

Submission to PESRAC

We write as a group of business people who own, control, operate or manage businesses which directly employ over 3000 staff, and indirectly circa 12,000 staff throughout the State of Tasmania. We would like to offer our thoughts on what we feel ought to be key government objectives and areas of focus in the post-pandemic response.

The lasting impacts of the COVID-19 pandemic on the Tasmanian economy and the social fabric of the community will be significant. Whilst we all hope for the best, we need to plan for the worst, and ensure policy settings maximise the best long term outcomes for the State and its people.

It does not matter if you are an individual, a small or large enterprise; you have been affected financially. The only sectors which have not been affected are those directly employed or funded by Federal, State and Local Government. The public sector will not be exempt in the medium term, as revenue sources from all levels of government will be severely affected, and consequently the largesse of government will be constrained.

We believe the State of Tasmania is extremely vulnerable. Forward GST revenues will reduce given the impacts on consumption in the larger States such as NSW and Victoria. This underlying budgetary issue is one of the reasons Tasmania's economy is always a lagging indicator, and its capacity and self-reliance is always threatened.

While many of us hoped the economic renaissance over the last five years may have been permanent and overcome Tasmania's structural challenges, the growth that came from "discretionary" industries such as tourism, accommodation, retail, construction and overseas student education has now reversed. These industries are now under significant pressure and arguably are outsized for our economy. We must look in other areas to strengthen and diversify our economy.

With this background and understanding, we believe that the government needs to channel its spending to deliver three key policy objectives:-

1. Protect long-term employment

Having a job is a key component to maintaining a healthy, vibrant, fair and equitable society

2. Create long-term and sustainable employment within the private sector

Governments will have limited capacity to do this in the medium term

3. Generate future income/wealth for the State

The expenditure must derive a commercial and/or social benefit

We believe that the weakness which the COVID-19 pandemic has exposed in our economy will be long lasting. This is both a challenge and an opportunity.

Large manufacturing businesses are important to an economy as they generate real jobs and have a significant multiplier impact. They create longer-term stable employment rather than the low-skilled cyclical jobs that the service industry tends to generate.

If there is to be any benefit from the hibernation, then it should allow us, as Tasmanians to think how the economy should be shaped and how to diversify its operating base.

Both the private sector and government must work cooperatively and efficiently to utilise resources wisely

The private sector has suffered most from the downturn and many of the businesses have or will have working capital and solvency issues. There is a lot of uncertainty and risk around what the new base of the economy will be once the JobKeeper payment scheme finishes. Businesses need support to ensure employment can bounce back where possible.

Government should not assume that private enterprise is in a strong financial position, or overstate its resilience; our observations are that it is not, and it is vulnerable.

Governments must ensure that the valuable dollars it spends (which is all borrowed money) are targeted to gain the maximum benefit to the State economy, and invest beyond the next electoral cycle.

In this submission we wish to draw the Committees' attention to three separate matters which we believe are interlinked and need to be a primary focus of the Task Force.

PAYROLLS

We need to protect employment over the next two years and this is the reason the Federal Government has provided schemes such as JobKeeper.

This Federal scheme is a support payment to employees through their employers. It is not a payment to employers.

Payroll tax is a draconian tax on employment, with those companies that employ the most being taxed the most. In these times, when employment is under threat, we must do all we can to keep people employed and get them re-employed.

We note the State Government has made several concessions over the last 12 months in this area.

However, what the State Government has failed to appreciate is that the size of a business' payroll is neither an indicator of a company's profitability, nor its solvency. In some instances, companies that have implemented JobKeeper are more profitable than companies which do not yet receive any payroll tax concessions.

Most companies through this pandemic have been hit with at least one or more financial torpedoes, and have underlying solvency issues. Profit will remain in most instances subdued as aggregate demand will be soft, and pricing of goods will be under threat.

A tax on employment is not an efficient tax in today's new world and must be restructured, that is, if government has a genuine desire to save and grow jobs.

We believe it is difficult to justify charging payroll tax in this environment and also difficult for businesses to pay the quantum of this tax when the level of business and their pricing powers are being reduced, whilst their fixed costs and employment costs have not changed. This tax does not take into consideration the profitability, solvency or operating margins of the business.

Some companies may even pay more Payroll tax than the profit they make. Why should the State Government effectively receive a larger dividend than equity shareholders? Government has no capital at risk.

Some companies are far more resilient, particularly national and international monopolies and conglomerates which trade in Tasmania but could not be considered Tasmanian businesses. They also do not employ many people for the scale of their turnover. These companies should not obtain any payroll tax relief.

We RECOMMEND the removal of payroll tax for a period of 2 years for all businesses with their Head Office located in the State and/or where the majority of their workforce is employed in the State.

CAPITAL WORKS

The State Government has announced it is going to unleash an expansionary fiscal program to alleviate the current economic downturn by fast-tracking and expanding its capital works programs. The details have not been released but the forward revenues to the State need to be taken into consideration so the issues of today do not become a burden three to five years from now.

We would strongly urge that projects be subjected to a detailed cost-benefit analysis to ensure we are not simply throwing money away for little or no community benefit.

We can ill afford to keep building publicly funded white elephants for the sake of providing a short-term economic sugar hit.

Thus, we would support spending money on smaller projects such as social and public housing where the cost is less, but the benefits are significant.

In addition, the government needs to refuse to fund capital projects which compete with the private sector or which increase supply as these projects would cause market instability in the medium term and undermine private sector equity.

We would argue that investing in long-term capital projects such as the Battery of the Nation and Marinus Link have potentially far longer-term benefits to the State and will generate long term revenue streams. We only have to look at the hydro electric program to understand the benefits of thinking long term.

The recently announced hydrogen project is supported, in that it conforms to the general thesis of Tasmania becoming “The Renewable Energy State”. It also can set a benchmark for innovative investment.

We would argue against works with little in the way of employment or public benefit, and in favour of those where there is a high component of labour required in the supply chain and would generate long term employment and wealth.

We believe that money and funding will only become more elusive in the medium term and that we must be astute and vigilant in using this precious resource. We must not waste it.

Governments in the past have shown a tendency to provide loans to businesses which have questionable solvency and which end up being written off. As an alternative, an area worthy of consideration for a higher government spend is to have a 2-for-5 capital investment program for business to invest in expanding their facilities or business. This would result in making Tasmanian businesses more competitive and also ensure a higher capital spend per dollar of government funds deployed on a 2-for-5 basis. It would mean only the best projects would be supported, and not projects which are supported by crony capitalism. Those projects or investments have questionable merit because they have such high government subsidy.

If the business is not willing to have significant skin in their project, why should the taxpayer?

We RECOMMEND maximising private sector funding with minimal government funding and maximise “bang for the buck”. We believe that projects the government invest in must have the potential for long term revenue streams. They must have a strong business case and multiplier effect, provide an environment for responsible behaviours, and set a high benchmark to use precious government financial resources.

LOCAL CONTRACTING

The Government’s laissez-faire approach of the past, where tenders are awarded to the lowest bidder, whoever that might be, must change. We believe some of these types of issues relating to COAG will be relaxed or not enforced and Tasmanian firms should be protected from interstate predatory pricing, which is even more likely when aggregate demand is weak.

Money spent on an interstate or overseas tenderer means that the care factor is low, the commitment to a local workforce is low, and money is lost to the State. Once gone, it won't come back.

In many cases, larger national and international firms can bid low to get the work, by using a marginal revenue process to tendering. They already have their overheads covered by other projects interstate but Tasmanian companies need to cover their overheads with Tasmanian projects. Local businesses and local contractors do not have that same flexibility. We as a State need to get smart and understand how these companies can cannibalise local business through opportunistic behaviours.

Contracting local firms will ensure the money remains in the State where it will circulate. It will also encourage local firms to up-skill their workforce and develop an expertise that requires financial input to support it. We must make this policy front and centre in all government purchasing. Other States are doing the same; you just have to look at how Queensland is trying to get involved in the Virgin Australia sale.

We RECOMMEND that State Government should ensure any business which receives State Government assistance has a Tasmania-first approach, including University of Tasmania, Aurora, Tas Networks, TasPorts, Hydro, TasWater and Local Government to name a few. It is critical we have a Tasmania-First approach but this should not stop a focus on value for money. The value proposition of accepting a higher local bid is that it will assist the development of local skills and local infrastructure by local businesses.

Tender selection criteria therefore need to be more heavily weighted to State owned private sector contractors.

FINALLY

The road ahead for the State Government, as well as for businesses and the community is uncertain. We do know without question that aggregate demand and employment will be very soft, and many businesses will have solvency and working capital issues.

State Government revenues will be under extreme pressure, yet the demands on their services will increase.

The State Government must force reform on sectors which it is to support so that they reduce costs and satisfy government on what they have done to reduce business costs and increase efficiency.

An example would be in the building sector:

- How could they reduce their on-costs? Is all regulation necessary, i.e. the number of “lollypop people” really necessary for some scales of jobs?
- Is the scale of the “training levy” necessary?

Industries need to come with savings and real reform in order to reduce costs and become leaner and not just benefit from corporate welfare paid by taxpayers.

On this basis, every dollar the government spends needs to be invested to get the highest return, and capital expenditure should be focused on the greatest benefit to the State.

It will be a difficult economic climate for government, which will have a desire to once again “balance its books”. GST receipts will be down, and property taxes will also provide a lesser return. However, hard as it will be, we would recommend against that approach, because this would suggest higher levels of taxation, and lesser levels of expenditure going forward. Instead, government must expend its money wisely and with a consistent, objective and defensible approach.

Governments must rebuild the capacity of the private sector and, in our opinion, rebalance the economy in the medium term.

The service sector and in particular retail, tourism and hospitality are important, but they are not the only sectors, and other industries and businesses can also be encouraged to seek and gain a competitive advantage over the medium term to diversify the economy.

We believe that the Tasmanian Government should strongly argue that Australia should not open the national border for some time yet, so that Australia and Tasmania maximise interstate travel and tourism and not lose valuable domestic tourism revenue to New Zealand.

The greater the impost that is placed on local firms, and the less opportunity afforded them, the longer the recovery will be, and the slower the return to employment levels enjoyed before the crisis began.

We are happy to present in person, if the advisory body so desires, to elaborate on our recommended objectives and areas of focus in the post-pandemic recovery.



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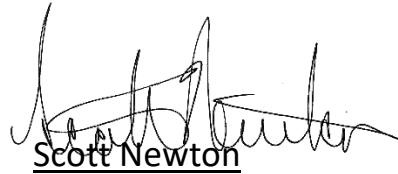
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