Australian Chamber of Commerce and Industry

Pre-Budget Submission 2024-25

ACCI Submission

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Australian Chamber of Commerce and Industry

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Executive Summary

This submission provides the following recommendations:

Government Spending:

- Focus budget repair on reducing government expenditure rather than increasing taxes.
- Introduce an expenditure cap of 25 per cent of GDP to prevent spending blowouts and consequent tax increases.
- Establish efficiency boards for large and complex policy expenditure areas.

Tax Reform:

- Commit to delivering the Stage 3 tax cuts in full.
- 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, with an extension to all businesses as soon as feasible.
- Work with states develop a consistent national approach to road user charges, with any revenue collected invested in road infrastructure.
- Work with states and territories to lower taxes and remove stamp duty to make insurance more affordable.

Business investment:

- Extend the threshold value for eligible depreciable assets under the instant asset write-off from $20,000 to $30,000.
- For larger investment apply the instant asset write-off to the first $30,000 and apply normal depreciation schedules to the remainder.
- Introduce a broad-based investment allowance of 20 per cent of the value of eligible larger-scale, longer-term investments in plant, equipment and machinery valued over $100,000.

Public Investment in Infrastructure and Energy:

- All proposed infrastructure investment should be independently assessed by Infrastructure Australia and have a proven business case following a stringent cost-benefit analysis.
- Adopt a fuel-source neutral approach to the energy transition, with ongoing support for gas supply and gas power generators (GPG) as a stepping-stone to lower or zero-emissions technology in the future.
- Work with state and territory governments to streamline infrastructure and energy investment, to improve the efficiency of delivery and avoid duplication of policy.

Digital, Data and Cybersecurity:

- Create a whole-of-government National Digital Inclusion Plan as previously recommended by the Australian Digital Inclusion Alliance to identify and seek to embed a nationally agreed framework for digital capabilities.
- Reintroduce and make permanent the Technology Investment Boost and the Skills Training Boost to enable small businesses to improve their digital capability and upskill their workforce.
- Advance the review of the Data Availability and Transparency (DAT) Act with the agenda to allow sharing of government data to the private sector and within the public sector itself, following international movements.
- Invest further in cybersecurity training for small business.

Research and development and Innovation:

- Work with state and territory governments, industry and academia to develop an R&D and innovation roadmap with target of lifting investment to 2.5 per cent of GDP by 2026.

- Provide greater direct support to encourage business to invest in R&D through tax incentives or other financial support.
- Expand the Industry Growth Program to include capability building of management and leadership and incubator support.
- Strengthen protections of Australian intellectual property (IP) and attract more companies to register IP in Australia by reviewing the Australian patent system and harmonisation of data exclusivity term lengths in relation to world best practice.
- Review the patent filing process for Australian companies to ensure it is as streamlined as possible and there are no unnecessary barriers to filing.

Small Business

- Clearly articulate the anticipated impact on small businesses within any policy impact analysis generated for proposed legislative or regulatory measures.
- Make the Energy Efficiency Grants for Small and Medium Enterprises programs permanent.
- Extend the eligibility timeframe for the Small Business Energy Incentive to at least 30 June 2025.
- Provide resources and supports to assist small businesses adjust to meet the additional regulatory requirements of the Privacy Act following the removal of the small business exemption.
- Provide funding to implement the recommendations of the Franchise Code of Conduct, including for educative resources.

Employment:

- Adequately fund employment services to connect long-term unemployed individuals with job opportunities.
- Commit to substantial and long-term increases in VET funding to deliver an increase in the number of 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 across the first two years 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 mentoring and support programs for apprenticeships and traineeships.
- Maintain the skilled migration cap at 190,000 for access to all skilled occupations under employer-sponsored streams.
- For the migration system, ensure adequate funding for Jobs and Skills Australia for informed workforce planning, and shift Skilling Australia Fund payments to a monthly basis.

Work, Health and Safety:

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

1. Introduction

It has been a difficult year for both Australian businesses and consumers. High inflation, rising interest rates and a very tight labour market substantially increased the cost of doing business and cost of living pressures. Despite the steady increase in costs, businesses have had little opportunity to pass these on through higher prices. With margins shrinking, business profits fell 11 percent in the year to June 2023 and insolvencies are on the rise.[1] For consumers, with falling real wages and increasing mortgage rates, real household disposable income fell 3 per cent in 2022-23.[2]

The economy has been clearly slowing over the past year, with September quarter GDP growth falling to 1.8 per cent year on year, and it is expected to weaken further in 2023-24. This has been compounded by shrinking productivity growth, with labour productivity contracting 4.2 per cent year-on-year in March 2023 and 3.6 per cent in June.[3]

Further, the shortage of labour and skills continues to create challenges for Australian businesses. The lack of job seekers with the right qualifications and experience for vacant positions is placing strain on most businesses operations and holding back productivity and economic growth. While some progress has been made following the Jobs and Skills Summit in 2022 and the release of the Employment White Paper in 2023, there is still much work that needs to be done to address current labour and skills shortages.

At the same time there has been a dramatic turnaround in the government's budget circumstances. High international commodity prices and very low unemployment delivered a $100 million improvement in the bottom line in 2022-23, from an initially forecast $78 billion budget deficit to an actual outcome of a $18.8 billion surplus.[4] With commodity prices expected to remain high and unemployment remaining low, the Mid-year Economic and Fiscal Outlook (MYEFO) is projecting only a small deficit of $1.1 billion for 2023-24.[5]

However, the government cannot be complacent. While there is some pressure to relieve cost of living stresses on households through increased government spending and support measures, it is important that the government pursue fiscal repair rather than allow any deterioration. The Budget is forecast to return a sizable deficit in 2025-26, and deficits are expected to remain large thereafter.[6] The structural deficit will emerge as a major challenge going forward, as increasing costs of the National Disability Insurance Scheme (NDIS), aged care, childcare and health services put increasing pressure on the Budget. Major reforms are necessary to address these challenges and put the Budget back on a sustainable path.

The 2024-25 Budget offers the government the opportunity to reset Australia's economic circumstances. It is an opportunity to better balance the strain on businesses and households with policies and budget measures that deliver productivity-enhancing growth and increase supply without lifting demand and placing further pressure on inflation. Action is required now to ensure the economy is well-placed to grow strongly in the future. Australia's future prosperity is heavily dependent on actions taken now. It is essential that opportunities to lift productivity and expand supply are identified and acted upon.

2. Productivity

The key to strengthening the Australian economy and buttressing it against the challenges of rising inflation and the severe labour and skills shortage is to increase the productivity capacity of the

[1] Australian Bureau of Statistics 2023 *Business Indicators, Australia.* June 2023

[2] Reserve Bank of Australia 2023, *Statement on Monetary Policy.* November 2023.

[3] Australian Bureau of Statistics 2023 *National Accounts: National Income, Expenditure and Product.* June 2023

[4] Commonwealth of Australia 2022, *Budget 2022-23.* April 2022; Commonwealth of Australia 2023, *Final Budget Outcome.* 2022-23 Financial Year September 2023.

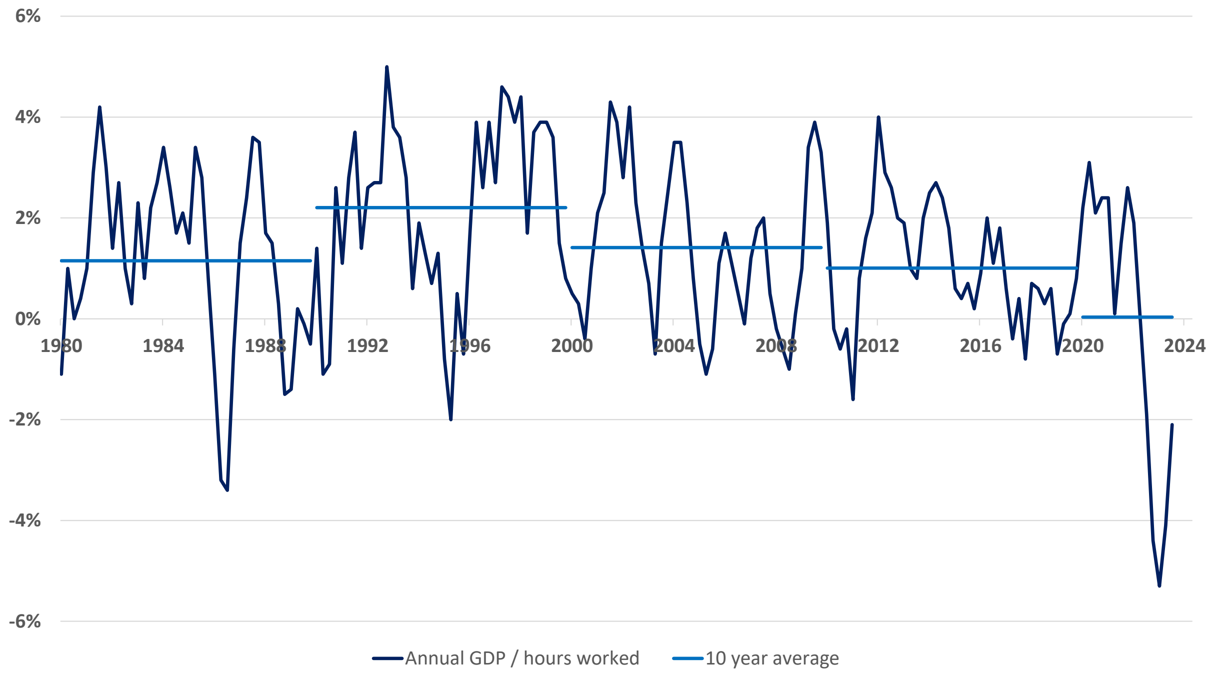
[5] Commonwealth of Australia 2023 *Mid-year Economic and Fiscal Outlook.* December 2023

[6] Commonwealth of Australia 2023, *Budget 2023-24.* May 2023.

economy. 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. The Productivity Commission's 5-year Productivity Inquiry shows Australia's productivity growth over the past decade at its slowest pace in 60 years, at an average of just 1.1 per cent per year in the decade to 2019.[7] It has since slowed even further, to an average of 0 per cent over the past four years, having contracted sharply over the past year.[8]

Figure 1: Productivity Growth and 10-year averages



Source: Australian Bureau of Statistics 2023 National Accounts: National Income, Expenditure and Product. June 2023

Australia productivity performance is expected to continue to deteriorate over the next decade, with further growth in services 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 masks underperformance. While these are important sectors of the economy, it is not sustainable if they continue to grow at a faster rate than the broader economy.

Recognising the challenges, instead of focusing on policies that can raise productivity and strengthen the economy going forward, the long-term productivity growth forecast included in the October 2022 and April 2023 Budgets was cut from 1.5 per cent to 1.2 per cent per year, in line with the average over the past 20 years.[9]

[7] Productivity Commission 2023 *5-Year Productivity Inquiry Report. Volume 1: Advancing Prosperity*. https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume1-advancing-prosperity.pdf

[8] Australian Bureau of Statistics 2023, *National Accounts: National Income, Expenditure.* September 2023. https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release

[9] Commonwealth of Australia 2022, *Budget 2022-23.* October 2022

There also appears to be little interest in the Productivity Commission's 5-year Productivity Inquiry Report released in February 2023.[10] This identified 29 reform directives made up of 71 recommendations with a focus on having a highly skilled and adaptive workforce, harnessing data digital technology and diffusion, creating a more dynamic economy through competition and business entry and investment, lifting productivity in non-market sectors and managing the transition to net-zero at least cost. The government is yet to respond to the report and has taken few if any steps to adopt any of its directives and recommendations.

If Australia is to achieve sustained long-term economic prosperity, we need reforms that will lift productivity growth above that experienced over the past 20 years. There needs to be a concerted effort to put in place the conditions for strong, sustainable productivity growth. We need 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, seize opportunities and become more globally competitive, we need reforms that will give the structure, flexibility and entrepreneurial culture to create the dynamism, resilience and competitiveness needed for businesses to thrive.

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.

In framing the 2023-24 Budget, it is essential to focus on strategies to incentivise business to boost productivity and expand supply in the economy, through measures that:

- Deal with the emerging structural deficit and put the Budget back on a sustainable path
- Begin the process of tax reform to restructure the way the government sources revenue
- Stimulate greater business investment
- Optimise public infrastructure and energy investment
- Advance the use of technology, digital platforms and cyber security
- Boost investment in research and development and innovation
- Reduce the regulatory burden on small business
- Address the labour and skill shortage, through increased participation, skills development and training, and increasing migration

The following sets out ACCI's policy priorities for the 2024-25 Budget.

[10] Productivity Commission 2023 *5-Year Productivity Inquiry Report.* https://www.pc.gov.au/inquiries/completed/productivity/report

3. Government Spending

Public spending has increased strongly over the past year and is projected to remain high over the forward estimates. The level of public spending should be reduced to ensure that the Australian government's finances return to a best-practice position.

The National Accounts data for September quarter 2023 show the government sector has substantially increased spending on behalf of households over the past year, through programs such as energy bill relief, childcare subsidy, additional outlays on aged care and the NDIS, and a sharp increase in defence spending.[11] Government consumption increased 2.6 per cent for the year to September 2023. At the same time, public gross fixed capital formation increased by 12.4 per cent for the year to September 2023. This fiscal spending is frustrating efforts by the Reserve Bank to rein in inflation, which at 5.4 per cent year-on-year in the September quarter, remains well above the target range of 2 to 3 per cent.

At a time of very high inflation, it is important that the government show restraint in its spending. The 2023-24 Budget showed government spending as a share of GDP increasing from 24.8 per cent in 2022-23 to 26.5 per cent in 2023-24, then remaining above 26 per cent of GDP over the forward estimates.[12] With the pandemic emergency now past, it is no longer necessary to maintain elevated government spending levels. It is important to rein in government spending and maintain it at manageable levels below 25 per cent of GDP going forward.

The Budget is forecast to return to deficit in 2023-24, with the deficit steadily increasing thereafter.[13] Rapidly rising costs in non-market sectors of the economy, including the NDIS, aged care, childcare and health services represent the greatest challenge going forward. Spending in these non-market sectors is growing at a faster rate than the broader economy; an emerging structural deficit will put increasing pressure on future budgets.

Major reforms are crucial to bring about the fiscal repair necessary to put the Budget back on a sustainable path. The key to addressing the budget problem is containing spending at manageable levels below 25 per cent of GDP, rather than increasing taxes. 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. In the 2024-25 Budget, the government must 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 government's budget position and place Australia in a more favourable financial position.

Recommendations

- Focus budget repair on reducing government expenditure rather than increasing taxes.
- Commit to maintain government expenditure levels at less than 25 per cent of GDP to prevent spending blowouts and consequent tax increases.
- Establish efficiency boards for large and complex policy expenditure areas.

[11] Australian Bureau of Statistics 2023, *National Accounts: National Income, Expenditure.* September 2023. https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release

[12] Commonwealth of Australia 2023, *Budget 2023-24: Budget Paper No.1.* May 2023

[13] Commonwealth of Australia 2023 *Mid-year Economic and Fiscal Outlook.* December 2023.

4. Tax Reform

Australia's tax and transfer system is needlessly complex and unnecessarily expensive to administer. It is amongst the least competitive in the world, ranking well below most other advanced economies including New Zealand, the United States and the United Kingdom.

ACCI recognises that in the current environment with a slowing economy, very high government debt and an emerging structural budget deficit, there is little appetite for comprehensive tax reform. However, it is important to complete the program of modest tax reforms that have been rolled out in recent years.

The Stage 3 tax cuts are set to commence on 1 July 2024. This is the final of a suite of measures aimed at simplifying the tax system and making it more equitable, with all taxpayers earning between $45,000 and $200,000 paying tax at the same rate of 30 per cent. These tax cuts benefit all taxpayers working full time (the full-time minimum wage is $45,900). While the Stage 3 tax cuts do provide greater benefit to taxpayers in higher tax brackets, it needs to be recognised that the Stage 1 and 2 tax cuts were targeted at those on lower income. It is important to commit to this final stage of the reform of the personal tax system. The government must resist pressure to make any last-minute changes targeted at taxpayers in higher tax brackets.

Once the Stage 3 tax cuts are introduced and the changes to personal income tax are complete, it is time to turn to broader tax reform, particularly reforms that improve the efficiency of the tax system for business. The tax system must be more supportive of business growth, with a lower corporate tax rate that enables Australian business to be more competitive in global markets and to attract foreign investment. 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.

It was always intended that the corporate tax rate would be progressively lowered to 25 per cent for all businesses. This must be realised to support growth and make all businesses more competitive. ACCI recognises 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 lowering the rate incrementally over time, by firstly 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. Over the longer term, the threshold can then be progressively increased to bring businesses of all sizes into alignment with a tax rate of 25 per cent.

There is no longer an economic rationale for the luxury car tax (LCT) without a car manufacturing industry in Australia. It is simply an additional cost borne by consumers that changes their decision on the type of vehicle to purchase. The LCT is leading to perverse environmental outcomes. Hybrid and electric vehicles are considerably more expensive than their petrol and diesel competitors and, with few exceptions, exceed the moderately higher LCT threshold for fuel efficient vehicles.[14] The recent changes to the LCT to tighten the requirements in the definition of low emissions vehicles (lowering the fuel consumption from 7L/100 km than 3.5L/100 km) will only slow the transition. It now benefits only the smallest of hybrid/plug-in hybrid electric vehicles (PHEV), excluding larger vehicles where the emissions

[14] Low emissions (hybrid and electric) vehicles have a higher price threshold before the tax is applied at $89,330 compared to $76,950 for standard vehicles (with internal combustion engines).

reduction benefit of PHEV is greater. The LCT, and the recent changes, are not consistent with the government's Electric Vehicle Strategy, to increase the uptake of electric and PHEV by improving affordability and choice of vehicles in the Australian market. The removal of the LCT would provide an important boost to the uptake of low emissions vehicles.

With the increasing shift to electric vehicles as Australia moves to a decarbonised economy, state and territory governments are increasingly concerned at the loss of fuel excise revenue and are looking to introduce road user charges to replace it. Road user charges involve distance-based rates, with the electric or hybrid vehicle owner charged an amount per kilometre travelled over a year. The states and territories are adopting widely differing approaches to road user charges, with different rates and timing for their introduction. The High Court recently ruled against the Victorian road user charge, judging the road user charge a tax on electric vehicle use and that only the federal government has the right to apply such a tax. If road user charges are to be applied, they need to be introduced at a national level by the federal government and any income derived must be invested in road infrastructure rather than directed to consolidated revenue.

Taxes and duties contribute substantially to the cost of insurance premiums. While NSW is an exception with the emergency services levy adding 30 per cent to the cost of insurance, stamp duty and GST also are significant factors in the cost of insurance, typically contributing over 20 per cent of the total cost of premiums. Removing or reducing government taxes and duties would go some way to making insurance more affordable.

Recommendations

- Commit to delivering the Stage 3 tax cuts in full.
- 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, with a reduction to 25 per cent extended to all businesses at the earliest feasible opportunity.
- Abolish the Luxury Car Tax (LCT) to stimulate electric and plug-in hybrid vehicle sales and improve environmental performance.
- Work with states to develop a consistent national approach to road user charges, with any revenue collected invested in road infrastructure.
- Work with states and territories to lower taxes and remove stamp duty to make insurance more affordable.

5. 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 over the next decade.

Business investment bounced back following a slump during the COVID-19 lockdowns with the support of the Temporary Full Expensing (TFE) measure. This allowed 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. The TFE was very successful in stimulating business investment in plant and equipment, however, as a percentage of GDP business investment remains well below levels last decade. The TFE expired on 30 June 2023 and was replaced with the instant asset write-off (IAW). This is much narrower than the TFE, providing an immediate deduction for eligible assets up to $20,000 (cw. unlimited) and is only available to small businesses with an aggregate turnover of up to $10 million (cw. businesses with turnover up to $5 billion). With this far more limited support, business investment is expected to fall sharply in the 2023-24 financial year.

With the persistent high inflation, productivity growth contracting and economic activity slowing, greater support is needed to enable businesses to grow, increase supply and expand the size of the economy.

For small businesses covered by the IAW, a higher threshold of $30,000 for eligible depreciable assets should be introduced and the threshold for eligible businesses broadened to an aggregated turnover of $50 million. This would have greater impact and stimulate greater business investment, as it would enable small and medium enterprises (SMEs) to purchase broader range of assets important to their everyday operations, such as plant, equipment and vehicles that are valued well above the current threshold.

There would be greater benefit if it was applied to eligible depreciable assets of any value, with eligible SMEs able to claim the IAW on first $30,000 in year one, and the remainder of the asset value depreciated over subsequent years of its operational life according to normal depreciation schedules.

There is also a good case to provide support 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 $100,000 will help businesses justify the initial upfront cost of capital. An additional tax allowance for larger-scale, longer-term investments will give businesses of all sizes the confidence to make substantive investments that achieve greater productivity gains. It will also go some way to mitigate the impact of the high corporate tax rate on large businesses.

Recommendations

- Extend the threshold value for eligible depreciable assets under the instant asset write-off from $20,000 to $30,000.
- For larger investments apply the instant asset write-off to the first $30,000 and apply normal depreciation schedules to the remainder.
- Introduce a broad-based investment allowance of 20 per cent of the value of eligible larger-scale, longer-term investments in plant, equipment and machinery valued over $100,000.

6. Public Investment in Energy and Infrastructure

Public investment in infrastructure and energy offers the opportunity to lift productivity and provides a major stimulus to the economy that can be relied on in periods of weak economic growth. However, associated with this, in times of high inflation, this stimulatory effect can add to inflationary pressure. It is a challenging balance for government to weigh the stimulatory effects with the inflationary pressures. In times like these, it is essential to prioritise projects that have a sound business case and provide the greatest productivity benefits to the economy and community.

With infrastructure construction costs rising in recent years and contributing to inflationary pressure, it is important to ensure public investment in infrastructure is better targeted at projects that are fully costed with a solid business case, enhance productivity and provide a net-benefit to the economy and community. The outcome of the recent *Independent Strategic Review of the Infrastructure Investment Program* was welcome. While 156 projects will proceed and a further 36 will require rescoping, 82 projects were removed from the infrastructure investment pipeline, as they were determined not to have a complete or sufficient business case. We recognise that there is a limited pool of infrastructure funding available, so investment must be targeted at projects that represent the best value for money.

Going forward, it is important that all projects are independently assessed and have a proven, fully costed business case. Infrastructure Australia has an important role in evaluating the business cases for major infrastructure investment proposals, prioritising and scheduling of projects through the Infrastructure Priority List. It supports independent, market-focused, evidence-based decision-making in major infrastructure investment. It is vital that all proposed public infrastructure investments are assessed independently by Infrastructure Australia and following stringent cost-benefit analysis are shown to have a solid business case and are the most efficient and effective investment to meet a specific need.

Energy policy needs to support a smooth, progressive shift to low emissions and renewable energy resources to deliver strong, long-term economic and productivity growth. While this change is already well underway, it needs to be managed in a way that does not risk the security and reliability of the network and drive up energy prices. The government has prioritised support for investment in renewable energy generation and transmission infrastructure, as well as forms of stored energy, including pumped-hydro, batteries and hydrogen, as these are likely to provide energy at lower cost and boost productivity over the long term. However, a more nuanced fuel-source neutral approach is needed to ensure Australia has enough dispatchable power during the transition to renewables. With most of the aging coal fleet scheduled to retire over the next 20 years, new investment in gas power generators (GPG) is needed to stabilise the electricity network, until alternative forms of dispatchable power are developed to the point where they become economically viable and/or are scaled up to meet demand.

Given both infrastructure and energy policy are not solely a Commonwealth responsibility, the government needs to work with the states and territories to improve the efficiency of the energy network and reduce costs to energy consumers. The Energy National Cabinet Reform Committee presents the opportunity to work with the states and territories to streamline energy policy. Priority must be given to avoid duplicating schemes in relation to energy efficiency, supporting private investment in the energy sector to create better functioning energy networks and reduce energy costs.

Recommendations

- All proposed infrastructure investment should be independently assessed by Infrastructure Australia and have a proven business case following a stringent cost-benefit analysis.
- Adopt a fuel-source neutral approach to the energy transition, with ongoing support for gas supply and GPG as a stepping-stone to lower or zero-emissions technology in the future.
- Work with state and territory governments to streamline infrastructure and energy investment, to improve the efficiency of delivery and avoid duplication of policy, the costs of which are ultimately borne by all energy consumers.

7. Digital, Data and Cybersecurity

There is 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 commercial opportunities for business of all sizes in all sectors to grow and create jobs, as well as to improve their employees' work-life balance.

It is widely accepted that successful adoption and integration of new productivity increasing technologies cannot be achieved without increasing the digital competencies of users. In order to have an adequately and appropriately skilled workforce, we must first ensure a strong foundational skillset. All citizens need basic digital literacy to access government and business services, and workplaces need workers with the requisite foundation skills to take advantage of productivity benefits digitalisation provides. The proliferation of digital activities and piecemeal approach by federal, state and territory governments mean that it remains elusive for industry to see a coherent picture for how digital ability will be increased generally, and how they then can seek to increase particular digital skills relevant to the industry sector.

ACCI welcomed the government's commitment to the Technology Investment Boost and Skills Training Boost programs in the October 2022 Budget. These programs were considered to be a significant opportunity to encourage small businesses to invest in new technology and upskill their workforce. However, our optimism has since faded, as the programs were not delivered as intended. The Technology Investment Boost program was very short-lived, such that the legislation to activate it was not passed before it was scheduled to close on 30 June 2023. The Skills Training Program fared only marginally better as it will be available for nine months before it is scheduled to close on 30 June 2024. If the government is serious about boosting small business investment in technology and skills, then it should reintroduce the Technology Investment Boost and look to make both of these programs permanent.

The Australian Data Strategy in May 2021 stipulated three data priorities: enabling greater data use, improving data safety and security, and maximising the value of data. These are currently failing, with the Data Availability and Transparency (DAT) Act 2022 undermining the goals and preventing the sharing of public sector data between government agencies, and with the private sector. Changes to the DAT Act are needed to prioritise the safe and productive use of government collated data. Given the current reforms of the Privacy Act 1988 (Cth) and the crossover, a review of the DAT scheme should be brought forward as soon as possible. The recommendations proposed by the OECD should be considered during this review, most importantly the need to encourage 'data-sharing partnerships', including public-private partnerships, and the adoption of a 'strategic whole-of-government approach to data access and sharing'.

Further, there is a need to raise awareness of cybersecurity and the risks posed to businesses from cybercrime. Cybersecurity has never been more important, with increasing cyber-attacks over the past year, including DP World Ports, law firm HWL Ebsworth, Medibank and Optus. While attacks on these large businesses make the headlines, there are also thousands of attacks on smaller businesses 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 to adopt and successfully implement digital technologies within a trusted ecosystem, secured by design that is both robust and resilient. 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.

Recommendation

- Create a whole-of-government National Digital Inclusion Plan as previously recommended by the Australian Digital Inclusion Alliance to identify and seek to embed a nationallyagreed framework for digital capabilities.

- Reintroduce and make permanent the Technology Investment Boost and Skills Training Boost to enable small businesses to improve their digital capability and upskill their workforce.
- Advance the review of the DAT Act with the agenda to allow sharing of government data to the private sector and within the public sector itself, following international movements.
- Invest further in cybersecurity training for small business.

8. Research and development and Innovation

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 Korea (4.9 per cent), the United States (3.5 per cent), Sweden (3.4 per cent), Japan (3.3 per cent) and Germany (3.1 per cent).[15] High tax rates, high interest on loans and a lack of funding support, all act to discourage business investment in R&D.

For Australia to be competitive in global markets, we need to lift investment in R&D and innovation above the OECD average to levels similar to that achieved in these best practice countries. Initially, consideration should be given to setting an interim target for R&D and innovation investment of 2.5 per cent by 2026. This will require collaboration with state and territory governments, industry and academia to develop a R&D and innovation roadmap to lift investment and achieve the target.

As part of this, greater support is needed to encourage business to invest in research and development. The government has an important role to play in directly and indirectly facilitating a greater commitment from the private sector in R&D. The establishment of the National Reconstruction Fund with low interest loans and guarantees on loans goes some way to addressing current disincentives, such as Australia's high tax rates, high interest on loans and a lack of funding support. However, more direct support is needed through tax incentives or other financial support to encourage business to invest in R&D and innovation. This will go some way to assist Australian businesses to be competitive with those in international jurisdictions that have lower taxes. By offering Australian businesses access to the support they need to develop and nurture their ideas, we can reap the benefits of Australian innovations and technology break-troughs on our shores.

Australia is at the forefront of global health research and provision. Australia's medical technology, biotechnology and pharmaceuticals sector is a significant growth sector important to our economy, health and wellbeing and security. Australia is well positioned to maintain the growth trajectory of this sector if the focus on investment and optimal business conditions is continued.

Further, the ability to scale-up and commercialise R&D breakthroughs and innovation has been a major challenge in Australia. 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 overseas to realise the full potential of their inventions and innovation. While the Industry Growth Program (IGP) was designed to provide advice to assist small

[15] OECD Statistical Database, 2021 data, accessed 27 November 2023. https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm

businesses with early-stage business growth and commercialisation, there also needs to be an emphasis on building capability and incubator support. Rather than just focusing on commercialising the businesses in the short term, the IGP would provide greater long-term benefit to small businesses and startups if it also included capability building of management and leadership through mentoring and professional advice and incubator support through seed funding to help scale their business.

A strong intellectual property (IP) system has a fundamental role in encouraging innovation and the diffusion of ideas leading to productivity boosts and economic growth. Australia has a strong reputation on IP. However, industry believes we can strengthen our system further. To ensure ongoing growth in investment, it is critical that we have the correct settings. Strong, stable and reliable IP settings that ensure a good foundation for innovation and adequate patent protection will guarantee ongoing and long-term investment decisions. IP is also essential in supporting investment in new research and technology, both domestically and internationally.

Recommendations

- Work with state and territory governments, industry and academia to develop a R&D and innovation roadmap with target of lifting investment to 2.5 per cent of GDP by 2026.
- Provide greater direct support to encourage business to invest in R&D through tax incentives or other financial support.
- Expand the Industry Growth Program to include capability building of management and leadership and incubator support.
- Strengthen protections of Australian IP and attract more companies to register IP in Australia by reviewing the Australian patent system and harmonisation of data exclusivity term lengths in relation to world best practice.
- Review the patent filing process for Australian companies to ensure it is as streamlined as possible and there are no unnecessary barriers to filing.

9. Small Business

In every proposed legislative or regulatory measure, the government should clearly articulate the anticipated impact on small businesses within any policy impact analysis generated. Each policy impact analysis should include a dedicated section that explicitly outlines the effects on Australian small businesses. For the purpose of this analysis, a consistent definition of 'small business' should be applied. Adequate funding should be allocated in the 2024-25 Budget to ensure the Office of Impact Analysis (OIA), the Office of Parliamentary Counsel (OPC), and relevant drafting branches of departments are sufficiently resourced to carry out this essential work.

Small businesses are acutely aware of the need to make the transition to more energy efficient technologies to reduce energy bills and contribute to Australia’s transition to net zero. The government has established some positive programs to assist them in making this transition, including the Energy Efficiency Grants for Small and Medium Enterprises (EEG for SMEs). This popular program offers grants of between $10,000 to $25,000 for SMEs to upgrade inefficient technology to something more efficient. ACCI urges the government to make this an ongoing program. While we appreciate the one-off stimulus this provides, it is important that more permanent measures are in place to assist small businesses in the transition.

Additionally, the government's Small Business Energy Incentive provides businesses with turnover of up to $50 million a welcomed bonus deduction when investing in energy efficient upgrades. Given this measure has not yet passed the Parliament and is due to conclude on 30 June 2024, ACCI urges the government to extend the eligibility timeframe to at least 30 June 2025. This will provide more businesses with the time needed to plan, design, finance, commission and install the energy upgrades available under the incentive, where now there is not enough time to take advantage due to the lead in times required for such projects.

ACCI notes that not all SMEs own the premises on which they operate — many businesses lease their premises. We would welcome a grants program that specifically targets solar projects for those businesses which don't own their premises. Such a program should ensure that the benefits of investing in solar are passed on to the business owner as opposed to just the owner of the premises.

As the government modernises the Privacy Act, it is imperative that small businesses are not further burdened with compliance measures. It is critical that the appropriate resources and supports are in place to assist small businesses with their additional regulatory requirements following the removal of the small business exemption, as well as a two-year transition period to provide small businesses with the opportunity to equip themselves and implement the required changes.

ACCI notes that a number of reviews have been undertaken this year which affect small businesses, including on the Franchise Code of Conduct and the Payment Reporting Times Act. We note that funding has been announced to implement the recommendations of the Payment Reporting Times Act review, which is welcomed. The same will be required to implement the recommendations of the Franchise Code of Conduct, equally. Further to this, sufficient funding for educative resources to explain the changes to small business owners also need to be allocated. As small businesses attempt to stay on top of the raft of regulatory and compliance changes they face, it is imperative that support is provided to make it as easy as possible for small businesses to meet their obligations.

Recommendations

- Clearly articulate the anticipated impact on small businesses within any policy impact analysis generated for proposed legislative or regulatory measures.
- Make the Energy Efficiency Grants for Small and Medium Enterprises programs permanent.
- Extend the eligibility timeframe for the Small Business Energy Incentive to at least 30 June 2025.
- Provide resources and supports to assist small businesses adjust to meet the additional regulatory requirements of the Privacy Act following the removal of the small business exemption.
- Provide funding to implement the recommendations of the Franchise Code of Conduct, including for educative resources.

10. Employment

Australia is currently facing a pressing challenge in its labour market, characterised by ongoing workforce and skills shortages across multiple sectors. To address this issue and fortify the nation's labour force, three crucial levers must be operated: increasing workforce participation, enhancing skills development, and streamlining migration policies.

Australia's historic employment figures highlight an opportune moment to engage groups facing workforce entry barriers, such as the long-term unemployed, youth, individuals with disabilities, women and mature age workers. To bolster participation there needs to be adequate funding for employment services to connect the long-term unemployed with job opportunities and collaboration among service providers. To encourage greater opportunities for people with disabilities, disability employment services need to be improved to aid employers in recruiting and retaining people.

To meet evolving skills needs, Australia requires a robust education and training system, especially within the Vocational Education and Training (VET) sector. We note the recent signing of the new five-year National Skills Agreement, however it is vital there is a commitment to long-term and substantial increases in VET funding. The sector should be aiming for an additional 300,000 funded students annually across various qualifications and industry sectors.

Employers and apprentices need certainty in relation to financial incentives and wage subsidies. To assist this, the Australian Apprenticeships Incentives System should be extended an additional 12 months until the 30 June 2025. This support should be no less than 30 per cent in wage subsidy across two years, with completion incentives of $2,500 to employers and payments of $5,000 to assist all endorsed apprentices and trainees complete their studies. It is important to promote and improve the status of apprenticeships and traineeships in consultation with industry, and fund mentoring and support programs, to improve completions.

A comprehensive workforce strategy must also have a streamlined migration policy that provides ready access to an appropriately skilled workforce. 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 cap on skilled migration should remain at 190,000 ensuring access to all skilled occupations under employer-sponsored streams.

The new migration strategy should simplify and streamline the system. Labour market testing should be removed, and Jobs and Skills Australia be appropriately funded to provide detailed information on skills needs using data and a future-focused approach while assessing current training and workforce planning efforts. The Skilling Australia Fund (SAF) levy and all government fees payable by employers should be moved to a monthly basis.

By focusing on these critical themes and implementing the suggested recommendations, Australia can significantly address its labour and skills shortages, foster greater workforce participation, promote continuous skills development, and optimize its migration policies to meet the nation's evolving workforce requirements.

Recommendations

- Adequately fund employment services to connect long-term unemployed individuals with job opportunities.
- Commit to substantial and long-term increases in VET funding to deliver an increase in the number of 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 across the first two years 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 mentoring and support programs for apprenticeships and traineeships.
- Maintain the skilled migration cap at 190,000 for access to all skilled occupations under employer-sponsored streams.

- For the migration system ensure adequate funding for Jobs and Skills Australia for informed workforce planning, and shift SAF payments to a monthly basis.

11. Work Health and Safety

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.

In December 2021, WHS Ministers noted that the review of the IGA would (re)commence in early 2022 but this is yet to eventuate. 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.

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.

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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