STRENGTHENING THE RECOVERY: INVESTING IN GROWTH

MARCH 2010

Ai Group's Submission to the 2010-11 Budget

AUSTRALIAN INDUSTRY GROUP

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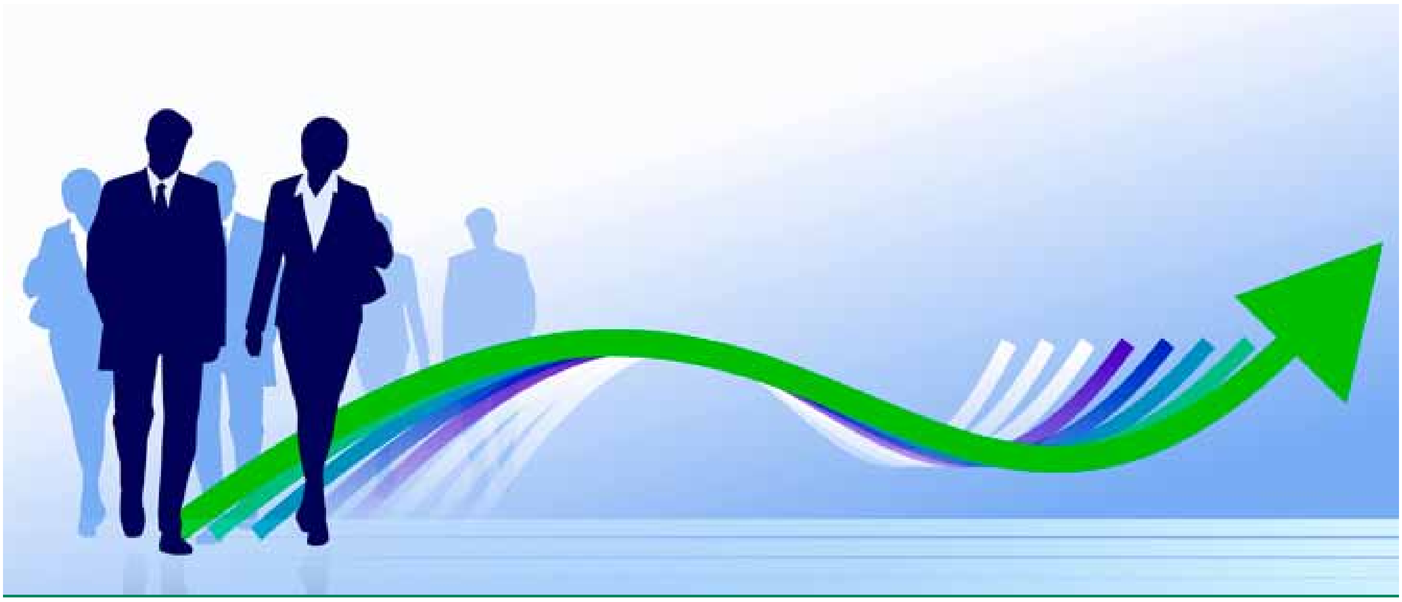


EXECUTIVE SUMMARY

The 2010-11 Budget can take important strides towards meeting the longer-term challenges facing Australia while also addressing the more immediate tasks of recovery and fiscal consolidation.

The longer-term challenges call for measures that:

- Lift the pace of productivity growth;
- Enable and encourage high rates of workforce expansion and participation in the paid workforce;
- Ensure fundamentally strong budget positions across the federation; and,
- Facilitate appropriate levels of investment in economic and social infrastructure - including those investments required for a growing population.

Facilitation of productivity improvement is particularly important for non-mining export and import-competing industries such as manufacturing, tourism and agriculture that are exposed to the strong dollar and are competing against the booming mining sector in capital and labour markets.

Ai Group proposes measures to:

- Stem the erosion of support for business investment in innovation and research and development;
- Build business capabilities with a particular focus on export and import competing businesses in sectors such as manufacturing;
- Invest in a variety of education and training initiatives to improve quality and inclusiveness, workforce development and utilisation;
- Address specific areas of cost for business;
- Improve the capacity to invest in productivity-enhancing infrastructure; and
- Make investments in select areas to complement and generate greater benefits from investments in the national high-speed broadband network.

We also set out our high-level objectives for the next wave of tax reform that will follow the Government's release of the report of the Review of Australia's Future Tax System.

On the basis of our monthly surveys of business activity in the manufacturing, services and construction sectors, a survey of business prospects in 2010 and on reports on business conditions from across our membership, Ai Group is expecting a gradual rather than a strong recovery through 2010 and into 2011 with a return to trend growth not likely until well into 2011.

In the light of this we are wary of too rapidly withdrawing the fiscal stimulus. At the same time we understand the risks of leaving expansionary fiscal policy settings in place for too long and the impact this would have on the medium-term outlook for inflation and on the Reserve Bank's assessment of the need to further raise interest rates. In balancing between these considerations we broadly support the trajectory of fiscal consolidation set out in the Mid Year Economic and Fiscal Outlook.

Ai Group proposes that the new spending measures set out in this submission should be financed by a re-prioritisation of expenditure towards areas that will yield long-term benefits from increased productivity and greater workforce growth, a greater emphasis on better quality programs, improved efficiency of government and more cost-effective public sector service delivery.

BUDGET CONTEXT AND STRATEGY

The 2010-11 Budget can take important strides towards meeting the longer-term challenges facing Australia while also addressing the more immediate, medium-term tasks of recovery and fiscal consolidation.

Major challenges arise from the demographic pressures of relatively rapid population growth alongside the entrenched process of population ageing that will, over coming decades, see further steady rises in the proportion of older people in the population. This will dampen overall economic growth; add to shortages of skilled labour in particular and, in combination with the continuation of strong increases in the demand for and costs of health care, will place increased demands on government spending and taxation.

Challenges also arise from the ongoing emergence of new centres of global production – most notably China and India - adding to competitive pressures in capital and product markets and the imperative to lift productivity. The growth in demand for a range of domestically-produced commodities associated with the rapid development of the emerging economies will underwrite strong terms of trade and inflow of export income and investment – particularly in the mining industry. These developments will boost domestic incomes and activity particularly in resource-linked industries and regions. The buoyancy of the minerals sector will be felt across the economy in two major ways:

- It will stimulate a wide range of industries including construction and downstream processing and the many manufacturing and service industries that provide inputs to the minerals sector;
- It will compete with other industries for labour and capital inputs pushing up costs, inflation and interest rates; raising the exchange rate and placing further pressures on other export and import-competing industries.

The challenge for the economy as a whole is, on the one hand, to ensure the most is made of the considerable opportunities presented by the growth in demand for mineral commodities while, at the same time, facilitating the improvements in productivity across the economy that will allow non-mining sectors to adjust so they continue to play a strong role in an economy with a robust and diverse industrial structure.

A final set of longer-term challenges are apparent in the areas of environmental and resource management. This includes the part Australia can play in the global challenge of minimising climate change.

The longer-term challenges call for measures that:

- Lift the pace of productivity growth;
- Enable and encourage high rates of workforce expansion and participation in the paid workforce;
- Ensure fundamentally strong budget positions across the federation; and,
- Facilitate appropriate levels of investment in economic and social infrastructure - including those investments required for a growing population.

Productivity improvements are particularly important for non-mining export and import-competing industries such as manufacturing, tourism and agriculture that are exposed to the strength of the dollar and that are competing against the booming mining sector in capital and labour markets.

These critical longer-term considerations lie behind Ai Group's proposals for a Budget that allocates increased resources to:

- Education;
- Innovation;
- Productivity; and
- The development of business capabilities - particularly in the non-mining export and import-competing industries such as manufacturing.

Steps taken towards these objectives in the 2010-11 Budget need to be consistent with the more immediate macroeconomic challenges of managing the ongoing recovery from the global financial crisis and, notwithstanding Australia's comparatively healthy fiscal position, steering an appropriate path to return the budget to more sustainable outcomes.

Ai Group anticipates the economy to continue to recover slowly and steadily over the course of 2010 and into 2011 assisted by the ongoing, though diminishing fiscal stimulus measures and by a growth in infrastructure investment. We certainly do not expect a particularly strong rebound over the 2010-11 year and are therefore wary of the risks of too-rapidly winding back expansionary monetary and fiscal policy.

At the same time we understand the risks of leaving expansionary fiscal policy settings in place for too long and the impact that would have on the medium-term outlook for inflationary pressures and on the Reserve Bank's assessment of the need to further raise interest rates.

Our anticipation of a recovery that is only gradually gathering momentum lies behind our assessment that the current pathway for the withdrawal of fiscal stimulus is broadly appropriate. This view acknowledges that the real level of government spending is on track to fall in 2010-11 and that, in the years immediately following as the economy recovers at above-trend rates, there is a commitment to restrain annual real expenditure growth to no more than 2% a year.

There are clear tensions between the need for the 2010-11 Budget to invest in the drivers of future economic performance and the emphasis that needs to be placed on restraining aggregate expenditure in order to wind back the fiscal stimulus and return the budget to a sustainable position. These tensions call for a re-prioritisation of expenditure towards areas that lay the foundations of future growth combined with an increased emphasis on improving the efficiency of the government sector.

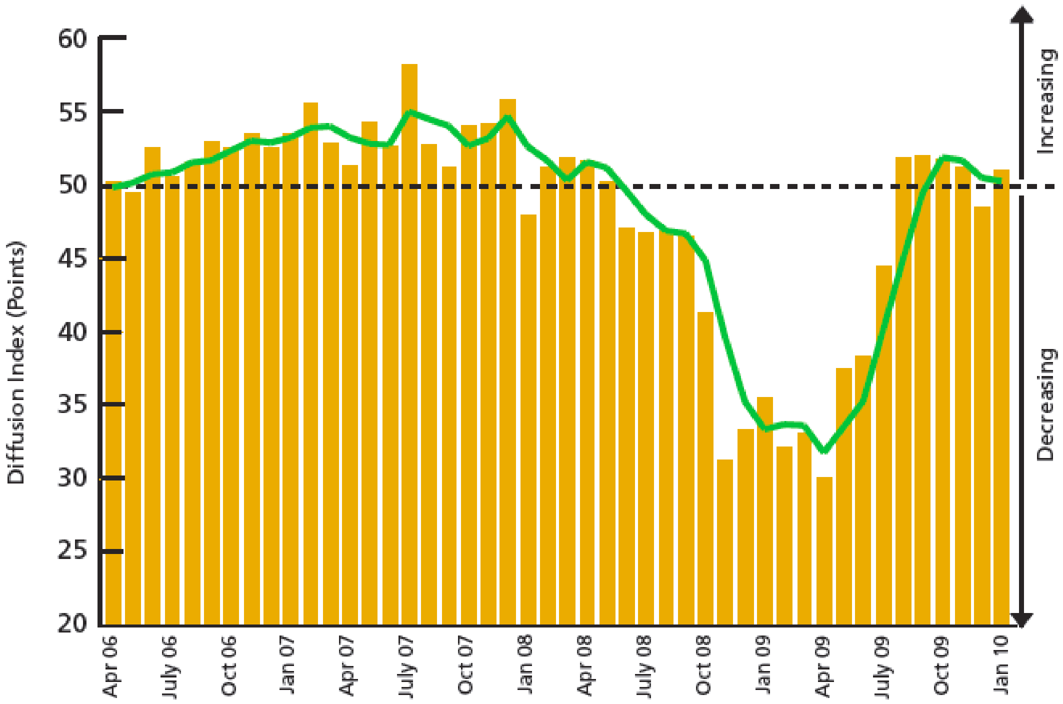
A steady rather than a strong recovery

Ai Group's view of the economic outlook over the next eighteen months is for a modest rather than a sharp improvement in economic growth and employment.

The Australian Industry Group's monthly indicators of activity in manufacturing, services, and construction continue to point to a moderate economic outlook over the first half of 2010. Recent improvements in new orders growth, particularly in the manufacturing and construction sectors, are reasonably positive signs that production and employment could improve over the next few quarters.

Ai Group's measure of manufacturing activity, the Performance of Manufacturing Index (Australian PMI®) showed a modest return to growth in January, following a small decline in the final month of 2009. The improvement in the sector was driven by a lift in new orders and the first monthly lift in exports since September 2009.

Chart 1: Ai Group/PriceWaterhouseCoopers Performance of Manufacturing Index (Australian PMI®)

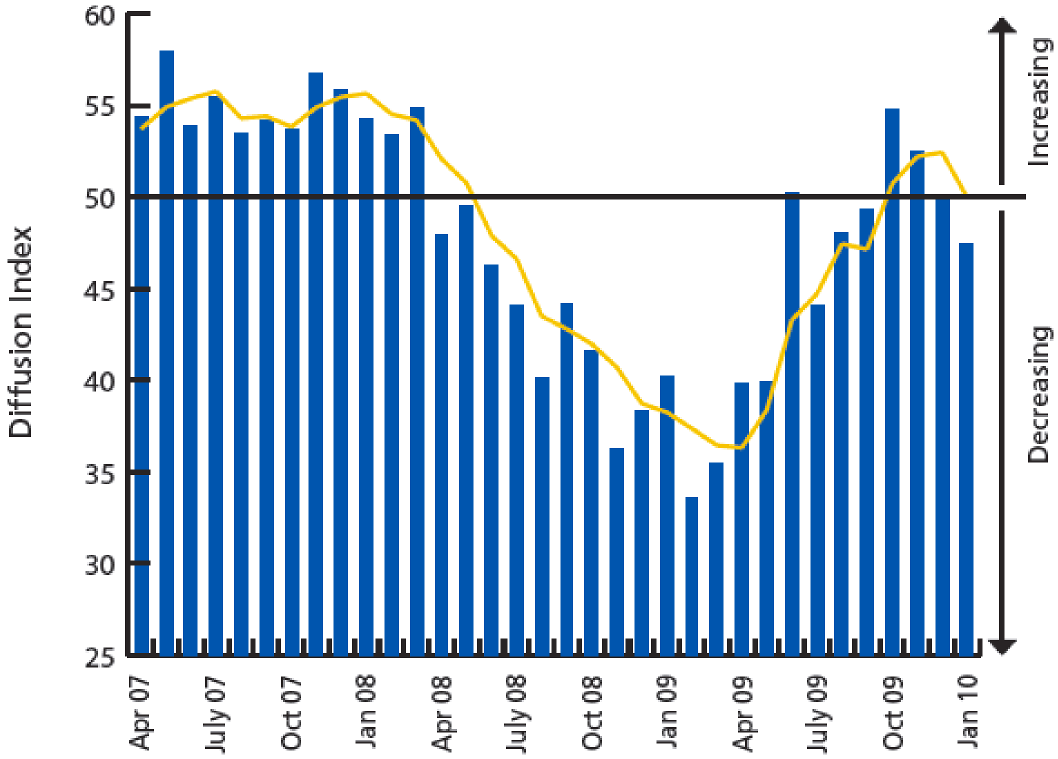


Ai Group's Performance of Services Index (**Australian PSI**®) trended upward throughout 2009, peaking at 54.8 in October 2009.

A key driver of the improvement in services sector activity in the second half of 2009 was its relatively greater exposure to consumer spending. As consumers lifted spending in response to low interest rates and household fiscal stimulus measures, demand for services improved.

Since October 2009, rising interest rates and the diminished impact of fiscal stimulus measures have lead to a softening in demand for services and, in turn, a more challenging business environment in the services sector. The most recent reading of the **Australian PSI**® pointed to a contraction in services activity in January, suggesting uncertainty around prospects for the sector in the near term. Despite sales levels remaining firm in the services sector in recent months, new orders and supplier deliveries have weakened.

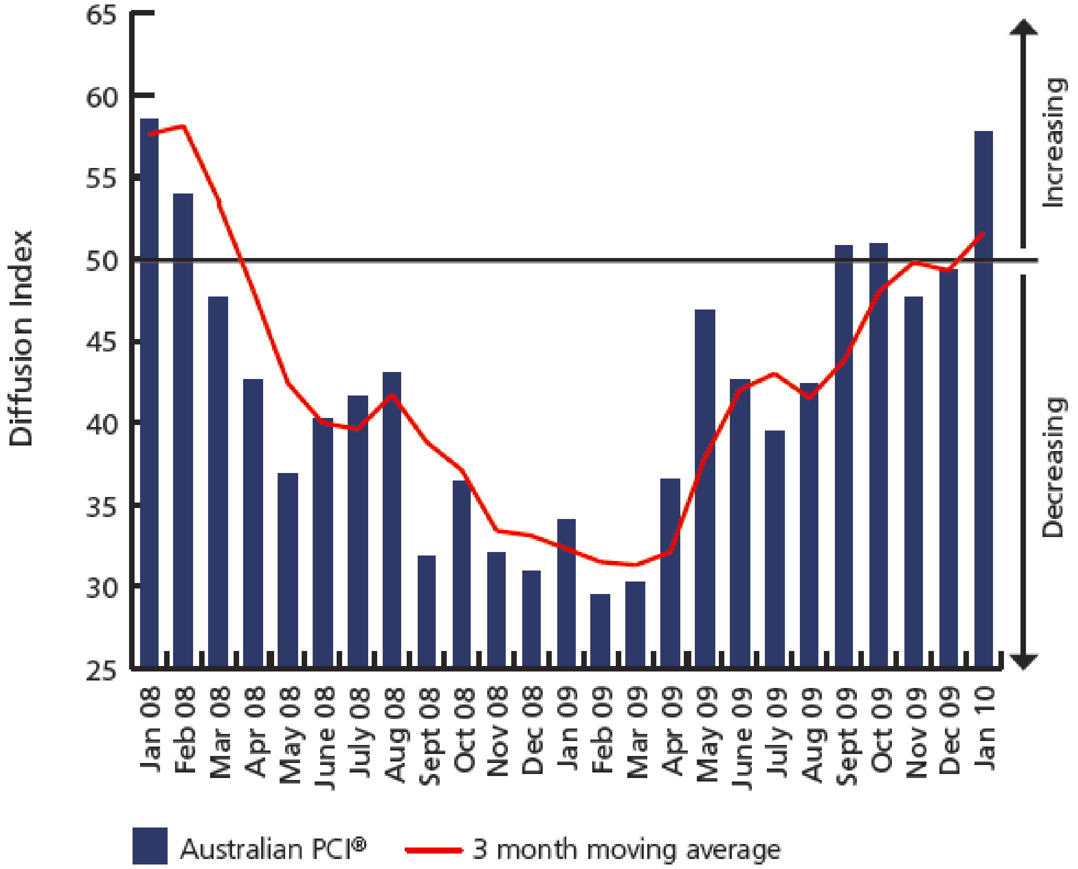
Chart 2: Ai Group/Commonwealth Bank Performance of Services Index (Australian PSI®)



The construction sector shows a similar pattern of mild improvement, though activity overall has yet to begin a consistent expansion. The key driver of improvement has been the housing sector picking up due to the boost to the First Home Buyers Grant. This is also underpinned by a shortage of housing stock relative to demand.

However, the temporary boost to the First Home Buyers Grant has now ended which may have a negative effect on construction. Engineering construction is expected to improve as 2010 unfolds, in part driven by improvements in the outlook for resources and infrastructure investment.

Chart 3: Ai Group/Housing Industry Association Performance of Construction Index (Australian PCI®)



The Australian Industry Group-Deloitte 2010 CEO Survey confirms industry's view that while economic growth is forecast to strengthen in 2010 and into 2011, the pace of increase is not likely to go beyond trend levels until well into 2011.

- Despite recent signs of softness, the outlook remains most optimistic for the services sector, where solid growth in sales, exports, employment, research and development and investment in plant and equipment is expected.
- Having been battered through 2008-09, the manufacturing sector is likely to recover moderately in 2010, although from a weakened base. Manufacturing CEOs remain cautious about their long-term prospects, with aggregate investment in plant & machinery forecast to fall further.
- Growth in construction sales and employment is expected to be softer than in the manufacturing and services sectors, amid subdued conditions in the commercial construction market. Despite this, growth in investment by construction firms as a whole is expected to accelerate strongly.

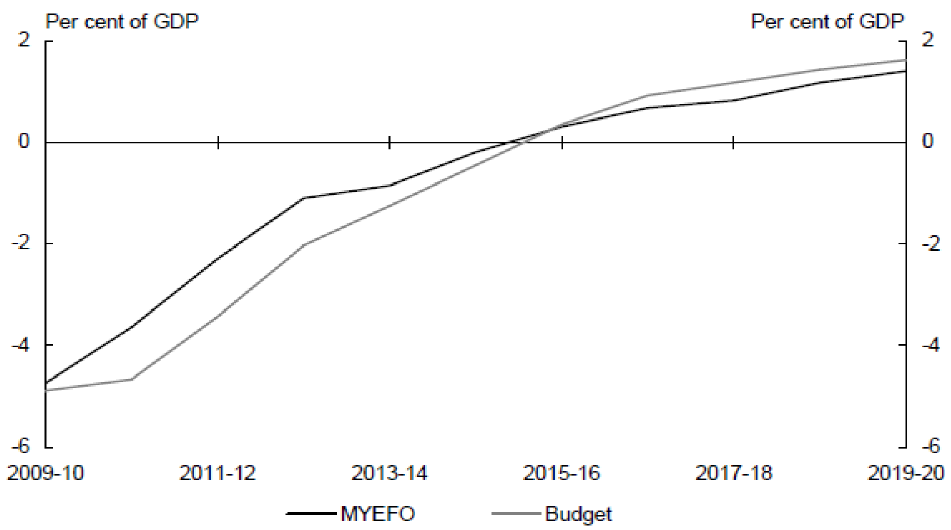
In summary, Ai Group anticipates a steady rather than a sharp recovery that will see a gradual lift in economic growth from around 0.6% in the year to the September 2009 quarter towards a rate of growth passing longer-term trend levels well into 2011.

Budget strategy

The longer-term fiscal challenges presented by demographic pressures and the strong upwards trajectory for health costs, call for substantial restraint over the longer term as well as sustained productivity growth. The 2010-11 Budget should continue the process of contributing to the longer-term sustainability of the budget in the light of these factors.

This more immediate outlook for the economy sketched above is broadly in line with the revised economic outlook in the Midyear Economic and Fiscal Outlook (MYEFO) which, reflecting the large fiscal stimulus currently in place, anticipated a fiscal balance of -$46.6 for 2010-11. This is approximately 3.6% of GDP. In MYEFO the budget was anticipated to return to surplus in 2015-16 with net debt expected to peak at 10% of GDP in 2013-14.

Chart 4: MYEFO projections of underlying cash balances to 2019-20



The Government's medium-term fiscal strategy is largely bound by two commitments: to maintain tax as a proportion of GDP to 2007-08 levels of 23.6 percent, and, when the economy grows above trend, to limit real spending growth to 2 percent until the budget returns to surplus. These commitments limit the potential for expenditure growth and indeed real spending is anticipated to fall in 2010-11 and rise by only a small amount in 2011-12, reflecting the withdrawal of the stimulus and the impact of some savings measures.

Given that GDP growth is not expected to return to trend until 2011-12, we are very cautious about accelerating the withdrawal of fiscal stimulus in the coming financial year because of the potential to undermine the gradual recovery. The income tax cuts already scheduled, as the last instalment of measures introduced in the 2008 Budget, are an important part of the aggregate fiscal position and should proceed as currently legislated to provide a small spur to economic activity.

At the same time, we note the risks if the economy leaps ahead of anticipated growth rates in the near term and are not therefore proposing any additional fiscal stimulus. New spending measures, such as we propose below, should be financed by reprioritising expenditures and improving the efficiency of government spending. The criteria for reprioritisation should revolve around the need to invest in the drivers of future growth.

Reprioritising of expenditure in these directions and generating long-term improvements in public sector efficiency will become even more important in the 2011-12 years and beyond as the economy grows and as expenditure constraints intensify. At the same time the importance of retaining and improving investments in longer-term growth drivers will continue to intensify.

There are risks around the economic outlook with flow-on risks around the fiscal position. Thus to the extent that 2010-11 is a better year than we are anticipating, the fiscal position would also improve. Conversely, if the gradual recovery underway does not gather steam, the fiscal position would worsen. Such outcomes would reflect the normal working of automatic stabilisers in the context of a regular cycle.

INVESTING IN INNOVATION AND BUSINESS CAPABILITIES

Most productivity growth stems from improvements made by the private sector in business practices and processes. Critical to this are the innovative challenges to existing patterns presented by new businesses and by changes introduced into existing businesses.

There are roles for government in these processes. These include:

- Stimulating the development of innovative cultures and enterprises;
- Providing incentives for private investment in activities that generate "spillovers" such as research and development; and
- Accelerating the adoption of improved business capabilities.

In the context of the current set of challenges facing the Australian economy, efforts in these areas should give a particular focus to facilitating adjustment and improvement in the sectors are facing the brunt of the challenges presented by the emergence of new centres of global production and the booming domestic minerals sector.

Innovation, research and development

Notwithstanding the importance of the role of innovation and business engagement in research and development and, in contrast to the indications of support by the Government for innovation and industrial R&D, business is currently facing moves to wind back government support in these areas. As a result, instead of building a proactive agenda promoting the development of innovative cultures and businesses and further encouraging industrial research and development, business is currently preoccupied with defending against the undermining of existing programs.

Nowhere is the undermining of existing programs more apparent than in the currently-proposed, restrictive changes to the definition of eligible R&D that has become part of the switch from the former tax concession to the new R&D Tax Credit. What initially appeared as a set of changes generally welcomed by the business community, now threatens to undermine business investment in industrial research and development. This is due both to the proposal to exclude a wide range of expenditure from eligibility and to the prospective escalation of complexity embodied in the proposed approach.

To avoid these adverse developments Ai Group proposes:

- The proposed restrictions on eligibility should be put aside in favour of the already established and well-understood definitions of eligible R&D;
- The government should more closely examine and make available its modeling of impact of removing the 175% tax concession;
- To meet the revenue neutral constraint imposed by the Government, any shortfall net of the real impact of the removal of the 175% tax concession, Ai Group proposes measures more precisely targeted at areas of inappropriate claims.

The current attack on the tax incentive for R&D reinforces a direction taken in the 2008-09 Budget to close the Commercial Ready program substantially reducing Commonwealth support for business R&D by around $200 million per year. While Commercialisation Australia, put forward to partially fill the gap, is a welcome program, it is much narrower in focus and has only been earmarked for $196 million over the next four years.

In the light of these developments, it is critical that the Government reverses its winding back of support for business innovation and industrial development. At the very least, in addition to taking action to rescue the R&D Tax Credit, existing programs including Commercialising Emerging Technologies (COMET) and Industry Cooperative Innovation Program (ICIP) should be maintained.

Building business capabilities: trade and export development

Australian exporters are at forefront of the increased challenges presented by the strength of the Australian dollar and a slowing of overseas orders due to continued flat demand in international markets.

For many companies, these pressures have been compounded by the tightening of business credit so that companies cannot afford to fund their own export development opportunities. In this context, the programs supporting exporters such as the Export Market Development Grants (EMDG) and TradeStart are now even more important.

It is imperative that this support for exporters is not diminished. The EMDG scheme in particular has been found to be highly effective with Mortimer finding that each $1 in EMDG funds generating between $13.50 and $27 in additional exports.
As shown in the recent need for an additional one-off allocation of $50 million in last year's budget, an annual allocation of around $200 million per year is the minimum program funding necessary to provide the necessary support and ultimately funding for the EMDG.

The national network of TradeStart Export Advisors is essential in developing export capabilities among small and medium sized enterprises. TradeStart helps businesses commence exporting and convert irregular exporters to sustainable export activity. It also assists more established exporters diversify their markets. TradeStart is a very modest program but has a huge impact and return on investment and since 2002 it has assisted 2000 businesses to achieve more than $750 million in exports.

Building business capabilities: Enterprise Connect

The path-breaking Enterprise Connect program is injecting vitality and profitability into a cross-section of Australia's trade-exposed businesses by providing small and medium sized businesses with better access to new knowledge and technologies and enabling them to become more innovative, efficient and competitive.

Ai Group welcomes the recent acknowledgement that Austrade, the Industry Capability Networks and Enterprise Connect have complementary roles which need to be better coordinated. We support Government efforts to promote more effective liaison in this regard.

The current commitment to Enterprise Connect $251 million over five years for this program at least needs to be maintained and preferably increased.

In addition to increasing the capacity of the program to provide services under its current guidelines, the program should be expanded to provide business advisory assistance to small companies below the Enterprise Connect eligibility cut offs. These businesses could often benefit from a 'lighter' business diagnostic service (e.g. up to one day site visit) than that currently provided by Enterprise Connect.

Building business capabilities: Global Opportunities Pilot

The Global Opportunities program has an important role to play in building capabilities by assisting businesses integrate more closely into the global economy. Access to global supply chains is particularly vital for Australian ICT business for example as it helps develop and generate export income from Australian innovations.

Ai Group urges the Government continue to support and build on current levels of funding for the Global Opportunities Pilot Program delivered by the Australian Trade Commission (Austrade). Work should begin now to facilitate the transition of the program from a pilot program to one with more substantial reach.

Building business capabilities: understanding new workplace relations arrangements

Employers are facing huge challenges in understanding and implementing the new Fair Work workplace relations system, including the new bargaining laws, unfair dismissal laws, National Employment Standards and modern awards.

The Fair Work Education Program and the assistance provided to major representative bodies to offset some of the costs incurred as a result of award modernisation are welcome and important. Further educational programs would be very beneficial, particularly programs relating to:

- Modern awards, including the transitional provisions;
- The National Employment Standards;
- The Government's construction industry reforms; and
- Paid maternity leave.

Specifically in relation to the paid parental leave, the Government has announced that a publicly funded paid parental leave scheme will be introduced from 1 January 2011 with eligible employees entitled to up to 18 weeks' pay at the level of the Federal Minimum Wage. Ai Group supports the proposed scheme, particularly the publicly funded nature of the scheme and the level of payment.

The necessary funding needs to be made available in the 2010-11 Budget, including funding for an employer education program. The scheme will impose substantial administrative obligations upon employers, particularly the proposed "pay-master" function whereby the Government payments will be transferred to employers and then passed on to employees.

Building business capabilities: environmental capabilities

In light of the Government's continued commitment to a start date for the proposed Carbon Pollution Reduction Scheme of July 2011, the Climate Change Action Fund should be activated from its present 'on hold' status.

ADDRESSING BARRIERS TO BUSINESS IMPLEMENTATION OF CARBON STRATEGIES

The results of the Ai Group/KPMG survey Gearing Up: Business Readiness for Climate Change highlight the important role which exists for Government in partnership with industry associations to promote and accelerate the uptake of initiatives by businesses to effectively manage their carbon footprint.

- A majority of Australian businesses has yet to implement effective strategies to measure their carbon footprints;
- More than ¼ of businesses have no plans to measure their carbon footprint and around 15% of businesses have no plans to reduce their direct emissions, energy overheads or per unit energy use over the next 3 years.

Ai Group recommends delivery of a comprehensive and coordinated package of services to facilitate implementation by industry to address the widespread lack of understanding by businesses of the implications and opportunities associated with climate change and climate change policies and implement carbon management strategies to reduce the carbon intensity of their operations. This should incorporate:

- Targeted information, advice and support to redress the limited understanding by businesses of their greenhouse impact and appropriate responses.

The widespread lack of understanding by businesses of the implications and opportunities associated with climate change and climate change policies is compounded in many instances by lack of internal management resources with environmental expertise.

- The Ai Group/Sustainability Victoria Survey, Environmental Sustainability in Industry, found that 54% of firms had no staff with environment responsibilities. This identified lack of environment skills within businesses severely limits their ability to identify and implement opportunities for improved environmental management and carbon abatement.

Ai Group recommends roll out of a tailored assistance program to small and medium enterprises to develop early action energy efficiency strategies.

STIMULATING INVESTMENT IN CLEANER CAPITAL EQUIPMENT

Government has a critical role in stimulating research into the technological solutions and facilitating business investment in such technologies while at the same time minimising compliance costs. This includes active support for industry to invest in cleaner capital equipment.

Ai Group continues to support accelerated depreciation for investments that reduce the greenhouse gas emissions intensity of Australian industries. Businesses should be able to claim the entire value of the capital expenditure over the first half of its effective life (compared with the general ability to spread deductions over assets' entire effective life).

EDUCATION AND TRAINING

Increasing the productive capacity of the Australian economy is one the nation's key challenges for the decade ahead. Education and training is central to achieving productivity improvements and to improve the opportunities for participation in the paid workforce.

There are three key areas of improvement required in the education and training arena which are needed to underpin productivity improvements:

- Quality – priority needs to be given to improving the quality of training provision and professional capability in all education and training sectors;
- Inclusion – education and training opportunities must be extended and improved to build participation and completion rates, particularly for those most disadvantaged; and
- Workforce development and utilisation – there exists capacity for workforce skills development and skills utilisation levels to be improved.

Quality

STRENGTHENED NATIONAL REGULATION AND BETTER FUNDING FOR AUDITING

The introduction of the National VET Regulator will need to be supported by a strengthened regulatory framework and the associated auditing regimes need to be bolstered and further resourced to restore confidence in the quality of training.

IMPROVING THE CAPABILITY OF TRAINERS

- A national vocational education and training professional workforce strategy must be developed as a priority to provide national direction and to explicitly set out the expectations of stakeholders across both technical currency and educational expertise.
- A suite of qualifications must be developed which are tailored specifically for the particular context.

Inclusion

WORKFORCE RETENTION STRATEGIES

The participation rate of older workers needs to be improved and Ai Group proposes the following package of measures:

- Transitioning to less physically demanding roles: those workers wishing to move out of jobs which are physically no longer possible need assistance to be trained to take on new roles;
- Capturing the skills of older workers I: Older workers looking to phase out of full time employment can play a very valuable role mentoring younger employees and an incentive could be introduced to upskill these people to take on this role;
- Capturing the skills of older workers II: the Australian VET system has in recent years suffered from a lack of trainers with current industry skills. Funding the cost of developing the training skills of older workers would serve as an incentive to encourage more older workers to take up this new career option;
- SME management training to meet the challenges of an ageing workforce: Many mature aged people leave the workforce when their preference would have been to work in part-time, casual or project-based positions. Employers need assistance to support the introduction of these changes and other management challenges associated with working with and successfully retaining an ageing workforce;
- Mature aged and older workers and health: An older workforce can present occupational health and safety issues not present with a predominantly younger workforce. Employers need assistance to be able to support older workers to stay in the workplace longer.

BUILDING LANGUAGE, LITERACY AND NUMERACY (LLN) IN THE WORKFORCE

Building high levels of workforce literacy requires:

- The development and funding of a national workforce literacy strategy in consultation with industry.
- Increased levels of funding to support the implementation of the different elements of the strategy.
- Increased funding to support VET professionals and other interested individuals to gain LLN training qualifications.
- Investigation of the feasibility of the establishment of a Literacy Entitlement for all individuals enrolled in VET courses.

Workforce development and utilisation

Enterprises continue to look to their existing workforce as the source of new skills and this approach of workforce skills development and skills utilisation can be supported through the development and deployment of a national workforce development strategy together with the following measures:

SKILLING EXISTING WORKERS

Increase funding to the Enterprise Based Productivity Places Program (EBPPP) by an additional $50m over 2010-2011 utilizing the existing sliding scale of co-contribution for participating enterprises.

ENCOURAGING APPRENTICE COMMENCEMENTS

Extend the ‘Kickstart’ model of increased employer incentive payments for commencing traditional trade apprentices until June 2011.

FOSTERING SUSTAINABILITY SKILLS

Targeted, flexible funding support to upskill existing workers in skills for sustainability through a program which works with enterprises to identify specific needs, develops training plans and arranges for training delivery by a Registered Training Organisation. The program needs to include advisory services to encourage enterprise take up.

Work needs to be undertaken to identify enterprise barriers to sustainability training uptake and consideration should be given to developing a Sustainability Management Capability Program and industry and enterprise champion networks.

BUILDING INDUSTRY ENGAGEMENT WITH HIGHER EDUCATION

This can be improved and expanded through deeper engagement with industry and this needs to be across multiple levels within both institutions and industry.

EXPANDING VOCATIONAL EDUCATION AND TRAINING IN SCHOOLS

National measures need to be adopted to expand access to vocational education and training in schools to provide all students with the opportunity to participate. Recurrent funding to schools is needed to remove financial barriers to participation, especially in skills shortages areas.

Consideration should be given to funding the development of quality benchmarks for VET in Schools programs inclusive of Structured Workplace Learning.

It is important in the transition from Local Community Partnerships to the School Business Community Partnerships program that the coordination of Structured Workplace Learning does not go unfunded.

REDUCING THE COSTS OF DOING BUSINESS

Protection of employees' entitlements

Ai Group strongly supports the General Employee Entitlements and Redundancy Scheme (GEERS). The scheme has been very successful in allaying employee fears about the loss of their entitlements.

Calls by unions for GEERS to be replaced with a scheme funded by a levy on employers are misguided and strongly opposed by Ai Group. Imposing a levy on all employers would increase costs and have negative employment effects on the 99.99 per cent of employers who do not become insolvent.

The 2010/11 budget should provide the necessary funding to enable GEERS to continue to operate effectively.

Impact of the Standards Australia's changed business plan

Ai Group continues to support the central coordination of standards development and maintenance activities by a single not-for-profit organisation that has the support of government, the community and industry and has a primary focus on standards development.

Implicit in the support is adequate funding by government to ensure that all stakeholders are able to participate (both locally and internationally where appropriate) and that the involvement of participants is not thwarted by the need to bear inappropriate costs in addition to their contribution through the provision of expertise to the process.

INVESTING IN INFRASTRUCTURE

In the 2009-10 Budget the Government announced a $22 billion program of investment in a wide array of infrastructure projects in transport, telecommunications, energy, education and health.

Ai Group supports this program of investments as a vital contributor to building economic and social infrastructure and national productivity. Ai Group has also supported the Infrastructure Australia process through which projects were analysed, co-ordinated and prioritised.

Momentum in improving Australia's investment in infrastructure should not be lost.

- In particular the evaluation and prioritisation of future infrastructure projects should continue and continue to be refined.
- Consideration should also be given to the optimum financing of infrastructure with a particular focus to:
- Better understanding the range of projects that are suited to different forms of private sector financial engagement in projects;
- Understanding ways that institutional investors with varying attitudes to risk can participate in different projects. In a number of cases. For instance, there is something of a standoff between institutional investors and governments over who should bear the construction risk in greenfield projects. By facilitating a broader consideration of financing issues, the Commonwealth Government could facilitate a more competitive market for domestic private sector investment in infrastructure.

- The Commonwealth Government should also sponsor a concerted cross-jurisdictional effort to reduce tender costs when private sector investment is sought.

COMPLEMENTING INVESTMENTS IN BROADBAND

The proposed investment in a national broadband network has the potential to add substantially to productivity and to revolutionalise service delivery in both the public and private sectors.

Investments in the fixed line and wireless infrastructure are a necessary though not sufficient precondition for the generation of the full range of possible benefits. These investments need to be complemented by investments that build capabilities and prepares the ground for a nation with ubiquitous high-speed broadband.

Key areas of complementary investment are in the development of suitable skills among the workforce and in fostering innovation that expands the reach and scope of broadband applications. These general areas have been covered above. Additional areas of complementarity warrant attention in the 2010-11 Budget.

Accelerate the development of a national e-Health system and electronic records

E-health presents a key opportunity to deliver improvements in health services in particular with efficiencies both for clients, for service providers and, critically, for the more efficient and less costly delivery of health services. The anticipated growth in health expenditure is a leading contributor to intergenerational fiscal pressures and e-health has the potential to play a critical role in managing these fiscal pressures.

The development of a national electronic medical record system is a key element in this that requires for co-ordinated investments at both the federal and state levels as well as efforts to develop standards and modernise regulatory arrangements. The 2010-11 Budget should commit to and commit resources to accelerate the development of a national medical records system.

Addressing information security

Take off and spread of a wide range of broadband applications will require greater business and consumer knowledge of e-security risks and ways to manage these risks. The Government's blueprint for a digital future should include initiatives to focus and help industry and the population at large understand e-security risks and how they can protect themselves online.

Increasing focus on smart infrastructure

Adoption of smart technologies that improve the operation, use and management of infrastructure are set to be integral to the benefits from fast speed broadband.

Ai Group encourages Government funding to enable adoption of smart technologies in infrastructure projects within defence, mining, energy, healthcare, transport, agriculture and financial services industries.

PRIORITIES FOR TAX REFORM

The Government is currently considering the report of the Review of Australia's Future Tax System. The Review was given a brief to undertake a 'root and branch' evaluation of all levels of taxation in Australia.

Ai Group supports the need for a fundamental rethink of Australia's tax and transfer systems to frame the development of these systems over the years ahead.

While the taxation reform agenda is likely to take time to unfold, a number of key reform directions will be sought by Ai Group as the tax system is renovated and rebuilt.

- Reducing the burden of company tax to improve the attractiveness of Australia as a destination for global investment. This is particularly important for businesses in sectors outside the booming mining sector.
- Simplifying and improving certainty of the taxation of businesses. This is particularly relevant to smaller and medium sized businesses that bear a disproportionate cost burden in complying with the large number of taxes.
- Reducing disincentives for investment, saving and workforce participation embodied in the personal income tax, income support systems and the taxation of superannuation.
- Overhauling the pattern of state taxation and intergovernmental transfers with an emphasis on removing the most inefficient taxes and harmonising tax bases across jurisdictions.

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