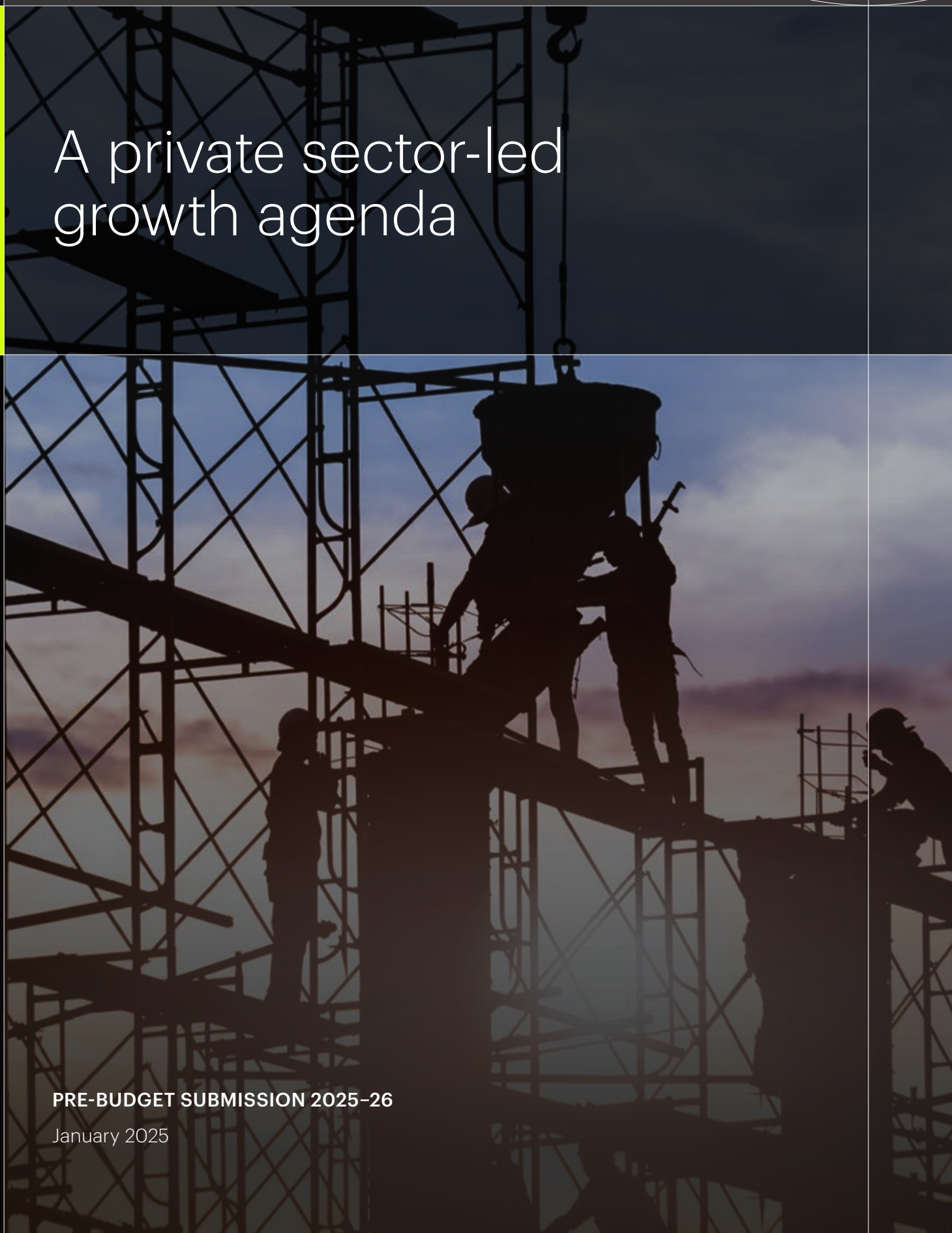
BCA
Business Council of Australia

A private sector-led growth agenda



PRE-BUDGET SUBMISSION 2025–26

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Executive summary

1. Executive summary

An election year budget amid challenging times

Australians have long enjoyed an extraordinary, improving quality of life, with subsequent generations more prosperous than their forebears. It is becoming ever clearer, however, that this will not continue if we are complacent and do not do the 'hard yards' reform necessary to turn around the recent fall in our living standards.

As things stand, other nations are doing more to build future prosperity by competing harder, winning more investment, and reaping the productivity benefits of difficult reforms. In Australia today:

Business investment is close to **30-year lows as a share of GDP**

We have the weakest economic growth figures **since the 1990's recession** (excluding COVID)

Over 40% of jobs growth in the last year was in lower productivity public sector-aligned parts of the economy

The past decade's productivity growth was the **lowest in six decades**

Real gross disposable income per capita of households has been **falling since 2021**

Real per capita incomes have been **going backwards** for seven consecutive quarters

The next budget is a chance to revive growth in the economy, lift productivity, enhance competitiveness and get the nation's finances back onto a sustainable path. A strong economy and a strong budget go hand-in-hand. A strong economy helps to deliver the jobs, higher wages, improved living standards and the tax revenue to fund services that Australians expect. Australia needs fiscal buffers, not persistent deficits, if we are to navigate what are likely to be challenging economic and geopolitical times ahead.

An economic reform agenda to drive economic growth

The solutions lie in unleashing the private sector and growing business investment, in line with the Treasurer's recent comments that "the best kind of growth is private sector-led growth."[1] The need for this kind of agenda has been sharply clarified by the new US administration, with President Trump making his intent to be the most competitive Western economy clear in policy aspirations like company tax cuts and a broad program of deregulation. These are all things which will drive Australia's need to become more competitive—fast.

Living standards in Australia can grow sustainably only if productivity improves from its present rate of -0.8 per cent. This is critical for every Australian, because while wages growth in recent years has been important for supporting our community, the only way that this growth is sustainable and does not become an economic drag is if productivity also improves.

Government sets the policy and legislative guardrails, but the reality is that only the private sector can drive sustainable long-term growth in Australia's economy. Private business plays the key role in investing to lift productivity and driving economic growth. Private businesses use their entrepreneurial spirit to risk their capital to make the necessary returns to facilitate further investment and hiring, including by developing the skills needed for the future economy. They invest in new technologies which boost both productivity and resilience against future changes—more of that investment must be captured.

The private side of the economy is already investing but investment will only grow—as is absolutely needed—if the investment fundamentals improve through a significant economic reform agenda, including as follows:

1 https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/transcripts/press-conference-sydney-6

- **Get government spending under control**

  High spending levels are contributing to higher inflation, including business costs, and the spending is unsustainable. We must implement clear fiscal rules which can help bring debt under control and support spending discipline.

- **Cut red tape**

  There must be more accountability on governments of all levels to reduce duplication and unnecessary regulation and speed up processes. We must be more aggressive in pursuing a deregulation agenda, like our peers, and consider the serious elevation of this activity through a role like a Minister for Deregulation.

- **End the energy wars**

  The ongoing politicisation of energy continues to chill Australian investment which may otherwise flow here—the overriding goal must be non-partisan, long-term agreement on our objectives and neutrality towards our methods. We must create a national, non-partisan plan to achieve our goals with all sides of politics at the table, and no means of achieving them excluded.

- **Fix our broken industrial relations system**

  We have shifted the pendulum too far against employers, making it far less attractive to hire and grow. We must increase flexibility by addressing the most harmful recent changes, including compulsory multi-employer bargaining.

- **Address our uncompetitive tax system**

  Our tax settings are internationally uncompetitive and likely to become more so, which is a major deterrent to attracting new investment. We must have a tax system that helps us rather than hinders us in bringing investment to our shores.

Investors have many choices. They look for cost competitive destinations. We can only win that investment, and in so doing drive private sector-led growth, if we commit to an economic reform agenda which strengthens Australia's fundamentals.

What the nation needs now, more than anything, is a formalised long-term economic plan, that can credibly address the major domestic and global forces which are challenging Australia's future prosperity.

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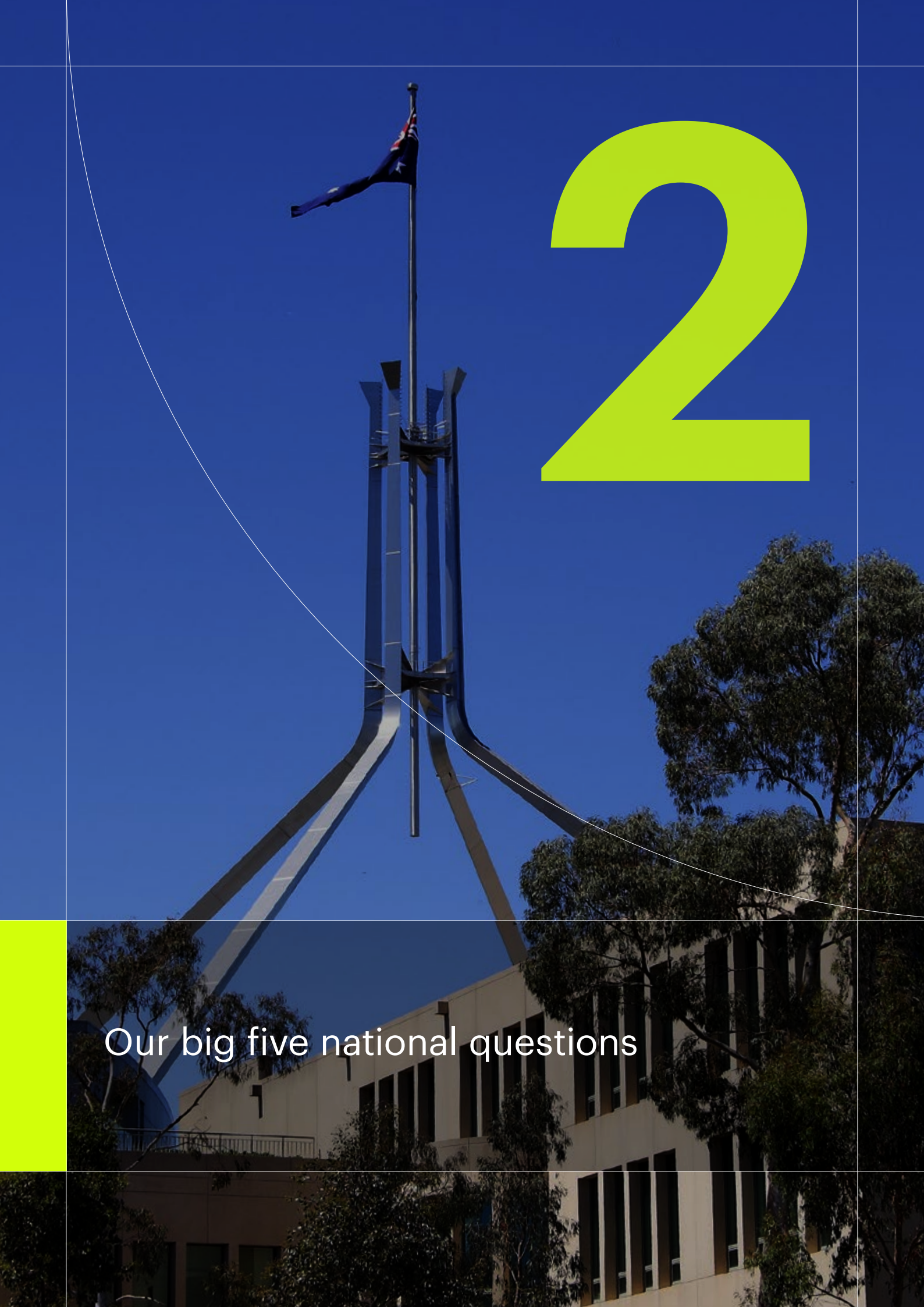

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Our big five national questions

2. Our big five national questions

In this pre-budget submission, the Business Council of Australia discusses the state of our economy, our revenue and our spending, and outlines what is necessary to put us on a sustainable fiscal path.

In the lead-up to a federal election, the Business Council is also posing five major national questions which will drive the policy debate over this period and in separate papers proposing priority action areas for them. These questions must be answered if we are to ensure future national prosperity and lift our living standards.
These questions are:

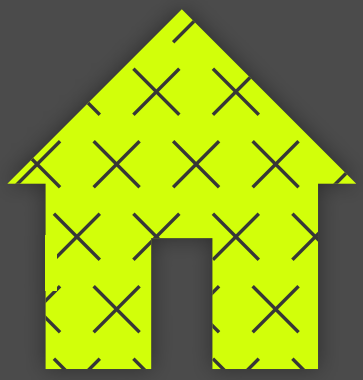
Q1

How do we ease the cost-of-living crisis for Australians?

No issue is more pressing for Australians than the cost of living. In this election period, we must place easing inflationary pressures for Australians at the top of the political agenda, recognising the harmful impact of inflation on our community – particularly low-income households. Most importantly, we must do this by focusing on the deep-rooted issues that are driving prices up, including our poor national productivity performance.

Q2

How do we tackle the housing crisis?



Australia has a housing supply problem. We simply do not build enough homes to accommodate a growing population. This crisis has been a long time coming, and the solutions to it are long-term reform efforts. Migration cuts are not the answer. The BCA recently released a detailed policy document, *It's time to say yes to housing*, that offered ways to address the housing crisis.

Q3

How do we achieve net zero by 2050 with affordable and reliable energy?

The transition to a decarbonised Australian economy is critical for future-proofing the domestic economy and provides significant export sector opportunities. The importance of an affordable, reliable and low-emissions energy system in underpinning the broader economy's ability to reach net zero cannot be overstated.
A comprehensive and durable energy transition plan is needed, helping to efficiently allocate private investment in energy assets and infrastructure between now and 2050.

Q4

How do we develop a skilled workforce for the future?

Australia needs a skilled and flexible workforce to meet our greatest challenges. Skilled labour is a critical enabler of Australia's energy transition, vital to overcoming our housing shortage and integral to sustaining our burgeoning digital economy. It will also enable us to meet our obligations under AUKUS Pillars I and II. We are also in fierce global competition for these skills.

Q5

How do we deliver the health and care services Australians need?

The Intergenerational Report (IGR) and previous budgets show we will have fewer people paying for more and more care into the future as our population ages. Rapid growth in spending on medical benefits, aged care, hospitals and the National Disability Insurance Scheme (NDIS) is unsustainable, and on its present trajectory, will prove to be intergenerationally unfair. These are critical services that the community expects and deserves, which makes the need for reform important to ensure their sustainability.

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Recommendations

3. Recommendations

» Addressing public spending

Addressing Big 5 – Q1

Commit to an overhaul of the *Charter of Budget Honesty Act 1998* with a view to strengthening the transparency and accountability regime for fiscal policy at the federal level. This should consider:

- A requirement for a well-specified fiscal strategy based on quantitative rules for the main budget aggregates and net debt projection.
- Publication of a 10-year budget reconciliation table, including for off-budget spending.
- Greater clarity and transparency around the productivity assumptions underpinning the budget, including sensitivity analysis.

Reinstating fiscal rules such as:

- The tax-to-GDP ratio cap of 23.9 per cent.
- A cap on real expenditure growth at an annual rate of two per cent.

» Revenue

Addressing Big 5 – Q1 & Q2

Legislate a broad-based 20 per cent investment allowance to incentivise business investment.

Reduce the corporate tax rate to a globally competitive setting of 25 per cent for all companies to attract investment, drive growth and mitigate the distortions and disincentives of the two-tier tax system. This could be introduced through a phased reduction in the current rate by one percentage point a year.

Super profits taxes must be resisted given our already uncompetitive company tax settings.

Consider increased reliance on indirect taxes such as the GST to reduce the nation's reliance on taxes that are more harmful to growth.

- This could be achieved through changes to the GST base and/or rate, with compensation for households as needed – particularly low-income households – through a mix of higher transfer payments and lower personal taxes.

» Revenue (continued)

Addressing Big 5 – Q1 & Q2

Review the concessional treatment of different forms of saving to promote more neutral concessional treatment, considering implications for other taxes and income distribution. Ensure these are treated collectively and are part of a suite of broader tax reform measures.

- Options could include changes to the capital gains tax discount (including both the rate and its broader application), the taxation of real gains, and the introduction of a tax-free threshold.
- Any reforms will require analysis of effective marginal tax burdens and their compounding impacts on savings over lifetimes and likely behavioural responses to changes.

Do not remove or make adverse changes to the Fuel Tax Credit Scheme.

Consolidate the eight separate payroll tax online platforms into a single national platform to simplify compliance for businesses that operate across multiple jurisdictions.

- There is a role for the Australian Government to help coordinate or enable this reform. For example, the Simplifying Payroll Tax Reporting project is exploring leveraging Single Touch Payroll data to reduce payroll tax compliance costs.
- This project should be prioritised and expanded to more companies, particularly those operating in more than one state, noting the project may identify a need for harmonisation of payroll tax regimes to realise benefits.

Work with states and territories to help replace stamp duty with a land tax. The abolition of stamp duty will help remove a disincentive to people relocating, including for new work opportunities.

- This is an exceptionally challenging change to make politically, and there would need to be some form of incentive for states provided, such as through the National Productivity Fund. It is positive to see that the Government has announced plans for such a fund to incentivise state-based productivity reforms, but there is much scope for this to be extended in breadth and increased in scale.

Broaden and expand the proposed National Productivity Fund, with incentives tied to the benefit-cost ratio of reforms, to encourage a continued commitment to reform and ensure that the states and territories share in the benefits of reforms they make.

- Reform areas which may be incentivised could include productivity improvements to state-based taxes, planning rules and trading restrictions and regulations.

» Red tape reduction

Addressing Big 5 – Q1 & Q2

Appoint a Minister for Deregulation with clear responsibility across departments to help drive a deregulation agenda that makes it easier to do business in Australia.

Establish a five-year 'ease of doing business' agenda through National Cabinet, guided by a Productivity Commission review of regulations across the Federation. This could be embedded in the Productivity Commission's current inquiry into the government's 'five pillars' as a starting point.

Make a commitment to best-practice Impact Analysis for every new policy, alongside independently produced productivity analysis as part of every proposal for new regulation.

Task the Productivity Commission with monitoring the burden of regulations on business in comparison to global peers and providing annual recommendations to Commonwealth Treasury on the reduction of regulation.

Improve the quality and efficacy of corporate governance regulation by re-establishing a corporate governance body to identify a program of future reforms.

» Industrial relations

Addressing Big 5 – Q1

Support flexibility in bargaining to drive higher wages by improving productivity. Do this by:

- Ensuring bargaining only commences with majority employee support or where an employer agrees.
- Reforming intractable bargaining determinations to the pre-February 2024 position.
- Allowing the Better Off Overall Test to consider non-monetary benefits provided to employees.

Enable businesses and workers to agree the best fit engagement model for their business and personal circumstances by:

- Restoring the simple definition of a 'casual employee' and understanding of who an independent contractor can be.
- Allowing fixed-term contracts.
- Promoting choice and flexibility by removing regulated labour hire arrangement orders.

Streamline and simplify minimum standards for gig workers and road transport to reduce complexity and enable innovation. Reduce red tape in the form of contractual supply chain regulation.

Simplify and properly modernise awards to make them easier to navigate and apply.

Ensure a balanced workplace delegates' rights framework to minimise unnecessary disputation and cost burdens for business.

» Energy policy certainty

Addressing Big 5 – Q1 & Q3

Build a granular execution plan, with bipartisan engagement, which builds on the Net Zero Plan and six sectoral decarbonisation pathways.

Increase the remit of the Net Zero Economy Authority to include:

- Identifying potential investment needs. Assessments for industry support must be expert-led and strongly guided by comparative advantage. Decision-making should be streamlined and transparent to build trust and expedite investments.
- Identifying workforce gaps and opportunities in regional areas for reskilling through the transforming economy.

Fund a comprehensive approach to increase net zero-focused skilled labour availability through cross-industry reskilling, international migration, vocational education and training, and university programs.

Work with the Net Zero Economy Authority and Jobs and Skills Australia to develop a net zero skills taxonomy and training matrix so workers with adjacent skills in construction or manufacturing can identify their training and reskilling or upskilling requirements to move into the clean energy sector.

Avoid bias towards, or selectively excluding, any energy source on a technological basis. Preference market-led investment decisions over government-led investment decisions.

Commit to developing and incorporating a National Carbon Market Strategy into the Net Zero Plan.

» A positive agenda on technology

Addressing Big 5 – Q1 & Q4

Commit to increasing research and development spending, with an aspirational goal of 3 per cent of GDP.

Abolish the R&D expenditure threshold or, at a minimum, lift it to $250 million with indexation.

Improve the guidance that accompanies the publication of R&D Tax Incentive transparency data to better explain and build confidence in how the policy operates.

Introduce a patent box regime to encourage investment in the innovation and technologies of the future and enable Australia to compete for that research and subsequent commercialisation.

Introduce a collaboration premium of up to 20 per cent on non-refundable tax offsets to incentivise collaborations between industry and public research organisations and universities.

Invest in AI capability – which includes skills, research, and computing and data infrastructure – and implement regulation that allows Australian developers to thrive.

» SKILLS

Early learning

Addressing Big 5 – Q1 & Q4

Develop an early childhood education guarantee based on quality, universal access across all states and territories to give children a strong educational foundation.

- The design must consider cost to government, capacity for different socio-economic groups to pay, demand, access, subsidy structures, interface with the school system, and the availability of a qualified workforce to deliver quality education.

Initial steps should include a focus on:

- Improving coordination between federal and state governments to maximise policy interventions.
- Targeted efforts to eliminate 'childcare deserts' in regional and low-socioeconomic areas to increase access to early childhood education services.
- Ensuring supports for children with additional needs can be accessed across the system by ensuring the Inclusion Support Program is fit-for-purpose to allow all children to receive quality early childhood education.

Review the alignment of the Child Care Subsidy with the tax and transfer system to ensure that there is coherency in the approach for families.

» SKILLS

Career counselling

Addressing Big 5 – Q1, Q2, Q3, Q4 & Q5

Set a minimum framework and standards for careers guidance in schools, developed with industry and the Jobs and Skills Council, to ensure the best advice on skills needs and job opportunities.

Require that every school has an accredited careers counsellor as part of the funding agreements with the states.

Improve career advice through best practice resources (including digital resources) for students, parents and teachers, with strong backing from state and territory governments, and leveraging jobs and skills councils and career hubs.

Boost awareness of the Jobs and Skills Australia Atlas – a snapshot of the Australian labour market at national, state, and regional levels. Schools and councils should use this resource to provide location-specific advice to students and job seekers on the types of work available in their local area.

» SKILLS

Apprentices, VET and upskilling

Addressing Big 5 – Q1, Q2, Q3, Q4 & Q5

Develop an employer-centric apprenticeship incentive model that leverages what is currently working, such as mentoring and support mechanisms provided by large employers and GTOs, and incentivises businesses to attract high-quality, diverse candidates, and provide valuable support systems to raise completion rates.

- Redevelop the Australian Apprenticeship Incentive Scheme (AAIS) to provide a minimum of $4,000 per apprentice wage subsidy to employers in the first and second years of the apprenticeship, and $3,000 in the third and final year. Provide additional incentives for small and medium-sized businesses which demonstrate strong completion rates and commencement diversity.
- Incentivise large businesses to expand successful support programs that assist apprentices to complete their training by providing a $40 million fund over four years.

Before legislating the policy, review Fee-Free TAFE's operation to ensure it is fit-for-purpose, provides value for money and produces skilled workers for the labour market.

Redesign Fee-Free TAFE to include high-quality VET providers (including private, enterprise and community RTOs), putting student choice, not the provider, first. This will ensure Australians have access to free courses from the best providers for their course of choice, which is particularly important for specialised, industry-focused courses that are primarily delivered by private RTOs, and in regional and rural Australia where TAFE has a limited footprint.

Ensure there is a nationally consistent pathway for short courses and microcredentials to be formally recognised, recorded and rewarded. This would include the ability to 'stack' microcredentials within the Australian Qualifications Framework.

Government should progress building skills passport infrastructure, including the underpinning policies, standards and IT architecture, that would allow a trusted, verified passport marketplace to innovate and serve all Australians.

» SKILLS

Indigenous employment

Addressing Big 5 – Q1, Q2, Q3, Q4 & Q5

Conduct a two-year $50 million Indigenous employment pilot to deliver 5,000 meaningful and sustainable employment opportunities at scale. As part of this effort:

- Payments would range from $7,000 for school students and adult job-ready candidates, to $15,000 for people facing employment barriers.
- No payments would be made by government unless employment outcomes are delivered i.e. minimum weekly hours of regular employment achieved over a minimum six-month period.
- It would be designed to complement the Government's flagship Remote Jobs and Economic Development Program.

» SKILLS

Migration

Addressing Big 5 – Q1, Q2, Q3, Q4 & Q5

Manage migration with a bipartisan population growth forward target that aligns with housing and infrastructure supply and services delivery.

Undertake significant policy changes to address Australia's chronic housing supply crisis, rather than reducing the migration intake, as proposed in the BCA's *It's Time to Say Yes to Housing* report.

Maintain a migration program focused on skilled migrants and international student flows that benefit Australia's economy and lift productivity.

- Migration must be highly targeted to jobs and skills we know are in demand and critical to our national needs with fast tracking of processing provided.

Ensure sustainable growth in international education is designed in collaboration with the tertiary education sector and considers the additional benefits of providing higher education financial stability, domestic student study requirements and research funding.

» Health and care

Addressing Big 5 – Q1, Q4 & Q5

- To expedite the digital transformation of the health and care economy, provide investment support for the public and private sectors to implement critical digital infrastructure. This should be backed by a digital-first approach, requiring electronic sharing of information and reporting, moving away from paper-based forms.
- Explore a range of assistance models including private sector-led investment partnerships, such as a Health and Care Digital Interoperability Fund to incentivise digital investment.
- Implement the recommendations of the Health Technology Assessment Report to ensure Australians can continue to access the latest technology to benefit consumers and the long-term wellbeing and productivity of the community.
- Help consumers make their own choice of services by providing easier to access information on price, treatment options, and expected outcomes from providers.
- Give greater weight to payment for quality rather than quantity of services in government funding models.
- Increase health education by running health awareness programs so people have a greater understanding of their health needs, how to access services and the options available to them.
- Encourage the implementation of the recommendations of the *Unleashing the Potential of our Health Workforce Scope of Practice Review*, to enable health professionals to work at their full scope of practice and provide multi-disciplinary care.
- Incentivise government, business and the tertiary sector to work together to develop microcredentials in a range of specialisations to lift skills, enhance career progression and achieve better utilisation of the health and care workforce.
- Incentivise the provision of health and care services in difficult-to-service areas, including remote, rural and regional communities.
- Provide the digital infrastructure (such as telehealth and remote monitoring) to enable greater access to specialist services, where appropriate, without the need to travel.
- National Cabinet should establish a taskforce to identify and remove duplication in health and care service delivery between federal and state and territory governments, such as through the provision of urgent care clinics.
- Address the recommendations of the Mid-Term Review of the NHRA Addendum.
- Include private sector representation on government advisory bodies and partnerships as well as access to funded programs, to ensure there is a holistic approach to service delivery.

- **Explore the introduction of a non-refundable progressive Carers' Income Tax Offset for unpaid caring paid upon a person's return to the workforce. This could be directed to carers supporting family members who are aged, have disabilities, or who are chronically ill.**
- **Amend the funding model through the budget process to enable preventative programs to secure support, despite the return on investment occurring beyond the forward estimates.**

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4

The global and domestic economic context

4. The global and domestic economic context

The BCA's 2024-25 pre-budget submission a year ago described an economic environment in which dark clouds were gathering. Inflation was falling but still well above the RBA's target and the Reserve Bank had only recently raised the cash rate.

The jobless rate was climbing, modestly, and household spending was pulling back, although business investment was improving. Commodity prices were sliding, albeit from record highs. Overseas, another war had started in the Middle East and crucial shipping routes were being blocked.

A year on, this submission continues under that climatic theme of dark clouds, although global conditions now are more favourable than those in Australia. This is despite Australia's considerable natural advantages and the worsening global geopolitical strife that we referred to in the previous submission. It is good news, at least, that global inflation continues to recede, meaning key central banks are cutting interest rates, including the US Federal Reserve.

"...the Reserve Bank is isolated among central banks in not yet cutting official interest rates."

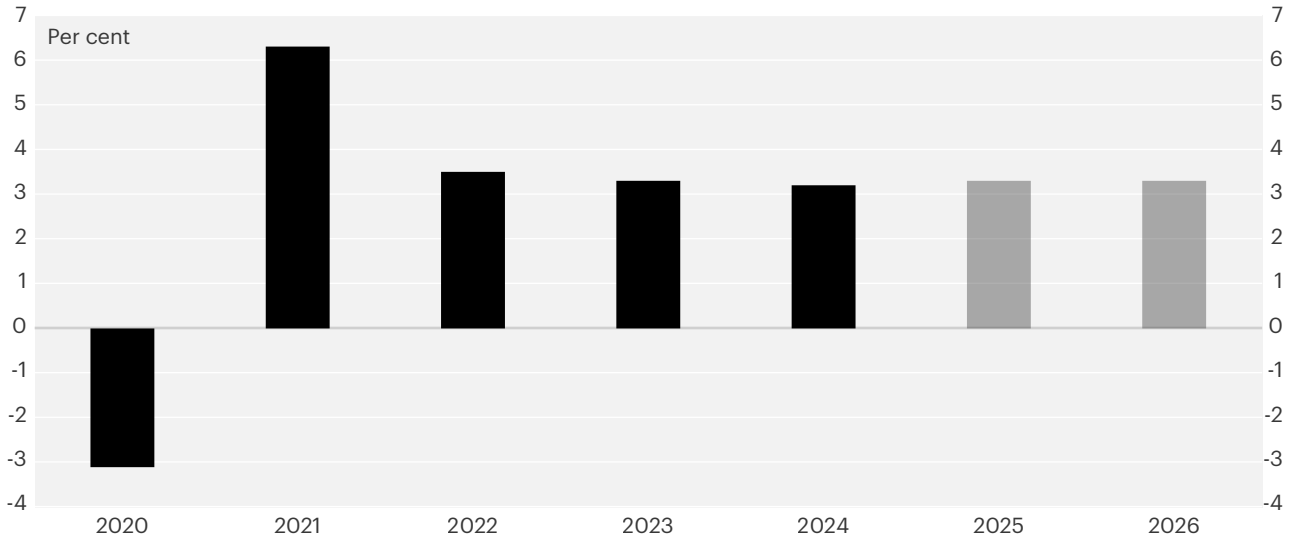
Here in Australia, however, inflation remains sticky, particularly for services. Because of this, the Reserve Bank is isolated among central banks in not yet cutting official interest rates.

The persistence of inflation is despite the weakest growth in Australia's economy since the recession of the early 1990s (outside the pandemic period). The persistence of underlying inflation above the RBA's target range is because weak demand remains above the economy's limited ability to deliver sufficient goods and services. Growth in the supply side of the economy is constrained owing to poor productivity.

"Growth in the supply side of the economy is constrained owing to poor productivity."

A crucial policy influence here is that fiscal and monetary policy are pulling firmly in opposite directions; monetary policy leans on the tight end of neutral – that is, the cash rate is above the level where unemployment and inflation would be stable – but federal and state governments are stimulating the economy, increasing spending as elections loom. This spending, including increasingly via off-budget vehicles, is adding to aggregate demand in an economy already close to full employment.

Figure 1: World growth and growth forecasts, annual per cent change



Source: IMF

The outlook for the world economy—benign growth amid geopolitical troubles

Despite geopolitical troubles, the outlook for the global economy according to major forecasters like the OECD and the International Monetary Fund (IMF) is remarkably benign.

The IMF forecasts growth in the world economy at around three per cent in 2024 and again in 2025. This is broadly unchanged from the three per cent growth rate delivered in 2023.

"What happens in China impacts the fortunes of Australia."

There are many moving parts beneath this benign growth outlook, however. While the US economy seems resilient, thanks in part to booming growth in productivity, China's economy continues to struggle. Growth in China is well down on the six to eight per cent growth delivered in recent years. This mainly reflects China's low consumer confidence and the ongoing adjustment in the over-supplied housing market.

What happens in China impacts the fortunes of Australia. China takes around 37 per cent of Australia's goods exports, including the lion's share of our natural resources. China is also a major source of both students and tourists entering Australia. Recent weakness in demand for steelmaking in China explains the sharp fall in iron ore prices over the past year and has contributed to weakness in other commodity prices.

On the positive spectrum, as previously mentioned, many central banks are now confident enough that inflation is receding to cut interest rates. Inflation in the US, for example, has fallen below three per cent the first time in four years. The US Federal Reserve cut the funds rate steadily last year and futures markets price in another 50 basis points of easing over the next year.

China's central bank has also cut interest rates, albeit more to support flagging economic growth than because of favourable inflation trends. Elsewhere, official interest rates have been lowered by the European Central Bank, the Bank of England, the Bank of Canada, the RBNZ and the

central banks of Sweden and Switzerland. The notable exception is the Bank of Japan, which raised interest rates last year to provide support to the weakening yen. Like our own RBA, the central bank of Norway has been inactive on interest rates because inflation has also been "sticky", as in Australia.

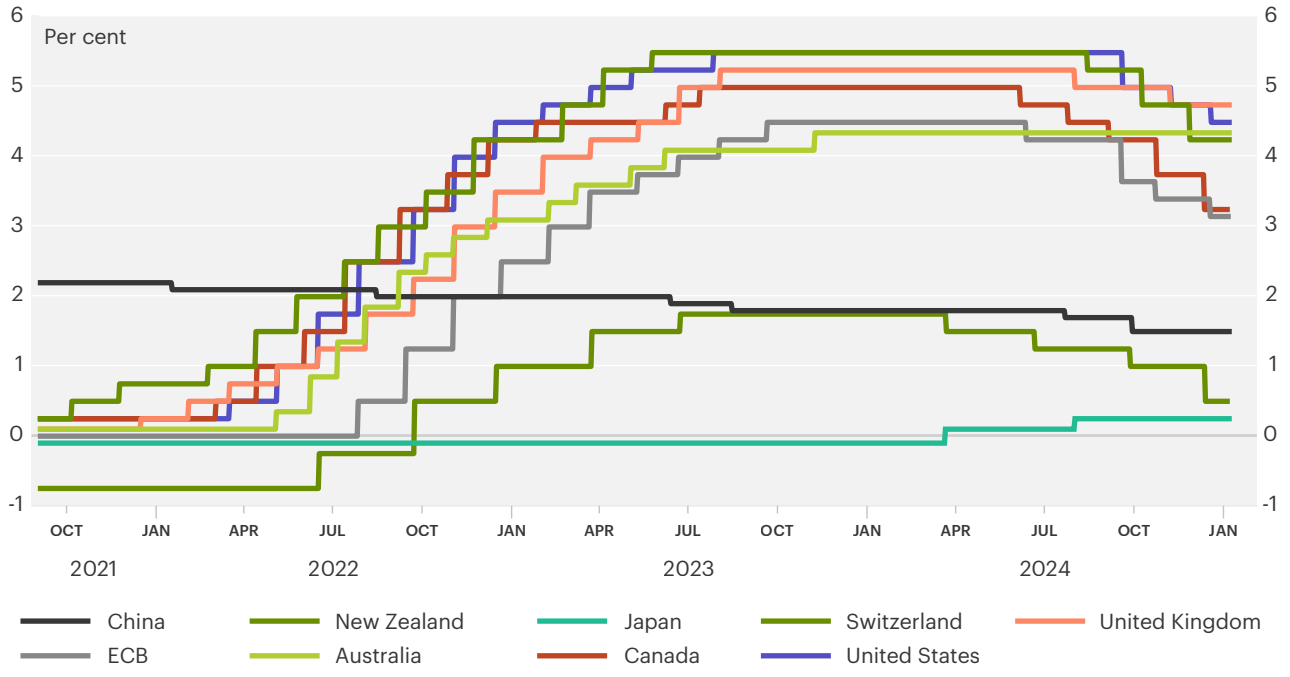
> "President Trump has indicated he may slash the federal US company tax rate to 15 per cent, half Australia's company rate, which presents a further challenge to our global and relative competitiveness."

As always, there are risks to the global outlook, but uncertainty this time is unusually elevated. This is partly because the major risks revolve around geopolitical conflict. The conflagrations in both Ukraine and the Middle East have possible further implications for energy prices, in particular. There also are direct implications for shipping costs because of remaining threats to the ease of movement through the Suez Canal and elsewhere.

There is also the outcome of the recent US Presidential election to consider. President Trump has promised or suggested significant company tax cuts, lower immigration, a broad program of deregulation, new import tariffs and perhaps even more dovish leadership at the Federal Reserve. There is already a new direction on climate change policy and investment in the energy transition through the Inflation Reduction Act (IRA).

The main potential impacts on Australia will be from the announced changes to trade and tax policy. President Trump has indicated he may slash the federal US company tax rate to 15 per cent, half Australia's company rate, which presents a further challenge to our global and relative competitiveness. Higher import tariffs risk igniting another trade war with China, Australia's largest trading partner, which would also likely impact the Australian economy – with one in four jobs reliant on trade. This makes it critical that Australia has the best policy settings in place to ensure we are resilient to international headwinds.

Figure 2: Central bank policy rates, per cent



Source: Fed, RBA, RBNZ, BoC, ECB, BoE, SNB, BOJ, PBoC

Australia's economic outlook—weak growth and persistent inflation, but better prospects

Growth in Australia's economy has slipped to 0.8 per cent, below one per cent for the first time since the 1990s recession excluding the period of the pandemic. One reason for this is Australia's lagging productivity, which has contributed to seven consecutive quarters of real per capita incomes going backwards.

The slowdown reflects the impact on households of the Reserve Bank's 13 interest rate hikes since May 2022, the spike in the cost-of-living and the surge in personal income tax payments. On the latter, the increase through bracket creep in recent years is the fastest since the 1970s.

> "The surge in public spending explains why over two in five jobs created in the economy over the last year are in the government-supported sector."

The main drivers of Australia's economy this year have been increased government spending and a growing population. The surge in public spending explains why over two in five jobs created in the economy over the last year are in the government-supported sector. Meanwhile, private demand has significantly weakened across household spending, business investment and dwelling construction.

Notably, private business investment remains close to a three-decade low as a share of GDP. There was a recovery underway, but that rebound has stalled. This in part reflects the impact of new incentives for investment in other countries (e.g. the US Inflation Reduction Act) and the unfavourable investment fundamentals in Australia in areas like tax, planning, workplace relations and broader regulation. Similarly, house construction is near decade lows despite the fastest population growth in seventy years.

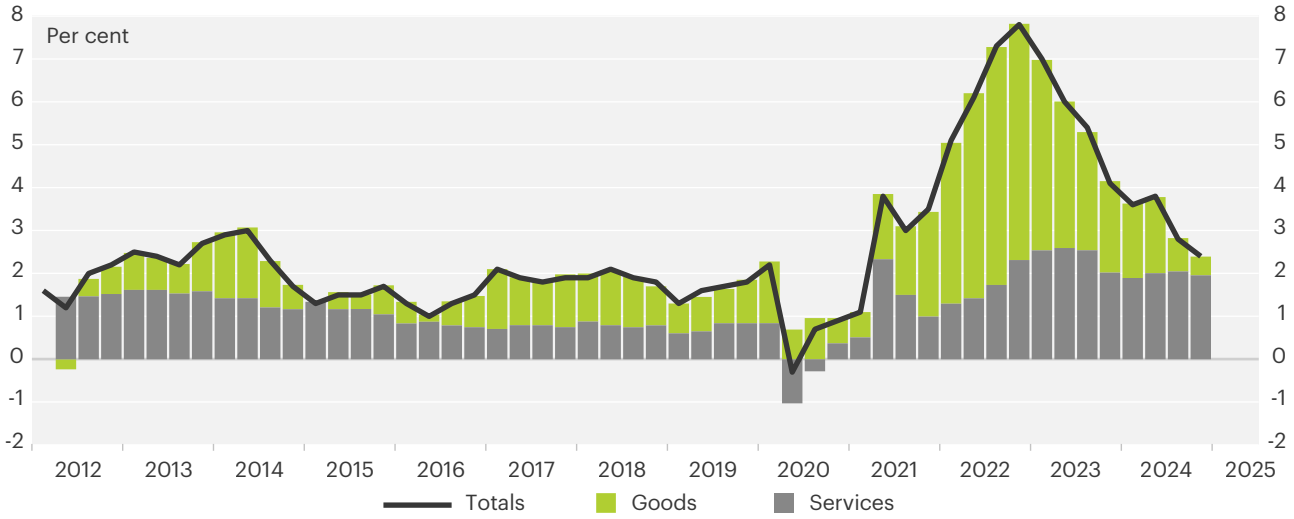
Inflation in Australia has receded from the peak near eight per cent in late 2022 but remains above target on key underlying measures. Goods price inflation, which drove much of the previous spike due to higher oil prices and supply constraints, has tumbled, but service price inflation is sticky. For example, major drivers of inflation over the last year have been in areas like insurance, education, healthcare and rents. Many of these are difficult for households to avoid.

Despite weak growth, aggregate demand has been too strong relative to supply, exceeding the

Figure 3: Gross Domestic Product, constant prices, per cent change

Source: ABS

Figure 4: Contribution to CPI growth



Source: ABS

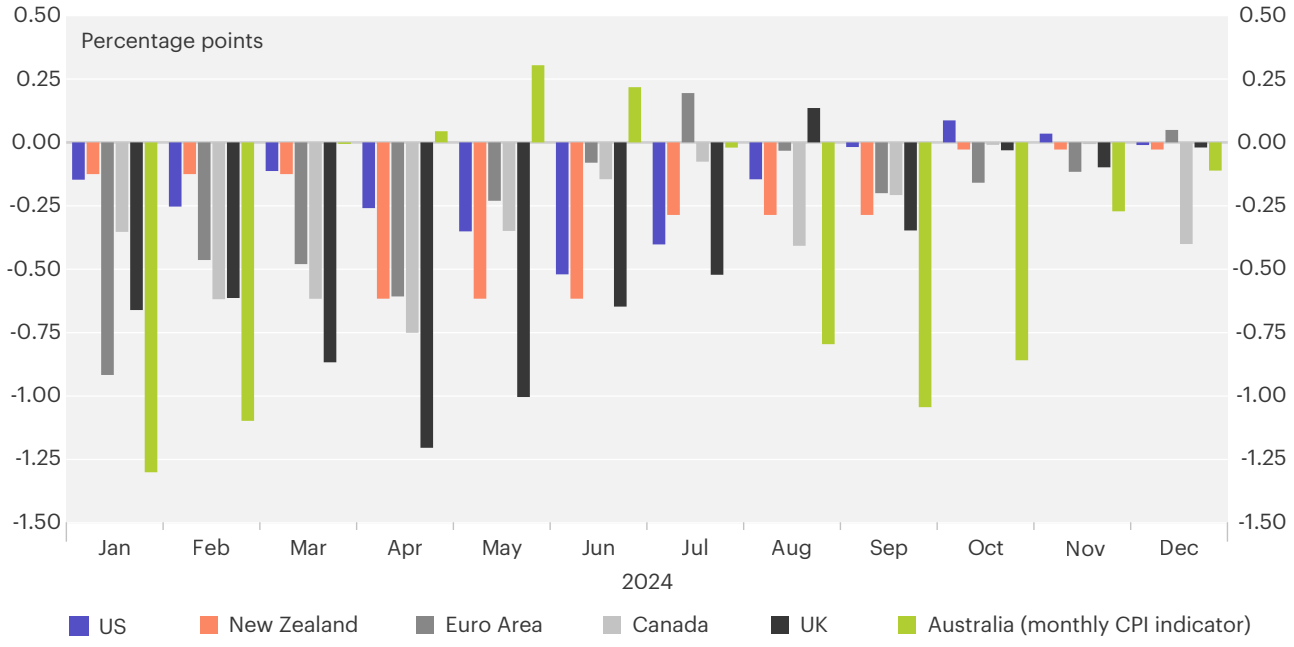
economy's limited ability to sustainably deliver the goods and services in demand. Essentially, this means too many dollars chasing too few goods and services.

A key driver of aggregate demand is rising government spending. For example, Commonwealth government spending alone is expected to rise almost six per cent this year in real terms. Outside the COVID period, the Commonwealth's spending share of GDP at 26.5 per cent will reach the highest level since the 1980s in the current fiscal year, when Australia already has a persistent inflation problem.

Indeed, fiscal and monetary policy are pulling firmly in opposite directions. RBA board members continue to have both feet on the interest rates brake, trying to slow down growth in demand to match constrained supply (although rates here have not been raised as much as in other places around the world).

In fact, the stimulus being provided by the states and territories this past year or so will be larger than that provided by the Commonwealth. The fiscal policy decisions adding money to the economy are making it more difficult for the RBA to return core inflation to the two to three

Figure 5: Change in core inflation rate, latest three months, percentage points



Source: BLS, ABS, Stats NZ, Eurostat, StatCan, ONS

per cent target zone. Substantial fiscal stimulus this year has meant inflation has been slower to decline than otherwise. This means, on balance, that interest rates are more elevated than they otherwise would be.

From here, growth in the economy is likely to remain stagnant in the near term as households, in particular, deal with lingering cost of living pressures, the maintenance of elevated interest rates and the heavier tax burden. The good news is that the labour market remains robust. Jobs growth is healthy, and the unemployment rate ended 2024 around where it had started the year. The caveat is that much of the jobs growth of late has been underpinned by higher public spending.

Australia's GDP growth will probably improve in 2025 as interest rates come down and cost-of-living pressures start to ease. The RBA is likely to be lowering interest rates this year as inflation recedes. Both the RBA and Treasury forecast growth in Australia's economy of around two per cent for this year.

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5

Summary of key issues for this budget

5. Summary of key issues for this budget

This submission addresses three key issues requiring urgent attention in this budget. Set out below is a summary of the key issues. Recommendations, and more detailed analysis of each issue, are subsequently addressed in following chapters.

Public spending

A key issue for fiscal policy is to keep public finances on a sustainable long-term footing. This means balancing the budget in structural terms over the economic cycle. Keeping the budget in structural balance will help to ease inflationary and interest rate pressures, while also contributing to a stable net debt to GDP ratio, avoiding unsustainable debt dynamics that could undermine economic confidence and increase the cost of capital for both government and business through higher interest rates.

"Budget decisions need to support productivity and economic growth, while maintaining a disciplined approach to government spending."

Balancing the budget in structural terms requires sustainable levels of government expenditure without increasing the overall tax burden. Uncontrolled growth in government spending risks a rising tax and debt burden that will weigh on productivity growth and leave the budget and economy more exposed to adverse economic shocks.

The government's Intergenerational Report identified a growing long-term gap between federal spending and revenue and growing budget deficits on a 'no policy change' basis. Closing this gap will require close attention to the structural drivers of government spending.

Lowering the debt to GDP ratio requires that economic growth exceeds growth in government spending to ensure that government debt as share of GDP falls over time. Budget decisions need to support productivity and economic growth, while maintaining a disciplined approach to government spending.

The 2024-25 Budget saw a loosening in fiscal policy after two consecutive budget surpluses on the back of strong commodity prices and post-pandemic gains in employment growth. In 2024-25, the easing in fiscal policy as measured by the change in underlying cash balance is expected to be equivalent to 1.6 per cent of GDP, with a further easing in 2025-26 taking the total two-year change in the budget balance to 2.2 per cent of GDP.

This comes against the backdrop of a fully employed economy with low productivity growth that is struggling to accommodate existing demand pressures. Underlying inflation is still above the RBA's two to three per cent inflation target and is running at a faster rate than many of our developed economy peers.

The improvements in the budget position to date have reflected mainly favourable forecast errors in relation to higher commodity prices and the strength of the labour market, more so than structural savings. Policy decisions have delivered small gains, but there is much more to do given the large structural deficit.

Policy decisions are also inconsistent with the government's fiscal strategy of "directing the majority of improvements in tax receipts to budget repair". For example, the 2024-25 Budget included revenue upgrades over the forward estimates of $23.8 billion, yet new policy spending measures over the same period were equal to $32.5 billion.

In other words, there is spending of all the expected increase in revenue and more. The measures contained in the 2024-25 Budget worsen the budget position by $24.4 billion over the forward estimates. This is not a sustainable approach to fiscal policy.

The Parliamentary Budget Office has noted that the federal government's fiscal position is only sustainable "if governments continue to take appropriate management action consistent with what has historically been done."[2] As the PBO says, "this will require significant policy discipline."[3]

The PBO has warned that "if future government decisions simply mirror those made over recent decades, particularly in infrastructure spending, other grants and government operational costs, future spending will be higher than forecast in the budget."[4] Based on historical experience, the existing budget assumptions for these outlays will be significant underestimates in the absence of active policy decisions to curtail growth in outlays.

Revenue

Commonwealth revenue has been increasing rapidly. It reached 25.8 per cent of GDP in 2023-24 – the third highest level on record. This is more than two percentage points above the long-run average and the increase has been a key contributor to budget surpluses the last two years. The key drivers have been:

- A strong labour market alongside rapid bracket creep, with personal tax reaching 12.4 per cent of GDP – the highest level since the "tax mix switch" of 2000 when the GST was introduced and personal taxes reduced.
- Strong commodity prices that drove up national income and resource company profits – company tax has reached 5.3 per cent of GDP, the second highest level on record following the peak in 2022-23.

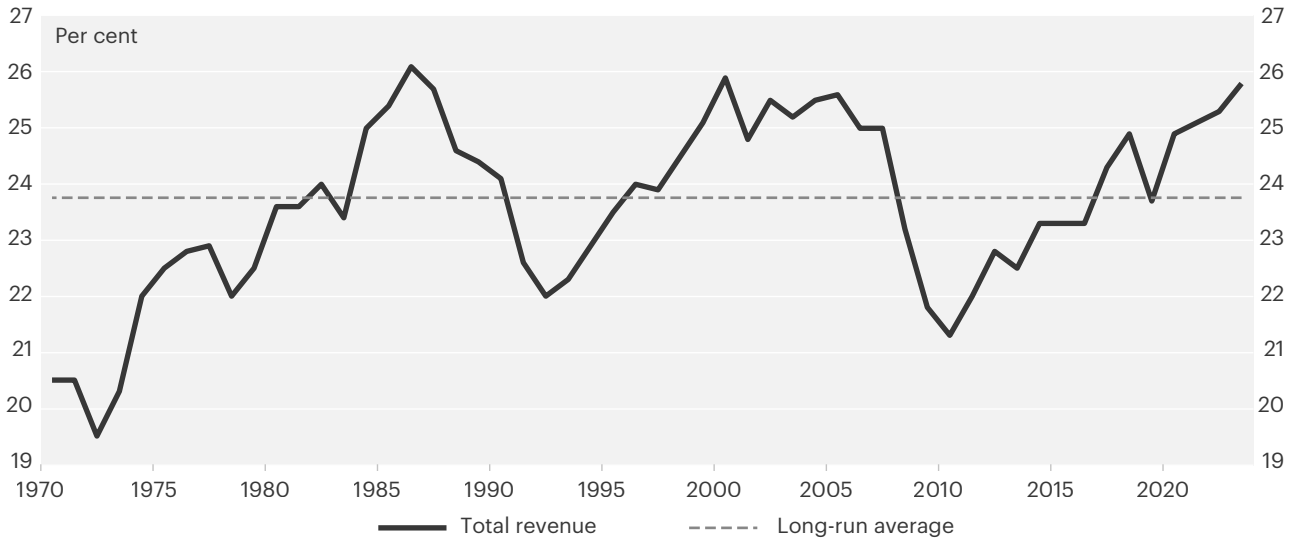
2 https://www.pbo.gov.au/publications-and-data/publications/fiscal-projections-and-sustainability/beyond-budget-2024-25
3 Ibid
4 Ibid

Lack of productivity growth and the need to drive a private sector-led recovery

A core means of bringing down inflation is doing more with the resources we have, including labour, capital and intellectual property. This is called productivity, which grows the supply side of the economy. When businesses cannot run efficiently, the cost of what they are producing is higher than necessary and their goods and services are more expensive. That economic reality drives inflation and compromises the nation's international competitiveness. The BCA welcomes the Government's recognition of the importance of productivity, but more needs to be done to help drive it.

For the nation's workers, the only way to have sustainable wage growth without driving up inflation is to have it linked to productivity improvements. Doing so means businesses are not forced to pass on increased production costs to consumers because they have been offset with savings in other places. Productivity gains can

Figure 6: Revenue, per cent of GDP



Source: Australian Department of the Treasury

then be shared among stakeholders including workers (in the form of higher wages), customers (in the form of lower prices) and shareholders (in the form of higher returns).

A core problem is that none of the recent workplace relations changes legislated by the Government were designed to improve productivity or were linked to it—which would have been possible. They also weakened the existing link between wages and productivity. As such, they do little to promote sustainable real wage increases into the future. The nation's living standards will suffer.

"This terrible outcome helps to explain why our living standards this past decade have grown at their slowest rate since the Great Depression."

The most recent historical productivity statistics for Australia are confronting. Productivity growth over the past decade, in fact, was the weakest in six decades—averaging just 1.2 per cent a year compared to 2.1 per cent in the 1990s to mid-2000s. This terrible outcome helps to explain why our living standards this past decade have grown at their slowest rate since the Great Depression. In fact, our living standards, measured by per capita GDP, are falling, particularly when compared with other comparable developed countries.

The daunting challenge from here to meet the productivity assumption of the IGR (that is, average growth of 1.2 per cent over twenty years), is that we're starting from a position well behind the necessary 'run rate'. The simple equation is that zero average productivity growth so far this decade means productivity growth has to average more than two per cent each year until 2030 simply to be on track for the IGR target over the current decade.

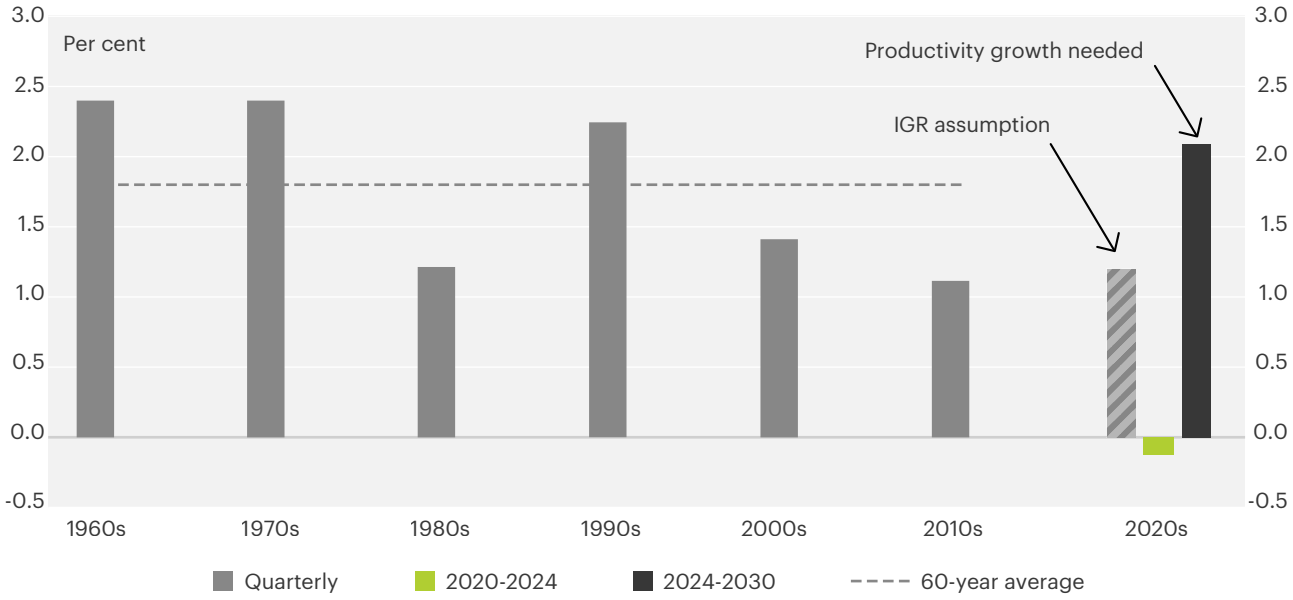
Of course, falling further behind will make the 2030s even more difficult, requiring a productivity feat not achieved in twenty years. To do so, though, we need to take seriously the extent of the challenge and have a national conversation about the need for a genuine reform agenda to attract investment. Changes made so far, however valuable individually, are piecemeal.

Recall, though, that the IGR's productivity target is a distant bullseye that has been downgraded progressively since the first IGR was published 20 years ago. History has not been on our side. The cold reality is that the longer productivity growth is zero this decade (or even worse, remains negative), the higher productivity growth has to be in the future to hit the IGR target.

Figure 7: Wages and labour productivity, March quarter 2003 = 100

Source: ABS

Figure 8: Labour productivity growth by decade, per cent



Source: ABS and BCA

The case for business-led growth

The productivity improvements we need, and the sustainable economic growth which our forecasts depend upon, will be driven by private enterprise, not by even bigger government and more red tape and regulation. This is not a matter of ideology; it's a matter of fact. The key job for governments is to make our economic environment as conducive for business growth as possible. This means:

- Reducing regulation and red tape (including repealing that which is no longer current).
- Pulling back from anti-productivity industrial relations policies.
- Achieving investment confidence through energy policy certainty.
- Drastically increasing incentives and facilitation for research and development in commercial settings.
- Unleashing the productivity potential of the private health and care sector.
- Incentivising states and territories to make reforms.

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6

Addressing public spending

6. Addressing public spending

Fiscal sustainability

The need for greater fiscal discipline at a state and federal level is evident across a number of different metrics, including the public sector's contribution to overall demand.

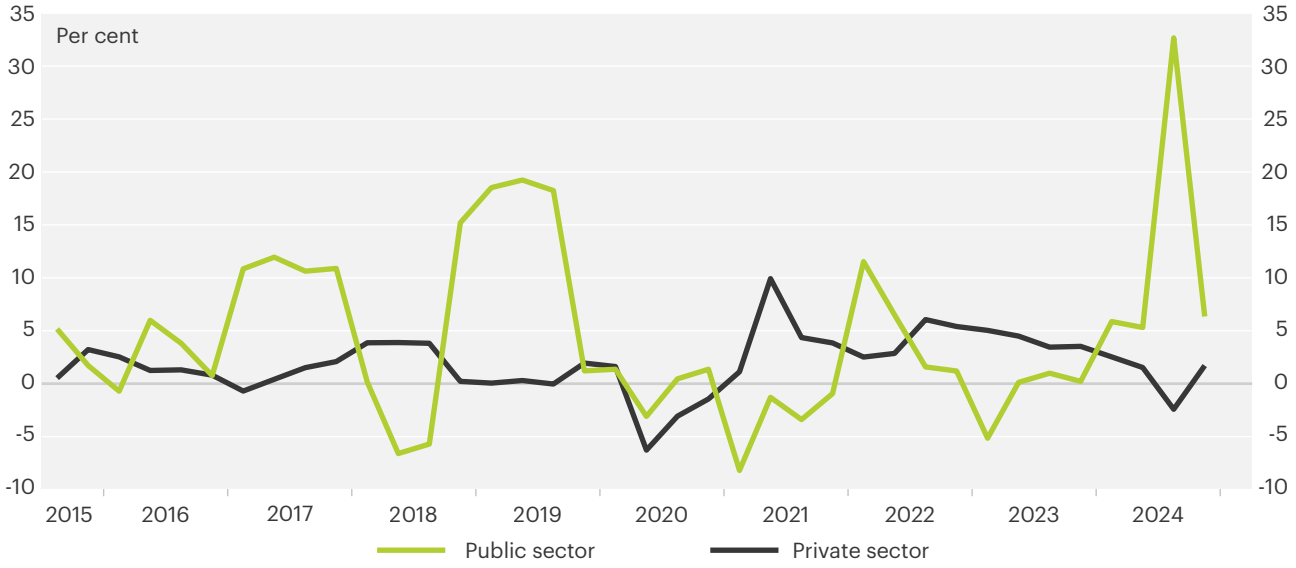
The impact of an expanding public sector footprint

As figure nine shows, public sector final demand – combining Commonwealth and state governments – is at record levels of around 28 per cent of GDP. This exceeds pandemic-era levels and is well above levels normally associated with deep economic downturns and large fiscal stimulus measures. The growth in the government share of economy is crowding-out private sector activity and expanding employment in sectors of the economy with relatively low productivity. This includes employment in aged care, disability care and the NDIS, where individual human-to-human productivity improvements are difficult to scale.

Figure 9: Public final demand, per cent GDP

Source: ABS

Figure 10: Employment, annual per cent change

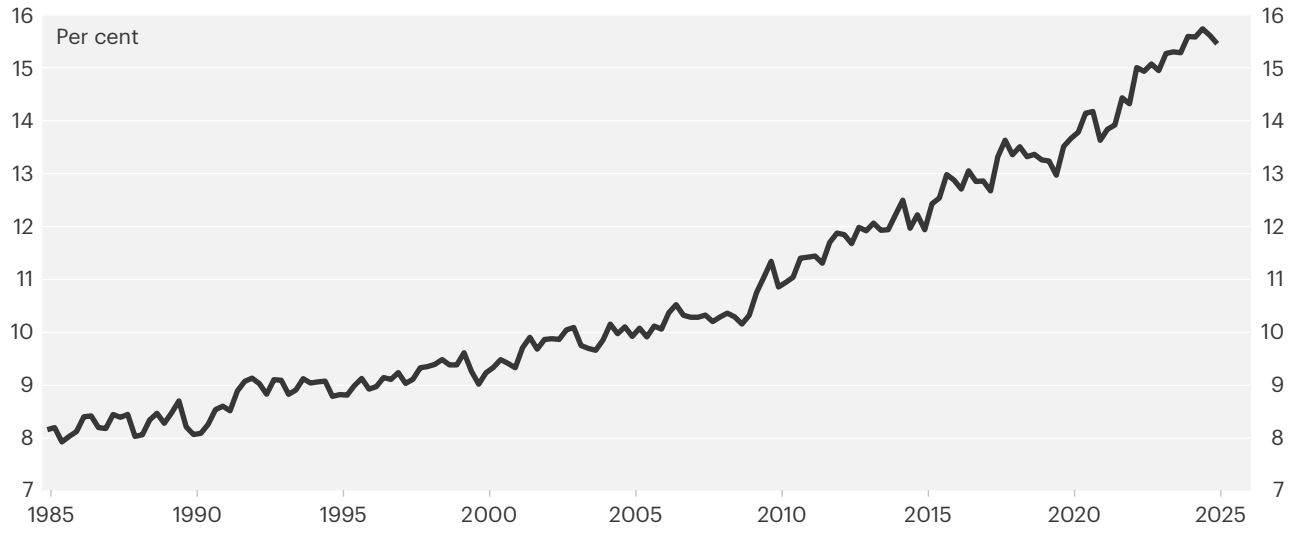


Source: ABS

The Australian economy has seen strong employment growth as part of the recovery from the pandemic. But more recently, public sector employment growth has been strong, compared with weak employment growth in the private sector.

Much of this employment growth has been in the care economy, which now commands a growing share of total employment equal to nearly 16 per cent. According to the e61 Institute, nearly all the additional hours worked in the Australian economy over the past year have been in the non-market sector of the economy. Much of this has come from the 'care economy' – the fastest growing sector over the past decade, and the most common destination for workers switching industries.[5] The growth in low-productivity, non-market sector employment has partly accounted for strong post-pandemic employment growth not translating into stronger output growth. Real GDP per capita has also been falling in part because of low productivity growth.

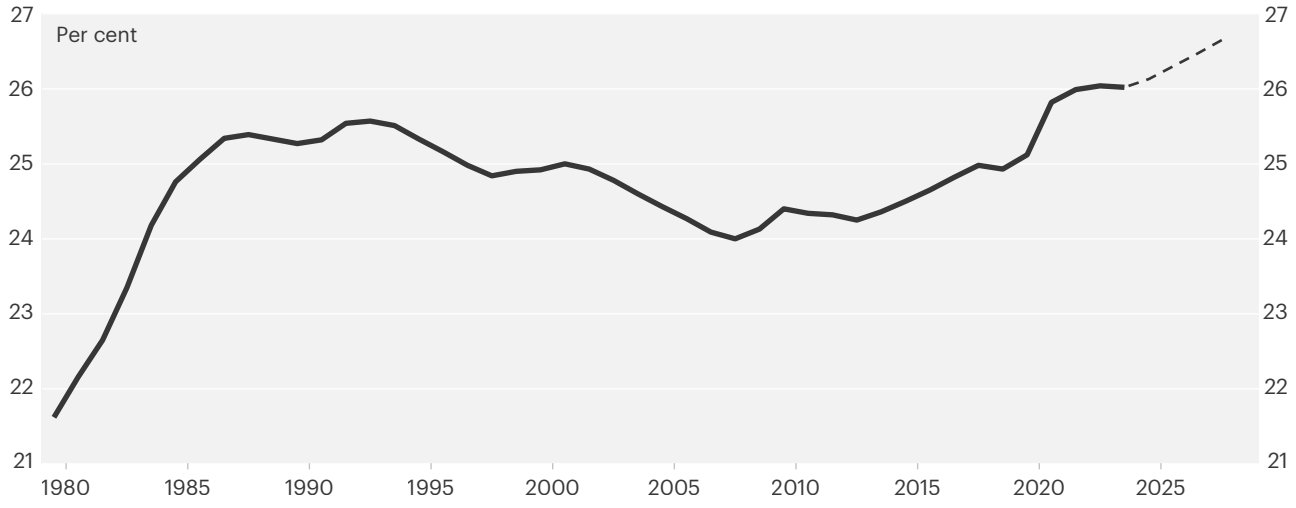
Figure 11: Health care and social assistance employment, per cent of total employment



Source: ABS

5 Matthew Maltman and Ewan Rankin, 'What if we didn't care? Implications of the growth in the care economy for the broader macroeconomy,' Research Note, e61 Institute, 10 October 2024

Figure 12: Federal payments, per cent of GDP, 10-yr moving average

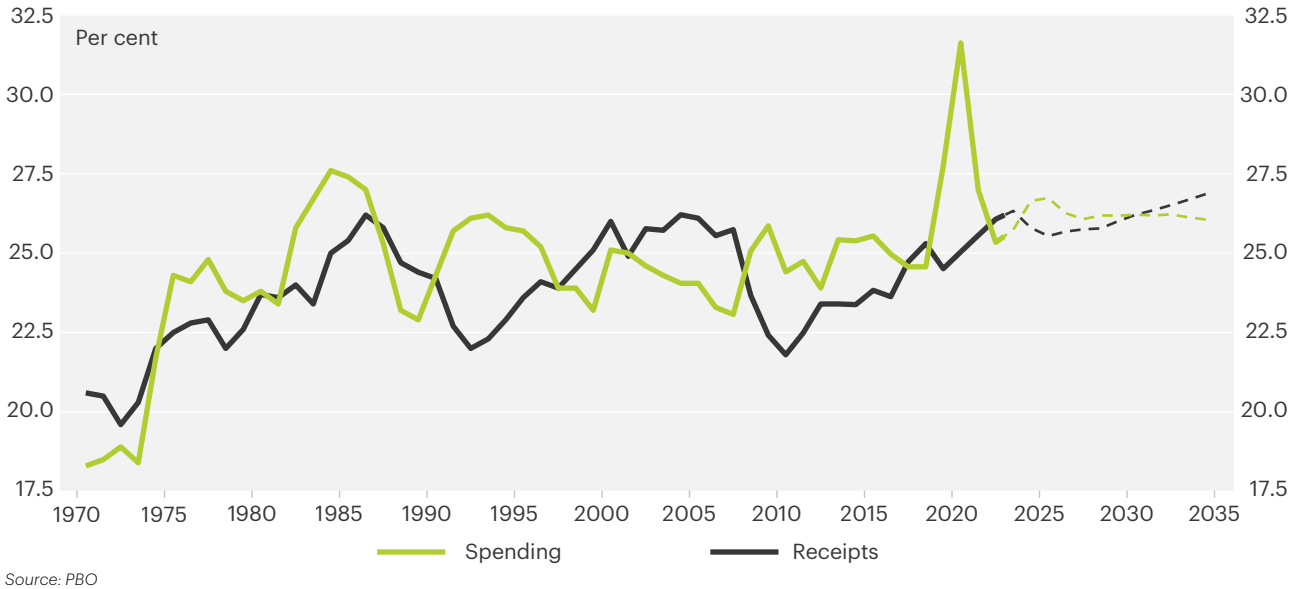


Source: Australian Department of the Treasury

At a federal level, the long-term upward drift in federal payments as a share of GDP can be seen by taking a 10-year moving average of payments growth. The 10-year moving average is expected to reach 26.5 per cent of GDP by 2027-28 on the government's own estimates. The Parliamentary Budget Office projects payments to remain above 26 per cent of GDP through to 2034-35.

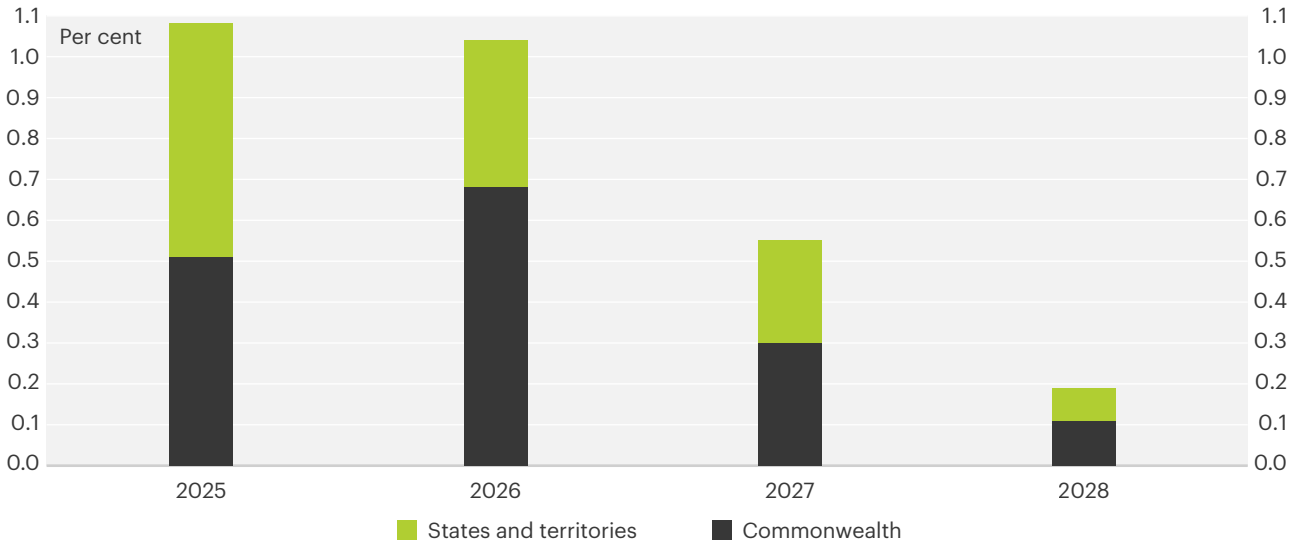
Combining recent state, territory and federal budget policy decisions, we find a strongly positive fiscal impulse across state and federal jurisdictions, particularly in 2025-26. This net spending is contributing to inflation pressures and crowds out private sector activity. It means that fiscal and monetary policy are pulling firmly in opposite directions.

Figure 13: Spending and receipts, per cent of GDP



Source: PBO

Figure 14: Net spending from policy decisions, per cent GDP



Source: BCA calculations from budget papers.

Worsening fiscal outlook

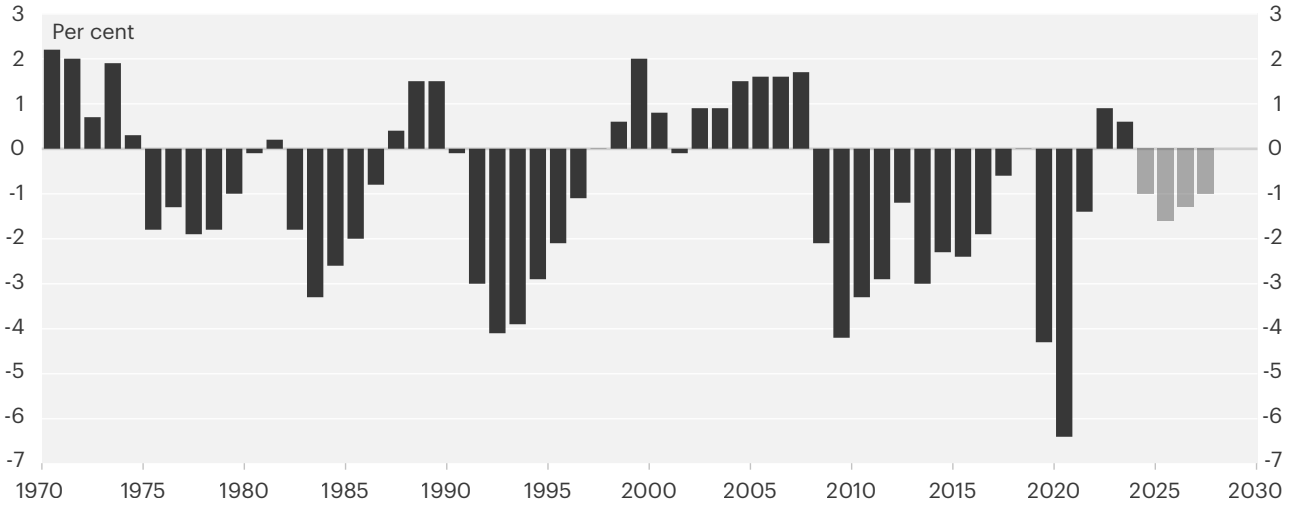
After two consecutive budget surpluses, the budget predicts a return to deficit over the forward estimates, averaging around minus one per cent of GDP. This reflects both a stronger profile for federal payments and an assumption of weaker growth in receipts.

"The return to persistent deficits from 2024-25 reflects a normalisation of these cyclical influences on the budget as economic growth slows..."

The two back-to-back surpluses delivered recently relied heavily on unsustainable cyclical gains in revenue attributable to a record high terms of trade in 2022, as well as strong employment and wages growth in a high inflation environment.

The return to persistent deficits from 2024-25 reflects a normalisation of these cyclical influences on the budget as economic growth slows, but also the lack of progress on structural budget repair. Structural deficits are then expected to persist as temporary and cyclical influences on the budget fade. The terms of trade are expected to continue to decline from 2022 record highs, implying slower growth in revenue.

Figure 15: Underlying cash balance, actual and Budget forecasts, per cent GDP

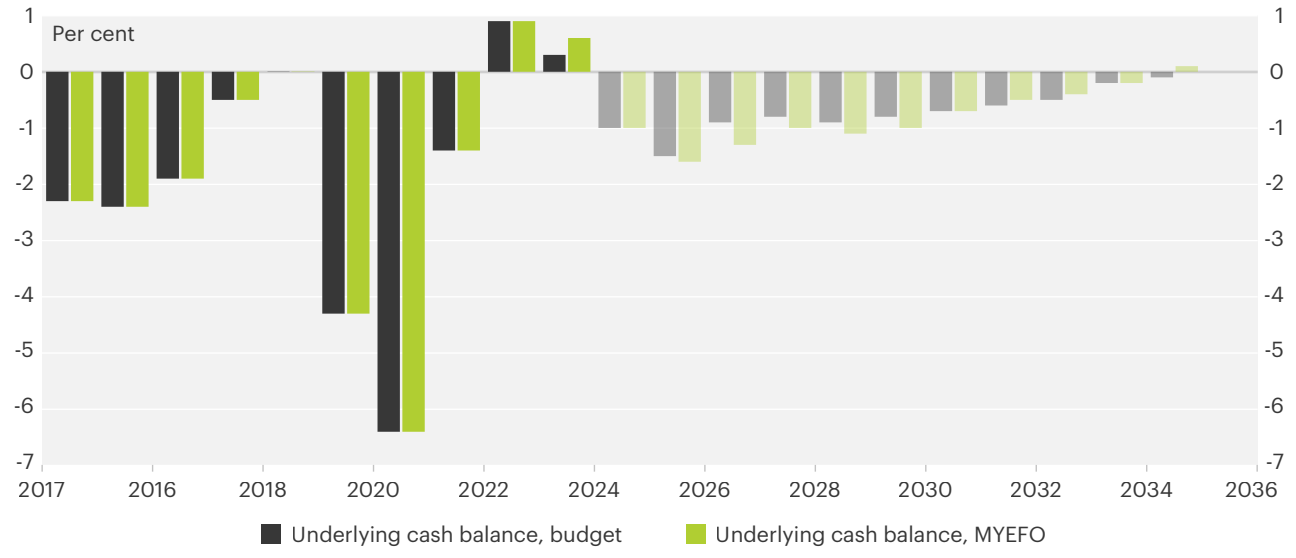


Source: Australian Department of the Treasury

Based on the Mid-Year Economic and Fiscal Outlook 2024-25, underlying cash deficits are forecast to persist through to 2033-34, with a small surplus seen only in 2034-35.[6] As noted earlier, the Parliamentary Budget Office flagged that this assumes further interventions to stabilise the budget over the projection period similar to those that have been made historically. The budget could be expected to underperform this scenario in the absence of strong fiscal discipline, giving rise to a decade of structural deficits.

Net debt is forecast by Treasury to rise in the near term, and has been upgraded across the medium term period in MYEFO compared with the 2024-25 Budget. This would leave net debt as a share of GDP around the same levels seen in the mid-1990s in the wake of the early 1990s recession and before the privatisation and fiscal consolidation efforts of the mid to late-1990s. Again, this projection assumes government action to contain growth in outlays similar to that seen historically.

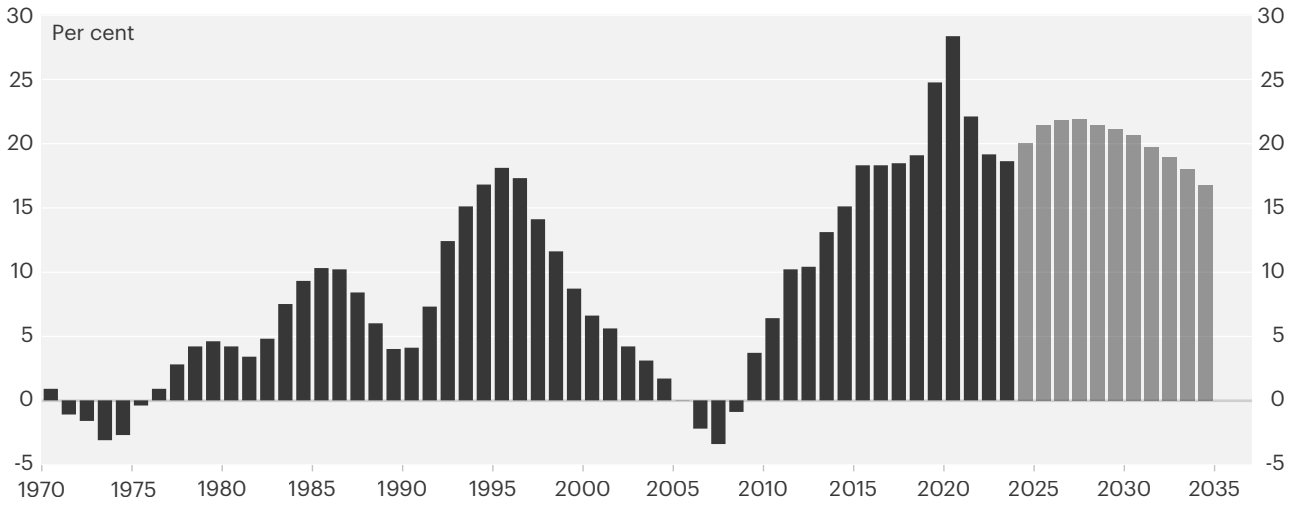
Figure 16: Underlying cash balance, May Budget versus MYEFO, per cent of GDP



Source: Australian Department of the Treasury

6 Note that this projection does not take account of the 2023-24 final Budget outcome

Figure 17: Net debt, per cent of GDP



Source: PBO

Refresh the Charter of Budget Honesty and increase transparency

The original Charter of Budget Honesty was an important innovation in fiscal transparency and accountability in its time. It complemented the shift to inflation targeting as the basis for monetary policy in underpinning improved macroeconomic stability.

> "The Charter needs to be updated, especially in light of the long-term pressures on the budget that will demand even greater fiscal discipline than has been seen in the past."

More recently, however, the guardrails provided by the Charter have not been as effective in disciplining fiscal policy, especially on the expenditure side. The Charter needs to be updated, especially in light of the long-term pressures on the budget that will demand even greater fiscal discipline than has been seen in the past. The revised Charter should include a requirement for a well-specified fiscal strategy based on quantitative rules for the main budget aggregates and net debt projection.

A revised Charter should mandate the publication of a budget reconciliation table including the impact of policy decisions and economic parameter variations over 10 years rather than just the forward estimates. The existing four-year horizon for quantifying the impact of spending and other decisions can mean the long-run impact of new spending on the budget bottom-line is not clear or may be obfuscated.

The fiscal strategy mandated by the Charter should include greater clarity and transparency in relation to the productivity assumptions underpinning the budget, including a sensitivity analysis of the main budget aggregates to variations in that assumption. This will help ensure that productivity growth remains front and centre for fiscal policy rather than just a tacit assumption.

Control ballooning off-budget spending

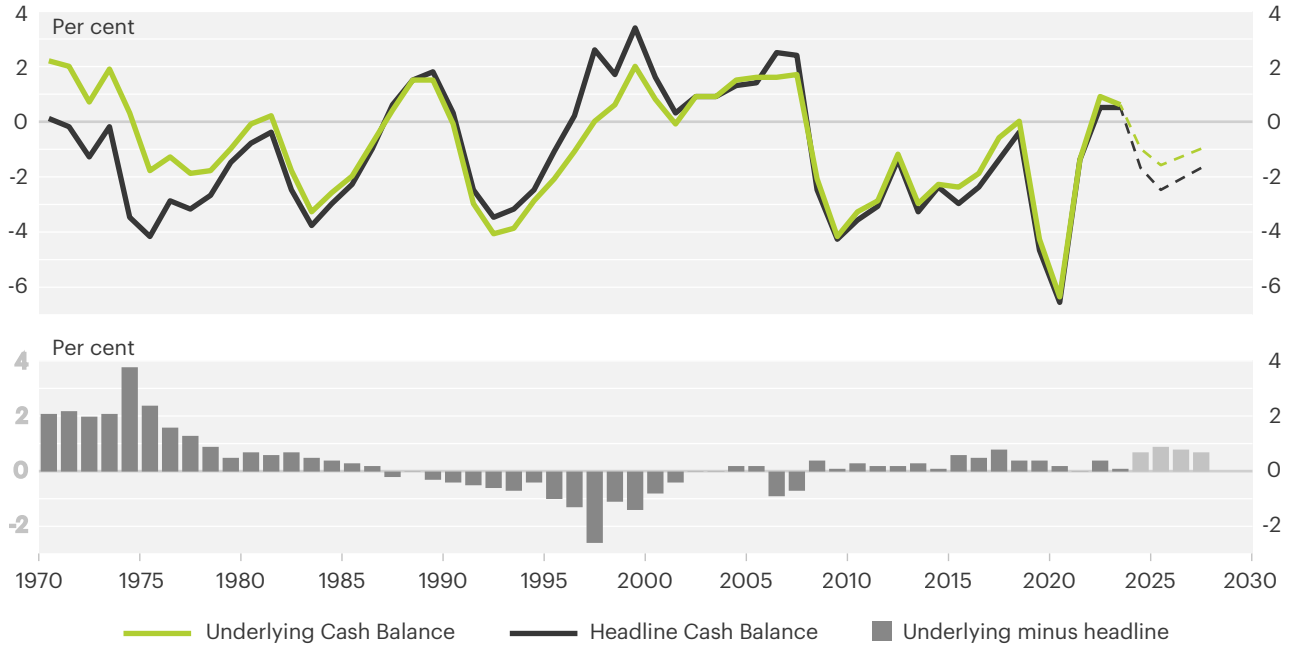
The Charter should also mandate better reporting of off-budget expenditures over a ten-year horizon. The last budget saw an increase in off-budget spending. This is evident in the blow-out in the difference between the headline and underlying cash balance to $89 billion. This was $9 billion more than contained in the 2024-25 Budget forward estimates, and $30 billion more since the 2023-24 Budget (see figure 18).

Figure 18: Off-budget financing of Commonwealth spending programs, 2024-25 to 2027-28

Program	$b
Net other	**-20.1**
Student loans	**-20.0**
CEFC loans and investments	**-19.3**
NRFC loans and investments	**-7.2**
Housing Australia	**-6.3**
Snowy Hydro Limited loan	**-4.5**
Northern Australia Infrastructure Facility	**-3.2**
Snowy Hydro Limited investment	**-2.6**
National Interest Account	**-2.5**
NBN investment	**-1.3**
Home Equity Access Scheme	**-1.1**
Australian Business Securitisation Fund	**-0.9**
Multilateral Replenishment	**-0.7**
Australian apprenticeship support loans	**-0.6**
Drought and rural assistance loans	**-0.3**
Australian Development Investments	**-0.1**
Structured Finance Support Fund	**0.2**
COVID-19 Support for Indonesia loan	**0.4**
Papua New Guinea – loan	**0.6**

The growing use of off-budget measures also opens a long-term gap between the headline and underlying cash balances. While the underlying cash balance is expected to return to balance over the medium-term, the headline balance remains in deficit. The budget would benefit from enhanced reporting of off-budget measures over the decade, to further enhance transparency and accountability. This could be also supported by reporting and data for the headline cash balance over the decade in budgets, and over the long-term as part of Intergenerational Reports.

Figure 19: Headline and underlying cash balance, per cent of GDP



Source: Australian Department of the Treasury

The fiscal strategy mandated under an updated Charter of Budget Honesty should be monitored by the Parliamentary Budget Office, including periodic reporting to Parliament on how the fiscal outlook is evolving relative to the strategy. The PBO should continue to produce a National Fiscal Outlook, consolidating federal, state and territory budgets and forecasts to provide an aggregated outlook for the national fiscal position.[7] The National Fiscal Outlook should in turn provide a foundation for a national Intergenerational Report, prepared by the Parliamentary Budget Office, consolidating the federal IGR with its state-level counterparts.

The Budget would also benefit from greater clarity and transparency around the productivity assumptions used, as well as sensitivity analysis. The latest Intergenerational Report assumed the productivity growth rate would converge to 1.2 per cent a year over a decade, but it is unclear whether this approach continues to apply – or what the short and medium-term budget productivity growth assumptions are. This is critical given their implications for the budget. It also sits in contrast to the RBA's Statement on Monetary Policy which does publish these figures.

Expenditure—the need for fiscal rules

Budget repair will ultimately require improvements in individual programs as well as sustainable growth in the economy, but fiscal rules and benchmarks can provide an overarching framework to guide and assess progress.

The BCA continues to advocate for a series of fiscal rules to help drive efficiencies in government spending. These rules will not reduce the level of services available to Australians – indeed they provide for an increase in spending per person after inflation.

> "The precise rules have changed over time, while others have been introduced and abandoned."

Fiscal rules are about ensuring taxpayer dollars are not wasted and taxes are kept as low as possible, while still providing quality services and a social safety net. They act as guardrails to help bring debt under control and maintain spending discipline. Without fiscal rules, long-term budget goals can be more easily deferred or fiscal discipline can be inconsistent. Put simply, without action the long run fiscal gap will grow wider until it requires a painful adjustment through a combination of cuts to services and higher taxes.

An analysis of fiscal rules from Commonwealth budgets over time reveals some common themes, including:

- A commitment/target to achieve a budget balance or surplus.
- A limit on the size of government through either a tax cap, limit on spending growth or commitment to reduce the size of government.
- A commitment/target for improving government net worth/debt over time.

The precise rules have changed over time, while others have been introduced and abandoned. For example, rules around automatic stabilisers have tended to come and go with downturns/economic shocks such as the Global Financial Crisis and COVID.

7 *See, for example, National fiscal outlook: as at 2024-25 Budgets, Parliamentary Budget Office, 30 October 2024*

The BCA recommends the following fiscal rules to ensure spending does not increase to a higher share of GDP:

- A tax-to-GDP cap of 23.9 per cent of GDP (as previously implemented in past fiscal rules).
  - This effectively reduces bracket creep, disciplines governments and stops spending increasing more rapidly than economic growth. The 23.9 per cent level does not impose an overly restrictive constraint on tax collections by historic standards. It has been reached only in five of the past 50 years. It is critical to grow the economy at the same time and not let the tax ratio drift up.
  - The tax cap has been argued by some to be unrealistic in the context of increasing spending pressures. But in the absence of broader tax reform, allowing bracket creep to continue unabated is both politically and economically unrealistic and damaging.
- Capping real expenditure growth at an annual rate of two per cent.
  - This would discipline the budget decision-making process while allowing for growth in real spending per person. There are significant funding pressures in areas such as health, aged care, the NDIS and defence, but they must be funded in a sustainable and efficient way.
  - It is critical that governments improve performance in major areas of service delivery to improve community outcomes in a cost-effective way.

A set of clear fiscal rules should be monitored by an independent authority, such as the Parliamentary Budget Office, and include reporting to assure the public that best practice is followed. Integrity of government processes is important to building trust in government. There must be transparency around the government's finances and how tax dollars are spent.

Encourage fiscal discipline

The purpose of fiscal rules is to encourage discipline in spending and naturally this approach would drive a need for savings to be found. The Business Council believes that one area which cannot be ignored is the significantly growing NDIS spend. While the recent Government efforts to drive savings are most welcome, the ongoing annual spending growth in this program cannot be ignored because it is so important that it continue sustainably into the future.

Similarly, budget savings should be explored through our health system and through comprehensive assessment and reform of duplicated spending efforts across the federation.

» Actions we should take

- **Commit to an overhaul of the *Charter of Budget Honesty Act 1998* with a view to strengthening the transparency and accountability regime for fiscal policy at the federal level. This should consider:**
  - A requirement for a well-specified fiscal strategy based on quantitative rules for the main budget aggregates and net debt projection.
  - Publication of a 10-year budget reconciliation table, including for off-budget spending.
  - Greater clarity and transparency around the productivity assumptions underpinning the budget, including sensitivity analysis.
- **Reinstating fiscal rules such as:**
  - The tax-to-GDP ratio cap of 23.9 per cent.
  - A cap on real expenditure growth at an annual rate of two per cent.

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7

Revenue

7. Revenue

The need for a productivity enhancing tax system

Few would say that Australia's tax system is fit for purpose for today, let alone tomorrow. Indeed, polling shows Australians agree with this sentiment.[8]

Australia's population will continue to age over the next 40 years, with the number of over 65-year-olds more than doubling. Meanwhile, the workforce participation rate is projected to decline according to the IGR.

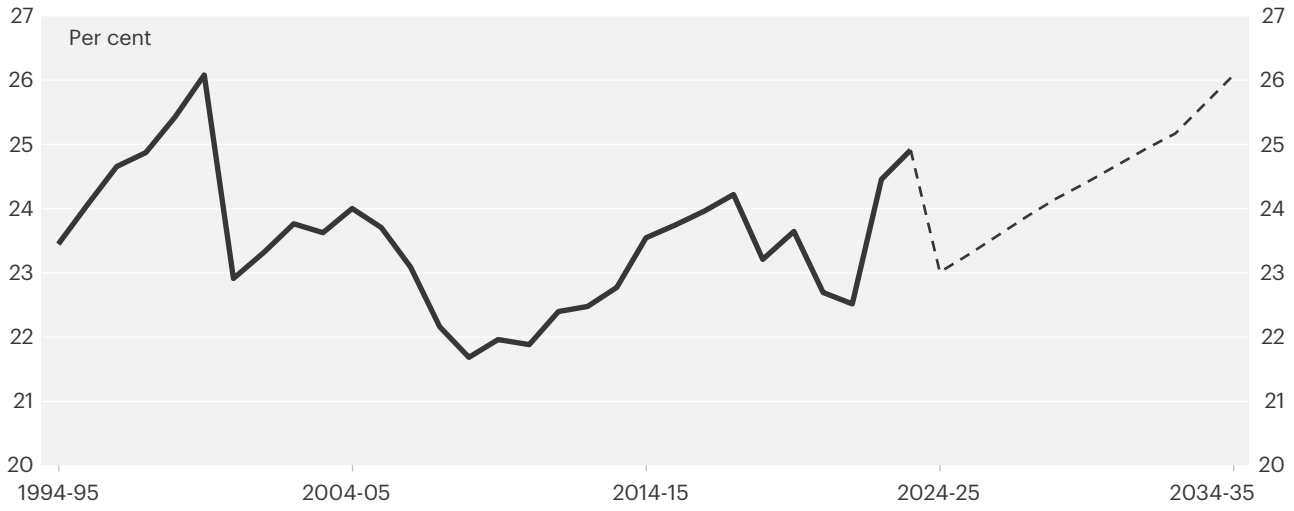
Whole-of-system, productivity enhancing tax reform is needed right across the Federation to address this ticking demographic time-bomb. Today's inefficient and complex tax system reflects the accumulation of decades of ad-hoc changes. Currently, it stifles investment, risk-taking and entrepreneurism and provides strong disincentives for employees to work more hours. This criticism is not controversial—how we deal with it is.

"We need to review this overall tax mix against our goals of growing the economy and creating jobs, while also funding services."

It is not about one tax, but the combination of taxes. We need to review this overall tax mix against our goals of growing the economy and creating jobs, while also funding services. The

8 *https://www.afr.com/politics/federal/polls-prove-economic-reform-can-pass-pub-test-with-the-punters-20241231-p5l1ca*

Figure 20: Bracket creep will see average personal tax rates continue to rise



Source: ABS and BCA

overarching objective must be to determine what type of revenue we need to generate over time and work backwards from there.

It is wrong to dismiss tax reform as 'too hard to do'. Few sustained efforts would yield greater rewards for our nation's future.

Within this context, the BCA will continue to argue against new taxes on business, including any new form of super profits taxation. Much of the boost to corporate earnings of late has been from a cyclical bounce in commodity prices that is unlikely to be sustained.

"At a time when most of the world is making it easier to do business, Australia must not move the other way and make things harder and deter investment."

At a time when most of the world is making it easier to do business, Australia must not move the other way and make things harder and deter investment. Australian business employs millions of Australians and plays a key role in our communities. We should not put this at risk.

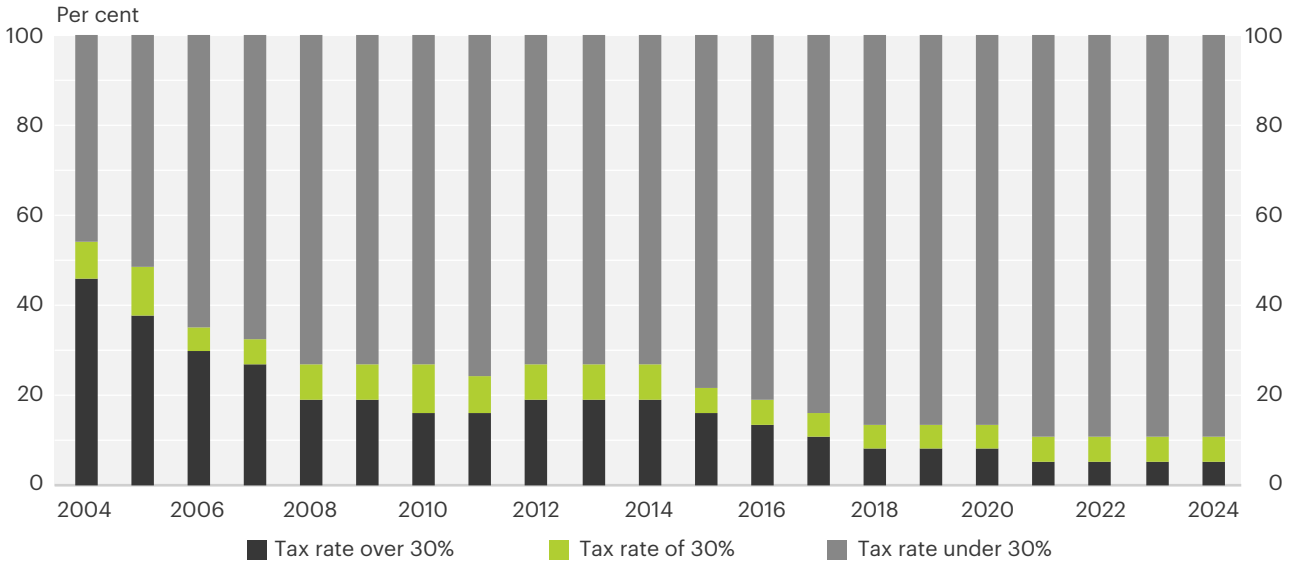
The BCA perspective on personal taxes

Last year's changes to the stage-three Personal Income Tax Plan were a missed opportunity to help simplify the tax system and improve incentives to work, save and invest. Bracket creep for personal taxpayers continues to be a constant issue which, left unchecked, would continue to steadily reduce the rewards for effort which are critical for productivity. Our workers face higher average and marginal tax rates even when their real pre-tax wage has not changed.

This is an even more pressing issue in the context of our ageing population. An older population will drive increased government spending while reducing workforce participation, and thus the capacity to pay. By 2061 there will be only around 2.7 workers for every person aged 65 and over, compared with around 3.9 workers today and around 6.5 workers 40 years ago.

The stakes are high. If income tax maintains its current share of total taxes (and the overall tax burden is not significantly lower), it will mean a much-increased burden on future income earners. This will exacerbate intergenerational equity issues and damage the aspirations of younger workers who will need to fund an ageing population and repay Australia's debt.

Figure 21: 90 per cent of OECD countries have a lower company tax rate



Source: OECD

Rationalising company tax

One lens through which we must assess our taxation system is that of global competition. Investors demand a globally competitive after-tax return on their investments in Australia, otherwise they will take their money elsewhere. Our high corporate tax rate makes it difficult to compete with peer countries—this will only be exacerbated if the Trump administration in the US continues to further reduce tax rates. President Trump 2.0 has pledged to take the federal US corporate tax rate down again to just 15 per cent, half the prevailing tax rate for large Australian companies. But even if he is only able to lock in the existing company tax rate of 21 per cent, that will have negative implications for Australia's competitiveness.

"Australia has the third-highest tax burden on capital income among 38 OECD countries..."

Australia's company tax system is one of the most uncompetitive in the developed world. The Tax Foundation's International Tax Competitiveness Index shows that Australia ranks a lowly 32nd out of 38 OECD economies for the competitiveness of its corporate tax rate. Australia has the third-highest tax burden on capital income among 38 OECD countries and around 90 per cent of OECD countries have a lower company tax rate.

The competition challenge that these corporate tax rates create raises concern in the broader Australian community. In a CT Group survey of 2,115 participants in mid-2023, 64 per cent of Australians were concerned about company tax rates hurting our competitiveness.[9]

In a real-world example of the ramifications, US capital flowing into Australia all but dried up when the US corporate tax rate was reduced to 21 per cent at the end of 2017. This could happen again based on the new Trump administration's stated intent. This demonstrates that corporate tax differentials matter for foreign investment and Australia's appeal to investors.

Australia's current corporate tax system is complex and potentially distorts investment by discouraging smaller businesses from expanding and employing more people. Moreover, all profits are taxed at the 30 per cent rate when the turnover threshold is passed. Such tax 'cliffs' discourage growth and encourage structuring of operations for tax purposes rather than commercial purposes.

We are living with the consequences of this uncompetitive tax system – business investment is near 30-year lows as a share of GDP. Clearly, we must reassess whether this is the appropriate setting alongside all other tax settings to meet our growth and investment goals.

9 *C|T Group, BCA commissioned research, C|T Group, May 2023*

The pressing case for a meaningful investment allowance

For some years, Australia has had chronically weak business investment, which in turn contributes to sluggish productivity growth, falling living standards and slower wages growth. This reflects underlying structural problems in the Australian economy that must be resolved.

Investment is critical not only for supporting the recovery in the short-term, but also for driving long run productivity and real wages growth which enables people's living standards to rise —an investment allowance for businesses would help boost investment in the short-term and would provide an important first step towards broader corporate tax reform.

An investment allowance must apply to all businesses – of all sectors and sizes – to maximise the benefits. That is, it should truly be broad-based, which in turn can help support the diversification of the economy. A policy that carves out different types of assets, companies or industries can distort investment decisions and ignores the diverse nature of modern investment projects. For example, an investment project could encompass a warehouse that houses machinery used to produce goods that are then transported by truck to consumers.

Figure 22: The critical role of investment

Tax changes should also not favour one form of investment over another, such as big versus small business, but be competitively neutral, recognising the benefits of investment regardless of its source. Large investment projects also have large multiplier effects and support many small- and medium-sized businesses along the supply chain.

"The effectiveness of an investment allowance ... will only be maximised if large companies can access it."

The effectiveness of an investment allowance – or any tax incentive to encourage investment – will only be maximised if large companies can access it. A policy that carves out large companies would be counterproductive as large businesses represent less than 1 per cent of all businesses, but they:

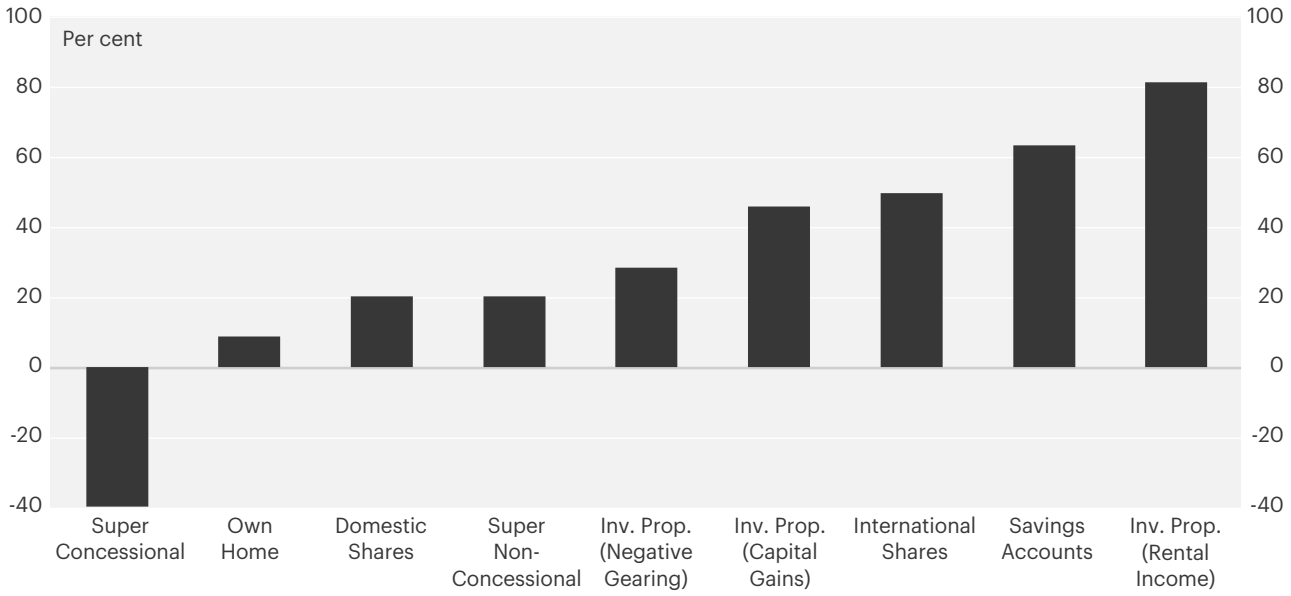
- Account for around 75 per cent of investment.
- Account for 44 per cent of private sector output.
- Pay 63 per cent of company tax.
- Account for around 45 per cent of business spending on R&D.

Avoiding the temptation of expediency in tax including super profits taxes and payroll tax loadings

High commodity prices and strong demand for Australia's world-class commodity exports have generated discussions around opportunistic taxation. This must be resisted. Australia's successful mining companies already pay a form of super profits tax via our high company tax rate—the benefit of this on the national budget is self-evident.

These profits will not be sustained over the long-term and should not be subject to structural revenue-raising changes. Moreover, the businesses most likely to be targeted with super profits taxes are those that will have to lead Australia's energy transition on the journey to net zero. Additional structural tax imposts on these companies at a time of cyclical highs in revenue will make this journey more challenging. For example, Victoria, Queensland and the Australian Capital Territory have all targeted large businesses with around $2.6 billion of ad hoc payroll tax increases a year. This acts as a disincentive for companies to grow and create more jobs in those jurisdictions.

Figure 23: Marginal effective tax rate of different types of savings over 20 years for an average wage earner, per cent



Source: ANU

Better understanding reform of the GST

Australia's goods and services tax (GST) is applied at a low rate on a narrow base compared with other OECD countries. The GST base has eroded, and will likely erode further, due to increased expenditure on GST-exempt items. It is a key source of dedicated revenue for the states and territories, but it has not been the growth tax that was originally envisaged. It is critical that we consider the potential increased use of indirect taxes, such as the GST, to reduce Australia's reliance on taxes that inhibit growth.

This would need to involve compensating low-income households through a mix of higher transfer payments and lower personal taxes. Pre-emptively ruling out changes to the GST on equity grounds is short-sighted. The community deserves to understand the implications of different options for tax reform for future growth (and scope for appropriate compensation) rather than simply focusing on the perceived fairness of changes to particular taxes considered in isolation. The community should also be made aware of what they will be giving up if reform does not take place.

Ensuring our tax system does not distort saving activity

Another point for review in any fulsome national discussion on tax reform should be the treatment of different forms of saving, such as savings accounts, shares, superannuation and housing. Since the concessional treatment of these savings varies greatly, they drive saving behaviours which may or may not be desirable from a national perspective.

More neutral tax treatment of income from different forms of savings is generally desirable, although there is a strong case for relatively favourable treatment of superannuation because savings are locked in for long periods and compounding tax effects could have punitive impacts.

Addressing the problem of inefficient state taxes

State tax bases are highly reliant on volatile and inefficient taxes, which are harmful to economic growth and budget stability.

- Stamp duty is a particularly destructive tax. It increases the cost of buying a house and discourages people from upsizing or downsizing their home for one that better suits

their family, or from moving to a new, more productive and satisfying job. It also makes it harder for small businesses to relocate as they grow. Stamp duty can discourage new housing development as the duty is paid twice: once by the developer when the land is acquired and again when the owner buys the house.

- Insurance taxes discourage people from taking out adequate cover. The risk is lower-income households under-insuring and exposing themselves to more risk (as rates of non-insurance decline with higher income).
- Payroll and land taxes are designed in a way that hinders efficiency which leads to increased complexity and higher rates, and disparities across Australia. Payroll tax is a tax on jobs. A national business must also deal with eight different payroll tax regimes with differences in rates, thresholds, exemptions and administration across the country.

Institutional incentives stymie major state tax reform. Through a combination of High Court rulings and conditions attached to Commonwealth grants, the tax bases available to state governments have gradually eroded – and are at risk of further erosion. Much of the windfall from tax reform that lifts economic performance is likely to end up in commonwealth rather than state coffers.

> "The Business Council has long called for a national fund to help address Australia's ailing productivity..."

This is a key area where the National Productivity Fund can help incentivise change at a state level. The Business Council has long called for a national fund to help address Australia's ailing productivity,

by incentivising states and territories to undertake reform. The Commonwealth's $900 million National Productivity Fund is a step in the right direction, as much of the nation's reform activity must occur at a state and territory level. This should be expanded in size to meet the challenges we face, and in scope to include more types of reform. These include reforms such as abolishing stamp duty in favour of broad-based land taxes, reducing regulation, improving housing approval rates, harmonising payroll taxes across jurisdictions and removing restrictions on trading hours.

There should be no adverse changes to the Fuel Tax Credit Scheme

The Fuel Tax Credit Scheme ensures that fuel tax is not paid on critical business inputs or by those who do not use public roads, including the heavy equipment used off road in mining and agriculture. It is not a concession, but a measure to better target excise tax. The Commonwealth Treasury holds that the scheme is not a subsidy but 'a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by business off-road or in heavy on-road vehicles'.[10]

> "The removal or any adverse changes to the Fuel Tax Credit Scheme would simply erode competitiveness..."

It is important to recognise that fuel tax credits are simply the mechanism through which the scheme is administered. For example, from 1957, off-road diesel users were exempt from fuel excise through an exemption certificate scheme. This scheme had integrity issues and was difficult and costly to administer. As a result, the Diesel Fuel Rebate Scheme was introduced, allowing eligible users to claim back the excise paid. The Fuel Tax Credit Scheme is an evolution of this scheme.

The removal or any adverse changes to the Fuel Tax Credit Scheme would simply erode competitiveness, particularly for trade-exposed industries such as agriculture and mining, and see a loss of global market share.

Consider the knock to confidence of ad hoc-tax increases

In the globally competitive context we are in, ad-hoc tax increases are undermining business and investor confidence. Businesses with large balance sheets have been the recent target of several ad-hoc tax increases, additional compliance measures, increased reporting requirements and additional/higher penalties.

Taken together, such actions are chilling decisions to invest in Australia. This is not just a matter for the Commonwealth, which is why it must be part of a national discussion. States and territories also are surprising businesses with unexpected changes to tax and regulation. For example, Victoria, Queensland and the Australian Capital Territory have all introduced unexpected additional payroll tax levies on large businesses.

Businesses are unsure what 'one-off' changes will come next. This is killing potential investment and ensuring we lose out to other nations in global competition.

» Actions we should take

- **Legislate a broad-based 20 per cent investment allowance to incentivise business investment.[11]**
- **Reduce the corporate tax rate to a globally competitive setting of 25 per cent for all companies to attract investment, drive growth and mitigate the distortions and disincentives of the two-tier tax system. This could be introduced through a phased reduction in the current rate by one percentage point a year.**
- **Super profits taxes must be resisted given our already uncompetitive company tax settings.**

10 Treasury submission to G20 Energy Experts Group in 2011
11 BCA is able to provide further information upon request

» Actions we should take

- **Consider increased reliance on indirect taxes such as the GST to reduce the nation's reliance on taxes that are more harmful to growth.**
  - This could be achieved through changes to the GST base and/or rate, with compensation for households as needed – particularly low-income households – through a mix of higher transfer payments and lower personal taxes.
- **Review the concessional treatment of different forms of saving to promote more neutral concessional treatment, considering implications for other taxes and income distribution. Ensure these are treated collectively and are part of a suite of broader tax reform measures.**
  - Options could include changes to the capital gains tax discount (including both the rate and its broader application), the taxation of real gains, and the introduction of a tax-free threshold.
  - Any reforms will require analysis of effective marginal tax burdens and their compounding impacts on savings over lifetimes and likely behavioural responses to changes.
- **Do not remove or make adverse changes to the Fuel Tax Credit Scheme.**
- **Consolidate the eight separate payroll tax online platforms into a single national platform to simplify compliance for businesses that operate across multiple jurisdictions.**
  - There is a role for the Australian Government to help coordinate or enable this reform. For example, the Simplifying Payroll Tax Reporting project is exploring leveraging Single Touch Payroll data to reduce payroll tax compliance costs.
  - This project should be prioritised and expanded to more companies, particularly those operating in more than one state, noting the project may identify a need for harmonisation of payroll tax regimes to realise benefits.
- **Work with states and territories to help replace stamp duty with a land tax. The abolition of stamp duty will help remove a disincentive to people relocating, including for new work opportunities.**
  - This is an exceptionally challenging change to make politically, and there would need to be some form of incentive for states provided, such as through the National Productivity Fund. It is positive to see that the Government has announced plans for such a fund to incentivise state-based productivity reforms, but there is much scope for this to be extended in breadth and increased in scale.
- **Broaden and expand the proposed National Productivity Fund, with incentives tied to the benefit-cost ratio of reforms, to encourage a continued commitment to reform and ensure that the states and territories share in the benefits of reforms they make.**
  - Reform areas which may be incentivised could include productivity improvements to state-based taxes, planning rules and trading restrictions and regulations.

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8

Productivity growth and the need for a private sector-led recovery

8. Productivity growth and the need for a private sector-led recovery

A long-term economic plan to lift productivity

Australians enjoy an extraordinary quality of life. It is becoming ever clearer, however, that this will not continue if we are complacent and avoid hard decisions that would boost productivity and lift living standards. As things stand, other nations are competing harder, winning more investment, and reaping the productivity benefits.

This budget presents an opportunity to deliver a long-term economic plan to secure business investment, lift productivity and increase growth in the economy. This must begin by empowering the private sector and making it easier to do business in Australia, with competitive settings that make us more attractive compared to other nations.

Lack of competitiveness deters investment

Being a competitive nation matters because the opposite – businesses saddled with an uncompetitive investment ecosystem – deters vital investment, which is critical to productivity growth. Global capital is increasingly mobile in a fragmenting world and, other things being equal and absent capital controls, will move to whichever location is easiest to do business. Capital will leave jurisdictions where doing business is difficult, complex and more expensive – that is, less competitive – or at least less of the investment will flow to these poorly performing jurisdictions.

Getting the investment fundamentals right – that is, being competitive – is key to entities choosing to invest and create value in any given jurisdiction given the prevailing tax, approvals and regulatory environments. It means being able to compete, including on global markets.

The main drivers of a nation's international competitiveness take account of issues like having a business environment that encourages and incentivises investment; having an educated workforce with the right skills mix; maintaining a competitive and efficient tax system; making sure there are minimal red tape and compliance regulations and clear and timely project approval processes; and having access to integrated global supply chains and reliable and affordable energy sources. Predictability and certainty in government policy settings is also critical.

What business can do to improve competitiveness and investment

The role of government in delivering productivity benefits is particularly prominent in areas like tax, workplace relations and regulation. It is true that change in these crucial areas of government policy can move the needle on productivity. It is also true that governments set the policy guardrails that support, or constrain, productivity gains in the private economy and are principally responsible for the burden of regulation and the workplace relations landscape.

Government and businesses should work together

The best model for meaningful change is for government and businesses to come together on a unity ticket to implement productivity-enhancing changes. That is, there are critical roles for private businesses to play within the guardrails set by government.

Lifting productivity requires two core ingredients mixed together in a coherent fashion: first, assertive and sustained government action on reform and, second, private investment responding to the improved fundamentals.

- Government action means providing an enabling environment for the private sector to thrive and getting the right policy settings to unleash the creative power of private sector balance sheets, attract new investment and drive innovation. The right enabling environment from government allows resources to be allocated where they can create the most value.
- Meanwhile, business invests in new equipment and technology, trains and upskills the capabilities of its workers, works out better ways to do things given the available reserves of labour, capital and intellectual property and comes up with better ways of combining the various factors of production.

Businesses have closest control of their work processes and the amount, timing and nature of their investment decisions. For example, business leaders can implement artificial intelligence (AI) to make their operations more efficient. Most productivity improvements occur at the micro level, including at the individual firm.

Implemented well and properly supported and sustained, productivity enhancements by a business should lift profits and investment. In turn, a higher ratio of business capital per worker facilitates higher wages without being inflationary. Also, the larger corporate profits and higher salaries for employees should mean more tax collected by governments in absolute terms, without increasing the tax burden as a share of the economy. This should make available (or free up) public resources to be spent on further productivity-enhancing changes.

Red tape reduction

One of the best ways to encourage private sector-led growth will be in the reduction of barriers and burdens placed upon businesses. This is something other jurisdictions, particularly the US, are taking to heart. US President Trump has pledged to embark on a broad program of deregulation which, if implemented, will spotlight Australia's heavier burden of regulation. On the agenda in the US is a new department to tackle red tape and waste (the Department of Government Efficiency, or DOGE), an ambitious promise of abolishing ten regulations for each new one and an intention to fast track approvals for new investment exceeding US$1 billion.

The BCA's Regulation Rumble report found a range of regulatory barriers to operating a business across the commonwealth, with room for all jurisdictions to improve in this regard. The Federal Government must also play a role, specifically in becoming the thought-leader and driving instigator for a years-long campaign of regulatory unburdening.

» Actions we should take

- **Appoint a Minister for Deregulation with clear responsibility across departments to help drive a deregulation agenda that makes it easier to do business in Australia.**
- **Establish a five-year 'ease of doing business' agenda through National Cabinet, guided by a Productivity Commission review of regulations across the Federation. This could be embedded in the Productivity Commission's current inquiry into the government's 'five pillars' as a starting point.**
- **Make a commitment to best-practice Impact Analysis for every new policy, alongside independently produced productivity analysis as part of every proposal for new regulation.**
- **Task the Productivity Commission with monitoring the burden of regulations on business in comparison to global peers and providing annual recommendations to Commonwealth Treasury on the reduction of regulation.**
- **Improve the quality and efficacy of corporate governance regulation by re-establishing a corporate governance body to identify a program of future reforms.**

Unwind key productivity-killing industrial relations changes

A lack of flexibility in our workplace relations system is increasingly becoming a major hindrance to lifting productivity and adding to the regulation and costs for business. A flexible and mobile workforce is one of the key measurements of a highly productive economy. The object of Australia's core workplace relations law, the *Fair Work Act 2009 (Cth)* (FW Act) includes "providing workplace relations laws that are fair to working Australians, promote job security and gender equality, are flexible for businesses, promote productivity and economic growth for Australia's future economic prosperity and take into account Australia's international labour obligations…".

Despite this, none of the recent substantial changes to the FW Act do anything substantive to improve labour productivity. Rather they put impediments in the way of a business dealing directly with their workforces to innovate and improve productivity. These roadblocks include restrictions on the mode of engagement (casual, fixed term and consulting arrangements), added cost and complexity to the use of labour-hire and subcontractors, the ability of unions to force bargaining without majority employee support and involuntary multi-employer bargaining without employer consent. While employees increasingly seek greater flexibility in how they work, there needs to be reciprocal rights for employers to manage their workforce and determine the best industrial arrangement to suit their operational requirements.

Bargaining at the enterprise level has also been fundamentally compromised by changes to the intractable bargaining regime, which removes any meaningful incentive for unions and employees to agree to changes to working arrangements to improve productivity and operational efficiency to support higher wages. Overlaid with this is a system of modern awards that remains deeply complex, inconsistent and almost impenetrable to business owners and workers without specific industrial relations expertise.

Put simply, our workplace relations environment has swung too far in favour of union interests and reform is needed to restore a balance between union and business needs. This includes simplifying and streamlining modern awards and re-introducing some flexibility into the FW Act which can allow for increased productivity and competitiveness.

» Actions we should take

- **Support flexibility in bargaining to drive higher wages by improving productivity. Do this by:**
  - Ensuring bargaining only commences with majority employee support or where an employer agrees.
  - Reforming intractable bargaining determinations to the pre-February 2024 position.
  - Allowing the Better Off Overall Test to consider non-monetary benefits provided to employees.
- **Enable businesses and workers to agree the best fit engagement model for their business and personal circumstances by:**
  - Restoring the simple definition of a 'casual employee' and understanding of who an independent contractor can be.
  - Allowing fixed-term contracts.
  - Promoting choice and flexibility by removing regulated labour hire arrangement orders.
- **Streamline and simplify minimum standards for gig workers and road transport to reduce complexity and enable innovation. Reduce red tape in the form of contractual supply chain regulation.**
- **Simplify and properly modernise awards to make them easier to navigate and apply.**
- **Ensure a balanced workplace delegates' rights framework to minimise unnecessary disputation and cost burdens for business.**

Energy policy certainty

Australia and the world continue to transition to a net zero future where all anthropogenic sources of emissions will have been mitigated — either by avoidance or removal of those emissions.

The scale, breadth and complexity of the transition to net zero has been referred to as the next industrial revolution by some commentators and equated with world war mobilisation efforts by others. The *Intergenerational Report 2023: Australia's future to 2063* concluded that:

> ***Climate change will affect the shape of Australia's economy, where and how Australians live, work and travel, the health of the population, migration patterns, food and energy security, and the state of our environment. These effects, and the way households, businesses and governments respond to them, will drive innumerable changes in the size and structure of Australia's economy, presenting new opportunities and economic challenges. This all carries economic and fiscal implications.***

Two recent reports by the BCA argued that the key to achieving our broader economic goals and the net zero goal is to make Australia one of the most attractive investment destinations in the world, by becoming a more competitive place to do business. Developing the Net Zero Plan, six sectoral plans, a 2035 emission reduction target and subsequent interim targets, is a whole-of-government effort. Energy is central to the net zero transition.

Given the importance of energy in the transition, the Australian Government has also:

- Announced a review of the National Electricity Market wholesale market settings by an independent expert panel supported by the Department of Climate Change, Energy, the Environment and Water.
- Requested that the Productivity Commission undertake five inquiries to identify priority reforms under each of the five pillars of the Government's productivity growth agenda, including 'investing in cheaper, cleaner energy and the net zero transformation'.

Australia's energy system is foundational to the achievement of both its economic and climate objectives. Of equal importance in achieving these objectives is the ability of our system to deliver energy that is reliable, affordable and low emissions. Energy policy certainty is critical in this regard.

Rebuilding our aging energy system to appropriately balance these conditions is as challenging as it is critical to our success. To meet this challenge, we need three things urgently.

1. **A comprehensive and durable energy transition plan. Efficiently allocated private investment in energy assets and infrastructure requires clear and stable signals from the energy policy framework between now and 2050.**

2. **An acknowledgement from government that markets will continue to be the primary driver of energy sector investment in Australia. Notwithstanding the critical role of energy policy, competitive private markets are best placed to deliver an energy mix that is reliable, affordable and low emissions.**

3. **A portfolio of all potential energy technology options. The complexity associated with balancing energy reliability, affordability and emissions demands that all technologies be 'on the table' for consideration by the market and the community over time.**

As part of developing its Net Zero Plan, the Government is developing six sectoral decarbonisation plans and setting Australia's 2035 emission reduction target. This policy process is a whole-of-government effort that requires careful consideration of technology, policy, competitiveness and affordability across the economy to appropriately balance the ambition and achievability of Australia's emission reduction targets for 2035 and beyond.

» Actions we should take

- **Build a granular execution plan, with bipartisan engagement, which builds on the Net Zero Plan and six sectoral decarbonisation pathways.**
- **Increase the remit of the Net Zero Economy Authority to include:**
  - Identifying potential investment needs. Assessments for industry support must be expert-led and strongly guided by comparative advantage. Decision-making should be streamlined and transparent to build trust and expedite investments.
  - Identifying workforce gaps and opportunities in regional areas for reskilling through the transforming economy.
- **Fund a comprehensive approach to increase net zero-focused skilled labour availability through cross-industry reskilling, international migration, vocational education and training, and university programs.**
- **Work with the Net Zero Economy Authority and Jobs and Skills Australia to develop a net zero skills taxonomy and training matrix so workers with adjacent skills in construction or manufacturing can identify their training and reskilling or upskilling requirements to move into the clean energy sector.**
- **Avoid bias towards, or selectively excluding, any energy source on a technological basis. Preference market-led investment decisions over government-led investment decisions.**
- **Commit to developing and incorporating a National Carbon Market Strategy into the Net Zero Plan.**

A positive agenda on technology

A vibrant and dynamic economy is one in which businesses quickly adopt new practices and technologies, including from overseas. New technologies provide enormous opportunities, from improving how we connect and communicate, to allowing us to bank and shop online, to replacing dangerous jobs in mines with driverless freight trains, and to helping us find better ways to diagnose illnesses. This means safer workplaces, more productive and higher-paid jobs and less time spent on mundane activities. At the same time, they can also present new challenges, including around cyber security, data protection imperatives, and questions around appropriate regulation, access and equity.

Technology adoption underpins confidence for investment and brings new skills to our market while upskilling our existing workforce. The role of technology will be critical in addressing all of our most pressing national questions—particularly in generating greater productivity to improve our quality of life.

To thrive, every business must go digital and have access to workers with the skills to leverage new technologies – but adoption of these varied technologies has been uneven to date.
For example:

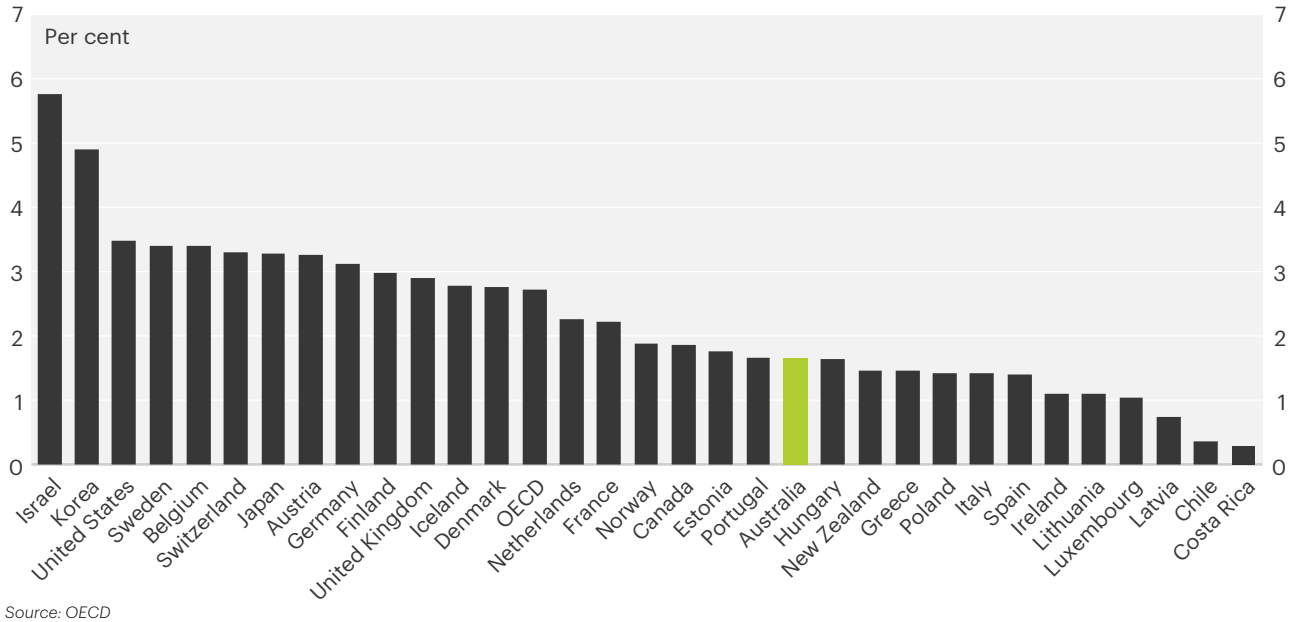
- 39 per cent of small businesses do not have an online presence.[12]
- One per cent of businesses are using AI.[13]
- 44 per cent of businesses in regional Australia find their internet performance sufficient.[14]

Business expenditure on research and development (BERD) was over $20 billion in 2021-22, equivalent to around 0.9 per cent of GDP. Diversifying the economy means lifting our relatively low rates (by global standards) of R&D spending. This will require greater participation incentives and better coordination between industry, universities and government. If we fail to do this, Australia will continue to fall behind internationally.

Global R&D investment is highly mobile and operates in an intensely competitive environment as countries seek to attract this investment and the skilled jobs it creates. Many factors influence companies' decisions on locating R&D investment, but the competitiveness of a country's tax system is critical for attracting, encouraging – and keeping – the benefits of commercialising innovations in Australia.

But Australia is not matching our competitors, which offer substantial investment incentives to attract industries and grow them at scale. They are quicker to market than us, spend more on innovation, adopt technology faster and upskill their people more rapidly.

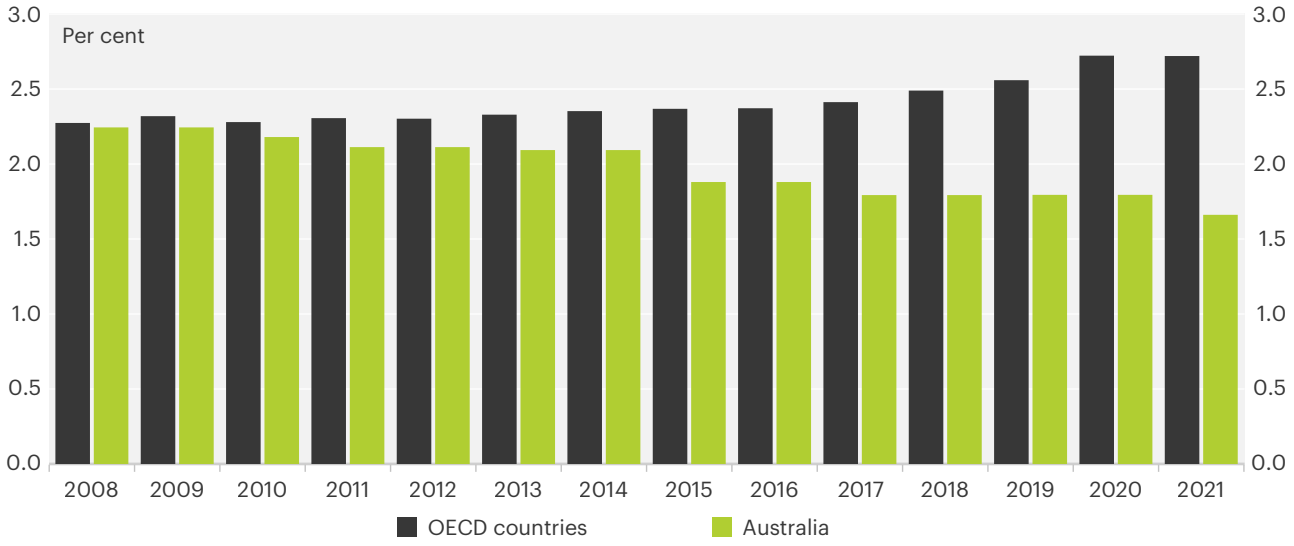
Figure 24: Gross domestic spending on research & development, per cent of GDP 2021



Source: OECD

12 https://info.myob.com/hubfs/Media%20Centre/MYOB%20Bi-Annual%20Business%20Monitor%20June%202024.pdf
13 https://www.abs.gov.au/statistics/industry/technology-and-innovation/characteristics-australian-business/latest-release
14 Ibid

Figure 25: Australian gross domestic spending on research & development, per cent of GDP 2008-2021



Source: OECD

Many of our competitors utilise multifaceted incentive programs as well as tax offsets. For instance, in Canada, favourable lending for R&D investment is available through the Strategic Innovation Fund. In Israel, eligible organisations can access a range of services and support through the Israel Innovation Authority to drive R&D. While in Europe, R&D leaders such as Finland, which aspires to a 4 per cent GDP spend on R&D by 2030, recently introduced further tax deductions to boost already impressive expenditure levels.

A key part of commercialisation will be improving private investment in early-stage research. In Australia, this remains scarce. Business investment in R&D in Australia is low, and primarily from a narrow set of sectors. We cannot afford to let brilliant ideas wither on the vine simply because they could not make the leap from research to real-world application.

We must enhance the research commercialisation ecosystem and drive for increased investment in research and development to support economic growth, with an aspirational goal of three per cent of GDP.

Tax incentives

The R&D Tax Incentive recognises that the wider productivity and economic benefits of commercial R&D activity cannot be adequately recouped by those bearing the costs, resulting in under-investment from a whole-of-economy perspective.

The number of companies claiming the R&D Tax Incentive peaked in 2015-16 and has averaged a little below 12,000 over the past five years. Policy or administrative issues that limit R&D support for larger businesses could be counterproductive as they have a greater propensity to innovate.

Tax incentives for R&D have been changed, or proposed, multiple times in recent years – including both policy and administrative changes. This has created uncertainty and made it difficult for businesses to plan confidently and likely limited the success of various schemes. Similarly, the arbitrary $150 million R&D expenditure threshold creates further uncertainty and undermines the scheme.

Successful innovation policies overseas have been underpinned by frameworks that have been maintained for long periods. By contrast, the recently published R&D Tax Incentive transparency data have introduced confusion as to how the scheme operates and contributed to further policy changes.

Artificial intelligence (AI)

AI is the next technological development to offer a step change in the way that we do business. It can make tasks easier for workers, reduce complexity and costs to businesses, and produce a range of entirely new products and services.

Last year, the CSIRO found that 68 per cent of Australian businesses had already implemented or are expanding AI in their operations.[15] In 2024, the proportion of Australians using generative AI has risen to 49 per cent, up from 38 per cent in 2023.[16]

To optimise our opportunity, we must ensure that Australia's regulation of AI balances both innovation and protections. The BCA supports regulation to address genuine, high risks arising from the increased use and capability of AI. But the role our existing regulations play—and where they may be falling short—must be made clear.

We also must be upfront and some of the existing barriers we have in place when it comes to AI adoption. This includes some of our copyright system, our taxation system, and our infrastructure. The Business Council is engaged in a wide range of advocacy in this regard.

Most importantly, we must avoid regulation that undermines Australian businesses' ability to safely and responsibly develop or deploy AI systems and thus stifles the growth of the digital economy in Australia. We must avoid the European and Canadian overregulation experience which has seen investment in those productivity drivers decline.

Investing in domestic AI capability is our biggest AI challenge. In January 2025, the UK released its AI Opportunities Action Plan, which aims to build a 20-fold increase in public compute capacity by 2030 with a 10-year funding commitment, increase AI skills and improve AI regulation. One of the US Trump administration's first actions was to announce Stargate, a project to fund AI infrastructure worth $US500 billion ($800 billion). Australian must also examine the right kind of AI infrastructure for our circumstances and make investments of proportionate scale here.

Collaboration between industry and government will be crucial. By working together, we can build an AI-ready workforce that drives our economy forward.

» Actions we should take

- **Commit to increasing research and development spending, with an aspirational goal of 3 per cent of GDP.**
- **Abolish the R&D expenditure threshold or, at a minimum, lift it to $250 million with indexation.**
- **Improve the guidance that accompanies the publication of R&D Tax Incentive transparency data to better explain and build confidence in how the policy operates.**
- **Introduce a patent box regime to encourage investment in the innovation and technologies of the future and enable Australia to compete for that research and subsequent commercialisation.**
- **Introduce a collaboration premium of up to 20 per cent on non-refundable tax offsets to incentivise collaborations between industry and public research organisations and universities.**
- **Invest in AI capability – which includes skills, research, and computing and data infrastructure – and implement regulation that allows Australian developers to thrive.**

15 CSIRO 2023, Australia's AI Ecosystem Momentum Report, March 2023, p.16
16 https://blog.google/intl/en-au/company-news/ai-adoption-in-australia-new-survey-reveals-increased-use-belief-in-potential/

Skills

Early learning is central to productivity

Affordable, accessible and high-quality childcare is a key factor in enabling parents, particularly women to return to the workforce, and provides children a strong educational foundation for Australia's future.

As the Productivity Commission highlighted, the long-term value of an increased investment in early childhood education is preparing young children for a lifetime of learning. The emphasis must be on quality education to achieve this important outcome and increased access for those from disadvantaged backgrounds. This will provide a greater economic benefit in the long-term.

A simplistic approach that has populist appeal will not achieve these productivity benefits. The government should take note of the recommendations of the Productivity Commission, which warned against rushing changes that will increase demand without a coordinated increase in workforce supply or quality education. At a time when the Budget is headed into long-term deficits, the government should also carefully consider the significant increased costs associated with major reforms.

The focus must be on implementing changes in a staged way to ensure the necessary skilled workforce, to target services in areas of need, and to lift access for children who will benefit most from improved early childhood education.

The BCA notes that the government's recent announcement of a range of early childhood education and care commitments, including plans to amend the activity test, provides an opportunity to address these issues subject to further details being made available.

Recent reforms to the Childcare Subsidy have assisted, however the participation rate for women in Australia still lags some other advanced economies. And, as the Productivity Commission Review into Early Childhood Education and Care (ECEC) identified, additional subsidies may only have a modest impact on raising the participation rate.

The immediate challenge is filling the gaps where childcare services do not exist and ensuring those who do not currently have access, particularly from disadvantaged backgrounds, are included in the system. This should be the first priority of government and we acknowledge the $1 billion commitment to build or expand services in areas of need.

New funding models will need to be considered to enable centres to be established in thin markets such as regional and remote areas.

» Actions we should take

- **Develop an early childhood education guarantee based on quality, universal access across all states and territories to give children a strong educational foundation.**
  - The design must consider cost to government, capacity for different socio-economic groups to pay, demand, access, subsidy structures, interface with the school system, and the availability of a qualified workforce to deliver quality education.
- **Initial steps should include a focus on:**
  - Improving coordination between federal and state governments to maximise policy interventions.
  - Targeted efforts to eliminate 'childcare deserts' in regional and low-socioeconomic areas to increase access to early childhood education services.
  - Ensuring supports for children with additional needs can be accessed across the system by ensuring the Inclusion Support Program is fit-for-purpose to allow all children to receive quality early childhood education.
- **Review the alignment of the Child Care Subsidy with the tax and transfer system to ensure that there is coherency in the approach for families.**

Better quality careers counselling from school

Students who complete secondary school are more likely to enter the workforce or move on to further study with a greater collection of competencies and skills. But not all are given the best chance to take advantage of the opportunities before them due to poor careers advice.

» Actions we should take

- **Set a minimum framework and standards for careers guidance in schools, developed with industry and the Jobs and Skills Council, to ensure the best advice on skills needs and job opportunities.**
- **Require that every school has an accredited careers counsellor as part of the funding agreements with the states.**
- **Improve career advice through best practice resources (including digital resources) for students, parents and teachers, with strong backing from state and territory governments, and leveraging jobs and skills councils and career hubs.**
- **Boost awareness of the Jobs and Skills Australia Atlas – a snapshot of the Australian labour market at national, state, and regional levels. Schools and councils should use this resource to provide location-specific advice to students and job seekers on the types of work available in their local area.**

Boost the pipeline of essential trade workers by providing adequate incentives to apprentices and their employers

The current skills gap crisis will only be overcome by a constant and increasing supply of highly trained workers. The Vocational Education and Training (VET) sector is the main vehicle for developing many of these workers, with 38 per cent of skills shortages being in occupations with a VET pathway.[17] Yet the sector is facing poor completion rates, a lack of diversity and strained capacity and capability.

Apprenticeship commencements

We need to increase the overall commencement rates in high priority areas for skills. However, simply hiring more apprentices and trainees is not a quick fix. Retention rates often decrease when commencements increase as more people start their training with a poor understanding of what the work entails. It is essential that good career advice and workplace supports are in place to accommodate an expansive apprenticeship cohort.

Placing greater recruitment and retention effort on a diverse range of cohorts – including around gender, First Nations and mid-career ('adult') candidates – expands the pool of potential apprentice candidates, would improve the gender balance and provide for a more representative trade workforce.

Increased participation of women in traditional trades has long been a focus of industry and government concern. While the number of women in apprenticeships has increased slightly in recent years, women make up just two per cent of the workforce in trade occupations with historically low female participation. Some women are reluctant to consider a trade because of concerns around the work environment. Those who do commence and withdraw often cite a lack of support in the workplace as a key reason for cancelling.

For adult apprentices (defined as over 21 years), there are significant barriers to undertaking a mid-career switch to a trade. We have heard from members that mature age apprentices find that the apprenticeship structure is too rigid and difficult to juggle with family commitments and overlooks prior experience and knowledge.

Likewise, the rigidity of the apprenticeship system does not allow for upskilling between trades or from Certificate III to Certificate IV, which limits career mobility and advancement. Australians must be able to refresh and update their skills over their lifetime, and they need a better set of options for acquiring new skills that match and track industry needs.

Apprenticeship completions

Only half of apprentices and trainees complete their training. Failure rates of this level are a clear signal that something is not working in the system. The wasted investment in education, the impact on the individual, and the future opportunity cost of a less-skilled workforce are enormous.

The national completion rate in VET is 47.7 per cent for all occupations, broken down to 42.9 per cent for trade and 53.0 per cent for non-trade occupations.[18] Group Training Organisations that employ apprentices and place them with host businesses have a completion rate of 62 per cent.[19] Large businesses have the highest success rate apprenticeship completions at around 90 per cent.[20]

Apprentices generally leave their apprenticeship early on – 60 per cent of those who leave do so within the first year.[21] In a tight labour market, apprentices have other employment options. Labour shortages mean unskilled work is paid at higher levels than training wages, and Australia's record low unemployment has given more apprentices incentive to discontinue their training.

However, workplace challenges, rather than pay, is one of the most cited reasons for apprenticeship incompletion. The influence of the employer cannot be overstated. Large businesses with well-organised systems for managing, supporting and recruiting apprentices maintain a ~90 per cent completion rate. Support in the workplace and good work conditions have a tremendous impact on whether an apprentice stays or goes. It is essential that we back the systems and the employers that are delivering the outcomes we need.

17 Jobs and Skills Australia, Skills Priority List 2023
18 NCVER Completion and attrition rates for apprentices and trainees 2023
19 NCVER Completion rates for group training organisations and direct employers, how do they compare? (2019)
20 Interviews with BCA members, March 2024 – April 2024
21 NCVER Occasional Paper, Bednarz, Alice, 'Understanding non-completion of apprentices', 2014

Apprentice employer incentives

We need an apprenticeship system that is an attractive and valuable pathway to employment, has the confidence of industry, and builds a pipeline of skilled workers in key areas such as clean energy, defence projects, major infrastructure and housing, care and digital.

A well-designed, targeted and effective incentive program for apprentices and their employers is essential to this system. The BCA is highly supportive of incentives and loans for apprentices to assist with their cost of living and tool purchases. But more needs to be done to assist employers, who are expected to take carriage of the teaching, mentoring, and shaping of young apprentices through significant investments and with little support. Reducing or removing employer incentives has a dramatic impact on apprentice commencements and completions.

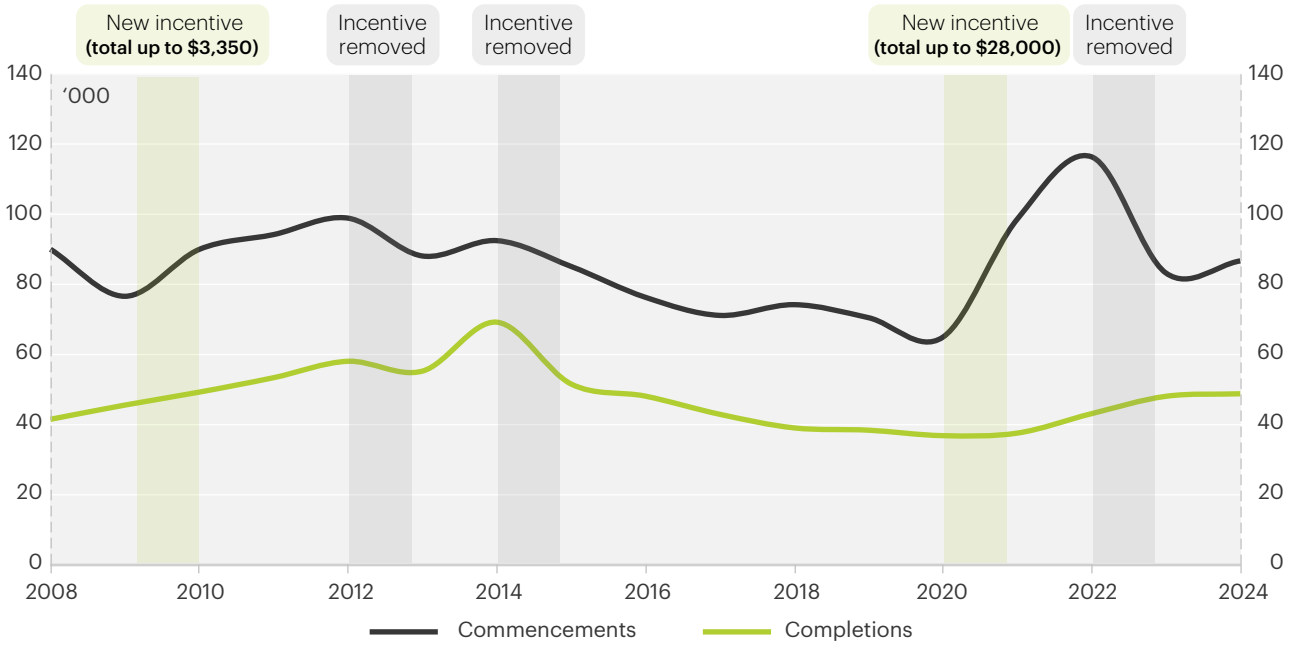
In 2012, components of the Australian Apprenticeships Incentives Program (AAIP) – which previously provided employers with a minimum of $4,850 per apprentice – were removed or reduced as part of budget-saving measures.

During the COVID-19 pandemic, employers were encouraged to take on new apprentices and trainees to address the risk of declining commencements. Under the Boosting Apprenticeship Commencements (BAC) program, businesses received a 50 per cent wage subsidy for a 12-month period, capped at $28,000 per apprentice or trainee.

In July 2024, employer incentive payments under the BAC were significantly reduced, with cuts of up to 70 per cent for priority occupations such as electricians, carpenters, and aged care workers. For employers of apprentices and trainees in non-priority occupations, the payments were removed entirely.

In both instances, reduction in employer incentives coincided with a notable downturn in apprenticeship numbers (see figure 26). This reflects the critical role financial incentives play in supporting employer participation in the apprenticeship system. Of note, the 2012 subsidies reduction occurred when the Australian economy remained relatively steady. Removing incentives during today's economic uncertainty could see commencement rates plummet.

Figure 26: Trade apprenticeship commencements and completions 2008-2023 ('000)



Source: NCVER Apprentice Commencement data

Employer incentives (wage support) lead to increased apprenticeship commencements as they assist with the cost of supervision and training. Apprentices are expensive, especially in their first two years of training when they are less productive compared to a qualified employee and more prone to making costly errors. Hiring an apprentice carries a financial risk with no guaranteed ROI – attrition is high, and poaching is rife in the final years as apprentices become more productive. Reducing wage support for employers results in a drop in commencements, which reduces the overall pipeline of qualified workers.

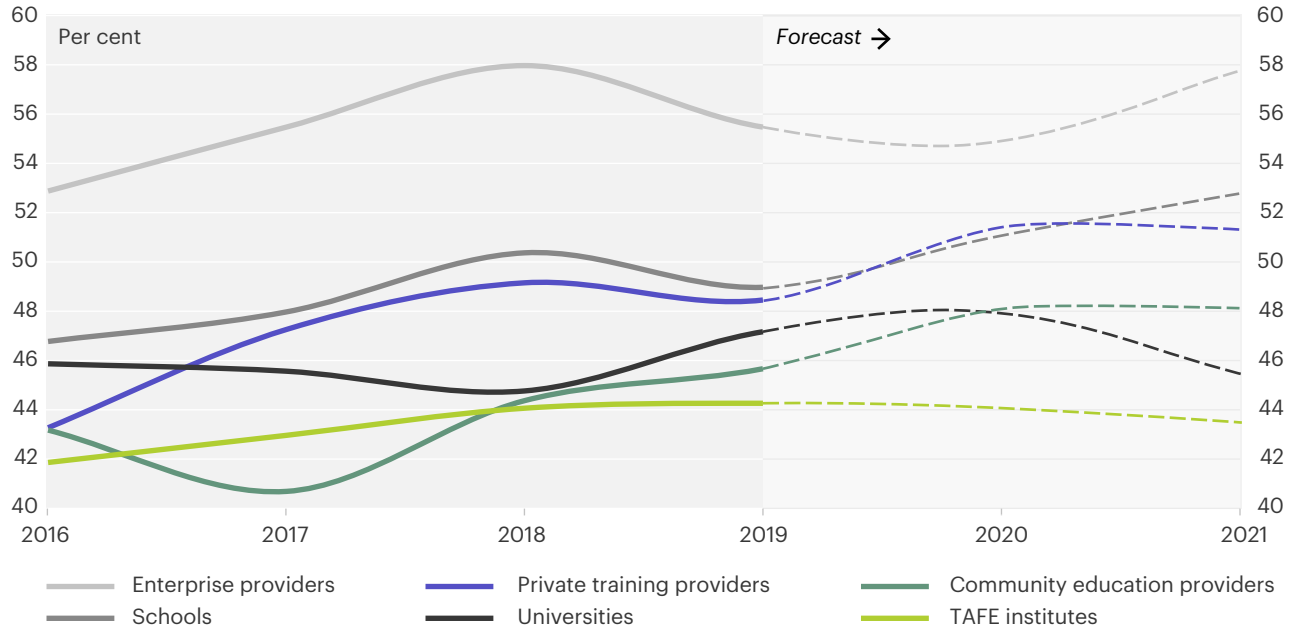
Fee-Free TAFE

Fee-Free TAFE is a policy lever to increase VET commencements, including in critical trades and care sector courses, and support disadvantage cohorts. The BCA will always welcome ideas and efforts for improving the uptake and completion of VET programs. However, there is presently little available data to assess the effectiveness of the government's $1.5 billion program. The BCA has heard from stakeholders in the VET sector that completion rates for Fee-Free places are around 20 per cent lower than the average VET completion rate of almost 50 per cent. It is vital we understand the study and employment outcomes of Fee-Free TAFE students to ascertain the program's value, where it is most effective and how to overcome any shortcomings.

Restricting Fee-Free places to TAFE distorts the sector, limits student choice, impacts their employment outcomes and does little to solve our skills gap crisis. There are over 4,000 VET providers delivering training, with around 80 per cent of VET students studying at non-TAFE institutions. High-quality private RTOs often provide specialised, industry-focused training that gives individuals the critical skills needed in key industries. The competitive mix of providers allows students to choose what they want to study, where they want to study. It encourages high performance and labour market responsiveness within the VET sector.

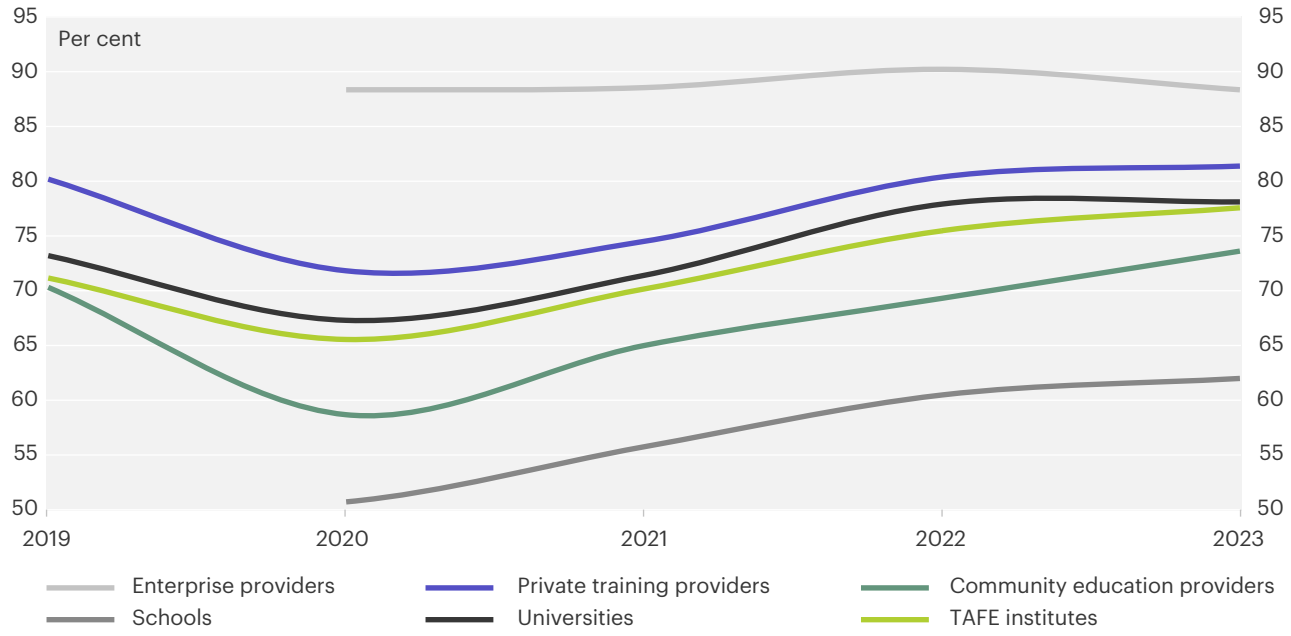
Rather than legislate this policy, we recommend government undertake a comprehensive review of the Fee-Free TAFE program to ensure it is fit-for-purpose, provides value for money and produces skilled workers for the labour market.

Figure 27: VET qualification completion rates by provider



** Completion rates for courses commenced in each year, completed within four years of the commencement date (ie. commenced in 2016, completed by 2020)*
Source: NCVER 2024

Figure 28: VET student outcomes – employed after training



** Employment rates are estimates provided by NCVER, based on the National Student Outcomes Survey.*
Source: NCVER 2023, VET student outcomes 2023

Upskilling, reskilling and career mobility

Many Australians are moving jobs, particularly in lower-skill level occupations. In the year ending February 2024, 1.1 million people changed jobs, representing a job mobility rate of 8.0 per cent. This means almost one in ten workers changed jobs over the past year.[22] The education and training system need to better support job mobility to help workers remain mobile and take advantage of industry demand.

Learning should be a lifelong pursuit, with people accessing industry-responsive training throughout their career. Individuals should be supported to build, maintain and enhance their portfolio of skills and knowledge in a range of ways to boost career development and mobility. This is critical in new and emerging occupations in clean energy, digital and cyber.

Currently, the higher education system is not flexible enough to respond to emerging industries and skills requirements, given its focus on delivering multi-year qualifications. Post-school qualifications take too long to update and become detached from current industry needs. And skills and training undertaken outside formal qualifications often go unrecognised.

We must move past a narrow focus on formal qualifications that align with traditional occupations or industries and think about skills standards and competencies. Increasing the delivery and integration of short, stackable training options, including industry-delivered Microcredentials, is key to this educational transformation.

A skills passport represents a critical pathway for an individual to capture, store and share their lifelong learning achievements. It would enable them to showcase their full suite of experience to potential employers and provide clearly understood evidence of prior knowledge and skills. A skills passport would also assist employers to quickly understand and verify a potential employee's skills and qualifications, speeding up the recruitment process and boosting productivity.

The Government is in a unique position to facilitate an integrated, skills-based mechanism for career development, upskilling and reskilling and we welcome the development of a business case for a National Skills Passport. By developing digital infrastructure for skills passports and designing and implementing new enabling policies, the Government could ensure Australians are poised to succeed in the future labour market.

22 ABS, Job mobility data, February 2024

» Actions we should take

- **Develop an employer-centric apprenticeship incentive model that leverages what is currently working, such as mentoring and support mechanisms provided by large employers and GTOs, and incentivises businesses to attract high-quality, diverse candidates, and provide valuable support systems to raise completion rates.**
  - Redevelop the Australian Apprenticeship Incentive Scheme (AAIS) to provide a minimum of $4,000 per apprentice wage subsidy to employers in the first and second years of the apprenticeship, and $3,000 in the third and final year. Provide additional incentives for small and medium-sized businesses which demonstrate strong completion rates and commencement diversity.
  - Incentivise large businesses to expand successful support programs that assist apprentices to complete their training by providing a $40 million fund over four years.

- **Before legislating the policy, review Fee-Free TAFE's operation to ensure it is fit-for-purpose, provides value for money and produces skilled workers for the labour market.**

- **Redesign Fee-Free TAFE to include high-quality VET providers (including private, enterprise and community RTOs), putting student choice, not the provider, first. This will ensure Australians have access to free courses from the best providers for their course of choice, which is particularly important for specialised, industry-focused courses that are primarily delivered by private RTOs, and in regional and rural Australia where TAFE has a limited footprint.**

- **Ensure there is a nationally consistent pathway for short courses and microcredentials to be formally recognised, recorded and rewarded. This would include the ability to 'stack' microcredentials within the Australian Qualifications Framework.**

- **Government should progress building skills passport infrastructure, including the underpinning policies, standards and IT architecture, that would allow a trusted, verified passport marketplace to innovate and serve all Australians.**

Boosting indigenous employment

Empowering Indigenous Australians to access more work opportunities is a meaningful aspect of any national skills plan from an equity perspective, and there is value in funding efforts to increase sustainable employment for these communities.

» Actions we should take

- **Conduct a two-year $50 million Indigenous employment pilot to deliver 5,000 meaningful and sustainable employment opportunities at scale. As part of this effort:**
  - Payments would range from $7,000 for school students and adult job-ready candidates, to $15,000 for people facing employment barriers.
  - No payments would be made by government unless employment outcomes are delivered i.e. minimum weekly hours of regular employment achieved over a minimum six-month period.
  - It would be designed to complement the Government's flagship Remote Jobs and Economic Development Program.

Role of migration

Australia's migration program should be geared toward supporting the nation's prosperity and national interest. We face global competition for skills and talent.

Skilled migration is a complement – not a substitute – for training and hiring Australians. Governments and industry must prioritise opportunities for Australians and ensure that population growth is planned for and managed well. Strong, skills-focused migration helps Australia remain prosperous and resilient, and ensures we have the skilled workforce needed to deliver high quality essential services and drive Australia's future industries. This is also increasingly important as Australia's population ages given the ensuing risk of increased labour shortages.

In areas where we don't have the knowledge base in the country, we will always need to attract it from overseas. This is critical not just to participate directly in business investments and for delivery of work needed now, but also to educate, train, supervise, and upskill local workers, passing on their knowledge.

Skilled migration boosts Australia's productivity and provides the human capital we need to power the economy where there are skill shortages, such as in clean energy, construction, defence and care. Recent OECD analysis notes that although

international migration is at record levels for the second year in a row, labour market outcomes for migrants are also at record high levels. And critically, these high levels have come immediately after historical low and negative migration during the pandemic.

In Australia, the unemployment rate for migrants is 3.6 per cent, 0.4 per cent lower than the national rate. While in two-thirds of OECD countries, migrants are more likely to be self-employed than the native-born population, creating jobs for locals. From 2011 to 2021, more than 3.9 million jobs were created through migrant businesses in the 25 OECD countries with available data. This corresponds to 15 per cent of the total global employment growth in these years.[23]

The latest data from Jobs and Skills Australia shows one in three jobs are still in shortage, with major gaps in civil engineers, cyber security analysts, electricians, network administrators, aged or disabled carers and teachers,– among many others.[24] We do not have the skills we need, when and where we need them to manage the clean energy transition, construction and infrastructure in a housing supply crisis, major defence projects, growth of the care economy and digitisation. And this challenge is even more pronounced for emerging industries such as quantum computing, robotics and automation and AI.

Some countries are relaxing their policies for highly skilled migrants to tackle increasingly critical labour shortages[25], which increases our global competition. But at the same time, the more restrictive migration stances of other countries, including the UK, US, and Canada, may present opportunities for us to capture skilled migrants and overseas student flows that would normally go elsewhere. If we persevere with efforts to dramatically reduce our migration settings we may miss out on the global battle for skilled workers.

The BCA urges all sides of politics to resist the political temptation to scapegoat productivity-driving skilled migrants for our housing and cost of living crises. We welcome the reforms announced in the Migration Strategy and support a long-term vision for migration that aligns with strong planning for housing and construction of infrastructure.

23 OECD International Migration Outlook 2024', 14 November 2024, pg. 54-55, 122
24 Jobs and Skills Australia, Occupation Shortage List 2024
25 OECD International Migration Outlook 2024', 14 November 2024, pg. 87

» Actions we should take

- **Manage migration with a bipartisan population growth forward target that aligns with housing and infrastructure supply and services delivery.**
- **Undertake significant policy changes to address Australia's chronic housing supply crisis, rather than reducing the migration intake, as proposed in the BCA's *It's Time to Say Yes to Housing* report.**
- **Maintain a migration program focused on skilled migrants and international student flows that benefit Australia's economy and lift productivity.**
  - Migration must be highly targeted to jobs and skills we know are in demand and critical to our national needs with fast tracking of processing provided.
- **Ensure sustainable growth in international education is designed in collaboration with the tertiary education sector and considers the additional benefits of providing higher education financial stability, domestic student study requirements and research funding.**

Health and care

With an ageing population, increasing chronic disease burden and decreasing taxpayer base, there must be a renewed focus on the long-term funding of Australia's health and care system, so it remains sustainable for current and future generations.

The increase in the health and care economy as a share of the overall economy has significant impacts on productivity, and therefore the living standards of all Australians. If we are to ensure the next generation is better off than the current generation, we need to tackle these challenges differently.

Use technology to boost efficiency and care quality

The health and care economy is flagging in terms of investment in digital technology and systems. Further investment in the public and private setting is needed to support the interoperability of systems and improve the sharing of information. This can improve the quality and safety of care delivered as well as increase productivity. It will ensure that taxpayers and care recipients get better value and outcomes for every dollar spent.

Getting the regulatory and technological architecture right (including data standards) is a critical enabler for system transformation and to achieve greater integration of care.

It should not take another pandemic for the health and care system to implement such measures. COVID-19 saw significant advances and the rollout of technology that has augmented how patients receive care, including the use of telehealth, electronic prescribing, virtual health and hospital in the home services. These measures have not necessarily supplanted the health workforce but expanded the scale and reach of services to the benefit of patients, particularly for those who have not had access to services.

Better use of technology can boost efficiency, improve quality of care and increase job satisfaction by supporting the focus on caring activities rather than administrative ones. It is important Australia's health and care system can take advantage of technologies to improve the convenience, efficiency and precision of care, while maintaining privacy and safety for consumers.

Support consumer choice by embedding transparency in services, treatments, performance and price

Through simplifying and making the system easier to navigate, consumers can take greater responsibility for managing their health needs.

Better information is needed on the price and performance of providers so consumers can make better decisions, and care providers have stronger incentives and accountability to improve their performance.

Such an approach will be essential in the implementation of the aged care reforms which have now passed the parliament. Achieving the real benefit of these changes, and gaining customer support for increased contributions to their care, will require people being able to make their own informed decisions.

» Actions we should take

- To expedite the digital transformation of the health and care economy, provide investment support for the public and private sectors to implement critical digital infrastructure. This should be backed by a digital-first approach, requiring electronic sharing of information and reporting, moving away from paper-based forms.
- Explore a range of assistance models including private sector-led investment partnerships, such as a Health and Care Digital Interoperability Fund to incentivise digital investment.
- Implement the recommendations of the Health Technology Assessment Report to ensure Australians can continue to access the latest technology to benefit consumers and the long-term wellbeing and productivity of the community.

» Actions we should take

- Help consumers make their own choice of services by providing easier to access information on price, treatment options, and expected outcomes from providers.
- Give greater weight to payment for quality rather than quantity of services in government funding models.
- Increase health education by running health awareness programs so people have a greater understanding of their health needs, how to access services and the options available to them.

Develop microcredentials in a range of industry specific specialisations

The scale of the system transformation needed and the speed at which it must happen is confronting. Recent analysis by Deloitte found that a business-as-usual approach would require Australia's health workforce to shift from 11 per cent of the Australian workforce to 45 per cent by 2050 to meet expected demand.[26]

The health and care economy is knowledge and labour-intensive, with wages and fees being the largest expenses. Improved staff utilisation, career advancement and changes in workforce design will all assist in lifting productivity, making the sector an attractive one for employment and raising retention rates.

» Actions we should take

- **Encourage the implementation of the recommendations of the *Unleashing the Potential of our Health Workforce Scope of Practice Review*, to enable health professionals to work at their full scope of practice and provide multi-disciplinary care.**
- **Incentivise government, business and the tertiary sector to work together to develop microcredentials in a range of specialisations to lift skills, enhance career progression and achieve better utilisation of the health and care workforce.**

Provide incentives for health and care services in remote, rural and regional communities

An ageing population alone brings challenges. A dispersed population creates further challenges for remote, rural and regional communities. A number of funding models are being tried, and this needs to continue with a clear focus on achieving improved outcomes and equity of access.

» Actions we should take

- **Incentivise the provision of health and care services in difficult-to-service areas, including remote, rural and regional communities.**
- **Provide the digital infrastructure (such as telehealth and remote monitoring) to enable greater access to specialist services, where appropriate, without the need to travel.**

26 Deloitte, 2024, Australia's Health Reimagined: Voice of the Workforce

Create a National Cabinet taskforce to identify state and federal overlaps and inefficiencies in care provision

There continues to be shared accountabilities and responsibilities between the Australian Government and state and territory governments, particularly in the primary and acute care settings.

Despite establishing the National Care Economy Strategy, reforms continue to be progressed in isolated ways within sub-sectors (health, aged care, veterans, NDIS). Getting value and productivity alongside quality requires a joined-up system with well-calibrated regulations to support strong health outcomes. Greater clarity on the spectrum of care and support services would maximise efficiency, simplify access and minimise arbitrage.

Greater stakeholder engagement is required to further advance and progress priorities, such as the National Health Reform Agreement (NHRA) Addendum.

» Actions we should take

- **National Cabinet should establish a taskforce to identify and remove duplication in health and care service delivery between federal and state and territory governments, such as through the provision of urgent care clinics.**
- **Address the recommendations of the Mid-Term Review of the NHRA Addendum.**
- **Include private sector representation on government advisory bodies and partnerships as well as access to funded programs, to ensure there is a holistic approach to service delivery.**

Explore alternative funding means, models of care and the effective utilisation of health and care professionals

Alternative models of care, including hospital-in-the-home and preventative measures, will help reduce rates of hospitalisation and use our health and care professionals more efficiently.

We need to move from fixing health problems to preventing them or treating them earlier.

A concerted focus on preventative programs, which target the areas of highest impact to improve the health of Australians, is needed. The funding model through the budget process is a major barrier to enabling such programs to secure support because the return on investment is in later years, making it difficult to justify the immediate expense. This needs to change if we are to avoid some of the longer-term acute health and care costs.

» Actions we should take

- **Explore the introduction of a non-refundable progressive Carers' Income Tax Offset for unpaid caring paid upon a person's return to the workforce. This could be directed to carers supporting family members who are aged, have disabilities, or who are chronically ill.**
- **Amend the funding model through the budget process to enable preventative programs to secure support, despite the return on investment occurring beyond the forward estimates.**

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