Federal Budget: a 10 year retrospective

November 2020

Contents

Introduction

Greg Keith
Chief Executive Officer

We were initially writing this report before COVID-19 was a concern. We'd heard about it, but it wasn't in Australia and we were busy dealing with the devastating bushfires that crippled communities up and down the East Coast of Australia.

The 10 year retrospective report was meant to provide the basis for change for industries with significant potential but lacking support at a policy level. For instance, manufacturing, energy and life sciences are sectors we see huge potential in but were really underserviced by Canberra.

The sands have shifted beneath our feet in 2020 with the COVID-induced recession. Many sectors that had been left to their own devices are now key for our recovery. Sovereign capability. Jobs. Digital economy. Modern manufacturing. Renewable future. Deregulation. Innovation. These are the terms on everyone's lips as we settle into COVID normal.

The once-in-a-lifetime Federal Budget of 2020-21, and record debt that realistically is unlikely to be paid down in my lifetime, coincides with a tectonic shift in the makeup of Australia's future economy. Our vulnerabilities have been exposed. Our eggs may have been in too few baskets. It is time to diversify and create a sustainable and self-sufficient economy that can better weather future global shocks.

If you look at industry contribution to GDP over the last decade, there is significant room to move to get a better balance between the heavy-hitting knowledge economy and our production sectors. For instance, technology represented less than 2.5% of GDP in 2019 – in a digital economy, surely we can expect this to grow more steeply?

In particular, our clients in the mid-sized sector have a significant role to play in this future economy. They are nimble and entrepreneurial at heart, and many of our clients have already embraced the change that COVID has wrought. In our Mid-Sized Business Report from 2019 we revealed that mid-sized business punched well above its weight in terms of contribution to the economy – and this was without the political and policy benefits afforded to small business or the resources of the very largest companies.

In the 2020 Budget, the policy makers have finally cut the mid-sized sector a break. Initiatives such as the instant asset write-off, the JobMaker Hiring Credit and the tax loss "carry back" benefit can be accessed by all but the very biggest companies. These are, as Treasurer Josh Frydenberg continues to remind us, temporary and targeted. But I hope the spirit of the support and deregulation offered, available to all businesses – including those in the growing mid-sized space – will be carried through to future initiatives.

A positive from the Budget was the reversal of the proposed $1.8b cut out of the R&D Tax Incentive. Instead the Government will inject $2b in additional funding for R&D. While this will primarily support those six priority modern manufacturing sectors, all businesses that invest in R&D should benefit, enabling the innovation and automation we need to grow out of the recession.

So, rather than being an advocacy piece, our 10 year retrospective report now reflects on opportunity in a post-COVID world. And there is opportunity for existing and new sectors, for new trade partnerships, new services and new ways of working.

We hope you enjoy this report – which is both reflective and future gazing. With another Budget in May 2021 and a Federal Election as early as October next year, we know there will be more from the Government to help navigate this new normal. There is opportunity on the horizon.

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Brave new world: New expectations of business in a COVID-Safe environment

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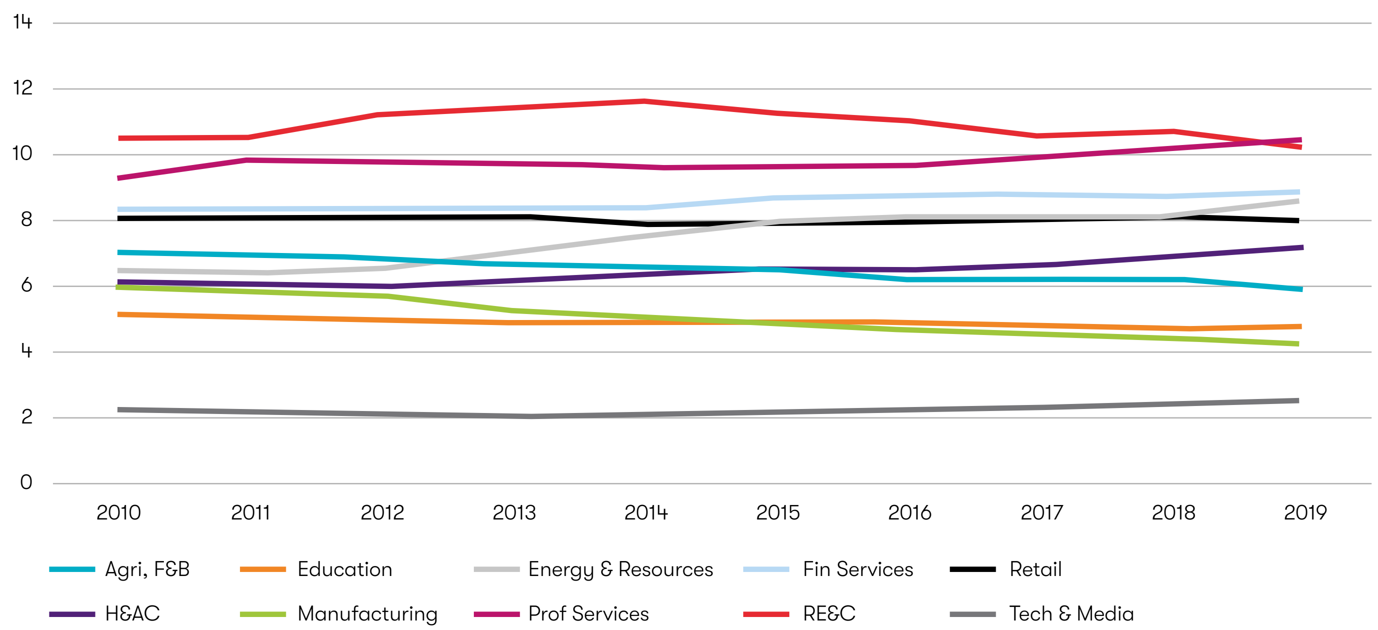
A once in a lifetime Budget

Contribution to the economy



Agribusiness, Food & Beverage

Tony Pititto
National Head of Agribusiness, Food & Beverage

Australia produces a lot of food. We are a unique market in that we cannot consume everything that we produce – we must export. In fact, we export nearly 70% of our agricultural production. When it comes to beef, Australia had more cattle than people until 2019.

According to the United Nations, we are the second largest producer of sheep and wool, and the second largest producer of almonds and chickpeas. Australia also has a clear differentiator with 51% of the world's certified organic land.

Not only do we export most of our produce, but most of what we produce is also processed elsewhere. For instance, we produce around 90% of the world's fine apparel wool – however, most of our wool is sold and exported as greasy wool and processed overseas before becoming clothing.

We are heavily dependent on global networks and open borders, and our focus on quality and safety has meant that our produce has always been in high demand. There is a premium for Australian Made.

COVID-19 has tested these networks. Movement of goods has become more difficult, and processing plants have slowed down – and in some instances, shutdown – in response to the health crisis. Despite this, the agricultural, food & beverage sector has been remarkably resilient. While people may delay the purchase of new clothes or a new home, food is very much essential. We all need to eat. And with other large food producers more heavily impacted by COVID and producing less, there is an opportunity for Australia to diversify our export partnerships well into the future.

Quality over quantity

The sector's contribution to Australia's GDP over the last decade hasn't exactly been smooth. The dollar value of the sector is sensitive to local climactic events such as drought, flood and fire, but generally speaking the value is going up. However, as a proportion of GDP the sector is losing ground as Australia increasingly becomes a knowledge economy.

Since 2015, the Government has continued to support the sector, particularly in terms of drought and flood assistance in our agricultural heartlands. We see this expenditure declining in 2019. According to a Government review of agricultural expenditure, a decline of 2.2% is expected between 2019–20 and 2022–23, reflecting a decline in rural assistance expenditure due to an expected wind-down of approximated $500m of drought-related assistance over the forward estimates period.

The sector is heavily regulated – which can prove a burden on farm businesses but does lend itself to our reputation for quality, green and clean produce. It's a double-edged sword that the Productivity Commission sought to address in 2016. With a focus on reducing regulation in a post-COVID world, it will be interesting to see how this might unfold for our agriculture, food & beverage sector.

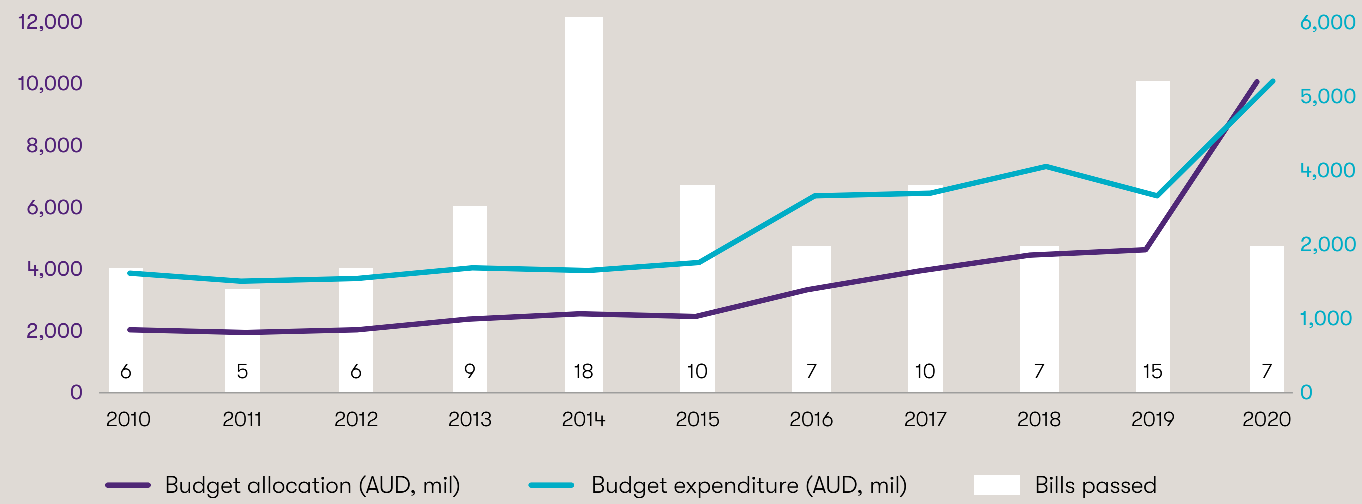
Technology and agriculture do in fact go hand in hand

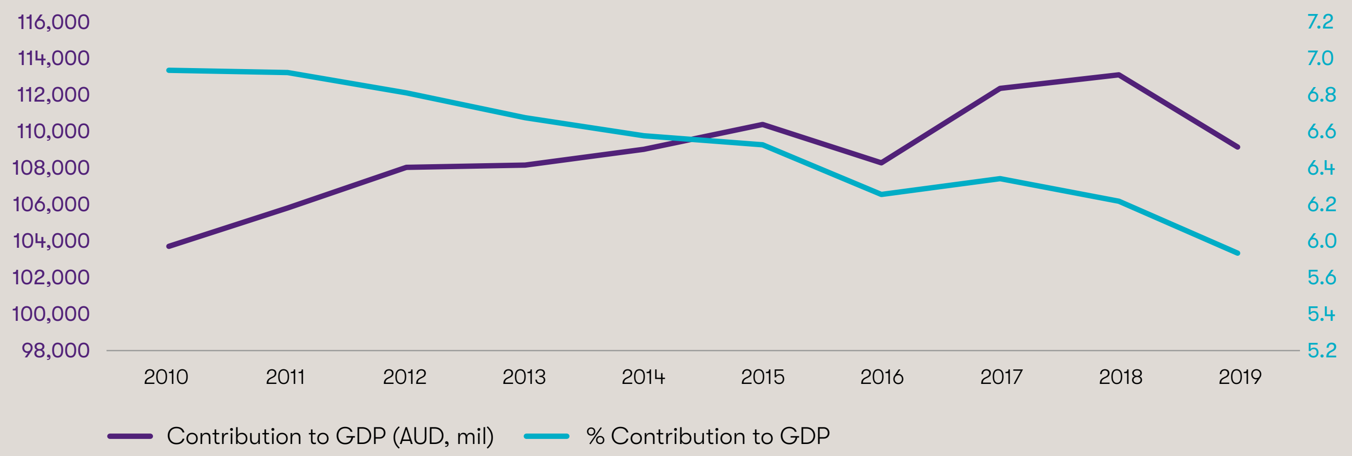
R&D continues to be important to the sector. In late 2009, the National Primary Industries Research Development & Extension Framework was established to help focus and drive innovation across 14 different areas. Calculations by ABARES show that a $1 public investment in RD&E leads to $12 in benefits generated by farmers over the long term. This could be efficiencies in

Key milestones

2009	National Primary Industries Research Development and Extension Framework statement of intent
2012	Wheat Export Marketing Amendment Act enacted
2013	Wine Australia Act enacted
2014	Farm Household Support Act enacted
2015	Biosecurity Act enacted
2015	China-Australia Free Trade Agreement signed
2016	Productivity Commission Inquiry into Regulation of Australian Agriculture Report delivered
2017	Product Emissions Standard Act enacted
2018	National Drought Summit
2018	Regional Investment Corporation Act enacted
2020	Department of Agriculture and Department of the Environment and Energy merged to create Department of Agriculture, Water and the Environment

Contribution to the economy





Agribusiness, Food & Beverage

water use through to the development of new and emerging industries in the sector. We've definitely seen the benefits of technology in the US market. They have a smaller labour force than China, but produce more than China because they have invested in operational efficiencies and technologies to help them better monitor and invest in the sector.

There are very exciting initiatives all over the world. For instance, in Israel they have developed technology that monitors the habits of cows – allowing the sector to ensure that they're eating the right amount at the right time, thereby improving their operations processes.

We have the foundations for R&D investment in Australia, but we need to close the gap between research and commercialisation. Investing in technology, efficiency and new products can be expensive and in a drought-prone country resources are often diverted away from innovation and into essentials to keep things afloat.

In addition to the Framework, there could be grants to adopt new innovations, incentives for investors to place their dollar in the sector, tax offsets for superannuation funds to invest more locally and support for research to make the leap to commercialisation and manufacture. This supports not only innovation in the sector but additional jobs in associated industries.

Our future hydrogen strategy also brings an opportunity to innovate. The sector is dependent on water. The main by-product of hydrogen fuel is water. Technology exists to turn agricultural by-products, such as manure, into hydrogen. The opportunity for a circular economy of agriculture supporting hydrogen creation and then feeding it back into the sector as water is an interesting possibility.

The shift in energy policy, at least in the short term, has the potential to bring down costs for the agricultural sector, particularly the ones that are highly energy intensive. Again, to do this we need effective R&D incentives for the industry.

Is diversification of risk the key to agricultural growth?

Significant investment is needed in the sector. Unfortunately, that's not going to come from just within Australia. So we need overseas investment – for rationalisation and to build scale.

Currently, approximately 30% of our exports go to China, which at the moment is experiencing a period of trade tensions. There are investigations into wine exports, bans on beef, and an 80% tariff on barley. China is our largest export market for agriculture at close to $16b in 2018–19. Australia has to diversify our reliance on China and explore exporting into other parts of Asia.

Similarly wheat and beef make up nearly 30% of all agricultural exports. Whilst the growth in beef is underpinned by a growing global middle class the same is not as true for wheat. Australia should increase investment in other products that are tied to the growing middle class wealth, for example horticulture and aquaculture.

Opportunities in Asia are manifold. Exports to Australia's eight largest markets in Asia accounted for 60% of the total value of agriculture in 2018–19.

With Thailand, Japan, and other South East Asian economies ripe markets, we can create a more even spread of trade relationships to help even out the ebb and flow of politics and demand, especially as Asian demand is projected to double by 2050.

It starts with Government policy. The Government could assist by opening up networks in Indonesia, Malaysia, Thailand, Japan, and India. Although these countries are relatively big food producers in their own right, some are affected by limited production abilities or are looking to import quality produce they can't grow themselves.

This is where we can further leverage our Australian Made reputation. The 2020 Federal Budget is delivering $328m 'Busting Congestion for Agricultural Exporters Package' that should assist in facilitating exports by making the process faster and cheaper.

Access to labour and global exports continue to hamper efforts

One of the big challenges at the moment is access to labour within regional areas – the industry is feeling the pressure of interstate and international border closures. Farmers are reliant on overseas labour to harvest their products – focussing on contract labour through labour hire companies. But similar to issues we see with access to labour in resourcing, state border closures (and in this case, international closures too), have caused issues with finding properly trained labour due to the limited labour pool, particularly in the higher skilled areas of agriculture.

There have been moves to support the sector by extending visas for temporary workers in Australia, as well as discussions around how to prioritise these workers when international border restrictions are eased. In the meantime, this issue continues to place pressure on a sector that needs to harvest and move produce quickly to market.

In short, the flexibility and mobility of labour is the key.

So where to from here?

The sector received some positive assistance in the 2020 Federal Budget. The $1.3b modern manufacturing initiative where food and beverage has been singled out as a key sector is a positive step. The $14b commitment in new and accelerated infrastructure spending on roads and highways to improve the efficiency in transporting product across the country will have a positive impact in the sector. The Government also announced $2b in new funding to build vital water infrastructure to grow our agribusiness sector, $2b in loans to help farmers overcome the drought, and funding for short courses in the tertiary sector for agriculture, health, IT, science and teaching. Disappointingly the review and veto function available to Foreign Investor Review Board (FIRB) on all overseas investments, which could stifle overseas investment, still remains.

There is literally an amazing opportunity on our doorstep. The agricultural sector, with the right policy framework, can sell produce into the fast growing Asian market. We are a leading producer – and a quality one at that. As we produce more than we consume, we don't necessarily need to be the "biggest" and we can focus on innovation, quality and organic. But this doesn't happen without investment and support.

Listen to our agribusiness podcast:

20 May 2020
How Australia's producers are adapting to COVID-19

Education

Stuart McDowall
National Head of Education

The education sector has experienced a tumultuous few years. With a long held private-public funding model, our tertiary sector has been set up to fail in the face of COVID disruptions. A need for private revenue saw universities recruiting international students on a massive scale.

The revenue from international students contributed greatly to funding research. Tertiary education became Australia's fourth largest export, behind coal, iron ore and gas.

Then came COVID-19 and we lost nearly all of our access to international students overnight – and the impact this has on the entire funding model is immense. We're already seeing mass redundancies across the sector with the National Tertiary Education Union stating that more than 12,000 staff are losing their jobs. ABS data shows the universities recorded a 2.4% drop in employment since COVID hit in March.

'Job-Ready Graduates' reforms are currently under negotiation in Parliament, with negotiations for funding models on the cards. The proposed reforms currently seek to reduce overall Government funding for degrees from 58% to 52%, and increase fees for certain courses by up to 113% to pay for cuts to fees in sciences and 39,000 extra university places by 2023. Universities are already starting to abolish some degrees to deal with the decrease in funding.

If we need job ready graduates to drive the economic recovery, we need adequate training, qualifications and resources to do so. Higher education played a part in the rebuilding of Australia's economy after World War II. And it can do it again.

A decade of debt and reforms

The amount of money owed to the Australian Government under the HECS scheme is expected to be $180b by 2026 – and not all of it is expected to be paid off, ever. The percentage of Australians in their 20s that have a tertiary qualification is 52%, and around 20% have a trade qualification. Going back a few generations, this measure was miniscule – almost unheard of.

The sector experienced a number of legislative changes in 2011 when both the National Vocational Education and Training Regulator and the Tertiary Education Quality and Standards Agency were established. Funding slowed from 2012 to 2015, with an efficiency dividend placed on grants under the Higher Education Support Act 2003 from January 2014 reducing the Commonwealth's contribution, and the conversion of Student Start-Up Scholarships to income contingent loans for new students from 1 January 2014.

The Australian public higher education sector has changed direction several times, with the introduction of a 'demand driven' model in 2012, lifting the cap on domestic student places, and allowing universities greater flexibility in responding to student demand and skills needs of the labour market. Commonwealth places have since been capped. This was punctuated several times by attempts to deregulate university fees.

Contribution to GDP is shrinking – from a high of 5.08% in 2010 to 4.73% in 2019. But this isn't necessarily a bad thing. Education is something people do in early phases of their life, and as people are living longer, it makes sense that as a proportion contribution to GDP is shrinking as people move to spending on other things such as health, aged care or financial services in different stages of their life.

Soft diplomacy

International students are more than just a commodity. With our tertiary higher education industry being our fourth biggest export, it plays a role in foreign relations and affairs more broadly. Education has long been accepted as a way to build Australia's soft power internationally.

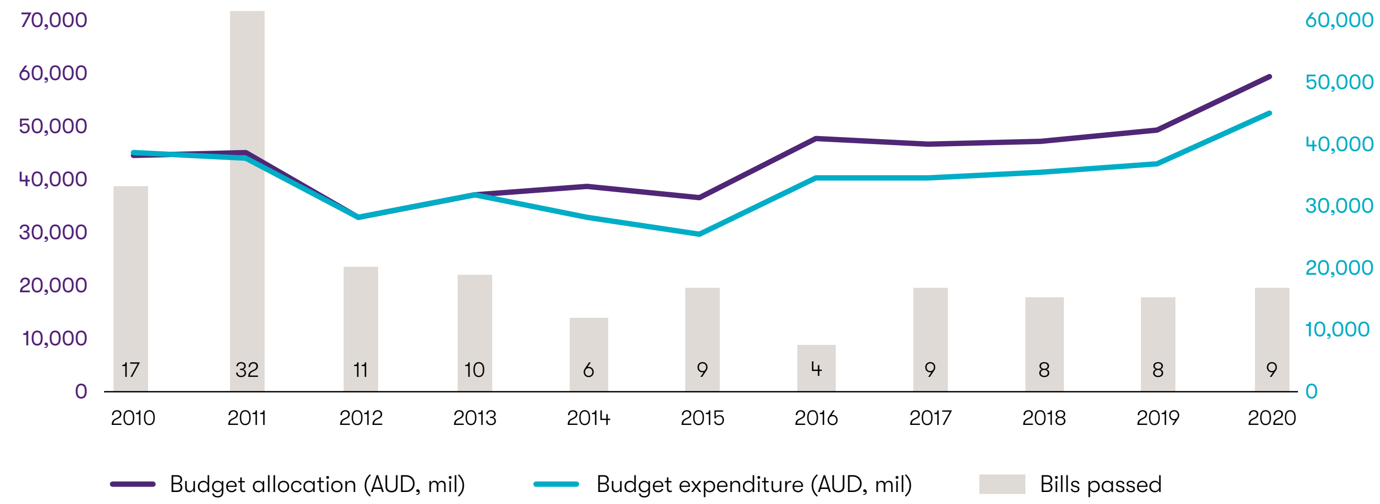
International education became part of Australia's foreign policy from 1950, with the aptly named 'Colombo Plan' giving scholarships to Asia's future leaders – 20,000 scholarships by 1985 – with the hope that the intimate knowledge gained would garner some affection for Australia. Many of the students then go on to work in key positions across Asia. In 2018 we were 10th in the overall soft power index – 6th in education.

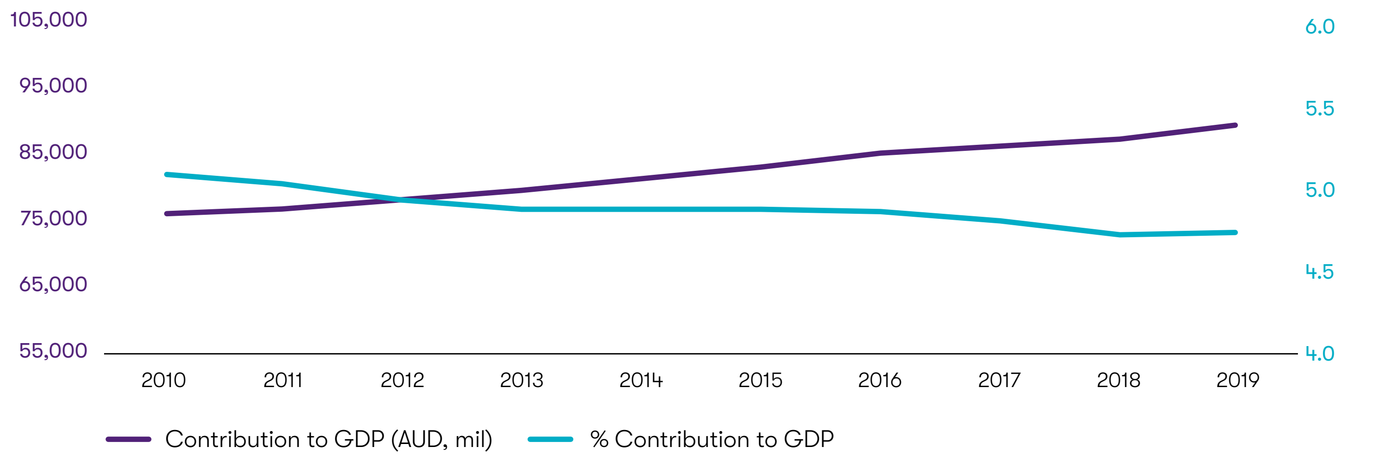
South East Asia is peppered with Australian university campuses and we've seen that the Government is keen for Australian universities who operate overseas (such as Monash in Indonesia and Shanghai), to continue. International campuses staying open during COVID-19 provides both the universities and Australian diplomats with an opportunity to stay active and engaged with local students.

Key milestones

2011	Tertiary Education Quality and Standards Agency and National Vocational Education and Training Regulator established
2012	VET FEE-HELP Student Loan Scheme introduced
2017	VET Student Loans Scheme rushed through Parliament after outrage regarding VET providers rorting the VET FEE-HELP scheme

Contribution to the economy





Education

We need skilled workers to drive investment in priority industries

The Government has said we need to grow out of the recession. Add to that the $1.3b committed to a modern manufacturing initiative and the industries the Government wants established in the next decade (resources and critical minerals, food and beverages, medical products, recycling and clean energy, defence and space). We will need a skilled and trained generation to deliver on this investment.

If we're reinvesting in these industries to rely less on the global supply chain – we also need to refocus our efforts on both degree and trade certifications. Manufacturing is widely automated these days so workers in factories need to be highly skilled to operate and maintain sophisticated machinery. We're going to need smart people – engineers, technologists – to design and implement those automation systems, to make it possible for manufacturing to be scaled up in Australia. Similarly for resource extraction and mining, or creating low emissions technology as required in the Energy Technology Investment Roadmap. STEM subject areas will be even more important if we're going to develop these priority industries. The record $1.67b investment in cybersecurity in June this year will need efficient training and upskilling to ensure there are adequately skilled people to implement the Government's cybersecurity investment.

The Government's recently announced micro credentials – short courses that when stacked together will create a degree – will go a long way in creating a future knowledge base in the short term. However, there is potential to widen the use of micro credentials, particularly for reskilling. For instance, a range of short courses could be made available – based on industry needs – to mature workers or workers displaced from an industry that don't have the skills needed for the future. There is opportunity here for using micro credentials to modernise with skills of the future based on industry needs.

R&D key to our economic recovery

R&D is one of the stalwarts of Australian universities. One-third of research done in Australia is done by universities (another third done by industry and the remainder being direct Government research or hybrid funding models).

But research costs more to undertake than what it's funded for. Research funding bodies will generally only accept support costs up to a limited amount, which doesn't always cover the cost of necessary research overheads such as facilities, specialist equipment, governance and compliance. It all comes at a cost. If research overheads were funded separately to the research itself, this would help provide clarity to the true cost of research and the level of funding needed.

Our tertiary institutions have built up their international capabilities – with money from international students being a massive contributor to research. The sector has scaled up over a decade, but now it doesn't have the money to continue at the same scale. We're already seeing mass redundancies across the tertiary workforce, abolition of some degrees, reducing our ability to teach the next generation of students.

Research by the University of Melbourne's Centre for the Study of Higher Education has found Australia's public universities have lost $1.5b in research funding this year – and will hit $7.6b by 2024. The $1b in research funding announced by the Government at the AFR Education Summit is welcome but barely scratches the surface.

Industry is already collaborating with universities in research. Universities have access to tools and technologies but often lag at commercialisation of researching and innovation findings. If there were more incentives for industry bodies and companies to partner with universities to undertake research, this could bolster our research capabilities in the future. Having a seamless integration between industry and training providers would go far in ensuring a jobs ready workforce.

There is potential for further incentives for industry partnership in the May 2021 Budget, which is certainly aligned with the JobTrainer initiative, commercialisation and Mr Tehan's comments that Australia needs to turn our ideas to jobs, productivity and growth.

The priority industries named in the manufacturing strategy – namely resources and critical minerals, food and beverage, medical products, recycling and clean energy, defence and space – need to have their industry plans submitted by April. So, perhaps, there is room for further collaboration with universities as part of this plan.

Skills training for the future

The National Skills Commission has identified a number of emerging occupations based on a data-driven approach. The emerging occupations cover specialised digital roles, data analytics, emerging business practices, regulatory specialists, emerging health skills, sustainability engineering and trades. We particularly hope to see incentives or funding in the May 2021 Budget for skills training in these in-demand future occupations.

The shift in skills needed for these future jobs may also change the requirements under the skilled worker visa, as we'll likely need to start to attract migrants with these skills. This also ties into the JobTrainer initiative so we are hopeful that we will start to see some movement in this in the near future.

Women's participation in the workforce and childcare

A significant measure the Government introduced during COVID-19 was a $9b package to provide free access to childcare for workers. Essentially the initiative subsidised childcare centres with a base rate to continue to operate during the height of the COVID lockdown, leaving parents and carers with no out of pocket expenses for a temporary period.

During the Federal Budget, the Government announced a targeted JobMaker Hiring Credit – essentially a subsidy for employers hiring people under the age of 35. However, there wasn't anything additional to support women back into the workforce through subsidised care. Australian women are the largest cohort of working aged people not fully engaged in the workforce. We hope to see the extension of further subsidised or free childcare in the future Budget, enabling women to re-enter the workforce.

So where to from here?

One thing is for sure: we need investment in the future of our nation, and education and training will be a key part of that. In order to deliver on any of the promises and investment from the Budget, we'll need a sufficiently educated and trained workforce. Other countries, like the UK, Canada and France have invested heavily in university research funding this year – recognising the role that universities have in helping the country out of recession. Money spent at universities and the VET sector goes straight back into the economy, and Australia.

Regional Australia is one of the areas of the higher education sector that could use more investment. Youth in regional areas are half as likely to obtain a university qualification as those who live in the city. But regional universities are potentially at the forefront of where we need to be in terms of partnering with industry. Most regional campuses already partner with local business and local industry. With youth unemployment particularly bad in regional areas, incentives to study would be beneficial. The Government has already committed to investing in the digitisation of our economy in regional areas. As part of the Government's plan to lead us out of recession, there needs to be a focus on regional Australia.

Finally, there needs to be a review of our childcare sector. We know universal access to quality childcare improves participation in the workforce. We saw this in action during COVID. In the next Budget, quite likely in May 2021, we hope to see preschool funding renewed on a five-year basis (instead of annually), so providers can plan ahead and hire the right amount of people. Currently, funding for preschool-aged children is only eligible for the first year, which puts us behind other developed nations in offering fully funded preschool to children aged 3 years. We hope to see these changes implemented in the May 2021 Budget, which would go a long way to not only tapping into the resource of women in the workforce, and giving children the best start in life in those crucial formative years.

Listen to our education podcast:

13 May 2020
Where Minecraft meets history

17 June 2020
Do we need to turn higher education on its head to ensure skills for the future?

Energy

Jannaya James
Partner, Renewable Energy

There is no doubt about it – Australia's energy future will be one of increasing renewable capabilities. The last 12 months, coupled with pre-Budget announcements in what the Australian media have dubbed 'Energy Week', has seen a definitive shift in political discourse on Australia's energy future.

We must make the shift towards renewables – phasing out coal and moving towards gas before becoming a hydrogen economy.

Setting a national policy for Australia has been difficult. The states ultimately have control over energy production, distribution and regulation – and considering the large distances between our capital cities and the vast emptiness in between, this made sense in the past. However as we continue to grow and invest in new technologies in a global economy, now is the time to reduce the carbon footprint while gearing up for growth.

Did the lack of consensus stall investment?

For years the energy portfolio has been highly politicised and polarising. In the last 10 years we've seen carbon emission schemes, started building the world's first pumped hydro station using seawater, and Tesla delivered on the battery storage plant for South Australia in 100 days.

The data tells us there has been a lack of consistency in policy and investment. Of all the industries we feature, energy has amongst the lowest investment from Government, and this has resulted in a small and steady contribution to GDP in millions, but a steadily declining contribution as a percentage of GDP. As Australia is the world's largest exporter of LNG in the world – shipping 77.5m tonnes worth $49b in 2019, this could signify a decline in other areas of the energy mix.

What's preventing the shift to renewables right now?

In a word, distance. Australia has over 850,000k of distribution grid and 45,000km of transmission grid in operation across Australia. Western Australia has the most reliable and low cost energy network in the country. Next door in South Australia, they have invested heavily in renewables, but peaks and troughs in renewable generation and consumer demand have historically resulted in "brown outs" during those hot summer months. Battery storage is touted as a future solution, however, the cost of battery production is still largely prohibitive.

We've seen an increase in national regulations from the Australian Energy Market Operator (AEMO) in an effort to manage grid stability, which have slowed down development of wind and solar projects and impacted the ability for such projects to proceed past planning stages and into grid connection. While solutions-focused efforts from AEMO are appreciated and far from the only issue in Australia's energy framework, the regulations and standards have the inadvertent effect of placing further burdens on the downstream suppliers to comply with increasing regulations – for instance, companies that supply and manufacture to the energy industry.

Our reliance on fossil fuels is still heavy and until there is a reliable source of renewable power at a lower cost, our shift to a renewable future will be slow. The recent Federal Government commitment to replace Liddell with a dispatchable gas fired power station is seen as a transitional solution, however, without private sector investment in a renewable technology, the transition take a number of years.

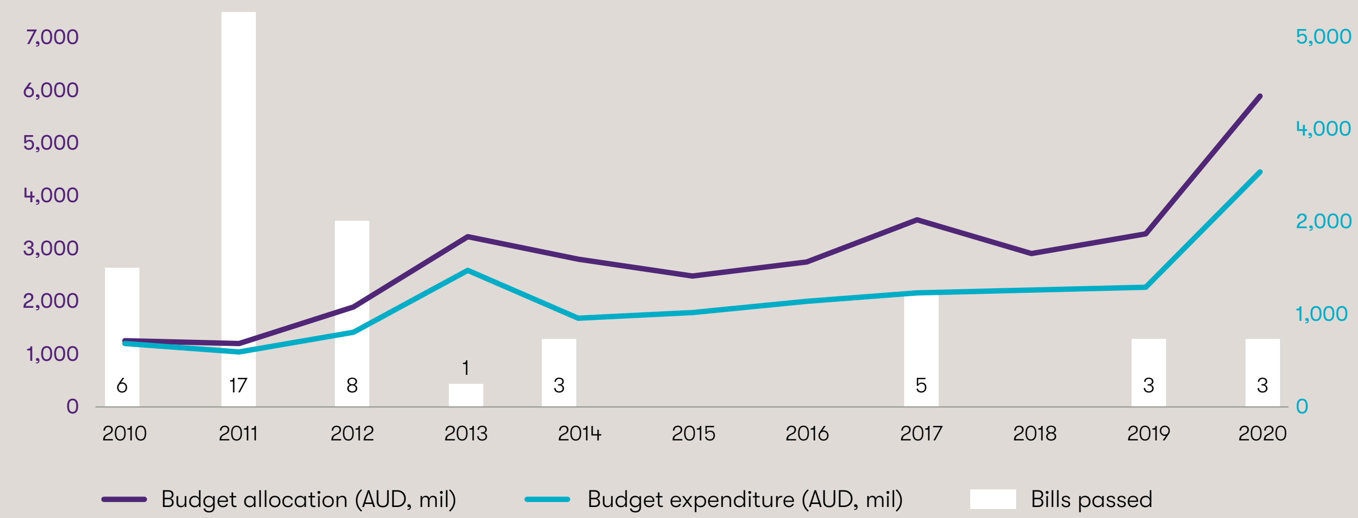
The road to hydrogen

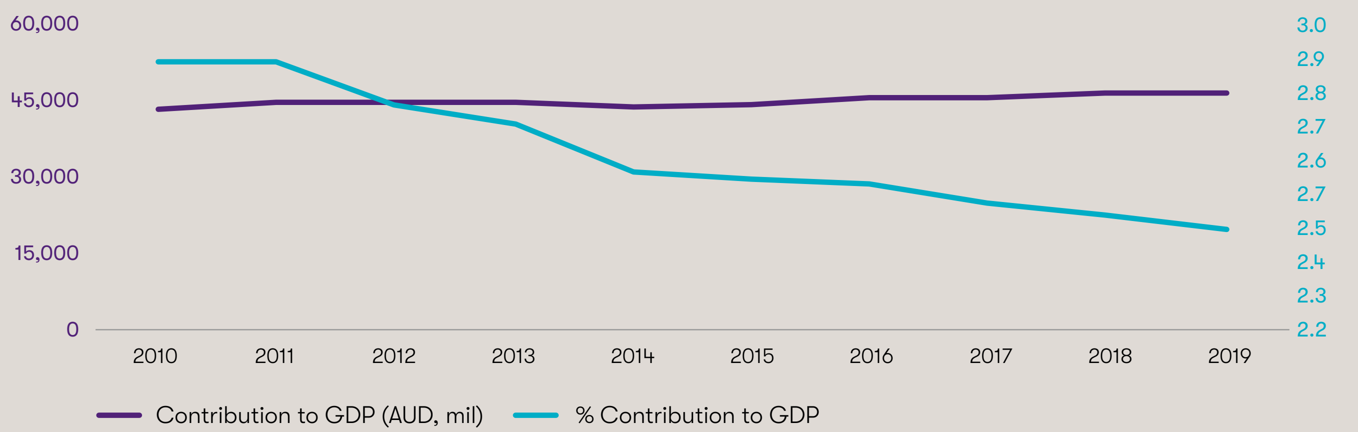
The Government has outlined a short-, medium- and long-term plan to move towards hydrogen as a primary source of domestic energy, as well as developing our capabilities to be a major exporter of hydrogen to the world.

Key milestones

2011	Clean Energy Act passed in November
2012	Australian Renewable Energy Agency established
2012	Clean Energy Finance Corporation established
2014	Clean Energy Legislation (Carbon Tax Repeal Bill) passed
2018	ACCC delivers report from the Inquiry into Retail Electricity Pricing

Contribution to the economy





Energy

This will not happen overnight. As our many coal-fired power stations plants have up to 30 years left to run, the Federal Government has announced a transitional strategy of building gas-fired power plants. The additional benefit here is that the gas infrastructure can also be used to support hydrogen at a later date.

However, the cost of hydrogen is not yet competitive and varies based on the type of conversion used. Hydrogen can be created in four ways – steam methane reforming with carbon capture and storage (CCS) or carbon capture, utilisation and storage (CCUS), coal gasification with CCS or CCUS, water electrolysis or biogas – with expenses varying for each (including equipment, electricity, compression, transport, and storage costs).

In its Low Emissions Statement, the Morrison Government outlined their goal of creating on-site clean hydrogen under $2 per kilogram (notably, where it becomes cost competitive for uses such as transport, ammonia production, and electricity). In the short term, creation through steam methane with CCS or coal gasification with CCS is thought to be the most cost-effective, however more renewable methods (water and biogas) will become cheaper once hydrogen is further developed and demand grows.

Investment in energy will help us to grow out of the recession

Investing in new forms of energy, stabilising our grid and creating more efficient technologies to drive down emissions will create jobs. The Government estimates investing in new forms of energy and technologies will support more than 130,000 jobs by 2030, with half in regional areas. It will also help create opportunities and jobs for other sectors, particularly manufacturing, with the key focus on "preserving and expanding employment in energy-intensive manufacturing".

As part of the Budget, the Morrison Government announced a $1.5b manufacturing strategy, including a significant $1.3b modern manufacturing initiative, with clean energy being a key priority industry that the Government wants developed over the next 10 years. If we're reinvesting in Australia's manufacturing industry to boost national supply chains and reduce our overreliance on overseas manufacturers and suppliers, then we must recognise the symbiotic nature of manufacturing's relationship with energy. Manufacturing needs a stable, cost efficient power source to make it competitive to overseas manufacturers, and the energy industry needs manufacturing to build and create its infrastructure.

A major reason why we don't see international investment in local manufacturing is due to the high cost of energy in Australia. For Australian manufacturing to grow locally, the cost of power needs to be brought down to a manageable level that is attractive to investors.

So where to from here?

The Government has already stated that reliable energy will be critical to Australia's future economic prosperity. They've invested:

- $18b in their Technology Investment Roadmap to support low emissions and emerging renewable technologies, prioritising renewables and CCS.
- an additional $1.9b renewable energy package, with $1.43b of that allocated to the Australian Renewable Energy Agency (ARENA) to guarantee baseline funding to invest in new projects, as well as expanding the focus of ARENA and the Clean Energy Finance Future Corporation to back technologies to cut emissions in agriculture, manufacturing, industry and transport.

This is the start of a great opportunity for Australia to develop market-leading technologies that can create a carbon-free future, through investment in technologies that can support emissions intensive industries, such as load monitoring and management, behind the meter solutions and energy generation alternatives.

It's evident that we need to advance our renewables agenda, and at the same time transition out of coal into gas in a sustainable way. Gas and renewables are not mutually exclusive – both will need to be managed in parallel to maintain access to reliable energy for all of the industries that rely on it.

Australia has the impetus and investment to be a renewable energy leader. But we need efficient and streamlined regulations, a consistent national framework of implementation and Federal investment in the sector.

Listen to our energy podcast:

24 September 2020
A green-led COVID recovery

Financial Services

Madeleine Mattera
National Head of Financial Services

The first bank in Australia, Bank of New South Wales, was established more than 200 years ago in 1817. This was followed by more banks in the 1830s and 1850s as the country grew.

It was completely unregulated and speculative, but the banks even back then were underwriters for economic activity. Move forward to today and the Australian financial services sector is performing the same function but within a controlled environment to protect both the banks and consumers from anticipated and unanticipated shocks to the economy. And what a shock we have had in 2020. Bushfires, a pandemic and now a recession.

This is a very different scenario to the last worldwide recession in 2008. The Global Financial Crisis was instigated by the failure of financial institutions in the US causing a domino effect around the world. The sector wasn't in a position to underwrite an economy they had effectively destabilised.

In 2020, the role of the financial services sector is far more important in supporting the economy. They are the shock absorbers and the policy partners – integral in implementing the many initiatives put forward by the Federal Government, including the SME Guarantee Scheme, Code of Conduct for Commercial Tenancies, as well as providing hardship support for those most impacted by COVID-19.

The economic underwriters

The financial services sector continues to grow and Australian banks are amongst the world's best performing financial institutions. According to a Bloomberg review in 2013, Australian banks posted the best risk-adjusted returns amongst global peers in the previous 10 years. In the Bloomberg Riskless Return Ranking, Commonwealth Bank ranked number 1, with Westpac coming in at number 4 and ANZ at number 7.

However, with stability comes complacency and a trend towards profit over people. This is where we saw the calls for a Royal Commission into Misconduct in the Banking, Superannuation and Financial Services industry answered in 2017 with final recommendations rolled out in 2019.

So the relationship between Government and financial services is more symbiotic than perhaps the Government's relationship with other sectors. Financial services institutions are subject to strict regulation and reporting, but they are also a tool that the Government can use to support the economy. They are not direct beneficiaries of support – but they benefit through the support offered to other parts of the community.

The sector bends and flexes in response to the economic crisis

When jobs were being lost starting in March 2020, the Australian Banking Association, in consultation with the Treasurer, committed to providing support for individuals and businesses through the deferrals of loan repayments for three months with the ability to extend this relief further.

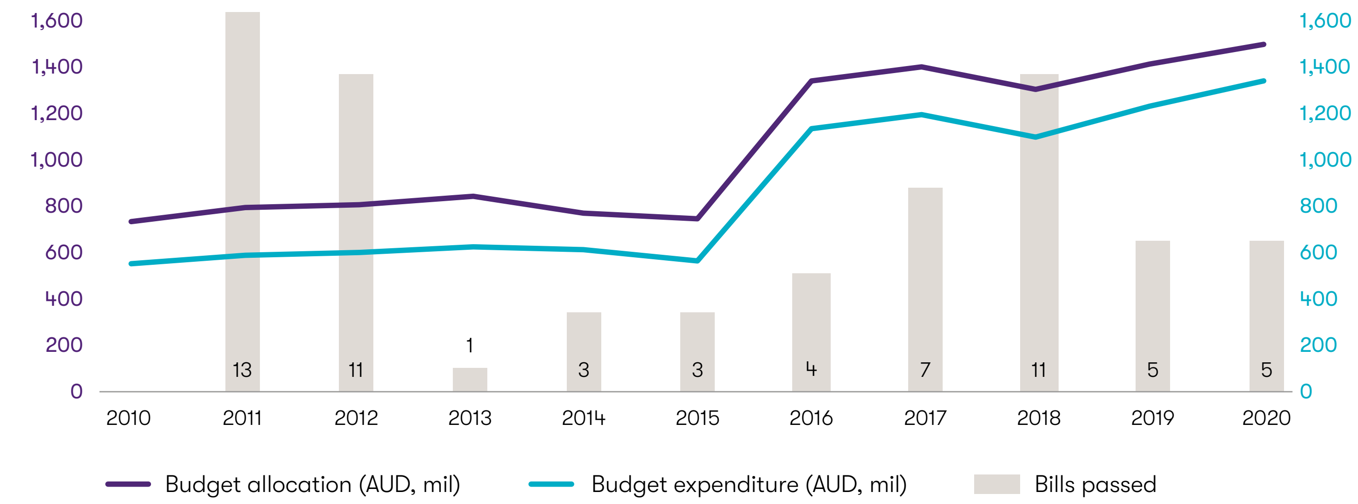
To do this, financial institutions have been given the nod from APRA to erode their capital to provide the uptick in hardship support. This is significant. It's unusual for APRA to allow institutions to erode their capital – this is how they ensure the viability of the sector. However, that hardship support for customers comes with additional reporting requirements and administrative burned to allow APRA to accurately monitor the impact of COVID-19 on the sector.

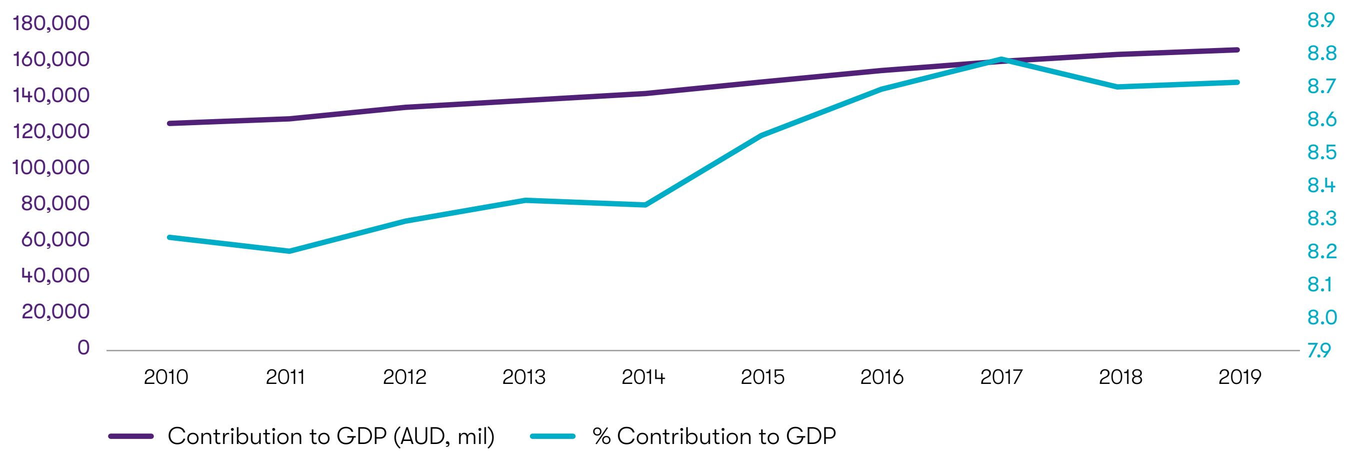
The early release of superannuation – allowing people to access up to $10,000 of super up to two times a year – has certainly had an impact on the superannuation funds. More than 2.4 million people were approved to access their super, withdrawing $27b by early July. This money was meant to have gone back into the economy – paying school fees, rent, groceries and home improvements. However, a surprising amount has moved from superannuation through to the savings account with financial institutions reporting increasing deposits. This

Key milestones

2013	APRA commences prudential supervision of Superannuation Funds
2013	APRA releases prudential guide on Pandemic Planning for financial institutions
2015	Risk Management standard enforceable for all financial institutions regulated by APRA
2017	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry launched
2017	Major Bank Levy Act enacted
2019	Royal Commission releases its findings including 76 recommendations for reform and enforcement
2019	Information Security standard enforceable for all financial institutions regulated by APRA
2020	Guarantee of Lending to Small and Medium Enterprises (Coronavirus Economic Response Package) Act enacted

Contribution to the economy





Financial Services

means the monies released under the early access scheme aren't necessarily being spent now, but it does help to reduce household debt and provides more buffer for banks to lend.

The SME Guarantee Scheme is a particularly interesting initiative. The scheme is designed to increase the flow of credit to SMEs, but to do so the Government has put their balance sheet on the line effectively guaranteeing part of the unsecured loans extended to SME customers. It is unusual to see truly unsecured loans in the Australian market and this is representative of the fiscal response the Government has thrown at the recession.

Many of our clients have signed up to be registered lenders and it was good to see that the Government not only extended the scheme, but upped the limit from $250,000 to $1m for eligible businesses. Hand in hand with the $1m limit is the scheme's extension to include secured loans – making it relevant to a wider range of SMEs and effectively reducing the risk to the lenders, making them more likely to lend in the current environment.

Competition stifled?

In the lead up to COVID-19 we saw some exciting new moves in the marketplace with three neobanks granted licences by APRA. The neobanks offer alternatives to traditional banking in that they are online only – but come with the need to build a customer base and generate capital.

Unsurprisingly, APRA made the decision to delay the issuance of new banking licenses from March 2020 through to September 2020. In August, it was announced that this delay will continue until March 2021, although APRA would consider issuing licences to well capitalised institutions looking to enter the market. This seems directed at well-capitalised international banks looking to set up in Australia rather than neobanks dependent on multiple rounds of external funding.

This will slow the entrance of new players in the market, but there is still strong appetite for new ways of banking. For instance there is still investor appetite for fintech, but raising capital is a little harder than usual. As the market regains confidence, we're confident that there will still be appetite for competition and new entrants.

What about general insurance?

The role of general insurance in underwriting the Australian economy has been largely ignored. What many people may not realise is that insurers are still paying out from the bushfires earlier this year. This is funding that is going towards rebuilding homes and supporting businesses to get back on their feet.

Interestingly, there is a global debate around whether or not COVID-19 is a business interruption event, and thus claimable through insurance. At present, the pandemic isn't being treated as a business interruption event. The recent test case in the UK courts on Business Interruption Insurance in the COVID environment has not yet received much air time in Australia, however, it could reasonably be expected to impact the general insurance sector in this country.

The UK judgement was complex in that whether an insurance policy covered business interruption caused by COVID depended largely on the wording in the policy and whether there was a general exclusion in the policy for pandemics. This is unfortunately frequently the case for many policyholders.

While this may not be good news for insurance providers, those payouts would certainly go a long way to underwriting economic activity.

Megatrends are moving faster

Many of the trends that were happening before COVID won't go away. In fact, they will move at a faster clip. The decline of cash was already happening. With more people working from home – and also hygiene being an issue – there is an aversion to handling cash. Alternative payment options could thrive at this time – Afterpay for instance was already doing really well and has continued to thrive during this time.

In a similar vein, we've seen some of the big banks introduce no interest rate credit cards. I'm not predicting the death of cash – the nail salon and the bakery still prefer cash – but there are opportunities for new payment methodologies and COVID has really forced us to find solutions to problems that didn't exist before.

> Open banking will be a great enabler for consumers – putting more power back in the hands of the people to move between banks in search of a better deal.

That power will force all financial institutions to generate loyalty in new ways. The banks in particular have gotten used to a "set and forget" mentality where they haven't had to do much for their customers. They will face competition from the customer-owned mutual banks as well as the neobanks who all have a clear focus on the customer, financial literacy and additional incentives.

So where to from here?

We are not out of the recession yet. It may take years, and financial services institutions will continue to play an important role in growing out of the recession. However, for the banks to continue to provide support – through reduced rates on loans or hardship – there needs to be continued support and guarantees from Government.

The sector is also subject to regular regulatory changes, many of which have already been delayed during the first stages of the pandemic. These should be further delayed while the sector focuses on supporting their customers and the economy to get back on its feet.

The recent announcement of plans to roll back Responsible Lending obligations has attracted considerable debate in the media and in the financial services sector. While this aims to "unshackle" lenders, stimulate the flow of credit to borrowers and underwrite economic growth, there are well-founded fears that this could lead to a lending bubble that in the long run jeopardises sustainable economic growth.

The Government announced some changes to superannuation in the Budget. In a move to encourage transparency in the sector, underperforming superannuation funds will be required to publicly disclose poor returns on investments, blocked from taking on new members if returns are not improved and will be named and shamed on a public website. The Government will also simplify superannuation, whereby your super will move with you to a new job, rather than risking creating multiple new accounts that erode balances with fees. These changes mark another round in the Federal Government superannuation reform agenda. The focus is intensifying on returns, fees and member outcomes in superannuation. The future for superannuation trustees is one of continuing reform and change.

While our financial services sector is strong and resilient it cannot be viewed as a bottomless pit. If banks erode their capital to provide support for borrowers experiencing hardship due to COVID-19, they will need time and resources to build up their capital levels post COVID.

Listen to our financial services podcast:

26 March 2020
The banks have an important role to play in economic stability

Health & Aged Care

Darrell Price
National Head of Health & Aged Care

Key milestones

2010	Australian National Preventive Health Agency Act passed
2011	National Health Reform Act passed
2011	Productivity Commission Report – Caring for Older Australians
2012	My Health Records Act passed
2013	National Disability Insurance Scheme (NDIS) established
2015	Australian Biosecurity Act passed
2018	Royal Commission into Aged Care Quality and Safety established
2020	COVID-19 and National Cabinet

Australia's health and aged care sectors are closely related, but operating at two speeds. Our healthcare sector is under pressure, while our aged care is under crisis.

This broad sector has always been one of the Government's largest expenses – with over 25.5 million Australians, it's a significant budgetary commitment to make sure no Australian falls through the cracks. The response to the COVID pandemic and the Royal Commissions into Aged Care and Disability Services are exposing gaps in our systems of health and social support as well as highlighting its interconnections and dependencies. Under pressure, we can see how existing cracks impact services and, importantly, we have seen new cracks reveal themselves.

The largest tension our political leaders need to resolve is how to balance health outcomes with economic results. It is fair to say that economics has historically taken precedent. Changes are required, not just in public policy but also in our own actions – people go to work with a cold, new maladies have developed that didn't exist in previous generations like burn-out, and increases in depression. We are living longer, meaning more people living with dementia and chronic illnesses.

COVID has pressed the pause button on the economy and made us focus on health. The opportunity here is to take this short-term focus and make it a long term priority.

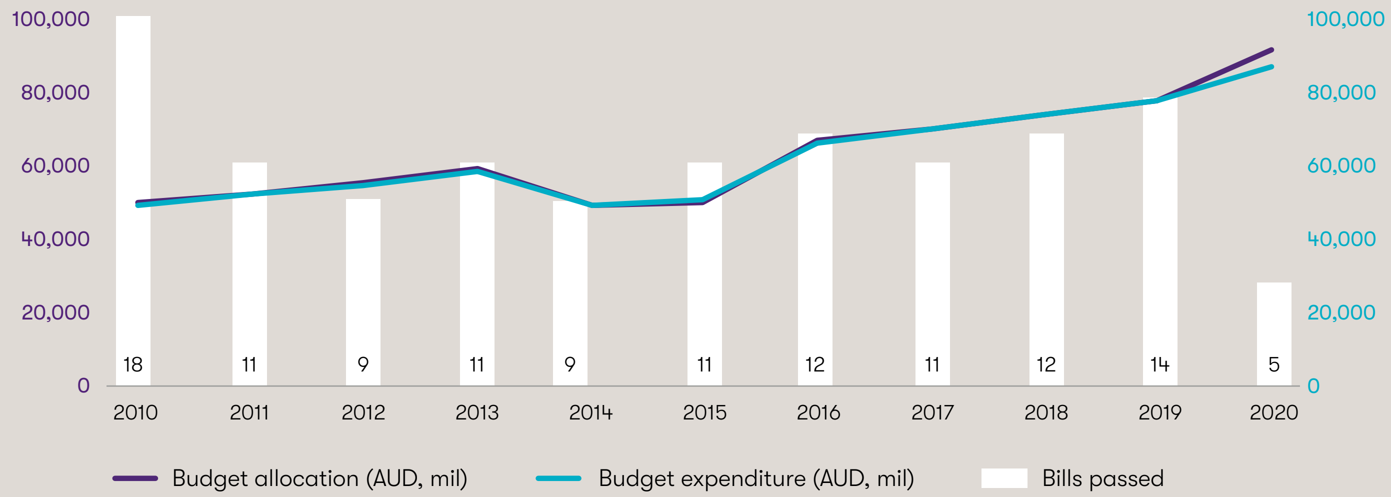
Keeping pace with Australia's ageing population

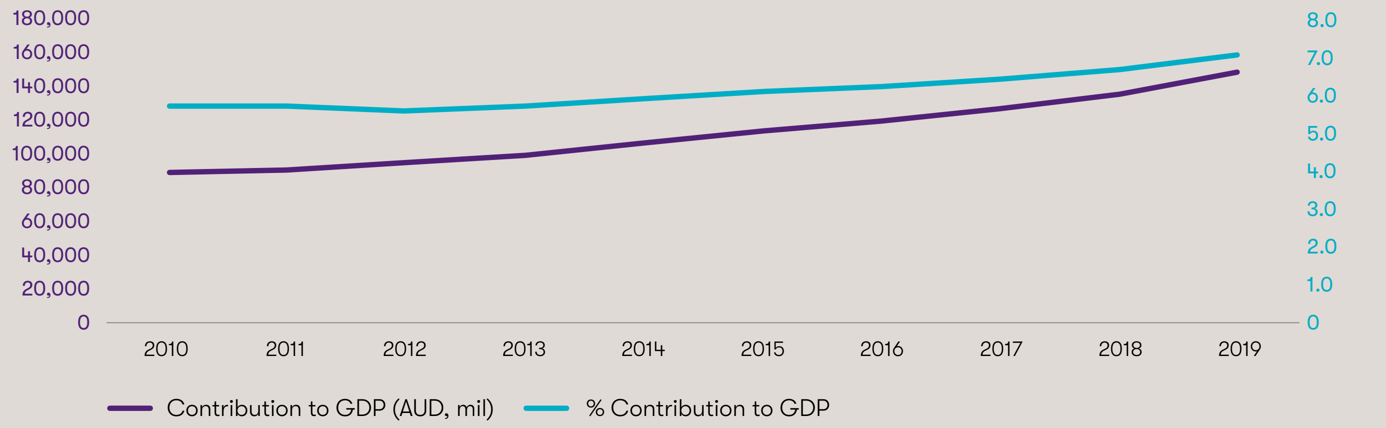
Since 2015 the Budget allocations for health and aged care have been steadily rising, however, it has not kept pace with the demands of a growing and ageing population. With world class healthcare and more families having fewer babies, Australia's population is only going to get older. Of our 25.5 million strong population, there are currently 1.3 million people accessing some form of aged care. The Productivity Commission forecasts this to reach 3.5 million by 2050.

On current trends and not withstanding outcomes from the Royal Commission, Commonwealth spending on aged care is expected to double as a share of the economy by 2055. Even with last year's 'record spend' in health and aged care, there's uncertainty in the sector from inconsistent budgetary allocations and reforms on the way – both outcomes of the Royal Commission and COVID-19.

Funding for healthcare is completely separate to aged care. On top of that, responsibility for health sits with the States and Territories, with funding provided by the Commonwealth supplemented and managed by the relevant State Health departments. Interestingly, earlier this year the State Treasurers were tasked with reviewing the funding arrangements in place with the Commonwealth to ensure funding is being used productively and with the least amount of duplication. We are yet to see the fruit from this particular exercise, but it will no doubt have an impact on future Budgets.

Contribution to the economy





Health & Aged Care

Health

The healthcare system in Australia is not without its challenges. There are lots of moving parts, with a complicated web of primary health networks, primary care, allied services and the private health insurance sector all delivering what should be a holistic healthcare service – and shared responsibilities between Federal and State Governments in providing funding and implementation. This challenge is visualised by the aged care ecosystem presented in our report Perspective on the Future of Aged care and Age Services in Australia.

We need integration of all of these services on a greater level than what we currently have.

When the COVID-19 pandemic crisis hit, the gaps between the aged care system and broader health system, administered respectively by the Commonwealth and the States, highlighted issues of accountability and responsibility for resolving issues for ageing Australians. It provided opportunities to invest in the innovations and services at levels and with a speed and agility we hadn't seen before. Whatever barriers there may have been in the past to the harmonisation of healthcare, COVID has created a clean slate to address these issues in a different way. So now the time is right for Government to invest in healthcare.

Digital healthcare

Access to affordable healthcare is a key priority for the sector – particularly in regional and remote areas. Telehealth was implemented in March 2020 as a temporary solution to non-urgent healthcare and has since been extended to 31 March 2021.

But with the ability for telehealth to reach regional and remote communities, what is stopping the Government from permanently including it in the Medicare Benefits Schedule (MBS)? Doctors and other health services are largely on board, and uptake amongst the Australian public has been high, with 10.15 million patients using the service between March and September 2020. However according to the Federal Department of Health, nearly 76% of the total telehealth services were provided in metropolitan areas – signalling a preference for all Australians to access medical services this way.

A permanent telehealth function would encourage the further growth of innovative technologies, such as smart devices and wearables, or real-time remote monitoring (for heartbeat, blood pressure, etc). And we are integrating these to some degree – for instance glucose monitoring – but we have a long way to go. Most of the IPOs and transactions we are seeing at the moment are healthcare related, particularly in the realm of online and enhancing remote health offerings. New technologies are emerging, such as the much-anticipated wearable devices able to diagnose a heart attack, preeclampsia and epilepsy coming out of UniSA.

Australia's future economy is a digital economy. If we're creating or investing in infrastructure to support this, such as the $4.5b commitment to the NBN, we need to incentivise participants in the health sector to invest in new services and technologies to deliver on the Government's promises. We need to see investment from the Government into these "pathways" between healthcare services – both in the healthcare industry and in the technology and tertiary sectors that create these innovations. Integrating such technology within the primary and acute care systems would almost be a game changer to the industry.

Supporting the diaspora

Remote and regional Australia faces a particular set of challenges. While the number of services per capita for outer regional areas (6.0) is close to that of the major cities (6.3), remote areas (4.9) and very remote areas (3.6) find it increasingly difficult to access the right services at the right time.

Life expectancy – for both males and females – decreases as remoteness increases. This is even more so with Indigenous Australians, who often also encounter cultural barriers to healthcare. It was pleasing to hear the Treasurer speak specifically to regional communities during his Budget speech. The investment is predominantly in jobs, upgrades to the NBN and infrastructure. But infrastructure can mean so much more than roads, rail and bridges. As the regions benefit from additional investment, communities can flourish. This needs to be supported by social infrastructure including hospitals, doctor surgeries and allied healthcare services.

Where is healthcare's future workforce going to come from?

Many people who get Covid-19 will never return to work, with another 25% who recover taking 3-12 months to get back to work. If 2,500 healthcare workers in Victoria contract COVID-19, as we potentially saw with the hospital cluster, then possibly 750 of them may never return to work. Going forward, health recruitment will be an issue. With migration down to 40,000 compared to 198,000 last year – and 2021 estimates of 40,000 of inbound migration, many of whom are skilled workers providing healthcare services – we cannot afford to prevent these people from entering our country.

The healthcare workforce of the future is an issue in itself. With concerns around migration levels and our ability to maintain sufficient levels of healthcare workers, how do we encourage more people to train in the sector? The Government has made some moves on this by decreasing the cost of STEM degrees at universities by disincentivising arts and humanities degrees. We're seeing a standardised qualification fee across the board for nursing degrees. But the cost of a degree is staggering in itself, with a nursing degree costing up to $35,000 per year and a medical degree nearly $70,000 per year. To attract a future workforce, healthcare education costs need to be significantly reduced.

Aged Care

There are two main challenges facing the aged care sector: the immediate challenges around COVID safety, as well as the long-term discussions around the sustainability of our aged care providers. The Royal Commission has provided a range of recommendations on how the sector could have responded better during the height of the COVID pandemic. We are also still waiting on the final report from the Royal Commission on the long term future of the sector. What has been made abundantly clear during the hearings, and in consultation with providers, is there are systemic issues within the sector that come down to governance, funding, viability and the interplay with complementary services – including primary health.

The Royal Commission report, due in November 2020, has since been delayed to February 2021. In the interim, the Royal Commission has produced a special report into the aged care sector's response to COVID-19, noting that the Government's response and preparation for COVID-19 was "insufficient" in the aged care sector.

Minister Colbeck has fully accepted all of the recommendations from the special report, and pleasingly announced an additional $29.8m in funding for serious incident responses, and $10.8m to enhance skills of aged care nurses in relation to infection control. This response is clearly targeted and temporary – a band-aid on the larger issues at play within the sector.

Health & Aged Care

Reform and investment

The sector benefited from an additional $1.6b for an additional 23,000 home care packages in the 2020-21 Budget. According to the Department of Health in the recent COVID-19 Senate enquiry hearing, 10,569 people have died while waiting for a home care package – and there are currently 102,081 on the current wait list. With the current wait length of 18 months, or more in some cases, for a home care package, additional funding would not only mean less people entering aged care facilities and more people getting the care they need in the most vulnerable stages in life.

The aged care workforce are very skilled at delivering personal and nursing care for those that require it, however, we recognise that the workforce is under-resourced, and overworked. In addition to the recent funding from the Government for nurse upskilling, there needs to be more nurses in the sector now – not in five or ten years. Whether this is achieved by tax cuts, incentives for registered nurses to move into aged care, or targeted migration, it needs to be done.

Redesigning the industry for the future

Both the healthcare and aged care systems are fragmented. Pathways have never been more confusing. Responsibilities are split between Federal and State Governments. State Governments are responsible for managing State-run facilities, and there are additional facilities owned and managed by both the for-profit and not-for-profit sectors to meet demand.

Not only do we need better integration between State and Federal jurisdictions, we need better pathways of integration between services like primary care, acute and subacute care, hospital services, primary health networks, allied health, mental health, pharmacy, ambulance, transport and dental. To achieve a completely seamless system, all aged care services would need to be integrated in one seamless system with a single Government and departmental accountability, either through direct control or efficiently managed procurement. More investment is required to streamline services and accountabilities across the jurisdictional divide, and to enhance the experience of those in care and the providers who serve them.

The Aged Care Finance Instrument (ACFI) subsidy has been used to limit Government expenditure while not being used to address the acuity of new residents to aged care facilities. The subsidy, which the Government pays to providers on behalf of each person receiving residential aged care, was reviewed in 2017 with a new funding model, AN-ACC, being considered since 2019.

In the current environment, there are opportunities to increase revenue to providers without impacting the Budget bottom line. By detaching the price point from the subsidy levels of the ACFI, it is possible to raise a minimum of $2.4b with no need for new taxes or changes to taxes – just allowing people who can afford to contribute to their care to do so.

The Government wants to increase competition within a free market to enhance investment, enable innovation and create jobs. Providers can be further be incentivised through reduced regulation, making it easier for people to pay for what they can afford, therefore stimulating investment and enabling facilities to grow and hire more people.

Grant Thornton has produced three reports specifically on aged care sector – one of which spoke directly to structural reform and funding. Our first report – Perspectives on the Future of Ageing and Aged Services in Australia – considered perspectives of 121 CEOs and executives from 112 aged care providers, culminating in the report outlining reforms and cross-sector collaboration required to create the aged care system Australia deserves.

This year, we continued the conversation and held additional workshops, highlighting the need for an appropriate mix of smaller systemic changes across our broader healthcare network, enhanced funding options and enhanced regulation to provide the best outcomes for both consumers and providers. You can find our suggestions in the Redesigning and funding Australia's future aged care sector reports.

All of our reports have been submitted to the Royal Commission for consideration as part of their future recommendations to secure a safer, quality future for aged care services.

So where to from here?

Health and aged care wasn't ignored during the Federal Budget, however, it wasn't the main beneficiary. A total spend of $93.8b to ensure access to essential medical, pharmaceutical and hospital services is indeed an increase of almost 43% since 2014-15 but does not address the areas of vulnerability in the aged care sector. It's not targeted enough. The sector requires significant new capital, and that investment will not be made until there is increased certainty in funding that allows investors to make adequate returns. This applies to health and aged care services. Margins are tightening in primary care, acute care and aged care, and this will lead to failures of service if the funding balance cannot be found.

It is important for all practitioners to review their operations to maximise profitability in an environment with contracting margins. Understanding revenue optimisation through the services that generate the greatest profit will allow businesses to focus on their offering within their markets. Reviewing expenditure including workforce can provide opportunities to enhance revenue and better focus costs on revenue generation.

Aged care providers cannot wait for the Royal Commission to deliver their final report and need to make clear strategic decisions about their operations and their future in the sector. The final report will see recommendations about funding; however, any substantial change – either in funding or in reform – will require significant policy and budget commitments from Governments. That is cold comfort for aged care providers who are struggling with increased costs, additional care needs and reporting in a post-COVID world.

Aged care providers can review their operating model to ensure that everything they do contributes to great outcomes for care and compliance with the quality and safety standards. For those with concerns over short to medium viability, opportunities exist to exit the sector through structured transactional processes. A "fresh set of eyes" can help the vendor by highlighting opportunities for improvement, while an independent report on strategy and operations gives acquirers a clearer view of what the issues are and how they could be addressed under their stewardship. Seeking advisors who understand the sector and the processes available to boards can be critical in preserving and enhancing enterprise value in the transition process.

Life Sciences

Michael Cunningham
National Head of Life Sciences

Our life sciences sector punches above its weight, ranked amongst the top 4 destinations in the world. Our manufacturing and clinical trial facilities are first class. We are home to over 700 biotech and medtech companies, employing over 240,000 people.

According to AusBiotech, the industry is worth over $170b in Australia – and that's just ASX listed life sciences companies. However, we do most of the front-end work – the R&D – before the IP is exported overseas for manufacture and commercialisation. That's where the ROI is – in the years of research and clinical trials we conduct here on home soil – but we rarely reap the benefits of.

Life sciences has huge potential, but gets lost in the funding mix

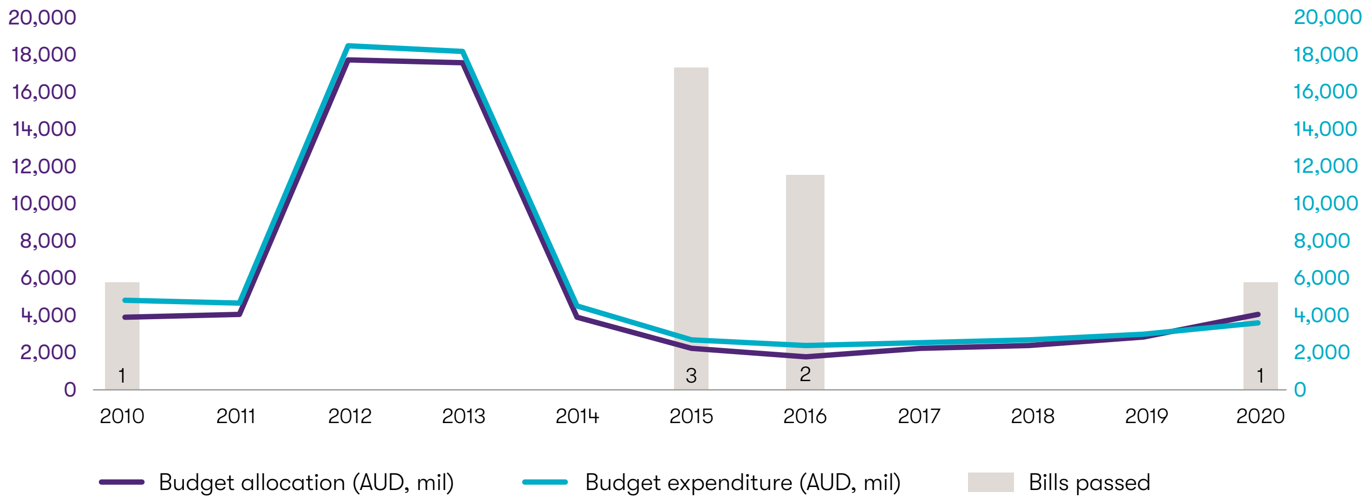
As you will see from other sections in this report, we have really clear data from the Government for most industries. But not life sciences. As part of the broader health and innovation funding pool, the life sciences industry benefits indirectly from funding in healthcare and CSIRO spend, such as the $500m Biomedical Translation Fund, and the $20b Medical Research Future Fund under the Department of Health – with $5b under a 10 year plan for clinical trials, treatment research, and commercialisation of research.

It's also worth noting that due to the changing nature of the Department responsible for life sciences (Department of Industry, Innovation and Science), the data below does include tertiary education for the years that it came under the Education portfolio (2012 and 2013). As the Government does not split this out in their Budgets, it has inflated the funding attributed to life sciences for those years. However, we do know from peak industry body, AusBiotech, that the life sciences industry has grown 16% since 2017 – adding $5b in gross value each year to the Australian economy, and attracting an average of $1b in venture capital each year.

Key milestones

2015	Government commits $20m over three years to the Biosimilars Awareness Initiative
2015	Government announces $500m Biomedical Translation Fund as part of National Innovation and Science Agenda
2016	Review of the R&D Tax Incentive submitted to Government
2018	Federal Budget proposes changes to the R&D Tax Incentive
2018	Government launches $20b Medical Research Future Fund
2019	Inquiry by the Senate Economics Legislation Committee recommended reconsidering proposed reforms to the R&D Tax Incentive
2020	Federal Government scraps proposed $1.8b cuts and instead invests an additional $2b into the R&D Tax Incentive program

Contribution to the economy



Life Sciences

Investment in manufacturing is a boon for the life sciences sector

The Government announced their $1.5b manufacturing strategy as part of their JobMaker Budget in October 2020, including a significant $1.3b modern manufacturing initiative. Within this, there are six priority manufacturing sectors that the Government sees we have a global competitive advantage that can be leveraged and exported to create more jobs in Australia. Life sciences is on this list. This will have a massive flow-on effect for the life sciences sector, allowing them to scale up operations and incentivise more companies to manufacture onshore.

According to AusBiotech, 58% of Australian life sciences companies manufacture here and 56% manufacture overseas (with 35% manufacturing both on and offshore). This investment will go a long way to keep Australian IP and innovation in the country. Additionally, the $107.2m funding to identify supply chain resilience vulnerabilities in relation to critical goods will be important – as the life sciences sector relies on access to chemicals and plastics. Where we can, the Government will invest in sovereign capability. Where we can't, we will contract with "like-minded" countries to ensure we have access to critical products and goods.

Keeping the funds flowing

At the moment, there are a number of biotech companies listing on the ASX. The industry has raised over $170b on the ASX (to 2019). But as with any recession, we can anticipate a capital shortfall over the next 12 to 24 months, especially given it's one of the worst financial crisis we've seen since World War II. Even with the renewed investor interest in the sector off the back of COVID-19 and the race for a vaccine, capital will be tight. The Government needs to look at ways to fast track access to capital and keep the manufacturing, innovation and IP in Australia.

Innovation will be a driving force for growth and recovery from recession. The life sciences sector attracts $1.5b in R&D investment each year. This year's Budget sees the R&D tax incentive changes completely abandoned. The Government is investing $2b in R&D Tax Incentives, removing the cap on refunds, lifting the rate and rewarding those business that invest the most. The R&D Tax Incentive is important to retain and potentially enhance because investors – particularly overseas investors – are looking at these companies that have the access, the data and incentive to fast track their R&D to get a product commercialised and to market.

However, the R&D Tax Incentive doesn't cover the costs of commercialisation. A potential solution would be incentives for superannuation funds to review their portfolios and invest more in local life sciences companies.

There's $3t tied up in Australian super. Due to the early access to superannuation, super funds will be under pressure to rebuild those portfolios and incentivise people to invest more in their super. Superannuation funds will now be under additional pressure to demonstrate returns to their members as part of superannuation reforms announced during the 2020 Budget. The mix of investment will be important to generate those long term returns and maintain member loyalty.

Challenges in the education sector will impact life sciences

Life sciences intersects with Government and universities on research projects and commercialisation. There is no ignoring the elephant in the room: our universities have been significantly impacted by the pandemic and are facing significant drops in revenue as the pipeline of international students dries up. This will have a flow-on effect to their ability to invest in research and innovation in the future.

Research takes time. University of Queensland researchers Prof Ian Frazer and Dr Jian Zhou were the minds behind the world's first HPV vaccine, Gardasil, manufactured by Merck & Co. Prof Frazer and Dr Zhou first started developing a vaccine for HPV (the leading cause of cervical cancer) in the 1990s – and it wasn't until 2006 that the Therapeutic Goods Association approved Gardasil, with Australia becoming the first country to roll out a national HPV vaccination program in 2007.

Collaboration, then, is a long process. And in an environment where funding for long research projects without a guaranteed ROI is a hard ask, it's likely we will see continued cuts to university research departments. However, some of the best research technology and equipment can be found in our higher education institutions – they just need funding, which can be found in the private sector.

To dig up an old idea, the Labor Party announced they would offer a 10% collaboration premium on top of current R&D incentives to support industry and academic or Government (for example, CSIRO) collaboration as part of their 2019 election campaign. While they were unsuccessful at the booths, this would be a positive move that would provide industry (particularly those within the small to mid-sized sector) access to data, research equipment and depth of expertise. It could be something to consider for the next Federal Budget. It's certainly in line with the JobMaker ethos.

So where to from here?

The modern manufacturing initiative is very exciting for the sector. However, it is missing detail. There should be a period of industry consultation between now and April 2021 when all six priority industries have been tasked with producing a roadmap to develop and commercialise the sector. The Government is specifically looking at examples like the UK, Ireland and Singapore who have developed their niche capabilities to export around the world. To do this is a marathon, not a sprint.

Medical manufacturing is a priority industry of the modern manufacturing strategy. Coupled with this is the importance of a robust and incentivising R&D Tax Incentive Scheme. Although we saw the rolling back of changes to the R&D incentive and an additional $2b of investment, the future of the scheme is paramount to ensure ongoing innovation and to incentivise industry and foreign investment in the sector. We need to ensure that support is not reduced in the future.

In the meantime, life sciences companies should look at their business fundamentals to take advantage of the current appetite in the sector, such as: understanding your business model and supply chains, identifying key risks to the business and having a plan to address these things.

COVID-19 has really sped up the listing process. Now is a great time to gauge the market and talk to potential investors. The market is fickle but at the moment investors are attentive, they're open, and they're listening. If you've got a good business story and plan, a robust business, and a clear idea on what you offer investors, there is opportunity in the market.

Listen to our life sciences podcast:

12 August 2020
Park your innovation dollar here

Manufacturing

Michael Climpson
National Head of Manufacturing

Key milestones

2010	ASEAN-Australia-New Zealand Free Trade Agreement signed
2015	China-Australia Free Trade Agreement signed
2015	Electrolux closes Australia's only remaining fridge factory in Orange
2016	Arrium collapses, Ford stops vehicle assembly Australia
2017	Holden and Toyota stops vehicle assembly in Australia
2018	Trans-Pacific Partnership Free Trade Agreement signed
2019	Huggies nappies stops being manufactured in Australia
2019	Australian Circular Economy Hub announced to launch in 2020

Once upon a time, certainly in living memory, Australia had a thriving and diverse manufacturing sector. The sector peaked in the 1960s with manufacturing representing a quarter of Australia's GDP.

We had a thriving textiles sector, processed our own produce and manufactured our own cars. There were no international trade deals like there are now.

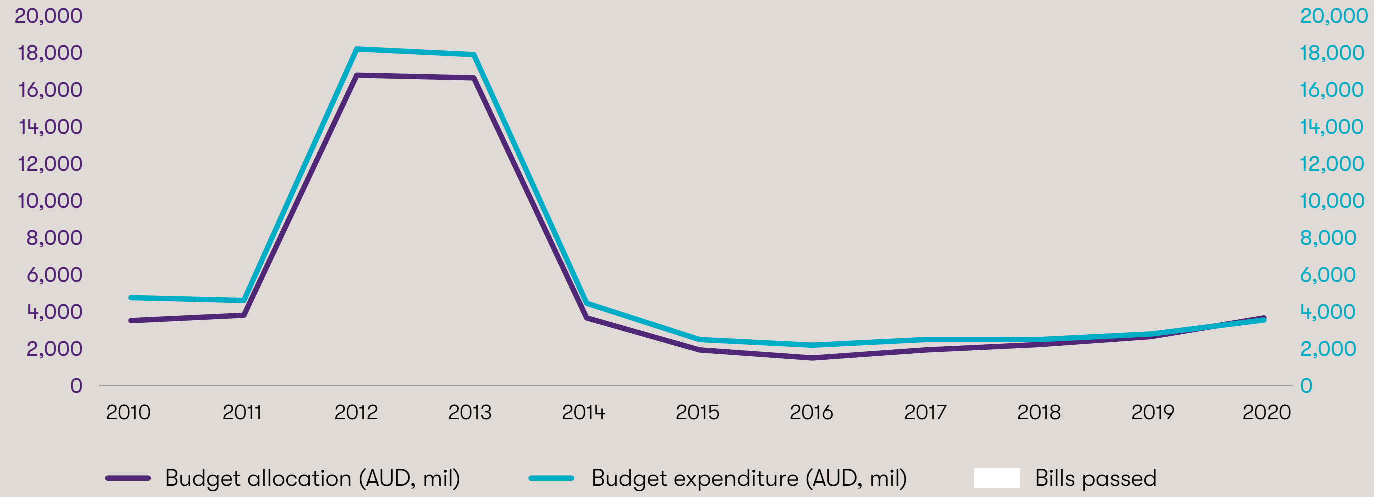
The costs of doing business in Australia continued to go up and then companies started to drift away to offshore locations or shut down altogether. Our world has become more global, with foreign-owned entities making decisions on where to manufacture. We are no longer in control of our manufacturing destiny. This is not to say that we don't still manufacture. We do, but as a sector, it has been largely left to fend for itself for the last decade.

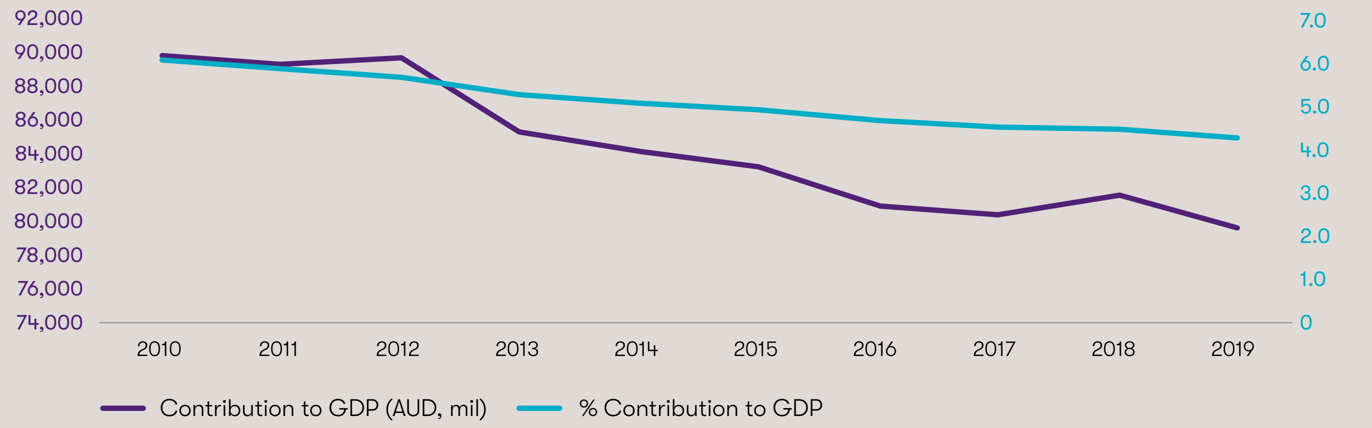
Then comes COVID-19. COVID has exposed weaknesses in our supply chains and our over reliance on overseas manufacturing. The strategies put in place to put downward pressure on consumer prices and open up international networks created vulnerabilities that weren't visible until they were put under real and unanticipated pressure.

Amazingly, Australia's manufacturers have risen to the occasion – taking on orders, increasing capacity and ramping up production. Is this a blip that will fade as we find our new normal? Unlikely. Manufacturers are experiencing increasing demand month on month, and customers are benefiting from the certainty and quality of product in an uncertain world.

There's a renewed sense of enthusiasm around local sourcing and change going forward. Australians now want to know where their products are manufactured. If there was ever a turning point in manufacturing, it's now.

Contribution to the economy





Manufacturing

A manufacturing renaissance?

The data from the last 10 years is a small and sobering piece of a much larger story. In 2010, the contribution to GDP was 6%, and over the decade it has declined to 4.21%. We saw majority of manufacturing moved offshore, particularly into South East Asia, to take advantage of lower cost economies. Previously a powerhouse of Australian employment in the 30 years prior, Australian manufacturing only represented 8.6% of employment in 2010 – and 10 years later has decreased to 7%, or 852,800 people.

In 2020, it was found that Australia now ranks last on the OECD rankings for manufacturing self-sufficiency – making us the most underdeveloped manufacturing sector of any industrial country in the world. The reduction in GDP is not entirely unexpected with the final exit of vehicle assembly in 2017. But it brings clarity. GDP may be bottoming out, but with the manufacturing renaissance brought on by COVID-19, the sector's contribution to GDP is expected to grow.

Modern manufacturing initiative indicates a pivot point for sovereign supply chains

Excitingly, one of the largest investments in the Federal Budget – and in stark contrast to past investments in the manufacturing sector – is the $1.5b manufacturing strategy, including a significant $1.3b modern manufacturing initiative.

Industries the Government wants to be firmly established in the next decade are resources and critical minerals, food and beverages, medical products, recycling and clean energy, and defence and space. These are the areas the Government sees Australia already has a strong competitive advantage or is an emerging area of opportunity.

In this, Scott Morrison has pointed to the strategies employed in Singapore, the UK, Germany and Canada – leveraging home-grown manufacturing in specific areas of strength. The message to the Australian market is that it's not about what we make but how we make it and how we commercialise it.

However, what does this look like in action? We know the Government will invest in manufacturing where we are already strong and can compete globally. Locally, there is opportunity as well. The Government is the largest procurer in the Australian marketplace, and there is a real opportunity to drive investment in the sector simply by placing their dollar here. According to the National Association of Manufacturers, with every $1.00 spent on manufacturing, another $2.74 is added to the economy.

What we need now is to incentivise local procurement in both the public and private sector. Successive Governments – both State and Federal – consistently offshore skilled manufacturing projects that Australian manufacturers are more than equipped to handle. If Government seeks to procure locally, capacity within factories would increase, in turn enabling innovative business efficiencies and cost-competitive products in the broader marketplace. This would then reduce the cost structure for the manufacturer, and also create opportunities for downstream suppliers. Similarly, private companies, particularly mining companies, send their fabrication work offshore. We need the big corporates incentivised to award local contracts to local companies – and strengthen the manufacturing industry from within.

This procurement also needs to break out of the six priority areas. One way to do this is providing incentives attached to infrastructure funding to procure materials locally. Government should take a more active role in influencing infrastructure material spend in the domestic supply chain – for instance, incentives for procuring materials that we can manufacture locally like steel, glass and concrete – instead of importing them.

> Everybody talks about direct job creation, but we need to move the dial and talk about indirect job creation by Government influencing its procurement.

We need an independent board to oversee all Government procurement to maximise local investment when spending tax payer dollars

The multiplier effect

Costs of products locally have been a historical pain point for those looking to procure or manufacture in Australia. Based on our Grant Thornton Manufacturing Benchmarking report data, we have created a model indicating that for every Government (Federal, State or local) dollar spent, there's 30 cents worth of additional revenue generated over that original dollar. So if Government spends $1 on an Australian product, as opposed to importing a product, there's a 30% premium that can be paid, because the benefit comes back to the community. In addition, our lower, more conservative multiplier says that Government could spend $1.90 locally, and it's the same as spending $1 on offshore procurement.

Example

Take the building of submarines. We're spending $50b on offshore manufacturing, as the general consensus was that producing locally would blow the budget. Using our calculator with a fairly conservative position, you could spend $90b on building submarines locally and still have the same impact as $50b offshore. You could spend substantially more, but the benefits will come back to the Federal Government and State Governments and local communities through what they take in taxes and the spending that's created by building locally.

Blowing budgets, is less of a problem as long as you understand that blowing a budget domestically versus offshore has a completely different outcome.

Keeping R&D innovations in Australia

Here is the rhetoric from the Prime Minister: manufacturing will play a key role in our economic recovery. There are around 860,000 people employed by manufacturing. The kind of manufacturing we do is smart; it's automated and efficient. We must scale this up. Once again, the question is what does this look like in practice?

A quarter of Australia's private R&D expenditure comes from the manufacturing sector – with the sector investing even more in 'non-R&D' innovations, such as business efficiencies, systems and processes. But with the high cost of production in Australia, it's just not economically feasible to invest in technology and automation on a level that brings real efficiencies.

And with the effects of COVID, many in the manufacturing sector can't achieve 100% utilisation in their factories, resulting in less production. Technology has innovated at such a rapid pace that we are now able to be a lot more cost competitive. So by investing more in local procurement, companies can take advantage of some of those efficiencies.

With regimes like the UK investing £22b (approximately $40b) into their R&D incentive, Singapore increasing theirs, and New Zealand with a rate 25% higher than ours, it becomes increasingly competitive for that innovation dollar. What will keep and attract Australian and international innovation to our shores?

Currently, the majority of Australian R&D is done onshore, and the value output is sent offshore – with other countries reaping the benefits. We should be looking to other countries that have more innovative R&D Incentives, such as the Patent Box in the UK, which encourages companies to "keep and commercialise intellectual property" within the country by providing a lower tax rate to profits earned from patented innovations where the benefits of which are kept in country. Australia should adopt a structure similar to this, as it will not only keep innovation in Australia but also create downstream benefits to sub-industries.

Manufacturing

How can a resource rich island nation be substantially below the OECD manufacturing average of 14%?

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Australia	8.0	7.4	7.0	6.6	6.4	6.3	6.1	5.8	5.8	5.6
Canada	10.4	10.3	10.0	9.6	9.4	10.0	9.9	-	-	-
Singapore	20.8	19.6	19.1	17.6	18.0	18.1	17.6	18.4	20.7	19.8
Germany	19.7	20.2	20.2	19.9	20.2	20.4	20.7	20.6	20.4	19.4
United Kingdom	9.6	9.5	9.4	9.6	9.4	9.3	9.1	9.0	8.8	8.6
United States	11.9	12.0	11.9	11.8	11.6	11.6	11.1	11.2	-	-
OECD Members	14.1	14.0	13.9	13.8	13.8	14.1	13.9	14.1	-	-

Manufacturing, value added (% of GDP) - World Bank national accounts data, and OECD National Accounts data files.

As you can see in the chart above, Australia is far behind other nations with developed manufacturing sectors. We note Saudi Arabia, Malaysia and South Korea all have a strong focus on Government procuring locally.

There is a notable difference in Australia. Australia needs a framework in place to reach the OECD Average. The recent modern manufacturing initiative just might be the way to do this.

Reliable, low-cost energy will be key to the success of Australia's manufacturing industry

Australian manufacturing is the third largest consumer of energy, accounting for almost 18% of Australia's total consumption – energy costs are a real issue affecting manufacturing. The rising cost of energy is one of the major deciding factors in whether companies manufacture locally or overseas and why we're losing our competitive edge.

Research from the Centre for Future Work in May 2020 found that if the Australia supported 100% renewable energy, it could save the industry up to $1.6b. Not only that, but with Government support for business incentives to invest in their own renewable energy supply – which we've already witnessed from some private manufacturing companies in South Australia, Queensland and Victoria – it will create a circular economy and create jobs (even more so if you add to the mix local procurement for materials needed to manufacture renewable infrastructure).

Investment in low-cost energy, pleasingly seen from the Government's announcements during "Energy Week" and the launch of the Technology Investment Roadmap, will have a positive impact on the industry and help Australian manufacturers regain their competitive edge.

So where to from here?

We have strategy, but we have no detail. The aim is to have plans for each of the six priority sectors by April 2021. These will be designed in conjunction with industry and Government and will create a long-term plan to transform modern manufacturing over the next 10 years. The timing is particularly interesting and hints at a May 2021 Budget – returning us back to our normal cycle.

There has been criticism that the Government has selected their "winners" in the sector. In selecting winners the Government has not capitalised on value adding to base resources. We have significant mining, gas and agricultural resources. Our competitive advantage is our base resources – and yet we export livestock rather than processing. We export iron ore and bauxite rather than value adding to produce end products. We export gas rather than producing fertilisers and chemicals. We export timber at the expense of our domestic market, and we export base product for lithium when we should be producing batteries. We export our product at its lowest value in the product lifecycle.

Government has highlighted food and beverages as not only one of the largest employers in the manufacturing sector, but also a critical one in terms of food security. However, we know that innovation can and will come from those parts of manufacturing that aren't part of the priority six. All sectors and sub-sectors will benefit from complementary policies around energy, industrial relations and technology.

In particular, State and Federal policies focussing on local procurement will complement the trend we're already seeing with consumers embracing local products. The trick will be to maintain this competitive edge when the borders reopen and trade moves more freely.

The detail we are most interested in hearing more about is the commercialisation support and the trade agreements we can access to better export our products and service, as far down the value-add process as possible, around the world. The mix to achieve this will be in the already announced red tape cuts and grants, but to open new markets will require negotiation at a policy level and to attract companies and talent here will require incentives. The devil will most certainly be in the detail, but the opportunities are manifold.

The starting point is the creation of greater domestic market volume through a genuine attempt from Government to procure products, material and services that can be sourced locally. It would be beneficial to create an independent body with oversight to review all Government spending for local content opportunity, and put more rigour around Government procuring products and services locally.

Let's take price out of the Government procurement equation by recognising the full benefit of local procurement, and provide economies of scale. With economies of scale comes global competitiveness, and resulting exports. We should aim for the average OECD manufacturing as a percentage of GDP as our target and we will have created a manufacturing base three times the size of today's – or an additional 1.7 million semi-skilled and skilled jobs.

Listen to our manufacturing podcast:

24 April 2020
Gearing up for a manufacturing renaissance

5 August 2020
The future of manufacturing looks optimistic

Not for Profit

Simon Hancox
National Head of Not for Profit

The not-for-profit sector is diverse with more than 600,000 not-for-profit organisations and nearly 5,000 trusts and foundations. It delivers a variety of services, including education, health, aged care, disability services and social services.

But the term "not-for-profit" is a blunt instrument. In addition to charities and church run organisations, it includes numerous models like associations, membership organisations and peak bodies, cooperatives and mutuals, and credit unions and building societies. They're not charities registered with the ACNC. They're not Public Beneficial Institutions, and they're not gift deductible. But they are not for profit. The demarcation of the boundaries between who's in and who's out, and where you get your measurement from, is going to be always compromised. It's not just a sector. It's a philosophy.

An essential service in need of a better framework

In 2018, the charitable sector alone turned over $155b and employed 1.3 million people (or 8% of the Australian workforce). The sector received half of its revenue from providing goods and services income, and the other half was fundraising, bequeaths, and the remaining from Governments.

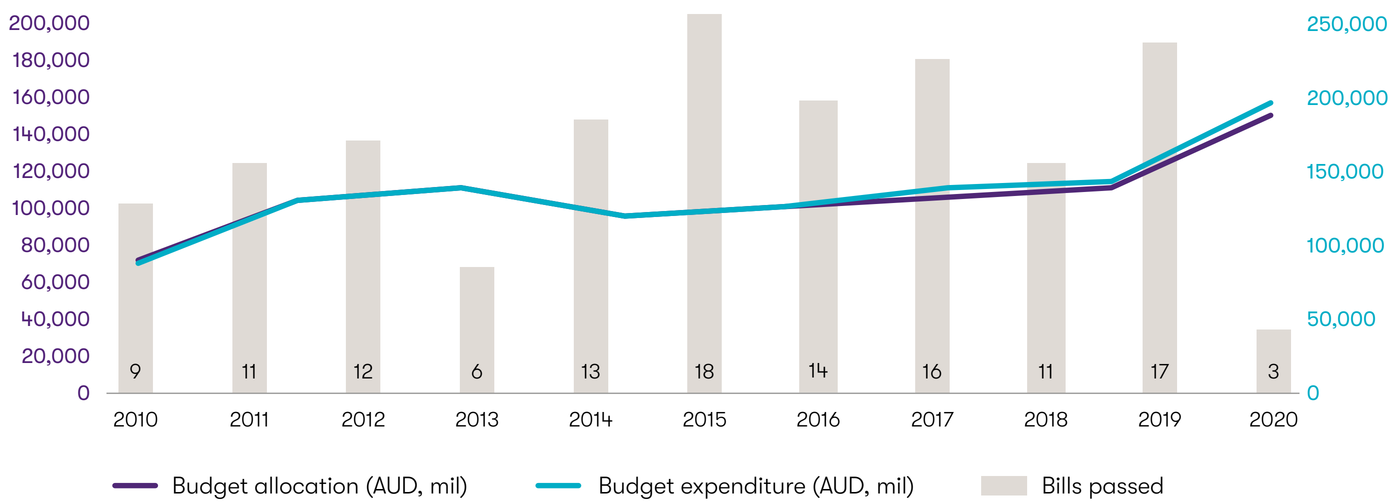
The last decade saw a variety of structural reform, including the creation of the Australian Charities and Not-for-profit Commission (ACNC), which regulates the sector. It's one of the few sectors that the Government continues to heavily invest in – it's right up there with healthcare – however the level and timing of funding is inconsistent from year to year. It's highly competitive with more and more not-for-profits wanting to access the same funding pie.

COVID has seen an increase in demand for services in some areas – like mental health and domestic violence support – and a sharp decrease in others – such as refugee support networks. We've seen an increase in spending in 2020. But like most measures, we can expect this to be temporary and targeted. The sector needs more funding, and it also needs reform to ensure its long-term sustainability and viability as an important service provider to the community.

Key milestones

2012	Australian Charities and Not-for-profits Commission (ACNC) established
2013	Charities Act passed
2013	National Disability Insurance Scheme Act passed
2013	Not-for-profit Sector Freedom to Advocate Act passed
2018	ACNC Review released
2019	Government provides $5m for the establishment of a Social Impact Investing (SII) Taskforce
2020	Government vows to reform sector and increase accountability and transparency

Contribution to the economy



Not for Profit

More funding for mental health and domestic violence – but where else do we need funding?

In March 2020, the Government announced additional funding of $150m for domestic violence, crisis interventions, and therapies for perpetrators, as well as $143m for a variety of mental health initiatives. As part of this year's Budget, the Government announced an additional 10 Medicare-funded psychological services through the Better Access Initiative, bringing the total to 20. They also announced more funding for Lifeline, headspace, Beyond Blue and Kids Helpline, and support for young Australians with a mental illness to participate in the workforce. Details on this funding has been limited, however, it's likely we will receive more information on this after the Productivity Commission's Mental Health final report.

These of course are services that have seen an increase in demand due to COVID, however, they aren't the only ones. With more people at home and unable to visit loved ones, there are many older Australians experiencing social isolation. There are families that have lost income that are looking to access social services and social housing, perhaps for the first time. It's easy to lose sight of the many people that need support during this time and a review of how our most vulnerable can be supported with additional funding would ensure we're catching people before they fall through the cracks.

Missing voices in the Budget

In addition to the services required in the community, there are also segments of the community that have been left to fend for themselves. Temporary and protection visa holders are excluded from JobKeeper and JobSeeker, and since COVID hit, these people have been heavily reliant on the social support sector, like Foodbanks and emergency accommodation. These initiatives did not receive any funding from the Government in this year's Budget so will need to be included in the May 2021 Budget – not just for those on temporary protection visas but also for the wider welfare sector. After the bushfires, floods and drought we saw at the beginning of the year, these initiatives were overrun looking after Australians affected.

There was some funding in the Budget for affordable housing which is a long running issue in the not-for-profit space. The Government will be providing $1b of low cost finance to support the construction of affordable housing, but it would be good to see some support in the longer term for rough sleepers and community housing. Not everyone will be in a position to finance their own home.

Philanthropy and fundraising

The dependence on philanthropy and fundraising in the charitable sector had been in slow decline as a proportion of their total income for the past few decades. Most are primarily dependent on Government funding for contracts. In some sectors, this has shifted to become activity-based funding. But in some areas, like homelessness and domestic violence, it is still primarily progress based funding. What working in a COVID-19 environment has shown us is that when organisations needed to be flexible and innovative to maintain their fundraising dollar, the fundraising framework was a hindrance.

There is the potential to reinvigorate the sectors interaction with donors and philanthropists. As fundraising rules are largely State based, there is no consistent framework to allow charities direct access to donors and philanthropists. The high level of bureaucracy and red tape associated with fundraising legislation has been a topic of conversation for a number of years. To help improve charities' access to donors and philanthropists, standardising and modernising the fundraising framework needs to become a priority.

Reform is needed for the not-for-profit sector

COVID-19 provides an opportunity for bipartisan reform in social services. When times are good it's easy to ignore the cracks. The COVID-19 pandemic now clearly shows us where those cracks are.

Yes, funding for the sector is desperately needed. However, this must be underpinned first by structural reform.

Changing Government priorities and uncertain funding models for the sector don't tie in with the ability to invest financially towards solving a problem. The uncertainties in the current structure make it hard for the sector to invest in setting proactive strategies to invest in 5 or 10 year plans to work towards solving underlying causes of long-term systemic issues – all they can do is be reactive to issues as they arise day to day.

So where to from here?

We need certainty of funding for the sector. Most funding for not-for-profits comes from a mix of State budgets, GST revenue or Federal funding allocation to the States. It's mostly done on a dollar-for-dollar basis – with the Federal Government providing funding and the States running the programmes under a cooperative funding model.

Many not-for-profits were accessing JobKeeper, and it was an important lifeline for services that weren't seeing revenue come in but were still experiencing high demand. It seems likely that JobKeeper will not be extended beyond March 2021 with the JobMaker Hiring Credit announced during the October Budget now putting the onus on the private sector to create new jobs rather than protecting old ones. What will this mean for the not-for-profit sector?

It is likely that there will be another Budget in May 2021. However, we know this will be cold comfort for not-for-profits who have not received the funding they need to operate as they need to. Forecasting will be essential for the sector to really understand demand and the resources they have to meet that demand. Without certainty of funding and in an uncertain economic environment, it's best to be conservative on what the next financial year will look like.

Professional Services

Ben Matthews
National Head of Professional Services

Key milestones

2009	Fair Work Act enacted
2010	Australian Information Commissioner Act passed
2010	Paid Parental Leave Act enacted
2014	Infrastructure Australia Amendment Act passed
2016	Insolvency Law Reform Act passed
2018	Modern Slavery Act passed
2019	Australian Business Securitisation Fund Act passed
2019	Inquiry into regulation of auditing in Australia commenced

Modern Australia has a vibrant knowledge economy. Highly skilled lawyers, accountants, engineers, architects, consultants and business managers contribute not only to our own economy but to the global one as well.

However, professional services are often the intermediaries. They connect people to businesses, bring concepts to life and play pivotal supporting roles to our cities and the economy.

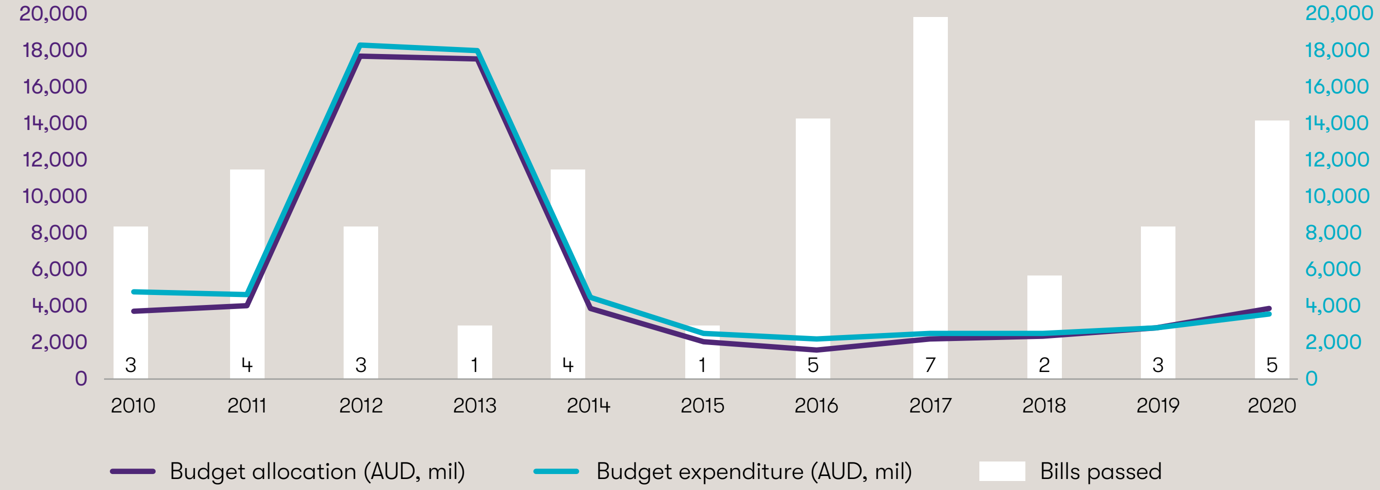
During COVID, professional services have been busier than ever. With a laptop and an internet connection, professionals were able to continue supporting clients to tap into Government support and initiatives. We ourselves have spent countless hours supporting clients to apply for JobKeeper, reviewing books and talking to leaders about their forecasts. Architects and engineers articulate the shovel-ready projects that will put those boots and utes on the ground. Lawyers are essential as contracts and roles morph, evolve, or end in the face of a COVID-induced recession.

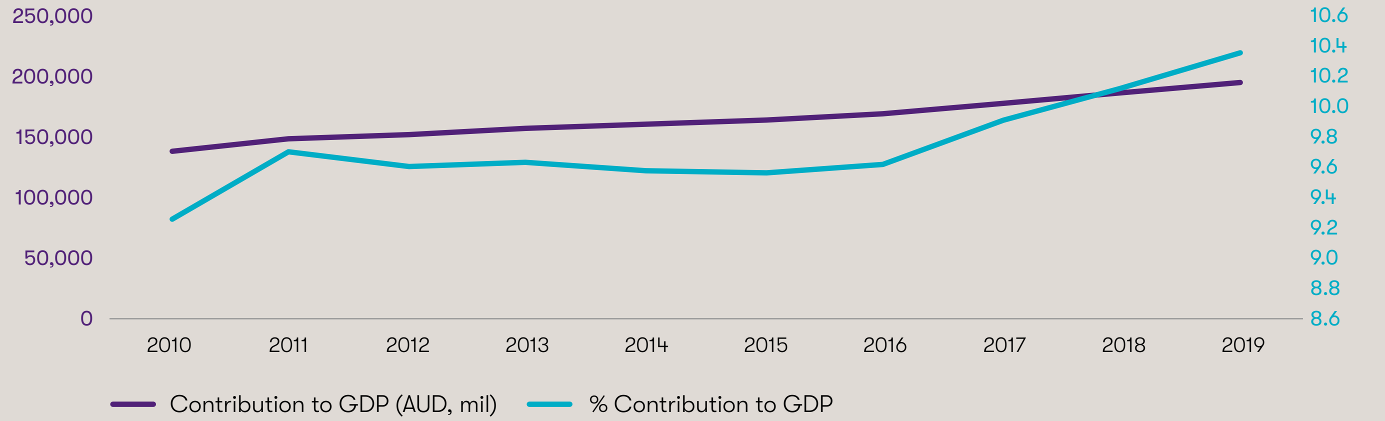
The indirect beneficiaries

When you're an intermediary, you are far more likely to be subject to regulation rather than to benefit from direct funding, and the Government really hasn't invested much to support the sector in the last decade. However, professional services are indirect beneficiaries of funding to other parts of the economy, which would account for the strong contribution to GDP. Professional services has represented 10% or more of Australia's GDP since 2017.

This will no doubt grow with our professional services sector supporting the economy to grow out of recession. We know that integrity and compliance is just as, if not more, important when times are tough. Meeting employer obligations, as well as addressing more recent legislation around modern slavery will need to be balanced with incoming changes to Australian insolvency laws, tightening of the Foreign Investment Review Board and, of course, the new and significant investment in infrastructure, modern manufacturing, energy and digital.

Contribution to the economy





Professional Services

Professional services as valuable as ever

In boom times we've seen cranes dotting the city skylines and business grow. We've had Royal Commissions and reform. Then in 2020 came a pandemic that shut down whole cities down and has pushed many businesses and communities to the precipice.

Throughout all this, there has been work – although the nature of the work has changed. Another good example of our own is the additional work our auditors have been doing on behalf of Boards to ensure they have applied for Government support accurately. It's an extra level of detail not typically required but with billions of dollars of stimulus and support in the economy – often with new or complex criteria to meet – businesses need additional help.

Everything is still in flux. The message from the Government is that measures are temporary and targeted. The stimulus tap cannot stay on forever. However, there are the beginnings of a new economy being born through this process. While some sectors have declined, others will emerge. Modern manufacturing and building our sovereign capability across areas like life sciences, food and beverage, and recycling and clean energy will require infrastructure, business support, customers and employees. There will be new trade partnerships, and domestic and international markets to tap into. This is a tectonic shift in how Australia positions itself to the world – and this will take years, not months. This is where professional services can focus their attention for the future.

Workforce changes

The ABS revealed in 2018 that 1 out of every 11 Australian workers is a white collar worker. Professional services accounts for 8.6% of total employment in Australia and in the year to September 2017, the professional, scientific and technical services industry increased by 13%. It's the fastest growing sector in the economy.

There are more and more people needed in the sector. But the way the sector operates now is very different to how it was 12 months ago. In 12 months, it could be different again. COVID has challenged the assumption that people need to be in the office 100% of the time to be productive. We've proven remote working can work, and even when social distancing allows for employees to go back into the offices it's likely many will embrace flexible working. Certainly this will be an expectation for new graduates coming into the sector.

This will be further enabled by the huge investment the Government is making into technology and the digital economy. More businesses will be encouraged online through grants and support, underpinned by better cybersecurity enforcement. The $4.5b investment into upgrading the NBN will close the digital divide between urban and regional areas. In theory, you can work for a Melbourne-based business and work in the Gippsland with the same accessibility and security you could experience within the office. This will be mirrored by clients who will also have workforces looking to work more flexibly or connect in new ways. Breakfast meetings, long lunches and Friday night drinks won't ever be quite the same again.

Audit, for example, will be more data analysis and forensic than it has ever been before. Less time on site with the client and more time using algorithms to understand a business's financials. This can be a good thing. Using technology – from wherever – we can automate the administrative and allow our people to work more on the insights.

To enable this shift, leaders also need to get on board. That is additional business investment in technology and security, and strategies to support connection and collaboration.

And it's more than tools. It's also testing – and regular testing – as workforces and technology both move more swiftly than they ever have before. It's important to set the parameters early of how you will do this before the opportunities manifest in their own ways in the workplace.

Is the office dead?

Unlikely in the professional services sector. But the office needs to change. A Partner at a law firm was saying that their office has had the same fitout since the 1990s. Everyone had their own office and open plan wasn't a thing. Twelve months ago this would have seemed esoteric. Now, it's enabled this particular law firm to continue working side by side when others simply couldn't manage it under COVID safe guidelines.

The future of the office won't be open plan as we know it. With more people working remotely or flexibly the office needs to become a hub for collaboration. This may mean less space for desks and more meeting spaces. Or perhaps inviting likeminded businesses to set up shop within your premises – giving spaces like WeWork additional competition as we all seek to use our existing floorplates better.

So where to from here?

The Federal Budget has provided a blueprint for the future economy. The opportunity now is to ensure the professional services sector is geared up with the right experts and connections to support clients, both existing and new, with the shift. The shift isn't just in where Australia will focus their investments, it's also closer to home in how we work.

The mistake would be assuming things will go back when "this is all over". With potentially years ahead of us before COVID safe measures can be dropped, the way we work and the habits we create for ourselves will be deeply entrenched. The question then is: how do see your business operating in the next two to five years? Now is the time to start positioning for that future.

Listen to our professional services podcast:

17 April 2020
A Darwinian workforce

28 April 2020
Managing a remote workforce and maintaining engagement

26 May 2020
Riding the storm: Is the partnership model dead?

3 June 2020
It's not a return to work, it's a redesign of work

Real Estate & Construction

Sian Sinclair
National Head of Real Estate & Construction

The last few years have by and large been spent tightening the taxation screws on property investors in an attempt to deal with the housing affordability issue – but it has been a blanket approach.

While some cities had the highest occupancy rates in years and property prices that were off the charts, other regions had stagnated and saw little growth in prices. Things had started to cool as a result of the measures and restrictions introduced for foreign buyers and now COVID-19 has thrown up a whole new round of challenges.

Did Australian property overshoot?

It should be noted that our Budget and expenditure data is representative of infrastructure spend. The key lever the Federal Government has to pull when it comes to real estate is policy – rather than funding.

Generally, the taxing of this sector is left to the States, other than the more recent Foreign Investor Review Board (FIRB) changes and contraction in Investor tax concessions. The data demonstrates a bumpy ride but real estate & construction has been the highest contributor to Australia's GDP over the last 10 years, sitting at an average of 10.85%. While the dollar value of contribution has remained relatively steady in these years, the sector's percentage contribution to Australia's GDP has dropped – largely due to booms in other sectors such as resources.

The sector experienced a tough few years between 2010 and 2013 with declining investment and budget, followed by skyrocketing budget allocation and expenditure in 2014 and 2015 in an effort to re-activate the market. With apartment blocks on the rise and the property sector picking up pace, we were hit with a lack of supply, unable to keep up with demand from foreign buyers and investors.

The taps were then turned off as the Government provided less investment and hiked up regulation around housing to stem the flow of investor activity – both foreign and domestic. Some of the measures included denial of certain deductions on residential rental properties and vacant land, and hefty FIRB application fees for foreign investors. This was done at a time when the States were also hiking up taxes on foreign investors, a Banking Royal Commission was underway and China had decided to rework its monetary practices around foreign investment. This all amounted to the perfect storm, and the level of activity and pricing started to drop off a cliff rather than the slow correction desired.

The impact of stalling net migration

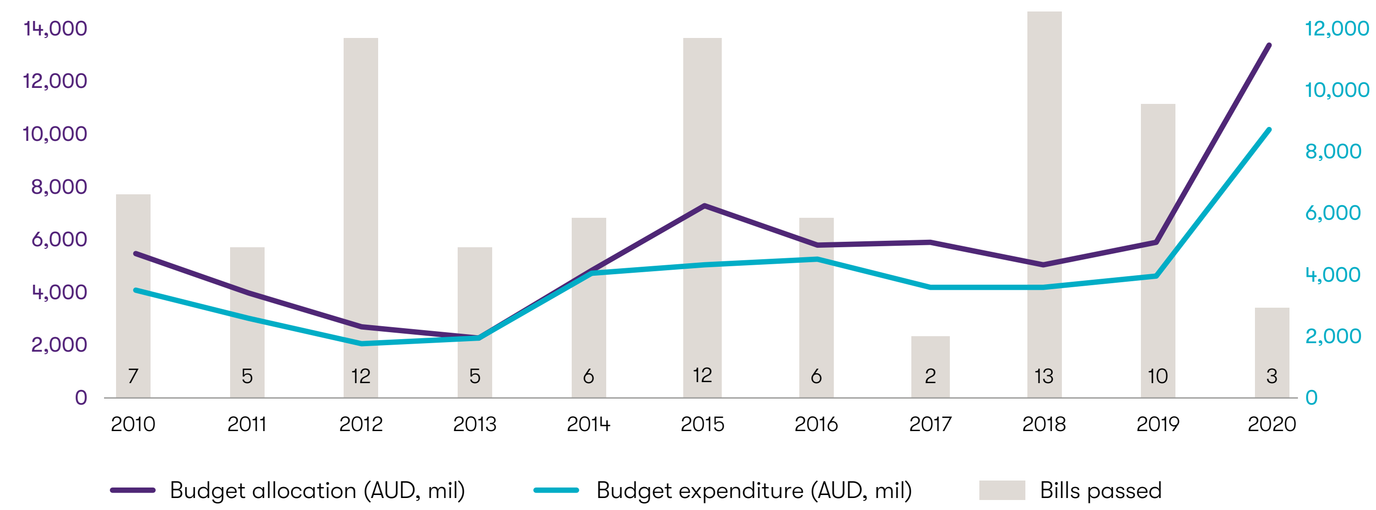
About 60% of our national population growth over the past decade has been driven by net overseas migration – representing around 2.7 million people. In the year to 30 June 2019, 538,000 people arrived to live in Australia. In 2020, the year of bushfires and COVID-19, that number has collapsed to World War I levels. Research from the National Housing Finance and Investment Corporation forecasts demand for housing could be cut by between 129,000 and 232,000 dwellings over the next three years.

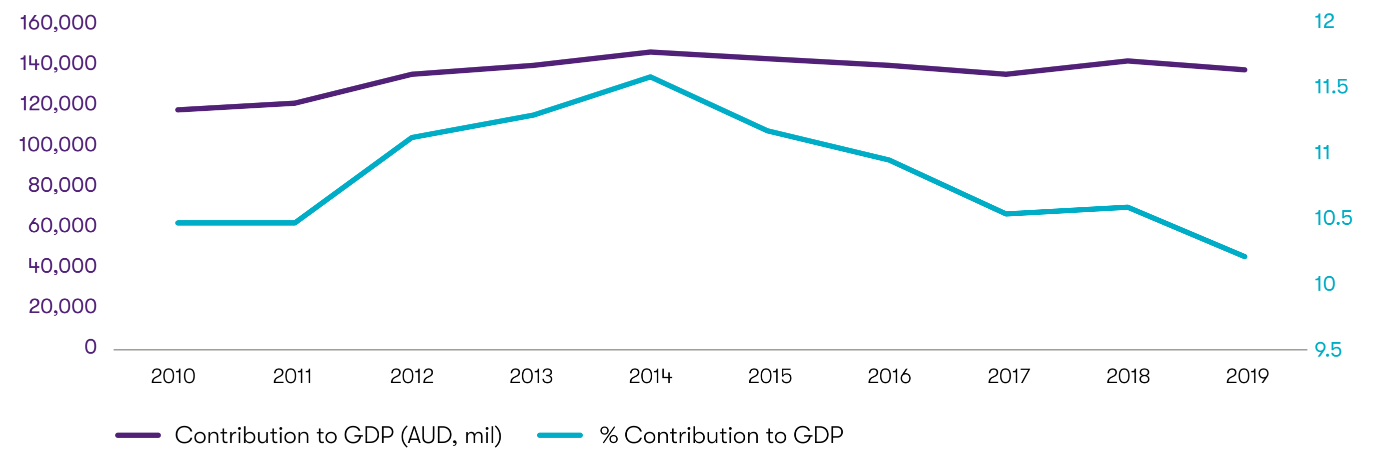
However, while new housing requirements have dropped we have seen a definite resilience in sales as people look to "right-size" for a future untethered to the office. While the Federal Government has a role to play in setting the national agenda around migration and opening our borders, the States are essential here to look at ways to create movement given the

Key milestones

2010	Federal funding drops, causing growth in the sector to stagnate
2014	Budget allocation skyrockets and property sector booms
2015/16	FIRB Application Fees take hold and Victoria is the first state to introduce foreign surcharges
2017	Occupancy peaks from lack of supply and legislation announced to deny certain deductions on rental properties, more States charging foreign investment surcharges
2018	Foreign investment stalls with introduction of vacant land taxes, and China currency controls
2020	Foreign investment threshold reduced to 0% as a COVID protection measure

Contribution to the economy





Real Estate & Construction

extent of revenue they generate from the sector. Some of the States are already looking at changes to or abolition of stamp duty in favour of land tax. There have even been rumblings of a return of "death tax" on assets over $1m.

Population growth is a vital element to keeping the real estate & construction humming and the large portion of Australians that it employs in their jobs. At a time when the pandemic is keeping borders closed, we need to be looking at policies that can still enable overseas and domestic migration, including overseas students, with the appropriate protections in place. Tax reform that removes barriers to the investment in property and encourages the supply of social and affordable housing options will keep the wheels turning and alleviate future pricing bubbles when the population tap is turned back on.

Do we need a foreign investment revival?

After the property boom between 2014 and 2016, the influx of foreign investors and buyers had caused a serious shortage of housing in the Australian property market. In efforts to stem the supply issues, legislation was passed denying certain deductions for rental properties and vacant land, raising foreign investor surcharges and more recently during the emergency response to COVID-19, the FIRB temporarily reduced all monetary thresholds for foreign investors to $0.

The COVID-19 pandemic and the response to it have had a chilling effect on the level of transactions in 2020. While there is still commercial interest and transactions are occurring, the level of red tape and the process has been a challenge for many. These measures also captured commercial leases to foreign companies at a time when landlords were already feeling the pinch. The FIRB has already introduced measures that focus on protecting national interest around agricultural land given 13.4% of Australian farmland (52.6m ha) has some level of foreign ownership.

While the measures protecting national interests are important in these volatile times, the ability to attract foreign capital to our shores and the multiplying effect of that investment is important to the future performance of the economy. Government should be ensuring that by "shutting the gate" to foreign investors, we aren't costing ourselves a swifter recovery.

Activation through infrastructure

A common theme of our research shows the need for Government to generate growth through infrastructure spending and the trickle down impact that has throughout the economy. Heading into COVID-19, the infrastructure sector had a strong pipeline of work through announced Government spending, though construction had seen some contraction. With the onset of the pandemic measures, according to the Australian Bureau of Statistics the construction sector saw an 8% fall, wiping nearly $2.6b from its contribution to Australia's economy.

With the various projects being announced by State and Federal Government to combat the employment issues, civil contractors have seen a 2% increase – signalling the importance of continued infrastructure spend.

> Announcements are fine, but the sector needs funding for shovel-ready projects that can start now – and not simply forward projections to replace those projects that are completing.

The real estate & construction industry is a massive contributor to the Australian workforce, employing just over 1.7 million people in Australia – approximately 9.6% of the Australian workforce. Employment in the industry has increased 13.9% over the past five years. So to encourage activity and maintain employment in one of the biggest contributors to Australia's workforce, the sector needs a strong pipeline of projects and investment for mid-sized Australian companies to undertake – whether Government funded or through Public-Private Partnerships (PPPs).

The 2020 Budget has provided tax concessions alongside $14b in new and accelerated infrastructure funding that is expected to support an estimated 40,000 jobs. The funding has been offered on a "use it or lose it" basis, with any unused funding to be redirected to another State or Territory with ready projects. The spending also include $2b in road safety upgrades across the nation and $1b to support local councils to immediately upgrade footpaths, roads and street lighting.

Unlocking the regions

Infrastructure is much more than just roads and bridges, and Australia needs to redesign it's messaging around infrastructure funding. To keep construction firms and services that feed into them operating, we also need built form infrastructure to assist the expansion of communities and regions. Community infrastructure, such as police stations, schools, hospitals, need to be an important component of the Government's infrastructure spend, which can also support the supply of housing and building new, liveable communities.

With the growing trend of people packing up and moving to regional areas on the understanding they can do their jobs from anywhere, we need to see appropriate funding to support the growth and infrastructure required to manage the influx of migration from both CBD and interstate dwellers. Unlocking the regions involves roads or transport to access these communities along with adequate sewerage, water, and electrical infrastructure. Once these aspects are in place, generally the housing follows.

In the past developers have had to do the initial heavy lifting on these services, before Government gets on board. Pleasingly, we're starting to see initiatives from Government by way of infrastructure funds that support the delivery of catalytic infrastructure to unlock or open up more regional corridors and support housing supply. To make regional communities an attractive destination, a level of social infrastructure, such as schools, police station, hospitals, are necessary to draw residents prepared to move and build houses there.

The progression of the NBN needs to continue at pace. The pandemic has certainly highlighted the importance of connectivity for all Australians, not only for productive purposes but also their wellbeing. Reliable, cost efficient internet speed will continue to be an important factor in unlocking the regions and the NBN will continue to be vital infrastructure requiring Government investment.

So where to from here?

It's widely known that the real estate & construction industry is a key engine of for our economy, and an important contributor to Australia growing its way out of the COVID-induced recession. While wholesale tax changes would make a huge difference to this sector that shoulders a significant amount of our countries tax burden, its understood now is the time for implementing simply confidence building policies.

Looking forward, we would like to see changes to GST and various state taxes considered, to encourage the emergence of the Build to Rent asset class and release some of the pressure on affordability of housing. The topic of broader reform and balancing out broader based taxes like GST and winding back transactional taxes like stamp duty will also need to be considered in due course to support the continued health of the sector and the employment it supports.

Listen to our real estate & construction podcast:

14 April 2020
Real estate feeling the effects from COVID-19

24 June 2020
Is this the death of the CBD?

Resources

Brent Steedman
National Head of Energy & Resources

Largely left to operate on its own, the resources sector has been a stalwart of the Australian economy. Treasurer Josh Frydenberg in the Economic Update in July said that the mining sector is the shining light of the Australian economy.

The last 10 years has seen the 2000s resources boom stabilise, and the sector has not been without its controversy, with native title battles, environmental lobbying and workplace health and safety issues to reckon with.

A picture of self-sufficiency

The data paints a picture of self-sufficiency. Investment from successive Government's fluctuated over the last 10 years, largely due to projects transitioning into production, and picked up slowly again from 2016. However perhaps signifying the stability of the sector, contribution to Australia's GDP remained strong, even with inconsistent funding. Its expenditure has slowly increased – highlighting private investment underpinning the economy, with minor funding from Government for mining exploration and the CSIRO.

Are regulations killing commercial viability?

The regulatory environment continues to be an issue for the resources sector. There is competing regulation at State level with different bodies administering them – covering health and safety, employment and environmental management. The Commonwealth also has constitutional powers across these types of law, sometimes overriding them. This inconsistency across legislation has created a complex and comprehensive regulatory landscape for those operating in the industry to navigate – resulting in conflicting and sometimes unnecessary hoops to jump through. The cost of delaying projects can also be more prohibitive than the cost of regulations themselves.

The industry doesn't necessarily need less regulation. In most cases, environmental policies and regulations in place are simply a cost of doing business. Australia needs a national mining strategic regulatory framework – an efficient and streamlined approach to how regulations are applied across jurisdictions. Pleasingly, some Commonwealth and States laws are already under review – the Environment Protection and Biodiversity Conservation Act 1999 (Cth) (EPBC Act) is currently under review, along with the South Australian Productivity Commission conducting an inquiry into the effectiveness of regulation in the extractives supply chain in February 2020. Additionally, New South Wales in reviewing its workplace health and safety regime in the mining industry, and Western Australia is reviewing its Aboriginal Heritage Act 1972.

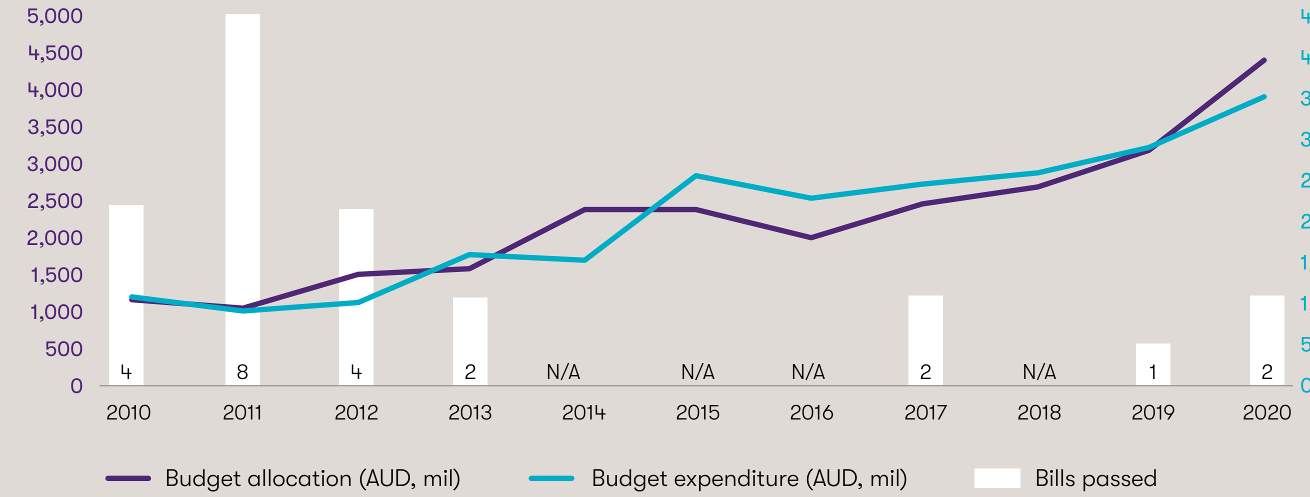
Are border closures and working under COVID-Safe stifling business?

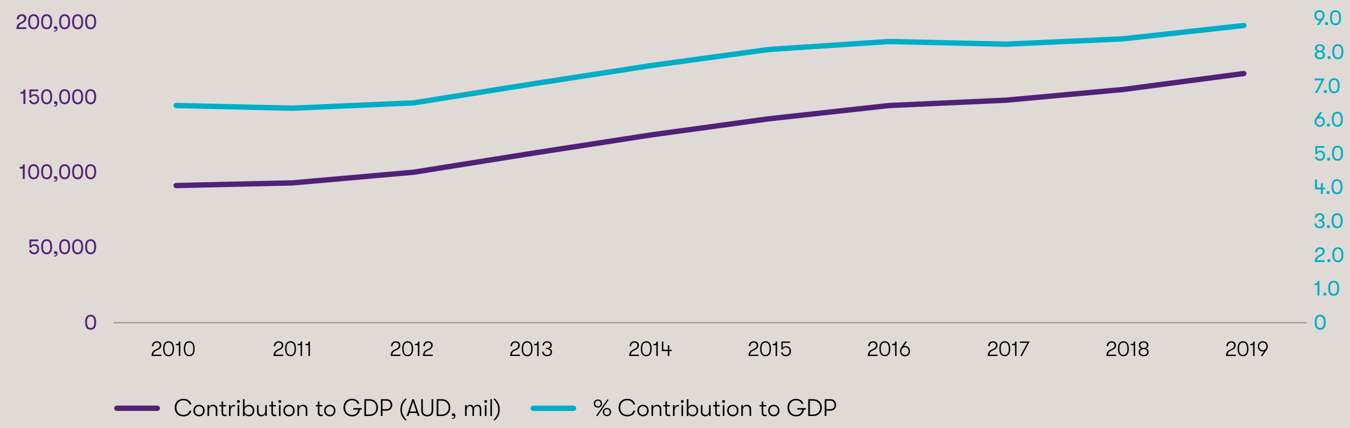
The addition of COVID-19 has created other issues in the sector, like border closures, COVID-Safe restrictions and access to labour. With resources and mining companies ineligible for JobKeeper (whether due to turnover or foreign entities), it has been difficult to access and manage labour. Border closures have meant a shrinking talent pool as new projects are restricted to recruiting locally, in turn pushing up wage costs. Rostering has been an issue as social distancing requirements mean less feet on the ground during a shift.

Key milestones

2011	Council of Australian Governments (COAG) Energy Council (originally the Standing Council on Energy and Resources – SCER) established
2012	Minerals Resource Rent Tax passed
2013	Peak of mining investment boom
2014	Minerals Resource Rent Tax repealed
2017	Petroleum Resource Rent Tax Review Report published
2019	Federal Government asks Productivity Commission to review resources sector regulation
2020	Resources Sector Regulation Productivity Commission Draft Report handed down

Contribution to the economy





Resources

If the industry is to operate under border restrictions and COVID-Safe plans for the foreseeable future, the impacts that this will have to an industry so dependent on labour are immense. The border restrictions are putting greater pressure on the search and retention of talent. In the pre-COVID, world skilled workers needed to support mining operations and new projects could be sourced from all of Australia and internationally. Not so today. To overcome this issue the resources industry has made changes to their operating models including relocating workers and their families to the State where the mine is located. This action is expected to continue, together with investing in re-skilling local workers to the trades most needed.

Looking inward to secure Australia's future

COVID-19 has caused a revitalisation of industrial parochialism. But it's not necessarily a dirty word this time around. There's been a push to manufacture locally again, efforts to shore up Australia's fuel security, create job security, firm up our energy capabilities and maintain security of power supply. And the Government's record investment into the manufacturing sector goes a long way to shore that up.

But the great blind spot is our exports. The Productivity Commission estimated in March this year that Australia exports close to 90% of the commodities it produces.

We produce more gas per capita than any other country, yet locally, our gas prices are double that of anywhere else. There are reasons for this: we have an expansive country with different resources in each State, a lack of appropriate infrastructure between them and inconsistent policy around electricity and gas prices.

However, the industry faces an opportunity. With Australian-China trade relations tense, and Brazil – a major producer of iron ore and crude petroleum – having their own outbreaks of COVID-19 in the sector, there is potentially an opportunity for Australian exporters to focus their efforts inward and supplying domestically, striking a balance between exporting and keeping Australian resources in Australia. If we were to shore up our network infrastructure and redirect a small portion of our resource exports domestically under a national strategic framework, it would not only help to balance the load for coal-fired power stations being retired, but also bring down the cost of power prices.

So where to from here?

If one compared Government investment in resources to the GDP it produces, it is clear that the industry has largely funded its own investments. The result has been an allocation of investment to large projects focused on global markets like iron ore, coal, and LNG. To change this focus and increase investment focused on the domestic market requires the Government to make changes to key challenges faced by the resources industry including access to resources, complex regulation and investment incentives.

The recently announced National Gas Infrastructure Plan is a welcomed start. There is a clear need to both increase the volume of available gas and decrease its cost. The opening of access to the Beetaloo Basin in Northern Territory and North Bowen Basin and Galilea Basin in Queensland are encouraging. Gas is often referred to as the transition fuel to renewables, but transition will only occur if access to gas resources is granted.

Complex regulation will continue to be a key challenge to the resources Industry. While the industry fully understands the need for regulation, the cost, and importantly, the extensive time it takes to obtain approval is a roadblock. This is increasingly important right now given the October 2020 Federal Budget permits companies to claim a 100% tax deduction for capital expenditure incurred between 6 October 2020 and 30 June 2022 (limited to companies with maximum turnover of $5b per annum). To commence building projects requires timely regulatory approval.

Other opportunities being presented by the Government include the $1.3b modern manufacturing inititative and $18b Technology Investment Roadmap which is relevant for resource industries like lithium, nickel and copper.

Listen to our resources podcast:

2 November 2020
Mining Boom 3.0 is about being smarter, not necessarily bigger

Retail & Consumer Products

Luke Ritchie
National Head of Retail & Consumer Products

Australians have a remarkable amount of spending power. According to the Federal Government, Australian households spent $666b on general living costs in 2016, with the average household spending $74,301 on fun stuff like fashion, recreation and beauty, as well as health, food and gadgets.

Consumers choose what they buy and when. It is for retailers to adapt as trends evolve. And there is demand, which is serviced by more than 1 million people in the sector. In fact, the retail sector is the second largest employer in Australia, with almost one third of employees aged between 15 and 24. It's not the fastest growing sector in Australia, but it was still growing until COVID-19 stopped it – along with many other parts of the economy – in its tracks.

The Government has stepped in to support the economy after communities have been hit by bushfires, pandemic and lockdown. But it's not as easy as a cash splash for the retail sector. Leases are private contracts. A policy to help retailers negotiate with their landlords isn't viable long-term solution.

The retail sector encapsulates a variety of types of retailers and the recovery has been uneven. Categories such as sporting goods, books, building, garden and grocery have been performing strongly, while more discretionary spending like fashion, department stores and accessories are struggling.

Performance also differs along state and geographical lines – and almost every CBD is having poor retail performance. Income tax cuts and more money in the back pocket could just as easily go towards paying down the mortgage as on a new outfit.

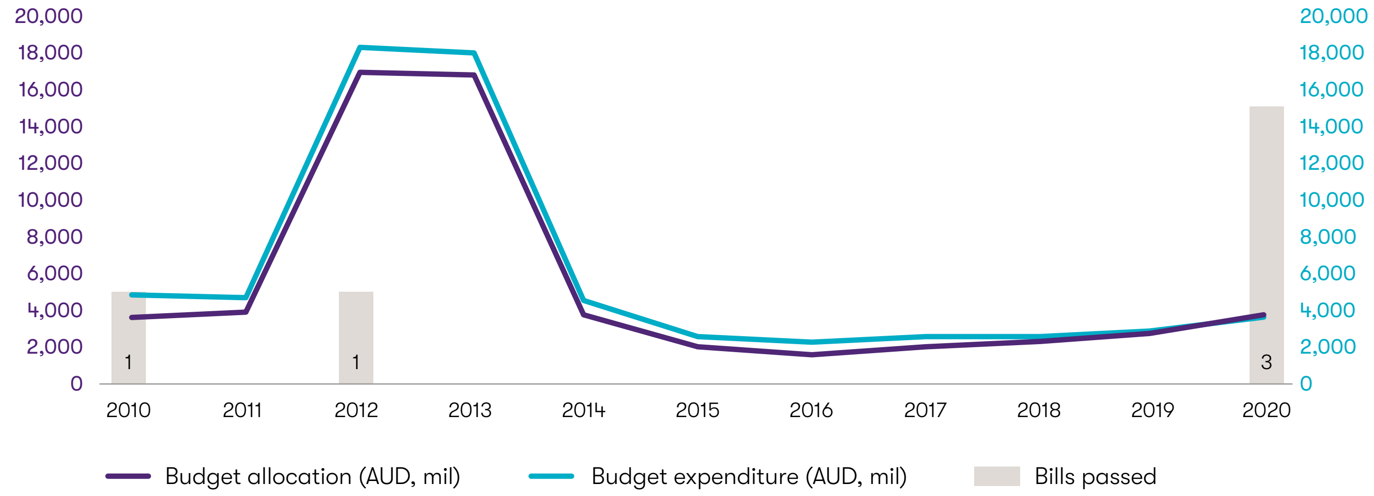
Then there are the challenges that the sector was facing even before COVID hit. For instance, we have too much physical retail space. Retailers were struggling with a decline in footfall before lockdown was even in our everyday vocabulary. The shift to online was happening but not at the same pace we saw in similar jurisdictions like the US or the UK. Change in the retail space was already afoot – COVID-19 has sped the process up and will forever change the shape of retail.

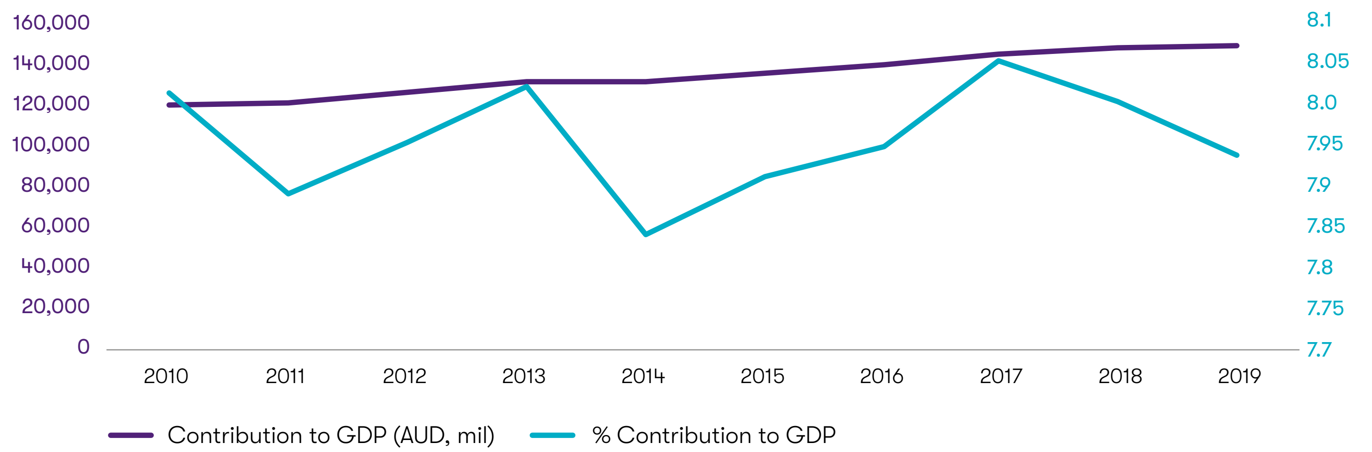
What's happened in the last six months is that there are fewer people in shops, and more people online.

Key milestones

2009	Fair Work Act passed

Contribution to the economy





Retail & Consumer Products

An industry left to its own devices

Retail is a sector that does well when its consumers are doing well. When people are in jobs and interest rates are low then people spend. When times are tough or consumer sentiment falls, consumers hold off on purchases.

The economic health of the retail sector isn't something that the Government can directly influence. However, it can help to provide the right conditions for consumers to spend and provide incentives for retailers to invest in areas like online and digital.

The data we have from the last 10 years demonstrates quite clearly that retailers live or die on their commerciality. In terms of investment, the data we have is from the Department of Industry, Innovation and Science – primarily relating to consumer products rather than retail trade. Where the Government has historically intersected with the sector – and will continue to do so – has been around industrial relations, particularly as the sector employs more young people than any other sector, and also has a large proportion of the nation's part-time and casual workers. In a sector under threat, that is a large number of jobs to be displaced.

The great shift online

If the future Australian economy is digital, then the future of retail must also embrace online. The shift towards online has been underway for some time, but COVID-19 has really just fast forwarded five years of transition into five months. More people were shopping from their smartphones, which meant there were fewer customers going to physical stores. The pandemic has accentuated it though, so until we have a vaccine we're going to be living in this environment where people will be naturally less inclined to visit large congregated spaces like shopping centres. Having said that, 14% of retail sales are now made online. That represents a lot of people that now shop online and perhaps prefer the experience for certain kinds of shopping. We are unlikely to ever go back to the same rates of shopping in stores.

This is where the $800m investment from the Government to support businesses to make the shift online will become especially important for those smaller retailers. The large retailers, like Woolworths, Coles, Myer, Kmart and Target already had an existing online presence they could build on during the pandemic. This is certainly not the case for many small and mid-sized retailers.

In addition, and clearly something the Government has already considered, is that the more people online shopping and the more money changing hands electronically, the greater the risk of cybercrime and cyber breaches. Building on our cybersecurity capabilities is one part of the solution. Ensuring online retailers are using safe and secure transaction portals will be another.

Industrial relations

Industrial relations is a key reform item for the Government. The intention is to create the right conditions to create more jobs by streamlining the various Awards. There is a delicate balancing act required here to both protect the rights of the worker and enable the employer to make the necessary decisions to support their business. Take for instance the shifts we are likely to see in the retail sector. With fewer people shopping in store, and more people shopping online, you need less people on the shop floor and more people working in the warehouse, picking, packing and posting goods.

We will also see changes in how rosters work. You may need fewer employees working across a larger network of stores – so one person can choose to work shifts across multiple stores instead of being based in just one. The JobMaker Hiring Credit, announced as part of the Budget, may assist businesses in the retail sector. The scheme allows businesses who hire an unemployed young person, payable for a period of 12 months for new employees aged between 16 and 35 ($200 per week for those aged 16-29, and $100 per week for those aged 30-35). There will always be jobs in retail, but those jobs may look very different in 12 months' time.

The role of automation

The Government has called on the private sector to be innovative and entrepreneurial, to embrace digital and R&D. We are already seeing this in the retail sector. The big supermarkets Coles and Woolworths are both spending hundreds of millions of dollars here in this area in terms of building robot-driven, automated, large-scale online fulfilment centres, whereby stock items are picked by remote controlled robots and sent by conveyor, down to stationary pickers who package the items up for customer delivery.

This type of operation means that you can get through a lot more throughput in an hour of someone's time compared to if they're picking from stores. That's a lot more efficient, however, it's expensive.

The pureplay online retailer Catch, is also launching robot-driven operations in its Melbourne warehouse, allowing for a greater capacity to process online volume and moving Catch closer to offering same day delivery for local customers.

It won't be too far until we can get same-day delivery to our homes using that kind of technology. And Catch is owned by Wesfarmers, so we might expect to see other brands from the Wesfarmers stable, like Kmart or Target, leverage those same automation capabilities.

Monetary policy and confidence

As mentioned, the retail sector is entirely dependent on consumers' willingness to part with their hard earned dollar. There are two components that really help with this. Low interest rates and confidence in the economy.

It's difficult to have confidence in the economy during a recession, and consumers simply aren't spending as much. The actions of the RBA and the Government to inject cash flow and confidence into the economy hasn't gone unnoticed or unappreciated. However, there are no bullets left to fire. While the RBA has kept the cash rate at 0.25% for now, there is still wriggle room for them to drop it to 0.1% potentially in November, which could further stimulate spending. The Government has brought cuts to income tax rates, but at this stage we don't know when they will come into effect, or how much money that will put into everyone's pocket for spending. Early access to superannuation, and bringing forward income tax cuts have, and will continue to encourage people to spend. But, there's evidence suggesting that some of the additional stimulus is going to savings and paying down debt.

Consumer confidence is really taking a battering resulting in households that are more comfortable retaining cash than spending. Rebuilding that confidence will be a long game played by both policymakers and retailers.

So where to from here?

The retail sector is one of Australia's largest employers and will be central to the recovery from the COVID-19 recession. The Federal Government has done a good job in providing stimulus to both consumers and retail businesses to spend, although the recovery will not be an even one. Some states like Queensland and Western Australia are already performing well, whilst others – notably Victoria – remain in the midst of heavy COVID-19 regulations.

But retailers are resilient. Targeted investment in digital and online can be written off the same year under the new guidelines, improving cash flow. Consumers should be buoyed by the extra cash in their pockets and feel confident to spend.

Listen to our retail & consumer products podcast:

31 March 2020
Retailers scramble for innovation in the face of COVID-19

8 April 2020
Automation station – how essential retailers are changing our shopping experience

30 September 2020
The changing shape of retail

Technology & Media

Ian Renwood
National Head of Technology & Media

Technology. It's ubiquitous and pervasive. There is not one part of our lives that isn't impacted or enhanced by technology. We're talking about computers, mobile devices, gaming, streaming, social media and software.

As of January 2019, there were 21.74 million Internet users in Australia. That's 87% of the population. For the same period, there were 17.9 million smartphones in Australia. While there are no Australian specific figures, more than 300 million people worldwide joined Zoom meetings on 21 April (just that one day) – up 50% from the beginning of the month and before the world went into COVID lockdown. This aptly demonstrates the enabling power of technology. Perhaps then it's no surprise that Zoom is worth more than AstraZeneca on the share market?

We're adopters of technology. We're also creators of technology. Australia has its fair share of unicorns: Canva, ZipMoney and Afterpay are amongst the most well-known. We're strong in fintech and Software-as-a-Service (SaaS). But, for the most part our technology companies start in Australia and then move on and list in other jurisdictions, taking their smarts and jobs with them. We need to think differently to outgrow the COVID-recession, now is the time to rethink how we support our technology and media sector.

Has the digital economy been left to sort itself out?

Yes. It's unquestionably a sector the Government understands the value of, but doesn't know how to treat. Take for example the very application of the GST. It's applied to tangible goods and tangible services. However, it has yet to be applied to the digital economy. This is due to the nature of its ephemeral state (invisible and unconstrained by international borders) meaning it doesn't fit in our definition of taxable goods.

Technology investment has not been front of mind in the Australian public sector since 2014. The big Budget blip in 2012 and 2013 is basically the NBN. GDP contribution has been rising, as both a percentage and financial contribution, but Australia is not a global player and we don't make it into the OECD's top ten world exporters of ICT services. That top spot goes to Ireland, which has actively positioned themselves as a technology hub for Europe.

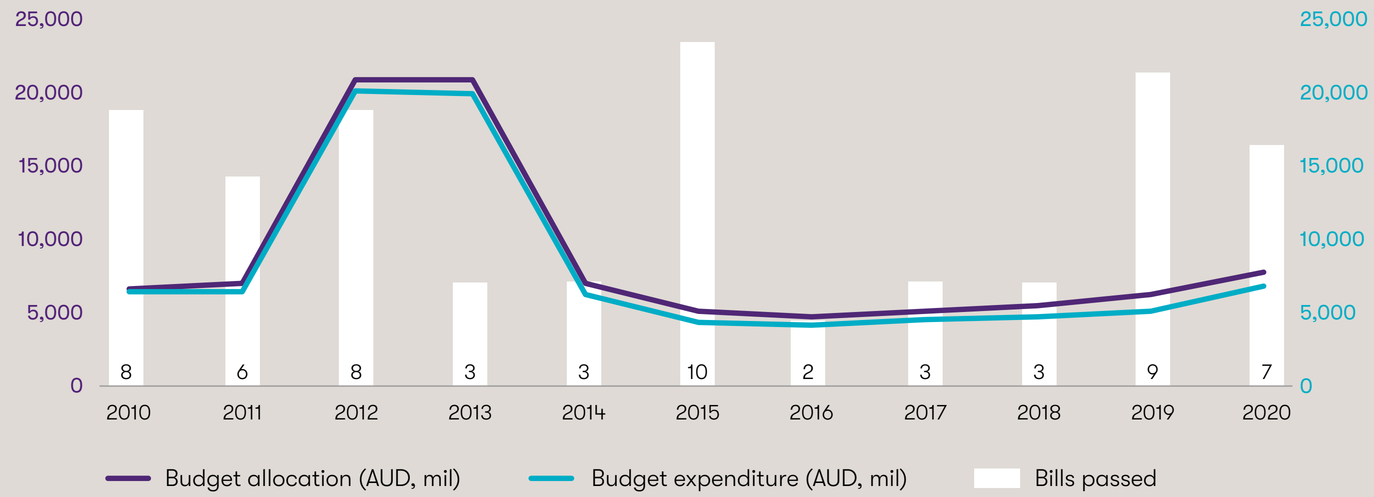
Access to capital is a perennial problem in growing the technology industry

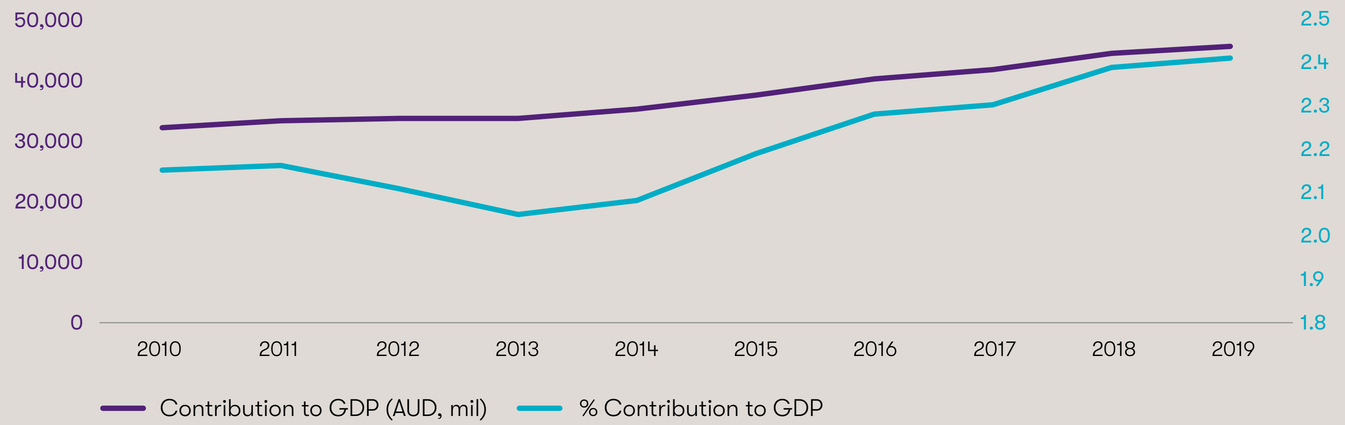
We have a lot of exceedingly smart people creating unbelievably clever ideas. But the hard truth of it is we're terrible at commercialising. Australia lacks any serious early stage or seed stage pre-revenue or venture capital firms. Apart from the rare family office investing in small-scale start-ups, there really aren't enough firms offering capital. If you don't receive access to capital at the seed to pre-revenue stage, you'll never grow organisations. A lot of companies in those early stages are relying on money from family and friends, or in some rare instances, they're bootstrapping themselves by generating their own free cash flow.

Key milestones

2011	National Broadband Network rolled out
2014	Australian Cyber Security Centre founded
2016	Landmark Cyber Security Strategy released
2020	Consumer Data Rights Act passed

Contribution to the economy





Technology & Media

Access to capital is what's holding Australia back in terms of creating a commercially viable sector. An interesting idea would be for the Federal Government to form an Investigation Committee to inquire into the eastern private equity and venture capital market, to review how they're set up and how they're structured to ensure the right incentives are in place for firms and individuals to invest in early stage pre-revenue start-ups.

The majority of Australia's early stage start-ups will head offshore when they need to raise serious capital – and if history tells us anything, most of those companies won't come back. So we need more support from Government and more support within the domestic marketplace to free up investment capital to keep our smartest people onshore and innovating for Australia. We can do this if the Government puts the right frameworks in place to incentivise large industry funds and the Australian Future Fund to start putting a percentage of their portfolios into emerging technology companies.

Our future is trending digital

There is no doubt about it – the digitisation of our economy is here. Technological industrialisation is key to Australia's global competitiveness. New banking platforms are changing the way we handle money. South Australia and Victoria are providing funding to get small and medium sized businesses onto eCommerce platforms.

The Federal Government has already committed $4.5b in funding for NBN upgrades to roll out fibre to Australian homes, which could help to close the digital divide felt between metro and regional areas. The Government is also investing almost $800m into a Digital Business Plan to support modernisation and adopt digital technologies. In particular, $256.6m to develop a digital identity system – face reading technology – to access Government services is an indicator of what is to come in the future.

We've seen innovations and developments in digitising healthcare including My Health Record and telehealth rolled out in record time. Funding for telehealth was extended after 29.6 million Medicare-eligible telehealth services were delivered to 10.4 million patients between March and September 2020. Technology has a massive opportunity in the healthcare sector. As a first step, we need to ensure widespread adoption both in providers and patients. The Federal Government has taken steps to increase their National Digital Health Workforce and Education Roadmap.

A digital economy comes with cybercrime

It's not just about those who develop and use technology. It's also about those that exploit it. So we have two factors – the introduction of new technology and the speed at which we are introducing the new technologies. This leads to vulnerabilities, and when you roll technology out at scale those vulnerabilities are multiplied to the delight of cybercriminals.

The 2020 Cyber Security Strategy was a precursor to the Digital Business Plan. The $1.67b 10-year Strategy invests in new cybersecurity and law enforcement capabilities and is the largest financial commitment made by the Federal Government in this space. It's also estimated that we will need 17,000 more cybersecurity professionals by 2026, with wider IT occupations forecast to grow 12% over the next decade.

It all starts at school

We can't ignore the role of our educational and research institutions in creating innovations for the future. For instance, WiFi was accidentally discovered after a "failed experiment to detect exploding mini black holes the size of an atomic particle" by the CSIRO.

In a post-COVID world our higher education sector is in crisis. Much of the funding that would go towards research came from full fee paying international students. The jobs of the future will require Science Technology Engineering Maths (STEM) students. But we also need to enable our higher education institutions to invest in the research to create those job ready – or entrepreneur ready – people. The $1b in researching funding from the Budget is a positive step in rectifying this, but barely touches the surface of what was lost.

Cooperation between State and Federal Governments will be key

Australian Governments – both Federal and State – play an important role in shaping the digital future of Australia. Aside from supporting the tech sector by freeing up access to capital and supporting early stage innovations through tech accelerators and innovation hubs, both State and Federal Government's need to collaborate on a national strategic framework to support Australia's technology sector. The Federal Government should consider a national cabinet approach considering the potential of the technology sector to support a recovery of the Australian economy merits a similar coordinated approach.

Off the back of the Select Committee on Financial Technology and Regulatory Technology, all levels of Government need to come together to make sure marketplace is right to support technology – flat lining the sector's contribution to GDP is embarrassing on a global scale.

For example the recent Fintech/Regtech report highlighted a number of challenges and way to address these. A key element missing locally is the access to early stage funds for start-up companies. We're lagging behind in this space compared with many other jurisdictions – we need more harmonisation so we don't lose high quality companies to overseas investors and potential ownership. This is directly related to their potential to drive employment and economic growth in Australia.

So where to from here?

COVID has precipitated an exciting acceleration of the already fast paced tech sector. And policymakers are finally coming to grips with the potential of technology to drive growth for businesses and are taking clear steps to mitigate the risk of cybercrime.

It's clear we need more equitable access to early stage funding in Australia. The recent Fintech/Regtech report outlined this gap. What we need now is meaningful consideration of this issue in the next stages of the enquiry.

We need to encourage investment and commercialisation in Australia – taking things to the next level without having to go offshore to do so, and this involves readily available capital, the right infrastructure to facilitate innovation and growth, and better incentives for R&D. If the Government doesn't do anything meaningful for the technology industry then they've dropped the ball.

Listen to our technology & media podcast:

6 May 2020
Coronavirus and the dark web

2 September 2020
Disrupted or disruptor? Using consumer data to future proof your business

Conclusion

Australia's economy hasn't truly been tested since the 1990s. In the decades that followed, we layered on bureaucracy and settled into relationships that worked with the minimum amount of effort. Then came COVID and our existing systems and networks were challenged to breaking point.

We have always seen opportunity for more diversity in our economy and a greater role for the mid-sized business sector. The status quo often made it difficult to leverage this opportunity. With COVID, the status quo has been well and truly turned on its head. Our vulnerabilities exposed, our areas of strength highlighted, and the opportunity to grow revealed.

With 9 out of 10 of Australian jobs in the private sector, the Government is looking to incentivise job creation and shore up our sovereign capability. This is positive not only for our clients in production industries, but also for the additional security this will enable in our supply chains. Investment in energy will not only create new jobs, it will also put downward pressure on our environmental footprint and electricity costs. Investing in modern manufacturing will open up new international markets and relationships. Investing in a digital economy will close the digital divide between urban and regional Australia. The future Australian economy will look very different in a decade from now.

We fully expect the proportion of GDP mix to change over this time. We anticipate that our clients in the mid-sized space – nimble, entrepreneurial, expanding, and innovative – will play a significant role in forging new pathways, creating new jobs and helping Australia to grow out of the recession.

Research Methodology

Grant Thornton focus industries

For these industries, we studied annual budget statements to capture trends in resource allocation, programme expenditure and bills passed – in order to gain an understanding of government support for key sectors.

Budget data and expenditure

We captured data on funds allocated and programme expenditure from the portfolio budget statements of different government departments that are working towards the development of the focus industries. The following table outlines which departments we tracked for each industry.

GDP data

We used data shared by the Australian Bureau of Statistics, who has classified industries on the basis of Australian and New Zealand Standard Industrial Classification (ANZSIC). We cross-checked ABS' industry classification to capture GDP contribution under the relevant industries.

Some industries are not broken out specifically – for instance, life sciences does not have its own ANZSIC code. We have not been able to source comparable data for the last decade for life sciences – so as to not present inaccurate or incomplete data we have treated this section differently.

Bills passed

We reviewed the Australian Parliament House database of Bills passed by year to attribute Bills to the relevant industries.

Industry trends

To augment the data captured for the budget statements, we studied and identified areas of focus to highlight trends in budget allocation for each industry by reading budget statement papers and conducting desktop research.

Government departments examined by industry

Agribusiness, Food & Beverage
- Department Of Agriculture And Water Resources
- Agrifutures Australia
- Australian Pesticides And Veterinary Medicines Authority
- Cotton Research And Development Corporation
- Fisheries Research And Development Corporation
- Grains Research And Development Corporation
- Regional Investment Corporation
- Wine Australia
- Australian Fisheries Management Authority
- Rural Industries Research and Development Corporation

Education
- Department Of Education And Training
- Australian Curriculum, Assessment And Reporting Authority
- Australian Institute For Teaching And School Leadership
- Australian Skills Quality Authority
- Tertiary Education Quality And Standards Agency
- Australian Institute Of Aboriginal And Torres Strait Islander Studies

Energy
- Department of the Environment and Energy
- Australian Renewable Energy Agency
- Clean Energy Finance Corporation
- Clean Energy Regulator

Financial Services
- Australian Prudencial Regulatory Authority
- Australia Securities and Investments Commission

Health & Aged Care
- Department of Health
- Aged Care Quality and Safety Commission
- Australian Commission on Safety and Quality in Health Care
- Australian Digital Health Agency
- Australian Institute of Health and Welfare
- Australian Radiation Protection and Nuclear Safety Agency
- Australian Sports Anti-Doping Authority
- Australian Sports Commission
- Cancer Australia
- Food Standards Australia New Zealand
- Independent Hospital Pricing Authority
- National Blood Authority
- National Health Funding Body
- National Health and Medical Research Council
- National Mental Health Commission
- Organ and Tissue Authority
- Professional Services Review

Life Sciences
- Department of Industry, Innovation & Science
- Geoscience Australia
- Australian Institute of Marine Science

Manufacturing
- Department of Industry, Innovation & Science

Not for Profit
- Department of Social Services
- The Australian Institute of Family Studies
- The National Disability Insurance Agency
- The NDIS Quality and Safeguards Commission
- Families, Housing, Community Services and Indigenous Affairs (2010, 2011, 2012)
- Aboriginal Hostels Limited (2010, 2011, 2012)
- Indigenous Business Australia (2010, 2011, 2012)
- Indigenous Land Corporation (2010, 2011, 2012)
- Torres Strait Regional Authority (2010, 2011, 2012)
- Workplace Gender Equality Agency (2010, 2011, 2012)

Professional Services
- Office of the Auditing and Assurance Standards Board
- Office of the Australian Accounting Standards Board
- Australian Taxation Office

Real Estate & Construction
- Department of Infrastructure, Regional Development and Cities
- Infrastructure Australia
- Infrastructure and Project Financing Agency

Retail & Consumer Products
- Department of Industry, Innovation & Science

Technology & Media
- Department of Industry, Innovation & Science
- Australian Nuclear Science and Technology Organisation
- Commonwealth Scientific and Industrial Research Organisation
- Geoscience Australia
- IP Australia
- Australian Research Council

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