

**MANAGING COMPLEXITY:  
BALANCING RISKS**

MARCH 2008

Ai Group's Submission to the 2008-09 Federal Budget



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## 1. Executive Summary

The outlook for the 2008-09 year has been dominated by widespread concerns with the underlying inflationary pressures in the Australian economy arising from the combination of healthy demand growth and limits to our ability to expand domestic productive capacity. This situation calls for something of a policy highwire act: balancing much-needed investment in capacity expansion with an overall fiscal stance that addresses inflationary forces and eases upward pressures on interest rates.

The erosion of confidence in global financial markets that has accelerated in recent weeks has cast a shadow over this outlook and there is now a risk that leading priorities of the May Budget will be to lift aggregate activity and boost investor and consumer confidence. Assessment of this risk will become clearer over the next couple of months.

While considerable uncertainty surrounds the outlook, Ai Group's best estimation is that the inflationary pressures that have accumulated over the recent past will persist for much of the 2008-09 year. We anticipate that domestic demand will display a degree of ongoing strength in excess of the immediate capacity to expand output despite the global financial nervousness. Accordingly the Australian Industry Group proposes a budget to:

- Build domestic productive capacity;
- Encourage and facilitate adjustment to the carbon constrained economy;
- Boost future retirement incomes of low-income earners; and
- Ensure domestic inflationary pressures are contained.

### ***Build Domestic Productive Capacity***

Ai Group's priorities in expanding the capacity of the economy involve raising and refocusing investment in education and training; delivering on announced investments in infrastructure – particularly in transport and telecommunications; introducing promised personal income tax cuts in full to stimulate workforce participation; boosting Australia's business capabilities and its innovation performance and improving export facilitation programs.

These budgetary initiatives should be complemented by capacity-expanding non-budgetary policies that overhaul intergovernmental relations; accelerate the participation, competition policy and regulatory reforms under the National Reform Agenda; at least maintain current levels of net migration while removing unnecessary barriers to temporary migration; and implement the Infrastructure Australia proposal to improve planning, coordination and the development of transport, telecommunications, water and energy infrastructure.

### ***Encourage and Facilitate Adjustment to the Carbon Constrained Economy***

Imposing costs on emissions of greenhouse gases through an Emissions Trading Scheme (ETS) and other policies will shift relative prices and initiate a substantial process of adjustment in the Australian economy. Many businesses and their employees in trade exposed industries will find themselves operating at a disadvantage relative to competitors abroad.

To encourage and facilitate this process of adjustment, measures should be introduced in the 2008-09 Budget to ameliorate overall impacts without negating the intended shift in relative prices and incentives. Ai Group proposes:

- A phased reduction in the company tax rate so that by the year the ETS comes into operation, the company tax rate has been reduced to 25 percent;
- A concerted campaign to disseminate to businesses and households information about reducing direct emissions and improving energy efficiency; and
- Acting now to boost the capacity of energy-efficiency and emissions-reduction advisory services.

### ***Boost Future Retirement Incomes of Low-Income Earners***

Ai Group proposes directing new changes to superannuation towards lower and middle income earners to complement the changes to superannuation announced in the 2006-07 Budget. Consideration should be given to:

- Refunding into the superannuation accounts of low-income people an equivalent of the 15% tax on compulsory employer contributions;
- Adopting a similar measure that extends eligibility to middle income earners aged over 50; and
- Increasing the amounts available under the Superannuation Co-Contribution Scheme.

### ***Reducing Domestic Inflationary Pressures***

While the Budget needs to be framed with a close eye on inflationary impacts over the year ahead, this should not provide a reason to delay embarking on capacity-expanding measures. Rather, capacity-expanding measures should be accompanied by reductions in less productive expenditure. In this, care should be taken to discriminate by maintaining initiatives that add to productive capacity. In particular, earlier phases of fiscal pruning have often seen deep and ultimately counter-productive cuts to capital investment that would have added to capacity.

Ai Group proposes a two-pronged approach to reducing existing spending commitments. There should be a generalised reduction in expenditure based on concerted improvements in productivity across all portfolios and agencies and there should be a selective identification of unnecessary spending commitments.

In identifying specific areas of savings Ai Group proposes:

- Withdrawing funding allocated to undeserving commitments made for a wide variety of ad hoc projects, for example as identified by the Australian National Audit Office in relation to the former Regional Partnerships Program; and,
- Tightening eligibility for personal and family income transfers and entitlements to concentrate benefits on those with greater financial need.

## 2. Economic Outlook and Policy Challenges

The budget is comfortably in surplus. This is significantly due to very high company tax collections and the strong contributions to revenue from taxes on superannuation. In recent years the growth in revenue from these sources has allowed personal income tax cuts and real increases in outlays to sit alongside a strong underlying cash surplus. The surplus is set to remain well above 1% of GDP.

The Australian economy continues to grow with encouraging levels of business investment and consumer demand. Notwithstanding the very challenging competitive pressures faced by many import-competing and exporting businesses outside of the booming minerals sector, businesses are responding creatively and proactively and overall employment growth remains strong. A high proportion of businesses continue to identify shortages of skilled workers as a leading barrier to further expansion.

Other constraints on the growth capacity of the economy include the step-down in the pace of productivity improvements from the “miracle economy” levels experienced for much of the 1990s and the inadequate levels of investment in infrastructure following a long period of relative neglect and a lack of progress in resolving some regulatory bottlenecks.

In these circumstances, relatively strong levels of domestic demand are giving rise to cost and price pressures. Notwithstanding a succession of increases in official interest rates over recent years, there is a clear possibility of further monetary tightening.

The immediate risk of additional interest rate rises may subside in the face of further deterioration in the US economy and its flow-on effects and additional erosion of confidence in international financial markets. Indeed there is a further risk that US developments will have a greater domestic impact in Australia and that, over the course of 2008, the current inflationary dangers will be overshadowed by contractionary pressures.

Better assessment of the domestic impacts of US and global developments will be possible closer to time the Budget is handed down.

### ***Challenges for Economic Policy***

Price and cost pressures appear to be well established and Ai Group currently anticipates that inflationary pressures will not abate in the current year without active intervention. In these circumstances, the challenge for economic policy, both budgetary and non-budgetary, is to stimulate substantial additions to the capacity of the economy while simultaneously dampening inflationary pressures. This calls for a substantial re-prioritisation of expenditure away from less productive activities towards capacity expansion.

Even if international pressures carried more contractionary force than is currently anticipated, the fundamental policy direction proposed by Ai Group would not change. Less productive spending should be reduced to make way for greater investment in lifting productive capacity. What may change is that inflationary risks of additional expenditure directed at capacity expansion may be reduced and there could be an acceleration of measures beyond the pace assumed in this submission.

The capacity-expanding task has a three to five year timeframe. It calls for a step-up in productivity growth and further improvements in workforce participation while maintaining strong net immigration and high levels of infrastructure investment.

Raising the capacity of the economy will ease the inflationary constraints currently inhibiting more widespread gains in material living standards and broader social opportunities. At the same time, improving workforce opportunities, particularly for disadvantaged Australians, will assist in raising productive capacity.

Critically, stimulating additional economic activity will also assist in the process of adjustment as Australia embarks on making meaningful contributions to the reduction of global emissions of greenhouse gases. Concerted policy action to build economic capacity has the potential to ameliorate any dampening impacts of policies aimed at lifting costs of activities associated with greenhouse gas emissions.

The key elements in pursuing these goals are:

- Increasing investment in **education and training** at all levels;
- Maintaining the pace of investment in **infrastructure** in the areas of transport, telecommunications, energy and water and improving the planning, coordination and regulation of infrastructure across jurisdictions;
- Lifting Australia's innovative capacity and **innovation** performance;
- Building **business capabilities** to better equip Australia's many small and medium sized businesses to perform in the competitive global economy;
- Improving global and bilateral **trade agreements** and implementing measures to boost **export** performance;
- Reducing **regulatory** burdens;
- Making our **tax arrangements** more internationally competitive and efficient; and
- Encouraging businesses and households to take actions in preparation for **higher costs of greenhouse gas emissions**.

### ***Non-Budgetary Initiatives***

Building an economy with a greater growth capacity will involve both budgetary and non-budgetary policy measures. Leading non-budgetary measures are indicated below to provide greater context for the discussion of Ai Group's 2008-09 budget priorities. In many cases non-budgetary measures to expand capacity can be pursued without additional spending commitments.

In the present context in which the pursuit of budgetary measures is constrained by inflationary concerns and/or the inability to secure offsetting spending reductions non-budgetary measures assume particular importance.

## Intergovernmental Relations

A leading non-budgetary reform area is the reshaping of Commonwealth-State relations. Ai Group welcomes the directions set at the December 2007 meeting of the Council of Australian Governments (COAG). Reform in this area has the potential to facilitate progress in improving education and training outcomes; in accelerating preventative health initiatives; in injecting momentum into the area of regulatory reform as well as assisting in developing greater efficiency in water, energy and transport systems.

The positive directions that emerged from the December meeting would be reinforced by a clarification of the ongoing working arrangements for COAG. This should include both the relationship between the new work programs and the institutional arrangements (including the COAG Reform Council) that were put in place to support the National Reform Agenda and the forums for community input into COAG's ongoing work programs.

Ai Group particularly welcomes COAG's renewed commitment to regulatory reform and the initiatives announced following the 20 December 2007 meeting. A key element of the reform agenda is for the Commonwealth to lead the way on regulatory reform not just in facilitating best practice by the states, territories and local governments but in setting the tone in relation to its own regulatory regimes through rigorous gate-keeping for new regulation and with far-reaching and ongoing programs to review existing Commonwealth regulation.

Beyond these measures, a broader re-examination of intergovernmental relations that builds on the recent decision to recast Special Purpose Payments has the potential to underwrite greater efficiency, transparency and accountability of Australian government. It also could lay the foundation of substantial improvements in intergovernmental financial arrangements and in the overall pattern of taxation in Australia.

## Infrastructure and Infrastructure Australia

Ai Group welcomes the Government's commitment to a national approach to infrastructure development through the *Infrastructure Australia* initiative. *Infrastructure Australia* will link closely to COAG and will have responsibility for developing a strategic blueprint for Australia's infrastructure needs and facilitating its implementation, in partnership with the States, Territories, local government and the private sector.

Ai Group supports the COAG Infrastructure Working Group objectives of streamlining planning and approval processes and standardising project appraisal techniques and guidelines and principles for the assessment of Public Private Partnerships. Ai Group also strongly supports the intention to address bottlenecks and deficiencies; to promote the better coordination of infrastructure planning and investment across jurisdictions and the private sector and upgrading Commonwealth, State and local planning mechanisms.

The reappraisal of Australia's infrastructure planning should include AusLink and, in that context, should also include the currently neglected dimension of urban congestion as an integral element in the broader national transport strategy.

## Immigration

In recent years high levels of permanent and temporary immigration have outweighed higher numbers of Australians finding employment abroad and have provided a distinct boost to the Australian labour force. These levels of permanent and temporary migration have eased labour supply constraints and helped sustain aggregate growth at generally manageable levels of inflation. In the current environment, it is vital that current levels of net inflow be at least maintained. While rigorous labour standards should be maintained, these should be pursued with a minimum of additional regulatory burdens.

In particular, the 457 temporary business visa has proven to be highly valuable for companies enduring ongoing skill shortages. While a small minority abusing the scheme should be dealt with to the full extent of the law, Ai Group would strongly oppose any measures that would unnecessarily limit access to the scheme.

## Workplace Relations

A modern, flexible and fair approach to workplace relations is a vital element in building further productivity while boosting employment and workforce participation. Australia has come a long way in moving away from the constricting, centralised industrial relations system that dominated most of the 20<sup>th</sup> century.

There is nevertheless further to go – for example in creating a thoroughly national approach to industrial relations and in modernising the overly-complex award system. Ai Group supports the initiatives the Government has taken in these directions. At the same time, it is vital that measures that have improved the flexibility of our workplace relations system in recent years, and which have facilitated strong wages growth, a greater variety of employment conditions and very strong growth of employment and workforce participation - to the benefit of both employees and employers, are not withdrawn.

### 3. The 2008-09 Budget

The 2008-09 Budget has a vital role to play in laying the foundations of improved economic capacity and in preparing for the impacts of policies to reduce emissions of greenhouse gases. It also needs to balance this by reducing interest rate pressures by inflationary pressures. Achieving this balance will involve a careful prioritisation of:

- Capacity-expanding initiatives;
- Measures to encourage adjustment to climate change;
- Increasing future retirement incomes for low-income earners; and
- Reducing less productive government outlays.

#### ***Capacity Expanding Priorities***

Ai Group's priorities in expanding the capacity of the economy involve raising and refocusing investment in education and training; delivering on announced investments in infrastructure – particularly in transport and telecommunications; introducing promised personal income tax cuts in full to stimulate workforce participation; boosting Australian's business capabilities and its innovation performance and improving export facilitation programs.

#### **Education and Training**

The medium-term challenge for Australia will be how quickly we can achieve and sustain world-leading education and training systems.

Reputable projections (see Appendix 1) suggest that by 2016, almost 50 percent of the workforce will need qualifications at Certificate III/IV, 36 per cent at Diploma/Advanced Diploma and only 15 per cent at Certificate I/II. This is well in excess of the existing capacity of our education and training systems. It has been estimated that unless this situation is addressed, as many as 15 percent of jobs requiring vocational education and training qualifications will be either unfilled or filled with an inappropriately skilled person. This would result in increased costs to business through inefficiencies, limitations on growth opportunities and an inability to compete on the global stage. For a substantial number of individuals it would mean lost opportunities and, for some, entrenched unemployment.

In relative terms the level of our education expenditure is below that of the leading nations. Australia currently spends 5.9% of GDP on education and the OECD average is 5.8%. This level is below 13 other OECD countries including Iceland (8%), United States (7.4%) and Korea (7.2%). As a medium-term objective Ai Group advocates lifting Australia's expenditure on education as a percentage of GDP to match that of the leading nations.

Concerted and focused action is required in all segments of Australian education and training. Ai Group's integrated program of recommendations are summarised below. These recommendations are set out in greater detail in the Attachment to this submission.

### *Schools*

- Increase the engagement and attainment levels of Australian secondary school students. Ai Group proposes that current performance should be lifted to the point where 85% of young people leaving school will have completed either Year 12 or commenced a Certificate III qualification, and that this figure increases to 90% by 2015. Currently only about 80% of young people reach these levels.
- Development of a strong and integrated network of trade training centres in Australian secondary schools.
- Vocational Education and Training in schools:
  - Expand the opportunities for young people to participate;
  - Expand the industry coverage of the program;
  - Increase the resourcing of the program so that all costs are fully covered;
  - Improve the provision of labour market advice to better align the program with the skill needs of the economy;
  - Improve the quality of the training provided; and
  - Increase the numbers of students engaged in structured workplace learning, particularly at the trade level in skills in need areas.
- Strengthen the quality of the professional teaching and training workforce.
- Careers Guidance:
  - Continuation of the Career Advice Australia Network;
  - Development of a national all-ages careers guidance strategy and associated services; and
  - Improved careers education and guidance in schools.

### *Skills and Training*

- Accelerate apprenticeship reform to allow quicker learning apprentices earlier access to higher level training.
- Ensure funding models, reporting approaches and compliance requirements actively support these approaches.
- Review traineeships with a view to this pathway better meeting the needs of the economy and individuals.
- Improve access to pre-vocational programs.

- Overhaul the capacity and capability of the national training system to comprehensively build and upskill the existing workforce.

### *Higher Education*

- Improve the relationship between higher education and industry through ongoing reform of curriculum that is informed by industry; increase the engagement of industry in content delivery; and increase the requirements of work-based application in undergraduate degrees.
- Implement the Graduate Employability Skills<sup>1</sup> report recommendation for an Employability Strategy Fund. This funding would be provided to universities to systematically review their work on developing employability skills and address gaps on a submission basis. Funding required would be \$10million over three years.
- Continue efforts to improve and increase the number of graduates from maths, science and engineering disciplines.

### Reducing Personal Income Tax Rates

Ai Group has been a leading advocate of changes to personal income taxation along the lines proposed to take effect from July 2008 and the further changes announced for implementation over the next couple of years. Ai Group has argued that reduced marginal tax rates, particularly for lower and middle income earners, will boost incentives for greater participation in the workforce. Further, if taken into consideration in the determination of minimum wage adjustments, reductions in the personal income tax rates can assist in raising living standards for low-income earners in employment without dampening employment opportunities by imposing higher wage rates.

The combined program of personal income tax changes over the next few years will substantially reduce effective marginal tax rates faced by many lower income earners and will also trim the marginal tax rates faced by individuals with taxable incomes between \$75,000 and \$180,000. These changes to personal income taxation will encourage workforce participation - particularly for lower-income individuals and second income earners in families.<sup>2</sup> As such they are a key ingredient in the overall strategy to expand economic capacity.

### Infrastructure

In addition to the important non-budgetary measures referred to above and on top of the existing commitments including under AusLink, Ai Group's priorities for new commitments to investments in infrastructure over the forward estimates period involve:

- Giving effect to the election commitment to accelerate the roll-out of high speed broadband; and
- Including urban congestion among AusLink priorities.

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<sup>1</sup> Business, Industry & Higher Education Collaboration Council, *Graduate Employability Skills*, August 2007

<sup>2</sup> While, on balance Ai Group strongly supports the reductions in marginal tax rates that the announced measures will deliver between now and 2010-11, we also note the changes to the Low Income Tax Offset (LITO), while delivering reductions in marginal tax rates (from 15% to zero) for taxpayers on incomes between \$11,000 and \$16,000, will *lift* marginal tax rates from 30% to 34% for taxpayers earning between \$48,750 and \$74,500. This will occur because of the extension of the income range over which the higher LITO is withdrawn. The net impact of these opposite changes in incentives is difficult to assess.

## Business Capabilities

Ai Group welcomes the implementation of the Enterprise Connect program, which gives a stronger focus to innovation. In particular, we welcome the decision to transfer the operations of the Australian Industry Productivity Centres (AIPC) and the provision of industry advisory services to Manufacturing Centres.

The experience with the AIPC strongly suggests that the delivery of business advisory services is best provided through a decentralised system of industry advisers, employed by industry partners, using nationally consistent systems, and delivered across each state. Industry partners have the ability to use their membership and networks to draw companies (both members and non-members) into the program in a systematic and efficient manner. Once targets and quality standards are set, it should be left to partners to deliver the service, without too much “hands-on” direction.

Manufacturing Centres are to be established in Sydney, Melbourne, Adelaide, Perth, north-west Tasmania and Brisbane to deliver a range of services including:

- Benchmarking of business and manufacturing processes against best practice;
- Helping to find and adapt the latest research, technology and organisational knowledge to improve products and efficiency;
- Prototyping and testing facilities to turn ideas into products; and,
- Helping to cut through red tape to access other government programs.

Ai Group believes the AIPC advisory services can be readily incorporated into the new Enterprise Connect and Manufacturing Centres. To build on existing momentum, it is vital that the transfer to the new Program is undertaken promptly and in an orderly manner.

## Innovation Policy

Ai Group welcomes the Government’s indication that innovation will be a key priority in the current term of Parliament. Ai Group also supports the Government’s decision to set up a major review of Australia’s innovation system, covering the TCF and automotive sectors, the CRC program and the R&D tax concession. Ai Group will make more detailed submissions into this review. These will include the following.

- The current approach to encouraging innovation is inadequately coordinated across Federal and state government programs.
- Innovation policy should include a greater emphasis on building innovative organisations and workforces and on business model innovation.
- Support for business R&D can be strengthened by:
  - Adopting Ai Group’s “Step-Up R&D Tax Concession”. The proposal involves adding progressively higher rates of deductibility for additional R&D spending according to the extent of the increase in expenditure. Under Ai Group’s proposal, the basic entitlement to the 125 per cent tax concession would be preserved; and

- Making the Tax Concession more effective by removing the clawback of the concession under the imputation system.
- Facilitation of better and more flexible allocation and coordination between public sector research organisations and industry.

## Export Promotion

Australia's mounting record trade deficit continues to highlight the policy and program shortcomings which handicap Australian exporters. This issue has received special focus in Ai Group submissions to Government over a number of years.

The new Government's affirmation of Ai Group's position was summarised in the Labor Party's election trade policy, "A Strong Future for Australia's Exports", which stated:

*"The current resources boom, the most significant in our history, has masked Australia's poor export performance. While the prices of resource commodities have skyrocketed, export growth has stagnated.*

*"Labor believes that the sustained export growth we need will occur only if Australia's trade promotion policies, programs and structures are renewed and reinvigorated."*

Accordingly, Ai Group welcomes the recent announcement made by the Minister for Trade of an "Export Policy and Programs Review" and we look forward to participating fully in representing the views of Ai Group members in such a Review.

Given this background and within the context of Ai Group's Pre-Budget Submission, we would make the following points in relation to Australian industry's efforts to secure and retain export markets.

1. Australia's export competitiveness can only be addressed as part of the overall competitive environment which exists both within Australia and in global markets. The comments and recommendations made elsewhere in this Submission relating to Australia's currency levels, productivity, skills, infrastructure, taxation and the role of Government in working with industry in addressing these issues is therefore critical.
2. Ai Group notes the Government's election announcement to increase funding for the EMDG Scheme by \$50 million. While Ai Group commends the Government's acknowledgement of the inadequacy in the current level of funding, we would stress that the EMDG Scheme is the singular Government program which directly assists exporters in meeting the costs to establish and maintain export markets. Accordingly, Ai Group reiterates its position that the EMDG Scheme funds should be doubled from \$150 million to \$300 million per year, with this increased funding to be combined with changes to the eligibility criteria to make the Scheme more effective.
3. The Global Opportunities Program set up by the previous Government committing \$254 million over 10 years is an excellent initiative which draws upon proposals put forward by Ai Group in our earlier 'Manufacturing Futures' Report. The first round funding allocations for this new Program are to be announced soon. Ai Group would strongly urge the Government to retain the Program to assist companies participate in global supply chains and networks.

4. Ai Group has been a leading advocate in seeking to work with the Export Finance and Insurance Corporation (EFIC) to expand its role. The broadening of the mandate in recent times for EFIC to assist SME's in areas relating to working capital is an excellent initiative. As a next step, Ai Group believes that EFIC can play a significant role in bridging the gap where the support of local banks falls away because they are unwilling, based on overseas asset security, to provide finance to SME's as they expand into global markets. EFIC can take up this role which will also form an important link into supporting SME's when applying for approvals under the Government's Global Opportunities Program.

## Trade Policy

Ai Group recommends that the level of resources within Department of Foreign Affairs and Trade be retained in order to apply maximum leverage to simultaneously achieve a successful outcome in the WTO Doha Round negotiations, while at the same time pursue FTA's with large and strategic trading partners in order to deliver substantial early benefits to Australian industry in reducing/eliminating both tariff and non-tariff barriers.

## Defence

The Australian Industry Group supports the Federal Government's plan to develop a new Defence White Paper to provide a more rigorous assessment of the connections between strategic objectives, force planning and capability priorities. Consistent with this, Ai Group supports a strong ongoing commitment to investment in new capabilities for the Australian Defence Force, with Australian defence industry playing a lead role in delivering those capabilities on time and on budget. To achieve this Ai Group notes that the Federal Government is committed to maintaining defence spending, including a minimum annual 3 per cent real growth until 2016.

Australian defence industry is currently involved in the majority of the 220 major approved capital equipment projects being managed by the Defence Materiel Organisation (DMO). These include the recently approved Amphibious Ships and Air Warfare Destroyer projects, amounting to some \$10 billion.

DMO data shows that the overwhelming majority of defence projects being undertaken by Australian industry are on schedule and on budget. Nonetheless, like other sectors of Australian industry, defence industry is experiencing skills shortages.

DMO has stated that, in order to meet Australian Defence Force requirements, Australia's defence industry will require another 3,500 skilled tradesmen, technicians and engineers over the next two years. Further, the 'Mid-year Economic and Fiscal Outlook 2007-08' stated that there would be a "\$440 million reduction in estimated expenses due to reprogramming into future years of spending on a number of Defence acquisition projects".

These circumstances highlight the imperative of addressing Australia's critical skills shortages and other capacity constraints. These include proposals concerning changes to the Skilling Australia's Defence Industry (SADI) Program and recommendations in the Report from the Joint Defence-Industry Training Task Force.

Given these substantial costs and constraints in the market, Australia's defence planning and budgeting must be realistically based, both within Government and industry, with particular emphasis on the critical importance of project management.

## ***Preparing for Climate Change***

The Australian Industry Group has welcomed Australia's ratification of the Kyoto Protocol and supports Australia pursuing policies to secure a global effort in reducing emissions of greenhouse gases. In particular Ai Group supports the adoption of an Emissions Trading Scheme (ETS) that will encourage market participants to seek and implement least-cost abatement opportunities both by reducing direct emissions and by adopting greater efficiencies in energy use.

The introduction in a few years time of the Australian ETS together with additional climate-change-related policies will drive a major restructuring of economic activity in Australia over the medium to longer term. At a fundamental level this restructuring will occur as businesses and consumers adjust to changes in prices for energy and a wide range of energy-intensive goods and services.

Australia has comparatively high per capita emissions of greenhouse gases. We have a comparative advantage of relatively inexpensive coal-fired electricity. We are a world-leading supplier of a range of commodities, particularly coal, gas and metallic ores, which are inputs into highly energy intensive processes. Further, we are a major producer of rural commodities many of which are associated with high greenhouse gas emissions. In part reflecting these endowments, we have a relatively high concentration of energy-intensive manufacturing industries. These include those in metals, chemicals and forestry products for example. A further factor in our high per capita emissions is the tyranny of our internal and external distances – and the associated higher levels of fuel consumption. In addition Australia enjoys a high standard of living and commensurate consumption levels - both associated with high energy use.

These factors mean that the task of adjusting to a carbon-constrained world is likely to be more substantial for Australia than for many other countries. They are also an important consideration in Ai Group's proposal that the 2008-09 Budget should take decisive steps in encouraging and facilitating that adjustment process.

## **Company Tax Rate Reduction**

The rationale for putting in place the ETS is to shift relative prices to forge an economic adjustment away from emissions-intensive activities in favour of low and zero-emissions activities. Of course the ETS will not only change relative prices, it will also impose a higher overall cost level on Australian businesses and will deter investment. To the extent these costs are passed on, the overall level of prices will rise for Australian households and reduce real domestic demand.

The Australian economy will be called on to adjust to both the change in relative prices and the overall rise in costs. Ai Group proposes that the Government should encourage and assist in this adjustment process by announcing a phased reduction in the company tax rate from its present level of 30 cents in the dollar to 25 cents in the dollar. The first step could take effect from 1 July 2009 and the five-percentage point reduction could be completed in the year the ETS was introduced.

Reducing the company tax rate would provide a capacity-expanding stimulus to business investment – particularly from abroad - and would promote higher levels of corporate saving. To the extent that the company tax rate reduction helped reduce domestic prices, it would also counter the adverse cost of living impacts of the ETS on households.

Both the impact on total revenue collections and the inflationary effects of such a reduction in the company tax would be substantially reduced by the workings of Australia's imputation system. Lower

company tax collections would be significantly offset by higher personal tax collections due to the reduced shareholder entitlements to imputation credits.

Nevertheless, the incentive to invest, particularly for companies owned offshore, would be improved. The extra incentive to invest would weigh against the dampening impacts of the ETS without disturbing the change in relative prices that the ETS will bring about.

Additional measures more closely targeted to affected industries could include selective encouragement in the form of investment allowances or accelerated depreciation for energy-efficient and emission-reducing processes and technology. A higher rate of tax concession for relevant research and development could also be considered.

### Information for Businesses and Households

The process of adjustment to the carbon-constrained economy would be further smoothed if businesses and households were provided with information about reducing direct emissions and improving energy efficiency. The sooner this information is available, the earlier businesses and households can incorporate it into their decision-making and make a better contribution to reducing direct and indirect greenhouse gas emissions.

In a recent study<sup>3</sup> Ai Group and Sustainability Victoria found that, while businesses were very receptive to making a contribution to reducing emissions and energy use, they were far from well-equipped to do so. For example:

- Most companies rated themselves as being poorly informed about strategies and approaches to managing climate change and greenhouse gas emission reduction; Only one in ten companies felt they were well informed about managing the risks associated with climate change;
- Only 14% of companies stated they understood the concept of an emission trading scheme (ETS) well or very well. Just under half of companies had a poor understanding and around 40% had no understanding; and
- Only one in ten companies surveyed knew the volume of greenhouse gases emitted by their business and there was considerable confusion about the difference between direct emissions and the indirect contributions to emissions through electricity use for example.

Reliable, relevant and targeted information would be particularly useful for the many small and medium-sized businesses that face considerable uncertainty about new regulatory responsibilities and the extent of impacts on prices and activities.

### Greater Capacity in Energy-Efficiency and Greenhouse Gas Management Services

Ai Group anticipates a sharp increase in demand for advisory services assisting businesses and, to a lesser extent, households in improving energy efficiency and greenhouse gas management. The Government can play an active role in encouraging the market to adjust more rapidly and more efficiently than it would if left to its own devices (which would typically involve a period of shortage of supply).

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<sup>3</sup> Ai Group and Sustainability Victoria, 2007, *Environmental Sustainability and Industry: Road to a sustainable future*.

Measures that could be taken include direct inducements for people gaining relevant qualifications and official encouragement of institutions to gear vocational courses towards the range of services that are needed.

### ***Boosting Retirement Savings for Low Income Earners***

Compulsory superannuation has made a significant contribution to Australian retirement savings. For lower-income earners, including many part-time workers and second-income earners in families, superannuation balances on retirement are still projected to be relatively low. Particularly when overall household income is also low, these people are not able to take advantage of the co-contribution scheme.

A similar situation faces many middle-income earners aged over 50. Because compulsory superannuation contributions will have accumulated over a smaller proportion of their working lives, the balances on retirement of many in these age groups will be lower than those of younger age-groups with similar incomes.

Ai Group proposes changes to superannuation targeted to lower and middle-income earners to complement the changes to superannuation announced in the 2006-07 Budget. Consideration should be given to:

- Refunding into the superannuation accounts of low-income people an equivalent of the 15% tax paid on compulsory employer contributions;
- Adopting a similar measure that extends eligibility to middle-income earners currently aged over 50; and
- Increasing the amounts available under the Superannuation Co-Contribution Scheme.

These proposals would not add to consumer spending and would have a minimal impact on inflationary pressures (although they would reduce the Budget surplus). Over time they would not only assist in generating higher retirement incomes, they would also reduce future public spending on age pensions.

### ***Reducing Domestic Inflationary Pressures***

The immediate inflationary pressures present in the Australian economy should not be an excuse to forego undertaking investments that will increase the medium and longer-term capacity of the economy (and reduce inflationary pressures in the future). Rather, room should be made for capacity expanding initiatives by reducing wasteful and less necessary spending.

Ai Group proposes a two-pronged approach to reducing existing spending commitments. There should be a generalised reduction in expenditure based on concerted improvements in productivity across all portfolios and agencies and there should be a selective identification of unnecessary spending commitments.

In identifying specific areas of savings Ai Group proposes:

- Withdrawing funding allocated to undeserving commitments made for ad hoc projects, for example as identified by the Australian National Audit Office in relation to the former Regional Partnerships Program; and
- Tightening eligibility for personal income transfers and entitlements to concentrate benefits on those with greater financial need.

## Appendix 1

### Education & Training

#### 1. Introduction

“A well-educated and well-trained population is essential for the social and economic well-being of countries and individuals.”<sup>4</sup>

Currently over 50 per cent of the adult population does not hold post-school qualifications: 38 per cent of adults aged 45– 54 and 49 per cent of adults aged 55-64 did not complete the highest level of schooling. In contrast, it is projected that by 2016, almost 50 percent of employed people will need qualifications at Certificate III/IV, 36 per cent at Diploma/Advanced Diploma and only 15 per cent at Certificate I/II. A particular challenge will be to lift numbers of people with Diploma/Advanced Diploma level qualifications (currently around 26% of the workforce).

The overall challenge for Australia over the next three years will be how quickly we can achieve and appropriately maintain a ‘well-educated and well-trained population’. In relative terms the level of our education expenditure is below that of the leading nations. Australia currently spends 5.9% of GDP on education and the OECD average is 5.8%. This level is below 13 other countries including Iceland (8%), United States (7.4%) and Korea (7.2%). A revolution would commit to lifting our expenditure on education as a percentage of GDP to at least match that of the leading nations.

The task is significant and must be underpinned by appropriate financial, policy and structural support.

#### 2. Schooling

Both the compulsory and post-compulsory components of schooling must actively engage and cooperate to most effectively develop individuals for future life and work. The foundation must be established here. This aspiration has been heightened by the looming impact of baby-boomer retirement, the need to increase the participation rates in the workforce and the imperative to raise the productivity levels to match or exceed those of our competitors. Australia has long had some educational disparities that need to be addressed. Within the OECD Australia produces a relatively high number of tertiary education graduates yet in May 2006 close to one in five young adults had not completed Year 12 or a Certificate III vocational qualification.<sup>5</sup>

Concerted and focused action required to support the ‘education revolution’ includes:

**Increased engagement and attainment levels of Australian secondary school students.** It is proposed that current levels should be lifted to the point where 85% of young people leaving school will have completed either Year 12 or commenced a Certificate III qualification, and that this figure

<sup>4</sup> OECD, *Education at a Glance 2007: OECD Indicators* p26

<sup>5</sup> ABS, *Survey of Education & Work*, customised tables, May 2006

increases to 90% by 2015. Access Economics<sup>6</sup> estimates that boosting the proportion of young people completing school or an apprenticeship to 90% would boost annual GDP by 1.1% by 2040, representing an extra \$500 a year per Australian.

- **Develop a strong and rational network of trade training centres in Australian secondary schools.** The new government's commitment to elevating the status and expanding the volume of trade training as evidenced by the 'trade centre in every secondary school' policy is impressive. This \$2.5b commitment over ten years should provide the foundation for reversing the trade skill deficit currently experienced across the economy. It is important, however, that maximum strategic and educational advantage be wrought from this initiative. It is the view of the Ai Group that all Australian secondary colleges need access to trade facilities, and do not necessarily need to directly host the facility. Based on this premise, the development of a network of industry supported Trade Training Centres aligned to the needs of the economy on a sensible geographical basis is the preferred scenario.

The opportunity exists for the current Australian Technical Colleges (ATC) to be utilised as hubs for a new and strengthened network of trade training centres. The establishment of this comprehensive network should be according to the following guiding principles:

- no duplication of existing facilities;
  - local industry and community support;
  - state of the art facilities and infrastructure;
  - dynamic pedagogy; and
  - industry-driven program design.
- VET-in Schools

A VET in Schools program is one that meets the *Principles and Guidelines* originally established by the Commonwealth through ANTA. In accordance with these principles a VET in Schools program:

- is based on national industry/enterprise competency standards based on Training Packages where endorsed, or involve modules based on available industry/enterprise competency standards;
- relates to, or provides, VET certificates within the Australian Qualifications Framework (AQF) and senior secondary certificates endorsed by State and Territory Boards of Studies.

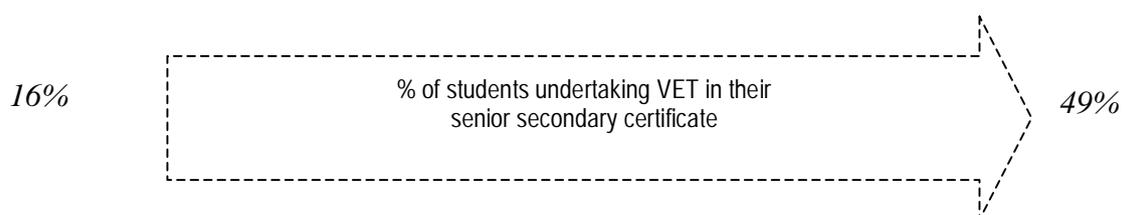
Vet in Schools has been successful for senior secondary students in all sectors and all jurisdictions. The following table indicates the substantial growth in student enrolments so that 49% of all senior secondary students in Australia are participating.

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<sup>6</sup> Access Economics

**NUMBER OF STUDENTS ENROLLED IN VET IN SCHOOLS PROGRAMS IN AUSTRALIA 1996-2004<sup>7</sup>**

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Government</b>	NA	53,258	66,366	83,367	97,982	109,900	119,442	133,404	138,664
<b>Catholic</b>	NA	12,165	17,825	22,202	25,778	28,925	31,335	32,995	33,279
<b>Independent</b>	NA	5,043	8,300	11,035	14,252	15,721	17,752	18,143	20,091
<b>TAFE</b>	NA	23,600	24,500	22,803	15,604	15,263	16,991	18,393	19,851
<b>TOTAL</b>	<b>60,000</b>	<b>94,066</b>	<b>116,991</b>	<b>139,407</b>	<b>153,616</b>	<b>169,809</b>	<b>185,520</b>	<b>202,935</b>	<b>211,885</b>



While considerable gains have been made, Ai Group has identified the following areas of improvement:

*a. The Need for Program Expansion* - The data suggests that far from all senior secondary students have the opportunity to participate in VET in Schools arrangements. There is a need to expand opportunities for young people to participate in this program consistent with the aims of the Adelaide Declaration.<sup>9</sup> This is a particular priority given that close to one in five young adults have not completed Year 12 or a Certificate III vocational qualification and over a quarter of early school leavers are not engaged in study or full-time work.<sup>10</sup>

*b. Industry Coverage* - Notwithstanding the success of the program in terms of growth there are key issues remaining. The data also reveal a very uneven pattern of participation by industry groupings. Of particular concern is that the data indicates the following four industry groups account for almost 60% of total enrolments.

<sup>7</sup> *National Data on Participation in VET in Schools Programs and School-Based New Apprenticeships for the 2004 School Year*, compiled by the MCEETYA Taskforce on Transition from Schools.

<sup>8</sup> The most recent data, for 2005 which are still preliminary, suggest that there are 182,900 students participating in VET in Schools programs and School-Based Apprenticeships in 2005 representing 37.4% of school students undertaking a senior secondary school certificate. *2005 VET in Schools Preliminary Data*, NCVET, 2007, page 9.

<sup>9</sup> *The Adelaide Declaration of National Goals for Schooling in the Twenty-First Century*, [www.mceetya.edu.au/national](http://www.mceetya.edu.au/national) goals

<sup>10</sup> *It's Crunch Time: raising youth engagement and attainment, a discussion paper, August 2007*, Australian Industry Group and Dusseldorp Skills Forum.

### Highest Enrolment VET in Schools Programs

<b>Industry area</b>	<b>% of total enrolments</b>
Tourism & Hospitality	19.3 %
Business & Clerical	15.0 %
Computing	13.4 %
General Education & Training	12.2 %
<b>TOTAL</b>	<b>59.9%</b>

There are many VET in School program areas with significantly lower levels of participation and these include industry areas experiencing skill shortages.

### Examples of Key Industries with Low VET in Schools Participation

<b>Industry area</b>	<b>% of total enrolments</b>
Engineering & Mining	5.4%
Building & Construction	4.8 %
TCF & Furnishings	3.7%
Community Services, Health & Education	2.8%
Automotive	2.3%

The data in some of these industry areas reflect what has traditionally been provided by schools or what can easily be adopted by schools. Research suggests that the pattern of program selection reflects a number of different influences including:

- student aptitude – earlier achievement and interests;
- student background – gender and socio-economic status;
- school influences – curriculum structures and system-wide opportunities; and
- community influences – labour market opportunities and views on future career possibilities.<sup>11</sup>

Program choices are driven by student needs and what schools believe they can provide most cost-effectively. In the context of a rapidly changing labour market and increasingly sophisticated student choices, it is essential that systems and schools are able to respond to changing needs and business and community expectations. It would appear that program provision is not closely aligned to the needs of industry.

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<sup>11</sup> Fullarton, S et al, 2003, Patterns of participation in Year 12, LSAY Research Report 33, ACER, page 58.

*c. Resourcing* - Resourcing of VET in Schools programs is another key issue. The manner in which program funding from Commonwealth, State and Territory authorities is provided directly affects school decision making. The House of Representatives report noted the resourcing difficulties associated with the continued growth of the program and that there is a need for increased recurrent funding to assist schools with costs of VET in Schools.<sup>12</sup> Indeed, issues related to the overall funding of VET in Schools programs have been a major agenda item since the introduction of the program. These particularly relate to the differential costs of VET compared to general school education.

Programs in some industry areas are more expensive to provide than others. Manufacturing and engineering programs for example, are more expensive to implement than business or information technology programs. The Victorian VET inquiry for example noted that students seeking to undertake training in trades areas were adversely affected by the costs of VET in Schools and recommended a review of funding arrangements. Funding arrangements need to be addressed to ensure that there are no financial barriers to meeting the diverse needs of industry.

*d. Addressing the Labour Market* - While acknowledging that pathways to the labour market is only one of the broad aims of the VET in Schools program it is clear that more could be done to align program provision to the needs of the labour market. This would have the additional benefit of making some contribution to addressing skills shortages and recruitment difficulties. To assist in this process research has identified the lack of accurate, reliable and accessible labour market data as a major barrier for Local Community Partnerships in the battle against skill shortages.<sup>13</sup> Accordingly, steps need to be taken to address this lack of data to enable Career Advice Australia personnel, especially Regional Industry Career Advisers, to have the appropriate information to influence local provision of VET in Schools programs.

*e. A Question of Quality* - A further area of concern from sectors of industry is the quality of VET in Schools programs. This is particularly the case when vocational qualifications are completed without any workplace experience. This issue can be addressed in part through the development of quality benchmarks for the program.

The Ai Group supports the following measures:

- i. **Program Expansion:** that the Commonwealth and States/Territories adopt measures to further promote VET in Schools programs consistent with the objective of making vocational opportunities available to all senior secondary students.
- ii. **Resourcing:** the Commonwealth and the States/Territories together provide sufficient recurrent program funding to ensure that the costs are not passed onto students and their parents so that there are no student tuition costs for participation in the program.
- iii. **Industry Coverage:** that Commonwealth funding arrangements in cooperation with States/Territories remove the financial barriers to student participation in resource intensive programs such as engineering, building and construction and automotive and adopt measures to promote these programs to students and their parents.

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<sup>12</sup> *Learning to Work*: Report on the inquiry into vocational education in schools, House of Representatives Standing Committee on Education and Training, March 2004, page 57.

<sup>13</sup> Unpublished report to DEST entitled *Strategies for the Australian Government funded national network of Local community Partnerships to better meet the needs of students, community and industry*.

- iv. **Labour Market Data:** that the Commonwealth implement measures to standardise the provision of labour market data from key central agencies to enable schools through Local Community Partnerships to have effective access to this critical information to better inform local program decision-making.
- v. **Quality Benchmarks:** that the Commonwealth in conjunction with States and Territories develop a set of quality benchmarks for VET in Schools programs.

*Structured Workplace Learning.* Structured Workplace Learning is a component of VET in Schools programs, where students undertake work placements as part of their vocational education.

*Structured Workplace Learning is ..... situated within a real or simulated workplace, providing supervised learning activities contributing to an assessment of competency and achievement of outcomes relevant to the requirements of a particular Training Package or other AQF VET qualification.<sup>14</sup>*

This is a timely opportunity to resolve some outstanding issues:

- a. **Numbers of Students -** Despite a decrease in activity in 2003, the program has continued to grow as the following table 1 below shows. By 2004 over 114,000 students were participating in SWL. This represents 54% of all VET in Schools students participating in that year.<sup>15</sup> While this is encouraging the Ai Group believes that this component of VET in Schools should be strengthened so that more students undertake learning in the workplace. This is critically important at Certificate III level, especially in the trades areas and will help to ensure that the outcomes of the program have the same quality as that of non-school providers.

**Table 1: Key Structured Workplace Learning Data**

	2000	2001	2002	2003	2004
Number Students (000)	81.0	101.2	112.4	106.2	114.8
Total Hours (000)	6.470	7.113	7.399	6.250	6.711
Average Hours/Student	79.8	70.3	65.8	59	58.4

*Source: Derived from Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA), 2005.*

A recent report estimated that in 2007 65,000 places were funded by the Commonwealth and a further 50,000 placed and coordinated by schools themselves.<sup>16</sup> This estimate represents little gain since the last reported data for 2004.

<sup>14</sup> Australian Government, Department of Education, Science and Training, (2005, May), *Quality of Structured Workplace Learning*, Canberra, ACT.

<sup>15</sup> *National Data on Participation in VET in Schools Programs and School-Based New Apprenticeships for the 2004 School Year*, compiled by the MCEETYA Taskforce on Transition from School.

<sup>16</sup> *It's Crunch Time, Raising Youth Engagement and Attainment – A Discussion Paper, August 2007*, Australian Industry Group and Dusseldorp Skills Forum, page 26.

- b. Length of Workplace Exposure** - A related concern is the continuing decline in the national average student hours per year of SWL. According to the most recent data available the average hours have fallen from around 80 hours per year in 2000 to approximately 54 hours per year in 2004.
- c. Coordination** - The number of students participating in Structured Workplace Learning and the amount of time students spend in the workforce indicate that the coordination of SWL is an issue. The *Careers Advice Australia* network provides a national framework to support coordination but there is a great deal of variation in its implementation. It is appropriate to provide minimum standards to assist CAA personnel to consistently implement this key function. The recommended standard is one coordinator per 60 student placements.

Ai Group is fully supportive of the announcement of an additional \$84 million over four years to guarantee one day per week of on the job training for 20 weeks a year for all VET in Schools students from Year 9 to Year 12.<sup>17</sup> This initiative will extend the coverage significantly from the current figure of 54% of students and also increase the hours per student per year to 160.

**Remaining Issues** - The Ai Group has continuing concerns that relate to the implementation of the new initiative and would appreciate the opportunity to have input into implementation planning. The specific issues are:

1. The need for implementation to initially focus on Years 11 and 12.
2. The need to develop industry area priorities for workplace learning.
3. The need to ensure that industry is consulted about this expansion and the requirements for supervision.
4. The relationship of this initiative to *Careers Advice Australia*.
5. The implementation of a coordination standard of one coordinator per 60 placements.

**Professional capability** – all reform in education must be supported by a strengthened high quality professional workforce. *The Future of Schooling in Australia*<sup>18</sup> appropriately identified ‘a commitment to developing outstanding principals and a high-quality teacher workforce’ as being central to the achievement of a high performing schooling system. This will involve:

- Improved pre-service teacher training, including VET teaching skills for secondary teachers;
- Consistent and credible performance review processes; and
- Appropriate remuneration for teaching excellence and leadership

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<sup>17</sup> Skilling Australia for the future, Election 2007 Policy Document, November 2007, page 18.

<sup>18</sup> Council for the Australian Federation, *The Future of Schooling in Australia*, Federalist Paper 2, September 2007.

### **3. Careers Guidance**

Internationally, career guidance is now higher on the public policy agenda than ever before. Three separate policy reviews undertaken over the last 5 years by the OECD, The World Bank and the European Commission, which covered 37 countries in total, indicated that in most countries career guidance services are seen as both a private and a public good supporting skills development goals, labour market goals and social equity goals.

Good quality career guidance can improve the efficiency and effectiveness of the education and training system and manage its interface with the labour market as well-informed and self-aware individuals make better career and learning decisions, are more motivated and therefore more productive in their chosen careers, and members of disadvantaged groups are also better supported and aspire to access opportunities that were previously not available to them.

Career guidance services clearly play an important role in economic growth and the development of human capital, and are crucial to the success of lifelong learning. Accordingly countries around the world are increasingly recognizing the need to expand access to career guidance services so that these services are available not just to selected groups but to everyone throughout their life.

For the first time ever, the European Union's Council of Education Ministers passed a formal resolution on guidance stating that "Services need to be available at times and in forms which will encourage all citizens to continue to develop their skills and competencies throughout their lives, linked to changing needs in the labour market."

A report by The Allen Consulting Group<sup>19</sup> noted that changes within the Australian economy, particularly global competition, the importance of knowledge based work, more frequent movement between jobs, and changing social trends, such as older people remaining engaged in the paid workforce, highlight the growing importance of the provision of quality career development services.

Australia's position in the delivery of quality career guidance internationally, has lifted significantly in the last two years since the establishment of the Career Advice Australia Network, and the introduction of professional standards for career practitioners. However there remain a number of issues which need to be addressed in order for Australia to become a world leader in this field and to ensure we are maximizing the growth of our economy and human capital.

The establishment of the Career Advice Australia Network is a significant advance in the delivery of improved careers guidance for young people. The direct role of industry in the provision of National Industry Career Specialist and Regional Industry Career Advice Services, alongside the role industry and business plays at a local level as a key partner in the services provided to young people, is arguably the most significant feature of the Network compared to previous programs.

The NICS play a key role in the network by coordinating effort strategically at a national level to educate young people and their influencers about career opportunities and industry developments. The NICS have filled a significant gap in career guidance services which is now enabling the diversity of resources, knowledge and networks to be utilized more effectively by industry and career guidance providers, to enable young people to make better career decisions. However these services need to be better resourced to enable increased support to be provided to the RICA Network, attention to the

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<sup>19</sup> The Allen Consulting Group "Getting Serious About Careers: Leadership in Career Development", October 2005

strategic engagement of large organizations operating nationally or across multiple states or RICA Regions, and increased capacity to develop/improve careers information.

An evaluation of RICA Services undertaken by Ai Group found that RICAs are also playing a critical and valuable role in the network. They have become a key connector of relationships and information across their communities and a credible source of information and advice regarding local industry skill needs, career opportunities and employer networks. They are translating almost 40% of their employer relationships into increased engagement with careers guidance activities and dialogue with school communities. The brokerage role they perform with stakeholders is resulting in increased collaboration and reduced duplication and overlap. They are also contributing to improvements in the currency, relevance and quality of careers information provided at a local level.

Local Community Partnerships have undergone a significant culture shift and expansion of services which is leading to the delivery of more responsive and relevant careers guidance services. Questions have arisen around the flexibility of their funding across the three program areas: Structured Workplace Learning, Careers and Transition Support, and Adopt A School Program, which need to be further investigated to ensure that services are not being unnecessarily restricted by overly prescriptive guidelines.

## Recommendations: Careers Guidance – Expand and Transform

1. **Continuation of Career Advice Australia Network** – This Network has clearly been a massive leap forward for Australia in the provision of quality careers guidance for young people and needs to become a cornerstone of a Careers Guidance Strategy for all Australians in the future. This should include:
  - Increased funding support for NICS Services to enable service expectations to be fulfilled appropriately to bring greater benefit to young people and increased industry engagement.
  - A review of LCP funding guidelines including the three key programs delivered to ensure funding can support more responsive services whilst also ensuring quality and consistency.
  
2. **Development of a National All-Ages Careers Guidance Strategy and associated services** – Internationally, there is significant consensus to the need for publicly funded career guidance services which target all ages and many countries are moving to develop these or have such systems in place, including Scotland, Wales, Northern Ireland, New Zealand, and Germany and Luxembourg to a lesser degree. Careers England recently undertook an analysis of the pros and cons of an all-age strategy concluding in favour of an all-age strategy stating that “England must establish a stronger all-age strategy without further delay or risk damaging plans to enhance the social and economic health of the nation”. Key issues which need to be considered include:
  - The continuity of services provided across the age groups, particularly from youth to adulthood. Young people, before they leave school, should become familiar with the services, understand what they offer, and have used the services so that they may easily access them in the future.
  - The cost-effectiveness of services provided and the potential role of CAA in the provision of services to Adults.
  - Age boundaries which may be applied to services need to be carefully considered. Many young people transition into the workforce at a later age for a range of reasons including situations of

disadvantage, where problems traditionally experienced by teenagers are as bad or worse for those in their early 20's, delayed entry into further education and extended periods of study and travel.

- The synergies of providing for both young people and adults within the same service could open up opportunities for career practitioners, enable better sharing of information and experiences of adult career patterns and more effective attention to issues common to both age groupings.
3. **Careers Education and Guidance in Schools** – As recommended in the House of Representatives Report “Learning to Work” and by the OECD Review of Career Guidance in Australia. :
- Career education should be a mandatory part of secondary-school curricula, supported by national standards, and
  - All secondary schools should have at least one professional careers adviser with appropriate specialist training.

#### **4. Skills & Training**

The future competitiveness of Australia will, in large measure, be determined by the extent to which businesses are able to attract skilled workers and upskill and reskill their existing workforces. The Ai Group continues to stress the need to re-orient both the training system and the funding mechanisms to better meet the needs of business to skill new entrants and to broaden and deepen existing workers' skills. Recent OECD figures indicate that Australia is falling behind the OECD leaders in terms of financial investment in education.

Further, the Centre for the Economics of Education & Training has predicted:

- A shortfall of 240,000 qualified people over the next decade if supply remains at its current levels; and
- That the resource base for VET will need to expand by 5% over the next decade to avoid this shortfall.

The Ai Group strongly believes this underinvestment must be addressed and the relative lower attainment levels of the workforce must be improved. This will require a concerted effort in both entry-level training and also in the broadening and deepening of the skills of the existing workforce.

The Ai Group applauds the new Federal Government's initiatives, in particular the strengthened and expanded role of industry skills councils, the establishment of a new statutory authority *Skills Australia*, and the allocation of 450,000 additional training places at Certificate III or above over the next four years.

However, achievement of the goals set by the government will also require:

- **Structural reform of the governing arrangements of the National Training System.** The imminent establishment of Skills Australia provides a unique opportunity for more substantive structural reform of the governing arrangements for the national training system. Current arrangements lack clarity in both role and purpose. The policy, funding, regulation (including qualifications) and system support roles are managed by a range of entities, committees and organisations, often with unclear or overlapping remits.

The Ai Group believes that consideration of the following structural arrangements would greatly improve the real and perceived effectiveness of the VET sector.

i. *Skills Australia* should be established as a matter of priority. This statutory authority must be represented by a board that is the recognised authoritative voice of industry. Its members must be high profile and strategic, with a clear majority representing industry. In undertaking its function Skills Australia must develop strong linkages with strengthened industry skills councils, the Department of Education, Employment and Workplace Relations (DEEWR) and the Ministerial Council for Vocational & Technical Education (MCVTE).

Consideration should be given to aligning the key national policy functions, currently undertaken by the National Quality Council (NQC) with the important industry-focused work of Skills Australia. Such an alignment would allow for genuine industry leadership of the national training system with both the critical policy functions overseen by the entity charged with recommending to government the future skill needs of the country, including advice of the allocation of the additional 450,000 training places over four years.

ii. *National Industry Skills Committee (NISC)* – it is the view of the Ai Group that the NISC is no longer required with the imminent establishment of *Skills Australia*. The NISC is a committee without any determinative powers and is therefore not formally able to direct/influence the national training system.

iii. *TVET*- The ministerial company currently undertakes a range of functions, many derived through historical circumstances rather than logical groupings. These services include:

- A secretariat service to the National Quality Council (NQC)
- A secretariat service to the National Industry Skills Committee (NISC).
- Services to support the activities of MCVTE carried out by the NQC.
- Services to support the advisory role of the National Industry Skills Committee.

An integrated service to enable users of the national training system to identify and acquire training materials, identify copyright requirements and enter licenses for use of that material consistent with the scope and direction of the NQC. This service is undertaken on a commercial basis.

It is timely to review the purpose, functions and management arrangements of TVET. With potential realignment of policy functions with Skills Australia it may be desirable to clarify and contain TVET's role to being solely focussed on regulatory arrangements.

iv. *National Quality Council (NQC)* - The National Quality Council is a Committee of the Ministerial Council for Vocational and Technical Education (MCVTE), and oversees quality assurance and ensures national consistency in the application of the Australian Quality Training Framework standards for the audit and registration of training providers. It has specific decision-making powers in relation to the endorsement of Training Packages and other aspects of the quality assurance under the National Skills Framework.

The NQC has a key role in bringing together the major players in the vocational and technical education sector to oversee and support the current and future quality of vocational and technical education across Australia.

The role and purpose of the NQC remains critical. Its functions must be maintained and consideration should be given to its secretariat being housed within an industry-led *Skills Australia*.

v. *Institute of Trade Skills Excellence (ITSE)* - The Institute is a Government funded, industry-led body with three main purposes:

- To improve the profile and status of trades;
- To recognise high performing RTOs; and
- To reward excellence in teaching in trades education.

While the Institute is relatively new in its establishment, within a short period of time it has managed to garner significant stakeholder engagement and has undertaken unique and value adding functions for the national training system. These functions must not be lost and urgent consideration should be given to the best possible 'home' for these functions.

- ***Work towards a new federalism for skilling*** to ensure that the allocated funding is utilised effectively and efficiently; that the quality of training is raised; that there is real portability of skills; that duplication is removed and synergies between the various strands of training delivery are achieved; and that industry's needs for skills are well understood and delivered on.

Progress towards this outcome will involve an improved and increased Commonwealth/State funding agreement. This agreement must increase flexibility and choice for the users of the training system: students and employers. Reform of the governance of Australian TAFE institutes to ensure greater autonomy and a greater focus on workforce needs, is desirable as is a requirement for all RTOs that would make them more responsive to the needs of their clients.

### ***Accelerate apprenticeship reform***

Apprenticeships remain the major means for individuals to gain trade skills. They are a central component of Australia's skilling strategy. However, the AiGroup believes that a fresh approach to delivering trade skills that combines accelerating trade training and giving quicker learning apprentices earlier access to higher level training is timely. This can be achieved quickly by fine tuning existing qualifications and re-organising training arrangements.

We believe that the development of targeted vocational graduate certificates and vocational graduate diplomas that build on qualifications and competencies in existing nationally endorsed training packages is an innovative approach to delivering higher skilled workers for the needs of the modern labour force and changing economy. Trade qualifications based on training packages can be accelerated without the need to dismantle the apprenticeship system. Instead, continued reform that ensures accelerated and higher level trade options that deliver genuine vocational outcomes needs to be the focus. The Ai Group maintains that trade skills can only be properly acquired in the context of employment, whereas higher level technical skills, being more theoretical by nature, can be acquired through other pathways.

The Ai Group believes that the key to achieving faster, smarter and higher trade outcomes relies upon using all the best delivery options currently available.

Training packages currently accommodate all vocational outcomes over a range of qualification levels. Accordingly RTOs need to focus upon flexible and responsive teaching, learning and

assessment methodologies including good recognition practices. Funding models, reporting approaches and compliance requirements must actively support these approaches.

### ***Review of Traineeships***

A major feature of the vocational education and training landscape over the last decade has been significant growth in participation in traineeships.<sup>20</sup> There have been major changes in the scope, scale and focus of traineeships since their inception. For example, the main program participants are no-longer first-time entrants to the workforce as originally intended. There is also an imbalance between the employment growth sectors and the sectors where traineeships are most prevalent. There is a need to meet the technical, para-professional and design skills that have emerged in a number of sectors and to more effectively target those disadvantaged.<sup>21</sup> These issues indicate that it is timely to review the purposes and operations of traineeships.

Ai Group supports a national review of the purpose, scope, funding, future potential and priorities of traineeships.

### ***Improving access to Pre-Vocational Programs***

There is increasing evidence that access to pre-vocational programs improve outcomes for participants disadvantaged in the labour market.<sup>22</sup> Both employers and apprentices have indicated that access to pre-vocational programs increases the likelihood of the completion of apprenticeships.<sup>23</sup> There is a need to expand the range and depth of pre-vocational programs, including but not limited to pre-apprenticeship programs.

The Ai Group supports the investigation of ways of developing and implementing more comprehensive pre-vocational programs.

### ***Overhaul the capacity & capability of the National Training System to comprehensively build and upskill the existing workforce***

Australia companies have clearly identified that their key strategy to building and maintaining competitiveness over the next five years will be develop and upskill their existing workforce. This is a major challenge for both companies and the national training system. The government's allocation of 450,000 additional training places is a welcome initiative and will go a long way to addressing this problem. However, in order for this outcome to be effectively and efficiently achieved the national training system will require further reform, including the above mentioned structural reform. These challenges include: ensuring the flexibility in training delivery that industry and individuals require; appropriately target training funding to meet industry needs; build linkages between formal and other forms of learning; and build world class skills outcomes for individuals and enterprises through high quality workforce skills development.

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<sup>20</sup> Mark Cully, *Kirby Comes of Age: The birth, difficult adolescence and future prospects of traineeships*, Dusseldorp Skills Forum, 2006.

<sup>21</sup> *It's Crunch Time: raising youth engagement and attainment – a discussion paper*, August 2007, Australian Industry Group and Dusseldorp Skills Forum.

<sup>22</sup> *It's Crunch Time: raising youth engagement and attainment – a discussion paper*, August 2007, Australian Industry Group and Dusseldorp Skills Forum, page 27.

<sup>23</sup> *A Guide to Managing the First 100 days of an Apprenticeship: a practical approach*, August 2007, Australian Industry Group, page 17.

Consideration should be given to identifying a portion of the additional training places to be allocated via a voucher system. The high levels of demand for work skills vouchers clearly demonstrated the effectiveness of this model to lift the skill levels of working age adults.

### **5. Higher Education**

Australia has a globally competitive number of university graduates on an annual basis. However, this does not negate the need to continue to reform Australia's higher education sector. The need to improve the relationship between higher education and industry remains. This can be achieved by ongoing reform of curriculum that is informed by industry; increased engagement of current industry professionals and practitioners in the university delivery context; and increased requirements of work-based application in undergraduate degrees.

Employability skills have been identified as essential requirements of graduates from all sectors of education. The *Graduate Employability Skills*<sup>24</sup> report recommends the establishment of an Employability Strategy Fund. This funding would be provided to universities to systematically review their work on developing employability skills and address gaps on a submission basis. Funding required would be \$10million over three years.

Efforts must also be made to improve and increase the number of graduates from maths, science and engineering disciplines. The impact of the declining number of graduates in these disciplines will have long term profound effects on industry.

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<sup>24</sup> Business, Industry & Higher Education Collaboration Council, *Graduate Employability Skills*, August 2007



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