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Dear Sir/Madam

Pre-Budget Submissions 2020-21: Opportunities to support growth for Mid-Sized Businesses

Thank you for the opportunity to resubmit our Pre-Budget submissions. Our submission in December 2019 outlined measures to support growth for mid-sized businesses. Since then, the world has changed significantly. New support measures are needed alongside the old ones to help businesses "grow" out of the recession, to create the jobs of the future and to build a sustainable and more resilient economy in the long term.

We set out below our pre-Budget submissions and, as a supporting document, our report dated May 2019 entitled: *"The overlooked opportunity in Australia's mid-sized business".* The segment is indeed overlooked. We submit that Government policy in the coming Federal Budget 2020-21 and indeed future Budgets can take advantage of the economic opportunity to encourage Australia's Mid-Sized Businesses (MSBs) with the right incentives and tax policies to grow in size, scale and reach to employ more (including more diverse) people and better contribute to the Australian economy. For the purposes of our submissions, MSBs are businesses with a revenue of $50m-$500m.

Our submissions have drawn extensively on the collective experience of our MSB clients and our firm of circa 170 partners and 1,100 staff nationwide. Our clients are nimble, entrepreneurial, innovative, growing, exciting and influential. They are inventing new medicines and products to improve the quality of life of people around the world. They are reimagining the way we bank. They are taking quality Australian produce around the world.

These are companies that represent the best of what Australia has to offer, at the right size to take advantage of market trends without cumbersome legacy issues that come with being a large business. MSBs should be recognised for their contribution to the economy to date and the potential they have to support the economy of the future.

Our attached Report sets out more details supporting our submissions including comments provided by an Economist, Professor Neville Norman from the University of Melbourne and the Cambridge University, focusing on the potential payoff to the Australian economy from encouraging growth in MSBs. In particular, Professor Norman indicates that a 10% increase in revenue would articulate itself in one and five years in terms of profit and tax revenue, particularly in lieu of the proposed, but not ultimately enacted, general corporate tax cuts. The modelling indicates that a 10% boost in revenue for a $100m business would produce a 35% increase in cash flow over five years and a 25% increase in tax payable based on the 28.5% corporate tax rate.

Imagine then, the potential for MSBs to help the nation "grow" out of the recession. We are supportive of Tax Reform and we are pleased to see National Cabinet formed to deliberate on consistently applying legislation and reform. We hope the Federal Budget will provide the blueprint required to help our clients in the MSB space to lead the recovery and create the jobs of the future.

Submissions

Submission 1 – Extending the lower BRE tax rate to more MSBs

In our first submission in December, we recommended extending the lower BRE tax rate to more MSBs. While the economic conditions have changed significantly since then, this has not changed the fact that Australian companies pay much higher taxes than the OECD average. As the Government has stated that the recovery out of COVID will be led by the private sector, it is essential that the corporate tax rate is included in the Tax Reform agenda to allow MSB's to invest in growth, more jobs and new products and services.

The aggregated turnover threshold for the lower Base Rate Entity (BRE) tax rate (27.5% in 2020 to 25% in 2022) should be extended from $50m to $500m. This submission is based on lived global experience indicating that the current 30% Australian company tax rate is high by reference to OECD averages, and the company tax rates of many of our major trading partners and major sources of foreign capital such as the USA and UK. Capital is highly mobile and opportunities to deploy capital are plentiful. A lower company tax rate would allow our MSBs to better compete for capital and grow their business using after tax profits. Page 4 of the attached Report outlines these issues in further detail. We acknowledge the political challenges that have come from past efforts to reduce the company tax rate, but it is our submission that another concerted attempt at this reform should be made.

Submission 2 – Providing more certainty for R&D Tax Incentive

The R&D Tax Incentive plays an important part in the continuing innovation strategies of MSBs, which cuts across a number of different industries including agriculture, manufacturing, life sciences and technology.

The Government has said they want Australia to "grow" out of the recession. To do this, we must be innovative and entrepreneurial. This is dependent on support, like the R&D Tax Incentive, to give companies confidence to invest in themselves.

Sandra Boswell, a Partner in our Sydney team, recently presented to the Senate Hearing on the R&D Tax Incentive alongside corporates in the manufacturing sector. A key message to government was now is not the time to cut back the R&D tax incentive. With regimes like the UK investing 22 billion pounds into their R&D incentive, Singapore increasing theirs, and New Zealand with a rate 25% higher than ours, it becomes increasingly competitive for that innovation dollar. What is to keep and attract Australian and international innovation to our shores?

As reported by the Australian Small Business and Family Enterprise Ombudsman in its Review of the R&D Tax Incentive of December 2019, many companies are finding that their R&D Incentive claims are challenged and denied long after the claim has been made, and the refund has been received (and reinvested in the business). This delayed denial was creating financial and business stress before COVID, and during COVID is putting the viability of many businesses in question.

We call for improving the timeliness of administration of taxpayers' R&D claims by providing more funding to AusIndustry and the ATO. This will allow more assessors to spend more time with companies to provide guidance and information on how they administer this program and also allow the assessors to properly understand the business and the nature of the R&D being claimed. Part of this will be achieved through the changes announced in *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019*, however more is needed. Given the proposed amendments have been reintroduced, we argue that the turnover threshold of $20 million for the refundable tax offset be raised to at least $50 million. To achieve the current non-refundable tax offset of 8.5% would require a company to have an R&D intensity of 13% and this practically will be hard to achieve. R&D is one of the levers companies can access to help in their growth and the amendments as they stand will disadvantage MSBs in particular.

Listen to our podcast:

- Park your innovation dollar here – (Sandra Boswell and Sukvinder Heyer) 12 August 2020
  https://www.grantthornton.com.au/en/insights/audio/Park-your-innovation-dollar-here/

Submission 3 – Put GST back on the Tax Reform table

GST is ripe for reform. It has been stated that GST is not on the current Tax Reform agenda, however we believe it should be, as very little has changed since its inception 20 years ago and consumption habits have changed significantly since then. GST is also one of the most efficient taxes in our system and could be used as way to pay down the COVID debt at both the State and the Federal level.

Our current GST rate sits at 10%, which is a very low comparison to the OECD average of around 18%.

One much discussed idea is to increase the rate of GST – for example up to 15% or to an OECD comparable of around 17.5%. The Grant Thornton twist to this much-discussed idea is to create a hybrid distribution model. With a new rate of GST of 17.5%, you could still take the original 10% to allocate to the states in order for them to actually maintain the provision of their services. The remaining 7.5% of GST would then remain at the Federal level to assist in paying down some of the debt that has been incurred responding to COVID.

There is also the potential to extend the base of GST out to items which are traditionally GST-free. This does not mean putting GST straight onto things such as food, education or health. In the alternative, we would contend that such aspects of the GST base could be moved from a GST-free status to input taxed.

That means no GST on the actual price that you pay for those services or goods, but it means suppliers can't claim GST back for all of their costs associated with doing those services or goods. So that might mean (for example) that school fees go up by 5% or 6%, or food goes up by about the same amount, but there are additional GST collections that can be used for further distribution through the transfer system to parts of our society that may be disadvantaged by such a policy shift (eg: lower-socio economic families and their food purchases). The "sticky" GST that comes from such denied input tax credits is then also incrementally increased through the higher rate at proposal 1.

Listen to our podcast:

- To address our record deficit we need real tax reform – (Tony Windle and Vince Tropiano) 10 June 2020 https://www.grantthornton.com.au/en/insights/audio/to-address-our-record-deficit-we-need-real-tax-reform/

Submission 4 – Life sciences has never been more important

Australia has always had an excellent reputation for life sciences, much of which is underpinned by innovation incentives and the R&D tax incentive as outlined in submission 2.

In particular, we note the proposed changes to R&D tax incentives – which in the current environment is a hit to the purse that many companies will find painful. To create the innovative and resilient industries required to "grow" out of the recession, we need to enable innovation. We are pleased to see that the proposed tax offset cap on small companies excludes R&D on clinical trials, particularly in light of how difficult it can be to hold clinical trials in the current environment.

Life sciences is a small sector, intersecting with government and universities on research projects and commercialisation. It's also one that has come into the spotlight as the race for a COVID vaccine speeds up – and one with an altruistic backbone. We note that Astra Zaneca has said they will not profit from the vaccination they are developing with Oxford University. That intersection between public, private and educational institutions needs additional support. Universities, an important cog in the innovation wheel, are facing significant drops in revenue as the pipeline of international students dries up. This will have a flow on effect to their ability to invest in research and innovation in the future.

State and Federal Governments have recently lent their support with grants and funding for innovation projects, however many of these are finite, and established programs may not be equipped to support the gap in research funding required. We call on the government to continue – and grow – their investment in the life sciences sector so that Australia may maintain its position as one of the leading destinations for life sciences in the world.

Submission 5 – Supporting Australian manufacturers

The Manufacturing industry, which in Australia includes a large number of MSBs, has faced numerous headwinds in recent years, including the exiting of the Australian automotive industry and significant increases in energy costs.

Our review of the last 10 years (from 2010-11 to 2019-20) shows that Budget allocation to the manufacturing sector has dropped by almost $1 billion and contribution to GDP has dropped from 6% in 2010-11 to 4.21% in 2019-20.

COVID has exposed weaknesses in our supply chains and our over reliance on overseas manufacturing. Amazingly, Australia's manufacturers have risen to the occasion – taking on orders, increasing capacity and ramping up production. This is in the absence of historical support.

To ensure we are not caught out the way we were when COVID first happened, we must procure and manufacture more locally. The Government is the largest procurer in the

Australian marketplace, and there is a real opportunity to drive investment in the sector simply by placing their dollar here.

What we thought were going to be problems going into COVID-19 for the Manufacturing sector, weren't the main issues. One of the main issues that has come through is freight, and in particular, air freight. Air freight might take you five days; it's now taking up to five weeks as we've lost a lot of the domestic and international flights - losing flexibility of locations and timing.

Resourcing and accessing people in the logistics area has proven to be quite a challenge. And the investment in the VET sector and skills of the future has been a welcome announcement for Manufacturers.

Cybersecurity has also been a major issue. While most manufacturing people work onsite, administrative people continue to work offsite, using systems and processes that weren't designed to cope with this, and IP has been at risk. We've heard examples from manufacturers noting that they'd had attempted breaches. The style of information that seems to be of interest is costing data, customer data, supply chain data, and of course IP.

Pre-COVID, the industry was resilient, evolving, and a major employer. Moving forward, they can play a greater and more critical role in our overall economy. Manufacturing is ideal for regional areas for a number of reasons, not least in easing the congestion pressures our largest cities are experiencing, but also to enable COVID safe operations and provide new work opportunities in regional areas, particularly those heavily reliant on sectors that have experienced a down turn such as tourism.

One way the Federal government can further support a move by manufacturers to regional areas is to work with, and compensate, State governments for the removal of payroll tax altogether for businesses that offer employment in regional towns, together with relief from stamp duty on land acquired for manufacturing plants in regional towns. We know these have come up under the Tax Reform agenda and we believe would be particularly beneficial for the manufacturing sector going forward.

Listen to our podcasts:

- The future of manufacturing looks optimistic – (Mark Phillips) 5 August 2020 https://www.grantthornton.com.au/en/insights/audio/the-future-of-manufacturing-looks-optimistic
- Gearing up for a manufacturing renaissance – (Mark Phillips) 24 April 2020 https://www.grantthornton.com.au/en/insights/audio/gearing-up-for-a-manufacturing-renaissance/

Submission 6 – Easing the burden on landlords and housing affordability

We acknowledge that legislation and policy regarding land and housing is a State and Territory issue. We've been heartened by the formation of the National Cabinet and see huge potential to create some consistency in the policies and costs associated with owning and developing land and property.

What has come to the fore during COVID, with the Commercial Tenancies Code of Conduct, is that there is not a full appreciation for the role of landlords in Australia. The deferrals and support measures on offer were for tenants, while landlords bore the brunt of the financial hit as the economy continued to slow down. This is more obviously felt in the small to medium sized landlords. We note that commercial landlords were the only segment of the business community that were mandated to provide relief, whereas the banks were only asked to provide relief. We ask that the Government does not prolong mandatory rent relief for an extended period, or in the event of subsequent waves requiring restrictions.

We are supportive of the fast tracking of “shovel ready” projects and hope there will be additional projects green lighted in this year’s Federal Budget – in particular projects that will be productive assets to create employment now and into the future.

There has been a softening of the real estate markets during COVID, with many developers putting future developments on hold. Additional incentives around “Build to Rent” and social housing initiatives could help to alleviate forward housing shortages and mitigate any future affordability impacts.

We understand that there are changes underway around the Foreign Investment Review Board slated for later this year, to come into effect from 1 January 2021. We would like to see additional consultation – and reconsideration – around the FIRB rules for property which may be stifling foreign investment into Australia and therefore projects that could otherwise be contributing to the economy.

As noted in our original submission from December 2019, in Australia, the proportion of tax revenue from property as a percentage of GDP was 10% compared to the OECD average of 6% (2019 OECD data). Australia’s proportionately higher reliance on tax on property makes housing less affordable. We propose that, as part of the Tax Reform agenda, the Federal Government (in tandem with State and Territory Governments) reduce the tax on property through rebalancing taxes towards consumption taxes and removing inefficient transaction taxes. This can assist housing affordability while broadening the Australian tax base to capture a fairer proportion of tax from other goods and services, and bring our tax system more in line with the OECD averages.

Listen to our podcasts

- Is this the death of the CBD? – (Sian Sinclair and Ken Morrison) 24 June 2020 https://www.grantthornton.com.au/en/insights/audio/is-this-the-death-of-the-cbd/
- Real estate feeling the effects from COVID-19 – (Sian Sinclair) 14 April 2020 https://www.grantthornton.com.au/en/insights/audio/residential-and-commercial-real-estate-feeling-covid-19/

Submission 7 – Additional investment in childcare and early years’ education, and supporting skills for the future

As a temporary measure, the Federal Government made access to childcare free for essential workers. A move that was welcomed by families as well as the sector itself, particularly in light of statistics that demonstrate that the people most impacted by COVID-19 are women with children, and young people. With restrictions and lock-downs forcing more children to stay at home, it is women who have picked up the brunt of the homeschooling and care, while trying to balance work (if that work is still there).

Universal access to early childhood education is currently funded for four year olds, but there is emerging interest in extending this to three year olds. This would be a welcome initiative which would assist to bring our expenditure on early childhood education more in line with many other developed countries. Contemporary research demonstrates that investment in early years’ education delivers outsized returns in terms of the future success of our citizens.

In addition, before COVID, Australian women were already under-represented in our workforce. Our workforce participation rate for those of working age is 74% for women and 83% for men. At the same time, women are over-represented in the ranks of our part-time workforce (40% of women work part-time, compared to 5% of men).

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. Remove the barrier to early childhood education and there will be a positive impact on Australia's bottom line, and importantly will help to increase workforce participation and diversity.

The higher education and VET sectors have really been tested during COVID as well – and have an important role to play in creating the skills of the future. The announcements made in June around streamlining VET courses and aligning them better with in demand skills is a positive step forward.

We are interested to see how the Skills Commission will use Single Touch Payroll data to identify areas for investment and future jobs. We believe the data is useful and hope this will be paired with more qualitative assessments of what the demand is and why.

There are further challenges for universities on the horizon with the future pipeline of international students on hold indefinitely and may need years to recover as international students enroll in their local institutions. This is of particular concern because of the important role universities play in research and development. The funding from international students, and access to international talent drives medical research, engineering breakthroughs and technological innovation. As innovation is on the agenda for the Government, and is critical to our economic recovery, we hope there will be consultation and support with higher education institutions on the role they can continue to play in this space.

Listen to our podcasts:

- Do we need to turn higher education on its head to ensure skills of the future? – (Stuart McDowall and Kristy Fotiadis) 17 June 2020 https://www.grantthornton.com.au/en/insights/audio/do-we-need-to-turn-higher-education-on-its-head/
- Where Minecraft meets history – (Stuart McDowall) 13 May 2020 https://www.grantthornton.com.au/en/insights/audio/where-minecraft-meets-history/

Submission 8 – Professional services – planning for growth offshore under the RCEP

Physical borders may have come down, however we are still a global and open market. Professional services firms constitute a significant segment of the MSB market, and as knowledge workers, have adapted well to remote working, demonstrating how easy it is to tap into talent no matter where they are located.

In our previous submission we talked about opportunities for expansion, especially into China, that should flow from Australia's commitment to participate in the Regional Comprehensive Economic Partnership (RCEP) in 2020. While some of this activity may be on hold, or possibly rethought along COVID safe lines, this is still an area of opportunity for the sector. However, outside the large international accounting and legal firms, many Australian MSB firms lack the international trade experience to do so. We therefore propose that the Federal Government allocate financial resources to specifically help Australian professional services understand and navigate the intricacies of the RCEP up to and post implementation, and to promote professional services into the RCEP participant nations, similar to the resources currently available to many of Australia's higher profile export markets.

In addition, and much closer to home, the very structure of professional services firms – particularly law firms – has been put under the microscope during these times. The partnership model has proven to be one that is not conducive to building a war chest.

However to change business models is prohibitively expensive and arduous. We understand that legislation is currently being considered by the Government around employee share schemes, which is a model many professional services would consider if it was accessible. We look forward to seeing this legislation passed in the near future.

Listen to our podcast

- Riding the storm: Is the partnership model dead? – (Ben Matthews) 26 May 2020 https://www.grantthornton.com.au/en/insights/audio/riding-the-storm-is-the-partnership-model-dead/

Submission 9 – Relieving pressures in Aged Care

There are two main challenges facing the aged care sector – the immediate challenges around COVID safety, as well as the long term discussions around the sustainability of our aged care providers.

Immediate challenges
During an epidemic, all segments of society and the economy are impacted. However those impacts are more acutely felt by our most vulnerable. In this case, we are talking about our older Australians.

Resourcing was an issue before COVID, and the lean resources at our aged care facilities has been stretched even more thinly at this time. The limitations placed on aged care providers in how they can design their service offerings means there are considerable constraints on how many people they can employ, at what level and at what level of remuneration.

The responsibility for the sector – State v Federal – has also never been more confusing. More investment is required to streamline services and accountabilities across the jurisdictional divide, and to enhance the experience of those in care and the providers who serve them.

Long term sustainability

The Aged Care sector faces a number of pressures including potential adverse findings from the Royal Commission into Aged Care Quality and Safety and the Federal Government response, tightening margins in residential care, and falling occupancy, particularly with facilities affected by COVID-19. These pressures increase the risk of more providers failing. Lengthening waitlists for home care and restorative care packages result in more and more older Australians suffering from a lack of needs based services. We welcome the Prime Minister's announcement on 24 November 2019, in response to the Royal Commission's interim report, to provide $537m for more than 10,000 new aged care packages, reduce the use of chemical restrains and reduce the number of younger people with disabilities living in aged care facilities. The Prime Minister has acknowledged that this is an initial response and more will be done. We submit that, in considering what more can be done, the Federal Government should take into account measures to further relieve these pressures such as:

- Providing appropriate levels of funding for more home care and restorative care packages. For example, the Department of Health submitted to the Royal Commission that an additional $2b-$2.5b each year would be needed to provide appropriate access to people currently on the waiting list. The *"Home Care Packages Program Data Report"*, released by the Government just before Christmas, covering the period from 1 July to 30 September 2019, revealed that 112,237 people were still on the waiting list for their approved home care package. This number has reportedly dropped recently, as new home care packages announced of the last two budget cycles have been taken up. This funding will help ensure appropriate delivery to people requiring needs based services, prevent the failures identified by the Royal Commission, and ensure that older Australians needing care are not put at risk.

- Utilising the information and recommendations provided by the sector in the *"Perspectives on the future of ageing and age services in Australia"*, *"A model for transformation and governance"* and *"Funding and stimulus to support the aged care sector"* reports, and the work of peak bodies such as Leading Aged Services Australia's *"Working While We Wait"* campaign to provide clear directions to the sector in advance of the final report by the Royal Commission in October 2020.
- Investing in appropriate technologies to improve the quality of information available to older Australians and their families, on the services that are available to them and how to access them.
- Maintaining access to telehealth services to older Australians by making permanent changes to the Medicare Benefits Schedule, after the COVID crises passes.
- Providing instruction and funding to the Aged Care Quality and Safety Commission to work with providers who are impacted by COVID-19 as part of the aged care response to contagion, by enabling staff to assist on the front line where aged care workers are exposed to the disease.

Read our reports:

- Redesigning and funding Australia's future aged care sector – May 2020 https://www.grantthornton.com.au/en/insights/reports/redesigning-and-funding--australias-future-aged-care-sector/

Submission 10 – Reviewing and better resourcing Primary Health Networks (PHNs) to improve Healthcare

The healthcare sector is very much in the spotlight. The response to the COVID pandemic and the Royal Commissions into Aged Care and Disability Services are exposing gaps in our systems of health and social support as well as highlighting its interconnections and dependencies.

Primary Healthcare is the central element of a robust and responsive healthcare system. We have welcomed the investment into telehealth, a brilliant initiative that has been in the works for many years and clearly fast tracked due to COVID. During the pandemic, rapid innovations to ensure people continue to get the care they need have become necessary when the usual ways of providing care and support have not been possible. We hope to see the primary care sector continue to strengthen and grow via innovations and capacity improvements.

We would also like to draw your attention to Primary Health Networks ("PHNs"). PHNs were established by the Federal Government in July 2015 as independent primary healthcare organisations that commission, rather than provide services. The two primary objectives of PHNs are to improve the efficiency and effectiveness of medical services provided to patients and secondly, to improve the coordination of care to ensure patients receive the right care in the right place at the right time. In our experience, some PHNs have been more successful than others and key learnings from one PHN are not necessarily shared across other PHNs. We are calling on the Federal Government in this Budget to set aside resources to review the work of PHNs to determine the key factors of success of the better performing networks, to ensure that key learnings are appropriately shared, and to resource PHNs to adopt these learnings appropriately.

Submission 11 – Investing in a reliable and sustainable energy network

Australia is transitioning to a reliable and sustainable energy network and the pipeline of renewable energy projects in Australia is at unprecedented levels. We welcome the priorities laid out by the Federal Government on energy policy – around reliable, secure and affordable energy supply, putting consumers first, and meeting our international commitments. We see significant potential for Australia to take a strong position on energy and to become a leading supplier of alternate energy, such as hydrogen, to the world.

However, aging infrastructure, difficulty in accessing finance and credit worthy off-takers of electricity are some barriers to this transition. To overcome these barriers, we propose that incentives such as Federal Government funding should be made available to investors ready to build and invest in energy projects of the future including solar and wind energy, and battery storage.

Australia must ensure that the infrastructure connecting these energy sources together and to our communities can cope with new intermittent energy loads, as well as increasing energy demand from a growing population. We therefore further propose that Federal Government funding must also be made available for projects to modernise ageing infrastructure (including funds to help maintain the approximately 877,500kms of transmission and distribution lines across Australia), or create new infrastructure, including incentives for smarter Public-Private and/or Public-Public Partnerships to fund and own this infrastructure. Twenty-nineteen Federal Budget initiatives such as the $2b Climate Solutions Fund, the $1.38b Equity investment into the Snowy 2.0 expansion and the $56m Marinus Link high-voltage interconnector between Tasmania and Victoria are prior examples of the types of funding required in this area.

Submission 12 – Supporting Australia’s food basket

Australia has a reputation for quality produce and products, so much so that our neighbours in Asia will pay a premium for the “Made in Australia” label. MSBs in this sector are major contributors, especially as Australian and international consumers demand more artisan and niche products. Whilst the sector has proved to be resilient, COVID has put pressure the sector to be able to meet this demand.

We must provide opportunities for the sector to continue to invest in themselves and access international markets. In the calendar year 2018, 24% of Australian agricultural assets sold were purchased by international acquirers, mainly from Asia Pacific, United States and Canada. To ensure that the “Made in Australia” label maintains its integrity, we recommend that the Federal Government investigate ways to support local owners to survive and thrive.

Major disruptions were evident in the supply of some global markets at the start of the crisis, particularly those impacted by flight cancellations, restricted air-freight capacity, refrigerated containers being held at ports and not returned to global circulation, labour shortages and slow customs clearance. The sector welcomed the International Freight Assistance Mechanism to re-establish air freight to high-end protein markets. With international borders unlikely to be reopened to tourism until 2021 at the earliest, we would like to see additional support around supply chain and transport.

Primary producers – particularly those involved in the production of fresh produce – have noted the significant risk to harvests posed by the restrictions of cross border travel, both domestically and for foreign workers relied upon at times of peak farm activity. ABARES notes that vegetable, irrigated fruit, nut and cotton producers were most reliant on migrant workers. These businesses will be most affected if travel restrictions remain in place over the coming year. The lack of available labour will likely increase the cost of production or at the extreme, limit production if producers find it difficult to harvest.

We welcomed the temporary visa changes announced by the Federal Government, which includes an exemption from the six-month work limitation. This includes one employer for working holiday makers working in agriculture, as well as a further extension of their visa if it is due to expire in the next six months. We recommend that this is regularly reviewed to ensure labour supply is still available in the event of extended border closure and travel restrictions.

The Government's latest changes to FIRB on 5 June 2020 included a new national security test for foreign investors seeking to invest in Australian 'sensitive national security businesses'. We would like to see additional clarity around the definition of a 'sensitive national security business' – we anticipate there will be implications for the Agribusiness, Food and Beverage industry given the likely inclusion of water as an area attracting this level of detailed review.

There is also no escaping how sensitive the sector is to climactic events with increasingly severe and frequent occurrences of droughts, floods and fires. We acknowledge there is no single – or easy – solution to address the impacts of environmental events. We welcome measures such as the November 2019 Federal Government announcement of a $500m drought stimulus package and the overhauling of the Regional Investment Corporation's (RIC) funding rules to offer reconfigured and more favourable low interest government loans. We would simply add our proposal for further similar and larger packages as needed to support local food producers. We would also support processes that allowed water to be made available more freely to those mid-sized agricultural producers in need.

Listen to our podcast:

- How Australia's producers are adapting to COVID-19 https://www.grantthornton.com.au/en/insights/audio/resilient-and-nimble-how-australias-producers-are-adapting-to-covid-19/

Submission 12 – Lock downs impacting the retail sector

Retail is Australia's second largest employer, with more than one million Australians working in the sector. As such, it is a critical barometer for the economy. Retail consumers will spend when they feel optimistic and cut back when times are tough. In the last few months of 2019 we saw a continued drop in retail sales, particularly in discretionary categories. This was turned on its head when Australia locked down to minimise the spread of COVID from March this year – where we saw a dramatic and irreversible shift to how we shop and what we buy.

June retail sales data released by the Australian Bureau of Statistics showed a solid improvement of 2.7% on the prior month, and a full 8.5% above June 2019 as pent up "lockdown demand" was realised in the food, clothing, takeaway and restaurant sectors. The retail rebound is strongest in Queensland, Western Australia and Tasmania, which all grew double digits against last year. However, the June spending rebound was not enough to rescue the June quarter, which was negative against last year.

We must look below the headline numbers to gain a true understanding of the health of retail. Supermarkets – especially Coles and Woolworths – dominate the category and are immune to seasonal volatility. And the Covid-19 restrictions actually helped these large players, as consumption shifted from take-away and restaurants to home cooking expenditure. Coles recently reported 6.8% sales growth for FY2020, with profit growth even higher, at 7.1%.

By contrast, discretionary retail categories like clothing and footwear have been decimated. Whilst everyone has to eat, most households have deferred fashion and apparel purchases. This effect is exacerbated in small and mid-sized businesses, which have disproportionately borne the brunt of the pandemic restrictions.

There are some bright spots. Online sales are booming, and comprised almost 10% of total retail sales in June, up from 6% last year. We can expect online to continue to grow, with many retailers already enjoying online share of sales well above 20%.

This has been at the cost of reduced foot traffic. In just one week in March it is estimated that 60,000 employees were stood down as the doors of retailers across the country were closed. Amongst the businesses experiencing a downturn or folding altogether are Seafolly and Just

Jeans. Our major department stores are suffering, with David Jones, Myer and Target all seeking to reduce store space. Online sales will not make up for the dramatic drop in customers, at least not in the short term. ECommerce is not as entrenched in Australia as it is in other locations such as Europe and America.

With the official cash rate at a record low 0.25%, the RBA has fired its bullets. We propose that the Federal Government consider measures to further boost consumer confidence and the retail sector. For example:

- Recent efforts to lower tax rates for individuals have been welcome and we would recommend seeing through the cuts already proposed and potentially, as Budget conditions allow, further raise the tax-free threshold to boost lower to middle income earners' net of tax pay. We recognise this must be balanced against cutting red tape and incentivising business, as well as paying down debt incurred during the initial COVID lockdowns.
- The largest expense for retailers is the cost of labour, particularly in stores. Complexity around awards and wage compliance has given rise to an increased regulatory burden for retailers. We welcome Federal Government collaboration with industry and unions on simplifying our industrial relations processes and awards. When large retailers are inadvertently failing to adhere to the intricacies of the award system, it is clear that smaller businesses are drowning in complexity and desperately need help to simplify the regulatory environment.
- The other major expense for retailers is occupancy. With many retailers seeking to reduce the number of stores they operate, there is a significant challenge looming for landlords. Rents must be reduced in order to induce retailers to keep shops open. Support for both landlords and lessors through this period of uncertainty would be welcome.

Listen to our podcasts

- How essential retailers are changing our shopping experience – (Luke Ritchie) 8 April 2020 https://www.grantthornton.com.au/en/insights/audio/automation-station/
- Retailers scramble for innovation in the face of COVID-19 – (Luke Ritchie) 31 March 2020 https://www.grantthornton.com.au/en/insights/audio/Retailers-scramble-for-innovation-in-the-face-of-Coronavirus-carnage/

In conclusion, initiatives and incentives aimed at supporting MSB will have a positive flow-on effect on the economy. These are the companies that will support the economy and the jobs of the future. These are the businesses that will bring innovation, new products and new ideas to the marketplace and will embed more sustainability and certainty into our supply chains.

MSBs have the greatest potential to do this because they have greater resources than small businesses and are more agile and innovative than big business. They deserve to be incentivised to allow them to continue on their upward trajectory, supporting their local communities and economy as they grow.

We welcome the opportunity to discuss the untapped potential in Australian MSBs and our submissions with Government. We believe the submissions above represent positive, constructive proposals for the long-term benefit of the economy which are congruent with the Government's policy agenda.

Yours sincerely
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