Productivity Inquiry

Call for submissions

KPMG Australia

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Contents

Executive summary

KPMG Australia (KPMG) welcomes the opportunity to provide a submission to the Productivity Inquiry's call for submissions (the Inquiry).

KPMG notes that productivity growth has slowed since the turn of the century. Since productivity growth has contributed almost all of Australia's improvement in material living standards since federation, it is essential that the productivity slowdown is arrested and turned around if Australians are to enjoy continued increases in living standards, social disadvantage is to be reduced and the Australian and global environments are to be preserved and repaired.

KPMG proposes that the Productivity Commission's report includes pathways to and recommendations for productivity-raising reforms in the following areas:

- Competition;
- Research and development;
- Infrastructure;
- Emissions reductions;
- Workplace relations;
- Modernisation in the digital age;
- Taxation;
- Gender-based reforms;
- Education and training; and
- Immigration.

While this list is not exhaustive, successful reform in these areas would go a long way to restoring productivity growth rates to the productivity boom levels of the 1990s and early 2000s.

This submission outlines 13 recommendations at section one and provides an overview of each of the proposed reform areas at section two. KPMG is keen to continue engaging with the Productivity Commission in its Inquiry and to share modelling and provide greater detail of the work it has done on specific reform proposals.

Yours sincerely,

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Background

About KPMG

KPMG is a global organisation of independent professional firms, providing a full range of services to organisations across a wide range of industries, governments and not-for-profit sectors. We operate in 146 countries and territories and have more than 227,000 people working in member firms around the world. In Australia, KPMG has a long tradition of professionalism and integrity combined with our dynamic approach to advising clients in a digital-driven world.

Section 1: KPMG recommendations

Recommendation 1: The Productivity Commission should consider developing a suite of pro-competitive reforms that includes an evaluation of the effects of government subsidies and the possibility of removing remaining tariffs that are applied at the rate of 5 percent.

Recommendation 2: The Productivity Commission should include in its report an appraisal of the R&D support programs in Australia, including the adequacy, efficiency and effectiveness.

Recommendation 3: The Productivity Commission should consider whether national and state infrastructure decisions should be based on rigorous cost-benefit analysis overseen by independent agencies such as Infrastructure Australia. Non-economic criteria such as social considerations should be made explicit.

Recommendation 4: Proposals such as the NSW Government's six cities plan, including modern and efficient rail infrastructure, merit serious attention and would benefit from federal-state coordination through a body such as Infrastructure Australia.

Recommendation 5: The Productivity Commission should consider preparing a separate report evaluating existing policies and policy frameworks for hastening the transition to renewable energy and making recommendations for reform. These would include the Australian Renewable Energy Agency (ARENA), the Clean Energy Finance Corporation (CEFC), the Underwriting New Generation Investments (UNGI) program, the Clean Energy Regulator, the Climate Change Authority and relevant federal and state government departments.

Recommendation 6: The Productivity Commission should consider reforms to modernise Australia's workplace relations system. In doing so, it should include reforms related to enterprise agreement making; award simplification; compliance and enforcement; and greenfield agreements for new enterprises.

Recommendation 7: Building on its earlier work, the Productivity Commission should examine the scope for modernising the economy in the digital age – without diminishing the quality of services – by digitising selected government services in areas such as business compliance with government regulations, financial services and health.

Recommendation 8: The Productivity Commission should set the scene for a comprehensive, consultative review of Australia's tax system, assessing the productivity benefits of reforms including: the GST and its method of distribution among the states and territories; the replacement of land transfer duty with land tax; the harmonisation of the base of payroll tax among the states and territories; and the introduction and harmonisation of road user charges for electric vehicles.

Recommendation 9: The Productivity Commission should revisit recommendations from its 2015 final inquiry report *Childcare and Early Childhood Learning* and consider whether those that have not yet been actioned should now be prioritised.

Recommendation 10: The Productivity Commission should examine further changes to the Child Care Subsidy that could build on the Commonwealth Government's recent reforms and assist in further reducing Workforce Disincentive Rates.

Recommendation 11: The Productivity Commission should examine the options available for enabling both parents or carers to remain connected to their careers and workplace during periods of parental leave.

Recommendation 12: The Productivity Commission should consider the *Joyce Review* recommendations and address the underlying structural issues in the system that impede reform, including: improve data collection, attract more qualified trainers; and foster closer cooperation between industry and VET providers.

Recommendation 13: The Productivity Commission should consider reforms to Australia's skilled migration program that would attract and retain international students, such as making post-study work rights easier to obtain and last longer, adding further permanent residency points to these post-study work rights, and increasing permanent residency points for students who undertake study in areas of skills shortage or in regional areas.

Section 2: KPMG insights

KPMG insights

Overview

KPMG strongly supports the Productivity Commission's inquiry into Australia's productivity performance and its call for submissions[1] on the reform areas most likely to enhance productivity growth.

The Productivity Commission has estimated that productivity growth has contributed almost all the increase in GDP per capita since Federation.[2]

As the Productivity Commission's call for submissions points out, productivity growth has slowed since the turn of the century (Figure 1, p. 2). In the first decade of the new century, Australia relied substantially on favourable terms of trade to increase living standards. The rate of improvement in living standards fell away in the second decade as productivity growth continued to slide and the terms of trade effect weakened.

The medium-term economic outlook in the Budget papers and the 40-year projections contained in the most recent Intergenerational Report[3] are predicated on labour productivity growth returning to the 1.5 percent annual average of the 30 years to 2018-19 and remaining at that rate thereafter. But since that 30-year average includes the productivity boom years of the 1990s, this is a highly optimistic assumption in the absence of a new productivity-raising reform program.

The Intergenerational Report recognises this and conducts a sensitivity analysis using an annual productivity growth rate of 1.2 percent (Box 4.2, p. 53). At this slower productivity growth rate, the Intergenerational Report projects real GDP to be almost 10 percent lower by 2060 than it otherwise would have been and Gross National Income per person to be 32 percent lower.

This submission is a preliminary assessment of potential reform areas capable of lifting productivity growth. KPMG would be interested in continuing to liaise with the Productivity Commission following its receipt of initial submissions to delve more deeply into prospective reforms, on which KPMG has done considerably more work than is contained in this submission.

Context of KPMG's recommendations

The world has been enduring its worst pandemic in more than a century and there remains a prospect of further variants of COVID-19 emerging. At the same time, geopolitical tensions have reached their highest level since the breakup of the Soviet Union in the early-1990s.

[1] https://www.pc.gov.au/inquiries/current/productivity/call-for-submissions/productivity-inquiry-call-for-submissions.pdf
[2] https://www.pc.gov.au/research/ongoing/productivity-insights/long-term/productivity-insights-2020-long-term.pdf *(Figure 6, p. 11).*
[3] https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf *(p. 8)*

Both these developments have understandably led to calls for greater sovereign capability – such as in vaccine production, personal protective equipment and testing kits, the onshoring of manufacturing, energy security, the securing of strategically important supply chains and increases in domestic defence capability.

Well before the pandemic struck in early-2020 the rules-based trading system had been under extreme pressure from countries flouting the World Trade Organisation (WTO) rules and the WTO's failure to take on reforms in areas such as state-owned enterprises, intellectual property protection and its dispute-settling procedures.

The pandemic, rising geopolitical tensions and the weakening of the post-war rules-based trading system are exerting pressure for increased protection through trade barriers and government subsidies. Whereas in the post-war era competition has proven successful in increasing labour productivity and multifactor productivity through innovation, specialisation and the sharing of the resulting gains from trade, the era the world has now entered is likely to be less conducive to competition and openness.

This will make the challenge of designing and implementing productivity-raising reforms more difficult in Australia and elsewhere than it has been for much of the post-war era. Yet without a new productivity-raising reform program of the breadth of that of the 1980s and 1990s, Australia risks falling into an anti-competitive trap where capital and labour are locked in unproductive uses, undermining returns on investment, wages, government revenue in an ageing population, and ultimately the living standards of the Australian people.

Proposed reform areas

KPMG's proposed reform areas can be categorised as follows:

- Competition;
- Research and development;
- Infrastructure;
- Emissions reductions;
- Workplace relations;
- Modernisation in the digital age;
- Taxation;
- Gender-based reforms;
- Education and training; and
- Immigration.

Competition

The productivity boom of the 1990s was due largely to pro-competitive reforms including reducing tariffs, eliminating quotas, phasing in decentralised wage fixing and introducing National Competition Policy. These reforms enabled scarce resources to move from protected industries with relatively low productivity to new, internationally competitive industries with high productivity.

In the aftermath of the Global Financial Crisis and the COVID-19 pandemic, and associated expansionary fiscal and monetary policies, real interest rates are at historically low levels and credit is in plentiful supply. The growing affluence of China and its integration into the world economy has further boosted global savings. While the ready availability of credit has had large benefits in cushioning businesses from crises, it has also enabled the persistence of so-called zombie companies – able to survive but unable to thrive and expand. The effect has been to lock scarce resources of skilled labour and management into low-productivity businesses.

Meanwhile, new business investment has slowed markedly. The Reserve Bank has identified the persistence of high business hurdle rates in the face of declining costs of financial capital.[4] This implies increasing risk aversion, perhaps reflecting perceptions of financial, policy and geopolitical instability.

All these developments have combined to produce an era of secular stagnation: low interest rates but weak private investment, low productivity growth and slow wages growth.

Reforms designed to increase competition are potentially powerful sources of growth in multifactor and labour productivity. KPMG suggests that for the purposes of its Productivity Inquiry, the Productivity Commission develops a suite of pro-competitive reforms that includes an evaluation of the effects of government subsidies and the possibility of removing the remaining tariffs that are applied at the rate of 5 percent.

The Australian economy needs private risk taking in the development and adoption of new technologies and the policy settings for business should facilitate the private sector in this regard. If governments are disposed to providing subsidies to business, investment will tend to gravitate to activities where governments have taken on a substantial share of the risk.

Federal government subsidy programs have increased in number and size in the last decade or so. Subsidies paid to businesses for unsound public policy reasons should be reviewed and desirably eliminated.

Importers from countries of the Asia-Pacific region can apply for exemption from the general 5 percent tariff through various regional and bilateral trade agreements. However, the transaction costs of doing so, including working out which is the most relevant agreement, are such that small-business importers often decide to pay the tariff.

Recommendation 1: The Productivity Commission should consider developing a suite of pro-competitive reforms that includes an evaluation of the effects of government subsidies and the possibility of removing remaining tariffs that are applied at the rate of 5 percent.

[4] https://www.rba.gov.au/publications/bulletin/2021/dec/pdf/why-are-investment-hurdle-rates-so-sticky.pdf

Research and development

Government support for industry-based research and development (R&D)[5] is justified on the basis that it assists industry to undertake higher-risk R&D, is partially recovered through income and other downstream taxes and generates positive spillover effects. Since the originators of R&D typically cannot capture all its benefits, R&D will be under-provided by the private sector from society's viewpoint.

A vexed issue continues to be the right balance and extent of R&D subsidies; especially in relation to the balance between support for industry versus public sector R&D and for industry, the balance between direct and indirect support (for example grants and tax concessions). Traditionally, Australia has favoured indirect support via a R&D tax concession, which since its inception in 1986, has been reviewed and revamped several times. In 2019, R&D tax incentives accounted for 82 percent of total government support for business expenditure on R&D.[6] Direct support via grants comprises a range of grant programs, predominately focused on those that are likely to advance strategic technologies and industries.

The case for government support for R&D is generally stronger for pure research than for applied research, since industry is less likely to fund pure research and the longer-term potential positive spillover effects may be greater. Arguably the balance between private/public and direct/indirect funding for R&D warrants more consideration, which itself must be based on evidence of the success (or otherwise) of existing government programs.

The Productivity Commission's Inquiry should include an appraisal of the R&D support system in Australia, including the adequacy and effectiveness of existing programs and the optimal balance between funding types and destinations. Decisions on programs to be funded should be based on the best possible assessments of prospective net national benefits of proposals.

Recommendation 2: The Productivity Commission should include in its report an appraisal of the R&D support programs in Australia, including the adequacy, efficiency and effectiveness.

Infrastructure

Inefficient land, marine and air infrastructure causes unnecessary delays and congestion. Modern, efficient infrastructure can contribute strongly to productivity growth. National and state infrastructure decisions should be based on rigorous cost-benefit analysis overseen by independent agencies such as Infrastructure Australia. While government infrastructure decisions can legitimately be based on non-economic criteria such as social considerations, these should be made explicit.

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[5] *R&D has a broad OECD definition (Frascati Manual) whilst what is supported via programs such as the R&D tax incentive are increasingly narrower.*

[6] *https://www.oecd.org/sti/rd-tax-stats-australia.pdf*

As Australia's population increases and congestion in the nation's biggest capital cities worsens, proposals such as the NSW Government's six cities plan[7] involving three cities within the Greater Sydney Region, the Central Coast, Newcastle and the Illawarra, merit serious attention. Modern, efficient rail infrastructure connecting the six cities could be considered.

A similar approach could be implemented in other parts of the country including Victoria, involving the Greater Melbourne Region, Geelong and regional cities such as Bendigo and Ballarat. Again, modern rail infrastructure connecting these centres could be considered.

Recommendation 3: The Productivity Commission should consider whether national and state infrastructure decisions should be based on rigorous cost-benefit analysis overseen by independent agencies such as Infrastructure Australia. Non-economic criteria such as social considerations should be made explicit.

Recommendation 4: Proposals such as the NSW Government's six cities plan, including modern and efficient rail infrastructure, merit serious attention and would benefit from federal-state coordination through a body such as Infrastructure Australia.

Emissions reductions

The so-called climate wars have created great uncertainty for prospective investors in emissions-reducing activities. With both major federal political parties committing to net zero emissions by 2050, along with all states and territories and all major business and rural organisations, the uncertainty surrounding climate policy might be easing. KPMG would welcome greater bipartisanship on emissions-reduction policies in Australia.

Australia has a comparative advantage in the production, export and domestic utilisation of low-emissions and zero-emissions energy. The transition will involve the retirement of old, coal-fired power stations and other ageing physical capital, and its replacement with modern facilities embodying the latest technologies. This will provide a welcome boost to productivity. As a result of the deployment of renewable energy sources, the cost of electricity is already falling. The energy transition presents an opportunity to create new jobs in regions that have been based on thermal coal production and electricity generation, enabling workers to move into new, high-productivity activities such as hydrogen production and minerals processing such as aluminium and pig-iron production for export.

As coal-fired power stations are closed and replaced by renewable energy and firming capacity, some disruption to those communities can be expected. It is likely, though, that the transmission systems from the existing coal-fired power stations will be retained to transport electricity from these new sources to the major population centres. That is, the existing locations for electricity generation are likely to be repurposed for renewables instead of being relocated.

[7] https://www.greater.sydney/news/three-cities-to-six-cities

Renewable energy can also strengthen Australia's reputation as an exporter of safe, clean premium agricultural produce. The production of premium goods using renewable energy will enhance their global reputation.

Australia has a comparative advantage in carbon offsets by virtue of its large tracts of land potentially available for revegetation and carbon farming, its long coastline for marine sequestration opportunities and its institutional framework featuring the Clean Energy Regulator and high-integrity Australian Carbon Credit Units (ACCUs) – while not a substitute for absolute reductions in emissions, credits will be an important piece in the puzzle of achieving net-zero emissions nationally and globally.

The COP26 meeting at Glasgow in late-2021 agreed to operationalise Article 6.2 of the Paris Agreement, which facilitates international trading in carbon credit units that can be counted against countries' Nationally Determined Contributions to global net emission reductions. This could enable Australia to negotiate bilateral and regional agreements to sell ACCUs as offsets against emissions in countries that are difficult to reduce or abate.

Government policies aimed at hastening the transition to renewable energy while ensuring the availability of adequate firming capacity should avoid crowding out private sector investments that otherwise would have occurred. Ad hoc interventions can increase sovereign risk, causing prospective investors to put energy-transition projects on hold. For example, the Underwriting New Generation Investments (UNGI) program, announced in 2018, has not yielded any projects, but it can have a chilling effect on private proposals that do not involve the seeking of government financial support.

Furthermore, a lack of coordinated policy frameworks and policies that will credibly put the economy on the path for Net Zero risks Australia being penalised in international capital markets. Requirements to meet Environmental, Social and Governance (ESG) targets within investment portfolios will lead investors towards assets that clearly qualify, raising funding costs (and impairing capital investment) for those that don't.

Recommendation 5: The Productivity Commission should consider preparing a separate report evaluating existing policies and policy frameworks for hastening the transition to renewable energy and making recommendations for reform. These would include the Australian Renewable Energy Agency (ARENA), the Clean Energy Finance Corporation (CEFC), the Underwriting New Generation Investments (UNGI) program, the Clean Energy Regulator, the Climate Change Authority and relevant federal and state government departments.

Workplace relations

All parties agree on the need to reform and modernise Australia's workplace relations system. Indeed, despite a large amount of common ground among the parties during the working group discussions in 2020, this did not lead to substantive legislative reform, as only amendments relating to casual employees were passed. The need to fix the enterprise bargaining system remains high on the priority list, which has been found to no longer serve the interests of the parties to bargaining rounds.

KPMG developed reform options[8] at the time relating to:

- Enterprise agreement making;
- Award simplification;
- Compliance and enforcement; and
- Greenfield agreements for new enterprises.

KPMG would be happy to elaborate on its proposals for workplace relations reforms.

Recommendation 6: The Productivity Commission should consider reforms to modernise Australia's workplace relations system. In doing so, it should include reforms related to enterprise agreement making; award simplification; compliance and enforcement; and greenfield agreements for new enterprises.

Modernisation in the digital age

Except for mining, the structure of the Australian economy has been shifting from the capital-intensive production of goods to the labour-intensive production of services. This has helped explain the slowing of productivity growth.

However, there are ways of increasing labour productivity in the services sector, such as making use of Big Data to better allocate resources across individuals, and the implementation of new digital technologies such as blockchain to further streamline transactions through the economy. To illustrate, online booking services in the tourism sector now dominate the travel and reservation systems for holiday and business destinations.

The Federal Government is undertaking productivity-raising reforms of government compliance systems, the payment of invoices and the electronic replacement of manual statutory use declarations.

The use of online meetings during the pandemic when restrictions applied will not revert to pre-pandemic levels. Less travel within and between population centres can be expected, together with an accelerated population shift out of the capital cities to regional centres. This is likely to reduce the need for new private and public transport infrastructure in the major cities and the associated disruption to existing roads and public transport facilities. Conversely, it will shift the focus to the infrastructure that enables digital activities, such as the current rollout of 5G and upgrading of the National Broadband Network.

The COVID-19 pandemic necessitated a more rapid transition to eHealth, including online GP consultations for routine medical services. Many advances in eHealth during the pandemic will remain viable and effective in the post-pandemic world.

[8] https://assets.kpmg/content/dam/kpmg/au/pdf/2020/industrial-relations-working-together-for-reform-july-2020.pdf

KPMG has been working with Medibank Private[9] in estimating the savings from moving rehabilitation services out of hospitals and into homes, freeing up scarce hospital capital and human resources for uses that require hospital settings. Productivity-raising efficiencies such as these can improve health outcomes while containing costs.

Recommendation 7: Building on its earlier work, the Productivity Commission should examine the scope for modernising the economy in the digital age – without diminishing the quality of services – by digitising selected government services in areas such as business compliance with government regulations, financial services and health.

The tax and transfer system

GST – the rate, the base and its role in the tax system

As a nation, we should consider changes to the GST as part of a holistic reform of Australia's tax system, and not discuss it in isolation from other current or potential future components of the tax system. Consequently, the policy options should not be limited to consideration of the GST alone, and should include complementary tax policy measures that create a holistic picture of how the tax system could look in the future.

The Productivity Commission should examine the likely benefits of state treasuries developing projections of national GST revenues that include the magnitude and timing of further erosion of the base resulting from trends towards spending on services that do not attract GST – residential rent, education, health and overseas travel. These projections would serve to inform appropriate policy responses.

KPMG's view is that carrying out these projections would be beneficial for the following reasons:

- Broad public understanding of the future profile of GST revenues is vital for any responsible debate on reform of Australia's tax system towards a more efficient tax base.
- To date, the debate on GST has been limited to its regressive aspect and the compensation that would be necessary if the rate were increased or the base broadened. The debate needs to include consideration of other, less efficient indirect taxes with a burden on the disadvantaged and which could potentially be phased out as part of a broad-based reform.
- Even if this analysis does not lead to change in the GST rate or base, it would establish the case for reform of these other taxes.

Allocation of GST revenues between the states and territories

The Productivity Commission should examine options for the Commonwealth and state and territory governments to manage the allocation of GST revenues such that a state

[9] https://www.medibank.com.au/livebetter/newsroom/post/medibank-at-home-treats-20-000-patients-as-new-research-shows-rehab-at-home

or territory would not be disadvantaged with a lower GST share because it had undertaken major productivity-enhancing tax reform.

Jurisdictions which successfully reform their tax base should be able to benefit from doing so. At the same time, the commitment to maintaining a good quality of life and adequate government services across all jurisdictions is fundamental to the strength of Australia's federation.

It is therefore important to strike a fair balance between rewarding states that innovate and maintaining and indeed enhancing the minimum standard of government services that is available in all jurisdictions.

Land transfer duty

The Productivity Commission should examine how the states and territories can transition in a coordinated manner away from land transfer duty towards a broad-based annual property tax.

Any transition should be managed with the support of detailed distributional and financial modelling and public communication and consultation, so that the transition is fair, efficient and minimises the amount of revenue foregone.

It would be essential for there to be some deferral mechanism for very low-income and more elderly individuals who hold property in their own names.

State and territory payroll tax

The Productivity Commission should make recommendations for a strategic national approach to payroll tax reform that addresses the hollowing out of the tax base and the complexity this imposes on taxpayers.

Harmonisation of the tax base would enable centralised collection and administration, which would be more efficient. There could still be scope for different rates between jurisdictions.

The national approach should include consideration of whether the administrative burden of government employers being subject to payroll tax would be outweighed by the removal of the economic distortion between the public and private sectors.

Alignment of the categories of taxable worker pay with Commonwealth concepts could occur through use of the expanded definition of an employee in the superannuation guarantee rules, and for the income tax rules for personal services income.

Road user charging

The Productivity Commission should make recommendations for the design of a nationally compatible and fair road user charging scheme for electric vehicles.

The current imbalance between different types of vehicles' contribution to the upkeep of roads will increase over time as electric vehicle uptake grows. Distance-based charging could include a cap so as not to disadvantage regional motorists or lower-income workers who have a longer commute. It should also be compatible with community expectations around privacy.

The Productivity Commission should also consider how, after distance-based charging for electric vehicles has been successfully implemented, there could be replacement of vehicle registration, licence fees and stamp duties on motor vehicles and motor vehicle insurance with a distance-based charging scheme that better reflects the social and financial costs of road use, including wear-and-tear, pollution and congestion. However, such a scheme should be designed in a way that it does not discourage the use of electric vehicles (and preferably as a part of a broader suite of policies in this area).

Recommendation 8: The Productivity Commission should set the scene for a comprehensive, consultative review of Australia's tax system, assessing the productivity benefits of reforms including: the GST and its method of distribution among the states and territories; the replacement of land transfer duty with land tax; the harmonisation of the base of payroll tax among the states and territories; and the introduction and harmonisation of road user charges for electric vehicles.

Gender-based reforms

KPMG has proposed reforms to Child Care Subsidy and paid parental leave (PPL).

Early childhood education and care (ECEC)

Availability of affordable, high-quality ECEC services is fundamental to the ability of individuals with childcare responsibilities to work the maximum number of hours that they would like to work. It is central to Australia's ability to improve productivity.

In 2015 the Productivity Commission published its final inquiry report *Childcare and Early Childhood Learning.*[10]

The Productivity Commission's report made several recommendations aimed at enhancing the operations and outcomes delivered by the ECEC sector. There has been action on a number of these recommendations.

It would now be timely to revisit the Productivity Commission's recommendations and reconsider whether those that have not yet been actioned should now be prioritised. To the extent that unactioned recommendations currently fall within the Federal Government's sphere of responsibility, there is the opportunity to instigate a discussion of whether it would make sense to transfer any of these to state or territory responsibility.

The National Quality Framework (NQF) commenced in 2012 and incorporates a reasonably consistent legislative and regulatory structure governing the ECEC sector. However, there can be significant differences in the requirements of the respective state and territory regulators when they are assessing compliance with the nationally applicable law and regulations.

The Productivity Commission should examine the potential benefits of government undertaking a coordinated assessment of the impact that the regulators' approach has

[10] *Inquiry report - Childcare and Early Childhood Learning Productivity Commission (pc.gov.au)*

on the ECEC providers. Where this assessment was able to identify efficiencies that could be achieved in evidencing compliance, or opportunities for enhancing consistency in the regulatory approach across the respective agencies, this would reduce the sector's cost of delivery and benefit consumers.

The Commonwealth's Child Care Subsidy (CCS)

In the last 12 months the Commonwealth has enhanced the CCS by removing the annual per-child cap. This has eliminated one of the scenarios where a carer could be worse off from increasing their ECEC use to take on an additional day's work, due to the level of CCS withdrawal that would occur.

Where a family has more than one child aged five or younger who is using ECEC services, the Commonwealth has also implemented an increase in the CCS percentage for the second and any additional children. This would assist in reducing some of the more severe Workforce Disincentive Rates (WDRs)[11] that would apply for a carer needing to take on additional ECEC services so that he or she could work more hours.

KPMG's September 2020 analysis[12] showed that families in all income quintiles could experience WDRs of more than 70 percent. The Productivity Commission should examine the further changes to the CCS that could build on the Commonwealth's recent reforms and assist in eliminating the remaining more severe instances of high WDRs.

A better system of paid parental leave

An economy and society where caring for young children is more evenly shared between mothers and fathers would enable more women to participate consistently in the workforce during their careers.

Such an economy would benefit from increased workforce participation and productivity from a less disrupted workforce attachment and more continuity in skills development.

As Australia recovers from the COVID-19 crisis, it is essential that we tackle the structural impediments to women's economic participation to accelerate economic growth and continue to make Australia a fairer and stronger country.

There are considerable advantages for Australia to move to a model of gender equality for child-rearing. A more equal parenting model would give rise to a higher standard of living arising from increased productivity and participation.

As such, KPMG welcomes the Federal Government's announcement in the 2022-23 Budget of an enhanced PPL scheme which provides 20 weeks that is transferrable between both parents, with no distinction between primary and secondary carers. The enhanced scheme will help to encourage increased workforce participation and productivity, and begin to drive cultural change by removing the distinction between

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[11] KPMG uses the term WDRs to illustrate the percentage of the gross pay from an additional day's work that an individual would lose in additional income tax / Medicare levy, withdrawn family tax benefit and additional out-of-pocket childcare costs (including any withdrawn CCS relating to existing childcare use).

[12] Child care subsidy: Increasing caregiver support - KPMG Australia (home.kpmg)

carers. KPMG encourages the government to continue to build on this scheme in the future.

In its 2021 report *A better system of Paid Parental Leave*[13] KPMG examined the possibilities for introducing changes to the Commonwealth's PPL scheme which would encourage and incentivise a more equal sharing of leave between parents, rather than simply permitting it. The encouragement would be in the form of bonus weeks of leave where the parents achieve a more even share of the base leave period between them.

The Productivity Commission should further examine the options available for enabling both parents or carers to remain connected to their careers and workplaces during periods of parental leave.

Recommendation 9: The Productivity Commission should revisit recommendations from its 2015 final inquiry report *Childcare and Early Childhood Learning* and consider whether those that have not yet been actioned should now be prioritised.

Recommendation 10: The Productivity Commission should examine further changes to the Child Care Subsidy that could build on the Commonwealth Government's recent reforms and assist in further reducing Workforce Disincentive Rates.

Recommendation 11: The Productivity Commission should examine the options available for enabling both parents or carers to remain connected to their careers and workplace during periods of parental leave.

Education and training

For the education and training sector to truly thrive, connecting and collaborating has never been more important. Collaboration across higher education, schools, employment networks, industry and government is crucial to improving the quality of Australia's education and training system and ensuring it can be responsive to emerging skills, industry needs and societal expectations.

An effective vocational education and training (VET) and higher education system is of critical importance to Australia's economy, particularly in the post-COVID environment. The VET system is essential to providing a trained and skilled workforce across most industry sectors in the country. Higher education is similarly important, including as an internationally competitive services sector, educator of future professionals and in supporting innovation and creativity through the arts and R&D.

In 2019, 1.5 million students were enrolled in higher education and 4.2 million were enrolled in Australian VET providers, including students enrolled with Australian providers operating overseas.[14] A successful future of both relies on flexibility, adaptability and meeting the needs of students and industry. KPMG has reported

[13] A better paid parental leave system in Australia - KPMG Australia (home.kpmg)

[14] https://www.aihw.gov.au/reports/australias-welfare/higher-education-and-vocational-education

extensively[15] on the challenges for higher education providers, noting the need for more mature approaches to the student experience if our higher education institutions are to remain competitive.

The VET system is critical to ensuring optimal economic and social outcomes for all Australians. The social outcomes embody the 'leave nobody behind' approach to the provision of VET, particularly when publicly funded, so that VET institutions need to be resourced to meet their community service obligations and ensure all individuals have the opportunity for skilling, upskilling and reskilling to be competitive in the marketplace. The economic outcomes are obvious in that industry workforce needs are met to maintain and grow productivity. If the VET sector produces fewer or inadequately skilled workers, economic shocks can result. Therefore, the sector needs to be responsive to the changing demand environment for different skills and needs to be constantly forward-looking and responsive.

VET is a complex eco-system of multiple stakeholders. While students are at the centre, major stakeholders include industry groups, employers, providers, government and the community. The complexity increases because the funding model is a mix of federal and state governments and Registered Training Organisations (RTOs), with a mix of publicly owned (technical and further education (TAFE) institutes), private providers and enterprises. Even schools and universities can be training providers. Approved courses can be as short as a single day for a single Unit of Competence (UoC) to a four-year Australian Apprenticeship (AA). Student fees can vary from zero-cost 'fee-free' courses to those costing tens of thousands of dollars. The result is it is very difficult to accurately measure the effectiveness of the VET system and its alignment with the labour market.

More consistent and timely data collection would allow policy makers to track VET effectiveness and amend policy faster to enable the sector to adapt to changing needs. While the sector is producing some excellent outcomes, it is also besieged by complex problems. Many components of the system are outdated, disconnected and simply not fit-for-purpose. Training packages, endorsed by industry, often contain qualifications that do not lead to job outcomes. Training providers are limited by the rigidity of the system while employers become frustrated with graduates not being job ready. Students want far more choice in length and composition of courses, often preferring shorter, just-in-time training over traditional qualifications. While these issues are well known to government and the sector generally, quantifying this is difficult due in large part to the lack of reliable data from and within the VET system.

In 2019, the Honourable Steven Joyce presented an *Expert Review of Australia's Vocational Education and Training System: 'Strengthening Skills'* (the Joyce Review). The *Joyce Review* provides the foundation for the reform agenda for the Australian VET sector. The review recommends actions to further support and enhance the sector's ability to adopt a flexible approach required to address current skills shortages and adapt

[15] *https://assets.kpmg/content/dam/kpmg/au/pdf/2021/student-experience-in-the-age-of-the-customer.pdf & https://home.kpmg/content/dam/kpmg/xx/pdf/2020/10/future-of-higher-education.pdf*

to future labour force demands. Implementing these recommendations should remain a reform priority.

However, there are significant barriers in the system that stifle these needed reforms. For example, the system is not nationally unified, which produces inconsistencies between state and federal regulators. As noted, the system produces inconsistent data with 12 to18 month time lags, meaning policy makers have no single source of truth to make informed and timely evidence-based decisions. Moreover, finding and retaining trainers for priority industries (for example traditional trades, construction and cyber security) under acute skill shortage pressures and high wage growth is difficult due to the lower wages on offer than in the sector itself. Structural reform is required where industry collaborates with providers to deliver courses, including giving access to the latest technology, so that newly qualified workers have hands-on experience with current industry equipment and best practice.

Recommendation 12: The Productivity Commission should consider the *Joyce Review* recommendations and address the underlying structural issues in the system that impede reform, including: improve data collection, attract more qualified trainers; and foster closer cooperation between industry and VET providers.

Immigration

It is not only the level of immigration but also its composition that determines its national benefit. Australia's immigration program can be thought of as comprising high-skilled permanent migration, low-skilled permanent migration, high-skilled temporary migration, and low-skilled temporary migration.

Using immigration only to boost population and through it, economic growth, does not of itself increase the living standards of resident Australians. The benefit comes from concentrating the immigration program on skilled people. Immigration adds skills to the economy, offsets the ageing of the pre-existing resident population, and benefits society through cultural diversity. The augmentation of the Australian skills base through intakes of skilled migrants boosts productivity growth.

In its 2020 report *Pathways to recovery: International students will boost our living standards*,[16] KPMG estimated the benefits of increasing Australia's international student intake to help offset the economic losses caused by the COVID-19 pandemic. The report estimates that if Australia were to add an extra 40,000 young, skilled migrants to the population, GDP in 2029-30 and thereafter would be improved by $4.7 billion and household disposable income by $3.2 billion on an ongoing basis.

International students are younger than the Australian population as a whole and can be expected to be skilled because of their educational attainment after completing their studies. To retain and attract international students in a highly competitive global marketplace, the Australian government could consider making post-study work rights

[16] https://home.kpmg/content/dam/kpmg/au/pdf/2020/pathways-to-recovery-international-students-boost-living-standards.pdf

easier to obtain and last longer, add further permanent residency points to these poststudy work rights and increase permanent residency points for students who undertake study in areas of skill shortage or in regional areas.

Recommendation 13: The Productivity Commission should consider reforms to Australia's skilled migration program that would attract and retain international students, such as making post-study work rights easier to obtain and last longer, adding further permanent residency points to these post-study work rights, and increasing permanent residency points for students who undertake study in areas of skills shortage or in regional areas.

Concluding remarks

KPMG would be happy to be involved on an ongoing basis in assisting the Productivity Commission to identify reforms capable of lifting Australia's productivity performance. This could include further elaboration of the reform proposals listed above and economic modelling of the economic impacts of various reforms using KPMG's economic modelling capability.

KPMG

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