage in mutually beneficial work-related arrangements that support gains in productivity and associated wage growth.
- A regulatory system that is simple and outcome focused rather than complicated and prescriptive to make it easier for businesses to establish, operate and grow.
- A tax and transfer system that is both efficient to support national competitiveness, reward effort and risk taking and fair to deliver on other outcomes important to society.
- Trade and industry policies that maximise our opportunity to engage in mutually beneficial trade with the world.
- Population and regional development policies that maximises Australia's opportunities to attract talented people and investment.
- An energy policy that can deliver acceptable security, affordability and low emission outcomes over the long-term.
- A digital transformation agenda that supports the necessary infrastructure and transitional assistance (and data governance and protection) to improve productivity and deliver the necessary information and communications technology to households and businesses.
- A sustainable growth agenda that not only delivers a comprehensive market-based climate change policy to efficiently drive decarbonisation in the economy, but also moves Australia to a more circular economy to increase our materials efficiency.

While we wait for the windows of opportunity to initiate and prosecute some of these more comprehensive and complex areas of reform, there are actions that can be taken in the short term to enhance productivity (either through investment and other fiscal measures or improving the regulatory environment) and accelerate economic activity towards achieving a strong business-led recovery.

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# Productivity

Productivity growth is a key driver of economic activity and essential to maintaining future living standards.

Labour productivity is the most important source of economic growth in Australia, contributing over 80% of growth in real Gross National Income (GNI) per person in the past three decades.[1] This has been achieved mainly through capital deepening, with investment in new capital supporting increased output from lower labour inputs.

Over the past 30 years, labour productivity averaged 1.5% per year. However, this long-term average has been inflated by the major economic reforms of the 1980s and 1990s. More recently, labour productivity growth has been much weaker, with the average rate between 2014-15 to 2018-19 (to exclude the COVID-recession) of only 0.4% per year. This compares to an average 1.1% per year in the decade 2004-05 to 2013-14 and 2.3% per year between 1995-96 and 2003-04.[2]

This low productivity contributed to weak economic growth in the years leading up to the pandemic, with GDP growth in the decade 2010-19 averaging 2.6%, compared to an average of 3.3% over the proceeding 3 decades.[3]

While the reasons as to why productivity growth has been declining or remaining low are much debated, a few factors that may, in combination, be the cause include: a decline in capital investment, a slowdown in the pace of technological discovery and technological diffusion, and a reduction in both business dynamism and competition.[4]

The Intergenerational Report assumes that labour productivity growth will return to average rate of growth of 1.5% per year, over the next 30 years.[5] This assumes a transition to the long-term growth will take place over the next 10 years, so a higher rate of productivity growth is needed in the outer years. If this cannot be achieved and labour productivity growth is lower, then this will substantially slow economic and employment growth over the next decade and beyond. For example, in an alternative scenario in the Intergeneration Report, with average productivity growth of only 1.2% per year — equivalent to the average over the past 20 years – nominal and real GDP would be 9½% lower and wages growth 9¼% less over the next 30 years.

[1] Treasury 2021 *Intergenerational Report: Australia over the next 40 years.* Commonwealth of Australia.

[2] ABS 2021 *Australian System of National Accounts*: Labour Productivity – quality adjusted hours worked. https://www.abs.gov.au/statistics/economy/national-accounts/australian-system-national-accounts/latest-release

[3] ABS 2021 *Australian System of National Accounts*: Gross Domestic Product – chain volume measures, percentage changes. https://www.abs.gov.au/statistics/economy/national-accounts/australian-system-national-accounts/latest-release

[4] Goldin, I. et al. (2021). *Why is productivity slowing down?* Working Paper no. 2021-6, University of Oxford.

[5] Treasury 2021 *Intergenerational Report: Australia over the next 40 years.* Commonwealth of Australia.

Yet, we need the growth to be stronger than that experienced over the past 30 years. If we are to achieve a sustained long-term economic recovery from the COVID-19 pandemic, address the mounting government debt legacy and maintain our living standards, labour productivity must rise at a rate above 1.5% per year.

The Government has made some progress in developing new measures to raise productivity growth, particularly support for investment in depreciable assets (temporary full expensing), deregulation in parts of the economy, and the adoption of digital technology. However, some of these are temporary measures, targeted at providing short-term stimulus during the pandemic and unlikely to sustain productivity growth over the next decade.

We recognise much of the heavy lifting to improve productivity rests with business. But, to allow business to meet the challenges over the coming decades and seize opportunities, we need reforms that will give the structure, flexibility and entrepreneurial culture to create the dynamism, resilience and competitiveness needed for businesses to thrive.

The 2022-23 Budget provides the opportunity to expand on these earlier measures and to take further actions that will substantially improve our productivity performance and further strengthen economic growth over the next decade. Australia's future prosperity is heavily dependent on it. It is essential that opportunities to lift our poor productivity growth are identified and acted upon.

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# Budget Priorities

## Tax Reform

Given the challenge in rebuilding the Australian economy as we emerge from the COVID pandemic, improving Australia's tax and transfer system needs to be a high priority for Government. Tax reform is fundamental to raising Australia's productivity performance and achieving strong, inclusive, job-creating economic growth that will lift our future living standards.

### Recommendation

- Begin the process of comprehensive tax reform, including the GST, by placing tax reform as a standing item for discussion on the Council of Federal Financial Relations (CFFR) agenda.
- Extend the 25% small business corporate tax rate to cover all small to medium enterprises by increasing the base rate entity eligibility criteria to an aggregate turnover of less than $250 million.
- Take a leadership role, working with the state and territory governments, to reduce the burden of payroll tax on business.
- Remove fringe benefit tax on entertainment-related expenses for a limited time and childcare permanently to support employment and stimulate consumption in areas hardest hit by the pandemic.
- Abolish the Luxury Car Tax (LCT) to stimulate car sales and improve environmental performance.

### Rationale for Proposed Policy

Australian businesses need the tax system to deliver the right mix of incentives that will make them globally competitive, stimulate investment in research and development, and support them in becoming more efficient and productive.

In its current form, Australia's two-tier tax system is replete with inequities resulting from the way labour, land and capital are each taxed, as well as the array of tax expenditures in the form of exemptions, deductions, concessions and deferrals. The system is too reliant on unsustainable and distortionary taxes that are either inherently inefficient or inefficient by design. There are also imbalances between the roles and responsibilities of the Commonwealth and those of state and territory governments, especially regarding raising revenue and spending on public goods and services. These give rise to structural weaknesses in budgets.

While there have been many reviews over the past two decades, providing endless ideas, opinions and recommendations on what needs to be done, for too long the task of meaningful tax reform has been deferred by Governments. We can no longer afford to kick the can down the road.

Achieving comprehensive tax reform will require the federal, state and territory governments working together to agree on and implement systematic policy responses

that remove impediments and increase the incentives for individuals and businesses to engage in economic activity, seize opportunities, and be creative and innovative.

Overall, Australian tax system relies too heavily on income taxes and less on consumption/value-added taxes (VAT — i.e. the goods and services tax [GST] in Australia). Income tax provides over 64% of total tax revenue in Australia. This is in sharp contrast with most other OECD countries, with Australia having the second highest reliance on personal income tax (40.6%), third highest on company tax/corporate profits (18.5%) and third highest on payroll tax (4.8%). In contrast to income taxes, Australia ranks 30$^{th}$ in its reliance on VAT/GST, at 26% compared to the OECD average of 32.4%.

Australia's GST rate of 10% is well below the OECD average. Only Japan, South Korea, Switzerland and Canada have lower VAT/GST rates than Australia. In addition to the very low GST rate, Australia has an extensive list of goods (i.e. food and other essential items) and services (i.e. health and education) that are GST-free. Consumption of these excluded goods and services is growing at a much faster rate than that of other goods and services. Australia's GST revenue has fallen from 11% to 9% of GDP in the 20 years since it was introduced, and it is expected to continue to decline in the years ahead. Any serious reform of the tax system requires a review of the GST and consideration of broadening the base, raising the rate or both.

Corporate income taxes inhibit economic growth. Australia's corporate tax rate for medium and large businesses, at 30%, is amongst the highest and least competitive in the developed world. While the lowering of corporate taxes on small businesses (aggregate turnover less than $50 million per annum) to 25% in recent years was welcome, the corporate tax rates are now misaligned. Given many small businesses rely on larger businesses as both suppliers and customers, this disparity in tax rates risks holding back growth of both large and small business.

To support greater investment by businesses, drive stronger employment growth and make Australian businesses more internationally competitive, the corporate tax rate should be lowered to 25% for all businesses. While still above the OECD average of 23.7%, it will bring us roughly into line with comparable countries such as the US and Canada, providing greater incentive for larger businesses to undertake more investment – to grow and employ more people.

Given the recent history in making changes to the corporate tax rate, it is recognised that this realignment may need to be phased in over a length of time. As an interim measure, consideration should be given to raising the base rate entity eligibility criteria to an aggregate turnover of less than $250 million. This would expand the eligibility for the lower 25% tax rate to medium-sized businesses, increasing the competitiveness of SMEs and stimulating greater investment and employment.

State and territory governments rely heavily on payroll taxes for revenue. Yet, payroll tax is extremely inefficient, placing a high administrative burden and imposing excessive compliance costs on business. Payroll tax was shown to have a considerable influence over businesses' employment and wage decisions. A recent ACCI survey finding 90% of respondents would either increase the number of employees or wages

if payroll tax was removed. While payroll tax is a state and territory tax, achieving reform requires the Commonwealth to play an active leadership role to assist and reward the states and territories in making significant changes. As a first step, the Commonwealth should work with the states and territories to include payroll tax reform on the Council of Federal Financial Relations (CFFR) agenda. Initially, the CFFR should focus on reducing the administrative and compliance burden of payroll taxes on business, particularly through greater digitisation and integration of the state's and territory's payment platforms. Reducing the burden of payroll tax on business is not only an important start to broader tax reform, but is necessary to support business activity, jobs and wages growth that will drive the economic recovery.

Fringe benefits tax (FBT) is levied on non-cash benefits an employer provides to an employee. It involves a considerable amount of red-tape and adds administrative costs to businesses. The removal of entertainment-related FBT for a limited time until June 2023, has the potential to boost spending in sectors hardest hit by the COVID-19 shutdowns, such as restaurants and cafes. In addition, removing FBT on activities directly related to an employee attending work, such as childcare and carparking, will make it easier for employees to go back to the workplace, particularly in Sydney and Melbourne CBDs.

Without a car manufacturing industry in Australia, there is no longer an economic rationale for the luxury car tax (LCT). It is simply an additional cost borne by consumers that changes their decision on the type of vehicle to purchase. The LCT is also leading to perverse environmental outcomes, as hybrid and electric vehicles are more expensive than their petrol and diesel competitors and with few exceptions exceed the LCT threshold. At a time when the government is focused on the adoption of new technology to reduce carbon emissions, the removal of the LCT would provide an important boost to the uptake of low emissions vehicles.

## Deregulation and regulatory reform

The burden of regulation is a key factor constraining Australia's productivity, growth and international competitiveness. The regulatory system must be designed to make it easy for businesses to establish, operate and grow in a dynamic, technology driven economy. At all levels of Government (Federal, state and local), the primary focus must be on fit-for-purpose regulation that is simple and outcome-focused rather than complicated and prescriptive.

### Recommendation

- Prioritise and adequately resource the development, design and implementation of a user-centric approach to regulation across the whole of Government.
- Work with states and territories to simplify and streamline the approvals process for major projects and avoid duplication in the regulatory process.
- Impose greater accountability requirements on the cost recovery process for regulatory agencies and ensure incentives are in place to drive efficient regulation.

### Rationale for Proposed Policy

The benefits of a less prescriptive and more agile approach to regulation has been demonstrated by the Government on several occasions in response to the pandemic. But ongoing effort is required to maintain this momentum and change regulator culture across Government to ensure regulatory systems are fit-for-purpose — meeting community expectations regarding safeguards while making it easier for business.

Most important is the need for Government to adopt a user-centric approach to the development, design and implementation of regulation. Regulators need to work closely with all affected stakeholders including local, state and federal government policy agencies and regulators, industry bodies, employee and community representatives. A user-centric approach is fundamental to improving the efficiency and effectiveness of regulation, better coordinating regulatory reform across departments and agencies, and better harmonising new and existing regulation.

The unnecessary duplication of environmental regulation administered by the states and Commonwealth is a long-standing issue which needs to be addressed. Another important issue relates to planning and land use. National and multinational organisations often spend thousands to millions of dollars, and hundreds of hours, completing complex applications, followed by lengthy approval times, for major projects. The Commonwealth needs to work with states and territories to simplify and streamline major project approvals systems. This should include performance reporting and setting targets for shorter approval times. For low-risk, low-value (up to $5 million) developments compliant with zoning requirement, consideration should be given fixed (14-day) approval times.

Many regulatory agencies are reliant on full-cost recovery for their regulatory services, which provides little incentive to bring in efficient regulation. Costs for regulatory services are continually rising, along with the complexity and additional regulatory burden. The Government's Cost Recovery Guidelines include three cost recovery principles: efficiency and effectiveness; transparency and accountability; and stakeholder engagement. Policy is clearly failing in these areas, particularly in terms of transparency and accountability. There needs to be greater accountability for cost recovery by regulatory agencies and greater incentive for them to deliver efficient regulation.

## Investment, capital deepening and innovation

### *Business Investment*

Business investment is a major driver of labour productivity growth. Investment typically brings new technologies, which boosts productivity through skills development and innovation. As we emerge from the COVID-crisis over the next decade, investment in new capital assets is needed to lift and sustain productivity growth and raise economic activity. Without this, Australia's productivity growth risks remaining low over the long term.

### Recommendation

- Stimulate investment through an extension of the Temporary Full Expensing measure beyond 2023.
- Introduce a broad-based investment allowance of 20% of the value of an asset purchased for all business investments in plant, equipment and machinery.

### Rationale for Proposed Policy

Business investment (private new capital expenditure) in plant, equipment and machinery (eligible depreciable assets) was weak in the five years leading up to the pandemic, with annual growth of non-mining investment in machinery and equipment slowing to an average of less than 0.5% per annum in real terms between 2014-15 and 2018-19. This compares to an average of 9.5% for the decade up to 2008-09.

This weak business investment was exacerbated by the pandemic, with business investment (private new capital expenditure) falling 10% between the December 2019 and September 2020 quarters. However, by the December quarter, business confidence was showing signs of a recovery and began building momentum, supporting a turnaround in business investment. This continued through the March and June quarters 2021, with business investment rising 14%, to be back to pre-COVID levels.

The recovery in business investment was driven in part by the Temporary Full Expensing measure. The timing of this measure had much to do with its success in stimulating business investment. Introduced in the October 2020 Budget, it coincided with the reopening of the economy from the initial lockdowns and the associated improving business confidence. There was also significant pent up demand, as businesses had held off investment in the first three quarters of 2020 due to the uncertainty around future demand.

However, the second phase of lockdowns due to the Delta COVID variant, affecting NSW, Victoria and ACT in the September quarter 2021, has been a major set-back for the recovery in business investment. Business and consumer confidence have taken a substantial hit, and business investment is down markedly. The ABS National Accounts data showed that supported by the Temporary Full Expensing measure, investment in plant, equipment and machinery grew 22.7% in the year to June 2021. However, business investment subsequently stalled as a result of the lockdowns in September quarter 2021, falling 2.9%.

To reinvigorate business investment with the reopening and sustain strong business investment over the longer-term, a continuation of support for business investment is needed.

However, the Temporary Full Expensing measure is set to expire on 30 June 2023 and no alternative measure is proposed. All assets valued above $1,000 purchased after 1 July 2023 will need to be depreciated over an extended period, following standard depreciation schedules. Without continued support for business investment, it is likely that business investment will falter in the second half of 2023, which will stunt the economic recovery at a time when it needs to be building momentum.

There is a strong case to retain the full expensing arrangement for at least another two years, to at least June 2025, to drive economic activity through strong business investment as the economy emerges from the COVID disruptions.

Other measures will also need to be considered to drive strong business investment and achieve the productivity growth outcomes necessary in the future.

Large-scale investments in plant, equipment and machinery are needed to achieve the substantial productivity gains that will boost economic activity over the longer-term. While the temporary full expensing has been successful in stimulating investment, the bulk of this investment is in smaller items of plant, equipment and machinery that individually deliver modest productivity gains to a business. Larger-scale investments require substantial upfront capital that may require several years to realise a return. An investment allowance of 20% the value of an investment in plant, equipment and machinery above $500,000 will support these larger-scale investments to enable businesses to achieve the greatest productivity gains and go some way to mitigate the impact of the high corporate tax rate on large businesses.

## *Investment in digital technology*

Digitalisation is central to enhancing Australia's productivity. By supporting and encouraging firms across all industries to invest in IT and digital capability, we can further drive productivity, jobs growth and international competitiveness. COVID-19 has accelerated the uptake of information technology in our economy, with the new technology adoption rate that would normally occur over several years happening in several months. It is important to maintain this momentum so that Australian businesses, particularly SMEs, can continue to grow, raise productivity and increase their international competitiveness.

### Recommendation

- Establish a small business ICT Modernisation Fund to encourage greater investment in technology and digital innovation

### Rationale for Proposed Policy

International research points to a strong correlation between intangible capital investment in digital technology (information and communications technology - ICT) and an increase in labour productivity and economic growth. However, the Government's Future Productivity report showed that prior to COVID-19 many industries were lagging in the adoption of digital technology.

Digitalisation offers business of all sizes in all sectors of the Australian economy commercial opportunities to increased productivity, enabling them to grow and create jobs, as well as provide an improved work-life balance. High growth industries, such as digital education and digital health, have the capacity to create positive spill-over benefits through the economy.

Investment in software, digital transformation and ICT act as enablers of productivity across multiple sectors, particularly newer firms and SMEs. Access to an ICT Modernisation Fund would accelerate the move by businesses from legacy ICT systems

to more modern digital capabilities and stimulate investment in technology and innovation.

## *Investment in R&D*

Research, innovation and technical improvement is fundamental to lifting productivity and driving economic growth. In the wake of the COVID-19 crisis, business expenditure research and development (R&D) has fallen dramatically. Greater support is needed to encourage business to invest in research and development, as well as to commercialise innovation in Australia, rather than losing it to overseas. The Government needs to play an important role in directly and indirectly facilitating a greater commitment from the private sector in R&D.

### Recommendations

- Broaden the patent box to all industry sectors, not just medical and biotechnology
- Extend the patent box support to low interest loans and other financial assistance to assist businesses to commercialise R&D and innovation in Australia

### Rationale for Proposed Policy

Australian investment in research and development (R&D) has fallen substantially in recent years, such that gross expenditure on R&D was below 1.8% of GDP in 2019-20.[6] This is well below the OECD average of 2.4% of GDP and other major economies such as Japan (3.2%), Germany (3.0%) and the United States (2.8%). Countries such as New Zealand, have increased their R&D incentive to 15%. Others, including the USA and UK, have highly diversified innovation ecosystems underwritten by favourable tax and regulatory environments, which support the commercialisation of R&D and innovation in these countries and are highly attractive to global firms.

Australia's relatively low overall R&D expenditure and poor performance in commercialisation of research output compared to many other countries is a cause for concern and is highly likely to be exacerbated by COVID-19.

The patent box reforms announced in last year's Budget are a step in the right direction. Lowering the tax rate for profits businesses derived from eligible intellectual property. However, the 'eligible intellectual property' is narrowly defined to new patents in medical and biotechnology sectors. This should be broadened to patents in all industry sectors, particularly manufacturing, energy and ICT where significant opportunities are emerging.

Further, more needs to be done to assist companies to overcome the 'commercialisation chasm', where companies are unable to access funding to commercialise R&D and innovation in Australia. These companies typically move

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[6] ABS 2021, *Research and Experimental Development, Businesses, Australia: 2019-20 financial year*. https://www.abs.gov.au/statistics/industry/technology-and-innovation/research-and-experimental-development-businesses-australia/latest-release

overseas to realise the full potential of their inventions and innovation. In addition to the lower tax rate provided by the patent box, direct support is needed, through low interest loans or other financial support, to assist businesses to start-up and scale-up, enabling them to capitalise R&D and commercialise innovation in Australia.

## *Investment in Energy*

Australia's energy sector is transitioning from being highly carbon intensive to renewable low emissions resources. Energy policy should be focused on driving private sector investment in new and emerging renewable energy technology to support this transition, while at the same time maintaining affordable low-cost energy so that Australian businesses remain internationally competitive.

To achieve a faster and stronger economic recovery out of the COVID-19 crisis, energy policy needs to support a smooth structural adjustment that delivers strong, long-term economic and productivity growth. This requires a progressive shift to low emissions and renewable energy resources. While this change is already well underway, it needs to be managed in a way that does not involve a dramatic change in the energy mix that would drive up energy prices.

### Recommendations

- Maintain and lower energy prices through a technology neutral approach to electricity generation and supply.
- Provide greater incentives for investment in R&D and innovation in developing technologies, such as hydrogen, pumped hydro and batteries, by reallocating CEFC and ARENA funding from now proven technologies of wind and solar.
- Work with State Governments to streamline energy policy, including duplicating schemes in relation to energy efficiency, the costs of which are ultimately borne by all energy consumers

### Rationale for Proposed Policy

Privatisation and market concentration in the energy sector has contributed to increasing regulation and decreasing market competition. This has been exacerbated by a lack of clear carbon emissions reduction policy. This has distorted market signals and held back investment in the energy sector. Over the past two decades, Australia has gone from a low cost to a high cost energy country, which has weighed heavily on Australia's manufacturing and other industries reliant on low cost energy, driving many businesses offshore to countries with lower energy costs.

While renewable energy generation from wind and solar is providing an increasing share of electricity supply in Australia, the intermittency of supply means it is unable to fully replace coal as an alternative energy source. It needs to be supported by dispatchable/baseload power from either gas power generation (GPG), or other forms of stable energy supply such as hydro (and pumped hydro), hydrogen or batteries.

To maintain and/or lower energy prices it is essential Australia maintains a technology neutral approach to electricity generation and supply. A shift to gas power generation (GPG), as a stepping-stone to low-emissions, or zero-emissions, technology further in the future, should not be discounted. Gas is currently the lowest cost option to provide this dispatchable power. In the medium term (i.e. 10 to 20 years), until alternative forms of firming capacity are developed to the point where they become economically viable and/or are scalable up to meet demand, GPG should continue to play a role in balancing intermittent variable renewable electricity to stabilise electricity networks.

Australia has the capacity to be a leading player in the production of the next wave of energy storage and transportable renewable energy technology. With some of the largest reserves of lithium, cobalt and rare earths, Australia has the potential to be a major producer and exporter of lithium batteries for energy storage. Similarly, our environment is well suited to further expansion of wind and solar generation to support green hydrogen production.

These are emerging technologies that still require significant research and development, as well as support to commercialise and scale-up production. There are substantial domestic and export opportunities from being a first mover and developing these technologies to an economic and commercial scale in Australia. Increasing incentives for R&D and supporting greater private investment in these technologies, will enable Australia to become a major supplier of renewable energy resources in the future. This can be achieved by shifting funding currently provided by Clean Energy Finance Corporation (CEFC) and Australian Renewable Energy Agency (ARENA) from now proven technologies of wind and solar, to support greater investment in these developing technologies, such as hydrogen and lithium batteries.

Given energy policy is not solely a Commonwealth responsibility, the Government must work with the States and Territories to improve the efficiency of the energy network and reduce costs to energy consumers. The National Cabinet Reform Committee on Energy presents the opportunity to work with the States and Territories to streamline energy policy. Priority must be given to avoiding duplicate schemes in relation to energy efficiency, supporting private investment in the energy sector to create better functioning energy networks and reduce energy costs.

### *Investment in the circular economy*

Australia has progressed its move to a circular economy through the passing of the Recycling and Waste Reduction Act 2020, which includes a ban on the export of waste plastics, glass, paper and tyres. While the intent is there, there is still much to work to support this legislation, particularly investment in the necessary infrastructure for waste management and recycling of materials that can no longer be exported by Australia.

### Recommendations

- Accelerate the move to a circular economy through public procurement policies that create a market for and incentivise use of recycled materials produced in Australia, thereby driving greater investment in recycling capacity
- Work with states, territories and local government to better align and ensure more consistent policy dealing with the circular economy and recycling schemes
- Establish a new fund, or expand the mandate of ARENA and CEFC, to mobilise capital investment in waste management, recycling, more efficient use of materials, research and development into new uses for waste materials, market development for recycled materials.
- Streamline the standards development and regulatory approval process for new innovative recycled materials
- Introduce End-of-Life policies for vehicles and other complex products to ensure the proper disposal of component material.

### Rationale for Proposed Policy

The 2018 National Waste Policy identifies substantial economic gains are achievable from Australia improving its materials efficiency, suggesting a 5% economy wide improvement in efficiency in the use of materials could deliver an extra $24 billion to the Australian economy.

The ban on the export of waste plastic, paper, glass and tyres starting in 2020 has increased the urgency to develop waste management and recycling capacity. Yet, there has been a slow uptake of the circular economy in Australia, with relatively few resources for R&D into more efficient use of material and new uses for waste materials, and only limited market development for recycled materials.

The Federal Government, having implemented the Policy and banned the export of waste material, must play a role to drive greater use of recycled materials. This should include leading by example, using Australian recyclable materials in government procurement. As a major consumer of materials, this will assist in creating a market for recycled materials at a scale that will support the development of new processing facilities. It will also assist to make common the use of recycled materials in applications currently reliant on virgin material, encouraging the private sector to also use recycled materials in these applications.

Much of the legislation and regulation in relation to the circular economy and recycling rests with state, territory and local governments. Therefore, the Federal Government must work with its state and territory counterparts to better align and ensure more consistent policy dealing with the circular economy and recycling across state, territory and local governments.

The transition to a circular economy would be accelerated by establishing a funding program, involving low interest loans or other financial support, to catalyse private

investment in waste management and recycling capacity, as well as research into more efficient use of material and market development for recycled materials. This could involve the establishment of a new funding mechanism or redirecting funding from the Australian Renewable Energy Agency (ARENA) and the Clean Energy Finance Corporation (CEFC).

More also needs to be done to enable the use of recycled materials in alternative applications. Regulations and standards can act as a barrier to the use of recycled materials in alternative applications. For example, road construction standards in Australia do not support the use of recycled plastic, glass or rubber in place of oil-based asphalt. Effort should be made to streamline standards development and/or regulatory approval for the use of innovative recycled materials in applications that currently use virgin materials, particularly fossil fuels.

The move to a circular economy also requires greater consideration of the End-of-Life of products and the proper disposal of component material. Taking the motor vehicle sector as an example, nationally, there is currently around 260,000 tonnes of plastics from end-of-life vehicles (ELVs) committed to landfill annually, which represents a significant environmental impact. Australia is the only developed country without a policy dealing with ELVs, which has the potential to undermine a successful move to a circular economy. There are also emerging issues with the recycling of solar panels and lithium batteries, as these products contain highly toxic material and the recycling technology is yet to be developed.

## *Investment in infrastructure*

Prior to the COVID-19 crisis, there was a significant need for additional infrastructure, upgrades, maintenance and replacements to support Australia's growing population and economy. While some of these pressures on infrastructure reduced during the pandemic due to the lockdowns restricting economic activity and halting migration, infrastructure will again be under strain when economic activity returns to full capacity and the international borders fully reopen. While the main pressure will be in the capital cities, infrastructure in regional areas will also become stretched, with COVID encouraging more people to move to regional areas.

### Recommendation

- Work with states, territories and local government to more efficiently and effectively deliver infrastructure investment, including incentive to improve procurement practices to increase competition by enabling a larger number of smaller contractors to bid for projects.
- Greater focus on regional infrastructure as an enabler of decentralisation.
- Finance public infrastructure through the issuing of government securitised infrastructure bonds.

- Lower the hurdle rate on public infrastructure investment to encourage investment in a broader range of infrastructure, particularly those with high long-term social benefits.

### Rationale for Proposed Policy

Infrastructure investment is widely regarded as an efficient form of government stimulus as it has a large output multiplier relative to other fiscal policy measures. It also has the potential to lift future productivity growth and meet the needs of Australians for greater connectivity and quality of life. It has rightly been prioritised as a key driver of the post-COVID economic recovery.

Australia's major cities are under strain. Greater investment in infrastructure across a range of sectors, including transport, communications, energy, water and waste, is needed to increase productivity, reduce congestion and improve the liveability of cities. In addition to the demand for greater investment in new infrastructure, existing infrastructure is aging and there is increasing demand for upgrades, maintenance and replacements. The stress on public infrastructure will only intensify as international borders reopen and immigration returns to its pre-COVID path.

Given infrastructure investment is not solely a Commonwealth responsibility, the Commonwealth must work with state and territory governments to deliver cost effective and efficient infrastructure investments.

Australia's regions vary in their strengths, vulnerabilities and attractiveness to business investment. Some regional areas are more vulnerable to downside risks while others have been able to attract substantial investment and population growth. The poor quality of infrastructure in many regional areas is a major barrier to attracting people and businesses to those areas. Investment in new (and maintenance of existing) infrastructure is vital to enabling greater decentralisation and supporting regional growth. With most infrastructure investment focused on major projects in capital cities, there needs to be greater prioritisation on regional infrastructure if we are to attract more people and businesses to regional areas. Governments need to look beyond congestion in our capital cities to the quality of regional infrastructure and regional services.

The current infrastructural spend is heavily focused on larger projects in major cities, but there is only a very short list of contracting businesses large enough to take on this work. This is leading to an increase in bottlenecks in the procurement of design, planning and construction contractors, particularly in Sydney and Melbourne. This is bidding up costs and contributing to increasing delays in the commencement and completion of major projects. A range of new techniques are emerging that offer the opportunity to break tendering processes into several smaller components, enabling contractors to make several bids for different components of a project. These offer the opportunity to widening the pool of contractors to small and medium businesses as

well as the large ones to increase the competition. These new techniques will improve the overall efficiency of delivery of major infrastructure projects, lowering costs and reducing delays in the commencement and completion.

Public infrastructure can capture broad benefits, such as economic, social and environmental, that make it attractive to investors seeking long term investments with specific characteristics. With the large amount of public debt built up during the pandemic impairing Commonwealth and state and territory governments' balance sheets, there is a compelling argument for government to fund investment in public infrastructure through securitised borrowing in the form of infrastructure bonds rather than through general purpose borrowing. Infrastructure bonds would facilitate private sector investment, providing opportunities for a range of investor types from individuals to large funds. Investors such as superannuation and pension funds, insurance companies and sovereign wealth funds would find these bonds an attractive vehicle to increase their investment in Australian infrastructure. There is considerable scope to leverage the sector's $2.7 trillion to invest in public infrastructure to support the government's policy priorities for economic growth and increased productivity.

The hurdle rate for public infrastructure investment is typically set at 7% real, a rate that has been in place since 1989. While this may be appropriate for short-lived investments (under 30 years), there are questions over whether it is appropriate for large-scale multi-generational investments. Artificially high discount rates cause perverse outcomes for longer-term investments, as the latter year benefits (and costs) are discounted to near zero. High discount rates can produce potentially unproductive and perverse outcomes, favouring investments with short-term benefits while failing to address long-term structural problems or enable long-term productivity benefits to be achieved. For example, high discount rates skew in favour of road over rail, increasing heavy vehicle traffic and driving urban sprawl. Selecting an alternative discount rate that allows future benefit streams of multi-generational projects to be more appropriately reflected in the economic appraisal, would deliver a more balanced assessment by enabling latter years to be equitably reflected in the analysis.

## Employment, Skills and Migration

### *Vocational Education and Training*

The ongoing recovery from the impacts of the COVID-19 pandemic sees Australia facing significant challenges, with underemployment still an issue for many, but with the dominant issue now being what is turning into a crisis around labour and skills shortages. The difficulty in accessing skills needs is exacerbated by the biggest net outflow of skilled migrants in over a century.

Locking in support for wage subsidies and subsidised training are needed to address the difficulties that many businesses have faced over the last 18 months and the now chronic need for skills. Job seekers need access to accredited training courses, both qualifications and skill sets, that quickly upskill and prepare them for work.

## Recommendations

- Commit to long term, consistent funding for VET that delivers real funding increases to ensure the economy's skills needs are confidently met.
- Continue the Boosting Apprenticeship Commencements program for at least another two years, but modify the support to:
  - A 30% wage subsidy for 12 months both for trade apprenticeships as well as 2-year traineeships
  - A 30% wage subsidy for 6 months for 1-year traineeships
  - A continuation of the current 50% subsidy level for those business who in the six months to December 21 were over 30% down in turnover compared to pre-COVID trading
- Continue the Completing Apprenticeship Commencements program, but only for the second year of trade apprenticeships, with a wage subsidy of 15% for 12 months.
- Establish a National Apprenticeship Advisory Board.
- Ensure that skills shortage analysis has no role in influencing decisions on base incentives for apprenticeships as these are justified for a range of reasons including the public and productivity benefit.
- All Diploma and Advanced Diplomas should be eligible for VET Student Loans and their funding caps should be reviewed.
- Fund the National Skills Commission to undertake a biennial National Workforce Development Strategy.

## Rationale for Proposed Policy

ACCI welcomes the Federal Government's recent increased focus on VET, with programs including JobTrainer, the Boosting Apprenticeship Commencements (BAC) program, wage subsidies for apprentices and the industry skills clusters.

Consistency of VET funding has been of great concern over the last decade at all levels of Government, not just between jurisdictions, but also within them. Compared to the other sectors in education (childcare, schools and higher education), VET has been poorly served by funding and policy decisions made within a complex federated model. Since the peak of 1.54 million government-funded students in 2012, the latest figure in 2020 was 1.19 million students[7].

This Budget and the new National Agreement on Skills and Workforce Development (NASWD, to be finalised in the first half of 2022) offers the Federal Government the opportunity to put in place a long-term funding solution for VET that delivers real growth in funding as well as greater consistency and certainty. It is essential that the

[7] https://www.ncver.edu.au/research-and-statistics/publications/all-publications/government-funded-students-and-courses-2020

NASWD avoids cost shifting, fluctuations in overall funding investment and limitations on training providers who service critical skills shortages areas.

For many occupations, an apprenticeship is the only pathway to a trade qualification, which reinforces the need to continue to invest in apprenticeships in order to meet the skill demands. The introduction of and subsequent extension to the BAC program was a game changer, successfully reversing the downward trend in apprentice numbers during the COVID pandemic. The BAC program, due to conclude in March 2022, greatly improved the business case for an employer to take on an apprentice. It also demonstrated that job seekers will take up these opportunities if they are available, disproving the case put forward by some that young people are no longer attracted to apprenticeships.

The Budget provides the opportunity to develop a longer term, strategic platform for apprenticeships, to sustainably increase apprenticeship uptakes in Australia. While we recognise it is not feasible to retain the current level of BAC subsidy across the board, it is important that the BAC continue in a modified form for at least another two years beyond March 2022. Ongoing funding for the BAC at a level that delivers a positive business case for taking on an apprentice or trainee, will provide certainty for employers and allow them to plan for the future so they can replenish skill levels and confidently employ apprentices.

As the Completing Apprenticeship Commencements (CAC) complements the BAC program, consideration should also be given to continuing CAC, but only the second year trade apprenticeships where productive value is often still below the cost of employment, but with a higher wage subsidy of 15% for that second 12 months.

In addition to wage subsidies, it is important that base apprenticeship incentives, currently set at $1,500 on commencement and $2,500 on completion, should not be decreased and any assessment of skills in shortage should not impact on the delivery of base incentives. Returning to the pre-COVID levels of incentives, we know from experience, will not be sufficient to shift the business case into positive territory.

A national apprenticeship leadership or advisory body would provide valuable guidance for both the short- and longer-term structures of apprenticeships. The scope of the advice could also embrace pathway courses, including VET delivered at schools and pre-apprenticeships, which work best when tailored on an industry-by-industry approach. The Board would also be well positioned to examine any issues in the apprenticeship system that are creating barriers for take-up by either the employer or the job seeker. It is critically important that the voices of industry to be heard on the National Skills Commission when its advisory board is established as well as to advise on apprenticeships.

There is significant discrepancy in the funding models for VET and higher education, with VET Student Loans (VSLs) being very limited in the higher-level qualifications they cover. Currently only 194 of the almost 4,000 Registered Training Organisations are eligible for VET Student Loans, with loan caps applicable to these approved courses. Despite an extensive consultation process around the course lists and caps in 2017, the shortcomings in the program have not been addressed. To address the falling uptake

of higher-level VET qualifications, all Diplomas and Advanced Diplomas that are part of Industry Training Packages should be eligible for VSLs, with the loan premium removed permanently and the VSL caps reviewed to reflect efficient delivery costs.

Skills needs as well as shortages (noting that these are not the same), together with a better-informed careers market, are high priorities for the business community. The formation of the National Skills Commission (NSC) has consolidated labour market analysis and forecasting to ensure decisions regarding skills and training needs, skilled migration occupation lists and employment policy and programmes are well informed by data and evidence from state/territory and national levels and, most importantly, industry. The NSC has also been tasked to provide a robust, evidence-based, independent picture of investment and funding in the VET system. Consideration should be given to combining these functions to develop a biennial National Workforce Development Strategy. This would expand the skills needs report to also consider the supply side of the system and make recommendation about the performance and adequacy of the supply side to meet the demand.

## *Employment*

With the current skills and labour shortages, there has rarely been a better time to put every effort into getting the long-term unemployed back into work and supporting parents to return to work through improved childcare arrangements.

Yet, in the May 2021 Budget there was a significant reduction in the budget envelope for services for the long-term unemployed, estimated to be around $1.1 billion in savings over 4 years. At a time when the need for appropriate support for job seekers is paramount, this savings measure is counterintuitive.

In addition, further improvement in the childcare system has the potential to enable skilled workers to return to the workforce and realise the significant productivity benefits that come from a higher women's participation rate.

### Recommendation

- Adequately fund the enhanced services for the long-term unemployed to ensure it is able to function as intended.
- Replace PaTH with a more vocational traineeship-style program and extend it to other cohorts on the jobactive caseload, including people with disability and mature age jobseekers.
- Allow pensioners to keep more of their age pension when they earn income by materially raising the fortnightly income threshold and increasing the Work bonus, with this measure applying to both existing and new pensioners.
- Until June 2023, allow those already in receipt of the aged pension as at 1 January 2022 to earn at a significantly higher rate to unlock the potential for hours not otherwise worked. This figure needs to reflect the opportunity to bring pensioners back into the workforce for 2 to 3 days per week.

- Reintegrate the publicly funded disability employment service back into the core employment system.
- Introduce stronger policies to make childcare more accessible, with more options available to assist parents to return to the workforce sooner

### Rationale for Proposed Policy

The new employment services model, which seeks to implement the key recommendations of the Independent Panel review of employment services delivery *("I Want to Work"* 2019), is being implemented through a series of trials before it is fully introduced in 2022. A central recommendation of the Review was that the unemployed who faced the least barriers would be adequately serviced by a digital system, with the savings redirected to enhance the face-to-face service provided to those that needed it most.

With the large number of recently unemployed that have come into the JobActive system over the past 18 months, it is essential the new model servicing of the long-term unemployed is adequately funded. Yet as noted above, funding for the new employment services model has been reduced considerably. The job outcomes of the employment services system need to improve, with adequate funding provided to implement the new model and deliver truly enhanced services to those most in need.

The original concept of the youth PaTH Program advocated by ACCI was that the jobseeker on the jobactive caseload undertakes vocational training alongside of work experience in a hosted environment. However, the final design limited the success of the program, as the employability skills training (EST) was not sufficiently vocational and there was no financial incentive for the approved EST providers to line up a hosted placement or job for the trainees. The PaTH program should be replaced with a more tailored program that ensures the training is more vocational and inextricably linked to a job or hosted work experience opportunity. It should also be extended to other cohorts on the jobactive caseload such as people with disability and mature age jobseekers.

There is an army of older workers with the skills Australia needs who would still like to work, but don't participate in the workforce as it reduces their pension. Currently, the interaction of the Work Bonus of $7,800 per year ($300 per fortnight) and pension income test free threshold of $180 per fortnight, allows a single pensioner to earn an average of $480 a fortnight (or $12,480 per year) before their age pension is reduced. While this structure allows some flexibility, it provides only limited benefit for a pensioner considering a return to the workforce, as it allows them (at best) to work only one day per week (at minimum wage) before their pension is reduced. It is important to note that once their income exceeds the threshold, their pension reduces at $0.50 per dollar earned, which is far greater than the tax rate (zero up to $18,200 then $0.19 per dollar up to $37,000 per year).

To entice aged pensioners back into the workforce, the income free threshold and work bonus should be raised to allow pensioners to keep more of their pension when they earn income. In addition, to address the current skill shortage, as a temporary

measure until June 2023, consideration should be given to allow Australians who are already in receipt of the aged pension as at 1 January 2022 to earn at a significantly higher rate before their age pension begins to be reduced, with the aim of bringing pensioners back into the workforce for 2 to 3 days per week.

The ambition of Government and for the community generally, should be that more people with disability are in work. To achieve this, more effective assistance for disadvantaged job seekers including those with disability is crucial. It is also essential that more employers are aware of, and access, the employment services that aim to assist people with disability to find work. Consideration should be given to reintegrating the service for people with disability back into the core employment system. This would create a more effective single contact service for employers and maximise the value of the reforms being made to the core employment services.

Alongside the early learning benefits, the primary justification and foundation for a publicly subsidised childcare system is to improve and support participation in the workforce. Childcare reform which saw the combining of the rebate and benefit and the activity tests contained within, targets benefits to lower-income earners returning to work. Ensuring childcare is effectively no-cost for low income earners is supported as is the need for a broader range of alternatives to make it easier for upper income professionals to juggle work and family responsibilities. This includes expanded subsidies for nannies, new visa arrangements for *au pairs* and income contingent loans for upper income earners that allow families to spread the costs of childcare.

It was disappointing, yet not unexpected (due to the limited parameters set by Government) to see the take-up rate of the Nanny Pilot Program lower than planned. While ACCI recognises the Government's efforts to address this gap with the In Home Care Program (IHC), the eligibility is narrow, and should be expanded to include families who do not meet the current criteria, but would benefit from participation in the IHC program, and who otherwise would be eligible for government assistance that would not be much different than in-home care subsidies.

Pressures on working parents extends beyond the need for childcare, to more general assistance at home. There has been an increase in the number of Australian families opting to employ *au pairs*, but at present this is using the working holiday visa which is not particularly fit for this purpose. A special *au pair* visa should be introduced with regulations that are more appropriate to the engagement of *au pairs*. This proposal does not require subsidies, so would remove some families from the childcare system, delivering budget savings.

Complementary to the recommendation to reduce subsidies to higher income earners while providing greater support to low income earners, the Government should consider the introduction of income contingent loans for childcare. The scheme would recognise that returning to work is of medium- to long-term benefit for parents and the economy by enabling parents to return to work sooner than they otherwise would due to cost limitations. It would be appropriate for the threshold for the repayment of these loans be determined by household earnings, not just earnings of the individual.

Australian Chamber of Commerce and Industry

## *Migration and population*

The current crisis has effectively halted Australia's migration programme. This has significant economic and fiscal consequences. We should be planning now to restore the migration program to an even stronger position post-crisis.

### Recommendation

- Increase permanent annual migration levels.
- Fund an Industry Outreach Officer Initiative within the Department of Home Affairs.
- Remove the SAF Levy for temporary and permanent employer nominated visas.

### Rationale for Proposed Policy

Given the severe skills shortages and the lack of migrants in the last 18 months, there is a strong argument for the annual migration target to be higher for the next two years at least, so as to replenish the skills lost during the pandemic. The recommended planned permanent migration intake for the next four years, including a change to the planning for 2021-22 (to increase the intake in the first half of 2022), is contained in Table 1.

*Table 1 Migration Program planning levels*

Migration Program planning levels – ACCI recommendations for the next three years

| Stream and Category | Govt 2021-22 | ACCI 2021-22 | ACCI 2022-23 | ACCI 2023-24 | ACCI 2024-25 |
|---|---|---|---|---|---|
| **Skill stream** | | | | | |
| Employer Sponsored | 22,000 | 47,400 | 76,300 | 76,300 | 50,000 |
| Skilled Independent | 6,500 | 15,000 | 25,000 | 25,000 | 15,200 |
| Regional (regional employer sponsored) | 11,200 | 15,000 | 25,000 | 25,000 | 13,000 |
| State/Territory Nominated | 11,200 | 25,000 | 45,000 | 45,000 | 35,000 |
| Business Innovation & Investment Program | 13,500 | 12,000 | 13,500 | 13,500 | 8,000 |
| Global Talent | 15,000 | 15,000 | 15,000 | 15,000 | 10,000 |
| Distinguished Talent | 200 | 200 | 200 | 200 | 200 |
| *Skill Total* | *79,600* | *129,600* | *200,000* | *200,000* | *131,400* |
| **Family Stream** | | | | | |
| Partner | 72,300 | 72,300 | | | |
| Parent | 4,500 | 4,500 | | | |
| Other Family | 500 | 500 | | | |
| *Family Total* | *77,300* | *77,300* | *61,400* | *61,400* | *55,000* |
| Special Eligibility | 100 | 100 | 100 | 100 | 100 |
| Child (estimate; not subject to a ceiling) | 3,000 | 3,000 | 3500 | 3500 | 3500 |
| **Total** | **160,000** | **210,000** | **265,000** | **265,000** | **190,000** |

For employer sponsored permanent and temporary migration, the government is encouraged to remove the applicability of the short and medium/long term skill shortages lists so as to enable any migrants holding any skilled occupation to be sponsored by employers. This would also mean that all temporary skilled migrants would again have a pathway to permanency. This will be particularly valuable in allowing those skilled temporary migrants in country to add to the permanent skilled base of the economy. The effect of this is to restore what was in place with the 457-visa prior to the 2017 changes.

To assist industry and business to navigate the increasingly complex employer nominated migration landscape, consideration should be given to reinstating the

Industry Outreach Officers program within the Department of Home Affairs. The Industry Outreach Officers Program, which was discontinued in 2014, was a highly regarded and valuable program that attached experienced migration professionals from the Department to industry employer bodies. The program assisted employers to navigate the system, understand and overcome the barriers, and provided guidance to ensure business are aware of their obligations and requirements of a sponsor. The program also helped to build trust and an on-going relationship between industry and the Department. Given the increased complexity in the system, the program will be even more valuable than before.

The SAF levies applying to skilled migration being $1,200 per year for small business and $1,800 per year for large business for temporary migrants, and $3,000 for small business and $5,000 for large business for employers using the permanent Employer Nomination scheme are well in excess of what is reasonable, particularly as the SAF Levy is paid upfront for the whole term of the visa. The quantum of these levies are no longer fit for purpose post-COVID and SAF levy should be discontinued. In the current economic circumstances and Australia's dire need for additional workforce participants overrides any benefit of continuing the levy.

## Trade

International trade has been heavily disrupted by the continuing COVID-19 experience and combined with ongoing tensions with our largest trading partner, China, has damaged many global supply chains. As Australia emerges from the COVID-19 restrictions and international borders reopen, restoring conditions supporting free trade and investment is necessary to repair the damage inflicted on the Australian economy. This is not the time for Australia to pull back from a pro-trade agenda.

Similarly, we also hope that the tensions with China, and the resulting disruption to trade in some key exports, will ease in the near term and return to normalcy. However, the experience with both China and COVID-19 has demonstrated the need to deepen and broaden the scope and scale of our international trade and investment relations.

### Recommendation

- Create a streamlined dedicated two-way agency covering trade and investment
- Modernise and improve the efficacy and efficiency of our border crossing processes
- Advance reform of the World Trade Organisation (WTO)
- Remove Australia's remaining tariffs
- Lift the export market development grant funding to $200 million annually

### Rationale for Proposed Policy

In 2020-21, the export share of GDP was 21.6%. While a decrease from its peak of 24.4% in 2018-19 due to the COVID-19 disruption of supply chains, it represents a sizable improvement on its share of only 12% in 1990-91. Drivers for this export

growth include the value of the Australian dollar being below its 20-year trend, a dramatic expansions of natural resource exports, especially iron ore and gas, as well as strong growth in services exports, mainly education and tourism.[8]

The benefits of free trade to Australian businesses are about more than just increased exports. While boosting exports increases income, importing attractively priced goods, services and IP benefits Australian businesses by lowering costs. This can boost profitability or increase production by improving competitiveness and opportunities to participate in the production of different goods and services through 'global supply chains'. Free flow of investment both in and out of Australia also provides access to new capital for domestic businesses, income generating opportunities overseas, and cutting-edge business practices.

There are roughly 30 agencies and 200 pieces of legislation involved in trade across our borders. While, there is a "Minister for Trade" and agency staff within DFAT, these are focussed almost exclusively on exports and investment and tourism. The Minister for Home Affairs deals with customs and border controls. The Minister for Agriculture deals with export controls and biosecurity. The Minister for Industry deals with competition, antidumping, etc. Treasury controls the presence of tariffs and other cost recovery approaches. The formation of the Department of Home Affairs demonstrated the benefit of pulling all the national security elements into a single agency. A similar model should be considered to establish a new dedicated trade agency that covers both import and export functions, investment, etc.

Throughout the COVID experience, supply chains have been interrupted, exposing endemic structural issues that interfere with global supply chains. Australia is completely reliant on attracting global shipping lines to service our needs. Therefore, we need to ensure that Australia is globally attractive and competitive to the logistics providers as well as the producers of goods consumers demand. While, there is little Australia can do about global shipping issues, we can control our internally applied costs – those imposed by Government as well as those imposed by other businesses along the supply chains. The recently released ACCC *Container stevedoring monitoring report 2021*[9] demonstrates that Australia is well down against global peers. There is a lot of room for improvement in modernising and improving the efficacy and efficiency of our border crossing processes to make Australia an attractive destination for international shipping lines, increase the competitive Australian exporters in overseas markets, and reduce the cost of imported goods for Australian businesses and consumers.

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[8] Austrade 2020 *Review of Financial Assistance to SME Exporters*.

[9] ACCC 2021 *Container stevedoring monitoring report 2021.* https://www.accc.gov.au/publications/container-stevedoring-monitoring-report/container-stevedoring-monitoring-report-2020-21

The world economy and trading system are undergoing dramatic changes which will set the basic framework for international trade, commerce and investment, and national economic performance, for coming decades. National economies are becoming more closely integrated through trade, capital and information flows, while business is being conducted on an increasingly global basis. Growth in the trade in services is outstripping that of commodities and manufactures, while capital flows are eclipsing trade flows in many countries and regions. Australia's longer-term economic interests are best served by our wider and deeper integration into the world economy. Business must, and will, pursue international trade, commerce and investment opportunities wherever they can be found. This can best be achieved through multilateral frameworks and mechanisms such the World Trade Organisation (WTO), although bilateral and regional mechanisms which will deliver our trade liberalisation objectives should not be precluded. The Australian Government, in coalition with commerce and industry, must continue to press for freer trade and investment through the WTO. We should continue to pursue a bold and comprehensive agenda within the multilateral rounds of trade and liberalisation negotiations.

Once the agreements with the EU and UK are completed there will virtually be no tariffs applied to imports in Australia. This is acknowledged in the 2019 Budget with forward estimates showing that revenue collection after drawbacks will be little more than $500 million. However, both industry and government remain saddled with administrative compliance costs for preferentially applied tariffs. All tariffs must be removed to reduce the red tape and tax burden on industry.

International engagement provides the opportunities to develop business at a scale much greater than those focussed locally, and drives businesses to improve their productivity and be more competitive. Research suggest that exporters are about 40% more productive than non-internationalised businesses and have an increased chance of survival. Australian exporters on average employ more staff, pay higher wages and achieve higher labour productivity compared to non-exporters.[10] The Export Market Development Grants generated a return of $7 for every $1 invested. While funding for EMDG program was lifted to $200 million at the beginning of the COVID crisis, it has since returned to previous levels. As we emerge from COVID and free travel across borders is again permitted, Australian businesses will need to ramp up their efforts to re-establish their export markets and develop new markets. It is essential that the EMDG funding is returned to this higher level of funding across the forward estimates to rebuild and further expand our export sector.

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[10] Tuhin R. and Swanepoel J.A. 2017 *Export Behaviour and business performance: Evidence from Australian microdata.* Department of Industry Science and Resources Research Paper 7/2016

## Workplace Relations

Consistent with the importance of productivity to economic growth and living standards, business urges that industrial relations law and practice not be overlooked. How Australia regulates work matters, as does the effectiveness and practicality of such regulation in its application day to day in our workplaces. There remains a particular imperative to better support productivity by improving the operation of the enterprise bargaining system, which continues to decline in coverage and in its support for productivity, wages growth, job security, and the capacities of Australian enterprises for the flexibility, adaptability and resilience demanded by the COVID and post-COVID world. Specifically, ACCI continues to support key elements of the Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Bill 2021 that were not passed in March 2021 regarding bargaining (the bulk of Schedules 3 and 4 of the Bill).

## Work Health and Safety & Workers' Compensation

### *Intergovernmental Agreement*

Inconsistent adoption of agreed model WHS laws increases regulatory compliance costs for businesses, undermines the goal of increased productivity through a seamless national economy and contributes to delays in the transition of goods, equipment and services between jurisdictions. All Governments (Federal, state and territory) must re-commit to the intent of harmonised work health and safety laws to achieve the intended objectives.

#### Recommendation

- Ensure appropriate funding for the independent review of the Intergovernmental Agreement for harmonised work health and safety laws in Australia, ensuring adequate incentive for ongoing harmonisation and a commitment to best practice regulation.

#### Rationale for Proposed Policy

As a small and open economy, it is imperative to ensure the most efficient work health and safety regulation is agreed and implemented nationally. The original Intergovernmental Agreement for Regulatory and Operational Reform in Occupational Health and Safety (IGA) agreed in 2008 was designed to help realise the benefits of improved health and safety outcomes, good business practices and outcomes, good regulation and increased productivity.

The original IGA did drive increased inter-jurisdictional collaboration, development and implementation of the model WHS laws and improvements to health and safety outcomes but is now overdue for review.

Businesses are increasingly concerned about the growing number of variations jurisdictions are making when adopting model WHS laws beyond expected jurisdictional

notes regardless of involvement and agreement to new or amended regulation through Safe Work Australia processes. This is particularly evident in some states and territories moving to adopt Boland Review Recommendations prior to consideration and agreement (or not) of WHS Ministers as per the current IGA. Or alternatively, some jurisdictions not proceeding to implement a majority decision even when they have voted in favour of the change.

Safe Work Australia recently prepared a document that summarises the variations states and territories have made to the Model WHS Act in their model WHS Act Cross-Comparison Table. This table shows a significant number of variations across jurisdictions to critical areas like penalties, offences and legal proceedings. It is expected that the divergence will increase if a comparison of the model WHS Regulations and Codes of Practice was undertaken.

The 3rd December 2021 WHS Ministers communique noted that the review of the IGA will (re)commence in early 2022 which is welcomed by industry. Appropriate funding should be allocated to ensure the review process is conducted independently and follows established tripartite processes by engaging with government, employer and worker representatives.

Further, the process should look to how best to move jurisdictions to greater consistent adoption of agreed model laws with minimal variations and seek to establish criteria for any proposed new Regulation, Codes of Practice or significant amendments to the legislation to ensure confidence in the process and increase the likelihood of consistent jurisdictional adoption and implementation.

## *Safe Work Australia (SWA) – Social Partner Funding Arrangements*

### Recommendation

- Reinstate government funding to Safe Work Australia social partner Members to support employers and workers to navigate the suite of regulatory changes as a result of the Boland Review and to tackle emerging issues as we transition to COVID Normal.

### Rationale for Proposed Policy

In 2018, the first five-yearly review of the model WHS laws was undertaken to examine how the model WHS laws are operating in practice. The final report made 34 recommendations, several of which are significant changes to current policy and operations.

Safe Work Australia is now progressing these recommendations alongside outstanding recommendations from the 2014 Review into the implementation of model WHS legislation, a new 10-year Australian WHS Strategy and an inaugural National Return to Work Strategy.

It is important to note that this regulatory activity is taking place amongst the backdrop of disruption caused by the COVID-19 pandemic which has seen the emergence of new and complex work health and safety risks and Australian workplaces having to face new

challenges which have affected all aspects of their operations and the way in which they work. COVID-19 has highlighted not only the importance of work health and safety policy, but also the need to ensure businesses are receiving the right information and practical assistance in order to continue operating whilst protecting their workers and the community more broadly.

Tripartite engagement is fundamental to SWA delivering on its statutory functions, implementing the Review recommendations and the new national WHS and Workers' Compensation strategies. If SWA is to deliver sound and workable WHS and workers' compensation policy, it is essential employers and employees be fully represented and able to properly contribute ideas, input and experience.

Consecutive Governments previously recognised this and sought to partner with employer organisations and unions at the peak level to secure the consultation input (and distribution of information) it needs to properly and effectively design regulation, regulate safety and compensation in line with community expectations and improve safety, health and productivity outcomes.

For 30 years (1984-2014) ACCI, along with the other social partners on SWA, were funded by the Commonwealth to provide a policy and regulatory interface between employers / unions and SWA. This was a proven mechanism to facilitate the dialogue and social partner engagement SWA needs to do its work. Restoring this funding would enable ACCI to provide a more effective and coordinated response, and input into, the achievement of governments objectives at SWA, assist businesses and particularly small business with ongoing WHS and Workers' Compensation regulatory challenges, pioneer practical and meaningful programs to address emerging issues by turning theory into practice and be consistent with Australia's obligations under ILO standards and COAG Principles for Best Practice Regulation.

Australian Chamber of Commerce and Industry

# About the Australian Chamber

The Australian Chamber represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

The Australian Chamber strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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