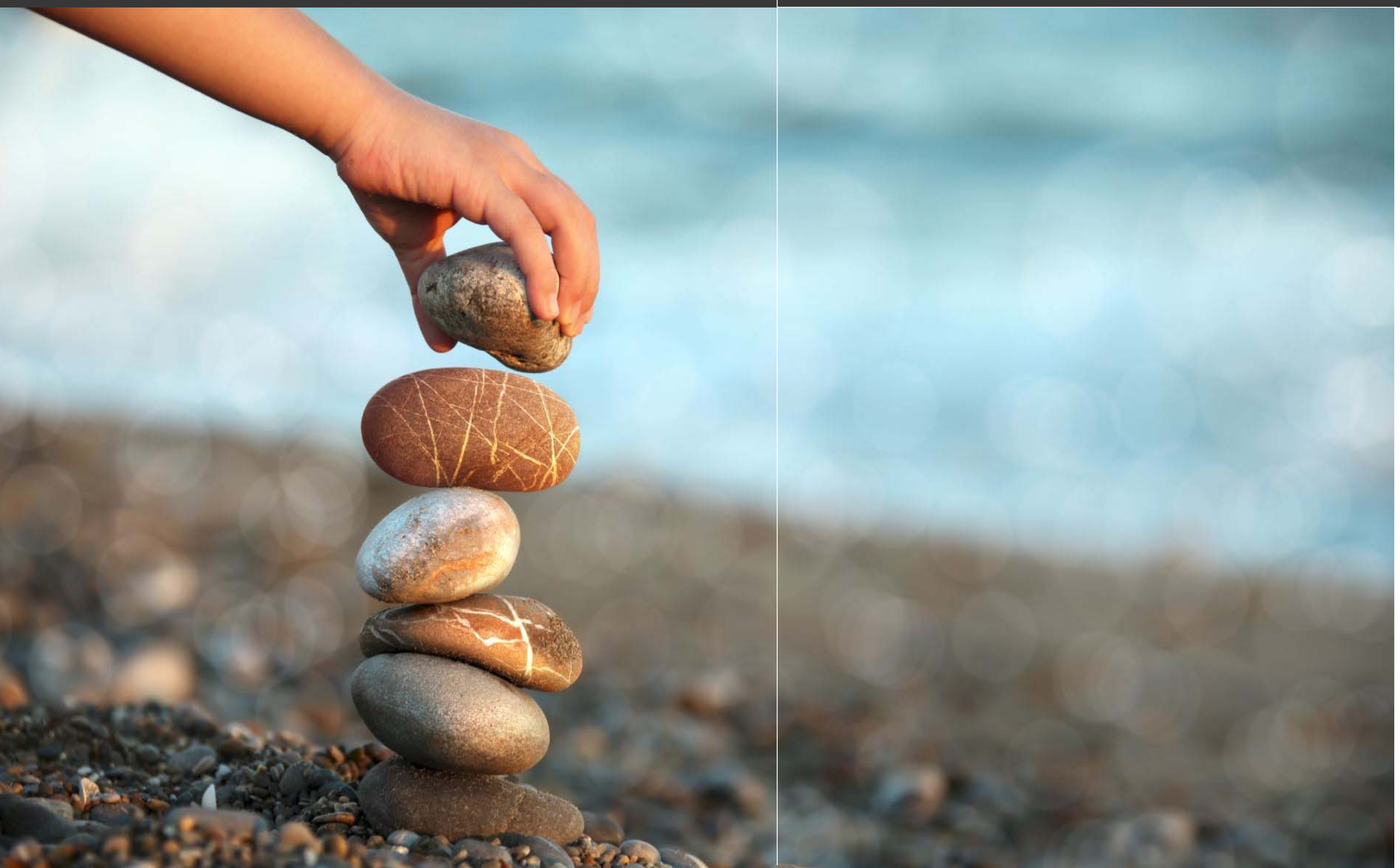
Business Council of Australia

Budget submission 2021-22

Building on our success

March 2021



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1. Overview

This submission puts forward practical suggestions from the Business Council membership with the immediate priority of bringing back jobs and returning the economy to full employment. A precondition of this is to fully reopen the economy and supercharge growth to the 4 per cent plus growth rates needed to return the economy to its pre-COVID trajectory.

We also need to set the economy up for the transformational changes needed to assure continued growth and get back on a path of higher wages and living standards.

This year's Budget cannot solve all of our problems but it can make important steps towards setting us up for success and ensuring we do not go backwards.

A crucial first step is to use the opportunity of the vaccine roll-out to set out a staged and predictable strategy for reopening. If we fail to do so, the opportunity to leverage our relative success in managing the COVID crisis will be lost. This success provides Australia with an enormous opportunity to be a frontrunner in the global recovery, which will make us a more attractive destination to global investors, skilled migrants, international students and tourists.

Key recommendations are:

- A fiscal strategy to support growth in the near term, anchored in the medium term by a transparent target for gross debt.
- An investment revitalisation strategy which extends tax incentives to investment, provides the right signals to international investors and prioritises the following areas:
  - energy sector investment with a focus on decarbonisation
  - digital transition
  - infrastructure investment and regional investment, and
  - commercialisation of research and development.
- A labour market recovery strategy that:
  - builds the skills of our labour force following the disruptive effects of COVID
  - encourages female participation, and
  - prioritises the return of skilled and other migrants to fill gaps in the labour market.
- A rethink of funding strategies to address major pressures such as aged care, including how savings can be used more efficiently to meet the costs of an ageing population in retirement.

These measures will help Australia return to full employment as quickly as possible. But importantly, they look beyond that point to lay the foundations for a future economy that pays higher wages, encourages more investment and is more adaptable to the transformative forces impacting our economy.

2. Introduction

Australia has weathered the dual health and economic crises better than many countries. Acting on expert advice, Australian governments acted early to impose restrictions on various forms of economic activity that posed a particular risk to public health. The spread of COVID-19 throughout the community has been controlled better than many had thought possible. The good public health outcome has contributed to a relatively good economic performance, underpinned by an innovative set of temporary fiscal measures larger than anything experienced since World War II.

While uncertainty remains about how containment of the virus will ultimately play out, we know more at the start of 2021 about the challenges we face than we did early in 2020. The vaccine roll-out is underway and we have learned lessons about how to implement contact tracing, social distancing measures and enforced isolation of those exposed to a high risk of contagion.

We are well placed now to plan our way to recovery. Ad hoc responses to local outbreaks are no longer warranted. Governments can plan ahead with greater certainty now.

It is critical that governments do so to give businesses the confidence to plan ahead and invest.

The economy has shown the ability to bounce back quickly when removal of restrictions has allowed. Unprecedented government support has helped avoid the worst-case scenarios envisaged early on in the crisis. That support remains critical to macroeconomic stability and to support people and businesses still directly affected by restrictions on activity.

This year's Budget needs to be about building on that success, bringing back the remaining lost jobs to return the economy to full employment and positioning the country for growth for the next decade and beyond.

The vaccine roll-out provides a structure for planning the reopening of the economy. Governments have the opportunity to provide greater certainty around the opening of international borders and the management of state borders in the inevitable event of local outbreaks as the progressive vaccine roll-out changes the risk profile of such measures.

The Business Council understands that economy-wide emergency support needs to be unwound, while ensuring assistance is targeted to those who still need it most.

Fundamental to finding a sustainable path for fiscal policy is to pursue a pro-growth strategy. In the absence of the economy returning to a sustainable growth trajectory, repayment of the debt built up in responding to COVID will be difficult and protracted. A strong budget must be built on a strong economy.

That means growing the economy faster than the sub-3 per cent growth rates achieved prior to COVID. Australia needs to grow at more than 4 per cent per annum until 2023-24 just to get back to our pre-COVID trajectory and to return the economy to full employment.

To achieve this, Australia will need to tackle some of the bigger structural problems that hold us back – such as an inefficient tax system and a heavy regulatory burden. These hurdles dampen investment, job creation and wages growth. We need to ensure we do not turn away from a global economy that offers the opportunities we will depend upon to grow future prosperity.

This year's Budget cannot solve all these problems but it can take some important steps to promote a business led recovery, invest in skills and preserve our human capital through to the other side of the crisis.

This submission is built around four themes:

- Navigating the path back to an open economy. A clear plan for vaccination roll-out, management of border closures and ongoing support for the most impacted sectors.
- A transparent fiscal strategy that sets the economy up for recovery and sustained growth and tackles major fiscal pressures.

- An investment revitalisation strategy that builds on existing measures to lift business investment from almost 30 year lows and incentivises the investment needed to transition to a more modern economy.
- A labour market recovery strategy that gets people back to work – with the aim of returning to full employment, provides necessary support for skills and ensures participation across all cohorts.

3. A clear plan for COVID management

It is not possible to underestimate the importance of an orderly reopening strategy to bringing back jobs, giving businesses confidence to invest and households' confidence to plan ahead.

Our relative success in managing COVID provides Australia an enormous opportunity to be a frontrunner in the global recovery. This would make us a more attractive destination to global investors, skilled migrants, international students and tourists.

Australia is in a new phase in the battle against COVID-19. From the first lockdowns in March 2020, our response was fast, blunt and largely successful. For many Australians, this success came at a very high social and economic cost — an unavoidable reality when reacting to an unknown virus with little information.

With much more knowledge about COVID-19 and the roll out of vaccines, Australia can now develop a clear path to immunity, reopening and economic recovery.

If we do not embrace the vaccine roll-out as our pathway to a sustained reopening, we will lose the advantage of managing the crisis well until now. We will fall behind other countries looking to pull their economies out of recession. We cannot allow our success to become our Achilles heel; being too risk adverse will only result in other countries attracting the people and the capital needed to sustain recovery and bring back the jobs lost through COVID.

In 2021, Australia's COVID-19 response will need to shift gear to embrace smarter, more targeted and more coordinated national solutions. Government, business and communities will need to work together to safely reopen the economy and ensure Australia emerges from COVID-19 a healthier and more resilient nation. The Business Council's plan for reopening is built around three recommendations:

Recommendation 1

Safely reopen Australia in a staged approach aligned with the vaccine roll-out, using best practice to drive national consistency. After each phase of the vaccine roll-out is completed, restrictions should be eased as per the suggested approach below.

- The completion of Phase 1b – at which stage a total of 6.8 million vulnerable Australians and high-risk workers will be vaccinated.
  - Open domestic borders and keep them open permanently.
  - Lift all capacity caps for venues and workplaces.
- The completion of Phase 2a – at which stage a total of 13.3 million Australians will be vaccinated.
  - Use best practice hotel quarantine to open international borders to key groups including returning Australians, skilled and in-demand workers, and international students.
- Phase 2b – at which stage a total of 20 million Australians will be vaccinated.
  - Open vaccine corridors with similarly low-risk countries.
  - At completion of phase 2b, open international borders according to global vaccination roll-out and proof of vaccination for international travellers

Further detail of this approach is set out in the Business Council's report, *Shifting Gear: three steps to safely, quickly and permanently reopen Australia in 2021*.

Recommendation 2

Adopt a risk-based approach for easing restrictions and managing the reopening framework. While the reopening may not always be linear and dependent on factors such as coverage and transmission, a risk-weighted approach must deliver a capacity for a sustained reopening of the economy.

Recommendation 3

As the vaccine is rolled-out, gradually change the health narrative to move from crisis to recovery. This shift in language will replace knee-jerk emergency responses with sensible and proportionate management.

Once a significant number of Australians have been vaccinated the public health narrative should shift to better reflect the risk environment:

- From reporting on the number of positive cases and incidence of community transmission.
- To reporting on the number of people vaccinated (both initial and final dose numbers), the number of current hospitalisations, the number of critically ill patients and capacity of health services.

Fiscal support for the Australian economy through the COVID crisis has been critical to avoiding the worst case economic scenarios.

Government support through JobKeeper has also been critical to supporting recovery although the very broad application runs the risk of distorting economic activity. The Business Council agrees that if economy-wide support were left in place too long it would risk deferring decisions about business restructuring and job re-skilling needed to adjust in the post-COVID world.

The Government has recognised that some sectors remain directly affected by COVID-related restrictions and need on-going support to avoid unnecessary destruction of physical and human capital.

Recently announced support for airlines along with subsidised airfares will keep this critical sector afloat and ready to rebound. The extended loan scheme on top of already announced measures will boost access to affordable credit and provide much needed certainty to many small businesses. To make sure this package works as intended it is more crucial than ever for National Cabinet to agree a predictable plan for reopening.

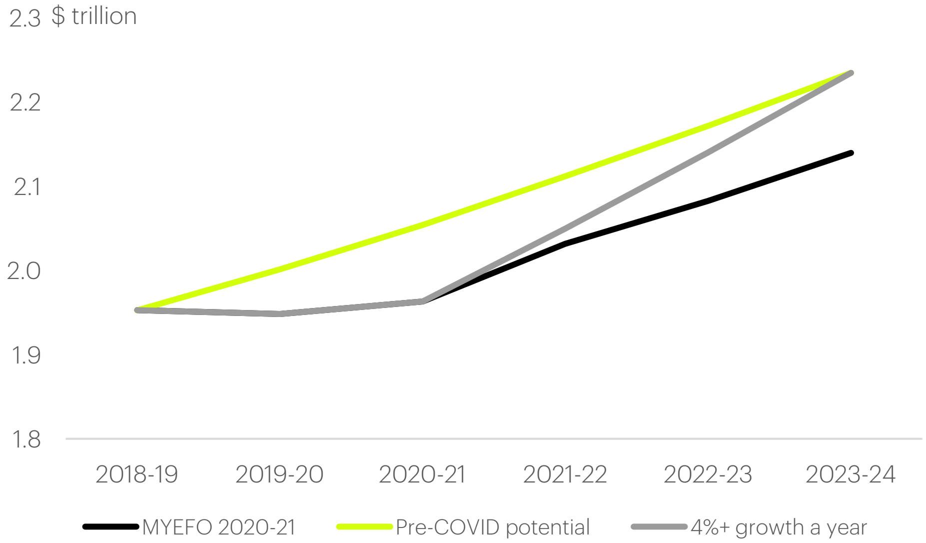
4. Fiscal strategy

The Government's fiscal strategy finds a balance between providing ongoing support to the economy in the short term while setting out a path for fiscal consolidation. It is important in this budget that the Government lays the foundations for a sustained recovery in economic growth, which is a precondition for paying down debt.

The Australian economy has relied on strong population growth as a driver for many years. The cost to the economy of lower population growth is around $40 billion in 2020-21. The ongoing cost to the economy could compound to over $600 billion over the next decade if we do not quickly recover lost migration. This would represent around $150 billion in lost revenue. With population growth currently stalled, it is vital to pursue a productivity and growth agenda and to ensure we get the most from our labour force, as discussed below. There needs to be a plan for how to make up the lost years of population growth.

The latest MYEFO estimates the economy will average growth of almost 3 per cent a year over the rest of the forward estimates period. If instead the economy grew over 4 per cent a year through to 2023-24, it could get back to its pre-COVID potential growth. The cumulative benefits to the economy over that time could be around $170 billion of GDP and around $40 billion more revenue in today's dollars. Importantly, this would help bring back lost jobs sooner.

Figure 1: Higher GDP growth will deliver bigger benefits

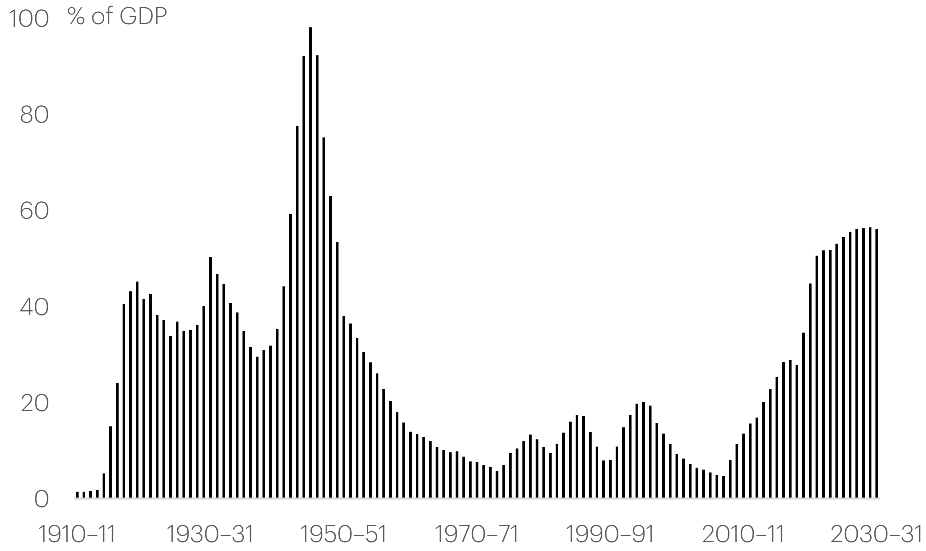


Source: Business Council analysis of MYEFO 2020-21 and ABS.

In view of the powerful effect of higher economic growth on the fiscal position, encouraging such growth should be the priority. Proposals for tax increases to offset the cost of specific funding pressures would place a dead hand on economic recovery by curbing demand and dulling incentives to work and invest.

Fiscal consolidation prior to the COVID crisis provided a sound base for the fiscal response to the crisis. Relative to other countries, our debt levels appear manageable. However, the starting point for debt was still high compared with our history, and we now face debt levels not seen in Australia since World War II. The debt will soon amount to over $1 trillion – or around $77,000 per worker, which is more than a year of income for someone on average weekly earnings.

Figure 2: Gross Commonwealth debt has increased significantly



Source: PBO.

Key to delivering the Government's medium term fiscal strategy will be a plan for anchoring gross debt over time. This is now a central issue for fiscal policy and raises issues of intergenerational equity - who pays the debt and how? At the same time, the Government will need to find ways to fund emerging pressures such as aged care. These issues will need to be a central focus of the next Intergenerational Report, which should examine the revenue and spending pressures of both the Commonwealth and the states.

While there are a range of measures of the strength of the government balance sheet, gross debt provides the most transparent measure of the total amount of government borrowing that needs to be financed.[1]

In an environment where the Government needs to pay down the largest peacetime debt in our history there needs to be greater transparency around management of this enlarged balance sheet. While there is detailed reporting around current spending, receipts and the budget balance, there is less transparency and accountability around the management of assets on the government's balance sheet. A similar standard of accountability as is applied to corporations by their shareholders should be applied to public finances.

Recommendation 4

a. The Business Council recommends a focus on a gross debt target as the anchor for fiscal policy.

b. To support greater transparency, the Business Council recommends full disclosure on the performance of the various assets on the Government's balance sheet, including policy funds and equity assets like the NBN and Western Sydney Airport. This could be supported by an external audit of performance against the debt target by the Parliamentary Budget Office.

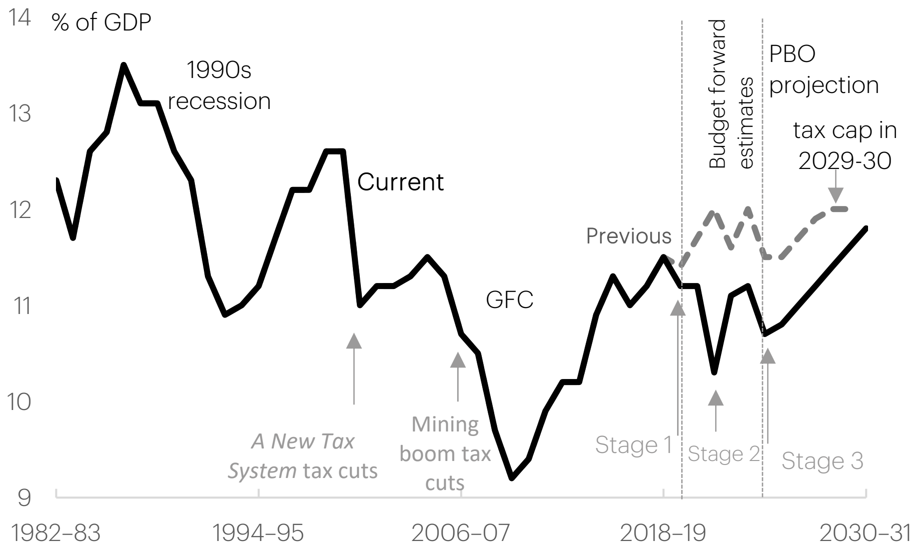
The fiscal task also underlines the need for a tax system that can deliver revenue growth in a manner that is fair and does not subvert the government's objectives of supporting economic growth. Pursuing policies that help shift the dial on our productivity and growth performance will ultimately underpin a strong fiscal position. If Australia were to achieve the 2 per cent plus productivity growth rates of the 1990s over a decade that would add almost $2 trillion of cumulative GDP and bring with it around $500 billion of revenue, compared with a scenario where recent productivity performance continues. This would make serious inroads into the public debt.

[1] Net debt seeks to refine the definition by taking account of some of the assets of the Future Fund but does not take account of the public sector superannuation liability which the Future Fund is legislated to fund. Net worth considers all parts of the government balance sheet but is subject to large and arbitrary valuation changes.

A credible fiscal consolidation path will also need to be supported by a tax system that can deliver sustainable revenues into the future. Although personal income tax rates have been adjusted in recent years, bracket creep continues to erode incentives to work, save and invest. The 2020-21 Budget projections rely on a partial recovery in tax receipts from a low of 20.6 per cent of GDP estimated for 2021-22. All of this recovery in tax receipts is projected to come through bracket creep in the personal income tax system, with company tax collections and GST projected to be quite stable as a share of GDP.

Analysis by the Parliamentary Budget Office (PBO) shows that by the end of the medium-term projections period (i.e. in 2030-31), personal income tax collections are projected to be higher than at any time this century.

Figure 3: Personal income tax, 1982-83 to 2030-31



Source: PBO. Note: 'Previous' refers to projections previously published by the PBO in 2019.

Australia has successfully managed fiscal challenges in the past. Going forward, there will need to be a fundamental look at the capacity of the tax system to deliver the revenues needed to pay down debt. To be comprehensive, such a review will need to consider federal and state tax bases as well as roles and responsibilities in delivery essential services.

4.1 Aged care – a key fiscal pressure

Aged care is a key funding pressure and a sign of the pressures of an ageing population already impacting in a significant way on the budget.

For the aged care system to be viable and provide consistently high quality, universally available services in the future, the question of who pays for what must be tackled. Australia's aged care system needs billions more dollars in annual funding to provide care to the standard that our citizens expect.

How funding pressures like aged care are handled requires a rethink of the fiscal position. If the answer is always to resort to higher personal income taxes to fund new spending, then this will add to disincentives to economic activity and hold back the growth needed to support future revenues.

While there will be many people currently in aged care that did not have the opportunity to accumulate significant financial assets, this is not true of many in the cohorts that will be entering the system. As Australia's superannuation matures there is a cohort of future aged care recipients that will have benefited from the accumulation of tax-preferred savings, in addition to asset growth through housing. The Retirement Income Review found that retirees tend not to draw down their retirement savings due to complexity, little guidance, general reluctance to consume their 'nest egg', concerns about health and aged care costs, and concerns about outliving their savings. The pandemic has also likely played a role.

This suggests a need to provide retirees with more help and confidence to use their savings more efficiently. Some of these issues may relate to the treatment of savings in the tax and transfer system.

The Business Council's view is that, while more taxpayer's money is required for aged care in Australia, a better balance must also be found between the taxpayer and care recipient. A universal entitlement to access care when you need it does not mean those receiving the care – and who have sufficient means to pay for it – should not contribute.

The Business Council supports more effective means testing and hence higher contributions by aged care consumers towards accommodation and living expenses – in recognition of the fact that all Australians meet these costs throughout their life, regardless of age or circumstances – but older Australians should not be charged for the care component of aged care.

Incentive structures need to be right for a return on investment to occur, and more money to be invested in residential aged care facilities and services. The vast majority of residential aged care and home care is delivered not by government but by not-for-profit entities and the business sector. While a large amount of extra funding is needed to drive high quality care and expand the supply of aged care services, this can only happen at scale if investors are prepared to put capital into Australia's aged care system.

The quality and range of aged care services, including residential aged care, can only be improved with more public and consumer funds. The simplest way to achieve this is to lift the annual and lifetime cap on the amount that well off older Australians are asked to pay for accommodation and service costs, and make a public investment that is closer to the OECD average for aged care expenditure.

The annual cap that consumers can be charged in care fees ($28,087 pa) and the lifetime cap (of $67,409) does not take into account either the costs of delivering services or wealthier households' clear capacity to pay. It limits the extent to which aged care residents with significant assets contribute to the cost of their services.

The family home is a significant asset which is only partially included in the assets test. The maximum value of the principal place of residence that can potentially be included in Australia by a residential aged care provider is around $170,000, despite the quadrupling of house prices in Australia over the last 20 years. It is timely to review this threshold to ensure the test is operating as intended.

Recommendation 5

The Government should, in response to issues raised by the Aged Care Royal Commission and the Retirement Income Review, consider how savings can be better used to help meet the costs of an ageing population in retirement. This could be informed by a review of the tax treatment of savings.

Recommendation 6

The Government should lift the annual and lifetime cap on contributions that care recipients pay and lift the maximum amount that the principal place of residence can contribute to the assets test.

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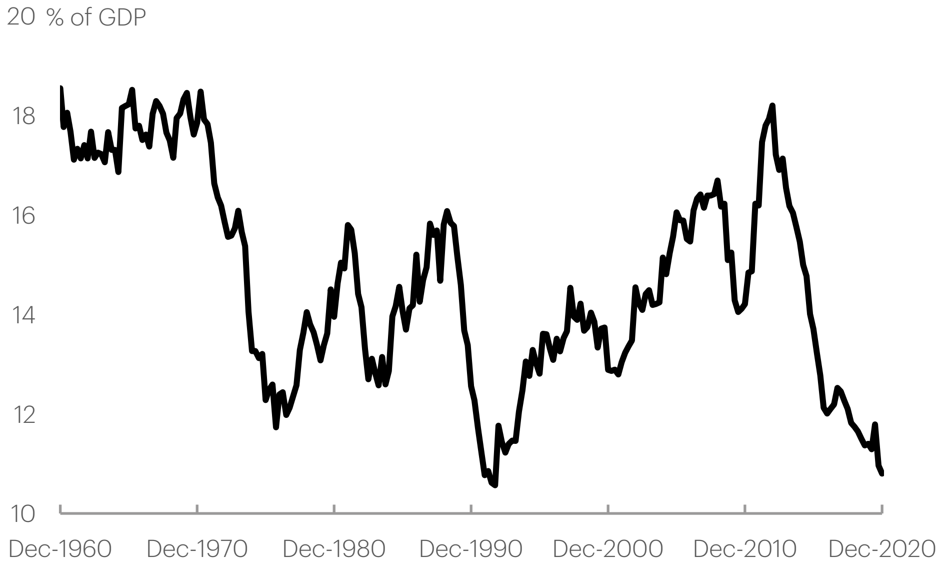
5. Investment revitalisation strategy

The private sector has historically been the main driver of Australia's economic growth and rising living standards. A sustained business-led recovery is only possible if there is a recovery in private investment.

New business investment is down 5.1 per cent over the year to December 2020, led by a 7.3 per cent fall in non-mining investment. As a share of GDP, new business investment is at its lowest level in 28 years.

Figure 4: New business investment as a share of GDP

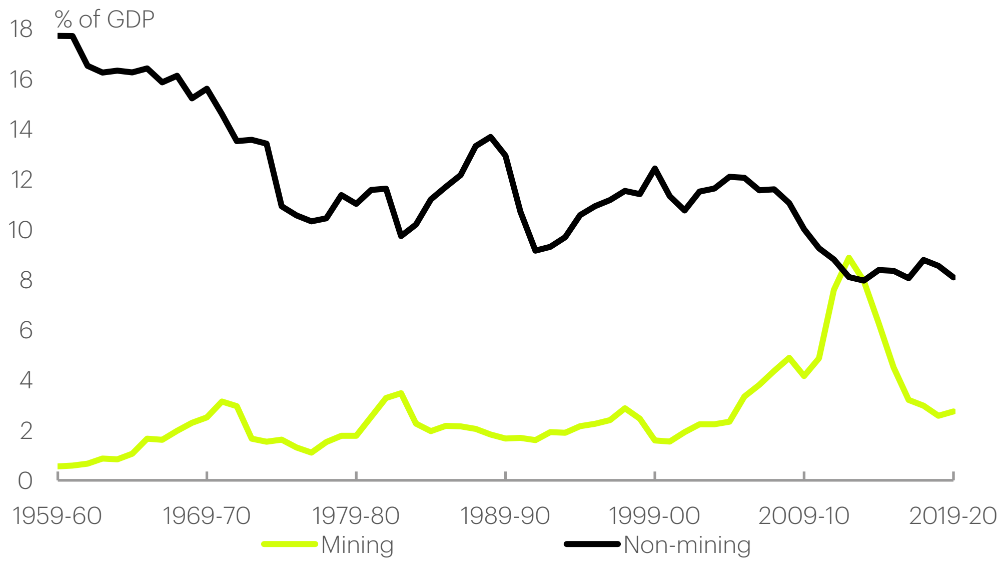


Source: ABS.

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

Non-mining investment averaged around 11 per cent of GDP from the mid-1970s to the onset of the global financial crisis. It subsequently fell to around 8 per cent of GDP and is yet to recover to the pre-crisis trend.

Figure 5: Private investment by industry, as a share of GDP



Source: ABS.

The outlook for investment remains weak

Most forecasts suggest business investment will remain subdued in the short term, driven by continued uncertainty and disruptions from COVID-19. New business investment is forecast in MYEFO to fall 8½ per cent in 2020-21, before growing by 5 per cent the following year, supported by a 7½ per cent rise in non-mining investment. The subdued short-term outlook for investment is also reflected in the most recent ABS capex survey – notwithstanding the recent positive quarter. Detail on the Business Council's assessment of investment trends can be found at *Appendix A: Australia's investment performance*. This analysis shows that while there is some growth in investment in areas such as commercial vehicles, there is weakness in the pipeline for larger projects.

Restoring confidence is a critical first step to revitalising investment. Interest rates are at record lows and many businesses with the balance sheet strength to invest are holding back, waiting for a clearer path forward.

Long term cash flows guide the decision making process for significant investment projects. The equation for a business investing in a large project is not as simple as lower short term borrowing costs equals lower hurdle rates. Businesses need to consider the flow of longer term returns from a project and need to able to plan ahead with some confidence about the environment within which they operate. Businesses are also often competing for capital with projects outside Australia.

Putting in place the staged and coordinated easing of restrictions suggested in recommendation 1 is a necessary first step. With significant ongoing uncertainty about simple things like the ability of employees to travel between different locations in Australia, businesses will lack the confidence to take risks and invest in Australia.

Businesses are also looking for greater certainty in the policy and regulatory environment, and this influences foreign companies making decisions about where to locate their activities around the world. Currently capital is flowing out of Australia and this is a trend we need to reverse.

We need to be clear about the messages we are sending to global investors if we are to win the race for capital. Tax is not the only factor that drives investment, but a globally competitive tax system is one of the most direct and effective levers we have for driving higher investment. Analysis by ANU's Tax and Transfer Policy Institute shows that a one percentage point rise in the corporate tax rate reduces foreign direct investment by 3.3 per cent on average.

These factors not only influence the decision to locate in Australia, but also the decisions of multinational companies to reinvest earnings back into Australian operations. There is evidence of global boards choosing not to reinvest Australian earnings but to pay these out as dividends or hold on to cash.

Major projects needed to drive investment

An investment recovery cannot just 'ride on the ute's back'. The clearest evidence of the effects of stimulus to date has been in areas like commercial vehicle sales. This adds to economic stimulus but does not provide the sustained boost to investment and the job creation offered by the larger investment projects. It is these large projects that create the multiplier effects through the economy, supporting small businesses and driving jobs growth.

As discussed in *Appendix A* there are fundamental structural drivers of the downward trend in investment in Australia. A broader structural reform agenda is long overdue. A government will at some time need to tackle the issue of the lack of competitiveness of our corporate tax system. Broad structural reform will not be achieved in a single budget but there are important steps the Government could take to set Australia up for longer term recovery.

The Business Council suggests measures to build on short term stimulus to help revitalise business investment. These include:

1. getting the incentives right, including through expanding and extending the immediate expensing measure to the larger companies that drive the big projects and reconsidering the case for an investment allowance to support investment in the medium term, and
2. ensuring we remain open to foreign capital through a sensible approach to the implementation of the new Foreign Investment Review Board (FIRB) rules.

The Business Council suggests measures that will help transform the structure of the economy in key areas such as digital, energy and decarbonisation investment, regional development and research and development including:

3. promoting R&D through enhancing research collaboration
4. promoting the digital economy in Australia
5. translating announced infrastructure spends to projects on the ground and a strategy for regional development
6. promoting energy and decarbonisation investment through greater policy certainty, including a focus on post-2025 redesign of the National Electricity Market (NEM), and
7. removing red tape through improving processes around regulation setting, more streamlined planning processes across jurisdictions and making further progress on the trade 'single window'.

5.1 Getting the incentives right

Budget measures such as temporary full expensing and loss carry back will provide some support to the recovery in the short term. However, the temporary and narrow scope of full expensing will also limit the benefits as it will take time for companies to receive both external (e.g. regulatory) and internal board approvals for investment. Eligibility for these measures could be expanded to all companies to better support the recovery and encourage more investment, especially in the larger projects, and extending the timeframe for eligible investments to the end of 2023 to facilitate planning around larger projects.

Every dollar released through expanding the incentive to businesses above the $5 billion turnover threshold would have a multiplier effect through the economy, with the biggest gains from the larger projects. It would also build on the success of the policy (including the post-Budget update), which Business Council members have used to support investment in energy projects, to upgrade plants and facilities across Australia, and to invest in their systems to support product innovation and development.

Recommendation 7

Extend the temporary expensing measure to all companies and the timeframe over which it is available to the end of 2023.

Should the Government decide to target any expansion of the temporary expensing measures, the measure should be made available to the larger companies investing in priority areas such as digital, energy and decarbonisation investment, regional development and research and development.

An investment allowance to boost investment

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

In the absence of a commitment to more fundamental reform, further measures are needed in the medium term to counter the disincentives of our uncompetitive company tax system.

In our submission to the October 2020 Budget, the Business Council argued for the introduction of a 20 per cent investment allowance that works as a bonus deduction on new investment for all companies. A broad-based investment allowance which creates a permanent book-to-tax benefit has greater potential to lift investment yields and encourage investment. This is even more critical in the present environment where businesses are facing heightened uncertainty and many are currently loss making and will not be in a tax payable position. The level of the up-front (bonus) deduction is crucial to the potential of this reform to drive business investment.

A 20 per cent investment allowance would provide an additional boost to investment incentives by reducing effective tax rates for firms that invest. For example, consider a hypothetical 10-year project with an initial $10 million investment and annual revenue of $3.5 million and expenses of $2 million (both growing in line with inflation). The returns on the project would increase with immediate expensing, but a 20 per cent investment allowance would deliver a bigger return.

Table 1 **Investment example**

	Project IRR
Regular company tax system	7.5%
With immediate expensing	8.1%
With 20% investment allowance	8.6%

A broad-based incentive available to all companies should include larger investments made by larger companies. These investments invariably have larger multipliers and benefits that flow through to more businesses across the supply chain.

An investment allowance for all depreciable assets should also cover intangible investments, such as intellectual property (including patents, registered designs and copyrights); computer software; mining, quarrying or prospecting rights and information; and spectrum licences. However, as noted in *Appendix A*, intangible investment is much broader than this 'traditional' view of investment and this should be reflected in any investment allowance. This would include certain spending on R&D, design and engineering, and staff training which all will be critical for a successful, knowledge-based 21st century economy.

The investment allowance should extend beyond the period of the temporary expensing measure. The investment allowance could be targeted to ensure it produces benefits to the Australian economy. For example, conditions could be applied to ensure investments are in Australia and are job-creating, similar to the condition applied to the NSW Jobs Plus scheme. It could also be targeted at the priority areas identified in the next section.

Recommendation 8

Introduce a broad-based investment allowance of 20 per cent for all companies to provide for more sustained improvements in investment.

5.2 Foreign investment rules – using a sledgehammer to crack a nut

The reforms to Australia's foreign investment review framework are likely to make the prospect of investment in Australia significantly more uncertain. There is less clarity around what investments and transactions may require FIRB approval. New rules have given the Treasurer extensive powers, including the ability to call in investments up to 10 years after they have been approved. Penalties for non-compliance are significant.

The Government has seen it as necessary to prioritise such regulation in the midst of the COVID crisis. While no one questions the need to protect Australia's national interest, the vast majority of investments into Australia present no such risk.

Coming on the back of a temporary 8-month period of zero monetary screening thresholds, the cumulative impact of changes to investment screening diminish Australia's attractiveness as an investment destination. Prior to the reforms being enacted, the OECD already ranked Australia's FIRB regime as one of the most restrictive among advanced economies. The OECD has found that barriers to foreign direct investment have had larger deterring effects on foreign investments in the services and manufacturing sectors. This will impact on the effectiveness of government priorities including the development of a modern manufacturing strategy and accessing technology through international investment.

We need to ensure these investments are encouraged and not held up in FIRB red tape. More can be done to improve implementation of the reformed system and unlock investment opportunities.

Recommendation 9

a. That the FIRB adopt a risk-based approach to investment screening by applying a registration-only approach to non-sensitive routine transactions, such as:
   - commercial property leases
   - small land acquisitions that are incidental to land already approved
   - buy-backs
   - Australian entities that have no Australian assets
   - bolt on transactions, and
   - existing shareholders making creep investments within certain parameters.

b. Develop the new consolidated Register of Foreign Owned Assets, for which the Government has already committed $86.3 million over four years, as a risk triaging tool for streamlining purposes.

c. Enhance investor certainty about the 2020 reforms by providing a more precise definition of the investments falling under the definition of 'national security business' and 'national security land'.

d. Provide greater accountability and transparency of FIRB as a regulator including real time reporting on turnaround times, disaggregated reported data by type of transaction (e.g. lease renewals), and assessment / processing time spent at consulted agencies.

e. Given the enhanced role of national security agencies in foreign investment screening, ensure they are appropriately resourced, and that national security executive and parliamentary oversight bodies take into account the efficient administration of the *Foreign Acquisitions and Takeovers Act 1975*.

5.3 Commercialising research and development

The COVID-19 pandemic has reinforced the importance of science and research to our health, our economy, and our general way of life. Australian researchers and research-intensive businesses have been at the centre of these developments.

Research and development (R&D) could play a lead role in driving Australia's economic recovery from the COVID-19 recession. For Australia to prosper in the years ahead, we will need to increase our productivity – achieving more from our efforts through innovation, research, and development of new technologies.

In order to achieve our potential, the Business Council supports the Government's initiative to accelerate the translation and commercialisation of priority university research through partnerships with industry. For a new scheme to shift the dial on research commercialisation, it needs to have a clear purpose and be scaled for impact. It will be critical to get the settings right: the focus, the design and the partnerships.

Focus

Increasingly, Australia's global peers and competitors are focusing their innovation, science and research efforts around national priorities and challenges, and backing these in with investment at scale. The UK's Grand Challenges, Japan's Moonshots, Canada's Strategic Innovation Fund, and Singapore's Artificial Intelligence

Program all choose problems to solve or missions to achieve that align with each country's strengths and opportunities. Governments then commit to these priorities with funding matched to ambition, and programs that attract co-investment and foster collaboration between researchers, government agencies and industry.

This is the right approach for a new scheme aimed at translating and commercialising Australia's world class university research. While Australia has a veritable constellation of government priorities, we can achieve more by aligning efforts behind our comparative advantages, and areas where we can become a world leader.

Currently, government grant funding for university research through the Australian Research Council (ARC) is categorised under the nine National Science and Research Priorities but remains largely undirected by these. It is important to continue these researcher-led funding streams but we also need a more targeted approach to translational research funding. The global market is a competitive one and Australia will not win every race, but we can play smarter by targeting areas where we have a competitive edge.

Businesses will respond well to a national agenda, provided it is informed by industry needs and opportunities. Priorities for the new scheme should be enduring and ideally draw upon the six Modern Manufacturing Priorities, rather than adding new priorities into the mix and creating further complexity. This would help to set a single source of national direction for research commercialisation aligned with industrial capability, while still allowing for contributions from multiple research disciplines. Underpinning challenges should be targeted toward, and measured against, discrete and time-limited objectives. An illustrative example of this prioritisation model is below:

Priority	*Recycling and Clean Energy*[2]	➢ Broad, enduring (whole-of-government) ➢ Determined by Government
Challenge	Deliver *more affordable, clean and reliable energy* to households and industry for transportation, heating, production and power[3]	➢ Focused ➢ Allow multidisciplinary contributions ➢ Informed by industry and universities
Objective	Produce *clean hydrogen* for <$2/kg by 2030	➢ Specific, measurable and timebound ➢ Developed by industry and universities

Recommendation 10

a. The new university research commercialisation scheme should have an overarching purpose and centre around a clear set of enduring national priorities with underpinning practical challenges and objectives, where Australia has a competitive edge or can develop one based on our current and emerging strengths with the ability to achieve scale.

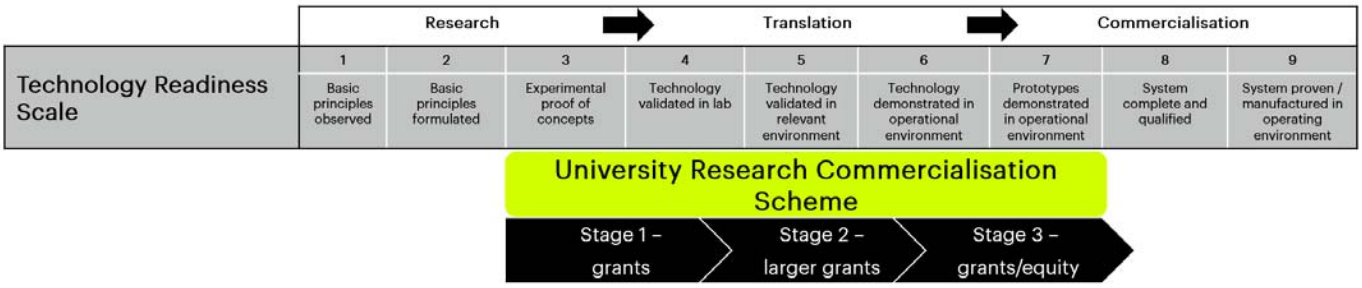
b. The scheme should draw upon the priorities in the Modern Manufacturing Strategy where possible, to increase its impact and alignment with Australia's future manufacturing capabilities.

Design

For maximum impact, the scheme should be aimed at the most challenging and uncertain research translation stages between Technology Readiness Levels 3-7. This will bridge the gap between proof-of-concept and demonstration of prototypes. This is a tough funnel to move up (the so-called 'valley of death'), and typically requires significant funding to progress through compared to basic research.

[2] From the National Manufacturing Priorities. Aligns with National Science and Research Priorities, CSIRO Challenges and Industry Growth Centres.
[3] From DISER. 2020. *Technology Investment Roadmap: First Low Emissions Technology Statement – 2020*.

Figure 5: The focus for the University Research Commercialisation Scheme



It can be difficult to know what the application of research at the proof-of-concept stage will be from the outset. As a result, there is a low success rate of further translation and commercialisation. A degree of failure is inevitable, but it can also be a marker of ambition. For example, in Israel – a world leader in innovative R&D – the Office of the Chief Scientist considers a failure rate of less than 30 per cent in their high-risk grants to be indicative of insufficient risk-taking.

This demands a tolerance for experimentation and failure from all parties. For this reason, we recommend prototyping the scheme with two or three priority streams delivered at depth, rather than start too wide and shallow, or with too short a timeframe to deliver results.

The scheme should be based on co-investment – all parties need to have 'skin in the game'. But for businesses of all sizes to engage, the risky nature of the investment needs to be offset by low costs of entry and ongoing involvement, particularly at early stages. It is crucial that the design of the scheme reflects this risk profile.

To spread the risk of individual projects and reduce costs for all parties, we suggest awarding stage-gated funding to consortia encompassing multiple partners undertaking a program of work, rather than try to manage each project individually. These partnerships should be allowed sufficient time and resources to demonstrate results before being assessed on whether to advance to the next funding stage.

To de-risk investments and provide confidence of an end-market for translated research, governments should consider opportunities to coordinate and back-in each priority stream with cross portfolio support, including through procurement contracts and strategies. Initial grant funding at the front end of the scheme may not be sufficient to sustain long-term projects with uncertain outcomes. At later stages, private co-investment is more likely, including from venture capital and equity contributions into spin-off and start-up businesses.

Recommendation 11

a. The scheme should target the research translation stages across Technology Readiness Levels 3-7, bridging the gap between research and commercialised products and services.

b. Funding should be scaled to the scheme's ambition, and not spread too thinly across priorities, projects and time.

c. The scheme's stage-gated design should focus on consortia-based co-investment partnerships and work programs, rather than individual projects, in order to reduce costs and promote a tolerance for risk.

d. Governments should consider coordinating other supports, including procurement strategies, to leverage the scheme and help provide confidence of an end-market for commercialised research.

Partnerships

The key success factor for collaborative research projects is the strength of the partnerships.

University partners should be selected based on their willingness to commit effort and resources to a given priority or challenge from across their whole institution – promoting a multi-disciplinary approach.

Participating universities' institutional frameworks should support industry linkages and careers for students and academics, including industry PhDs. The back-and-forth movement of people between universities and industry will help underpin ongoing collaboration and an entrepreneurial culture within the research community.

Co-location is another critical enabler of successful research partnerships. Physical proximity helps make connections and build trust, which is hard to do remotely. Partly for this reason, research collaborations worldwide are increasingly embedded through innovation and investment precincts that facilitate knowledge sharing. These precincts provide agglomeration benefits: bringing people and businesses with new ideas together with others that have technical expertise, business acumen, and experience in producing goods and services for market.

Australia's current and emerging innovation, investment and research precincts can support the ecosystem of skilled talent, ideas, capital and production that sparks and sustains successful research translation and commercialisation. This model has been proven overseas, with examples including Silicon Valley and the UK's Catapult Network.

As of 2019, there were at least 175 innovation precincts active or in development in Australia, but they range considerably in their breadth, depth and quality. For the scheme to build long-term partnerships and focus effort on discrete national priorities and challenges, we must leverage our top-tier precincts – such as Lot Fourteen in Adelaide, the Aerotropolis in Western Sydney and Fishermans Bend in Melbourne. The top-tier precincts can form the collaborative bedrock for the scheme: promoting partnerships between consortia of universities, research agencies, and businesses of all sizes, including SMEs. Second and third tier precincts can play an important supporting role too. These may be centred around a single anchor institution like a university, hospital, or research institute, but are more likely to be focused on a specific region or niche field.

Recommendation 12

a. Partnerships selected for funding within the scheme should comprise consortia based around one or more universities, collaborating businesses, and government agencies (where appropriate). Universities involved should demonstrate an ability to contribute research projects and resourcing that spans their institution.

b. Participating universities should adopt complementary policies that support industry linkages and careers for students and academics (including Industry PhDs) to foster a more collaborative, entrepreneurial research culture.

c. The Government should stratify Australia's many innovation, investment and research precincts and work with state governments to focus support on top-tier precincts that can act as world class R&D hotspots. Networks of second and third tier precincts should also be supported to create research clusters.

It is important to acknowledge that a new scheme, however well designed, will not be a 'silver bullet'. Our R&D system is already packed with programs, priorities, agencies and incentives. For a new scheme to cut through and not just add to the complexity, it needs to complement our existing research architecture and sync with broader efforts across governments and industry. This should include strong integration with parallel Commonwealth Government programs such as the Modern Manufacturing Strategy, CSIRO's Innovation Fund, and state government programs like the NSW Government's Accelerating R&D Initiative.

Smaller scale collaborative research programs (e.g. Cooperative Research Centres and Industry Growth Centres) and partnership-based competitive grant funding (e.g. Industry Linkages grants) should be maintained to provide a diversity of research effort and a base for the scheme's research partnerships, particularly with SMEs.

Collaboration between federal and state governments on research and innovation would help ensure we are all pulling in the same direction.

Recommendation 13

a. The CSIRO should have a significant role in the scheme, leveraging its expertise and complementary programs to drive commercialisation outcomes. The Government should consider opportunities to integrate the new scheme with the Modern Manufacturing Strategy and other cross-portfolio programs and policies targeted at research commercialisation.

b. The Government should develop a whole-of-government strategy for effective investment in innovation, science and research, including consolidating responsibility for all programs within one portfolio.

c. Existing programs that foster research partnerships should be aligned with, but not supplanted by, the new scheme. These include the Cooperative Research Centres, Industry Growth Centres and core ARC Industry Linkage grants. Additional support for translational research should not come at the expense of basic research funding.

d. National Cabinet should create a cross-jurisdictional taskforce to spearhead greater alignment across jurisdictional innovation and R&D, including through cultivation of world-class innovation and investment precincts.

5.4 Supporting the digital economy

The Government has prioritised the digital economy as part of its economic recovery strategy. The Prime Minister has set an ambition of Australia becoming a leading digital economy by 2030. The Business Council supports this policy focus.

Digital innovation lifts productivity and living standards, and contributes to a stronger, fairer Australia. All Australians have benefited from the introduction of new digital services and will continue to benefit if we successfully become a leading digital economy. Research commissioned by Telstra has shown that increased digitisation could add up to $90 billion of additional gross value add and 250,000 jobs by 2025.

The digital market is very much a global market, with most innovation occurring outside Australia's borders. To be a successful digital economy, we must be an attractive destination for foreign capital, talent, and services. Recent legislative changes and policy decisions have increased perceptions that Australia does not welcome foreign investment or services in the digital economy. Fundamental economic principles apply to the digital economy as they do to the rest of the economy: a confused or adversarial approach ultimately reduces the overall welfare of all Australians, through foregone investment, reduced access to services, and higher prices.

We support regulation of the digital economy and agree that the digital world should be subject to the same laws as the physical world. Smart regulation will encourage and support investment while ensuring that Australians are protected from the downsides.

For this reason, we support the Government developing, in consultation with industry and the community, a set of principles for the regulation of technology and the digital economy.

Moving more businesses to the digital frontier will also be key to making the most of the digital economy. COVID prompted a substantial uptake of new technologies to enable new ways of working and to shift business models. But there is still substantial room to improve digital uptake across the economy. While the uptake of videoconferencing and other technologies that has enabled working from home, many of the fundamental possibilities that digital transformation opens are still to be taken up, such as data collection, sharing and analytics, e-invoicing, and improved cyber security.

Well targeted investments in these kinds of technologies by businesses of all sizes will boost productivity across the economy. However, given many of these technologies are now offered as services (rather than being capital investments), existing support and incentive mechanisms offered by Government may no longer be suitable.

A targeted support mechanism that incentivises the take up of these technologies would support Australian businesses (large and small) in making a step change to modernise the economy. This would build on the existing initiatives announced by the Government in the October 2020 Budget.

Recommendation 14

The 20 per cent investment allowance, described above, should be applied to purchases of services to support digital transformation. This incentive could be translated to a grant program for SMEs.

Developing and re-skilling individuals with the capabilities needed to work with digital technologies will be an essential part of both economic recovery and long-term productivity. Industry will need people equipped for a dynamic, digitised world, including with the digital skills needed to help businesses produce high value, premium goods.

The Government is currently providing funding for 50,000 higher education short courses as undergraduate certificates in 2021. Within four-to-six months, Australians can complete an undergraduate or graduate certificate in priority fields including information technology and cyber security. These short courses can be taken stand-alone or articulate into an undergraduate or master's degree.

This program should be expanded and extended, with a continuing focus on courses that lead to in-demand digital careers, allowing for individuals who have already completed a degree and wish to change careers or upskill within their existing profession.

Recommendation 15

Expand and extend the provision of higher education short courses, including with a focus on in-demand courses that lead to digital careers, such as cyber security and data analytics.

5.5 Investing in infrastructure and regional development.

Now more than ever, the infrastructure system needs to be focussed on planning for growth – both to underpin productivity gains into the future and to deliver much needed construction jobs as we move out of the impact of COVID-19. Significant funding has been allocated to infrastructure by the federal and state governments. The challenge is to ensure these commitments translate to stronger productivity growth and improved social outcomes while contributing to the short-term recovery task. The value of projects under construction is at decade lows, despite increases in funding commitments.

Delivering an efficient infrastructure system

A transparent and certain pipeline of public and private infrastructure projects is a key enabler to realising value-for-money procurement and optimising outcomes for people and the economy. National Cabinet can play a role to realise a smooth infrastructure pipeline. An efficient pipeline sequenced across federal, state and territory governments will remove peaks and troughs in the availability of key skills and materials, resulting in more certain project delivery timeframes and value-for-money procurement. A 'no surprises', transparent approach from governments on the infrastructure pipeline brings much needed certainty for the industry to invest in people and scale. To support this the Government can map out the priorities and components of the welcomed $110 billion 10-year infrastructure pipeline.

Infrastructure Australia's expanded remit will play an important role in streamlining the infrastructure pipeline. Its role delivering an up-to-date, industry-wide understanding of market capacity and deliverability will bring governments and the sector an evidence-base to draw upon and influence the timing of infrastructure procurement, leading to value-for-money improvements. Recent closer working between Infrastructure Australia and the state infrastructure bodies is an important step forward to ensuring that cross-cutting infrastructure project prioritisation is realised.

The level of infrastructure investment in recent times by federal, state and territory governments is without precedent. There will be fiercer competition for funding across governments into the future. However, it will be important that current funding levels become the 'new normal' to deliver the projects that will underpin Australia's future growth. Governments will increasingly need to consider opportunities for asset recycling to maintain economic growth and support a growing population.

Taking a place-based approach to assessing infrastructure needs for growth

Wherever possible national coordination of infrastructure projects should be pursued through taking a place-based approach. This will ensure that major, transformative infrastructure projects will have maximum impact through greater jurisdictional coordination. A place focus will be increasingly important to ensure that the benefits of infrastructure and housing investment are maximised for economic growth and for people. City and Regional Deals have shown the potential of getting three levels of government on the same page and focussed on improving liveability for people and access to economic opportunities. They can be further sharpened as the model evolves so that major, transformative infrastructure projects can be quickly identified, funded and tailored alongside programs of services to maximise the social and economic benefits for local people.

Building a piece of infrastructure does not amount to a regional plan although it is an important component. More than half of the proposals on Infrastructure Australia's 2021 Infrastructure Priority List would benefit regional communities. Building strong centres of regional economic growth that improve liveability for local communities also requires:

1. Regions considering the future shape of industry suitable to their locations. Industry policy needs to be considered through a regional, place-based prism that is focussed on its economic differentiator.
2. Identifying suitable regions for investment. Building on the Infrastructure Australia priority list to identify regions that have the foundation elements for success in particular areas.
3. Regional digital infrastructure and connectivity to provide access and ensure they are building modern regional economies.
4. A skills hub in every place and a strategy to support a growing and changing population with the services to match in every region.
5. Capacity building and planning – this is about councils working together at a regional level to pool resources. It is about strategic planning initiatives and maximising the benefits from major land use development applications.
6. Land use planning, re-zoning and servicing of land running alongside economic development opportunities. This is about using place-based planning approaches that cut red tape, give certainty to industry and cut timeframes.
7. Lifting the capacity of local governments to manage demand and promote their region. To make a region an attractive place for investment it needs a concierge approach that makes it easy for companies that align with the economic strategy to locate there.

Implementing planning project approvals best practice

Many jurisdictions have made significant improvements in recent times to their planning approvals systems; however none can be regarded as best practice. There are still project applications that take too long and impose too much cost, creating barriers to job-generating activity and meeting housing supply requirements of the nation. Governments should pursue simplification, reduce bureaucratic steps and streamline. The Business Council has developed the Project Approvals Best Practice Model (see *Appendix B*) to support discussions at a national level about 'what good looks like'. There is an opportunity for National Cabinet to share and learn from the experiences across jurisdictions to reach best practice.

Recommendation 16

a. All jurisdictions should implement best practice strategic planning and planning approvals systems that lead to faster and lower cost approvals for projects of all sizes. The Growth Infrastructure Compacts adopted in NSW provide a model for how this can work.

b. All jurisdictions to regularly report on their planning approval timeframes, including for consent and referral agencies and local councils

c. Build on the City and Regional Deal model with new approaches that focus specifically on outcomes for people and businesses not outputs for a prioritised set of places. These new approaches must bring tiers of government together aligned to major, transformative infrastructure projects. This could include establishing industry precincts in select regional locations.

5.6 Promoting energy and decarbonisation investment

Climate change is a key economic challenge

Climate change is driving an irreversible global economic transition as resources shift away from carbon-intensive consumption, technologies and industries, and towards decarbonised alternatives. At the same time, infrastructure and communities are being increasingly impacted by the physical impacts of a changing climate.

Australia's economy has been built in part off the back of exporting our natural resources. Commodities such as coal and iron ore have been key to our economic success but global demand is shifting away from carbon-intensive products.

According to analysis undertaken by the Centre of Policy, 14 of Australia's top 20 trading partners – including Japan, the US, the UK, the EU, China, South Korea and New Zealand – have committed to achieving net-zero emissions by 2050 (China by 2060).

Regardless of what Australia chooses to do domestically, the global trend is surging in one direction – towards carbon neutrality by mid-century. We have a choice: either embrace the opportunity to transform our economy to one that is markedly less carbon intensive, or risk being left behind and play catch up on the global stage.

There is no denying that the size of the economic transformation needed in Australia as the world decarbonises is huge, arguably larger than many other countries due to Australia's significant dependence on carbon-intensive exports. However, the reality is we either plan for this transformation and get ahead of it, or have it imposed upon us.

While the Technology Investment Roadmap is a welcome initiative, as is renewed funding for the Australian Renewable Energy Agency (ARENA), Australia must commit to funding R&D at a much greater scale if we are going to maintain our strong trading position. Further, specific investment incentives for impacted regions and the development of new industries in these places is essential for a smooth transition. The Climate Solutions Fund also has an important role to play here.

Australia can also lead multilateral engagement around regulation and standards of new, low-carbon industries to ensure investment in these new industries domestically can deliver globally.

Investment in the energy sector

The energy sector remains a key area of unlocked investment potential. The energy market has always required substantial and ongoing capital investment to maintain and grow its capacity to meet the energy needs of Australian households and businesses.

The investment required to replace the National Electricity Market's retiring generation capacity and firm-up the renewables that will largely replace this energy output could yield up to $53 billion NPV in capex out to 2040.[4] There is more than enough market-driven investment in the pipeline – some $100 billion of potential projects already proposed – to fill this significant gap under any scenario, particularly when it comes to dispatchable or firming capacity.

Unfortunately, the uncertainty associated with investing in the energy market remains high due to climate change and related policy responses, developments in technology, and emerging gaps in markets for energy services. This uncertainty has given rise to precaution on the part of governments in response — in terms of intervening in the market or signalling an intention to do so if perceived to be necessary — which has added to the market uncertainty facing investors.

In recent public commentary, the International Energy Agency stated that "energy produces three-quarters of global emissions" and that "almost half the emissions cuts required to move us on to a path to net zero by 2050 may need to come from technologies that are not on the market yet".[5] The role of the private sector in achieving this goal cannot be overstated given the vast amounts of business investment involved in developing and deploying low, zero and negative emissions technologies and infrastructure. This investment needs to be happening now.

Achieving a fit-for-purpose energy market design is critical

The National Electricity Market's annual 'health' rating and outlook are improving overall, driven by better affordability, stable reliability and lower emissions outcomes. However, system security and investor confidence remain critical, given the accelerating shift towards renewables and decentralisation, and the impending exit of the existing thermal electricity generation fleet.

The Energy Security Board is conducting a post-2025 market design review to develop a reform program to address challenges facing the NEM.[6] After considerable consultation with stakeholders, four areas of reform have been prioritised for detailed design work by the review including resource adequacy, essential systems, demand side participation, and access and transmission. These will directly address the need to invest in capacity, as well as reducing the impediments to investment in renewables in the NEM.

A key impediment to further penetration of renewables in the NEM relates to limited existing network capacity in locations with the highest wind and solar potential. As identified in the Australian Energy Market Operator's (AEMO) Integrated System Plan process, developing Renewable Energy Zones, to overcome network limitations and leverage these strong resources, will be critical to facilitating new investment, at least cost to consumers.

Recommendation 17

a. The Government should formalise its commitment to a net-zero emissions by 2050 target across the economy and progress work on defining a policy pathway to achieve this target.

b. The Government should increase its funding commitment under the Technology Roadmap and Climate Solutions Fund over time to ensure appropriate scalability of the policy mechanisms.

c. The post 2025 market design review should continue to drive reforms that further integrate the power system nationally, to deliver the most efficient mix of energy technologies and services.

d. The coordinated development of renewable energy zones across the power system needs to be fast-tracked to accommodate the pace of the transition away from traditional generation towards renewables.

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[4] *The Future of Energy*, PwC, 2019

[5] International Energy Agency (Dr Fatih Birol, Executive Director Commentary), *Net zero by 2050 plan for energy sector is coming*, 13 January 2021.

[6] The post 2025 market design review involves collaboration with AEMC, AER and AEMO and consultation with industry stakeholders.

e. The energy sector and decarbonisation investment should be prioritised for on-going investment tax incentives (see above).

5.7 Removing red tape to encourage investment

The Government has acknowledged that bad regulation is a 'job-killer' that inhibits consumer choice, business innovation and investment, and jobs growth. The Business Council supports the aim of the Government's Deregulation Taskforce in seeking to streamline regulation. However, as evidenced by the recent FIRB changes in addition to approaches to regulation of the digital sector, governments retain an instinct to continue adding to the regulatory burden notwithstanding the deregulation rhetoric.

The Business Council suggests that the Government through National Cabinet revamp regulation review processes. We suggest National Cabinet commit to a deregulation agenda informed by a clearer understanding of the impacts of regulation, in consultation with industry. The Productivity Commission would be well placed to make regular assessments of the costs of regulation across jurisdictions and report directly to National Cabinet on its findings.

Recommendation 18

National Cabinet should commit to a deregulation agenda informed by a regular assessment of regulatory costs from the Productivity Commission based on where the highest near term gains can be achieved.

Improving environmental regulation

Environmental laws provide critical protections but can stymie investment when poorly designed. We strongly support the recommendations from the final report of the review of the Environment Protection and Biodiversity Conservation (EPBC) Act to improve environmental outcomes while also speeding up approval times and devolving approvals to the states and territories. Accreditation agreements must incentivise states and territories to undertake strategic assessments and regional plans within their jurisdictions to support the management of the environment, deliver outcomes at a national level and unleash investment. The Government could provide a financial contribution to incentivise accredited parties to commence this planning under bilateral agreements.

Recommendation 19

The Government should ensure appropriate resourcing incentives are included in accreditation agreements for states and territories to commence regional planning within their jurisdictions.

Modernising corporate governance and business transactions

Australia will not be returning to a pre-COVID 'normal' state of affairs. The way businesses operate will permanently change. The post-COVID recovery will create a new 'normal' for business, which will be more focussed on remote working and the use of digital technology. It will therefore be necessary to update various elements of the Corporations Law to better enable business to use new technology.

Electronic execution of documents

The Corporations Law should be amended to permanently allow for the electronic execution of documents, without the need for company officers and other parties to be physically present. This change will reflect the reality that, prior to COVID-19, many businesses were increasingly entering into transactions and contracts electronically, where it was possible to do so.

Virtual meetings

The Business Council strongly supports the notion that a company should be able to hold a meeting of members in whole, or in part, through the use of technology, provided that the format of the meeting gives members as a whole the same opportunity to participate in the meeting, and that accountability of the company is not diminished. The Corporations Law should be updated to reflect the reality that technology now enables companies to hold meetings in a more modern and efficient manner. Such reforms will also bring Australia into line with other comparable jurisdictions, such as the United Kingdom, Canada and parts of the United States.

The ability to hold 'virtual meetings' has been necessary as a result of limits on the size of physical gatherings since the onset of COVID-19. It is likely that such limits will continue to apply in some form for the foreseeable future.

Recommendation 20

The temporary amendments to the Corporations Law governing virtual meetings and electronic execution of documents should be made permanent through amendments to the *Corporations Act 2001* as soon as possible.

Continuous disclosure and class actions

The Corporations Law should also be amended to permanently retain the temporary COVID-19 amendments to continuous disclosure laws that were introduced in May 2020. These changes relieved business of the burden of the strict liability regime that applied under the Corporations Law, which had become increasingly unworkable.

The result has been companies making fewer and more cautious disclosures. There has been a clear change in approach over the past decade, where companies that previously provided forecasts for revenue, profit and dividends are less inclined to do so. Australia's strict liability regime is also out-of-step with comparable jurisdictions. US and UK laws relating to disclosure and misleading statements are not strict liability and require an element of blameworthy conduct.

The current regime has led to an excessive use of shareholder class actions that are pursued on an opportunistic basis. Such actions are not motivated by the objective of promoting a higher standard of disclosures, nor have they resulted in any such improvements. They are simply taking advantage of the opportunity presented by the existing unrealistic legal standard imposed on businesses under the strict liability regime.

Recommendation 21

Reforms to simplify class actions and reduce costs were canvassed in the report of the Parliamentary Joint Committee on Corporations and Financial Serves into Litigation funding and the regulation of the class action industry of December 2020. We strongly encourage the Government to prioritise these reforms as soon as possible.

Trade facilitation

A new 'Single Window' trade platform, originally announced in the 2016 Budget, has the potential to be a game-changer. The single window trade platform is not only a single IT system, it is a single approach for traders that makes doing business more seamless. It is the combination of a lead agency and a set of rules consolidated into one place, able to use just one digital location for trade compliance from lodging forms for export certificates to paying customs duty. The implementation of the single window trade platform in Singapore reduced the time taken to process trade documents from four days to 15 minutes. The potential cost saving to Australian businesses is around $400 million per year.

Recommendation 22

a. Adopt an incremental approach to the single window that assesses where the greatest friction is in the system and addresses that first so that businesses and the government can realise benefits sooner.

b. Instil confidence that progress is being achieved by releasing an incremental roadmap and timetable for single window implementation.

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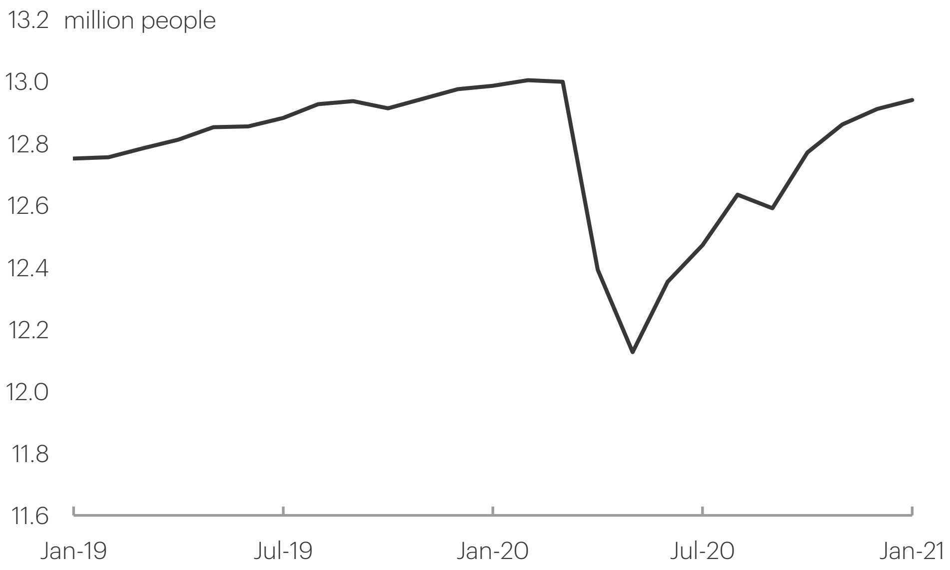
c. Complete evaluations and build on trial programs with Singapore and New Zealand for simplified cross-border trade.

d. Ensure a single trade window is aligned with and functions alongside the Trusted Trader scheme.

6. Labour market recovery strategy

The impact that COVID-19 restrictions had on the unemployment rate in 2020 was smaller than many feared. Although the initial impact in early 2020 meant 1.3 million people lost their job or were working no hours in April, the recovery over the rest of 2020 was exceptionally fast compared to other recessions. By January, 93 per cent of people who had lost their job or were working no hours had returned to work and the participation rate is around a record high.

Figure 6: Nationally, employment is almost back to where it was before the crisis



Source: ABS.

But it is important that no parts of the workforce are left behind

Within the generally positive outcomes for the labour market there have been different effects for different cohorts and there is still much adjustment to come.

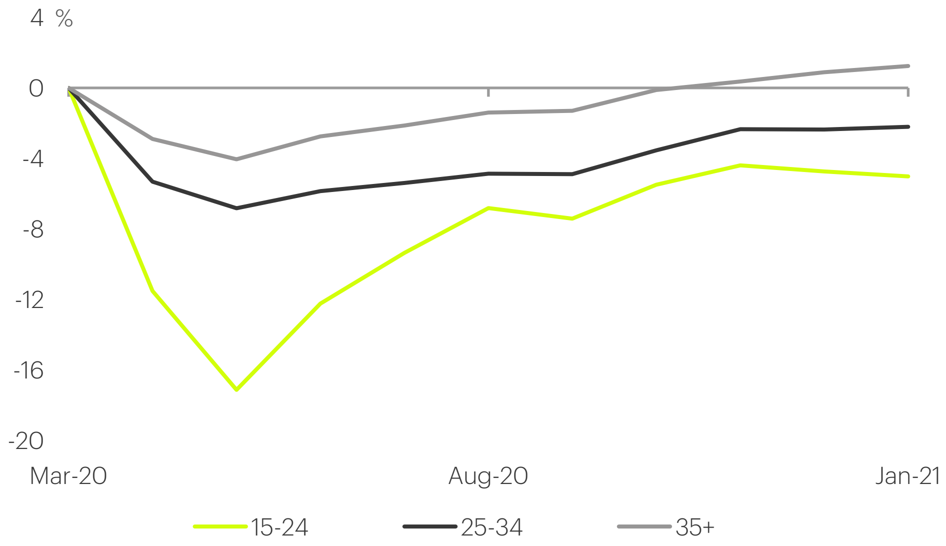
Young people remain disproportionately impacted by COVID restrictions

Young people (aged 15-24) bore the brunt of job losses in 2020.

At its worst, youth employment fell by 17.1 per cent compared with before the crisis, as 332,000 young people lost work. In January 2021, there were still 98,000 fewer young people working than there had been in March.

The good news is current data suggests most young people who stopped looking for work in 2020 have returned to the labour market. The challenge will be transitioning the additional 45,000 young people who are unemployed into work and ensuring the young people who have stopped looking for work do not remain permanently disengaged.

Figure 7: Change in employment since March 2020, by age



Source: ABS.

There are still significant adjustments to come and the Government has made clear that JobKeeper will end in March. Recovery in employment has also been uneven across industries. At the same time, the loss of migrant workers has led to unfilled vacancies in parts of the economy despite unemployment in other parts. The vulnerability of female employment has also been exposed through the crisis.

Returning the economy to full employment will require a strategy to boost investment and therefore a sustained increase in demand. But it will also require a skills agenda to ensure that jobseekers have the skills required to fill vacancies, a migration policy that brings workers in at the earliest opportunity to address areas of skills shortage and a participation agenda that continues to remove structural barriers to workforce participation.

6.1 Skilling up for recovery and change

Recovery from COVID will not return us to the same economy we had pre-COVID. A degree of restructuring is inevitable and the new jobs created will not be the same as the jobs lost through the crisis. The particular impact of the crisis on young people, many of whom are new entrants to the workforce, also needs special consideration.

The length and severity of labour market recovery will depend on how quickly the workforce can up-skill and re-skill. This challenge will put Australia's tertiary education and skills system to the test. With border restrictions expected to continue in the near term, there will be limited scope for skilled migrants to fill emerging skills shortages. As such, we will rely more on our education and skills system to swiftly match Australians looking for work with the jobs and skills in demand.

Looking beyond the immediate unemployment challenge, the skills system can also contribute to increased productivity and prosperity, by empowering Australians already in work to update and upgrade their skills. There are three key functions that the system must perform:

1. Supporting unemployed Australians to enter or re-enter the workforce through an initial post-school qualification. The tertiary education system should deliver high quality, relevant education and training for school leavers and jobseekers looking for a base-level qualification. This could be a 17-year old coming out of a tough final year at school, or an older Australian who has lost their job mid-career and wants to get a foothold in a new industry.
2. Enabling Australians (both in or out of work) to transfer to a new or better position by upskilling or re-skilling, building on their prior qualifications and experience. COVID has disrupted many industries and

businesses, with some jobs in decline and others in demand. Australians should be empowered to take on skills suited to the new jobs emerging in their business, their industry or elsewhere across the economy. In many cases this will not require another full qualification that can take several years – a couple of micro-credentials or a six-month short course will do. And some may need a refresh of foundational skills, including language, literacy, numeracy and digital skills.

3. Empowering working Australians to update their skills and boost their performance in current and future positions. In occupations where technology is rapidly evolving, knowledge quickly becomes outdated and skills can atrophy. This is particularly true of STEM careers and fields that are digitally intensive. Skills atrophy and obsolescence result in lower productivity and earnings over time and can lead to high attrition in key occupations.[7] It is critical that workers in these fields have the right opportunities and incentives to refresh and upgrade their skills over time. Again, the need here is for short courses and micro-credentials taken up over time, rather than another full degree.

On the whole, the Australian tertiary education and skills system does a decent job at the first of these functions – providing an initial qualification – particularly for school leavers who have limited experience in the workforce and a fairly common starting point for commencing further study. But the formal tertiary system is less well-suited to the second and third objectives: supporting up-skilling and re-skilling for people later in their careers who are looking to switch jobs, re-enter the workforce or upgrade their skills within their current occupation.

Candidates for this type of education and training come to it with a wide variety of prior experience and past qualifications. They are also more likely to have working or caring responsibilities that make it difficult to engage in full-time or long-term study. These Australians need more flexible and tailored education and training options that they can choose from, group together, and stack, depending on their individual needs.[8] Short courses, skill-sets and individual micro-credentials should play an increasing role in this regard.

The Government has recognised these challenges and committed to provide immediate additional support for tertiary education and training, including short courses, through programs like JobTrainer and the new higher education certificates. In the VET sector, all governments have committed to work together on a new National Skills Agreement that prioritises greater support for micro-credentials, lifelong learning and foundational skills. This focus is welcome, but we can do more now to support the economic recovery and build a 21st century skills system that supports continuous learning.

The Business Council recommends governments work together with industry to support lifelong learning by driving forward delivery and integration of short, flexible training options including micro-credentials. We support pragmatic changes that span the full range of skills needs, from foundation-level training to pilot programs targeted at priority digital skills. These focus areas can act as a leading edge for broader reform and adoption as part of a new National Skills Agreement and in the higher education system.

Some of the fastest growing and in-demand new jobs in coming years are expected to be in digital fields. For example, over 30,000 new positions for software and applications programmers are projected to be created between 2019 and 2024. To help meet this need, the Business Council recommends the Government work with industry partners, training providers, and willing state governments to deliver a series of digital micro apprenticeship pilots tailored to learners and their employers.

These micro-apprenticeships should be targeted at people who want to work in specific digital careers such as cybersecurity or web-development, and include 3-4 micro-credentials and a work placement, targeted at a specific career. This would provide a more standardised and work-integrated alternative to existing short courses and boot camps in the market. The program should aim to fill 1,000 places and build on the Digital Skills Organisation's project to train 100 data analysts.

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[7] Denning, D. and Noray, K. 2020. 'Earnings Dynamics, Changing Job Skills, and STEM Careers'. *Quarterly Journal of Economics*. Volume 135, Issue 4.

[8] Productivity Commission. 2021. *National Agreement on Skills and Workforce Development Review*. Final Study Report. Canberra.

Recommendation 23

The Business Council recommends the Government provide additional funding to the Digital Skills Organisation to work with industry partners, education and training providers, and state governments, to support a suite of at least 1,000 new digital micro-apprenticeships that incorporate work placements and course offerings tailored to participants learners and their employers.

These micro-apprenticeships should be aimed at people who want to work in specific digital careers such as cybersecurity or web-development, and include 3-4 micro-credentials and a work placement, targeted at a specific career. This would provide a more standardised and work-integrated alternative to existing short courses and boot camps in the market.

The program would build on the Digital Skills Organisation's current project to train 100 data analysts.

Australia's education and training system should not leave anyone behind, but the Productivity Commission recently found that at least 2-3 million adult Australians lack the basic literacy and numeracy skills for modern life.[9] That's why we need to ensure that an agile skills system aimed at life-long learning maintains a focus on providing foundational skills, in addition to opportunities for higher-level up-skilling and re-skilling.

In the Heads of Agreement on Skills Reform, governments committed to provide stronger support for foundational skills. With this unity of purpose, the Business Council recommends the Government work with the states to incorporate a Foundation Skills Guarantee Package into the new National Skills Agreement, due by the end of 2021. This should provide free foundation-level training for all Australians, supporting those out of a job to enter or re-enter the workforce and those in work to update their foundational skills, including digital fluency.

The Guarantee should expand on existing programs to create a more demand-driven system, increasing the number of people who can engage with targeted, modular training when they need. This could include fully subsidised provision of approved courses up to Certificate II level, but also support a micro-credentialling approach by funding individual units within approved qualifications. Subsidised training should be accompanied by appropriate communications, referral and support services, so Australians in need, and their employers, can make the most of the opportunities available.

This approach would deliver on the recommendations of the Expert Review of Australia's VET System and the Productivity Commission's Review of the National Agreement on Skills and Workforce Development.

Recommendation 24

The Business Council recommends the Government work with the states and territories to incorporate a Foundation Skills Guarantee into the new National Skills Agreement. This Guarantee should deliver on the Expert Review of Australia's VET System by offering free foundation-level training for all Australians.

The Guarantee should deliver fully subsidised provision of approved courses up to Certificate II level, but also support a micro-credentialing approach by funding individual units within approved qualifications.

For short courses and micro-credentials to have their full impact in support of lifelong learning, it is critical that they can be properly recognised, recorded and rewarded for the capabilities they signify. As it stands, skills and training undertaken outside formal qualifications often go under-recognised. That is why the Business Council supports development of a National Skills Passport to recognise education and skills accrued over a lifetime, bringing together stackable micro-credentials with formal qualifications.

The National Skills Passport would build on the National Credentials Platform (NCP), which is a joint initiative between the Government, Universities Australia, the Universities Admissions Centre and Higher Ed Services. The NCP is expected to come online from December 2021, with a focus on higher education qualifications. Future phases are planned to recognise micro-credentials.

As micro-credentials and skill-sets are increasingly integrated and accredited within the formal skills system, a National Skills Passport should reflect clustering and stacking of verified micro credentials. The system should

[9] Ibid.

facilitate data sharing with appropriate protections, to ensure interoperability with private sector skills platforms that recognise non-accredited training. By commencing at senior secondary level, the National Skills Passport could deliver on the recommendations of the Shergold Review of Senior Secondary Pathways to equip all students with an education passport that they can curate and build on over their careers.

Recommendation 25

To further support lifelong-learning the Government should bring forward and expand its planned National Credentials Platform to cover qualifications in the secondary school and VET systems, including micro-credentials. The aim should be to create a National Skills Passport for all Australians to recognise the qualifications and skills they accrue over a lifetime.

In addition to supporting new, flexible micro-credentials, the Government should also continue to support delivery of full qualifications in the higher education and VET systems that respond to industry needs. This should include extending the new short courses in the higher education system – undergraduate and graduate certificates – that were initially rolled out in the second half of 2020 as part of the Higher Education Relief Package. In the VET system, a real increase in investment is warranted from all governments to turn around the decline over the past decade.

Recommendation 26

The Business Council recommends extending the provision of higher education short courses beyond the 50,000 funded for 2021, with a focus on in-demand occupations and skills such as cyber security and data analytics.

All governments should also increase real investment in the VET system through a continuation of JobTrainer funded courses, or equivalent funding for VET-level qualifications and skill-sets under the new National Skills Agreement.

6.2 Removing barriers to female workforce participation

COVID restrictions impact on women

Despite being less than half of all workers in Australia, 471,000 women lost employment between March and May 2020 compared to 401,000 men. The good news is that women's employment has also recovered more quickly.

This indicates that there is no evidence at the moment of permanent or long-lived scarring on the basis of gender. It is a reminder though of the importance of female participation and the contribution the increasing participation of women has made to the economy through time. It will be especially important to reinforce this trend while population growth is subdued and the contribution of productivity to growth remains weak.

Figure 8: Change in Employment since March 2020 by gender

Source: ABS.

As the community focuses on how to reinforce and grow the Australian economy, there are many parents wanting to contribute more to household income who also have caring responsibilities for young children. These individuals will deduct child care costs when weighing up the net financial reward from taking on extra work.

Australia also faces the challenge of the lowest population growth since World War I as more people leave the country than come to Australia due to COVID-induced border restrictions. Australia has been heavily reliant on population growth to drive economic growth, particularly over the last 20 years.

This makes the task of lifting the number of Australians in work even more important and women's workforce participation, which lags a full 10 percentage points below that of men, is an area where substantial gains can be made.

It is currently women's workforce participation that bears the brunt of the trade-off between work and care. Around 60 per cent of working women with a youngest child under six are working part-time, compared to 8 per cent of employed fathers with young children work part-time. For at least the last 10 years, the main barrier to women joining the workforce or increasing the hours of work has been caring for children.

The combined effect of personal income tax, Child Care Subsidy (CCS) taper rates, withdrawal of the Family Tax Benefit and the cost of additional child care can eliminate any financial incentive to work additional hours, with effective tax rates in some cases exceeding 100 per cent. An increase to the maximum amount of CCS that a family can receive, with a taper that commences at a higher family income and also has a shallower gradient, would reduce a significant deterrent to female workforce participation.

The Business Council supports the Government making changes to the CCS which would reduce the disincentives families face by removing the 'cliffs' in the taper rate where one more dollar of family income can dramatically change the support offered to families and therefore the incentive to work.

KPMG estimates that the additional net CCS expenditure would be around $2.5 billion, but the annual GDP benefit, arising from the extra days worked in response, would be around $4 billion to $5 billion.

Recommendation 27

The Business Council supports changes to the income taper rates for the CCS to reduce disincentive effects for female workforce participation. We recommend increasing the maximum CCS for lower income households to 95 per cent of the hourly rate cap and commence the family income-based reduction at income of $80,000. The CCS would then decrease by 1 percentage point for every additional $4,000 of family income until the subsidy is phased out completely at family income just over $450,000. The annual per-child cap would also be eliminated.

Our current system of paid parental leave from the Commonwealth Government does not encourage diversity in carer responsibilities between women and men. Given that more than 99 per cent of government Paid Parental Leave is taken by mothers (18 weeks leave) and a similar percentage of "Dad and Partner Pay" is taken by fathers (two weeks leave), the current model has the consequence of reinforcing cultural norms based on a heavily gendered allocation of care responsibilities.

Over recent years, many large companies have taken steps to expand their paid parental leave offerings and given fathers and partners access to the same amount of leave available to mothers. While large businesses are a significant part of the economy and employ millions of people, around two-thirds of Australians work in businesses that employ under 200 people.

These smaller businesses are less likely to have the resources to invest in their staff in this way. This is where government has a role to complement what is already being done by many businesses to make Australia a stronger and fairer society.

An equal system of Paid Parental Leave is just one part of the story. Business support for cultural change is also key and many businesses are already acting on this. It is important that men do not feel a stigma for taking leave or that their bosses will feel it is career-limiting. Many business leaders are already showing that this is not the case through words and action affirming that playing a larger care-giving role is a positive for their careers and that of their partner.

Business Council members are already seeing the benefits of implementing more equal paid parental leave

Accenture Australia

In response to the growing momentum in corporate Australia to help close the gender gap, Accenture Australia introduced an 18 week fully paid parental policy in November 2018 – one of the first organisations in Australia to do so. The policy is available to all permanent full-time and part-time employees of all gender identities. The employee has the flexibility to take the leave in a manner that works for them and their family over the course of the child's first two years – ie part-time work arrangements, blocks of leave or concurrently with the other parent's leave.

Statistics submitted to WGEA (data from April 1 2019 to March 31 2020) found that the number of men accessing parental leave at Accenture has more than quadrupled in the last four years (an increase of 332%). This is in stark contrast to ABS statistics which found that just over one in 20 Australians who take primary parental leave in the private sector are fathers.[10]

Allowing men equal access to parental leave, enables them to spend valuable time with their children and help their partners return to work. This dramatic increase in the number of men taking parental leave reflects a major change in attitudes and is helping to pave the way to a more gender balanced workforce.

South32

In 2018, South32 introduced the Family Care Procedure to support their employees and their families when they decide to welcome children. Primary caregivers, regardless of gender, can take up to six months leave at full pay or 12 months leave at half pay, which was increased from 18 weeks at full pay. Leave for secondary caregivers was also increased from one week to four weeks leave at full pay, taken at the time of birth or placement of the child.

[10] ABS, Gender Indicators, 2020

South32’s return to work options and flexible working approach, which includes working from home options and flexible hours, are designed to help facilitate a smooth transition back to work, for both primary and secondary caregivers. Primary caregivers also have the option to return to work on a transition plan, meaning they can return to work at 80 per cent capacity for four weeks at full pay. A lump-sum superannuation payment is also paid to the primary caregiver on their return.

Since the Family Care Procedure was introduced, South32 has seen positive uptake of their parental leave opportunities from both female and male employees.

As more governments and businesses move to paid parental leave systems which enable and promote more equal caring responsibilities, there is growing evidence that this can prompt behavioural change by parents.

In 2019, Canada introduced an additional five or eight ‘use it or lose it’ weeks of paid parental leave for the secondary carer if the paid parental leave is shared by both parents. The proportion of partners of recent mothers taking or intending to take paid parental leave rose 2.2 percentage points in 2018 and, after the policy was introduced, it lifted 4.1 percentage points to 35.4 per cent in 2019.

Australia’s current system effectively provides for 20 weeks (18 and two weeks) paid at the minimum wage. Two of those weeks are for the person (usually the father) who is not the primary carer, currently labelled “Dad and Partner Pay”. This could be renamed Paid Parental Leave, so there was a single scheme.

Under the Business Council’s proposal, after the birth or adoption there would be an allocation of 20 weeks for two parents.

- 18 weeks is the maximum for either parent.
- Parents would allocate how many weeks each parent takes.
- Two weeks can be concurrent where both parents are not working (usually taken after the birth of the child).

The number of weeks under the scheme would rise to 26 weeks over eight years, by two weeks every two years. This mechanism would allow movement towards more equal parental leave without taking away any existing benefit.

There would be an equality supplement. If the nominated carer weeks were allocated evenly, say within 55/45 per cent, then each parent would receive two additional weeks of leave. If the split was within say 65/35 per cent then each parent would receive one additional week.

Recommendation 28

The Business Council recommends increasing the Government’s Paid Parental Leave Scheme to 26 weeks over eight years, flexibly shared between parents, and providing an additional two weeks leave for each parent when care is more equally shared.

6.3 Migration and the labour market

There are jobs previously filled by both skilled and unskilled migrants that are not being filled by people currently seeking work in the Australian labour market. There would be a benefit to the economy, and to broader job creation, from allowing entry to migrant workers in areas of labour shortage at the earliest opportunity, consistent with the reopening strategy discussed earlier in this submission.

The Government has acknowledged that filling critical workforce shortages with temporary visa holders can create jobs elsewhere in the economy as well as support regional economies.

The loss of backpacker, student and seasonal labour from temporary visa holders during COVID has created gaps in the labour force and impacted a range of sectors, including agriculture, tourism and hospitality and the care sector.

The Business Council argued in its submission on the 2021-22 Migration Program that the permanent migrant intake in 2021-22 (and beyond) needs to be highly responsive to the needs of the labour market by prioritising applications where there is a job offer or where the candidate brings critical skills and talent. Flexibility should be maintained between skilled visa types, allowing for uncertainty about economic conditions and border restrictions. Our submission also argued that:

- Skilled stream visas should be weighted to 'employer-sponsored' workers by increasing the allocation of employer-sponsored visas (beyond the 22,000 places for 2020-21).
- The Global Talent Program should maintain its current share of the skilled visa stream (around 20 per cent) given its flexibility and focus on tackling key skills shortages.
- The Government should look for opportunities to attract and retain skilled migrants by offering greater certainty to temporary skilled visa holders and ensuring simpler pathways to permanent migration.
- Consider temporarily offering four-year visas for all Temporary Skill Shortage (TSS) visa holders (with continuation subject to a review), to support retention of temporary migrants and to attract globally mobile talent that may be put off by Australia's quarantine arrangements, limited flights and border restrictions.
- There should be simpler pathways from the TSS visa to the permanent migration program. Consider providing two-year TSS visa holders access to the pathway to permanent migration that is currently only available to holders of a four-year TSS visa.

Migration policies should be set within a broader plan to manage population growth well, including planning and investing in infrastructure and the adequate provision of education, training, health and other services to meet the needs of a growing population.

Recommendation 29

The permanent migrant intake in 2021-22 (and beyond) needs to be highly responsive to the needs of the labour market by prioritising applications where there is a job offer or where the candidate brings critical skills and talent.

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7. Conclusion

We are in a better position now than many expected at the beginning of the COVID crisis. Many countries would envy the position we are in. The proposals outlined in this submission aim to build on our success to date and provide further impetus to economic recovery. But we are a long way from 'mission accomplished'.

We will not be the envy of the world if we do not tackle the longer term challenges facing Australia which existed before the COVID crisis.

The Government is due to deliver the 5th Intergenerational Report (IGR) by mid-2021. This is an opportune time to reflect on our ability to achieve growth in living standards and the government's ability to manage the enlarged debt accumulated through the COVID crisis. We cannot just assume that our prosperity will grow and that the debt will take care of itself.

We are already seeing major pressures of an ageing population like aged care impact upon the budget. It is also clear that we are overly dependent on bracket creep in the personal income tax system to fund these pressures. We need to review our tax options and other mechanisms to fund the needs of an ageing population as these issues become more acute.

The rest of the world is not standing still. If Australia wants a modern economy that can compete for global capital and deliver the higher living standards Australians reasonably expect to achieve, we need to have a serious look at our tax system, the regulatory burden, our education and training systems and our workplace rules.

This budget may not be able to tackle all these larger reform challenges but these issues will only become more urgent and harder to solve as the world moves into the post-COVID era.

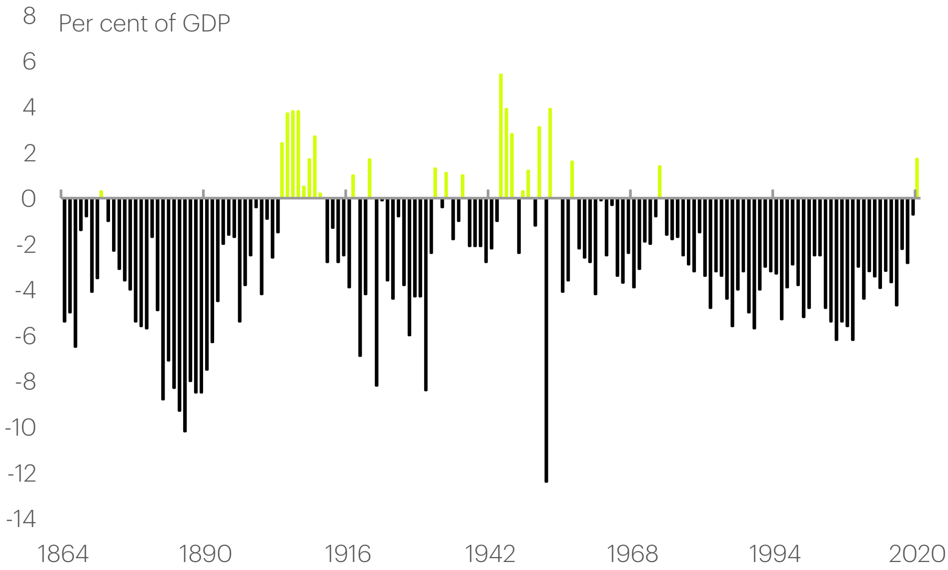
Appendix A: Australia's investment performance

Investment is flowing out of Australia when we most need it

Australia has been a net capital importer for most of the last 200 years. That is foreign investors have tended to invest more in Australia than Australians have invested offshore. However, in 2019-20 there was a net outflow of capital for the first time since the 1970s.

The capital account deficit is a rare occurrence in Australia. Before the 1970s it had only been experienced during World War II and its aftermath, the Great Depression and just after Federation. The most recent deficit is not just an artefact of COVID – it was on track to occur despite recent events. Foreign direct investment (FDI) into Australia has plateaued in the past few years as a share of GDP, while outward FDI continues its rise.

Figure 9: Australia's current account balance



Source: Productivity Commission and ABS.

Total foreign investment in Australia recorded an outflow of $10 billion in 2019, compared with a $50 billion inflow the previous year, and this is the second year of outflow since 2001. UNCTAD reports that FDI flows into Australia fell 46 per cent over 2020, compared with a 42 per cent around the world – and this trend may continue in 2021.[11] The contest for capital is becoming more intense.

Uncertainty casting a shadow over investment

Uncertainty was dampening incentives to invest even prior to COVID. Heightened uncertainty is reflected in the global economic policy uncertainty index, which was increasing in early 2018 and soared in response to COVID-19. This uncertainty has had a significant impact on the real economy, which includes causing companies to delay major and non-essential investments, increasing the cost of capital, and causing households to be more cautious and to increase savings. Indeed, the Government's 2017 Review of Business Investment noted that the choice by a firm to postpone investment in periods of heightened uncertainty 'is a rational business decision'.

Border closures have also impacted investment plans. For example, Reserve Bank Governor Phil Lowe recently noted examples of companies not investing where sophisticated equipment requires a specialist to install. Where this specialist is located overseas and there are challenges in bringing them to Australia, the consequence may be that the investment cannot proceed.[12]

[11] UNCTAD, Global Investment Trend Monitor, No. 38.
[12] House of Representatives Standing Committee on Economics 5 February 2021

Figure 10: Global economy policy uncertainty index

Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.policyuncertainty.com

Weak levels of capacity utilisation have also hampered investment plans. When businesses have significant unused capacity, the incentive to invest in more capital is weak. While capacity utilisation returned to its long-run average and pre-virus levels, recent levels also coincided with weak investment prior to the crisis.

The 2017 Review of Business Investment found the weakness in business investment over the past decade may have been driven by a mix of cyclical and structural factors, including:

- the end of the resources investment boom
- a slow recovery of confidence from the global financial crisis
- a growing services sector, which is less capital intensive
- a change in business strategies and low risk appetite
- increased uncertainty driven by domestic/global issues and policies, and technological change
- a high tax and regulatory burden, and
- energy affordability and reliability.

All of these factors are important and there is no single 'silver bullet' that will fix the investment problem. Many of these factors are however within the control of government and it would be possible to shift the dial on investment through a multi-pronged strategy.

The nature of investment is changing

The key driver of the decline in investment has been falling investment in machinery and equipment as a share of GDP. This has not been unique to Australia, with machinery and equipment investment lower than it was prior to the global financial crisis in many advanced economies. However, the fall in recent years tended to be larger in Australia. Pro-investment policies tend to target this traditional 'nuts and bolts' investment despite the profile of investment changing.

Investment can also be in 'soft' capital such as knowledge, firm-specific skills, computerised information and innovative property (such as research and development). Intangibles can be measured in different ways in the National Accounts:

- Intangibles such as research and development, software and exploration are measured as investment.

- Some intangibles are treated as intermediate expenditure, such as non-scientific R&D (including product development, design and research), advertising and market research.
- Some intangibles are not measured, such as firm-specific human capital and organisational capital.

In Australia, recent estimates show intangibles investment reached about $80 billion in 2012-13, or around 28 per cent of market sector investment. From 1974-75 to 2012-13, the stock of intangibles grew an average annual rate of 5 per cent compared with 3 per cent for tangibles (Elnasri and Fox 2014). This is equivalent to an almost sixfold increase in the stock of intangibles, compared with a tripling in the stock of tangibles. It is estimated that around a third of S&P 500 firms invest more in intangible assets than tangible assets, while 61 per cent of the market value of S&P 500 firms sits in intangibles.[13]

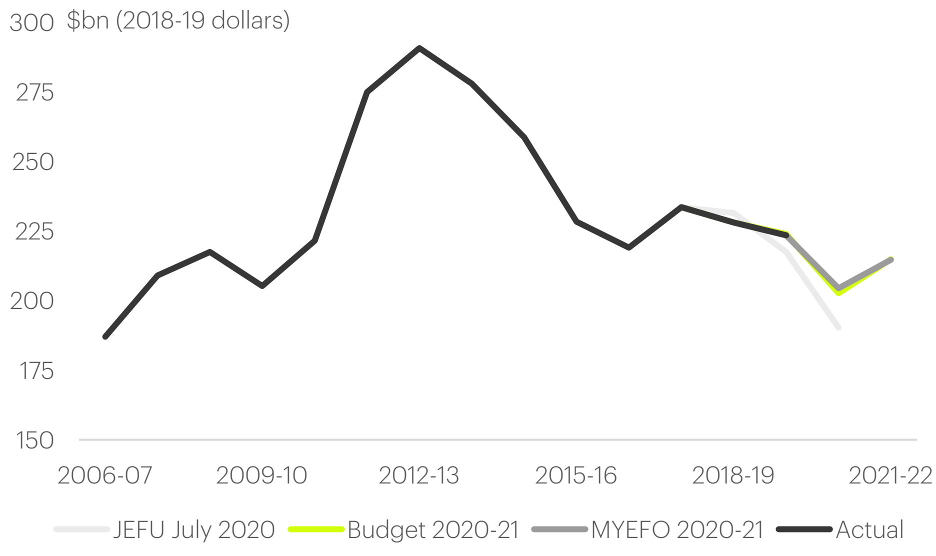
The outlook for investment remains weak

Most forecasts suggest business investment will remain subdued in the short term, driven by continued uncertainty and disruptions from COVID-19. New business investment is forecast in MYEFO to fall 8½ per cent in 2020-21, before growing 5 per cent the following year, supported by a 7½ per cent rise in non-mining investment.

Investment will likely increase in the short term as restrictions are eased and confidence continues to lift. This is supported by the latest NAB monthly business survey, which notes that key indicators now exceed pre-virus levels – sustaining this beyond a temporary bounce will be key. The capex recovery will take time as businesses renew investment plans and take advantage of measures from last year's Budget, such as temporary full expensing and loss carry back.

Companies have noted temporary full expensing has been used to support investments at their facilities and sites across Australia. It has helped facilitate some investment in the energy sector through the deduction for eligible assets, while also supporting investments in product development through upgrades to software systems. However, further momentum is needed.

Figure 11: Real business investment over time



Source: ABS and Commonwealth Government.

The recovery in investment is likely to be protracted especially given on-going uncertainty around COVID management. Forward orders have been recovering following record declines, and capacity utilisation has returned to pre-crisis levels – but this must be sustained.

Much of the short-term recovery may relate to machinery and equipment investment, which tends to be quicker to bring online and benefits from tax incentives already introduced. Indeed, new machinery and equipment

[13] https://www.economist.com/leaders/2020/02/06/what-it-takes-to-be-a-ceo-in-the-2020s

investment rose 8.1 per cent in the December quarter 2020 – the strongest rise in over six years. Commercial vehicle sales have surged, with light commercial sales up 24.3 per cent over the 12 months to February 2021 and heavy commercial vehicle sales up 13.8 per cent. The overall strength in car sales reflects a mix of factors, but has been supported by the instant asset write-off scheme.

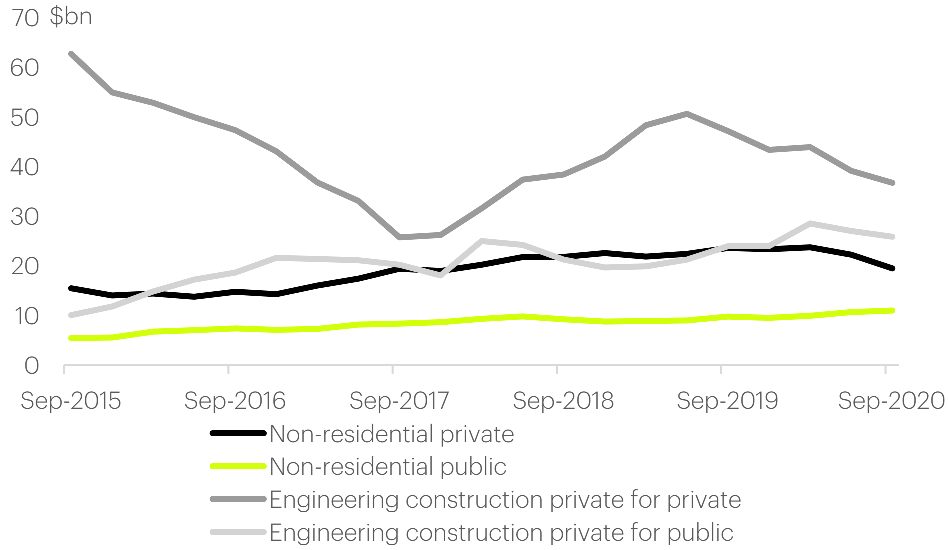
But an investment recovery cannot just 'ride the ute's back'. It is large projects that will drive the recovery.

Investment in buildings will take time to recover as projects require longer lead times for approvals and higher hurdles from investors as they can be costly and difficult to reverse. The value of non-residential work commenced has been declining the past year, and the pipeline of work yet to be done is at its lowest level in 3½ years. The total pipeline is down 9 per cent overall since COVID hit, with the private sector pipeline collapsing 18 per cent, partly offset by expansion of the public sector pipeline of 11 per cent.

The latest Deloitte Investment Monitor suggests this weakness will continue with little growth expected in the number of CBD workers through to mid-2021 – creating a challenging foundation for non-residential investment. Similarly, the latest Property Council of Australia Office Market Report shows the national office market vacancy rate reached 11.7 per cent in January 2021 – the highest level in almost a quarter of a century. New supply accounts for three quarters of the increase, but reduced demand due to COVID has also had an impact.

The outlook for engineering construction activity is similarly challenging in the short term. The value of work commenced has remained relatively steady while the pipeline of work yet to be done has been shrinking. The value of engineering construction work in the pipeline has fallen 14 per cent since COVID, led by a 16 per cent fall in private sector work and a 9 per cent fall in private sector work for the public sector.

Figure 12: Value of work yet to be done, non-residential and engineering construction



Source: ABS.

How do you get investment going again?

Australia competes for funds in an increasingly contested global market – and this is likely to become even more intense as countries look to revive their economies following COVID-19. Investors have an array of choices about where to invest their next dollar, and interest rates are at historic lows around the world. Australia is disadvantaged by scale and cost compared with Asian and North American markets. Simply put, we must remain competitive to attract investment.

The equation a company and a board goes through when making investment decisions revolves around assessing the portfolio of potential investments across different entities, projects and countries. These investments compete for a finite pool of capital within companies. Questions are raised about the risk and return from each investment, which in turn is based on factors such as regulatory conditions and approvals, operating costs, certainty, and after-tax returns.

The less competitive Australia is on any of these factors, the more roadblocks stand in the way of companies investing in Australia. That takes jobs and investment that could have been in Australia and puts them somewhere else. We do not know all the investment Australia may have missed out on as it is not typically broadcast – but it is felt through less new investment and slower jobs growth.

The pandemic will remain a clear source of heightened uncertainty around Australia and the world in the short term. However, there are many risks around that pandemic that can be controlled and help to mitigate the uncertainty. This includes the effective management of any future outbreaks; a clear, proportionate and predictable response from governments around restrictions (including borders); timely and efficient management of the vaccine roll-out; and support from government as necessary. As discussed in Section 3, an ad hoc approach to any of these issues will further destabilise the ability of businesses and individuals to make decisions to work, save, invest and innovate.

The long term structural factors that have been holding down investment persist. A sustainable recovery in investment will ultimately require a more competitive economy that addresses issues around tax and the burden of unnecessary regulation, counters persistent uncertainty, delivers infrastructure that make it easier to do business, and ensures on-going access to the global markets needed to spur growth in the domestic economy.

We need to be clear about the messages we are sending to global investors if we are to win the race for capital. Tax is not the only factor that drives investment, but a globally competitive tax system is one of the most direct and effective levers we have for driving higher investment. Analysis by the Tax and Transfer Policy Institute shows that a one percentage point rise in the corporate tax rate reduces foreign direct investment by 3.3 per cent on average.

At the same time, policy changes should complement each other in encouraging investment in Australia. For example, actions to make Australia's tax system more competitive should not coincide with actions that make it more difficult for companies to bring capital into Australia to take advantage of these measures, such as further FIRB restrictions.

Further consideration and analysis is also needed to better measure and understand the impact of intangible investment. These changes will continue to impact the investment outlook, as well as the best policy response for encouraging investment.

While the above discussion points to the need for a broader reform agenda to mitigate the structural decline in investment, there are practical steps the Government could take in this budget to promote investment and lay the groundwork for a true business led recovery.

Appendix B: Project approvals best practice model

Overview

All Australian jurisdictions are encouraged to implement best practice planning systems that meet the objectives of planning regulation while providing faster and lower cost approvals for projects of all sizes.

The model below places a greater emphasis on upfront strategic planning to identify permissible land uses so that complying proposals can be fast tracked. It introduces a lead agency framework and umbrella timeframe and follows the principle of one project application, one assessment and one approval. Consistent and public reporting of approval times by jurisdiction encourages continuous improvement. We recognise that governments are making significant progress against meeting these recommendations. However, no government has reached best practice yet. There is an opportunity to learn from each other and continuously improve.

Key elements are:

- More use of strategic planning to weigh up decisions about land use permissibility and conditions, allowing streamlined assessment of individual project applications.
- Strengthened consultation, with the community engaging meaningfully in decision making at the strategic planning, pre-application and project assessment phases.
- A dedicated assessment track for major projects applying a single application, single assessment framework and managed by a lead agency. An umbrella timeframe applies.
- Standardised and risk-based approach to project assessment, with timely provision of technical information by proponents so agencies can complete their responsibilities.
- A single project approval, with judicial review only available to proponents and those directly affected by the decision.
- Standardised, targeted conditions of approval with streamlined compliance reporting.
- Greater use of digital technology and ongoing planning system performance monitoring, reporting and improvement for all consent and referral agencies.

The best practice model supports projects that will build a better Australia, it is not only about faster timeframes.

Detailed recommendations

All jurisdictions are encouraged to implement the best practice model by adopting the following elements in their planning systems, if not already doing so.

Strategic planning

- Strategic plans should adopt the following features:
  - strategic identification of future residential and industrial development through an economic lens
  - permissible land uses that define the activity that is allowed to occur, where it can occur and under what conditions, by key geographic area
  - link to infrastructure and funding models and principles of good design and good ‘place’
  - high-quality upfront participation by the community, including businesses
  - evidence-based strategic assessment to reduce land use conflicts and identify regional environmental targets

- geoscience information and identification of locations available for potential exploration and production, or that must be avoided
- identification of existing resources, industrial and infrastructure developments and acknowledgement that they may be further developed to meet market demand
- preservation and prioritisation of existing and future infrastructure corridors that are essential for future economic and residential developments.

- Strategic plans should provide opportunities for a clear reduction in the regulatory burden for project applicants who submit applications that are aligned and comply with strategic plans. They should facilitate greater use of 'complying' zones and areas/precincts where proponents can use the complying development approval pathway, provided they meet certain development standards.
- Jurisdictions should ensure regional plans reflect strategic plans and introduce statutory mechanisms to ensure strategic plans are adopted in local land use plans.
- Strategic plans should be updated and released within set timeframes – every 5 years to accommodate changes in market trends and acknowledge that the plans will require ongoing changes in between reviews (and have a simple, fast re-zoning process in place to facilitate this).
- Strategic plans should be tested for financial feasibility before being finalised. This will avoid the "plan it and they will come" mentality which is a challenge especially in areas of fragmented land ownership.
- Once a state government has set a policy or code (e.g. BASIXs, Low Rise Diversity Code), local councils should not be able to override or amend them, as this erodes certainty and creates inconsistency. States and Territories should provide clear direction to councils on implementing state-level development strategies.

Lead agency

- Jurisdictions should establish or designate a lead agency reporting to the first Minister or Cabinet subcommittee with responsibility for:
  - coordination and integration of application assessment across government (including case management services)
  - oversight of dedicated assessment tracks e.g. for major infrastructure, major projects and major re-zonings, and smaller projects and re-zonings (the planning agency or department can continue to have primary responsibility for project assessment)
  - structured pre-application consultation for major infrastructure, major projects and major re-zonings
  - investment attraction initiatives
  - major project inventories.
- Any lead agency must have the legislative authority to override any concurrence and referral agencies which unnecessarily hold up development assessment/not providing feedback in a timely and efficient manner.
- Consent authorities should be obliged to meet timeframes/ targets, supported by an enforcement mechanism.
- Stop the clock provisions should be abolished. The 'lead' agency should have the legislative power (and be obligated in the legislation to use it - not a discretionary power) to take on the concurrence/referral powers of any agency which fails to provide their concurrence/referral in a timely way and undertake the assessment and issue the approval on that agency's behalf.

- Agencies should not be able to revisit issues once they have been resolved or introduce new issues late in the approval process.
- Sustainability projects that contribute to net zero carbon emissions should be fast-tracked and subject to faster approvals times, to reflect the wider gains and to provide incentives to bring them forward.
  - The financial gains from a faster approval process could also offset the cost of implementing sustainability initiatives in development and encourage more take up. This is a better process than making costly sustainability measures mandatory.

Re-zoning and sub-divisions

- Identify a minimum of 5 years of land supply and an approval trajectory and contribute surplus government land to housing and other projects.
  - If it becomes clear that the market is lagging and the 5 years supply and approval targets will not be met, the government should encourage proponent-driven re-zoning proposals to come forward or otherwise incentivise the industry to make up the shortfall.
- Major re-zonings should be overseen by state governments, not local councils, and approved within 90 days. All relevant parties need to be brought along in the process.
  - In other cases, consider funding local governments to appoint a specialist planner in the council to deal with major re-zonings.
- Major subdivisions should be approved within 120 days to recognise the amount of work required and developers' needs for certainty.
  - Standardised engineering and road guidelines by state would assist efficiency and speed, to avoid different engineering standards which delays projects.
- Establish a mechanism for accountability for meeting timeframes.

Development approvals track

- Development applications in zoned subdivisions which are generally consistent with environmental planning instruments should be approved within 90 days.
- Agencies to complete a thorough review in the first instance, to avoid repeat follow up questions through the assessment process. For example, a 60-day assessment and approval process might constitute:
  - 20 days for the agency to conduct a detailed review and raise issues and questions
  - the business has 10 days to respond
  - the agency has 10 days for a second round of questions
  - business has 10 days to respond
  - 10 days for the agency to approve or otherwise.
- Increase the use of exempt and complying development approvals processes for residential development.
  - Each state should set a policy for normal housing developments (smaller projects less than $5 million) by providing 'as of right' approvals for complying projects within 14 days.
  - This could also be expanded to other types of development, for example, retail and commercial for certain established precincts or areas (main streets, activity hubs etc).

Major projects track

- Jurisdictions should adopt a dedicated assessment track for major projects (i.e. large capital projects), with objective eligibility criteria based on capital value and industry type.
- Jurisdictions should legislate a maximum umbrella timeframe that covers pre-application, application, assessment and approval phases of the dedicated assessment track. This should be no longer than 12 months.
- Jurisdictions should abolish stop-the-clock provisions (except by proponents) and limit referrals and concurrences to improve coordination and accountability within government.

Single project application

- Proponents with eligible projects should be required to submit a single project application to a single agency. (The single agency approach remains paramount, even where multiple applications are required due to the complex nature of the project, or there is a concept application).
- Jurisdictions should utilise standardised terms of reference, environmental impact statement (EIS) guidance and conditions of approval. These should be specific to each industry sector and key issues such as air, noise and water impacts.
- Jurisdictions should require objective and performance-based assessment of the risks to the environment or community that may arise from the project.
- Jurisdictions should publish online environmental requirements, baseline environmental and heritage data, and maintain online planning application and tracking systems (as previously agreed at COAG).
- Jurisdictions should improve the flexibility of EISs to ensure they are relevant over the life of a major project.
- Jurisdictions should develop codes of conduct for specialists and consultants who assist with preparing EISs to encourage high levels of performance and ethical behaviours.
- Jurisdictions should ensure guidelines for public consultation are in place that contain clear engagement principles and key performance indicators for consultation.

Project assessment

- Projects that are consistent with permissible land uses in the strategic plan should be deemed complying developments and need only satisfy the requirements to produce a complying EIS.
  - EISs should document the alignment with strategic plans by demonstrating the contribution to approved land uses, regional environmental targets, social outcomes and economic priorities, without needing to prosecute the strategic context.
- Industry-based assessment teams should be established so that agencies develop industry sector knowledge and skills (e.g. mining, transport infrastructure) and have a better understanding of how best to assess major projects.
- jurisdictions should improve governance by separating institutional roles that are located in single agencies and present conflicts of interest.

Project approval

- Jurisdictions should ensure there is only one approval required, and ministers have final accountability for planning approvals. Secondary approvals should be incorporated into the primary approval.
- Conditions of approval should be drawn from a standardised set of conditions applying to industry sectors and key issues. The conditions should be targeted to address specific issues identified in the strategic assessment and project assessment. No duplicative conditions across agencies.

- Jurisdictions should continue publishing reasons for planning decisions, along with submissions and supporting assessments.
- Jurisdictions should amend, where required, provisions on legal standing so that judicial review is the appeal mechanism. Standing should be available to project proponents and those directly impacted by the decision. Those outside the geographic area who cannot demonstrate a connection or direct impact from the proposed development should not have any standing to appeal.

Compliance and enforcement

- Jurisdictions should implement efficient, online compliance and reporting systems for project proponents to use. Clear enforcement accountability should be assigned to responsible agencies/regulators.
- Compliance with conditions is based on the achievement of outcomes and not process.
- Results of compliance and enforcement actions should be made publicly available as should all project reporting required by conditions of approval.

Planning system performance monitoring

- A clear monitoring system for development assessment and approval times for different types of development between different states and territories should be established and published on a quarterly basis to ensure transparency and encourage continuous improvement.
- Jurisdictions should implement reporting frameworks for monitoring and performance of agencies involved in the planning process. Key performance indicators should be produced for approval times and adherence to best practice.
- Every agency involved in any part of assessments and approvals should be part of this reporting framework (consent and referral agencies).
- All performance monitoring should be real time and publicly available.
- Agencies should be held publicly accountable for their performance and be 'performance managed' by a lead agency should they continuously fail to meet targets or improve.

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