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Productivity Inquiry Secretariat
Productivity Commission
4 National Circuit
Barton ACT 2600

Lodged via the inquiry portal

Submission – Productivity Inquiry Interim Report 1 – The Key to Prosperity

Dear Commissioners,

As the industry association for private capital in Australia, the Australian Investment Council is pleased to provide this submission to the Productivity Commission for the first Interim Report in the Productivity Inquiry. The content of this submission builds upon the Council's submissions of [31 March 2022](#) and [29 April 2022](#).

The Council is supportive of policy initiatives and reforms that help ensure our economy is competitive, productive, innovative, and able to support Australia now and into the future.

Private capital investment has played a central role in the innovation, growth and expansion of thousands of businesses and represents a multi-billion-dollar contribution to the Australian economy. Australian Investment Council members are the standard-bearers of professional investment and include private equity (PE), venture capital (VC) corporate venture capital (CVC) and private credit (PC) funds, alongside institutional investors such as superannuation funds, sovereign wealth funds and family offices as well as leading financial, legal and operational advisers. Our members include both Australian domestic and offshore-based firms, who in turn invest capital on behalf of millions of Australians through Australian superannuation funds and attract capital from passive overseas investors, such as foreign pension funds and sovereign wealth funds.

Private capital fund managers invest billions of dollars into Australian companies across every industry sector of the economy every year. Australian-based PE and VC assets under management reached \$42.2 billion in 2021¹ with an additional \$10 billion in equity capital available to be invested in the short-term. Companies that partner with private capital fund managers contribute nearly 500,000 Australian jobs and contribute approximately 3% of our nation's GDP.² The private capital industry is a significant and growing contributor to, and driver of, Australia's economic recovery and the development of Australia's industries of the future.

Given the impact of the COVID pandemic and the uncertain times that lay ahead, and as a net importer of capital, Australia's economy relies on a dependable and steady flow of foreign capital to drive economic growth and job creation. At this critical juncture, it is vitally important for our economic future, and Australian jobs, that businesses can quickly and efficiently access capital from domestic as well as offshore investors.

The Council looks forward to participating in any future discussion about the themes set out in this submission as part of the Productivity Commission's inquiry process. If you have any questions about specific points made in our submission, please do not hesitate to contact me or our policy team at policy@aic.co.

Yours sincerely,

Dragan Mistic
Head of Policy and Research

¹ Preqin & Australian Investment Council Private Capital Yearbook, May 2022

² EY independent analysis of the Economic Contribution of Private Capital to the Australian Economy – *Funding a Brighter Future*, May 2022

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1. Summary of Recommendations

The Council's recommendations are outlined below:

Innovation policy and diffusion of new processes and ideas

- Conduct capability studies across key industry sectors to identify where there are skills gaps and where skills can be further developed.
- Legislate the small business technology investment boost announced in the FY22 Federal Budget³ and extend the benefits for a 5 year period.

Data policy, digital technology and cybersecurity

- Incentivise micro-skilling accreditation in cybersecurity by providing free or nominal cost training at boot camps being run by universities and other educational institutions.
- Introduce cybersecurity scholarships for high school students in Years 11 or 12 who wish to pursue careers in cybersecurity in lieu of following the traditional pathway of completing a Higher School Certificate (HSC).
- Students who are part of the cybersecurity scholarship scheme would receive their HSC accreditation upon successful completion of the cybersecurity training as well as a certificate IV or equivalent in cybersecurity.
- Provide cybersecurity grants for start-up and early-stage businesses with products or services that support Australia's cybersecurity capabilities.

A productivity friendly business environment

Remove tax inefficiencies

- further reductions to the Australian corporate and individual tax rates in line with global trends and in order to attract talent to Australia.
- Work with state and territory governments to remove inefficient taxes such as payroll tax and stamp duty.

Reduce Red Tape

- Governments and regulators should always assess new laws and regulations with a 'no red-tape framework' and only regulate where there is a clear and unavoidable need, for example where industry is not able to independently react to market ineffectiveness or likely consumer harm.
- Where new laws or regulations are required, they should be implemented through enabling technology. Wherever possible, business practices should be streamlined to enable businesses to scale up and expand through a conducive regulatory environment.

Maintain a Steady Flow of Investment Capital

- Fast-track the implementation of a flow-through Limited Partnership Collective Investment Vehicle (LP CIV) as the main outstanding component of a globally competitive fund vehicle regime. The Council recommends steps be taken to fast-track the introduction of a new LP CIV that aligns with international best practice with a target start date of 1 July 2023.
- Consider recommendations for the improving the operation of the Foreign Investment Review Board approval regime to improve decision turn-around times.
- Improve existing VCLP and ESVCLP vehicles - the Council recommends the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes be adopted and implemented as a priority.
- Work with industry to reduce the uncertainties in the tax treatment of private capital investment into Australian businesses.

A skilled and educated workforce

- Fill skills and talent gaps by revising the current skilled migration for skills most in demand
- Support increased skilled migration to a minimum of 250,000 per annum.
- Use onshore talent, for example, to fill skills shortages in the medical field, call upon immigrants with proof of their qualifications from other countries, and map their skills so they can initially work under supervision within the current medical system under 'internship' arrangements.

³ [Budget Paper No. 2](#) Federal Budget 2022-23

- Work with universities to map skill requirements for the future and to encourage more double degree opportunities.
- Encourage post-graduate students with in-demand skills to remain in Australia either through the Global Business & Talent Acquisition scheme, global talent visas or skilled visas that offer a pathway to permanent residency
- Work with Austrade to promote Australia as a desirable destination for skilled migrants, tourists and students to address current shortages
- Collaborate with universities to fast-track students who are in their penultimate year into the workforce through cadetship and internships.
- Further embed STEAM skills into the Australian school curriculum, from primary school years through to tertiary education and fast-track the establishment of 'STEAM schools'.

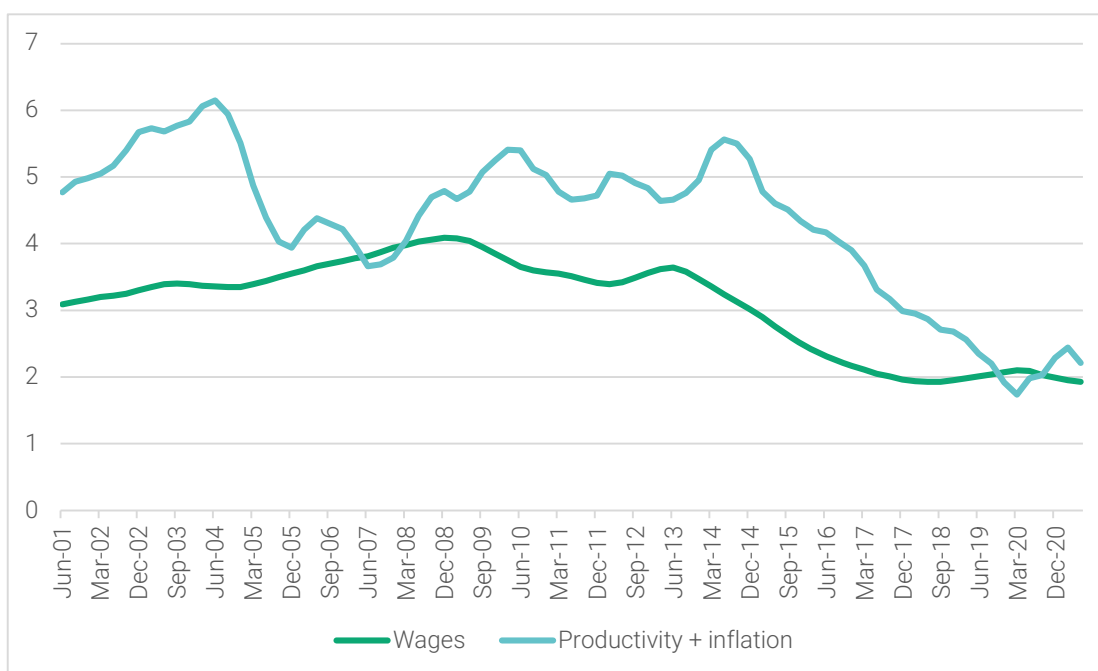
Overview - Interim Report 1: The Key to Prosperity

Building productivity working smarter enables increases in real wages.

As the Productivity Commission noted in its *Shifting the Dial* report in 2017, it is the capacity to get more out of all inputs in the economy – multifactor productivity – which is really holding back Australia’s broader performance. The capacity to do this is dependent on having dynamic Australian businesses and a dynamic economy. While productivity is a vital measurement of economic prosperity and living standards, it does not automatically deliver them. This is particularly true in the current environment which is facing the headwinds of inflation, skills shortages, and competition for investment capital – challenges that are not specific to the domestic economy but are rippling across the globe.

Valuing the current workforce, sound policies around migration for current and future skills, and investment into areas of the economy that will foster an environment of innovation, new technologies and a knowledge-based economy, will help counter some of these challenges and position Australia for future prosperity and productivity growth.

Figure 1: Productivity and Wages Growth ⁴



Productivity is about doing things in different ways through the utilisation of technology to transform a service or product, improving systems and processes, and introducing completely new products or services.

It is well documented that Australia has experienced a decline in income and productivity growth over the past decade with wages growth falling to its lowest level in 60 years. At this critical time of growing inflation, skills shortages and competition for investment capital, policies which support productivity growth are critical for ensuring Australia’s living standards are not compromised. Policies will be required to deal with heightened geopolitical tensions, global supply chain challenges and an economy underpinned by services.

On top of these challenges, there is much work to be done to transition and advance our economy, which hasn’t kept pace with the development in economic complexity and technological transformation of other economies. How to lift productivity and invest more in skills and talent, our productive capacity, and the changing pace of technology are just some of the questions that policymakers and industry leaders alike must turn their minds to.

The Australian Investment Council’s response to *Interim Report 1: The Key to Prosperity*, for the current Productivity Inquiry, are outlined below.

⁴ Australian Bureau of Statistics

2. Innovation policy and diffusion of new processes and ideas

While Australia rapidly adapted to new technologies and processes during the COVID-19 pandemic, there is still some way to go in the transition to a data driven economy. With a drop in migration over recent years and decreased global human capital mobility, Australia has not been subject to previous levels of skills exchange and best practice knowledge transfer to boost innovation and digital capability.

There are, however, some sectors of the economy that are transitioning at a more rapid pace than others. For example, the healthcare sector has demonstrated its ability to innovate and use technology to improve patient care. A panel of healthcare experts at the Australian Investment Council's annual conference in September 2022 cited that Artificial Intelligence (AI) will likely inform every decision in relation to healthcare in the future, for example, in diagnosing X-rays, identifying vulnerable patients and using apps to predict illnesses such as COVID. Although, the panel concurred AI is not yet at a sufficient scale to deliver more time to nurses or reduce costs for patients. Adequate data capture is key to ensuring the benefits of new technologies can be passed on to patients through more personalised diagnoses and therapeutics.

As more capabilities develop around the use of technology, the protection of sensitive operational data will become paramount, particularly where there are outsourcing arrangements or shared services being used across multiple entities. To bring the nation's digital capabilities to the next level, skills and capability gaps need to be identified across key industry sectors taking into consideration current supply chain and outsourcing arrangements, domestic technology and manufacturing capabilities, project management delivery and support services. Capability studies in industries key to Australia's future could be undertaken to address where capabilities need to be filled or developed.

Incentivising opportunities for small to medium enterprises to fast track their digital capabilities would provide productivity benefits to the economy.

Recommendations

- Conduct capability studies across key industry sectors to identify where there are skills gaps and where skills can be further developed.
- Legislate the small business technology investment boost announced in the FY22 Federal Budget⁵ and extend the for five years.

3. Data policy, digital technology and cyber security

As a predominantly services-based economy underpinned by technology, Australia is becoming increasingly dependent on access to technology and data networks and the development of new innovations that are protected from cyber risks.

The level of sophistication continues to increase, and the consequence of such attacks can be catastrophic, impacting productivity and threatening highly sensitive sectors such as defence, as well as healthcare, infrastructure and personal security. Cyber 'attacks' have become more prevalent across all spheres of government, business and society and no one is immune, as we have recently seen with the security breach at Optus which impacted almost the entire adult population of Australia.

The expansion of internet-capability beyond computers and mobile phones into other cyber-physical or 'smart' systems is extending the threat of remote exploitation to a host of new technologies which underpin the everyday lives of Australians such as transport control systems, power grids and industrial plants.

Skills and talent are essential

Managing Australia's exposure to cyber risks relies on our capacity to access the right skills and talent, and our ability to support greater investment into research, leading to the development of innovative solutions.

According to analysis by AustCyber¹, there is a significant shortage of job-ready cyber security workers in the local market, with the need for an additional 17,600 cyber security workers anticipated by 2026 to fulfil Australia's growing cyber security and data privacy requirements. Central to the required growth in labour is the need to ensure we develop a larger pipeline of

⁵ [Budget Paper No. 2](#) Federal Budget 2022-23

successful cyber and data security firms over the next decade. Growing the number and scale of businesses in this sector will go a long way to creating new employment opportunities for the next generation of Australians that we need to meet the demand for talent in this area. The downstream pay-offs for the Australian economy, and for Australian consumers, will be substantial.

Recommendations

- Incentivise micro-skilling accreditation in cyber security by providing free or nominal cost training at Cyber Security boot camps being run by universities and other educational institutions.
- Introduce cyber security scholarships for High School students in years 11 or 12 who wish to pursue careers in cyber security in lieu of following the traditional pathway of completing a Higher School Certificate.
- Students who are part of the Cyber Security Scholarship scheme would receive their HSC accreditation upon successful completion of the Cyber Security Training as well as a Certificate IV or equivalent in Cyber Security.
- Provide Cyber Security Grants for start-up and early-stage businesses with products or services that support Australia's cyber security capabilities.

4. A productivity-friendly business environment

As the Interim Report points out, a productivity-friendly business environment will be achieved by limiting impediments to business investment, a flexible workforce, sound regulation and an efficient approach to decarbonising the economy. Reforming Australia's taxation regime is broadly considered to be the policy area with the greatest potential to reinvigorate Australia's economy over the long-term but which has had a very difficult political pathway. Australia's taxation system has been the subject of numerous reviews over past few decades, and many of the most significant recommendations set out in reviews remain relevant today. The most comprehensive of the recent reviews is the 2010 Australia's Future Tax System (AFTS) Review, led by former Treasury Secretary, Dr Ken Henry and the Johnson review, also from 2010 titled: "Australia as a financial centre: Building on our strengths" and aspects of the cancelled Federation White Paper from 2015.

Many of the recommendations from those reviews are yet to be progressed. Taken as a whole, the tax reform blueprint set out in that work represents a compelling, growth-enhancing plan for a staged transformation of the tax mix across federal and state-based tax regimes. While some states within Australia have adopted or indicated a review of their tax policies, a coordinated national approach has not been agreed and many inefficient and globally uncompetitive tax practices remain. During this time, many of Australia's competitors have adopted policies which have transformed them into global financial centres, increasingly outpacing Australia, despite its historic strength in financial services.

Some of the key priority reforms set out in the AFTS Review, as well as other growth-orientated analyses of Australia's taxation system, revolve around reducing the headline corporate income tax rate for all businesses, a step that would deliver income growth for all Australians and also lift Australia's competitive standing in the global market for capital and talent. A reduction in the corporate income tax rate will form an important part of a broader strategy of shifting the nation's 'tax mix' by reducing reliance on direct taxes – such as personal and corporate income taxes – and re-balancing towards greater reliance on 'user pays' pricing mechanisms and indirect taxes. In the technology-enabled global marketplace in which Australian businesses operate, such a shift is vitally important to building a stronger and more sustainable budgetary position for governments at all levels into the future. Measures that could be considered are those potentially hindering investment in Australia and support for policies which encourage investments in high-growth businesses in order to help the post-pandemic economy recover. Alignment of state-based tax regimes needs to be considered in order to avoid the red-tape of businesses dealing with multiple differing and competing regimes.

Recommendations

- Remove tax inefficiencies by considering further reductions to the Australian corporate and individual tax rates in line with global trends and in order to attract talent to Australia.
- Work with state and territory governments to remove inefficient taxes such as payroll tax and stamp duty.

Reduce Red Tape

Red tape and regulatory cost burdens tend to move in cyclical phases every 10-15 years. Removing red tape and introducing greater efficiencies drive increases in productivity, competitiveness and high-value jobs growth. Past experience in Australia suggests that attempts to reduce red tape at a federal and state level have sometimes been narrow in scope, and therefore failed to achieve the desired economic and business outcomes. Yet, there are existing policy documents which may be instructive in supporting the work of Government's Deregulation Taskforce launched in December 2020 with the primary tasks of reducing overlapping or duplicated cross jurisdictional regulatory burdens, modernising business communications, improving occupational mobility and improving the efficiency of Australia's excise duty regimes. In 2013, the Government issued a report titled 'Boost Productivity and Reduce Regulation'⁹ which outlined a whole-of-government framework to reduce the red and green tape burden by at least \$1 billion per year. Amongst numerous recommendations, the report recommended at least two Parliamentary Sittings be dedicated each year to repeal counterproductive or unnecessary regulation, and that COAG meetings – now National Cabinet – include deregulation and red tape as standing items for discussion and review throughout the year.

Recommendations in the Productivity Commission's Shifting the Dial¹⁰ review in 2017, should be reconsidered particularly in respect of the opportunity for National Cabinet to adopt a formal joint reform agenda. Reinstatement of the core principles set out in the 2013 report, and the adoption of recommendations from the Productivity Commission's 2017 analysis, should form part of a comprehensive and clear commitment to eliminate red tape costs for businesses over the short and medium-term.

Recommendations

- Governments and regulators should always assess new laws and regulations with a 'no red-tape framework' and only regulate where there is a clear and unavoidable need, for example where industry is not able to independently react to market ineffectiveness or likely consumer harm.
- Where new laws or regulations are required, they should be implemented through enabling technology. Wherever possible, business practices should be streamlined to enable businesses to scale up and expand through a conducive regulatory environment

Maintaining a steady flow of investment capital

Much has been made about the abundance of private capital globally and the Council's members are a substantial part of that story. While Australia has been cited as a desirable destination for that capital, in an increasingly competitive global market, Australia is not always the natural choice.

Staying ahead of global competition, responding to economic headwinds and uncertainties, and anticipating 'what's next' makes a compelling case to maintain clarity and certainty around Australian's investment regime and to implement changes where necessary to make Australia an attractive springboard for investment into South East Asia.

Recommendations

- Fast-track the implementation of a flow-through Limited Partnership Collective Investment Vehicle (LP CIV) as the main outstanding component of a globally competitive fund vehicle regime. The Council recommends steps be taken to fast-track the introduction of a new LP CIV that aligns with international best practice with a target start date of 1 July 2023.
- Consider recommendations for the improving the operation of the Foreign Investment Review Board approval regime to improve decision turn-around times.
- Improve existing VCLP and ESVCLP vehicles - The Council recommends the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes be adopted and implemented as a priority.
- Work with industry to reduce the uncertainties in the tax treatment of private capital investment into Australian businesses.

5. A skilled and educated workforce

Australia is a net importer of human capital and relies on immigration to fill skills and talent gaps. Skilled migration has been a key feature of Australia's migration system, playing an important role in generating economic growth for successive decades. Australia has had a long history of supportive policies to attract business entrepreneurs. However, the rising global mobility of workers and heightened competition for talent means that it is important for Australia to have policy settings that are effective in attracting a critical mass of "new economy" skilled workers.

In addressing the skills and capabilities of the workforce of the future there are a number of key considerations to take into account which fall into three main categories of:

1. Addressing current skills and talent gaps
2. Redeploying skills within the current domestic economy
3. Building a pipeline of talent.

Skilled migration will be central to achieving greater productivity in healthcare and other sectors of the economy such as agriculture, life sciences, clean energy, food technology, advanced manufacturing defence and aerospace. This will require a rethink on the priority skills lists for migration, the education criteria for certain visa categories so the right skills mix can support productivity and economic growth.

Recommendations

- Fill skills and talent gaps by revising the current skilled migration for skills most in demand
- Support increased skilled migration to a minimum of 195,000 per annum.
- Use onshore talent, for example, to fill skills shortages in the medical field, call upon immigrants with proof of their qualifications from other countries, and map their skills so they can initially work under supervision within the current medical system under 'internship' arrangements.
- Work with universities to map skill requirements for the future and to encourage more double degree opportunities.
- Encourage post-graduate students with in-demand skills to remain in Australia either through the Global Business & Talent Acquisition scheme, global talent visas or skilled visas that offer a pathway to permanent residency
- Work with Austrade to promote Australia as a desirable destination for skilled migrants, tourists and students to address current shortages
- Collaborate with universities to fast-track students who are in their penultimate year into the workforce through cadetship and internships.
- Further embed STEAM skills into the Australian school curriculum, from primary school years through to tertiary education and fast-track the establishment of 'STEAM schools'.