Grant Thornton

AUSTRALIA REIMAGINED

Federal Budget 2021-22


More than
just tax, it's a
reimagining of
Australia's future.

Introduction

It boggles the mind how quickly things can change. Within months the world and the economy went into hibernation as COVID gripped countries one by one. Supply chains and borders were revealed to be extremely vulnerable. We all prepared for the worst – years of lockdown, economic depression, record unemployment and intergenerational debt.

Writing this in May 2021, a little more than 12 months after Australia closed its borders and my team and I made the call to send our people to work from home with no concept of when we'd be able to return, and I'm feeling more (cautiously) optimistic about the economic outlook than I thought I would be.

This has been a running theme for months now. I never thought Australia, after decades of investing in our knowledge economy, would be reinvesting in modern manufacturing.

I didn't think I'd be listening to US President Joe Biden call for a minimum global corporate tax rate – or that the OECD would single out Australia's two tiered corporate tax system as detrimental to growth. They are both correct and we have been advocating for a lower corporate tax rate for years, but there has been no appetite for change up until this point.

I never thought we would be talking to clients about how they can fundamentally change their business structure or business strategy to deal with wildly different market conditions and consumer demands.

No economist figured we'd be on the road to recovery so soon. Instead of our children and children's children shouldering the debt incurred to keep our businesses and jobs afloat during the COVID pandemic, some forecasts suggest that debt will be wiped out by the mid-2020s. If that is correct, then it's entirely feasible that we could return to surplus in the next decade or so. Who would have thought?

This Federal Budget continues the economic recovery theme. JobKeeper has ended and the private sector now must pick up the slack. The Treasurer, Josh Frydenberg, has said that with eight out of ten jobs in the private sector, private sector growth is essential for a strong economy and a sustainable fiscal position. On offer are business incentives, tax cuts and policies which will create new industries and new jobs. It's about local but global. Manufacturing but smarter. Business as usual but new consumer demands.

Clearly to survive and thrive in a post-COVID world, agility is a must. Comfort in the uncomfortable is necessary. We must all be prepared to disrupt ourselves or be prepared to respond in the face of disruption. It's time to reimagine Australia.

Contents

Spending insights

Budget deficit

$-161b	$-106.6b	$-99.3b	$-79.9b	$-57b
for 2020/21	for 2021/22	for 2022/23	for 2023/24	for 2024/25

Net debt

$617.5b	$729b	$835b	$920.4b	$980.6b
for 2020/21	for 2021/22	for 2022/23	for 2023/24	for 2024/25

The winners...

1. Digital economy
2. Education and Training
3. Health & Aged Care

$20.7b

Additional $20.7b in tax relief by extending temporary full expensing and temporary loss carry-back

$7.8b

An additional $7.8b in tax cuts from low- and middle-income earners

Industry stats

$17.7b
over four years towards recommendations from the Aged Care Royal Commission

$15b
addition to the $100b 10-year infrastructure program

$1.7b
for child care

$4b
for training programs

$1.5b
for COVID related services, including telehealth and respiratory clinics

$2b
in additional research and development incentives

$2.3b
towards mental health and suicide prevention

$600m
to establish a federal agency to coordinate disaster relief

$1.2b
Digital Economy Strategy

$13.2b
to fully fund the NDIS

Post-JobKeeper support

SME loan scheme extended with eligible businesses (turnover of up to $250m) able to borrow up to $5m over 10 years with a 24-month non-repayment period on both interest and principal. The Government guarantees up 80% of the loan.

$1.2b stimulus package across the travel and tourism industries – including a 50% subsidy of 800,000 domestic flights to select Australian destinations.

New visa arrangements to lift the 40 hours of work per fortnight cap on foreign students if they work in the tourism and hospitality sector.

$135m to support jobs in the arts and entertainment sector, including a further $125m (available until 31 December 2021) towards the Restart Investment to Sustain and Expand (RISE) fund.

A female friendly budget

In addition to handing down the Federal Budget, the Treasurer has also delivered an 80-page Women's Budget statement focused on improving women's economic and health outcomes. This includes a further $1.1b for women's safety measures, an additional $1.7b in child care to support the economic security of women, and over $350m towards women's health programs and commitments to encourage female leadership in business, and boost the numbers of women entrepreneurs.

Key business and tax measures

Retaining low income tax offset (LITO) and the low and middle income tax offset (LMITO) for the 2021-22 income year

Another welcome change to see is the Government retaining the LITO and LMITO for the 2021-22 income year. This measure will provide low- and middle-income earners with a further benefit in the form of a reduction in tax of up to $1,080 and the maximum amount of the LITO is $700. The benefit will provide further support for economic recovery.

LITO for 2021-22 (unchanged from 2020-21)

Taxable income (TI)	Amount of offset
$0 – $37,500	The maximum amount of the LITO is $700
$37,501 - $45,000	$700 - 5c for every dollar above $37,500
$45,001 - $66,667	$325 – 1.5c for every dollar above $45,000
$66,668 +	Nil

LMITO for 2021-22 (unchanged from 2020-21)

Taxable income (TI)	Amount of offset
<=$37,000 per annum	Up to $255
$37,001 - $48,000 per annum	Up to $255 + 7.5c for every dollar above $37,000 (to a max of $1,080)
$48,000 - $90,000 per annum	$1,080
$90,000 - $126,000 per annum	$1,080 – 3c for every dollar above $90,000

The Government did not announce any personal tax rates changes as the Stage 2 changes were brought forward to 1 July 2020 in the FY 2020-21. Stage 3 personal income tax changes remain effective from 1 July 2024.

Making it efficient for small business to pause debt recovery action while in dispute

This measure will enable small business to effectively pause or modify Australian Taxation Office debt recovery actions until the underlying dispute is resolved by the Administrative Appeal Tribunal (AAT). This will provide a cash flow benefit for small businesses to ensure they are not required to start paying a disputed debt until the matter has been determined.

Multifold increase in the excise refund cap

From 1 July 2021, all eligible brewers and distillers will receive full remission (up from 60 per cent) of any excise they pay on the alcohol they produce up to a cap of $350,000 each financial year (increased from $100,000). The changes to the scheme will provide additional support to small distillers and brewers, which have been detrimentally affected by COVID-19, assist the growth of Australia's craft brewing and distilling industry.

SME Digital Support

Australian small businesses can get independent advice to help them build their digital capabilities through a $12.7m expansion of the Digital Solutions – Australian Small Business Advisory Services in 2021-22. This program could benefit up to 17,000 small businesses. A further $15.3m over three years from 2021-22 to promote and accelerate the adoption of e-invoicing by businesses and across all levels of Government.

Temporary full expensing and temporary loss carry-back extended by one year

The government has announced a 12 month extension of the temporary full expensing measure. Business with aggregated annual turnover or total income of up to $5b can deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2023. All other elements of temporary full expensing will remain unchanged.

To complement the extension of the temporary full expensing measure, temporary loss carry-back will also be extended by one year. This will allow eligible entities with less than $5b turnover to carry-back tax losses from 2019-20, 2020-21, 2021-22 and now the 2022-23 income year to offset previously taxed profits as far as the 2018-2019 income year. The amount of the tax offset is limited by the tax liabilities in the earlier gain years and the franking account balance at the end of the year in which the loss carry back tax offset is claimed. Companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

Corporate tax residency

In addition to the Government's 2020-21 budget announcement to clarify the corporate residency test, the Government has announced it will also consult on broadening this amendment to trusts and corporate limited partnerships.

Under the proposed amendment announced last year, a company that is incorporated offshore will be treated as an Australian tax resident if it has a 'significant economic connection to Australia'. This test will be satisfied where both the company's core commercial activities are undertaken in Australia and its central management and control is in Australia. This is essentially a reinstatement of the long held and applied view of the Australian Taxation Office that existed up until certain case law in 2016.

Effective life of intangibles

The income tax law will be amended to provide taxpayers with the option to self-assess the effective life of certain depreciating intangible assets for tax purposes, rather than using effective life prescribed by statute.

This will mean that taxpayers can bring forward deductions for depreciation of intangible assets, where the self-assessed effective life is shorter than the statutory effective life.

Intangible assets that can be reassessed will include:

- Patents, registered designs and copyrights
- In-house software
- Licences
- Telecommunications site access rights.

The new law will apply to eligible intangibles acquired after the completion of the temporary full expensing on 30 June 2023.

Additional GST "top-up" for the States

As Australia spends, GST revenues are rising and the distribution of such revenues back to the States remains a political football. This continues with no meaningful reform of GST to base or rate.

The Government has committed to distribute any additional GST revenue annually amongst the states as a "top-up". This is in addition to the $2.1b of GST top-up payments which will be made to the states this year under transitional arrangements to a system of distributing GST amongst the states in a more equitable manner.

The additional GST revenue is expected to come from increased consumer spending as the economy recovers from the COVID pandemic and unemployment falls. Further, the ATO has seen better than expected recovery of outstanding GST liabilities resulting in more funds in the GST pool for distribution amongst the States. It is anticipated that the GST pool will continue to increase as the ATO resources that were diverted to support COVID-19 stimulus measures (such as JobKeeper) return to the role of administering the application and collection of GST. The ATO has a massive focus on GST governance to ensure taxpayers can be trusted to pay the correct GST.

Tax relief to attract global talent

The proposed changes to both the tax treatment and regulatory framework of employee share schemes ('ESS') in Australia should be welcomed by employers and employees with tax–deferred ESS Plans.

From a taxation perspective, the only change has been to remove the contentious ESS taxing point at cessation of employment for tax-deferred ESS Plans. The change will apply to Shares, Options or Performance Rights issued from the first income year after the date of Royal Assent of the enabling legislation. While these changes are very welcome for participants in deferred plans, they have little impact on other plans such as ESS Start-up and premium exercise priced option plans as cessation of employment does not have any impact under these plans.

Read more here

Budget changes for Expatriates

The Government announced significant changes to Australian Tax residency rules aimed at providing certainty and simplification for businesses and their employees as Australian borders begin to start re-opening to the world, with the proposed changes being applicable from the first income year after the date of Royal Assent.

The principal focus of the new rules is on a two-step simplified approach consisting of a primary 'day count' of time spent in Australia, which will automatically determine the residency status of the majority of individuals where they are in Australia for a minimum of 183 days; and the secondary test that assesses a set of "factors" an individual satisfies, with more factors equating to a higher level of connection to Australia. Factors can include time spent in Australia, visa status, family location, accommodation in Australia, and economic ties.

Read more here

ATO Early Engagement Service

The Tax Office will introduce a new early engagement service to encourage and support new business investments into Australia. This service will be available for eligible investors from 1 July 2021.

The Tax Office will consult with business and other stakeholders to develop this service during May and June 2021 in order to:

- Provide upfront confidence to investors about how Australian tax laws will apply
- Be tailored to the particular needs of each investor
- Offer support in relation to any or all federal tax obligations
- Accommodate specific project timeframes, and other time sensitive aspects of a transaction such as foreign investment review board (FIRB) approvals
- It will also incorporate access to expedited private binding rulings and advance pricing agreements
- Integrate with the tax aspects of the FIRB approval process (if applicable) so that investors only need to provide information once

An additional $2b in Research and Development incentives

The Federal Government once again has pulled a rabbit out the hat related to measures to encourage innovation related activities. This is in line with the modern manufacturing initiative's innovation focus.

Patent Box

We've been talking about it for years, and finally the Government has pressed go on a "Patent Box". Broadly, the idea is that income generated from Australian medical and biotech patents will be taxed at a concessional rate of 17%, instead of the normal corporate tax rate (which can be 30% or 25% depending on the size of the company).

The detail is thin but the example suggests a modulation of how much of the income is subject to the 17% by how much of the R&D is undertaken in Australia. The patent box is planned to come into effect from 1 July 2022. In between time there will be consideration of whether patent box is an effective way of supporting the clean energy sector.

While details are yet to be consulted upon, there is now also the question of how these provisions will interact with the amended R&D provisions which come into effect from 1 July 2021, whereby the R&D tax offset rate is linked to the corporate tax rate. There will also no doubt be questions raised as to why patent box is being limited to two sectors.

Debtor in possession reforms extended

Debtor in possession reforms announced in October 2020 Budget are to be extended to trading trusts. There will be a review to see how this model can be extended to all businesses above the current threshold of incorporated businesses with liabilities of up to $1m.

Increase in First Home Super Saver Scheme

In a measure designed to help first time home buyers to save a deposit more quickly, the Government will increase the maximum releasable amount of voluntary concessional and non-concessional contributions under the existing First Home Super Saver Scheme (FHSSS) from $30,000 to $50,000.

Further, voluntary contributions made from 1 July 2017 up to the existing limit of $15,000 per year will count towards the total amount able to be released.

Extended access to 'Downsizer' super contributions

In a measure designed to allow an increased number of older Australians to consider downsizing their homes, and thereby freeing up stock of larger homes for younger families, the Government will reduce the eligibility age to make 'downsizer' contributions into superannuation from 65 to 60 years of age.

'Work Test' for voluntary super contributions removed

The Government will remove the 'Work Test' for individuals aged 67 to 74 years (inclusive), allowing non-concessional or salary sacrificed superannuation contributions without needing to meet the 'gainfully employed' requirement.

Removing the work test requirement increases the flexibility for older Australians to save for their retirement by boosting their superannuation contributions. This change includes extending access to the 'bring-forward rule' for those in this age bracket, putting them on more equal footing with younger superannuants with respect to voluntary after-tax contributions.

It should be noted, however, that individuals aged 67 to 74 years will still have to meet the work test to make personal concessional contributions.

Superannuation Guarantee income threshold removed

In a move to improve equity in the superannuation system, focussed on helping those on lower incomes and women in particular, the Government will remove the current $450 per month minimum income threshold, under which employees currently do not have to be paid the superannuation guarantee by their employer.

Read more here

Doubling the value of Food & Beverage manufacturing

Tony Pittito
National Head of Agribusiness, Food & Beverage
Grant Thornton Australia

$371m

over four years towards biosecurity

$255m

in tax relief for small brewers and distillers

Read more

Doubling the value of food & beverage manufacturing in Australia by 2030 is absolutely achievable. We have a number of advantages that make this possible.

Our produce is green and clean, we are close to the fast growing Asian market and we command a premium on international markets. COVID tested all manufacturers world-wide, and our local manufacturers have proven to be agile producers in one of the strongest economies in the world.

The food manufacturing sector is closely aligned with the agricultural industry, which has the aim of increasing farm output to $100b by 2030. That's a 4% compound growth rate. We're reliable, innovative and prepared to take that next big leap both domestically and internationally.

The food & beverage roadmap focuses on post farm gate foods – which you might automatically assume means more fast food, more sugary food, more processed food. But the sector has come a long way over the last few decades and food manufacturing has an increased focus on better quality product, innovative products, establishing quicker delivery times, and reducing waste.

Innovations in the sector include processes and packaging to improve shelf-life, or data capture to support food provenance. Consumers make choices about their purchases based on how much they trust a brand. When we have worldwide examples of counterfeit food products (for example wine claiming to be Australian to command a better premium), it's essential that this trust is maintained. >

Double the value of Australia's F&B manufacturing through a focus on smart food and beverage manufacturing; innovative foods and beverages; and food safety, origin and traceability system by 2030.

2 YEARS

- Increase use of smart manufacturing.
- Manufacturers digitise product information.
- F&B manufacturers have access to affordable pilot plants to test new products and state of the art equipment.

3

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5 YEARS

- Smart manufacturing used to respond to new and emerging F&B opportunities.
- Access to large scale end-to-end production facilities for the sector.
- Increased adoption of digital technologies by manufacturers.
- Standardised digital information flows along supply chains.

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10 YEARS

- F&B manufacturing value doubled and exports increased.
- F&B manufacturers more agile, scalable and resilient to shocks.
- Reputation as a world best reliable supplier of premium, safe, authentic F&B products.
- A sustained increase in R&D and number of business incubators.
- Consumers can access personalised product information.
- Value-adding to Australian agriculture has increased onshore.

The ability to respond quickly is also essential. The food & beverage sector doesn't move quite as swiftly as the technology sector, but it can turn on a dime under the right circumstances. Almond milk is a great example of a product that has been around for hundreds of years, but not mainstream until the 2000s. Data from the US says that sales of almond milk increased 79% in 2011 and it surpassed soy as the preferred plant based milk by 2013.

So the more data and real time insight you have, the faster you can respond. And this is particularly true when you're tapping into international markets and you're much further away from your product and your customers. What is selling, what isn't selling, and where is it selling. This information will inform you where refocus or focus your product development.

The opportunities for the sector are manifold – particularly as our food & beverage sector is dominated by innovative SMEs cornering niche markets. Double edge-sword though! Consumer demand for artisan or alternative food products continues to grow. However, it can be difficult to achieve economies of scale to conquer new markets when you're going alone.

The focus on collaboration in the roadmaps may make some businesses in the sector a little uncomfortable. But it's important to understand that collaboration can happen on a number of fronts. The key one highlighted by the Government is the innovation hubs which will provide access to pilot plants to test new products using state-of-the-art equipment before a company undertakes the significant investment to recalibrate their own infrastructure. Collaboration could also be at the tertiary sector level, where education skills required for the food & beverage sector are being met. It could come from Government so that policy and regulatory settings for agriculture and food & beverage are aligned. And it could also look like regional collaboration to build local capability, capacity and business. So there are a number of different ways collaboration can help in the sector.

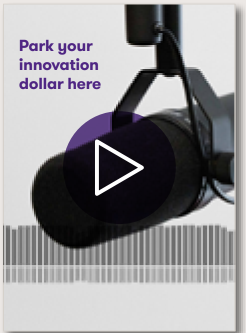
Growth for the agribusiness, food & beverage sector invariably comes at an environmental cost. A smart food & beverage sector can help to reduce this burden. Australians waste about $20b per annum in food, or about 7.3m tonnes per annum. That works out to be roughly 300kg per person or one in five shopping bags. All gone to landfill. By being able to respond more quickly and producing the right food where and when consumers want it provides a great opportunity to reduce waste. And it's not only food. Australians throw away 1.9b tonnes of packaging per annum. Now, most of that would be in the food area. The numbers speak for themselves.

To take advantage of future opportunities we need to address current challenges. The most urgent issue that needs to be tackled is labour availability and flexibility. With the international borders closed for the foreseeable future this is going to require some rethinking in how we either make concessions for international skills to come to Australia, or how we encourage people domestically to turn to a career in agriculture, food & beverage. This is about so much more than just a lack of available labour in regional areas to pick our fruit and vegetables. It's also a skills shortage within manufacturing. A number of manufacturing clients, including some of my clients, are experiencing real problems in being able to source labour. This has the potential to scupper those 10 year milestones.

We also need to support our manufacturers to tap into non-traditional export markets. With innovation, better data, better products, longer shelf-lives and greater investment, it's time for Australian food & beverage manufacturers to diversify into new export markets. There are some exciting Free Trade Agreements (FTAs) being discussed, with a potential FTA to be signed with the UK mid-year. We hope to see more on the horizon.

Smart Food & Beverage manufacturing is so much more than packaging

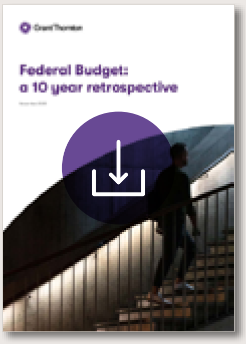
In this podcast Tony Pititto and Madina Aziz discuss the opportunities for the Food & Beverage sector through the Modern Manufacturing Initiative and what we need next from Government to help Australia target non-traditional export markets. This is much broader than simply processed food – we're talking better quality products, reducing waste, and innovative ways of bringing products to new markets and customers.



Listen now

Read our 10 Year Retrospective Report

Our 10 year retrospective report shows that the dollar value of the Agribusiness, Food & Beverage sector is sensitive to the local climate, but generally speaking, the value is going up. With the food and beverage roadmap highlighting the game plan over the next decade, we can expect to see more investment in the sector and a greater focus on innovation and automation to support growth.



Download our 10 year retrospective report

Jannaya James
Partner
Grant Thornton Australia

The critical point for Australia's energy future

$1.6b
over 10 years to incentivise private investment in technologies, grow new export industries, create jobs and reduce emissions:

$10.4m
to expand the range of certifications offered by the Climate Active program

$1.2b
over 10 years to create a technology co-investment facility

$279.9m
over 10 years to establish the below baseline crediting mechanism

$26.4m
to support Australian businesses and supply chains with more energy efficient industrial equipment and business practices

$30m
for renewable energy projects in the NT

$58.6m
to support gas projects

$540m
to boost domestic development of hydrogen production and carbon capture and storage

$566m
over 8 years towards international partnerships for new energy technologies

To say that Australia's history with energy policy is complex is an understatement.

With generation and distribution governed by the States and Territories, it's little wonder we have a hodge podge of networks and energy generation mixes depending on where you live.

As we know with any legacy structure, change can be difficult and maddeningly slow moving. Now, established organisations will often acquire new businesses to enhance their legacy systems. To a degree we have seen similar played out in various ways by different Governments – perhaps the most effective and interesting from a business perspective are the co-investments, funding and incentives for new and alternative energy generators to set up and develop in Australia. This has all been happening against the backdrop of the changing composition of our generation network.

Despite the timing, the pace of investment and change has been slow. Certainly not fast enough for a growing consumer base demanding alternatives to coal-fired power, but wanting better stability than currently on offer from existing renewables. >

To develop world-leading advanced manufacturers that seize opportunities from sustainability, clean energy transition, and waste reduction demands by leveraging Australia's advantages in innovation, technology, renewable and mineral resources, and our onshore industrial base.

2 YEARS

- New technologies and products are technically and commercially proven.
- More manufacturers are taking advantage of accelerating trends favouring sustainable production.
- More businesses developing pre- and post-production capabilities to enhance competitive offering to domestic and global markets.

3

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5 YEARS

- Manufacturers have ready access to cheaper and cleaner recycled materials, and more affordable, clean and reliable energy.
- Consortiums with complementary partners coordinating to tackle barriers to demand, scale, and competitiveness, and leveraging unique collaboration opportunities of industrial precincts.

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10 YEARS

- R&D, design, production, sales and services have positioned manufacturers as leading providers of solutions to help Australia and the world transition to more sustainable energy and material systems.
- Manufacturers strongly prefer recycled materials over virgin resources, and have access to these at much greater volumes and more competitive prices.
- Australia is a leading global manufacturing player for key classes of clean energy hardware, providing Australian innovation to the world and to a thriving local pipeline of clean energy deployment.
- Australia is becoming a globally attractive destination for investments in low-carbon, energy-intensive manufacturing.

However, the tide is turning for energy investment. In September last year the Government announced a whole slew of initiatives as part of "Energy Week". For instance, there is the commitment for long-term funding and expanded focus for ARENA to the order of about $1.6 billion dollars, as well as the promise to expand the Clean Energy Finance Corporation's mandate to invest in new energy technologies.

This has since been complemented by the Clean Energy and Recycling roadmap under the Modern Manufacturing Initiative. When you read the milestones in the roadmap, you are smacked in the face with just how essential energy will be to ensuring the viability of modern manufacturing in Australia. Increased production is energy intensive. Data and automation is energy intensive. Feeding domestic and international supply chains in energy intensive.

We are reaching a critical point where a solution to affordable, sustainable and clean energy generation must be found or all the best laid plans will come to nought.

The Government is placing their bets in a technological solution – three weeks before the 2021 Budget is announced, the Prime Minister revealed more detail around how we will reach net zero by 2050. Off the agenda (at least at the moment) is an emissions related or "carbon" tax. Instead, the onus is on a transformation of our energy mix over the next 30 years and the commercialisation of low emissions technology.

Private companies – particularly from the six priority sectors under the MMI – are encouraged to invest in this space. Fortescue Metals Group is investigating in green hydrogen. BHP is investing in carbon capture and storage, as well as introducing emission-free surface mining vehicles. AGL and Idemitsu Australia Resources have an early study to transform a former coal mine in the upper Hunter into a pumped hydro storage facility. The Government's message: more of this, please. This certainly aligns with the broader ethos behind the modern manufacturing initiative.

I, for one, am optimistic. Our R&D and development capability in Australia is as good as anywhere else in the world. With a focus on improving the competitiveness of the heavy energy users of Australia, this creates an opportunity for clean tech companies to develop and commercialise technology that will really make Australia much more competitive on a global scale. The global focus will keep ensure energy – and low emissions energy – will remain on the agenda. For instance, the Prime Minister is expected to outline more around our short and medium term emissions targets around the Climate Change Conference in Glasgow in November of this year.

We have a perfect opportunity now to have a manufacturing-led recovery and that provides huge opportunities for emerging clean energy technology that will reduce cost to our manufacturing and other sectors, and make these economy stimulating sectors increasingly competitive. Things like load

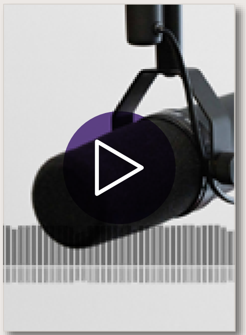
management technology, or behind the metre energy solutions can really increase the competitiveness of our manufacturing sector, as well as having the benefit of reducing our emissions and meeting our clean energy targets in the longer-term.

The one caveat, concern, barrier – whatever you want to call it – is the usual short-terminism of Government policy. The current investment, the milestones, the clear focus and vision for the future is welcome and a critically important step for the energy sector. However, a shift of this monumental scale – both to increase our manufacturing capabilities, but also to fundamentally reimagine our energy mix – will take longer than the decade outlined in the roadmaps. Consistent and bipartisan national policy and investment from both Federal and State is required – in this Budget, and the Budgets to come.

Listen to our podcast

In this podcast, Jannaya James, a specialist in Renewable Energy at Grant Thornton, reflects on the policy announcements from "Energy Week" last September. Investment is one thing, bringing national consistency to energy policy is another. However, get the structure right and investment in energy will mean investment in clean energy technologies that can support a strong economic recovery.

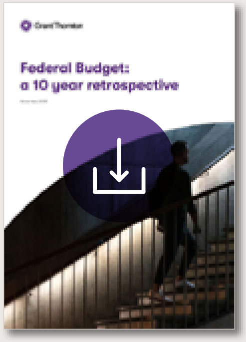
Listen now



Read our 10 Year Retrospective Report

There's been a definitive shift in political discourse on Australia's energy future. Australia's expansive land mass, over 850,000km of distribution grid, and multi-jurisdictional regulatory hurdles have thrown road blocks in the way our shift to renewables. Our 10 year retrospective report shows the need for greater alignment between state and federal regulations. We need to set a national energy policy.

Download our 10 year retrospective report



A smart resource nation

$100m

over four years to extend the Junior Minerals Exploration Incentive scheme

Read more

$20m

towards a Global Resources Strategy to help diversity exports and find new markets for Australia's resources technology

$3m

funding to explore Tasmania's resource potential

The resources sector is an Australian workhorse. Past booms have propelled the country forward into prosperity.

It's provided a buffer during downturns. And it has a vital role to play in Australia's economic future as part of the evolving demand for global resources.

The Critical Minerals and Resources Technologies roadmap reveals new opportunities for the resources sector to become more technologically enabled, and to take that innovation to the world. Under the Modern Manufacturing Initiative – and with their clear focus across all six priority sectors on automation and smart manufacturing – a collaborative approach and investment in R&D could cut production costs, improve efficiency, reduce emissions, and increase the accuracy of resource exploration.

The demand for resources isn't going away. If anything it will increase as we recognise in a post-COVID world that our systems and supply chains simply aren't fit for purpose. It behoves us then to make our resources sector smarter and more sustainable.

Australia will become a global centre for commercialising and manufacturing cutting-edge technology products and services for the global resources sector that benefit a range of other industries.

2 YEARS

- More commercialisation opportunities unlocked through co-investments in translation, integration and collaboration
- Pilot projects demonstrate technologies, manufacturing capabilities, and help critical minerals processors to secure finance and offtake agreements.
- Growing rates of private sector investment in the sector.

3

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5 YEARS

- Greater local manufacturing capability developed in the sector.
- Growing rates of domestic manufacturing and processing
- Small companies scale and more mid and large sized companies active in Australia.
- Scaled companies are making more globally competitive products

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10 YEARS

- Our manufacturers are globally competitive with stronger rates of commercialisation, integration and collaboration.
- Significant growth in the sector, driven by Australian companies successfully scaling.
- Increased number of successful mid and large technology companies selling solutions to the global resources sector and other parts of industry.
- A range of successful critical minerals processing projects secured finance and operating at scale.

It's not just about iron ore and coal anymore, which Western Australia is undoubtedly best known for. With technology becoming more pervasive, connecting our phones and our businesses, but also increasingly our homes and cars, comes the demand for lithium and Rare Earth minerals.

Australia has some 30 percent of the global lithium reserves. This is really a huge opportunity for Australian companies to exploit and process these reserves. There are some early signs of success with respect to lithium, because right now they are building two processing plants in Western Australia.

Rare Earth is a bit of a sleeper. It's got various minerals used in components in terms of computers, loudspeakers, smartphones and the aerospace industry. Currently, China has some 50 percent of global Rare Earth reserves and 80 percent of global production. Customers will want a diversity of supply and Australia has the opportunity to feed into this.

There is a clear intersection between the resources sector and Australia's energy future. Almost an endless loop, where one feeds into the other. The resources sector requires vast amounts of energy for production and requires access to affordable and sustainable energy. The resources sector also plays an important role in Australia's transition to an affordable and sustainable energy future.

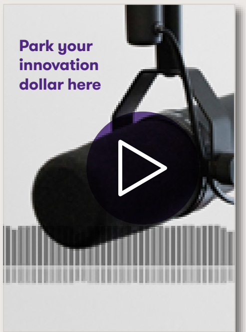
The fly in the ointment is trying to get everyone to agree on what the transition looks like. Energy Minister Angus Taylor continues to spruik the Government's gas-fired recovery plan as the logical next step. The Australian Energy Market Operator (AEMO) has declared gas uncompetitive against renewables. Hydrogen is a sector with huge potential – but could take years to develop into a fully-fledged energy alternative.

Having many resources and varied options isn't always a bad thing – so long as we can reach a consensus. Regardless, the well-oiled machine that is the resources sector will be prepared to take up the slack.

On the topic of preparedness, I'm perhaps most optimistic about Australia's attractiveness to investors. A key requirement of customers that buy commodities is security and reliability of supply. Australian suppliers have demonstrated the ability to deliver through the COVID epidemic. For example, Brazil had not been able to keep up its iron ore production volumes. Iron ore prices have risen. Australia delivers. We have low sovereign risk. Political stability. Economic stability. We should take advantage of this opportunity and use it to pursue new markets, increase market share for our traditional commodities, and also to develop our emerging minerals.

Listen to our podcast

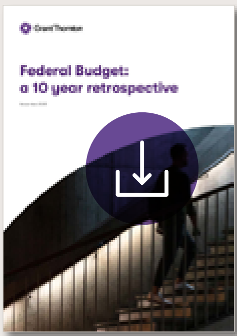
In this podcast, Brent Steedman, National Head of Energy and Resources says the Government's modern manufacturing initiative will provide funding and grants to develop and implement new technology – like better data analytics to define reserves or automated vehicles. The future of mining will be smarter to increase production and reduce costs. Pair this with a greater opportunity in a competitive global market and it's clear resources will continue to play a significant role in our future economy.



Listen now

Read our 10 Year Retrospective Report

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. Our 10 year retrospective report shows that the sector is a picture of self-sufficiency – with fluctuating investment over the last 10 years, while contribution to Australia's GDP remained strong, even with inconsistent funding. With renewed focus from the Modern Manufacturing Initiative – are we set for a mining boom 3.0?.



Download our 10 year retrospective report

The legacy of COVID will be a stronger Life Sciences sector

Michael Cunningham
National Head of Life Sciences
Grant Thornton Australia

Funding

from Medical Research Future Fund to support development of mRNA vaccine production capacity in Australia.

New

Patent Box targeting Australian medical and biotech patents will mean income generated by these patents will be taxed at a concessional rate of 17%

Pre-COVID, Life Sciences was already an economically significant sector. It contributes about $5.5 billion to the Australian economy and punches above its weight globally. Australia has a reputation for high quality products, world leading science, research, and innovation capabilities.

We have a highly skilled workforce and proximity to emerging markets. Some of the stats are saying, and it's articulated in modern manufacturing roadmap, that 65% of the aging population will be in Asia and Southeast Asia, and we are well positioned to support those markets.

To support a globally recognised Australian medical products industry with the capability, capacity and expertise to locally manufacture advanced and high-value medical products using sophisticated processes.

2 YEARS

- Commercialisation opportunities unlocked through co-investments in translation, integration and collaboration.
- Growing rates of private sector investment in medical product manufacturing.
- Co-investments have been made to grow medical precincts and form digital pathways for collaboration.

3

4

5 YEARS

- Local capability for critical and specialist medical products.
- Small firms scaling and there are more mid and large sized businesses active in Australia.
- More businesses are finalising commercialisation in Australia.
- Scaled firms are making more globally competitive products.

6

7

8

9

10 YEARS

- Australia's manufacturers are globally competitive thanks to strong rates of commercialisation, integration and collaboration.
- Significant growth in the medical products sector driven by firms successfully scaling.
- Australia has a number of successful mid and large medical manufacturers conducting high-value activities onshore.
- Collaboration is easy and effective for Australia's medical product manufacturers.

The modern manufacturing initiative – and particularly the medical products roadmap – covers off a number of priorities that are positive for Australia. It's too often that medical product ideas are shipped offshore to businesses with greater capacity to commercialise and manufacture. The focus in the roadmap on collaboration and co-investments will be essential to not only keep more of the manufacturing and jobs in Australia, but to also capture more economic value locally as part of domestic and international supply chains.

We have many small companies in the sector that will benefit from this refocus. In fact, most of the sector is made up of smaller companies and organisations and it's important that those smaller companies have a clear focus and plans in place to take their product from development through to commercialisation.

A number of barriers to scale have been articulated in the modern manufacturing roadmap – and we should remember this has been put together by Government and industry leaders so is reflective of both the private and public barriers we have in Australia. For instance, while we have strong skills and capability in Australia, to grow the sector we need to continue to attract and retain talent – difficult with borders closed.

We also need to bring talent up through our schools and universities – requiring a greater focus on STEAM subjects and ensuring young people see life sciences as a viable and interesting career path.

Regulation must be easier to navigate. Obviously, it's important that we have strong regulation to make sure our products are up to global best practice standards – but how can we simplify processes?

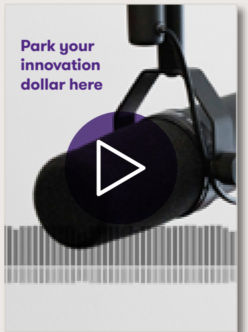
Another area is energy costs – and this is about making energy affordable for manufacturing companies across the board, not just in the medical products space. Manufacturing is energy intensive, and while energy is a focus for the Government, we cannot escape the imbalance in energy costs and vast array of energy generation options in different parts of the country.

And then there is competition for capital. The sector can be capital intensive. Manufacturing in particular requires multiple rounds of fundraising along the way. The sector is truly global – it's one funding pot that can go to different countries. It's imperative then that we create the optimal economic conditions to attract that capital and investment into Australia and Australian companies.

I am very optimistic for the future of the sector. COVID will leave behind a lasting legacy: recognition and a new understanding of the value our life sciences companies can provide to the community and the economy. Australian companies in particular have an opportunity to harness this legacy to become a life sciences hub for South East Asia and grow our position as a significant global player.

Listen to our podcast

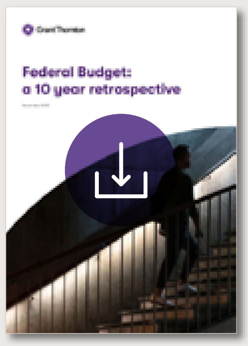
Michael Cunningham, National Head of Life Sciences is joined by Dr Dan Grant, Managing Director and CEO of MTPConnect, Australia's industry growth centre for the medical technology and pharmaceutical sector. They explore the opportunities outlined in the Government's Medical Products Roadmap. Competition and hurdles ahead for our burgeoning life sciences sector include the war for talent and access for funding. But what an opportunity ahead of us to not only innovate and grow this critical sector but to improve health outcomes for patients here and overseas.



Listen now

Read our 10 Year Retrospective Report

Our life sciences sector punches above its weight, ranked amongst the top 4 destinations in the world. We have world class facilities, and everything we need on our doorstep to be a life sciences powerhouse. But until recently, there was a lack of investment in the sector. Our 10 year retrospective report shows that the sector has huge potential – but was getting lost in the funding mix.



Download our 10 year retrospective report

A path forward for Health & Aged Care

$17.7b
over four years to respond to the Royal Commission

$13.2b
over four years towards the NDIS

$2.3b
commitment to mental health and suicide prevention

$350m
to support women's health and wellbeing

$114m
to extend telehealth to the end of 2021

$80.9m
over five years to boost healthcare in regional and remote Australia

The $17.7b aged care in funding is welcome, and will address some of the concerns that have been raised by the sector. The measures include increasing care by 200 minutes prpd, adding 80k home care packages (mindful there are still 100k older Australians in the queue), and providing $10 per resident per day for care home residents to help providers provide the services older Australians need. A welcome addition is 33,000 training places for carers, to supplement the workforce, additional indigenous workers, as well incentives for nurses to keep them in the aged care industry

This will come with sting in the tail with an additional $119m in funding to enhance regulatory oversight, development of a new ACT and infrastructure, to "restore trust" in the industry.

In 2020 we called for the Government to consider using superannuation to improve outcomes for retirees to enable them to save for their accommodation and care required towards the end of their lives. We are pleased the Government has recognised this by allowing downsizers to invest up to $300k in superannuation on concessional terms.

Many in the aged care sector are frustrated. The Royal Commission was meant to provide a clear pathway forward for aged care in Australia; creating a baseline for quality and safe care, but also putting the challenges the sector is facing under the microscope.

This includes workforce retention, difficulties accessing funding and the endless array of bureaucracy that diverts attention from the care of residents to paperwork.

The Report delivered by the Royal Commission highlighted issues well known to – and owned by – aged care providers. Many of these issues have been highlighted in our own reports. What we are looking for are solutions to not only the immediate challenges, but the "wicked problems" that lurk beneath and prevent us from having a long-term strategy for the sustainable, accessible and quality care of our ageing Australians.

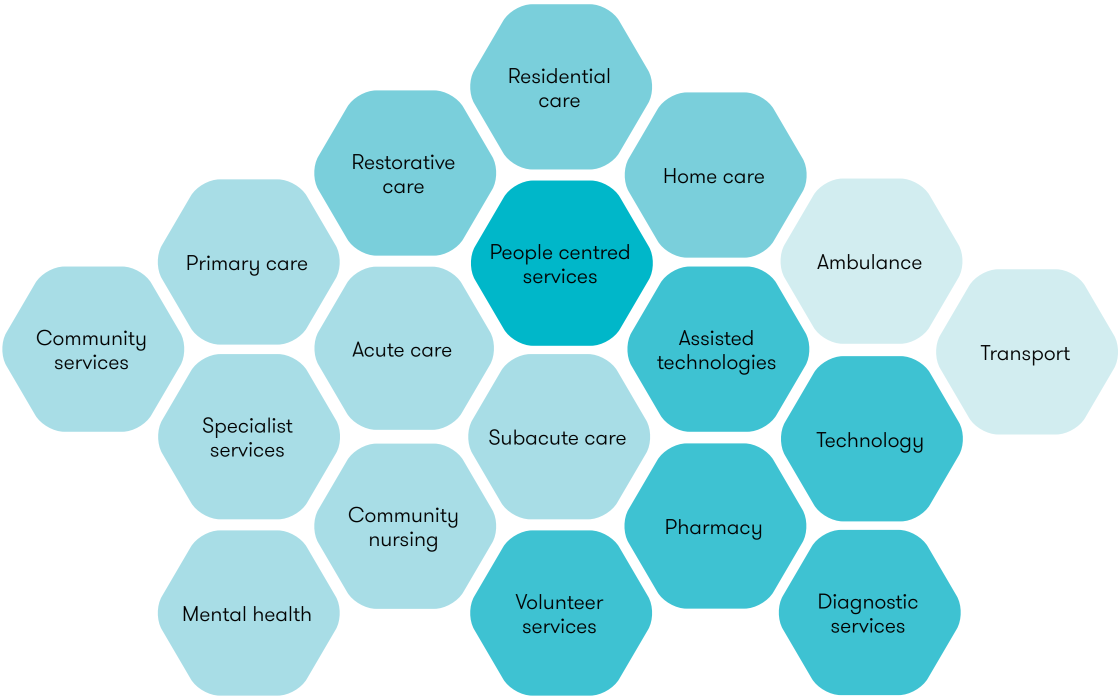
Yes, we need more people in the aged care profession. But the numbers quoted simply don't exist. So where do they come from? How do we remunerate them and support their further education so they stay? How do we work with tertiary institutions to create a pipeline of people more prepared for the challenges of dealing with disabilities, cognitive impairments, complex health issues and other special needs? How do you standardise care when every individual receiving care is as unique as their own fingerprints?

How do we deal with a funding shortfall? And I know this is a difficult question to ask as Australia entered into record deficit to stave off recession. However, it is a question that cannot wait with some aged care providers on the brink of collapse and a long waitlist of people who have yet to find a spot in either out of home care or residential care. The Grattan Institute suggests the sector needs an additional $10b each year. Stewart Brown suggests anywhere between $23b and $50b more a year. My own research suggests the additional funds required could be as high as $70b a year.

These are questions posed in the Royal Commission's Final Report, but not definitively answered or fully resolved. Disappointingly, Commissioners Pagone and Briggs avoided the opportunity to endorse a funding model that sees those who can afford to pay for their care to do so – thus taking pressure off providers to do more with less.

Funding has to come from someone's pockets. Ideally many pockets: from State and Federal Government, as well as consumers to ensure the standard we all aspire to. We believe that an aged care model could be developed in a similar vein to our healthcare system, where there are clear safety nets for those that cannot afford to pay, while those that can, do pay. This would allow governments to limit their own expenditure by capping care, daily living and accommodation subsidies, and allow consumers to contribute above these levels on a means tested basis. This would increase funding for providers, and increase the quality of care by increasing competition between providers who will have to enhance services to attract people who can pay.

We appreciate the difficulty in achieving the right balance. Aged care is a critical care mechanism with many moving parts and intersections with other services, including healthcare and the disabilities sector.



There is also a delicate balance that needs to be achieved to enable labour markets, capital markets and consumer markets to function and create opportunities for providers to deliver better care to older Australians. We must find a way of balancing them to ensure older Australians are cared for into the future. This requires both funding and smart policy.

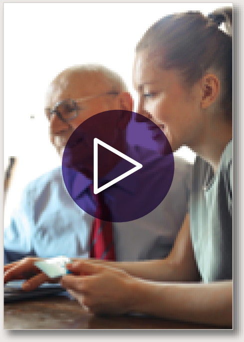
The question is, what does the Government do with a Report that creates milestones and targets to fix immediate challenges, but can't agree on a defined future for the sector? In the short term, likely the next 12 to 24 months, we anticipate there will be additional funding for providers to properly assess their long-term viability. It's an unfortunate reality that some providers may no longer be operational in just a few short months. Any exits will need to be managed sympathetically and carefully for both the providers and the people in their care.

In tandem, more research is required into the nuances of aged care provision. An independent advisory board should be convened to assess the priority areas of focus, which may include how we achieve efficiencies between the aged care and health sectors, or how we measure quality of life to better benchmark and provide services. We are at the stage now where we need the nitty gritty detail.

Finally, and fundamentally, we need a call on how the sector will be funded going forward. The current model simply isn't achieving the outcomes we expect.

Listen to our pre-Budget webinar

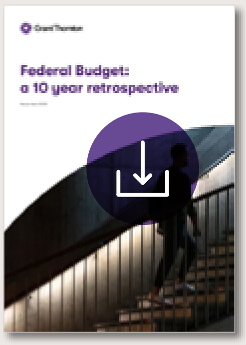
Grant Thornton invited Commonwealth Bank and three CEO's new to the health and aged care sector to participate in a pre-Budget webinar panel at the end of last month. The resulting conversation was positive, with panelists agreeing that transparent funding and a forward-looking, collaborative and proactive approach from strong sector leaders is needed to face the challenges of the sector.



Watch on demand now

Read our 10 Year Retrospective Report

The Royal Commission into Aged Care Quality and Safety handed down their final recommendations in February, with the Federal Budget revealing new investment into the sector. However, our 10 year retrospective report shows that funding for the sector isn't keeping up with demand. However, funding alone won't support the change that's needed. We also need to redesign our health and aged care networks to provide better outcomes for all Australians.



Download our 10 year retrospective report

A reimagined Australia requires new skills - and this impacts everyone

Stuart McDowall
National Head of Education
Grant Thornton Australia

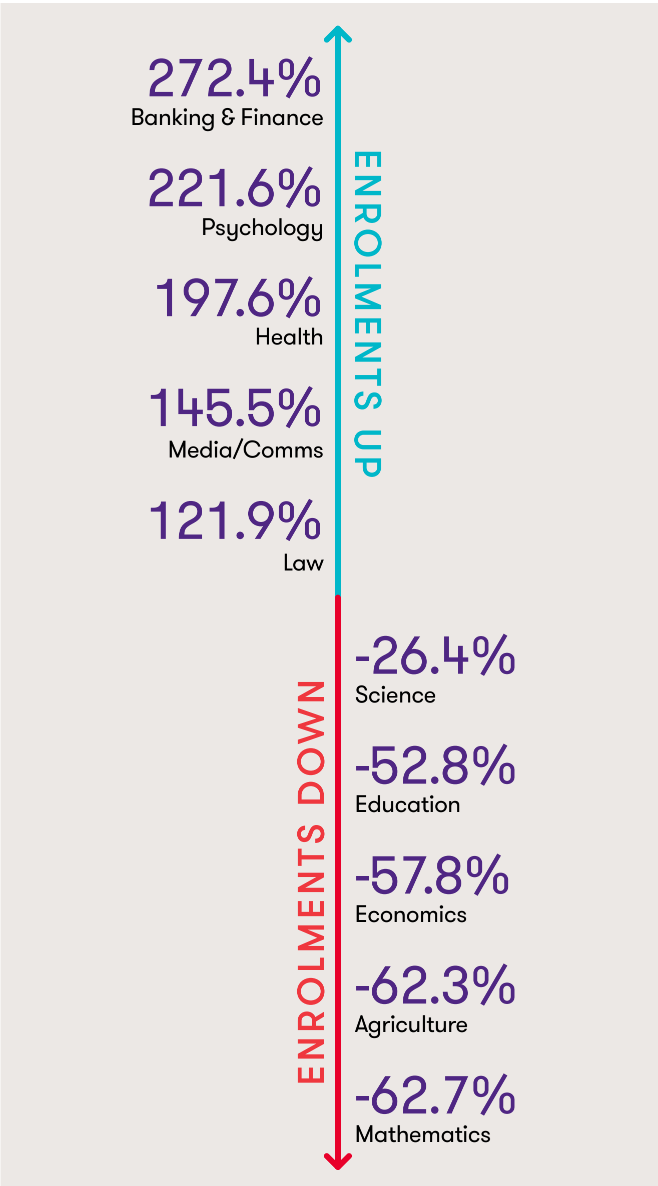
$1.9b
in university funding

$1.7b
to support 170,000 new apprenticeships and traineeships

$1.7m
additional for child care

$2b
to fund increased participation in pre-schools

Over time our demand for skills has morphed in line with Australia's repositioning of itself as a resource nation to a knowledge economy and knowledge and financial centre for the Asia Pacific region. The enrolment data from the Department of Education between 1989 and 2015 is quite revealing in how successful we've been in making that transition.



However, our decades of offshoring manufacturing and increased focus on knowledge has created an over-reliance on global supply-chains and flows of people and skills that has now been proven to be more much more vulnerable than we first thought.

In 2021 we have come to a fork in the road – a defining moment – for tertiary education and skills for a "reimagined" Australia post COVID.

Borders are closed

Even if our vaccination program had rolled out as planned, that would not be immediately followed by the reopening of borders. Therefore international students and skilled workers will not be entering the country in the same numbers as before, in the short to medium term. We need to look inwards.

We need new skills

A singular policy initiative from the October 2020 Budget was the Modern Manufacturing Initiative – a refocus of Australia's economy towards self-sufficiency, and increased capability and commerciality in the manufacturing space. This may help to encourage growth in onshore manufacturing, in strategically important areas, with ever-greater reliance on automation, data and artificial intelligence.

This goes well beyond just the MMI. Technology and cyber skills have been identified by the new National Skills Commission as one of the top 25 skills in future demand. This impacts all of us, and will need focus from primary school right through to higher and further education.

The A in STEAM is missing

The Government is investing in STEM – Science, Technology, Engineering and Mathematics. But the A in STEAM is essential to pull the threads together – for creative and critical thinking, problem solving, innovation and incubation. These so-called "soft-skills" are what modern business needs to bring our modern manufacturing vision to life and sell Australia to the world.

While STEM courses are more accessible than before, conversely there is now reduced support for many humanities subjects, including the Arts. We hope there will be softening of policy to ensure that our industries have strong pipeline of creative thinkers and problem solvers, from a wide range of disciplines. >

A growing role for micro-credentials

Our higher education institutions are also the funnel through which we can upskill the current workforce. There are more than 13 million of us already actively participating in a range of careers. The jobs we originally trained for may not exist in future, and those that do exist, will be radically transformed as our economy advances and becomes increasingly digital. We must support our workforce to participate in the economy – and one way we can do this is through greater use of micro-credentials.

They are not new – but they are not fully embedded in our formal education system either. I expect that we will see more "mature age" students looking to supplement their learning with new digital skills. Micro-credentials may be suited to scalable online delivery. With the right set-up and course material, our education system can provide learning pathways to anyone around Australia – and the world?

Increased female participation will support the bottom line

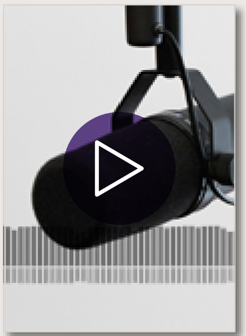
COVID has exacerbated an issue we were already experiencing around female participation in the workforce. We reported in our MSB Report from 2019 that Australian women are under-represented. Our workforce participation rate for those of working age was 74% for women and 83% for men. At the same time, women were over-represented in the ranks of our part-time workforce (40% of women work part-time, compared to 5% of men).

To the delight of all parents with young children, free childcare was offered during lockdown for essential workers. It wasn't on the table prior to the pandemic, but it is a policy we see in many developed nations around the world and could be a crucial tool in Australia's recovery. We applaud the Government's commitment of $1.7b to make childcare more accessible for working families.

While there may be different approaches to quantifying the economic benefits of increased access to quality early childhood education, a Grattan Institute report from 2014 suggests that an additional 6% of women in the workforce would contribute an additional $25b to Australia's GDP.

Listen to our podcast

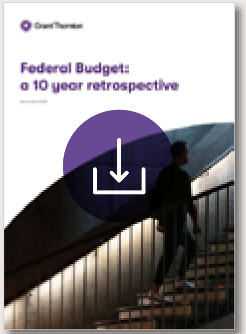
Our educational institutions aren't just important for our skills of the future. They also play an important role in Australian innovation and research. This is a turning point for higher learning; one with an exciting future. In this podcast, Stuart McDowall, National Head of Education, and Consulting Partner Kristy Fotiadis, discuss how universities and VET providers should be reviewing their strategies, local and international demand, and what they're excited to see in the sector in the years to come.



Listen now

Read our 10 Year Retrospective Report

With a focus on reactivating our manufacturing sector, our educational institutions will play a key part in transforming our workers and economy. But the focus on educating and transforming our workforce will require a focus on childcare to improve women's access and participation in the workforce. Our 10 year retrospective report shows that the sector's contribution to Australia's GDP is shrinking, while the ageing population invests in other sectors. Our tertiary higher education industry being our fourth biggest export, it plays a role in foreign relations and affairs more broadly.



Download our 10 year retrospective report

Sian Sinclair
National Head of Real Estate & Construction
Grant Thornton Australia

Real Estate will form the base for modern manufacturing in Australia

$10b
addition to the $100b 10-year infrastructure program

$3b
towards new SA infrastructure projects

$2.9b
towards new NSW infrastructure projects

$2.7b
towards new Victorian infrastructure projects

$1.439b
towards new Qld infrastructure projects

$1b
towards new WA infrastructure projects

$324m
towards new NT infrastructure projects

$295.1m
towards new Tasmanian infrastructure projects

$161.5m
towards new ACT infrastructure projects

$250m
addition to the Building Better Regions Fund

$300m
Family Home Guarantee

$50,000
First Home Super Saver Scheme release increase

There's nothing in the Modern Manufacturing Initiative for the real estate and construction sector, right? Well there is, and it could take the sector into new regions and new kinds of work.

Manufacturing can't just be "switched on" – no one will be walking into a building, switching on the lights and just getting on with it. Remember, we are attempting to reverse a trend where we have increasingly sent our manufacturing offshore for decades. It may well take more than the ten years outlined in the modern manufacturing roadmaps to truly develop the scale envisioned by the Government. In addition to supporting the development and production of technology, goods, resources, components and IP, scaled up manufacturing will also need two core ingredients for success: facilities and infrastructure.

Industrial spaces were increasingly in demand before COVID

As a sub-sector, industrial real estate has been experiencing strong demand and rental growth, over the past few years – well before modern manufacturing was on the table. Come 2020 and we saw the boom continuing in the industrial asset class with further demand for warehousing and logistics related to a surge in online retail as well as manufacturers who sprung into gear for the production of health equipment and others repurposing facilities to pivot to the needs of the new normal. It's become obvious that real estate investors like industrial products. According to our 2020 Dealtracker, the industrial sector saw the highest volume of M&A activity – continuing a trend that's been reflected over the last decade we've been producing this research.

Underpin private sector activity with renewed Government investment and policy to generate confidence in the sector, and it isn't expected to slow down. So for those investing in industrial real estate there is a massive opportunity to align with the Modern Manufacturing Initiative.

New facilities need to be bigger and smarter – much bigger and smarter than we are perhaps used to designing and building in this sector. Government at all levels is talking about incubation hubs and shared facilities. Imagine the manufacturing equivalent of Silicon Valley or co-located facilities like a university – just with fewer backpacks and more hardhats and safety glasses? These spaces will need to be WiFi enabled, clean and temperature controlled, collaborative, adaptable and digital – and let's not forget sustainable and energy efficient. Manufacturing is of itself energy intensive, while data storage and streaming is fast becoming one of the most energy intensive activities in the modern world. Put the two together and tapping into the existing grid isn't likely an option, requiring additional infrastructure to service these sites.

On the back of scaled up manufacturing we then have the need for further infrastructure investment to cope with higher freight demands – how prepared are our planes, trains, trucks and ships to take up the challenge? Are our ports or airports big enough and in the right places? If moving over land, how can we keep our freight out of the commuter belts? No doubt the real estate and construction industry has a key role to play in solving some of these challenges and generally where the infrastructure investment goes, opportunities for the private sector follow. >

New regional centres for modern manufacturing

It's not just the Federal Government looking to give manufacturing a shot in the arm, for a number of years states such as South Australia have been planning ahead and introducing policies to attract and encourage modern industry. The City of Adelaide has a 10 year City Deal with the Australian Government and South Australian Government to grow Adelaide as a destination for research, innovation and entrepreneurialism in technology and the arts. The 2019 Deal is setting Adelaide up to take advantage of the Modern Manufacturing Initiatives. Other States should be looking at the investments South Australia has made and identify their own natural advantages to encourage hubs for manufacturing activity.

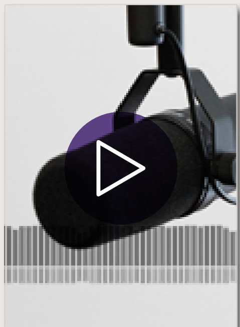
For example, could Geelong - once the home for Ford in Australia, re-emerge as a manufacturing epicentre for food and beverage? It has existing infrastructure that could be retrofitted and modernised and Victoria already has a well-earned reputation as an agricultural and horticultural centre. Similarly, Holden was largely manufactured out of Elizabeth in South Australia, and these sites have remarkable access to the RAAF Base Edinburgh, not to mention the Space Industry Centre in Adelaide. In NSW, Newcastle has been gentrifying for many years as homebuyers are squeezed out of the Sydney market and can capitalise on its access to Australia's third largest port by volume.

What an opportunity this presents to revitalise these regional communities and create jobs outside our city centres. More City Deals and Regional Deals that provide focussed investment by all levels of Government, will encourage further investment from the community and the private sector. Where the jobs are, the population and property market follows. Adelaide already has a deal, Brisbane's is likely to be helped along with its Olympic bid and Geelong signed up in March 2019, with a focus on the visitor economy. Perhaps this could be adapted to refocus on modern manufacturing opportunities given the funding systems are already there to support transformation.

What is clear is that the Modern Manufacturing Initiative isn't just set to benefit the six priority sectors nominated. The development of facilities required to bring the initiative to life will require the input of the Real Estate and Construction industry and there will be flow on effects for the regions around them and growth opportunities for those ready to capitalise on them. While supply chain resilience, building capability and competitive advantage for our manufacturing industry are key outcomes being sought by Government, the Real Estate and Construction sector should feel confident in the role they have to play in assisting to deliver this, now and long into the future.

Listen to our podcast

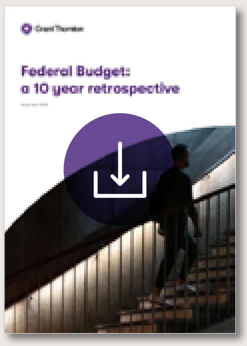
In this podcast, Sian Sinclair, National Head of Real Estate and Construction is joined by Ken Morrison, Chief Executive of the Property Council of Australia. Recorded nearly 12 months ago in June 2020 when our capital cities were empty, we've yet to return to full capacity and there has been a definitive shift in how people move in our cities. Sian and Ken discuss the future of work and how this impacts commercial real estate – what might this mean for our city skylines?



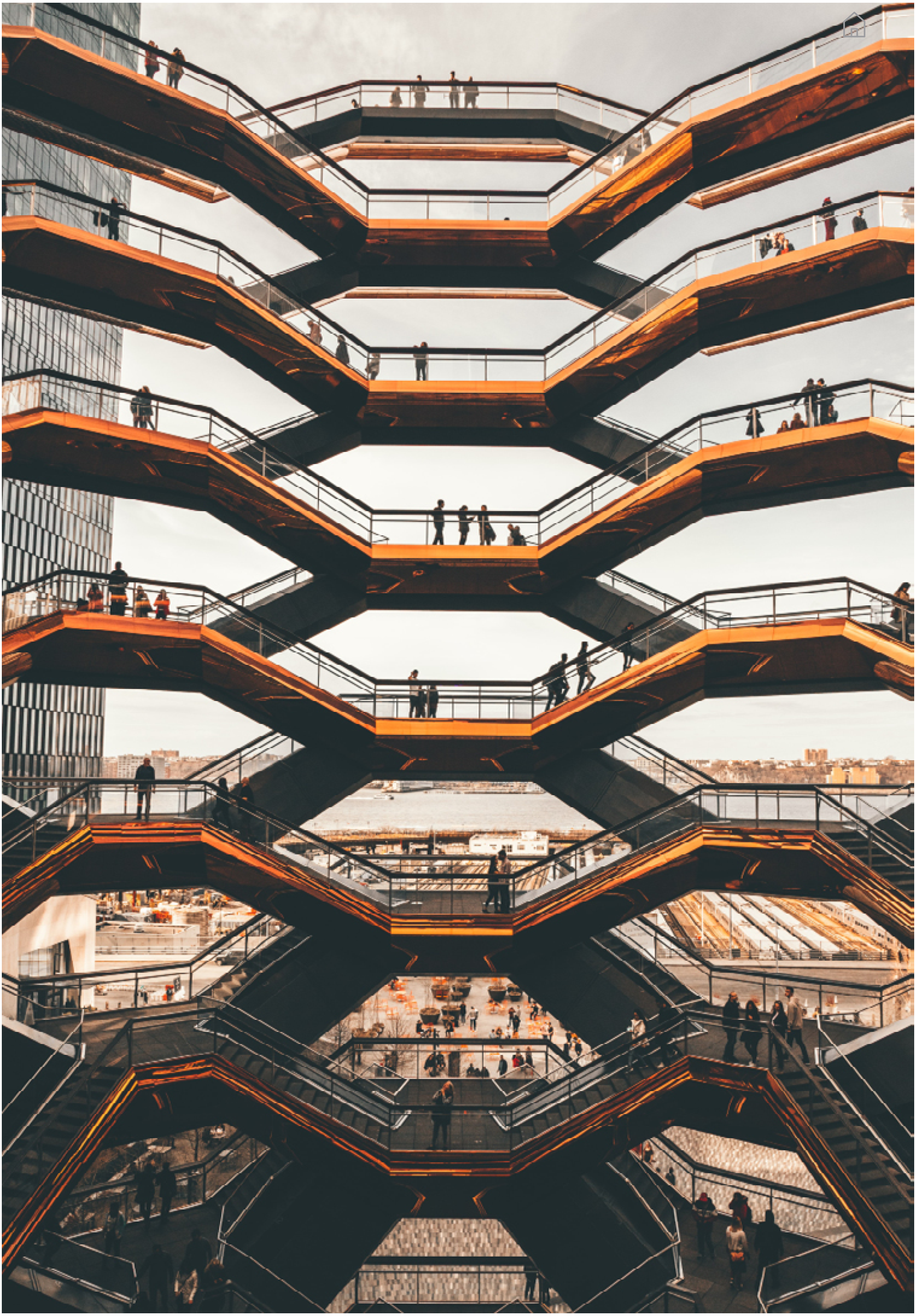
Listen now

Read our 10 Year Retrospective Report

The last few years has seen the States and Territories attempt to tackle issues around housing affordability. On the flip-side we've seen huge investment in city and nation shaping infrastructure projects. Our 10 year retrospective report shows that the sector underpins the economy, consistently contributing over 11% to Australia's GDP over the last 10 years. As we reimagine the way we work and where we live in a post-COVID, we can put "boots and utes on the ground" to create new jobs and stimulate the economy.



Download our 10 year retrospective report



Technology to underpin it all

$1.2b

Digital Economy Strategy for digital skills training, AI development and tax breaks for computer games developers

$124.1m

in AI initiatives, including a National Artificial Intelligence Centre led by CSIRO Data 61 to drive adoption of AI across the economy.

$35.7m

to support emerging aviation technologies

$111.3m

to continue implementation of the Consumer Data Right in the banking sector

$100m

to support digital skills for Australians

$16.5m

pilot program to make government data assets more discoverable

$200.1m

investment to overhaul myGov

$40m

to Geoscience Australia to create 3D digital atlas of Australia's geography, people, economy, employment, infrastructure and health into one national data set

$50m

to enhance cyber security in government, data centres and future telecommunications networks

Modernising

laws within the Treasury portfolio so they are technology neutral

Digital Games Development

From 1 July 2022, digital games developers will be able to access at 30% refundable tax offset on qualifying expenditure. There must be at least $500,000 of eligible expenditure and the most that is able to be claimed is $20 million per year. Again details are thin (eg not clear if the $20 million is a cap on eligible expenditure or the amount of the refund) with consultation being undertaken before the law comes into force.

Technology is the common theme amongst many of the Government's policies. Technology to drive down emissions. Technology to deliver modern manufacturing. Technology to connect businesses to communities and regions.

The children of today have never known a world that wasn't internet enabled. They will become the consumers, business owners and workers of tomorrow and will continue to expect technology and connectivity on demand – but in uber personalised ways that are only now just becoming available. Technological innovations are happening at lightning speed – propelled forward even faster thanks to COVID and the change in working and social habits.

It makes sense to imbue policy initiatives with technology. It's an enabler of better customer experiences, improved efficiencies, new opportunities and hopefully lower emissions. However, the invisible data thread holding it all together is both a future opportunity and a future challenge for Australian businesses.

There's an app for that

I'm particularly interested in how the Government intends to lead from the front as an adopter of technology. The commitment from Treasury to be technology neutral – so enabling anyone to be able to interact with Treasury in ways that best suit them, and the significant $1.2b Digital Economy Strategy are amongst the most recent announcements.

This complements the 2020 Cyber Security Strategy which set out plans to develop and implement a number of strategies to support the transition to a digital economy. For instance, a Digital Identity System (facial recognition) to access government services, Digital Readiness Assessment tools and Digital Directors training packages, consultation to make temporary reforms to allow companies to hold virtual meetings and execute documents electronically permanent, and mandating the adoption of electronic invoicing by 1 July 2022 for all Commonwealth agencies.

The Minister for Government Services, Stuart Robert, said only weeks before the Federal Budget was handed down that he was committed to delivering "integrated digital infrastructure that will enable government as a platform". In fact, a new government app for all Federal Government services (beta testing as mygov blue) is due to be rolled out at the end of this year.

So if you want to work with the Federal Government, or access their services, then the private sector and private citizens must also follow.

A digital economy must also be a sustainable one

While technology underpins the success of many of the Government's initiatives, underneath that is a thick layer of dependence on energy. Technology, data, WiFi, streaming, automated manufacturing, the Cloud, 24/7 connectivity, personalised digital experiences, personal and corporate digital footprints are all incredibly energy intensive.

According to a March 2019 study by the Shift Project, a Paris-based thinktank, digital technologies account for more carbon emissions than the aerospace industry (obviously pre-COVID). So a digital economy must also be a sustainable and net zero emissions economy as well. While there are plans afoot to transition Australia away from coal and to new, renewable and technologically advanced energy sources, we have to recognise that delays in not only rolling out these plans, but also scaling them up quickly, will be a barrier to the success of a digital economy. The stagnation of the digital economy will impede modern manufacturing. The impediment to modern manufacturing will leave us vulnerable to future global events like COVID. We need all parts of the puzzle to work together or risk being left behind.

National digital currencies the tip of iceberg of what's to come

Think embedding a digital economy is enough? Well there is more on the horizon with the UK conducting a study into the potential implementation of BritCoin, a national digital currency. This has been on the cards for many years but hasn't yet been fully investigated. I understand why: it has the potential to completely shake up traditional financial institutions, the flow of funds and our taxation systems. It has the potential to change the playing field between international marketplaces. It could have an impact on the price of products or your mortgage. However, the investment in systems like blockchain, and the initiatives being put in place by the Government now help to set the scene for an eventual move to a digital currency. All countries will invariably follow – it's simply a matter of when.

Cyber security risks already on the rise. Company Directors are on the hook.

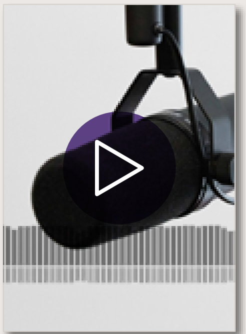
Cyber security and Board responsibility is not a new discussion. Heavily regulated industries – e.g. banks under APRA – are no stranger to cyber risk management as a key director duty. However, with the Cyber Security Strategy recommending changes to directors' duties under the Corporations Act, directors across all sectors are likely to come under scrutiny – with the ASX 200 first cab off the rank.

As our economy becomes increasingly digital, the risks are increasing. With corporate espionage and cybercrime on the rise and more corporate and personal data stored online, no sector is immune and all data is valuable in the dark web.

Listen to our podcast

In this podcast, Partner and National Head of Tech, Media and Telecommunications at Grant Thornton Ian Renwood talks to us about how companies can commercialise their customer data and gain a competitive advantage, a 'contextualised' user experience, and how data analytics will affect 'ordinary people', now and into the future.

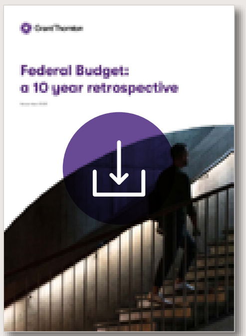
Listen now



Read our 10 Year Retrospective Report

We're adopters of technology. We're also creators of technology. But access to capital is a perennial problem in growing the technology industry. Our 10 year retrospective report confirms this – with the sector's contribution to the economy sitting at a paltry 2.4%. We need to encourage investment and commercialisation in Australia – taking things to the next level without having to go offshore to do so.

Download our 10 year retrospective report



Australia's future digital economy

Smart manufacturing
Modern manufacturing and sovereign capability will focus on automation and data analytics to create domestic and international value

Smart banking
Open Banking and Consumer Data Right puts power back in the hands of the people to easily switch providers

Smart food & beverage
Doubling F&B manufacturi
the-art facilities and data t
consumers and reduce was

Smart skills
Digital and cyber skills have been identified as amongst the Top 25 skills in future demand

Smart me
Leveragin
medical p

Smart health
Telehealth was rolled out swiftly during COVID, and has been extended until at least the end of 2021

Smart media
Australia has introduced a world leading Digital Platforms Bargaining Code

Smart regions
Upgrades to the NBN to make internet connectivity ubiquitous and close the digital divide between metro and regional / rural communities

Smart bu
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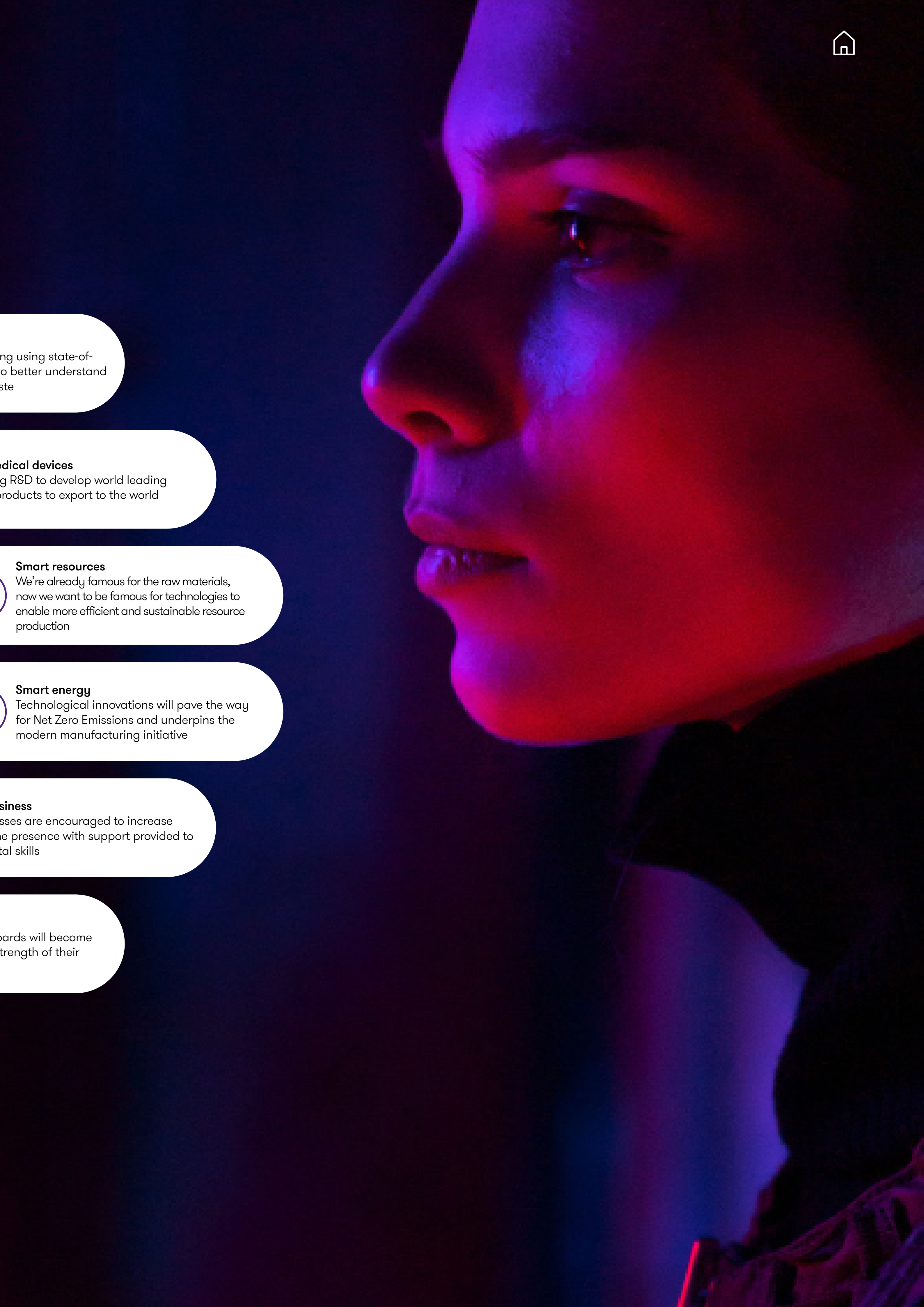
Smart security
The Government is committing record funding to improve Australia's cyber security defences and enforcement capabilities

Smart governance
Company Directors and Bo
increasingly liable for the s
cyber security measures

Smart government
Treasury has committed to becoming technology neutral, and government services are to be increasingly delivered consistently online



ng using state-of-
o better understand
ste

edical devices
g R&D to develop world leading
products to export to the world

Smart resources
We're already famous for the raw materials, now we want to be famous for technologies to enable more efficient and sustainable resource production

Smart energy
Technological innovations will pave the way for Net Zero Emissions and underpins the modern manufacturing initiative

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tal skills

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About Grant Thornton

We are Grant Thornton

Grant Thornton Australia is a leading business advisor that helps dynamic organisations to unlock their potential for growth. Our brand is respected globally, as one of the major global accounting organisations recognised by capital markets, regulators and international standards setting bodies.

We are constantly evolving and developing alongside our clients.

Grant Thornton Australia has more than 1,300 people working in offices in Adelaide, Brisbane, Cairns, Melbourne, Perth and Sydney. We combine service breadth, depth of expertise and industry insight with an approachable "client first" mindset and a broad commercial perspective.

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Whether a business has domestic or international aspirations, Grant Thornton can help you to unlock your potential for growth.

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