



A PLAN FOR AUSTRALIA'S ECONOMIC PROSPERITY

An economic policy platform for the next term of government



BRINGING TOGETHER *the Institute's key perspectives* ON WHAT THE NEXT FEDERAL GOVERNMENT OF AUSTRALIA SHOULD BE *focused on* IN THE NEXT TERM OF PARLIAMENT IN ORDER TO ADVANCE THE NATION'S *economic prosperity* | OUTLINING *what needs to change* IN THE WAY PUBLIC POLICY IS FORMULATED, AND *the way Australians engage in a debate* ABOUT THE BEST *policy ideas* ACROSS THE COMMUNITY | THE DECISIONS TAKEN BY THE NEXT FEDERAL GOVERNMENT WILL HAVE A MAJOR BEARING ON THE COURSE OF THE NATION'S PROSPERITY | THE NEXT GOVERNMENT HAS *a unique opportunity* TO TAKE *a fresh approach* to *policy-making* AND THE WAY WE MAKE DECISIONS ABOUT THE FUTURE.



The Institute of Chartered Accountants Australia has been an advocate of a stronger and more prosperous society for over 85 years.

FOREWORD

For a long time, the Institute has devoted considerable effort towards promoting a well-informed public policy debate on the big issues confronting our economy in a variety of key areas.

As Australia navigates its way through deep enduring structural change – the likes of which hasn't been seen for a generation – now is the time for decisive leadership.

The Institute has produced this paper, *An economic policy platform for the next term of government*, to assist Australia's political leaders with shaping the agenda over the coming three years.

The decisions taken by the federal government in the next parliament will have a major bearing on the course of the nation's prosperity. The next government has a unique opportunity to take a fresh approach to policy-making and the way we make decisions about the future. But it's important to lock-in a stronger and more robust public policy-making process.

As Chartered Accountants, we understand and advocate the importance of certainty and confidence in ensuring we have a strong business sector and a strong economy.

The Institute is determined to work alongside Australia's policy-makers, influencing the analysis of legislative and regulatory reform that ultimately results in a more robust and efficient economic framework.

Adopting a more strategic and collegiate approach to setting the economic agenda of the forthcoming electoral cycle is vital in achieving outcomes set to benefit the livelihood of all Australians.

The reach of professional accountants has never been greater. It's estimated nine million Australian households have contact with professional accountants, while 95% of businesses use a business advisor, who will typically be a professional accountant.

All sectors of the Australian economy benefit from the knowledge and expertise of Chartered Accountants – with 72,000 members and candidates – we're employed in finance and banking, industry and commerce, public practice and consulting, not-for-profit and government, and education and academia.

This connectivity gives us a depth of insight into the economic and fiscal challenges confronting our nation right now and how we should proceed towards future prosperity.

Welcome to the conversation.



Tim Gullifer FCA, President

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THE POLICY PLATFORM

THIS PUBLICATION, *future[inc] AN ECONOMIC POLICY PLATFORM FOR THE NEXT TERM OF GOVERNMENT*, BRINGS TOGETHER THE INSTITUTE'S KEY PERSPECTIVES ON WHAT THE FEDERAL GOVERNMENT SHOULD BE FOCUSING ON IN THE NEXT TERM OF PARLIAMENT.

The Institute of Chartered Accountants Australia (the Institute) has produced this paper to assist Australia's political leaders in shaping their agenda over the next three years. The following recommendations have been identified as drivers for strong economic policy design, and the Institute considers these recommendations fundamental to lifting overall business and consumer confidence:

01

FISCAL SUSTAINABILITY

- If surpluses are recorded in favourable times, then deficits are appropriate in leaner times
- Work towards multilateral agreement on rules for allocating profits on cross border transactions for the purposes of determining taxing rights between jurisdictions
- Consider an expanded GST system as an essential component of Australia's future tax mix.

02

INTERNATIONAL BEST PRACTICE

- Reduce red tape, so businesses can get on with what they do best – running businesses
- Provide certainty for taxpayers with timeframes for enacting legislation following policy announcements
- Reduce the company income tax rate over time, to help strengthen Australia's capacity to attract capital investment in the global marketplace.

03

BOOSTING PRODUCTIVITY

- Give the chair of the Productivity Commission the ability to prepare a list of priorities that boost innovation
- Conduct a broad Productivity Commission review into childcare and benefits
- Embed appropriate levels of basic financial literacy into the national schools curriculum, to help equip future generations of Australians
- Adopt a greater degree of 'user pays' pricing for major infrastructure assets.

04

EFFECTIVENESS AND STABILITY OF FINANCIAL MARKETS

- Examine key regulatory systems in Australia in order to ensure they are the right fit for global capital market development
- Determine the role of assurance in driving effective and efficient markets for Australian businesses and how best to support this
- Ensure integrated reporting is on the agenda during Australia's G20 presidency in 2014.

The Institute will work alongside policy-makers, influencing the analysis of legislative and regulatory reform which will ultimately result in a more robust and efficient economic framework.

INTRODUCTION

The work the Institute has done in developing and analysing policy proposals has featured prominently in leadership papers and submissions to government and regulators on a wide variety of areas impacting the Australian economy. In 2012 the Institute put forward over 175 separate submissions to government and regulators, both in Australia and abroad, and released 10 leadership papers covering diverse topics from accounting education to corporate treasury.

This paper, *An economic policy platform for the next term of government*, brings together the Institute's key perspectives on what the federal government of Australia should be focused on in the next term of parliament in order to advance the nation's economic prosperity.

This is the next instalment in the Institute's *future[inc]* series, exploring the major public and economic policy challenges confronting the nation over the coming years and decades.

\$32,389

THE COST FOR EACH SMALL BUSINESS TO COMPLY WITH THEIR TAX OBLIGATIONS EACH YEAR

\$195^{bn}

THE AMOUNT OF GDP AUSTRALIA IS MISSING OUT ON BY FAILING TO CLOSE THE GENDER GAP

\$770^{bn}

TO FIX THE INFRASTRUCTURE DEFICIT

We need a marketplace where good ideas outsell bad ones, a marketplace where good ideas are converted to great ideas.

IMPROVING THE PUBLIC POLICY-MAKING PROCESS

THE INSTITUTE'S RECENT THOUGHT LEADERSHIP PAPER, *future[inc] DEVELOPING A PLAN FOR AUSTRALIA'S ECONOMIC PROSPERITY*, OUTLINED WHAT NEEDS TO CHANGE IN THE WAY PUBLIC POLICY IS FORMULATED, AND THE WAY AUSTRALIANS ENGAGE IN A DEBATE ABOUT THE BEST POLICY IDEAS ACROSS THE COMMUNITY.

The Institute mounts a case for 'the establishment of a marketplace where good ideas outsell bad ideas – a marketplace where good ideas are converted to great ideas'.

The paper also encapsulates the Institute's views about the need for more decisive leadership in the public policy-making process. That leadership must draw together three key elements: leadership of vision, leadership of thinking, and leadership of communication.

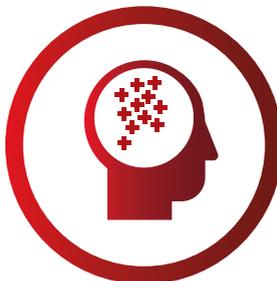
Another component of where Australia needs to lift its performance over the next term of federal government is to make much more extensive use of an evidence-based approach to public policy-making. In the same way that businesses use information, data and analysis as the primary mechanisms upon which business decisions are made, so too must the government of the day use a similarly rigorous approach to the formulation and implementation of new policies. In past years, numerous examples can be cited where there has been a lack of commitment to a comprehensive evidence-based approach to policy-making, and ultimately, the community as a whole pays the price for underdeveloped policy proposals that fail to deliver on the anticipated objectives.

LEADERSHIP OF:



Vision

+



Thinking

+



Communication

THE SUCCESS OF ADOPTING AN EVIDENCE-BASED APPROACH TO POLICY-MAKING BRINGS WITH IT A NEED FOR THE FEDERAL GOVERNMENT TO PUT IN PLACE WELL DEFINED CRITERIA THAT CAN BE USED TO ASSESS THE APPROPRIATENESS OF POLICY PROPOSALS. SEVEN KEY INGREDIENTS IN EVALUATING PUBLIC POLICY PROPOSALS CAN BE SUMMARISED AS FOLLOWS¹:

01

Societal objectives or goals need to be defined. These are the 'big ticket' issues that impact on the community or the economy and they need to be identified at the outset to assist with the clarity of purpose down the track

02

Public policy options that are being considered have to be effective (in their ability to achieve the goals) and efficient (being able to achieve the goals in a way that delivers the greatest possible benefit for the least possible cost)

03

Good public policy should follow a pre-defined process, which pays close attention to detail but allows sufficient room for creativity and innovative ideas to flourish

04

Policy decisions need to be outcome-focused, by identifying carefully how the policy will deliver the desired changes in the real world. A variety of information sources should be used to fully understand the practical implications of specific policy proposals

05

Good process necessitates the involvement of people outside of government. Consulting with the right people (at the right time) is critical to taking what would otherwise be 'good ideas' and converting them into 'great ideas'

06

Proper risk assessment of relevant considerations should be undertaken, and the results of that assessment communicated and socialised across key stakeholders and the broader community where appropriate

07

Finally, good public policy-making should foster an environment that encourages learning from past experiences: not repeating the same mistakes. Having the courage to say that something has been done wrong, but that a lesson has been learned and it will be done better next time, is an important element of promoting greater trust and confidence in the transparency of the policy-making process.

1. Good Public Policy Making: How Australia Fares by Richard Curtain *Agenda: a Journal of Policy and Analysis and reform*, Vol 8, No 1, 2000 p33-46.

PUBLIC POLICY AND THE PUBLIC INTEREST

CHARTERED ACCOUNTANTS *act in the public interest* AS DICTATED BY THE ETHICAL STANDARDS WHICH APPLY TO THE PROFESSION RIGHT AROUND THE WORLD.

Upholding the public interest should feature highest and most prominently in public policy development in Australia.

Policies should clearly be equitable and fair to both current and future stakeholders. Key sustainability principles should be embedded into the frameworks used by policy-makers, ensuring that decisions taken around key components of the economy, such as energy

and infrastructure, appropriately take account of the broader implications to society and the environment of specific choices made.

The federal government should embed sustainability principles into the public policy-making process, to ensure its rightful place among other considerations in the development of public policy proposals.

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.²

2. 1987, the United Nations – Brundtland Report.

THE BIG PICTURE

***future[inc]* DEVELOPING A PLAN FOR AUSTRALIA'S ECONOMIC PROSPERITY LAID OUT A COMPREHENSIVE MACRO-LEVEL SWOT ANALYSIS OF THE AUSTRALIAN ECONOMY, LOOKING OUT OVER THE PERIOD OF THE NEXT DECADE AND BEYOND.**

The SWOT analysis reveals that there are a number of key 'anchor points' for the major policy decisions that will need to be taken over the course of the next few years. Some of those key anchor points include issues such as how to invest some of the financial resources available at the moment for the benefit of future generations.

Taking decisive action now to direct resources to building better economic and social infrastructure will undoubtedly help to deliver long-term prosperity for the nation. Another key anchor point is the challenge posed by the ageing population and the consequential impact on workforce participation rates. Those factors will combine forces to present significant fiscal funding pressures for future governments which, ultimately, will mean either the need to wind-back general expectations of the role of government, or that governments will need to tap into broader sources of revenue collection in order to meet the demands placed on the public purse strings.

Most people would agree that Australia has enjoyed the benefits of generally sound economic policy frameworks over the course of the past two or so decades. As a nation, Australians have become accustomed to low unemployment, stable monetary policy settings, and a strong public sector balance sheet. Notwithstanding these attributes, Australia does face significant challenges on its horizon: productivity growth has slowed, and it is starting to suffer the ill-effects of a systemic under-investment in infrastructure over many years.

Australia's geographical proximity to the fast growth corridor of Asia is, at the same time, both a strength and threat to the country – the

nation's natural endowments in resources gives Australia an unrivalled position to supply the engine rooms of development across the region, but that also means that our economic dependency on the continued strength of the Asian region leaves it even more vulnerable to economic 'shocks' than might otherwise have been the case.

The rise and rise of the Asian middle-class presents further opportunities for Australia in the future. The country's luxury food market, tourism, and education sectors appear to represent the Asian growth story.

But to capitalise on the opportunities on the horizon, domestic policy settings must play a lead role in supporting Australian businesses to effectively and efficiently participate in the globalised marketplace. Over the course of the past decade, there have been an inordinate number of reviews, inquiries and white papers aimed at 'running the ruler' over all corners of the economy.

While many of those reviews were undertaken by leading experts in the relevant disciplines, the tangible outcomes that have flowed from the comprehensive work undertaken are not widespread. In some cases, the scope of the reviews completed was deliberately constrained so as to minimise the political risk associated with the possible findings and recommendations that would be made, and in other cases, the recommendations have not been developed into specific policy proposals ready for implementation. There is plenty of work to do for the next federal government in picking up the recommendations, and kick-starting a dialogue across the community of whether or not, and indeed, how, to advance the recommendations.

THE INSTITUTE'S KEY RECOMMENDATIONS FOR THE NEXT TERM OF GOVERNMENT

POLICY SETTINGS THAT BOTH ENABLE AND SUPPORT PRODUCTIVITY GROWTH *must be supplemented by a comprehensive and ongoing program* OF WIDE-REACHING ECONOMIC REFORM.

The Productivity Commission has had much to say about the prominence that it believes must be placed on re-invigorating the nation's focus on boosting productivity across all industry sectors.³ Much of the commentary about productivity misses one important point, that boosting productivity is a fundamental element of ensuring that Australia has a stronger economy that is better equipped to provide higher standards of living and greater efficiencies for businesses and employees.

The Productivity Commission has recently highlighted a number of key areas of reform in the context of this debate:

- ***Incentive policies*** — Because businesses need good reasons to do things differently, actions that foster more competitive markets must be fundamental to the government's policy agenda. The globalisation of business, and the opportunities presented by competing on the world stage can help to foster better productivity outcomes within businesses
- ***Capability policy*** — Appropriate levels of investment in human resources and systems capability are necessary to ensure that organisations can meet the challenges and opportunities presented by a highly dynamic business environment. Supporting innovation in all areas is another critical ingredient in building capability. Productivity-enhancing changes in the following areas should be a focus:
 - **'Human capital'** – delivering quality teaching and a robust training and education policy
 - **'Innovation system'** – conducting rigorous evaluations of all government innovation programs to verify that they are achieving their purpose and are cost effective
 - **'Infrastructure'** – the infrastructure reform task has involved a range of initiatives to enhance the performance of public enterprises and improve regulatory frameworks
 - **'Government services'** – the efficiency of government administrative and human services can have direct (within the public sector) and indirect impacts on Australia's productivity

3. *Productivity policies: the 'to do' list* Gary Banks Chairman, Productivity Commission, www.pc.gov.au/speeches/productivity-policies, sourced 11 June 2013.

- **Flexibility** – Scope to make the necessary changes. The key policy issues in this area are regulatory, with a myriad of regulations shaping the behaviour of firms and other organisations in all parts of the economy
- **Workplace regulation** – Industrial relations regulations are among the most pervasive of all in their coverage of organisations and their influence on work arrangements
- **Taxation** – Taxation has a ubiquitous influence on productivity through all three channels of incentives, capabilities and flexibility.

The Institute has produced this paper, *An economic policy platform for the next term of government*, to assist Australia's political leaders in shaping their agenda for the next term of parliament, 2013 to 2016. The Institute has identified four key recommendations for good economic policy design:

- **Fiscal sustainability**
- **International best practice**
- **Boosting productivity**
- **Effectiveness and stability of financial markets.**

These four key recommendations have significant overlap with the key areas of reform highlighted recently by the Productivity Commission. The Institute considers these areas fundamental to lifting business and consumer confidence, which in turn will help the nation as a whole to meet the challenges confronting us in the future. Each of the four recommendations explored below are drawn from the Institute's recent policy submissions and leadership papers.

The Institute will continue to work alongside the policy-makers, influencing the analysis of legislative and regulatory reform which ultimately results in a more robust and efficient economic framework. As the Productivity Commission pointed out, *'good process in policy formulation is accordingly the most important thing of all on the 'to do list' if we are serious about securing Australia's future productivity and the prosperity that depends on it'*.⁴

01

FISCAL SUSTAINABILITY

Global financial instability continues to permeate across developed economies right around the world, but Australia remains in a relatively fortunate position.

The strength of the Australian economy at the moment can be attributed, in no small part, to the growth that has been experienced in the resources sector. That growth, and the consequential impact on the economy, is broadly expected to continue for the next few years at least. While this window is open, it is clear that Australia must capitalise on the unique set of circumstances present at the moment. Australia is one of only a handful of nations that currently enjoys a AAA credit rating – something which many developed economies around the world can only envy.

The federal government's fiscal performance over the past decade or so has been admirable. But it is clear that pressures are beginning to emerge – as indeed, they are in many other developed economies – through narrowing tax bases and spending pressures (from health and ageing, for example). Those pressure points are likely to continue to have an impact on the economy and fiscal position, and so solving those challenges will necessitate a combination of policy reform and a wholesale reassessment of the expectations of government and the community.

MACROECONOMIC

Australia's public sector is supplemented by a wider delivery of public services through a network of organisations such as charities, SMEs and other large private organisations. Some of these organisations, such as charities, receive significant government support through large tax concessions which are largely unquantified. For greater transparency and to allow the evaluation of the effectiveness of delivery, these concessions should be quantified.

In the longer term, consideration will need to be given to an expanded GST system as an essential component of Australia's future tax mix.

4 Gary Banks (2012) *Productivity policies: the 'to do' list*, p20, www.pc.gov.au/speeches/productivity-policies, sourced 11 June 2013.

PUBLIC DEBT AND FINANCING

In April 2010, the Institute published *Fit for the future: Challenges for the next generation of Australians*⁵, which was authored alongside leading independent economists. In it, the Institute noted that it is to Australia's detriment that it doesn't borrow enough. As the nation's health, education and infrastructure challenges become more pronounced, there is no reason why capital expenditures and certain policy programs cannot be partially funded through an increase in borrowing from the federal government. As discussed later in this paper (see the productivity section), another potential solution which could be considered in helping to boost investment in infrastructure is for the federal government to take on a co-funding role with the states and territories.

The Institute has been a long-time advocate of the argument that the federal budget's bottom line should not be returned to surplus until the economic outlook is more certain and markets are more shock-resistant. The 2010 paper concluded that if the federal government runs a budget surplus during favourable economic times, they then have the leeway to run deficits during less favourable, or more highly volatile, economic times.

Furthermore, the Institute recommended that Australia draw on foreign capital in order to fully realise the opportunities created by the rapid growth and industrialisation of emerging Asian nations. The challenge is recognising alternate capital sources (such as the superannuation investment pool, for example), as traditional sources of capital funding dry up.

LONGEVITY OF SUPERANNUATION SAVINGS

The Institute believes a sustainable superannuation framework is vital in encouraging and promoting people to remain in the system for a prolonged period of time.

Proposals have been put forward to address this issue, including amendments to how Australians are able to withdraw their savings from the super system by limiting the amount an individual is able to withdraw as a lump sum.

Being overly prescriptive may have a significantly detrimental impact on the system because it would have the potential to act as a disincentive to people voluntarily participating in the super system. The development of attractive and accessible pension and annuity products, greater levels of consumer education, and tax incentives to promote the use of pensions is a better approach.

In 2011⁶, the Institute recommended that priority should be given to implementing improvements to current policies within the retirement incomes system and that the use of deferred annuity products and a longevity insurance mechanism to fund health and aged care should be carefully examined in the future.

CROSS-BORDER TRANSACTIONS

Business is becoming more globalised every day. With that comes a number of challenges around the appropriate regulatory and taxation policy settings that impact the way in which businesses go about their activities, and the way in which they make informed decisions about their future business ventures.

The Institute believes that any change in the international rules for allocating profits on cross-border transactions between countries for the purposes of determining taxing rights should be agreed via multilateral agreements. It would be a mistake for Australia to act unilaterally.

5. *Fit for the future: Challenges for the next generation of Australians* by the Institute of Chartered Accountants Australia in 2010.

6. Tax reform: laying the foundations published jointly by the Institute of Chartered Accountants Australia and KPMG in 2011.

The Institute agrees with the proposition that changes in business models warrant a review of the existing international rules to determine if they are still appropriate. This is why participation in a multilateral review through the G20 leaders forum may be the most appropriate mechanism to advance the thinking in this challenging area of policy. Moves to publish the income tax liabilities of individual corporate entities with certain income levels above \$100 million will, in the Institute's view, do significant damage to the country's reputation abroad and, ultimately, such changes will do nothing to address the underlying policy challenge that exists.

ROLE OF AUDITOR-GENERAL

The Australian National Audit Office (ANAO) has, through the work that it carries out in the course of financial statement and performance audits, a broad range of experience in the assessment of the effectiveness of policy programs and of certain policies in achieving the objectives set by the government.

The Institute recommends exploring how the ANAO's insights into public policy outcomes can be woven back through the policy development life cycle. With increasing pressure on governments to fund large-scale expenditure programs on a recurring basis, even greater importance must be placed on ensuring that best practice learnings from past policies can be incorporated into future public policy thinking.

The Institute also considers it important to ensure the Auditor-General has sufficient financial resources to undertake the necessary financial and performance audits. It is also important to ensure that the Auditor-General has access to relevant processes to follow 'the money trail', such as where private entities (such as charities) are engaged to deliver the services. The Auditor-General needs to be able to track funds through those entities to ensure the delivery of services is undertaken in the most effective and efficient manner possible.

02

INTERNATIONAL BEST PRACTICE

Australia is a modern nation with an advanced economy, with its multicultural human capital, the wealth of ideas and innovation, but how can this be turned into a tangible competitive advantage?

In the World Economic Forum's *Global Competitiveness Report 2012–2013*⁷, Australia is ranked 20th out of 144 nations. Australia dropped four places in the rankings last year compared to 2010–2011. Labour regulations and red tape are listed as the most problematic issues when doing business in Australia, but there are numerous other areas that present challenges for Australia in advancing its competitiveness ranking.

One area to continue to focus on is ensuring that the long-term *Closer Economic Relations* free trade agreement between the Australian and New Zealand governments remains a priority. Over the past three decades, much progress has been made in boosting alignment and symmetry between financial markets, competition and tax policy, and broader regulatory settings impacting on businesses operating across the two jurisdictions, but much more can be done. Every effort should be directed towards ensuring that business activities conducted across the two jurisdictions is as seamless as possible.

REDUCING RED TAPE

For many years, the Institute has continued to advocate and support efforts to reduce excessive regulation that imposes a burden on Australian businesses. Although a level of appropriate regulation is crucial to a democratic, equitable and open society, such imposts must not be viewed as excessive or unnecessarily impact on investment, productivity and innovation.

Fostering a stronger innovation culture across Australian businesses, along with improvements in productivity outcomes will be key drivers of Australia's ability to become an even more competitive market economy in the future. Regulatory settings must therefore support those objectives, not work against them.

7. World Economic Forum's *Global Competitiveness Report 2012–2013*, <http://reports.weforum.org/global-competitiveness-report-2012-2013/#>, sourced 12 June 2013.

Australia currently has a relatively high cost of doing business, compared to other similar nations. The regulatory burden and complexities for businesses working between states is significant and could impact international investment as well as the viability of some businesses. In order to improve the efficiency and reduce the cost of doing business in Australia, there needs to be greater alignment of legal regulations between state, territory and federal governments.

While the Institute supports initiatives to reduce red tape and its related regulatory burden, it is important that all levels of government take a broad perspective in determining the impacts of legislation and considers the burden imposed on all organisations, individuals and society as a whole. Many of the challenges governments face, such as addressing climate change or the Future of Financial Advice (FoFA) reforms, do not have simple solutions and the impacts of government action can affect different groups in various ways. Therefore, any attempts to reduce red tape should be done in a holistic manner without jeopardising productivity, innovation and investment, but at the same time acting in the interest of all Australians.

The Institute acknowledges that, in isolation, many individual components of regulation may have a strong underlying foundation in policy terms, but taking time to reflect on the macro-level implications of certain obligations, along with a consideration of how those regulatory impacts interact with other regulations is not always undertaken as part of the process of developing and embedding new regulation.

In particular, in 2011⁸ the Institute recommended that inefficient state taxes should be abolished and replaced with greater reliance on more economically efficient and simple to administer tax bases. Certain inefficient taxes that generate minimal revenue should be eliminated outright. Obvious examples in this area include the economically-distorting levies collected in respect of fire services and insurance policies.

Further, the allocation of expenditure responsibilities between state, territory and federal governments should be re-assessed with a view towards achieving a closer correlation between those obligations and each jurisdiction's revenue-raising capability.

Small businesses currently face a significant regulatory burden in almost everything they do. Regulatory efficiency is critical to small businesses; many Chartered Accountants who either work in small businesses, or provide strategic business advice to small business attest to the fact that regulation and compliance are taking a significant toll on this part of the business sector. Small businesses are the 'engine room' of the economy – in both metropolitan, rural and regional areas. However the burgeoning regulatory and compliance cost burden is resulting in less efficient use of available resource time, as well as casting doubts about the appeal of the small business sector to those individuals who may be considering establishing new ventures.

CERTAINTY FOR TAXPAYERS

Improvements to the 'tripartite law design model'⁹ (which, broadly refers to the role played by each of the Treasury Department, the Australian Taxation Office and external stakeholder groups) must be implemented in the short term to help reinstate confidence in the policy and law-making processes surrounding the introduction of changes to the tax system. Australia's tax system by its nature is complex. As a consequence, decisions taken at both a micro and macro level by government can be better informed by making extensive use of the tripartite law design model as frequently as possible. There have been a number of examples over the past few years where a comprehensive approach to policy and law design has not been employed, and the ongoing stability of the taxation system has been impacted as a direct consequence.

8. *Tax reform: laying the foundations* published jointly by the Institute of Chartered Accountants Australia and KPMG in 2011.

9. *Tax reform: laying the foundations* published jointly by the Institute of Chartered Accountants Australia and KPMG in 2011.

MUTUAL REGULATORY RECOGNITION

Mutual recognition of regulatory settings is an important component of ensuring that businesses operating across jurisdictions are not burdened by multiple layers of inconsistent and disparate compliance obligations. While mutual recognition, as a principle, would be seen economically to be somewhat inferior to strict harmonisation or complete uniformity, it can nonetheless play a significant role in minimising additional compliance costs for businesses in many key areas of oversight and regulation. With the increasing prevalence of multi-jurisdictional business dealings in all spectrums of business from the largest to the smallest, a refocusing of government priorities towards minimising the impact of inconsistent regulation is both necessary and urgent.

From a taxation system perspective, the Institute believes that consideration should be given to amalgamating the resources of the existing Inspector-General of Taxation, Taxation Ombudsman and elements of the ANAO to create one better-resourced comprehensive ATO oversight body. The benefit of bringing together parts of the three existing independent organisations into one amalgamated statutory body is that the organisation could perform a multitude of functions in a more coordinated and consistent fashion, which in turn, will assist with minimising duplication and compliance costs for taxpayers.

The Institute believes that combining the various skills, expertise and resources of those agencies would yield a much more significant capacity to monitor and direct the implementation of improvements within the ATO that would help to further bolster the protections afforded to taxpayers in their dealings with the revenue arm of the government.

CLIMATE CHANGE POLICY

The Institute has been supportive of an emissions trading scheme as a mechanism to mitigate carbon emissions since the Institute's 2008 submission to the Garnaut Review¹³. The continuation of the existing scheme will provide certainty to business and investors as well as contribute to Australia's ability to meet its 2020 target of a 5% reduction in carbon emissions. As noted earlier, it is important that any changes to this scheme are done in a holistic manner without jeopardising productivity, innovation and investment but at the same time acting in the interest of all Australians.

Further, in 2011, the Institute recommended a specific-purpose review of the tax system should be undertaken with the aim of identifying areas of inconsistency between existing tax policy and the overarching drive towards more environmentally-responsible business activity. This process should look at the opportunity to eliminate, modify or add tax concessions that aim to correct market failures.

CHARITIES AND NOT-FOR-PROFIT REFORMS

The Institute has been supportive of the creation of the Australian Charities and Not-for-profits Commission (ACNC) and a strong advocate throughout the process.¹⁴ This is an important step in transparency and red tape reduction for this vitally important sector of the economy. The ACNC will also bring consistent reporting to the sector, so stakeholders can have clear expectations regarding registered charities' obligations, which will enhance public trust and confidence in the sector.

However, not-for-profits (NFPs) continue to have a myriad of different reporting requirements across Australia, with the ACNC introducing another layer to take into consideration. While the Institute is supportive of the introduction of the ACNC as a regulatory body for charities, it will be unlikely to be successful without support of the states and territories. The broader issue of duplication and consistency in reporting across federal, state and territory governments needs focus and attention as part of the development of the election priorities.

13. Institute of Chartered Accountants Australia submission on the Garnaut Review – Emissions Trading Scheme Discussion Paper on 18 April 2008.

14. Institute submission Treasury on the Australian Charities and not for profits Bill 2012 on 27 January 2012.

Duplication creates inefficiencies for the sector and without the cooperation of states and territories, duplication will exist. All NFPs have a core purpose to service a specific group of users, and not be overburdened with regulatory compliance. The current Council of Australian Governments (COAG) NFP Working Group has commenced work in this area, and the Institute fully supports the continuation of this work with heightened urgency.

ANTI-MONEY LAUNDERING

Since 2006, Australia has had a new anti-money laundering and counter-terrorism financing (AML/CTF) regime in place. Globally, however, there is inconsistency between regimes. While this creates complexity for those multinational businesses operating across jurisdictions, the variations in regulatory burden can also impose a competitive disadvantage on Australian businesses.

Non-financial businesses and professions in Australia have been dealing with the uncertainty of whether the AML/CTF regime, with its regulatory compliance burden, will be extended to them as recommended by the Financial Actions Taskforce on money laundering. This will impose significant compliance costs on a broad group of businesses, which are already suffering from reform fatigue in areas including tax, audit, self-managed superannuation funds, FoFA, and NFPs. While the policy objectives of addressing money laundering and counter terrorism financing are supported by many professions, the costs – particularly the direct costs applied through the AUSTRAC Cost Recovery process – are likely to alienate reporting entities new to the AML/CTF regime.

The Institute has been involved in the AML/CTF consultation since 2004 and has found the process to be largely constructive. In relation to the consultation regarding the AUSTRAC Cost Recovery process, the consultations appear less effective. There should be greater consideration of the impact of inefficient compliance regimes on productivity in interaction between business and regulators on the design of compliance frameworks.

03

BOOSTING PRODUCTIVITY

Boosting productivity represents a key challenge for Australia's medium-term economic prosperity. While there are many ways to increase productivity, the majority lie with business directly and public policy plays only a limited role. However, there are ways policy can be used to encourage and assist certain outcomes for business. The following key areas of focus have been identified in this paper:

- **Innovation**
- **Workforce participation**
- **Skills and education**
- **Infrastructure funding.**

INNOVATION

Encourage innovation, increase productivity

Slowing productivity growth is a concern for Australia. Right now though there is a case to argue that some of the decline in multi-factor productivity is a result of big capital investments in (not yet fully productive) fast-growing export sectors and the extensive growth of production in mining in formerly marginal projects. Having said that, it is widely acknowledged that reform aimed at addressing productivity enhancement has stalled since the turn of the century, and this too is likely to be playing a role.

A policy environment that both enables and supports productivity growth must be supplemented by a comprehensive and ongoing program of wide-reaching reform, a position echoed by the Productivity Commission on many occasions.

Support Productivity Commission and COAG

Deep structural economic policy challenges should be progressed over time through appropriate institutions such as the Productivity Commission and COAG. A more prominent ongoing role for the Productivity Commission in key areas within its policy expertise, along with COAG, would help to balance the weighting of responsibility between the federal, state and territory governments.

Investing in, developing and making greater use of the Productivity Commission and COAG would also serve the purpose of enabling a more robust consultative approach towards the development, assessment and critique of public policy proposals. Making progress and adapting to the major structural challenges that will confront the nation in the future necessitates a better sharing of responsibilities between the federal government and the states and territories. Implicitly, a greater sharing of responsibilities also requires a level of consistency and symmetry in policy thinking to avoid any risk of misalignment of policy outcomes. COAG, in particular, must start to rise above the political debate and focus more on achieving better outcomes for all state and territory jurisdictions and, in doing so, realise better outcomes for the nation as a whole.

The Productivity Commission has made a significant contribution to public policy debate within Australia. With that credibility in place, it would be appropriate to provide the Commission with the capacity to identify and initiate its own reviews and inquiries as appropriate, which would be centred on identifying the best ways to build greater productive capacity for Australia's future. The chair of the Productivity Commission should be given the ability to prepare a list of priorities that can be presented on an annual basis to all parliaments, states and territories.

The challenges for the future of Australia cannot be met by one level of government alone. COAG will therefore need to play an important role in addressing the policy issues and developing the appropriate policy outcomes. Its development is fundamental to the progress of infrastructure and state delivery of services such as education and health. There needs to be greater focus on how to improve the COAG process and this may be through the involvement of the Productivity Commission as the secretariat to COAG.

Encouraging innovation

The 2008 review into Australia's innovation system emphasised that '[we] have known for several generations that innovation pre-eminently determines our prosperity'.¹⁵ It is common ground that effective and efficient policies to incentivise innovation pay economic dividends in terms of enhancing Australia's

international competitiveness and delivering broader spill over benefits to the community.

The Institute considers it imperative to continue to support the policy of a broad-based targeted incentive for investment in innovative technologies and processes. The R&D tax offset for small businesses – a key feature of which is that it is fully refundable to small businesses (at the rate of 45%) – is an appropriate mechanism by which that targeted government support can be delivered.

Boosting vitally important cash flows to inject into start up R&D activities is critically important to small to medium-sized enterprises. However, consistent with the Productivity Commission's conclusions over time that tax incentives aimed at all levels of businesses did little to encourage innovation among larger companies (because for them market forces were the primary driver of innovation investments), the Institute supports appropriate targeting of the R&D tax incentive towards small to medium-sized enterprises, especially given the need to balance competing priorities on government expenditure programs in a fiscally constrained environment.

Equally important is the carbon price mechanism and the vital role that it has to play in making the economy adaptable and resilient in a carbon-constrained future. The Institute has consistently taken the view that introducing appropriate price signals in the market are often an effective, if not necessary, means of changing behaviour and effecting major transformations in the way businesses operate and develop their technologies and capital infrastructure.

In addition, there are further opportunities that the government should be seizing to offer 'demand-side' incentives for proven innovative technologies that are at the commercialisation stage. Such incentives provide the necessary support to create market demand by tipping purchasing decisions. For example, instant asset write-offs for certain highly energy efficient plants, equipment and vehicles, or for other innovative technologies which meet a particular rating appear to represent the right policy settings to assist with the structural transformation of the economy that is necessary both now and into the future.

15. *Venturous Australia – Building Strength in Innovation*, Review of the National Innovation System., Cutler & Company Pty Ltd, 2008.

Simplified small business entity regime

The Institute has for a long time advocated the case for a robust, thorough dialogue about long-term tax reform in Australia with the goal of simplifying the tax system for small business. For instance, recent findings from a three-year, multi-university tax research project, *Assessing and addressing tax system complexity in Australia*¹⁶, which is sponsored by the Institute, highlights the challenges small businesses face in complying with Australia's complicated tax laws. For example, the cost to small business of meeting its GST compliance obligations is about 50% higher in Australia than in comparable overseas jurisdictions. In addition, it costs small businesses an average of \$32,389 a year to comply with the multitude of state and federal taxes in Australia – the cost of tax compliance has more than doubled over the past 17 years.

The introduction of a simplified small business entity tax regime is one pathway that should be more fully explored as part of ongoing efforts to streamline and reduce regulation and red tape for small businesses.

WORKFORCE PARTICIPATION

The Review of Australia's future tax system (the Henry review) stated that:¹⁷

While the proportion of Australians who participate in the workforce is high by international standards...maintaining high rates in future will require a tax and transfer system that supports and encourages work. Without high participation rates, the scope to fund payments and services for older Australians and to invest in younger generations will be compromised.

The report went on to say:

Lower participation rates for women of child-bearing age are also reflected in employment rates...women of child bearing age constitute one of the key groups with greater potential for paid employment...The longer the period out of the workforce, the greater the risk of skills atrophy and poorer employment opportunities later on. While there are many factors at play, financial incentives cannot be ignored.

It is also well-documented that Australia needs to improve its representation of women at senior executive and board level. A report by Goldman Sachs¹⁸ in 2009 concluded that Australia is missing out on \$195 billion (13% of GDP) by failing to close the gender gap. The *2012 Australian Census of Women in Leadership*¹⁹ found that only 9.2% of executive management positions and 6.2% in line management positions in ASX 500 companies were held by women.

The Institute has been at the forefront of workplace gender issues in the accounting profession for over 15 years and has commissioned research studies in the areas of work conditions, equality and flexibility in all sectors of employment for the Institute's 72,000 members and candidates right across the country.

The studies were developed to address issues such as high achieving Chartered Accountants not being retained in the workforce. The first study in 1995, *Women in Chartered Accountancy*,²⁰ showed that there were significant career barriers for female Chartered Accountants, ranging from a male dominated culture to long hours and lack of flexibility. The second study, *Work & Lifestyle Study*,²¹ in 2001, showed a significant increase in participation by organisations which introduced flexibility in the work conditions for women. However, the 2006 study showed the gains from 2001 had reached a plateau. This study is about to be updated for 2013 and will address not only workplace conditions, but also the key factor of pay equality.

16. *A comparative analysis of tax compliance costs and the role of special concessions and regimes for small businesses in Australia, Canada, South Africa and the United Kingdom* (2012) by John Hasseldine and others, charteredaccountants.com.au/taxresearch, sourced 12 June 2013.

17. *Australia's future Tax system review final report* chaired by Dr Ken Henry, www.taxreview.treasury.gov.au

18. Research report *Australia's Hidden Resource: The Economic Case For Increasing Female Participation* by Goldman Sachs J B Were, 26 November 2009, www.asxgroup.com.au/media/PDFs/gsjbw_economic_case_for_increasing_female_participation.pdf, sourced 12 June 2013.

19. *2012 Australian Census of Women in leadership* by the Workplace Gender equality agency, www.wgea.gov.au/lead/2012-australian-census-women-leadership, sourced 12 June 2013.

20. *Women in Chartered Accountancy* by Kelsall and Leung, Institute of Chartered Accountants in Australia, 36p 1995.

21. *Work & Lifestyle Study* by Bellamy S, Kelsall M, Leung P, Morley C and Tongs J, The Institute of Chartered Accountants in Australia 2001.

Forty eight per cent of candidates to become Chartered Accountants are women, and the Institute is committed to supporting these members to remain in and return to the workforce. Helping women return to work and increasing their participation in the workforce will enable more financially literate women to reach senior positions within their organisation. This will also assist in achieving broader business goals such as the number of female directors on Australian boards.

The federal government has recently introduced the Paid Parental Leave Scheme for working parents which has helped parents to take time off work following the birth of a child. An essential ingredient in encouraging women to return to the workforce relates to having access to safe, affordable, and flexible childcare.

Unfortunately, the cost, availability and flexibility of childcare remain significant barriers to returning to the workforce for many families. It is in the public interest to remove the barriers which impact women returning to work and increase their participation in the workforce. This further ensures that investment in the education of women earlier in their lives continues to add value to the community in the future.

Encouraging women to return to work will reduce the future potential age pension cost currently attributable to women who require that support because they have lower super and retirement savings balances, and are more likely to be wholly dependent on government support for cost of living and healthcare needs (owing to greater periods of time away from the workforce and compulsory superannuation savings).

Minimise marginal tax rate inequities

The Institute has previously recommended²² an examination of the opportunities to minimise the negative impacts that effective high marginal tax rates have on incentives to work. This would help to alleviate some of the barriers to participation in the workforce.

As a matter of priority, consideration should be given to aligning the impact of the tax and transfer systems to ensure that individuals are not discouraged from participating in the workforce, and that an appropriate level of equity is maintained. This will not be an easy challenge to address, but it is nonetheless vitally important.

Review of childcare and benefits

In its 2013 pre-budget submission,²³ the Institute recommended that the federal government of Australia provide the Productivity Commission with terms of reference for an inquiry into the various government benefits, tax concessions and resource availability for access to childcare, as well as other barriers for women returning to the workforce. This inquiry should have wide-ranging scope to look at areas such as:

- Availability and cost of childcare across Australia
- True cost of providing childcare, to address regional differences
- Childcare Benefit and rebate – these are complex and perhaps could be simplified
- Resource availability, reporting burden, staff training, payroll for childcare centres and salaries for childcare workers
- Flexibility arrangements; and availability of home-based care and nannies for parents who work long-hours, non-standard business hours, and who are frequent travellers
- Whether the Fringe Benefits Tax (FBT) exemption (currently only available to employers with onsite centres) should be extended to approved offsite childcare, and possibly also to family day care and in-home care as this would enable employers to provide a greater range of benefits to their employees
- Tax deductibility of childcare costs, when both parents work in excess of the claimed hours each week. This could potentially couple the 'benefit' with higher taxable income
- A holistic review of family tax benefits, to ensure alignment of outcomes and reducing impact of effective marginal tax rates on behaviour as noted above
- A review of vacation and out-of-school hours care for school-aged children.

22. *Tax reform: laying the foundations* published jointly by the Institute of Chartered Accountants Australia and KPMG in 2011.

23. Institute of Chartered Accountants Australia pre-budget submission to Treasury 7 February 2013.

SKILLS AND EDUCATION

Skills and education development are core building blocks of a strong Australian economy both now and into the future. The investment in the development of deeper skills and education will pay dividends for society and the broader economy for many decades.

One of the consequences of previous governments' past focus on returning the budget to surplus has been to dramatically cut expenditure – as evidenced in the most recent Mid-Year Economic and Fiscal Outlook update – in the Industry, Innovation, Science, Research and Tertiary Education area, with net program reductions of \$1.35 billion over the forward estimates period. These cuts included net reductions within the 'Targeting Skills in Need' program of \$384 million. At a time when one of the country's most urgent economic policy priorities is to deliver higher productivity gains from labour and capital, cuts in these programs appear to run against the broader policy priorities of developing the skills and education systems.

Coupled with the focus on skills and education is the need to ensure better outcomes in terms of financial literacy for the broader community. Increasingly, all members of the community are exposed to financial information that they are expected to understand and navigate their way through on a day-to-day basis. A lack of awareness of many in the community of their superannuation and retirement savings strategies, excessively high levels of debt and gearing among those who should not be exposed to such high-risk strategies, and the increasing prevalence of mixed and variable quality information through the internet, are examples of this pressing need.

Embedding appropriate levels of basic financial literacy in the national schools curriculum is seen by the Institute as another important ingredient in helping to bolster the capacity of future generations of Australians to be properly equipped with the right information to assist with making personal, employment and business decisions over time.

Chronic under-investment of resources in this vitally important area could ultimately have a damaging effect on the capacity of future generations being able to appropriately navigate their way through the complex business environment they will be increasingly exposed to as they move into the workforce.

Tertiary education

Within the tertiary education sector, greater recognition of the importance of accounting and finance students to the broader Australian higher education system is another area of potential focus; particularly when considering the contribution of full-fee paying international students to the Australian economy, which should not be underestimated. Many international students are enrolled in accounting and finance studies, as most of those skills can be readily transferred to other jurisdictions around the world. The Institute believes that improvements in the policy frameworks underpinning visa processing and the issue of post-study work visas are required as a matter of urgency.

Greater recognition should be given to the role international students can play in assisting Australia to build stronger international relations, especially across Asia. This is a particularly timely area of policy focus, given the release of the *Australia in the Asian Century* white paper.²⁴

In 2010, the Institute released a thought leadership paper titled *Accounting Education at a Crossroad*.²⁵ It set out the realities of the marketplace for tertiary education in the business and accounting disciplines across leading institutions in Australia. There are some thought-provoking reflections in that paper which should serve to sharpen the focus of policy-makers about the future direction of business and accounting education in the country, and the impact that is being felt by the gradual push towards a 'high-volume, low-cost, lean, casual higher education delivery model' employed by most tertiary institutions who have identified the relative profitability and attractiveness of accounting education schools within their businesses.

24. *Australian Government White Paper (2012) Australia in the Asian Century*, <http://asiancentury.dpmc.gov.au/white-paper>

25. *Accounting Education at a Crossroad in 2010* (2010) Edited by Elaine Evans, Roger Burritt and James Guthrie. Institute of Chartered Accountants Australia and Centre for Accounting, Governance and Sustainability (CAGS) in the School of Commerce at the University of South Australia.

The role played by accountants right across the community (as both business leaders and advisers to business) is integral to the fabric of the economy. The business sector can ill-afford to experience a significant decline in the quality of accounting graduates which is attributable to the commoditisation of accounting education in Australia over time.

Other areas where there should be greater policy focus relates to the need to bridge the gap between academic accounting research and professional practice.²⁶ The emphasis here should be on policy and professional impact, investigating the increased use of technology in business education, and opening emerging pathways through secondary and higher education providers for the next generation of business leaders and business advisers.

Skills shortages

Australia cannot afford to have too high a proportion of its human assets remaining abroad for long periods, or permanently. Public policy and legislation need to play a role in appropriately managing the risk of this continuing to occur, especially as demographic changes accentuate pressure on the available pool of skilled Australian workers.²⁷

Regional skills shortages

Many regional areas in Australia are still struggling to attract and retain skilled and unskilled workers across a range of industries. Australia's current and future opportunities for economic growth (such as mining and agriculture), will be dependent on attracting and retaining employees in regional areas.

There are different schemes and incentives available to assist business and potential employees to relocate to regional areas however, some schemes (such as tax zone offsets) were established a long time ago, and do not necessarily continue to properly reflect 'modern regional Australia'.

The Institute recommends²⁸ that the government review the current zone tax offset scheme to determine whether it continues to be effective in attracting and retaining people in regional areas of Australia, where urgent skills shortages exist. The Institute also noted that future reforms to the zone tax offset regime could consider the efficiency benefits of delivering the targeted assistance in a timelier manner through the transfer system, as opposed to the taxation system.

In *Fit for the future*²⁹ the Institute noted that the ideal of owning a home is no longer an aspiration for many young Australians. With that said, Australia's housing supply has failed to keep pace with the growth in housing demand as it is. This is a huge problem particularly as the willingness of younger Australians to live in rural/regional areas is in decline.

The Institute also recognises the importance of foreign investment in Australian agriculture.³⁰ The investment is vital in supporting production and job creation which contributes to the prosperity of Australia's regional areas. It is important to balance the need for foreign investment with community concerns around foreign investment in agricultural land. The Institute supports the creation of a national foreign ownership register for agricultural land as a way of balancing these concerns against the very real need for foreign investment in agriculture. However, it is essential that any reporting requirements do not result in a significant compliance cost and deter potential investors.

INFRASTRUCTURE FUNDING

The demands of Australia's expanding economy require ongoing investment in capacity building infrastructure. Australia currently has a significant infrastructure deficit. One higher-end estimate from Infrastructure Partnerships Australia suggests that an additional \$770 billion, or equivalent to about half of Australia's current GDP, is needed to close the gap over the next decade. Key economic leaders in Australia have pointed out that this would require Australia's national level of infrastructure investment

26. *Bridging the Gap between Academic Accounting Research and Professional Practice* (2011) Edited by Elaine Evans, Roger Burritt and James Guthrie. Institute of Chartered Accountants Australia and Centre for Accounting, Governance and Sustainability (CAGS) in the School of Commerce at the University of South Australia.

27. *Fit for the future: Challenges for the next generation of Australians* by the Institute of Chartered Accountants Australia in 2010.

28. *Tax reform: laying the foundations* published jointly by the Institute of Chartered Accountants Australia and KPMG in 2011.

29. *Fit for the future: Challenges for the next generation of Australians* by the Institute of Chartered Accountants Australia in 2010.

30. Institute of Chartered Accountants Australia submission on establishing a national foreign ownership register for agricultural land to Treasury 11 February 2013.

(in both social and economic infrastructure) to double over this period³¹. In 2010, the Institute noted³² that it is imperative that Australia's investment in infrastructure be funded through clear economic and social reasons, rather than through short-termism and politically motivated public private partnerships.

The gap between different state and territory jurisdictions is widening. Each state economy identifies its own approach to coping with either revenue shortfalls as a result of declining tax collections from real property transfers and values or burgeoning state coffers flowing from mining royalties levied on increasing levels of resource extraction. The federal government sits in the middle of this spectrum, with a strong and stable balance sheet, and a healthy outlook for tax revenues flowing from broad direct and indirect tax bases.

One of the key components of the solution is to adopt a greater degree of 'user pays' pricing of major infrastructure assets. Examples of this would include tolled motorways, time of day energy pricing and volumetric pricing for water. Adoption of more widespread user pays models would have the dual benefit of sending clear price signals to the marketplace about incentivising particular social behaviours – especially in relation to scarce resources such as water – while also serving to provide greater scope for private sector investment in infrastructure projects. The participation of private sector entities towards investing in public-private funding partnerships has, in part, been driven by returns on equity that fall below the minimum hurdle rates many commercial entities set for themselves. Introducing user pays pricing will go some way towards alleviating those challenges, which in turn, would help to stimulate greater interest from the private sector in participating in infrastructure building projects.

Another potential solution that could be considered in helping to boost investment in infrastructure is for the federal government to take on a co-funding role with the states and territories, in preference to the existing grants-based model which generally seeks to hand state jurisdictions a 'gift' to help towards the cost of building local infrastructure. A co-funding model would involve the federal government taking on the role of a major investor in the infrastructure projects, whereby the federal government can source funding from various channels typically at much lower interest rates than state and territory governments.

As noted earlier under fiscal sustainability, as the nation's health, education and infrastructure challenges become more pronounced there is no reason why such capital expenditures and programs cannot be partially funded through an increase in borrowing from the federal government.

31. Speech to CEDA Brisbane, Expert Advisory Panel Chairman COAG reform council, Professor Brian Howe AO 11 March 2011, www.coagreformcouncil.gov.au/media/speeches/2011-03-11, sourced 12 June 2013.

32. *Fit for the future: Challenges for the next generation of Australians* by the Institute of Chartered Accountants Australia in 2010.

04

EFFECTIVENESS AND STABILITY OF FINANCIAL MARKETS

Over the past few years, many global economies have experienced significant and damaging effects resulting from the global financial crisis which has resulted in millions of investors losing money in capital markets and secondary markets due to over-leveraging of gearing facilities and opaque corporate structures.

These various factors over time have combined to deliver a general decline in consumer confidence and trust in markets. The drop in confidence is problematic, for a number of reasons.

As assets grow through the compulsory superannuation system (for some individuals, this may well be their largest asset) there is a greater focus on the need for stability in the financial services industry. Improved trust is necessary to deliver a higher level of engagement between consumers, their savings and their overall financial position.

While there has been a focus in recent times on ensuring that the provision of financial advice to consumers is delivered within a strong regulatory framework, improving community trust in the financial services industry must be undertaken in the next term of the parliament.

The next major building block is to define the boundaries for a review into the structure of Australia's financial system, incorporating the banking system as well as key regulatory settings. These settings are vital in positioning the country to capitalise on our strong fundamentals which will dictate our future participation in global capital market developments.

The responsibility to rebuild this trust is two-fold with the consumer and the financial services providers. Currently, consumer responsibility is limited by low financial literacy and in some cases outright apathy due to the complexities of what individuals believe they need to know. Consumers – in the majority of cases – are simply looking for a trusted source of advice,

to provide guidance on their obligations as well their entitlements under various policy frameworks. This is an area where professional accountants, such as Chartered Accountants, have generally been able to play a key role. An incoming federal government should therefore take steps to ensure that policy frameworks recognise the fundamental and core role played by professional accountants in the community as trusted advisers who assist households to navigate their way through complex financial issues with independent and non-biased advice.

SMALL BUSINESS CONFIDENCE

With the small business sector employing millions of Australians, the economic benefit of a strong and confident small business sector is vital. Regulatory efficiency and confidence will ensure the long-term strength of this sector.

The federal government, with the agreement of the COAG Business Regulation and Competition Working Group, has requested that the Productivity Commission undertake a nine-month benchmarking study into regulator engagement with small business.

Integral to the small business sector is the advice and services framework they access. Traditionally the primary source of advice broadly for small business is their accountant, which therefore allows the small business owner to focus on their area of expertise which is running the business as opposed to the administration, regulatory and compliance requirements of a small business.

Anecdotal evidence suggests that family businesses tend to be more risk adverse, and have a desire to retain greater control over their business affairs than non-family businesses. This is reflected in their appetites for credit, with greater use of bank finance and lower use of external sources of equity finance. Like many SMEs, family businesses' ability to access bank finance is often dependent on their ability to offer property as security. Usually it is the value of these assets that determines access to capital, not the success or viability of the business. Business finance has been difficult to access for many businesses, with banks in the current economic environment tightening eligibility requirements.

While the majority of family businesses are structured as private companies, discretionary trusts are commonly used by family businesses, including for the protection of assets and for succession and estate planning purposes. The transfer of ownership of a family business to other family members can incur both capital gains tax and stamp duty costs. Unlike the sale of a business to a third party, transfer of ownership of a business to other family members will not necessarily generate cash proceeds and hence tax impositions can draw down needed business capital. To maintain the viability of the family business sector, consideration needs to be given to ways to enable the legitimate inter-generational transfer of businesses without tax imposts constituting a significant drain on the sector's resources and growth potential.

ROLE OF ASSURANCE

The next few years will continue to see rapid change in business environments and markets. Audit and assurance will play an important role in maintaining the strength of Australia's financial and business markets, while supporting financial integrity in society. The Institute's 2012 publication *Preserving capital market confidence through audit quality*³³ noted that quality external auditing is integral to capital market confidence and the financial audit is the linchpin for upholding confidence in the capital markets.

Business flourishes when supported by a clear, simple but effective regulatory environment. In relation to audit and assurance, Australia has been a leader in global convergence. The Institute supports this but recognises that Australia doesn't always need to be the first mover. Over the next few years there will be many overseas proposals and ideas in relation to audit regulation. While Australia is a mature capital market, in some ways similar to the

United Kingdom, United States and some European markets, many of the proposals which will be put forward in those markets are predicated on the economic position some countries are facing. These economic conditions have not eventuated in Australia. It should also be recognised that Asian markets are an important future focus for Australian business. Australia must guard against pricing itself out of future markets by being too complicated or costly to do business.

Outside of capital markets, Australian business and competitiveness can be enhanced by the provision of independent assurance. This provides a stronger basis for decision making and a stronger economy. The Institute recommends reducing complexity of regulation and utilising the work of the Auditing and Assurance Standards Board (AUASB) and professional bodies to help provide details for assurance. This will not only provide a stronger more robust regime, but also limit the cost to business. Unnecessary cost arises where regulations provide for different criteria or regimes – business needs clarity and certainty to flourish.

The provision of independent assurance other than on financial statements is increasingly seen as a necessary and effective option for business growth. Outside of Australia, there is growth in the demand for assurance over an entity's sustainability and other similar reports. As noted in relation to financial statement audit, business flourishes when there is certainty and clarity, and costs are reduced when there is consistency. The federal government should devote some time to understanding the key issues, and with appropriate advice from key stakeholder groups, they can formulate an appropriate position on how best to support and promote the role of assurance in driving effective and efficient markets for Australian businesses.

CORPORATE GOVERNANCE

Australia's corporations have been well served by the Corporate Governance Principles and Recommendations established by the Australian Securities Exchange. These principles are important in establishing and maintaining investor confidence in Australia's public companies and markets. A system of good corporate governance plays a vital role in allowing Australian corporations access to capital in global markets. Although they are principles-based, there has been a high level of reporting and compliance by Australia's listed entities. Principles-based requirements provide flexibility for corporations to implement the principles and recommendations in a way that reflects the size and nature of their structure.

The Principles interact with existing requirements within the *Corporations Act*. In recent years the government has sought to utilise legislation to deal with some corporate governance issues particularly around executive remuneration.

It is important that governments do not seek to increase existing compliance obligations and red tape for business. The Institute recommends that where a corporate governance issue does not require the backing of the force of law through penalties, the incoming government should seek to utilise principles-based requirements. This will reduce the regulatory burden for many organisations and lead to lower compliance costs. With many of Australia's listed entities competing globally it is important that Australia's compliance costs are not disadvantageous.

The Institute also recommends that, in the interests of effective and stable financial markets, there is greater focus on encouraging good dispute resolution through alternative methods. This would avoid costly and lengthy court cases and improve stability by removing the disruption and shock to markets.

INTEGRATED REPORTING

An integrated report is a communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. While the Institute recognises the importance of the existing financial reporting framework, it has its limitations because it is based on historical information and does not provide any deep insight into organisational strategy, nor does it provide sufficient information for investors to make decisions on its medium and longer-term prospects. Existing reporting frameworks do not provide the type of non-financial information that may be material to an organisation's performance. Integrated reporting seeks to provide a more complete picture of an organisation's performance in areas beyond financial metrics.

The Institute has been a long-time advocate of integrated reporting. In 2008, the Institute released a paper, *Broad Based Business Reporting – the complete reporting tool: the new benchmark in business reporting*³⁴ followed by *Broad Based Business Reporting – supplementary paper: Business reporting in practice in 2009*³⁵. Since then, the International Integrated Reporting Council (IIRC) has been created to oversee the creation of a globally accepted framework.

The IIRC released a draft integrated reporting framework for consultation in 2013. The IIRC is seeking to have integrated reporting as part of the business discussions at the G20 meetings in 2014. The Institute supports the concept of integrated reporting and recommends the government should support the inclusion of integrated reporting on the agenda during its G20 presidency in 2014.

34. *Broad Based Business Reporting – the complete reporting tool: the new benchmark in business reporting* (2008) Institute of Chartered Accountants Australia, www.charteredaccountants.com.au/~media/Files/Industry%20topics/Reporting/Resources%20and%20toolkits/Reports/BBBR_2008.aspx sourced 12 June 2013.

35. *Broad Based Business Reporting – supplementary paper: Business reporting in practice* (2009) Institute of Chartered Accountants Australia, www.charteredaccountants.com.au/~media/Files/Industry%20topics/Reporting/Resources%20and%20toolkits/Reports/BBBR_2008.aspx sourced 12 June 2013.

STANDARD BUSINESS REPORTING

Standard business reporting (SBR)³⁶ for financial reporting purposes has been available through ASIC for some time. However, the Institute understands that no company has actually lodged their financial report using this technology. SBR is intended to allow businesses to streamline their reporting obligations, with the aim of reducing the overall regulatory compliance burden. Organisations have been reluctant to explore this new technology due to the view that the costs of adoption will exceed any benefits gained through lower compliance costs. XBRL – the technology used in developing SBR – is used by the world's leading capital markets, including Germany, Japan, Singapore, the UK and the US.

Over the medium term, there is likely to be a compelling case for the federal government to pursue a mandatory requirement for the lodgement of listed company financial reports using SBR, subject to undertaking appropriate analysis of the regulatory impact of such a change.

One of the greatest benefits of SBR, along with international comparability and competitiveness, is the making available of better information for investors in capital markets, on the basis that data will be easily accessed, compared and analysed. Ultimately, those attributes will allow for more informed decision-making to occur across capital markets.

36. Institute of Chartered Accountants Australia and CPA Australia joint submission to Treasury on their *Options Paper: Use of Standard Business Reporting (SBR) for Financial Reports* 14 March 2013.

future [inc]

A PLAN FOR AUSTRALIA'S ECONOMIC PROSPERITY

future[inc] is framed on economic analysis around the major challenges facing Australia's prosperity and seeks to identify the most appropriate pathway to position us to maximise our opportunities.

The current short term nature of the political debate in Australia is resulting in the longer term game plan falling by the wayside.

This void needs to be filled. And who is better placed to do this than experts in planning – Chartered Accountants.

INSTITUTE OF CHARTERED ACCOUNTANTS AUSTRALIA

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world.

Representing more than 72,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute of Chartered Accountants Australia was established by Royal Charter in 1928 and today has more than 60,000 members and 12,000 talented graduates working and undertaking the Chartered Accountants Program.

The Institute is a founding member of the Global Accounting Alliance, which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide.

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