Australian Chamber of Commerce and Industry

Pre-Budget Submission 2023-24

ACCI Submission

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Telephone 02 6270 8000 | Email info@acci.com.au | Website www.acci.com.au

Media Enquiries
Telephone 02 6270 8020 | Email media@acci.com.au

Canberra Office
Commerce House
Level 3, 24 Brisbane Avenue
Barton ACT 2600
PO BOX 6005
Kingston ACT 2604

Melbourne Office
Level 2, 150 Collins Street
Melbourne VIC 3000

Sydney Office
Level 15, 140 Arthur Street
North Sydney NSW 2060
Locked Bag 938
North Sydney NSW 2059

Perth Office
Bishops See
Level 5, 235 St Georges Terrace
Perth WA 6000

ABN 85 008 391 795

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Summary

The May 2023 Budget offers the government the first real opportunity to change the Budget parameters and re-establish its fiscal position. It must take concrete steps to put Australia on the path to fiscal and economic health, dealing substantively with spending and revenue measures. This is vital to giving business the confidence that the nation's finances are under control and thereby unlock reservoirs of investment.

With the shortage of labour and skills a principal issue for Australian businesses today, it is the also important the government use the Budget to build on the outcomes of the Jobs and Skills Summit and the Employment White Paper process, by crafting solutions and implementing measures to address the current issue.

In framing the May 2023 Budget, it is essential to focus on:

- Fiscal consolidation, lowering spending as a share of GDP and reducing government net debt
- Beginning the process of tax reform to restructure the way the government sources revenue
- Upholding the integrity of major off-Budget spending programs such as the *National Reconstruction Fund* and *Rewiring the Nation* programs
- Reducing the cost of doing business
- Growing productivity by introducing new measures to drive business investment, research and development, and advancing the use of technology, digital platforms and cyber security
- Addressing the labour and skill shortage, through programs that target increased participation, skills development and training, and increasing migration

This submission provides the following recommendations:

Key recommendations:

- Commit to concrete structural fiscal repair to de-risk the economy and drive future investment
- Building on the ideas raised at the Jobs and Skills Summit and through the Employment White Paper process, implement measures that target labour supply and skills development to future-proof the labour market against recurring shortages

Fiscal Consolidation:

- Focus budget repair on reducing government expenditure rather than increasing taxes
- Apply stringent budget management to rein in spending and address the increasing government debt
- Establish efficiency boards for large and complex policy expenditure areas
- Continue to apply an efficiency dividend of 2 per cent on government expenditure

Tax reform:

- Begin the process of comprehensive tax reform by placing it as a standing item on for discussion on the Council of Federal Financial Relations agenda
- Extend the small business 25 per cent corporate tax rate to cover all small to medium enterprises by increasing the base rate to a turnover of $250 million
- Take a leadership role, working with the state and territory governments, to reduce the burden of payroll tax on business

Public Investment in energy, manufacturing and infrastructure:

- Safeguard the integrity of the National Reconstruction Fund, Rewiring the Nation and Infrastructure Australia with a structure that is fully independent, with decision-making at arms-length from government
- Require rigorous cost-benefit analysis and ensure all projects funded under these programs deliver value for money and are selected on merit

Cost of doing business:

- Work with state and territory counterparts through the Energy National Cabinet Reform Committee to develop a national gas strategy to support investment, increase competition, and improve the efficiency and effectiveness of the gas market
- Adopt the recommendations from the Productivity Commission's Maritime Logistics Review inquiry in full

Growing Productivity
– Business investment:

- Continue to support investment by extending the Temporary Full Expensing measure beyond 2023
- Introduce a broad-based investment allowance of 20 per cent of the value of an asset purchased for larger-scale, longer-term investments in plant and machinery

– Digitisation:

- Work with industry to establish a 'trusted adviser' service for small business, offering information and advice on digital opportunities, as well as raising cybersecurity awareness and providing resources to protect small business from cybercrime
- Enhance the pace of investment in telecommunications and data services in Australia's regions, in line with recommendations of the 2021 Australian Infrastructure Plan

– Research and Development:

- Work with state and territory governments, industry and academia to develop an innovation incentive roadmap with the target of lifting overall R&D expenditure to 2.5 per cent of GDP by 2025
- Foster the commercialisation of R&D and innovation in Australia through continued support for, and a broadening of, the patent box to all industry sectors

Employment:

- Adequately fund the employment services system to improve outcomes for long-term unemployed by better connecting them to job opportunities and ensuring providers are encouraged to collaborate to put forward to employers the best possible candidates
- Make improvements to disability employment services aimed at supporting employers to recruit and retain people with disability
- Make childcare more accessible, particularly for women in regional areas, with more options to assist parents to return to the workforce sooner
- Allow pensioners to keep more of their age pension by doubling the current aged pension Work Bonus and extend the increase to at least 30 June 2024

Skills:

- Commit to long-term, consistent and real vocational education and training (VET) funding increases to deliver an increase in the number of VET funded students by 300,000 per annum across all qualifications, Australian Qualifications Framework levels and industry sectors to satisfy both skill shortages and skill needs.
- Wage subsidies of 30 per cent in the first year of apprenticeships/traineeships, without limitation by any list, reinstatement of $2,500 to employers for completion incentives and $5,000 to all apprentices and trainees to assist in the completion of their training
- Establish a national apprenticeship advisory board to link in with Jobs and Skills Australia
- Expand the focus on micro-credentials in the VET and higher education space to support opportunities for flexible learning and training

Migration:

- Increase the permanent migration intake, including a significant increase in the cap on skilled migration to 200,000 for the next two years at least and ensure access to all skilled occupations under the employer sponsored skilled streams
- Enable pathways to permanency for all temporary skilled migrants
- Reduce regulatory red tape, including removing labour market testing for skill occupations and halve the cost of the Skilling Australia Fund levy
- Review and streamline the skills assessment processes to make use of technological advances and enable a more holistic assessment
- Increase access to employer sponsored migration to help fill regional job needs

1 Introduction

The forthcoming Budget provides the government with the first real opportunity to change the budget parameters and re-establish its fiscal position. It is important the government takes concrete steps to put Australia on the path to fiscal and economic health, dealing substantively with spending and revenue measures.

For almost 15 years, there has been a significant deterioration in the fiscal position. Australia faced two major external challenges during this period, the global financial crisis and the COVID-19 pandemic, which required a response that greatly impacted on government finances. However, outside these events governments have allowed a significant structural deficit to develop.

From a position of negative net debt (surplus) fifteen years ago, the government is currently carrying a net debt to Gross Domestic Product (GDP) level of 23 per cent, with that figure expected to rise to over 30 per cent over the next decade. This fiscal deterioration has occurred notwithstanding an extended mining boom with elevated terms of trade, raising questions about fiscal health in the event of a downturn in demand for our commodity exports.

The elevated and increasing government net debt level is a drag on economic growth. It indicates that the government does not have control of its finances. It creates risk and doubts that deter investment. It generates a large and growing interest bill that eats into other priorities. It reduces the government's ability to deal with emerging and unexpected crises.

The global financial crisis and COVID-19 were exceptional events, but we don't know when and what the next crisis will be that may require a similar fiscal response. To ensure it is well positioned to deal with the next crisis, the Budget needs significant structural repair. Australia needs to be put back in a position of low government debt, with thriving and prosperous investment backed by the knowledge that the government has its finances under control and the economy is de-risked.

Committing to structural repair allows some flexibility for dealing with possible exigencies, but requires the government to apply discipline at other times such that the financial position is significantly improved.

A successful period of fiscal consolidation will build confidence that the nation's finances are under control and thereby unlock reservoirs of investment.

With the shortage of labour and skills the principal issue for Australian businesses today, the Budget also offers the opportunity to introduce measures to address the current crisis. The lack of job seekers with the right qualifications and experience for the vacant positions is placing immense strain on most businesses operations and holding back productivity and economic growth. Following the Jobs and Skills Summit, the Employment White Paper process and a number of reviews on skills and migration, it is vital the government use the Budget to craft solutions and implement measures that deal not only with the labour supply problems we are currently facing, but to future-proof the labour market against recurring shortages. The focus must be on approaches that reduce the rigidities in our workforce, provide greater flexibility and increase its mobility, so that it is capable of meeting the changing needs of businesses.

Overall, in framing the May 2023 Budget, it is essential to focus on:

- Fiscal consolidation, lowering spending as a share of GDP and reducing government net debt
- Beginning the process of tax reform to restructure the way the government sources revenue

- Upholding the integrity of major off-Budget spending programs such as the National Reconstruction Fund and Rewiring the Nation programs

- Reducing the cost of doing business

- Growing productivity by introducing new measures to drive business investment, research and development, and advancing the use of technology, digital platforms and cyber security

- Addressing the labour and skill shortage, through programs that target increased participation, skills development and training, and increasing migration

Key recommendation:

- Commit to concrete structural fiscal repair to de-risk the economy and drive future investment
- Building on the ideas raised at the Jobs and Skills Summit and through the Employment White Paper process, implement measures that target labour supply and skills development to future-proof the labour market against recurring shortages

2 Fiscal consolidation

When it comes to the task of fiscal repair, the focus should be on fixing the root cause of the problem – excessive government spending.

The Secretary of the Treasury identified commitments to additional structural spending, and stronger than expected growth in spending on the National Disability and Insurance Scheme (NDIS), aged care, defence, health and infrastructure, that are placing increasing pressure on the Budget.[1] This is likely to drive a structural jump in spending levels and see government spending as a share of the economy remain at a higher level in the medium term.

The Budget has projections for the next decade of revenues at 25-26 per cent of GDP – a level normally adequate to run budget surpluses – but spending at unprecedented levels of 27-28 per cent of GDP.

The key to addressing the budget problem is containing spending rather than increasing taxes.

Australia has long benefited from its position as a low tax country; one of the lowest in the OECD. It would be a mistake to relax discipline for a slower-growing big government position.

A high level of government spending was justifiable to support the economy during the COVID-19 pandemic. Now the crisis is over, this high level of government spending and escalating net debt can no longer be justified. The government should not continue to accumulate debt during a period of economic growth, a tight labour market and high inflation. Sound fiscal management is needed to reduce spending to a sustainable level and return the Budget to a more balanced setting over the long term.

The May 2023 Budget is the opportunity for the government to provide a clear plan to drive down public net debt over the medium to long term. More ambition is needed to pay down debt, strengthen the

[1] Kennedy S. 2022, *Post-Budget economic briefing – opportunities and risks*. Address to Australian Business Economists, Sydney. https://treasury.gov.au/speech/address-australian-business-economists-0

government's budget position and place Australia in a more favourable financial position, so that we are well positioned to respond when the next crisis emerges.

Recommendations

- Focus budget repair on reducing government expenditure rather than increasing taxes
- Apply stringent budget management to rein in spending and address the increasing government debt
- Establish efficiency boards for large and complex policy expenditure areas
- Continue to apply an efficiency dividend of 2 per cent on government expenditure

3 Tax reform

Tax reform is fundamental to support business growth and raise Australia's productivity performance. Improving Australia's tax and transfer system must be a high priority for the government.

In its current form, Australia's tax system is replete with inequities and anomalies and is too reliant on unsustainable and distortionary taxes that are either inherently inefficient or inefficient by design. There are imbalances between the roles and responsibilities of the Commonwealth and those of state and territory governments, especially in regard to raising revenue and spending on public goods and services.

Achieving comprehensive tax reform that supports federal, state and territory budgets over the long-term, while addressing distributional impacts and promoting economic growth, is not easy and will take time. This challenge should not prevent both tiers of government committing to the need for tax reform and making a start. The Council for Federal Financial Relations (CFFR) is the appropriate forum to initiate this discussion and begin the reform process, so tax reform should be included as a standing item on the CFFR agenda.

A key area that requires attention is the misalignment between the 30 per cent tax rate for medium and large businesses and 25 per cent for small business with an aggregate turnover less than $50 million per annum. This is inhibiting the growth of more than just larger businesses, as small businesses rely on larger businesses as both suppliers and customers.

To support growth and make businesses more competitive, the corporate tax rate must be lowered to 25 per cent for all businesses. ACCI recognise the current fiscal constraints facing the government and the substantial impact on the Budget if the corporate tax rate were lowered to 25 per cent immediately for all businesses. To limit the impact, consideration should be given to doing it incrementally over time, by first increasing the base rate entity eligibility criteria to businesses with an aggregate turnover of less than $250 million. This will enable both small and medium-sized Australian businesses to be more competitive in international markets, encourage greater reinvestment to drive business growth and make Australia more attractive for foreign investment.

Another area that requires attention is state and territory government's heavy reliance on payroll taxes for revenue. In its current form, with a wide range of rates, tax-free thresholds, exemptions, discounts and concessions, payroll tax is extremely inefficient and places a very high administration and compliance burden on business. While it is a state and territory tax, achieving reform requires the Commonwealth to play an active leadership role, including assisting and rewarding the states and territories in making significant reforms. The Commonwealth should work with the states and territories through the CFFR initially to reduce the administrative and compliance burden of payroll tax on business, with a longer-term objective of phasing it out completely.

Recommendations

- Begin the process of comprehensive tax reform by placing it as a standing item on for discussion on the Council of Federal Financial Relations agenda
- Extend the small business 25 per cent corporate tax rate to cover all small to medium enterprises by increasing the base rate to a turnover of $250 million
- Take a leadership role, working with the state and territory governments, to reduce the burden of payroll tax on business

4 Public investment in energy, manufacturing and infrastructure

The government has ambitious plans to drive new investment in renewable energy generation and transmission, developing a strong manufacturing industry in Australia and restoring the integrity of infrastructure investment. Since the election, the government has been quick to implement its election commitments. While we commend the government on its determination to set up these programs without delay, it is important to get the settings right.

Legislation is currently before parliament to establish the $15 billion National Reconstruction Fund (NRF) to diversify and transform Australian industry through co-investment in projects across seven priority areas. A key component for the NRF is its investment in renewable and low emissions technologies, with $3 billion to be set aside in the first tranche of funding to support the transition to renewable energy, as part of with the goal of achieving 82 per cent renewable energy generation by 2030, up from 23 per cent in 2022.

The NRF is an initiative that has the potential to stimulate new manufacturing and industrial investment in Australia. Yet its scope is too narrow, with investment limited to seven priority areas. Investment should be available to projects from all industry sectors that meet the selection criteria and will make a positive return on investment. Industry sectors not included in these priority areas should be provided with the same support through the NRF, particularly existing sectors that have proven to be resilient in the changing economic environment over recent decades and are capable of remaining internationally competitive.

The initial programs under the $20 billion Rewiring the Nation program to support the transition to renewable energy have recently been announced. These include the Marinus Link, connecting the electricity grid between Tasmania and Victoria, offshore wind projects, Renewable Energy Zones in Victoria, and the Victoria-NSW Interconnector (VNI West).

It is important to note that most of the funding under the Rewiring the Nation program will be made available to existing transmission and distribution service providers. Some of these are state-owned, while others were previously state-owned and are now owned and managed by large multinationals. These state-owned or large multinationals already have access to credit from a wide array of international funding sources. As these are typically local monopolies, they are highly regulated, with the pricing controls ensuring that they are guaranteed an adequate return on any investment.

While the NRF and Rewiring the Nation have been set up as loan facilities and are effectively off-Budget, given the substantial amount of public funding available through these programs it is essential that they have integrity.

The bodies that oversee these funds and programs must be fully independent, with decisions made at arms-length of government. Safeguards must be put in place to prevent political influence in the decision-making process. Projects funded under the programs must be selected purely on merit and proven to deliver value for money. All projects must go through rigorous cost-benefit analysis before being nominated for consideration by the boards.

In addition to these programs, ACCI welcomes the government's commitment to give renewed prominence to Infrastructure Australia in providing independent advice and prioritising over $100 billion in infrastructure investment over the next decade. Infrastructure Australia's examinations of Australia's infrastructure priorities and reform needs provide a strong evidence base for infrastructure policy, including addressing disparities in service standards and improving resilience of Australia's supply chains. In enhancing Infrastructure Australia's role, similar to the NRF and Rewiring the Nation, it is vital that all proposed investments undergo stringent cost-benefit analysis prior to commencement to ensure they are cost effective and the most efficient investment to meet a specific need.

Recommendations

- Safeguard the integrity of the National Reconstruction Fund, Rewiring the Nation and Infrastructure Australia with a structure that is fully independent, with decision-making at arms-length from government
- Require rigorous cost-benefit analysis and ensure all projects funded under these programs deliver value for money and are selected on merit

5 Cost of doing business

Rising business costs driven by high inflation are a dominant concern for business and consumers. Surging fuel prices and rising material input costs due to ongoing supply chain constraints, along with increasing food prices due to the east coast flooding events, are weighing heavily on consumers and businesses alike.

Business conditions are challenging, with the ABS Business Conditions and Sentiment survey indicating 46 per cent of businesses experienced an increase in operating expenses and expect to increase their prices more than usual over the coming quarter.[2] The situation for business worsened since the last ABS Business Conditions and Sentiment survey in June 2022, with inflation continuing to rise strongly, up from 6.1 per cent in June, to 7.3 per cent in September, then 7.6 per cent in December. While there is speculation that inflation may have peaked in December 2022, current forecasts indicate inflationary pressure will ease only slowly, with the Reserve Bank projecting inflation to ease to 4¾ per cent at the end of 2023, then 3¼ per cent by December 2024.

[2] Australian Bureau of Statistics 2022, *Business Conditions and Sentiment*, June 2022 https://www.abs.gov.au/statistics/economy/business-indicators/business-conditions-and-sentiments

The challenges in the energy market are adding to inflation and the cost pressures on business. The government took the unprecedented step in intervene in the market, by capping gas and coal prices in December 2022 and is in the process of introducing a mandatory code of conduct for gas producers. The price caps are only temporary, so will have only a limited impact on energy prices over the long term. Also, the initial response from the gas produces was to limit supply and put a hold on new gas supply agreements, which aggravated the situation. A longer-term solution is needed to restore stability in the gas and electricity markets and drive down energy costs for businesses and consumers. In our response to consultation on the Competition and Consumer (Gas Market Emergency Price) Order 2022, ACCI proposed the government work with its state and territory counterparts through the Energy National Cabinet Reform Committee to develop a national gas strategy, to ensure consistency of policy and regulation in the highly integrated east coast gas market.[3] A national gas strategy will provide greater clarity, direction and confidence for investment and development in the gas market, which is particularly important considering the disruption to private sector caused by the price cap.

While much of the supply chain issues are associated with international factors, more can be done at the domestic level to free up supply chains. The recent Productivity Commission inquiry into the Maritime Logistics System proposed a number of recommendations to improve the efficiency at our ports.[4] Australia is a highly import-dependent market and ports, as the entry point for most goods entering Australia, are major bottleneck for Australian businesses. We encourage the government to adopt the Productivity Commission's recommendations in full to address the inefficiencies and free up our maritime logistics system.

Recommendations

- Work with state and territory counterparts through the Energy National Cabinet Reform Committee to develop a national gas strategy to support investment, increase competition, and improve the efficiency and effectiveness of the gas market
- Adopt the recommendations from the Productivity Commission's Maritime Logistics Review Inquiry in full

6 Growing Productivity

Productivity growth is the key to sustaining economic activity, creating jobs and maintaining our future living standards. Yet Australia's productivity growth has slowed since the turn of the century. As noted in the Productivity Commission's five-year Productivity Inquiry Interim Report, productivity growth over the past decade is at its slowest pace in 60 years, at an average of just 1.1 per cent per year.[5] It also suggests productivity performance will continue to deteriorate with further growth in service sectors, particularly government-funded and regulated non-market services such as schools, aged care, childcare and disability support services, where a lack of competition and contestability mask underperformance.

We need to get back on a path of strong productivity growth to sustain a high level of economic activity over the long term. Australia needs to increase productivity at a rate that is much better than the past 20

[3] https://www.australianchamber.com.au/wp-content/uploads/2022/12/Submission-The-Treasury-Competition-and-Consumer-Gas-Market-Emergency-Price-Order-2022-002.pdf

[4] Productivity Commission 2023 *Australia's Maritime Logistics System: Inquiry Report.* https://www.pc.gov.au/inquiries/completed/maritime-logistics/report

[5] Productivity Commission 2022, *5 Year Productivity Inquiry: The Key to Prosperity – Interim Report 1*https://www.pc.gov.au/inquiries/current/productivity/interim1-key-to-prosperity

years. There needs to be a concerted effort to put in place the conditions for strong, sustainable productivity growth.

Australia needs greater investment in productive capital, particularly in innovation and diffusion, digital technology and cyber security and skills and training, to drive innovation and technical improvement. 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.

6.1 Business investment

Business investment is a catalyst for productivity growth and major driver of economic activity. Investment typically brings new technologies, which boosts productivity through skills development and innovation. Greater investment in new capital assets is needed to lift and sustain productivity growth and raise economic activity over the next decade.

To invigorate business investment following a sharp decline during the COVID-19 pandemic, the Temporary Full Expensing (TFE) initiative was introduced in the October 2020 Budget. This extended the instant asset write-off, allowing businesses with a turnover of up to $5 billion to claim an immediate tax deduction for the cost of an eligible depreciable assets in the year of purchase or installation. With the support of TFE, non-mining business investment in plant, equipment and machinery increased 39 per cent between the September quarter of 2020 and the December quarter of 2021, and remained elevated through 2022.

The TFE measure is set to expire on 30 June 2023, with no proposed alternative to replace it. Unless it is extended, or replaced with another similar measure, all assets valued above $1,000 purchased after 1 July 2023 will need to be depreciated over an extended period, following standard depreciation schedules. This would be a major setback, damaging small businesses investment and stunting economic activity at a time when the economy is already experiencing a decline. There is a strong case to retain the full expensing arrangement for at least another two years, to at least June 2025, to continue to support investment, lift productivity performance and support economic growth at a time when the economy is weakening.

While TFE has been very successful in stimulating smaller business investment in plant and equipment, there is also a good case for businesses of all sizes to make larger-scale investments in heavy industrial machinery and large-scale equipment. Larger-scale investments require substantial upfront capital that may require several years to realise a return. Offering an investment allowance of 20 per cent of the value of depreciable assets over $500,000 will help businesses justify the initial upfront cost of capital. An additional tax allowance for larger-scale, longer-term investments will give businesses the confidence to make these bigger investments, helping them achieve greater productivity gains. It will also go some way to mitigate the impact of the high corporate tax rate on large businesses.

Recommendations

- Continue to support investment by extending the Temporary Full Expensing measure beyond 2023
- Introduce a broad-based investment allowance of 20 per cent of the value of an asset purchased for larger-scale, longer-term investments in plant and machinery

6.2 Digitisation

International research points to a strong correlation between intangible capital investment in digital technology and economic growth. Investment in software, information technology, digital literacy and innovation act as enablers of productivity across multiple sectors. Digitalisation offers business of all sizes in all sectors of the Australian economy commercial opportunities to grow and create jobs, as well as improve the work-life balance of their employees.

The COVID-19 pandemic and a shift to working from home accelerated the uptake of digital technology in our economy, with the new technology adoption rate that would normally occur over several years happening in several months. However, this investment was driven mainly by medium and large businesses, with small businesses lagging in their uptake of digital technology. It is important to maintain this momentum so that Australian businesses, particularly SMEs, can continue to grow and raise their productivity.

One of the reasons why small businesses have been slow to participate and gain the benefit of the transformation is a lack of awareness of the productivity and profitability gains that can be achieved by adopting digital technology. The rate of small business technology use could be accelerated through a 'trusted adviser' service to assist small businesses access the right tools, information and skills.[6] Consideration should be given to establishing a body as a central nodal point for information and advice on digital opportunities for small business.

In addition to improving digital literacy and awareness for small business operators, there is a need to raise awareness of cybersecurity and the risks posed to businesses from cybercrime. Cybersecurity has never been more important. The increased uptake of digital technology needs to be complemented with further investment in protecting business and national security assets from the risk of cyber attacks.

Major events during the past year with data theft from Optus and Medicare exposing the personal data of millions of Australians highlight the risks, but there are also thousands of smaller instances every year, many of which go unreported. Cybercrime costs the economy more than $1 billion annually and disproportionately impacts SMEs. It is becoming increasingly important for SMEs adopt and successfully implement digital technologies within a trusted ecosystem, secured by design that is both robust and resilient.

ACCI notes that shortfalls remain in telecommunications and data service levels in many regional areas, which inhibit digitisation of business. Ongoing regional investment in capacity and coverage is needed to achieve acceptable service utility.

Recommendations

- Work with industry to establish a 'trusted adviser' service for small business, offering information and advice on digital opportunities, as well as raising cybersecurity awareness and providing resources to protect small business from cybercrime
- Enhance the pace of investment in telecommunications and data services in Australia's regions, in line with recommendations of the 2021 Australian Infrastructure Plan

[6] Small Business Taskforce 2018: Report to Government - https://www.industry.gov.au/data-and-publications/small-business-digital-taskforce-report-to-government

6.3 Research and development

Investment in research and development (R&D) and innovation is fundamental to lifting productivity and maintaining the international competitiveness of Australian business. Yet, Australia is falling behind on all international comparisons. At below 1.8 per cent of GDP, Australia's investment in R&D and innovation is well below the OECD average of 2.7 per cent of GDP and that of other major economies such as Japan (3.3 per cent), Germany (3.1 per cent) and the United States (3.5 per cent). High tax rates, high interest on loans and a lack of funding support, all act to discourage business investment in R&D. We need to elevate R&D and innovation in Australia to sustain future economic growth, with the Government having an important role to play in facilitating greater R&D.

The patent box, enabling businesses to access a lower tax rate of 17 per cent on profits derived from eligible intellectual property, was a positive measure in improving the international competitiveness of businesses investing in Australian innovation. Yet, too limited in scope. It should be broadened to patents in all industry sectors, with a particular focus on manufacturing and information and communications technology where significant opportunities are emerging.

Recommendations

- Work with state and territory governments, industry and academia to develop an innovation incentive roadmap with the target of lifting overall R&D expenditure to 2.5 per cent of GDP by 2025
- Foster the commercialisation of R&D and innovation in Australia through continued support for, and a broadening of, the patent box to all industry sectors

7 Employment

Australia is currently experiencing an extremely tight labour market, with labour and skills shortages acute in many sectors. With employment and participation at historic highs of 13.8 million people and 66.8 per cent and unemployment at a 48-year low of 3.4 per cent, there is no better time to engage those who face specific challenges entering the workforce, such as the long-term unemployed, the young, people with disability, women, and mature age workers.

More could be done to connect long-term unemployed to job vacancies and encourage those facing barriers to participation to become part of the labour force, with jobs that suit their abilities. The youth unemployment rate is more than double the overall unemployment rate. Failing to support young Australians now will not just have immediate ramifications in terms of the current skills and labour crisis, but will diminish Australia's labour force productivity over the longer term. Similarly, the participation rate of people with disability is also lagging that of the general population, estimated to be 30 percentage points lower than people in the same age range without disability, with the rate decreasing with severity of the disability.

While more Australian women are participating in the workforce than in the past, female participation rates still lag males by about eight percentage points, indicating more needs to be done. Workforce participation dips at an age when women start having children. When they return to paid work, they are more likely to work part-time, with Australian women having one of the highest rates of involuntary part-time employment of all OECD countries.

In addition, there are many mature age workers able to work and with the skills Australia needs but who are currently disincentivised to engage in work due to the age pension income test. The current Work Bonus 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. The settings are confusing, and it is readily believable that pensioners are not willing to take the risk.

These issues have been addressed in more detail in the ACCI submissions to Treasury on the Employment White Paper in November 2022.

Recommendations

- Adequately fund the employment services system to improve outcomes for long-term unemployed by better connecting them to job opportunities and ensuring providers are encouraged to collaborate to put forward to employers the best possible candidates
- Make improvements to disability employment services aimed at supporting employers to recruit and retain people with disability
- Make childcare more accessible, particularly for women in regional areas, with more options to assist parents to return to the workforce sooner
- Allow pensioners to keep more of their age pension by doubling the current aged pension Work Bonus and extend the increase to at least 30 June 2024.

8 Skills

To meet future skills needs, we need an education and training system that grows our skills base, supports a knowledge economy and maximises the contribution of businesses to our national prosperity.

The vocational education and training (VET) system plays a critical role in skills development across Australia. It is highly valued by employers due to its emphasis on practical job skills required in modern workplaces, and for many occupations a VET qualification is compulsory. Yet a lack of consistent funding by all Australian governments, as well as cost shifting between state and territory, and commonwealth governments, over the past decade has seen the number of funded students decline.

To be responsive to changes in industry's needs, VET needs to be industry-driven. There also needs to be better coordination between the Commonwealth, states and territories so that it delivers real outcomes in raising student numbers and improving the quality of teaching. The negotiations of the new five-year National Skills Agreement provide the opportunity to put in place a long-term funding solution for VET that delivers real growth as well as greater consistency

Prior to COVID-19, we were in the midst of an apprenticeship drought. Although highly valued by employers, the business case for taking on an apprentice had been in decline. The incentive programs put in place throughout the pandemic demonstrated that improving the business case for an employer to take on an apprentice will drive an increase in commencements. A commitment to provide wage subsidies of 30 per cent in the first year of apprenticeships/traineeships, without limitation by any list, provides certainty for employers. The reinstatement of the fixed monetary completion incentives of $2,500 to employers will further assist in retention. There should also be financial support available to all apprentices and trainees of up to $5,000 to assist in the completion of their training.

In addition, the establishment of a national apprenticeships board to oversee a national approach to apprenticeship qualifications would provide valuable guidance for both short- and long-term structures of apprenticeships. The board should be a part of the functions of Jobs and Skills Australia (JSA).

It is also important to adopt a lifelong approach to learning and skills development to better equip employees and help them keep pace and adapt to the changing nature of work, particularly technology advancements. Micro-credentials provide opportunities to quickly upskilling workers throughout their career, but should be viewed as a complement to, not a replacement for, formal training in an apprenticeship or a university degree.

These issues have been addressed in more detail in the ACCI submissions to Treasury on the Employment White Paper in November 2022.

Recommendations

- Commit to long-term, consistent and real VET funding increases to deliver an increase in the number of VET funded students by 300,000 per annum across all qualifications, Australian Qualifications Framework levels and industry sectors to satisfy both skill shortages and skill needs
- Wage subsidies of 30 per cent in the first year of apprenticeships/traineeships, without limitation by any list, reinstatement of $2,500 to employers for completion incentives, $5,000 to all apprentices and trainees to assist in the completion of their training
- Establish a national apprenticeship advisory board to link in with JSA
- Expand the focus on micro-credentials in the VET and higher education space to support opportunities for flexible learning and training

9 Migration

To overcome Australia's skills and labour shortages requires a holistic workforce approach – bringing together policy solutions that address skills development, participation and migration. This workforce approach needs to be underpinned by ongoing strategic workforce planning that identifies current and future skill needs as well as shortfalls in education and training outputs and funding.

The temporary and skilled migration programs are valued components of workforce planning and development, enabling employers to address workforce shortages that require specialty skills. The recent increase in the migrant intake to 195,000, with 142,000 allocated to the skills stream, is welcome but far short of what is needed to meet the widening gap in skilled workers essential for Australian businesses. A substantial increase in the cap for skilled migration to 200,000 for the next two years at least is vital to replenish the skills lost during the pandemic. Beyond that, a strong focus needs to remain in terms of permanent skilled migration.

The responsiveness of migration programs could be improved by reducing the complexity and limitations of skills occupation lists. To make Australia a more attractive destination for migration, consideration should be given to providing pathways to permanency for all skilled migrant categories. In addition, regulatory barriers such as onerous labour market testing and the Skilling Australia Fund levy, which place a high administrative burden and expense on employers, reduce the attractiveness of sponsoring skilled migrants.

Visa processing times also need to be reduced so Australia doesn't miss the opportunity to fill skills gaps due to talent choosing to go to other countries due to delays. Further, the 120 visa categories currently in operation, all with different eligibility requirement and criteria, can be streamlined to make it simple and easy to attract highly skilled workers and to target areas of high demand such as professional services, information technology and cyber-security.

The skills assessment process, which is mandatory for some visa classes and may be requested for others, can be very time consuming and costly. It often requires lengthy technical assessments for occupations, such as in the automotive sector, that may have very similar training standards and qualifications in the home country to that of Australia. The delays caused often deters strong candidates from pursuing their application in Australia. The skills assessment processes must be reviewed and tightened to enable a more holistic streamlined assessment process.

There is an acute worker shortage in many regional areas. The migration system needs to support our regions, encouraging both for permanent settlement and satisfying the significant demand for seasonal work. It is difficult to attract people to make a move to a regional location. Yet regional growth industries such as tourism, mining and agriculture are generating jobs and wealth for Australia. It is essential that migration system also support regional jobs growth and skill needs, through policies that encourage migrants to fill job needs. Employer sponsored migration, both permanent and temporary, is the best way to achieve this.

These issues have been addressed in detail in recent ACCI submissions to Treasury on the Employment White Paper in November 2022 and to the Department of Home Affairs review of Australia's Future Migration System in December 2022.

Recommendations

- Increase the permanent migration intake, including a significant increase in the cap on skilled migration to 200,000 for the next two years at least and ensure access to all skilled occupations under the employer sponsored skilled streams
- Enable pathways to permanency for all temporary skilled migrants
- Reduce regulatory red tape, including removing labour market testing for skill occupations and halve the cost of the Skilling Australia Fund levy
- Review and streamline the skills assessment processes to make use of technological advances and enable a more holistic assessment
- Increase access to employer sponsored migration to help fill regional job needs

About ACCI

The Australian Chamber of Commerce and Industry 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.

ACCI 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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