

# Ai GROUP SUBMISSION

to the Victorian Government's  
2015-16 Budget

APRIL 2015

The logo for Ai GROUP, featuring the letters 'Ai' in a stylized, bold font above the word 'GROUP' in a smaller, all-caps font.

**Ai**  
GROUP

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## **About Australian Industry Group**

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than one million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

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## Executive summary

The Victorian Government will deliver its first budget in May at a critical time for the state's economy. As Ai Group noted in our pre-election submission in 2014, there is a strong and pressing case for reform across the Victorian economy. The state did not benefit directly from the mining boom to the extent other states did, but local industry has experienced years battling high costs and an elevated currency. Ai Group believes the Victorian Government should focus on meaningful reform to address these economic challenges, which although are seen across the national economy, are made more urgent in Victoria as the automotive industry winds down.

Economic growth in both Victoria and nationally is below trend; national income is flat in large part due to the sharp correction in commodity prices; the pace of employment growth remains sluggish and unemployment and broader measures of labour market underutilisation are heading higher. Further, the economy is struggling to rebalance in the wake of declining investment in mining-related projects.

Consequently, the central structural challenge now for Australian economy is rebalancing, and the Victorian economy must play its role in finding multiple sources of growth as the economy transitions away from resource and energy-led growth. Other parts of the economy need to step up their investment, employment and productivity in order to improve incomes and living standards across the community. This rebalancing is important not only for the strength of the economy but also to improve its resilience in future.

But the path to rebalancing is made difficult by the two significant barriers facing industry, namely high costs and low productivity. The escalation in energy costs and the rise in our relative unit labour costs have reinforced Australia's relative disadvantage as a high-cost economy. At the same time our productivity growth has slowed. As a result, we are not in as strong a position as we should be to overcome the national income-sapping impacts of lower commodity prices and the retreat of investment from resource and energy projects. We now need a strong and concerted effort to lift productivity and competitiveness across the economy.

Consequently, Ai Group asks the next Victorian Government to concentrate on reducing business costs, through reductions in taxation and regulation. We also ask the Government to take a role in lifting the state's productivity, through sound investments in infrastructure, skills, and through encouraging innovation. Our recommendations are listed below.

## Summary of recommendations

### ***Fiscal Policy***

- The new Victorian Government maintains Victoria's enviable fiscal position through sensible and sustainable fiscal policy. The State Government should take advantage of the strong fiscal position and solid credit rating to invest in productive assets with demonstrated returns.

### ***Taxation Policy***

- The Victorian Government should fully commit to the Tax White Paper and Federalism Whitepaper process and examine if inefficient state-based taxes on industry can be removed.
- The burden of state taxes in Victoria is high and the next Victorian Government should investigate the best ways to reduce tax burdens and lift the state's cost competitiveness. For example, a reduction in the rate of payroll tax would lift incentives for businesses to employ people and improve their competitiveness.

### ***Reducing costs of doing business***

- The Victorian Government must reconsider introducing two additional public holidays given the significant cost to business and erosion of competitiveness at a time when the economy is below-trend.
- The COAG agenda has changed with changes in governments across the country. Victorian businesses, and indeed businesses nationally, would benefit from many of the harmonisation reforms that were not completed. We encourage the next Victorian Government to reinvigorate this process.
- The Victorian Government should immediately commit to the harmonised OHS laws as the state remains the only jurisdiction not to do so.
- The Government must ensure the Co-Invest fund remains only for employees in the construction industry and not those peripherally engaged.

### ***Education and Training Reform***

- Ai Group welcomes the review of VET funding and supports the movement to a more managed approach to the funding model to enable consideration of:
  - the continuing expansion of private providers of training and the impact on the provision of trades training;
  - whether industry skilling needs are being met in rural and regional Victoria; and
  - the implementation and integration of a range of quality and flexibility measures to instill greater confidence in the system as well as an expanded capacity to meet industry needs.
- There is a need to support initiatives that promote STEM skills in schools, the tertiary education sector and the workplace.
- There is a need for a greater focus on workplace language, literacy and numeracy skills and initiatives introduced to address the current low levels of these in the workforce.

## **Ai Group 2015-16 Pre-Budget Submission to the Victorian Government**

- Ai Group would encourage the new Government to complete the review of Vocational Pathways and implement measures designed to restore industry confidence in VET in Schools programs.
- Ai Group would encourage the new Government to develop and implement a higher education policy for Victoria.

### ***Infrastructure***

- Ai Group strongly urges the Victorian Government to begin any sound and tested infrastructure projects as soon as practicable in order to fill the void left by East-West Link, while also delivering a much-needed boost to engineering construction activity.
- Ai Group encourages the Victorian Government to outline a pipeline of rigorously assessed infrastructure projects to provide certainty for work over the coming years. To this end, we welcome the establishment of an independent Victorian agency to better coordinate the planning, prioritisation and execution of infrastructure projects throughout the state.
- We would welcome establishing and formalising a community and business consultation process, where robust debates on the prioritisation of Victorian infrastructure projects could be conducted.
- Regular updates to inform industry about the level of priority attached to major infrastructure projects throughout the state to facilitate the planning processes in businesses and lift productivity throughout the Victorian economy.
- Further development of structured public-private partnership policies that more efficiently allocate risks, attract more private sector investments and reduce costs.
- We would encourage the Victorian Government to address inefficiencies in tender requirements as recommended by the Productivity Commission. This would reduce unnecessary costs borne by construction companies to meet often excessive and onerous tendering requirements including extensive design work for projects they have more chance of losing than winning. Ai Group calls upon the Victorian Government to take this approach.

### ***Planning***

- On the issue of Coal Seam Gas, the new Government should establish a list of key research objectives and outcomes with coordinated opportunities for community consultation in order to remove the debilitating ambiguity around this issue. This should be accompanied by a strict timetable leading to a final determination.
- Ai Group urges the Government to bring the approval and consent of wind farms into line with other infrastructure approval processes.
- That the elected Government does not implement a container deposit scheme given Victoria already has a successful and efficient recycling scheme.
- Ai Group urges the Government to reform the planning regime to ensure that Victoria's essential waste infrastructure is prioritised and protected.

## **Ai Group 2015-16 Pre-Budget Submission to the Victorian Government**

- Ai Group urges the elected Government to prioritise coordination and cooperation between all levels of Government and agencies on its Statewide Waste and Resource Recovery Infrastructure.

### ***Innovation***

- Ai Group would encourage the Victorian Government to take an active role in improving the innovation environment in the state through considered policy settings and incentives.

### ***Trade***

- Victoria has a strong record in international trade. Ai Group encourages the Government to draw on the state's strengths to maintain and develop a clear strategy to boost export opportunities of Victorian businesses.

### ***Automotive Sector Transition***

- Ai Group supports and welcomes the Victorian Government's commitment to ensuring businesses and workers in the automotive supply chain are assisted through the transition as the local car assembly ends, and that where possible, affected businesses are assisted in accessing new markets and/or products.

### ***Ensuring a level playing field for government procurement***

- Ai Group recommends that all government agencies including Victorian agencies together with major contractors implement an approach that shows a commitment to the following procurement principles of Value for Money, Clarity, Transparency and Improvement of Processes, Full and Fair Access, Full Opportunities for Local Suppliers, Supporting Industry through Effective Planning and Communication.

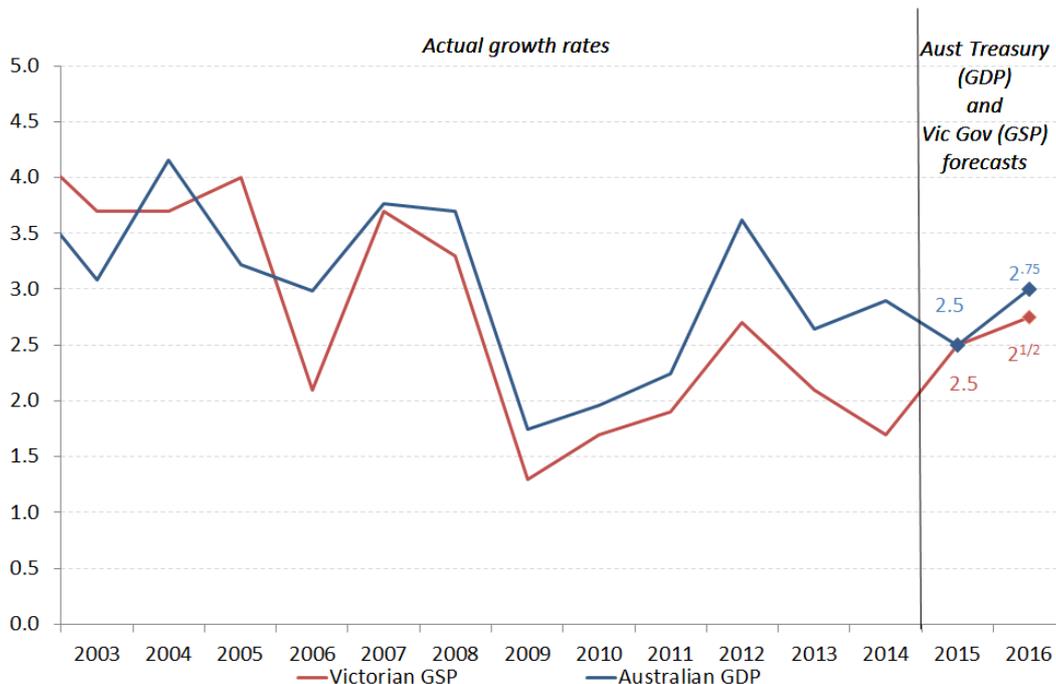
## The Victorian Economic Outlook

Growth in the Victorian economy has been patchy in recent years. The most recent gross state product data from the ABS reports activity grew a below-trend 1.7% over the year to June 2014 compared to national growth of 2.5% with South Australia and Tasmania the only states to record weaker growth (Chart 1). More recent data from the *National Accounts* indicates the Victorian state final demand (consumption and investment) contracted in the September quarter 2014 by 1.6% and is grew by just 1.2% over the year. This was against a backdrop of growth of the below-trend 2.7% growth in real GDP nationally over the year to September.

The state accounts for around 22% of the Australia’s GDP and has a large services and manufacturing sector relative to national output, and has one of the smallest exposures to the mining sector (Table 1). Of all the states, Victoria is particularly susceptible to the Australian dollar, and at elevated levels, the strong currency has weighed on the state’s manufacturing sector as well as education and agricultural exports, without the cushioning effect from a mining sector experiencing higher commodity prices. This suggests there is upside for the state following the recent depreciation in the Australian dollar over the past four months, although this depreciation has been limited to a large extent to several currencies including the US dollar and Chinese renminbi. On the other hand, low interest rates, while supportive of activity particularly construction, do not have support activity to the same extent as NSW, which has a relatively larger finance sector.

The most recent annual GSP data from the ABS reports that the manufacturing sector has contracted in each of the past four years to June 2014 by a cumulative 7.8% in volume terms.

**Chart 1: Victorian GSP and Australian GDP, real % change per year**



Sources: ABS, *State Accounts 2012-13*, Nov 2014; Victorian Pre-Election Budget Update, November 2014; Australian Treasury, MYEFO, December 2014

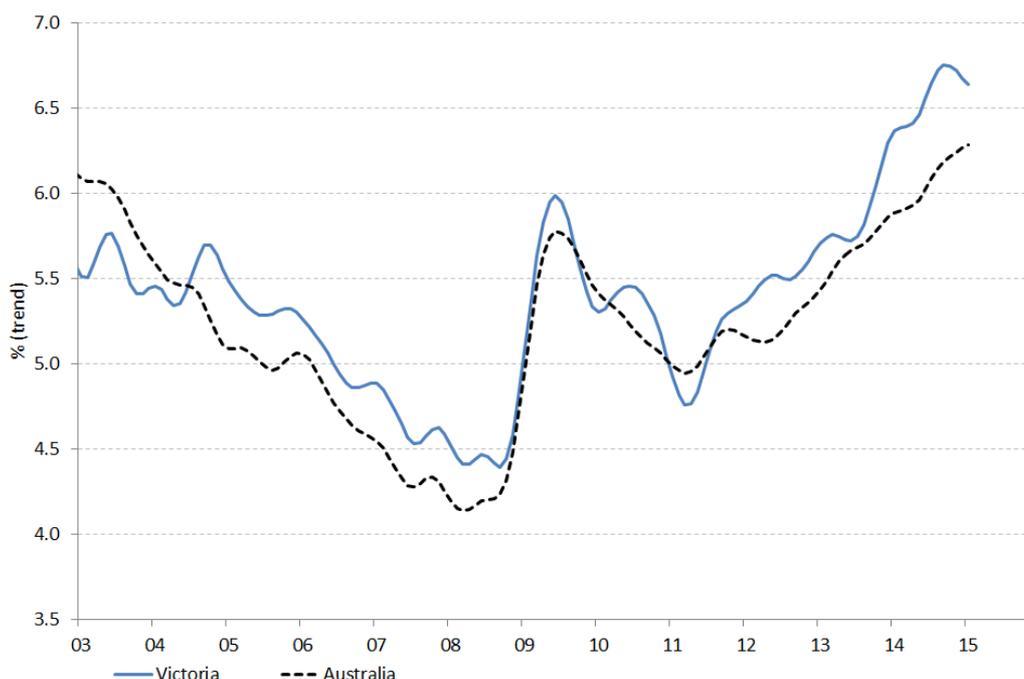
**Table 1: Victoria's industry share of Gross State Product**

	Victoria	Australia
Finance	10.4	8.0
Professional services	8.1	6.6
Manufacturing	7.9	6.8
Health	7.0	6.3
Construction	5.9	7.6
Education	5.4	4.5
Retail trade	5.2	4.5
Transport	4.7	4.8
Wholesale trade	4.6	4.2
Public admin & safety	4.1	5.1
IT & media	3.2	2.7
Admin services	3.2	2.9
Real estate services	2.7	2.5
Agriculture	2.4	2.2
Hospitality	2.3	2.3
Utilities	2.3	2.5
Mining	2.0	9.8
Other services	1.8	1.7
Recreation	1.0	0.8
<i>Ownership of dwellings</i>	8.3	8.1
<i>Total all industries</i>	92.5	93.8
<i>Taxes less subsidies on products</i>	7.6	6.2
<i>Statistical Discrepancy</i>	-0.1	0.0
<b>GROSS STATE PRODUCT</b>	<b>100</b>	<b>100</b>

Source: ABS, *State Accounts 2013-14*, Nov 2014;

Victoria's labour market has softened over 2014 and continues to one of the weakest even as most states have experienced a softening in their labour markets with an unemployment rate of 6.6% in January 2015, from a rate of 6.2% a year earlier (Chart 2). In a positive sign after earlier weakness, Victoria's employment growth strengthened in late 2014 and is now growing by 2.3% over the year to January.

**Chart 2: Australian and Victorian trend unemployment rate**



Source: ABS 6202.0 Labour Force, Australia, November 2014

In Pre-Election Fiscal Outlook, the Victorian Department of Treasury and Finance forecast Victoria’s economy to strengthen with real gross state product (GSP) forecast to increase by 2.5 per cent in 2014-15, and by 2.75 per cent in 2015-16 and later years (Table 2). A rate of 2.75% is around trend growth. Underlying this forecast, is the view that national shift in economic activity towards the non-resources sectors, supported by the depreciation in the exchange rate and ongoing low interest rates, would see the state strengthen.

**Table 2: Victorian economic forecasts**

	<i>(per cent)</i>				
	2013-14 <i>actual</i>	2014-15 <i>forecast</i>	2015-16 <i>forecast</i>	2016-17 <i>forecast</i>	2017-18 <i>forecast</i>
Real gross state product	2.00 <sup>(b)</sup>	2.50	2.75	2.75	2.75
Employment	0.6 (0.75)	1.25	1.50	1.50	1.50
Unemployment rate <sup>(c)</sup>	6.2 (6.25)	6.50	6.25	6.00	5.50
Consumer price index <sup>(d)</sup>	2.8 (2.75)	2.25	2.50	2.50	2.50
Wage price index <sup>(e)</sup>	2.7 (2.75)	3.25	3.50	3.50	3.50
Population <sup>(f)</sup>	1.9 <sup>(b)</sup> (1.8)	1.8	1.8	1.8	1.8

Sources: Australian Bureau of Statistics; Department of Treasury and Finance

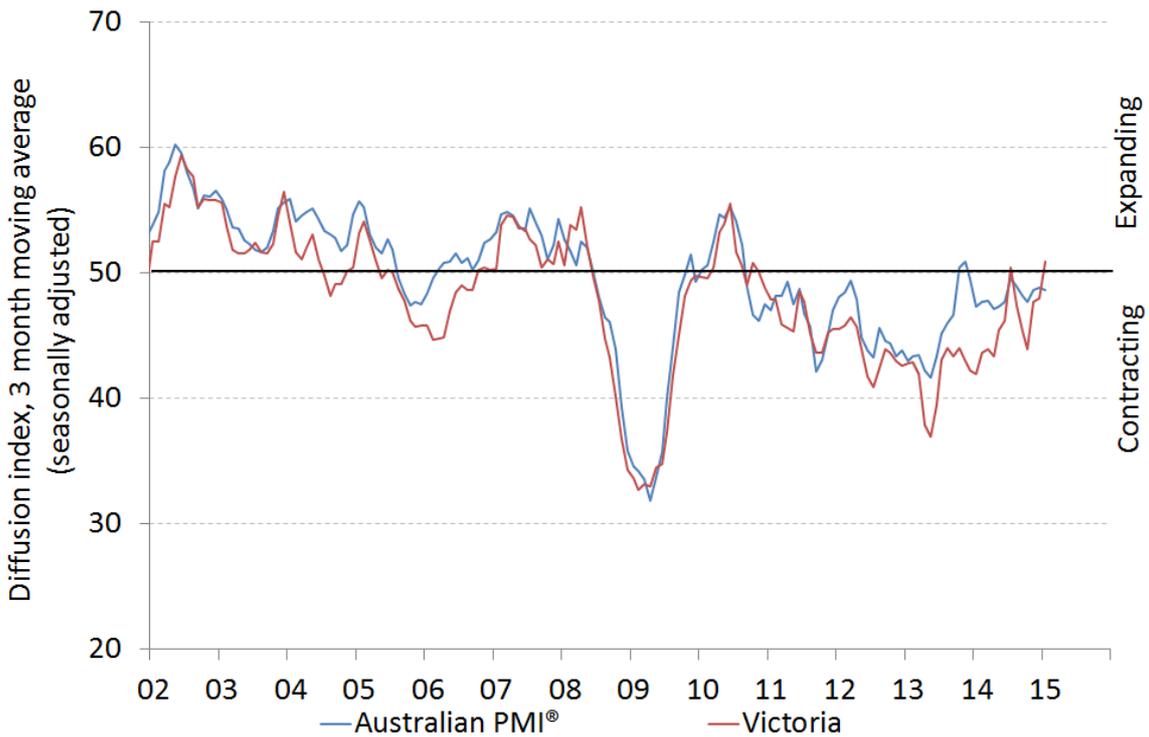
Source: Victorian Pre-Election Fiscal Outlook, November 2014

The largest risk to the Victorian economy over the coming years the transition in the state’s manufacturing sector as the local car assembly winds down (discussed in greater depth later in this submission). Victoria accounts for around half the nation’s employment and output in the industry. At this stage, it is unclear what future lies ahead for suppliers in 2017 when production

will end. Furthermore, there is significant uncertainty if the car companies will last that long. GM Holden and Toyota plan to leave scale back local car production before ceasing production completely in 2017. Ford plans end production at its Geelong and Broadmeadows plants in late 2016 though has indicated this depends on sales figures and may be earlier.

The Australian PMI® indicates that the Victorian manufacturing industry had been performing worse than the national average since 2012, although conditions have improved recently in Victoria to be back in expansion territory for the first time since 2010.

**Chart 3: Australian and Victorian PMI**



Low interest rates have spurred an upswing in residential building activity in 2013 and 2014 and this is expected to continue into 2015 across the country including in Victoria where the number of residential building approvals rose by 13.2% over the year to December 2014.

## The Victorian Fiscal Outlook

Victoria is in an enviable fiscal position and is the only state to hold a stable AAA credit rating from all three ratings agencies. The ratings agencies have expressed concern over the potential compensation liabilities from the cancellation of the East-West Link project, which remain unresolved. But the fiscal projections for the state are solid with the Victorian Department of Treasury and Finance's Pre-election Budget Update forecast the state to remain in **surplus** over the next five years and that **net debt as a percentage of GSP** is expected to peak in 2014-15 at 6.2%, before falling to 4.5% by 2015-16 and staying there until 2017-18.

The AAA credit rating means Victorian Government has the ability to borrow at relatively low rates. This strengthens the case for investment by the Government in productive assets where a solid return on capital can be achieved for taxpayers. Consequently, Ai Group would encourage the elected Government to explore a sensible capital works program of rigorously-assessed, productivity-enhancing infrastructure to benefit from the strong credit rating and boost the productive capacity of the state.

Ai Group applauds the new Government's commitment to embark on 99-year lease of the Port of Melbourne in order to benefit from the Federal Government's asset recycling program. Where possible, the Victorian Government should further explore opportunities to privatize public assets in order to benefit from the Asset Recycling Fund, which provides a federal contribution of 15% of the funds raised from the privatisation.

### **Recommendation:**

- **The Victorian Government maintains Victoria's enviable fiscal position through sensible and sustainable fiscal policy. The state Government should take advantage of the strong fiscal position and solid credit rating to invest in productive assets with demonstrated returns.**

## Taxation

Ai Group recognises the need for substantial improvements to Australia's taxation arrangements to reduce the economic burdens they impose on the community while raising sufficient revenue to meet community expectations. Substantial tax reforms in hand with important changes to our federation are critical. The reasons for this include shoring up and broadening our tax base; removing a number of barriers to higher and more sensibly directed investment; and to ensure we maintain system-wide equity as changes are made to spending.

State Governments across the country are responsible for a sizeable portion of the government costs levied on business, through taxation and regulation. Industry understands the Government needs revenue streams to provide important public services, but it is important that only necessary regulation and the most efficient taxes are imposed. The prosperity of the Victorian economy will depend on the next Victorian Government committing to improving the competitiveness of Victorian businesses through sensible and sustainable reductions in business costs.

This will mean reducing, remodelling or replacing inefficient state-based charges, including payroll tax, which is among the highest of the states in Australia. It will also mean addressing wide disparities between the spending responsibilities of the states and territories and their own-source revenue collections, leave them overly dependent on the federal government and over exposed to the tendency of central governments to intervene in areas of state and territory responsibility.

Consequently, we call on the Victorian Government to take a leading role in the Federal Government's upcoming white papers on taxation and federalism. The Victorian Government should be open to examining state-based taxes including conveyancing duties, insurance taxes, land and payroll taxes, and should also embrace regulatory harmonization across states to remove burdens from business. Many of the reforms to state-based taxes identified in the Henry Tax Review are worthwhile but will require broader reforms to fiscal federalism and revenue sharing allocations between the states through the Commonwealth Grants Commission.

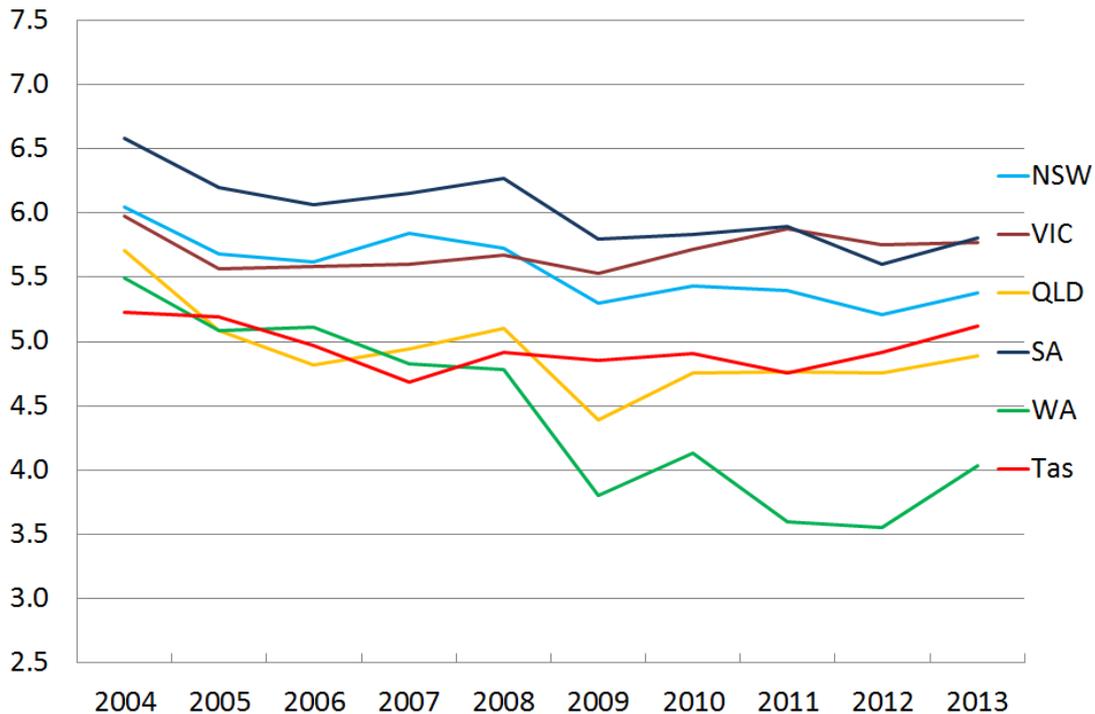
### **Recommendation:**

- **The Victorian Government should fully commit to the Tax White Paper and Federalism Whitepaper process and examine if inefficient state-based taxes on industry can be removed.**

### ***State-based taxes***

Australian Bureau of Statistics data highlights that Victoria had the highest tax-to-gross state product ratio in 2011-12 (Chart 7) and that this ratio was consistently high over the previous decade. This includes all state and local taxes including payroll tax, land tax, land transfer duty, insurance duty and motor vehicle duty. They reveal the significant tax burden on Victorian businesses indicating Victoria must lower its state taxes to improve its competitiveness position relative to the other states, to retain and attract businesses and to generate jobs growth.

**Chart 4: State and Local Government Taxes as a share of GSP**



Sources: ABS, 5220.0 Australian National Accounts: State Accounts, June 2014; ABS, 5212.12 Government Finance Statistics, 2011-12

In the 2014-15 Budget, the Napthine Government announced small set of reductions in **payroll tax** of 0.05% points to 4.85% from July 2014, which will save around 39,000 employers around \$234.5 million reduction over the forward estimates. There was no change to the threshold at which payroll tax must be paid, at \$550,000 for eligible industries. Regardless of these changes, the state's payroll tax burden remains high compared to other states and Ai Group members frequently raise Victoria's high payroll tax rate relative to other states as an issue of concern.

**Recommendation:**

- **The burden of state taxes in Victoria is high and the next Victorian Government should investigate the best ways to reduce tax burdens and lift the state's cost competitiveness. For example, a reduction in the rate of payroll tax would lift incentives for businesses to employ people and improve their competitiveness.**

## Reduce the cost of doing business

### *Public holidays*

Ai Group is alarmed by the Andrews Government's decision to introduce two public holidays at a time when business is facing soft demand and high costs. Ai Group members across industries are very concerned by this decision, which has an immediate and harmful impact on Victoria's competitiveness and should be reconsidered. At a recent meeting of the members in Ballarat, the issue was a point of real angst among the membership while members throughout the state have rung to express their concern.

With the Premier Andrews' decision to gazette Easter Sunday as a public holiday, along with the decision to introduce the Friday before AFL Grand Final as a public holiday, the state will have 13 public holidays, which is most of any state in the country. This is an irresponsible move given the pressures Victorian businesses are contending with, and will ultimately lead to reduced employment in the state given the increased cost issue.

We would strongly urge the Government to reconsider gazetting Easter Sunday as a public holiday, which will increase businesses' wage bill from an ordinary Sunday rate to a public holiday penalty rate. On the issue of the September Grand Final, Ai Group would be satisfied if the new public holiday simply replaced the March Labour Day holiday, meaning no additional public holidays were introduced.

Ai Group strongly urges the Andrews Government to reconsider introducing an AFL Grand Final public holiday, given the cost to the state through lost production and increased cost to business. This public holiday is estimated to cost the retail and hospitality sectors through penalty rates of around \$201 million, and the wider economy up to \$1.6 billion in total — made up of lost productivity and extra business costs.

#### **Recommendation:**

- **That the Andrews Government reconsiders the introduction of two new public holidays, which have a significantly detrimental effect on Victoria's competitiveness and the state's economy.**

### *Regulatory reform*

Sound regulation has a strong role to play in protecting the community and environment and underpinning economic activity. But Ai Group's member businesses agree that excessive or poorly implemented regulation is a serious problem. This assessment has been expressed repeatedly by respondents to Ai Group's own surveys and is corroborated by international comparisons. The 2014 World Economic Forum *Global Competitiveness Report* ranked Australia 124th for the burden of government regulation, a marginal improvement on 2013 but down from 60th in 2010-11.

The benefits for businesses, and indeed the broader economy, from nationally-consistent business regulation and competition laws have been well canvassed in recent years. In 2008, state and federal governments signed the National Partnership Agreement to Deliver a Seamless National Economy at the Council of Commonwealth Governments meeting. Thirty-six separate reforms are

covered by this National Partnership, comprising of 27 deregulation priorities, eight areas of competition reform and a reform to regulation making and review processes. Only 17 of the deregulation priorities and three of the competition reforms were completed. It is clear from the December 2013 COAG meetings that federal and state governments have taken a new approach to harmonization especially on areas like occupational licensing, which was not completed. Ai Group still sees significant benefit to industry, and indeed the broader economy including households and governments, from harmonised legislation and regulation.

Ai Group and its members – both large and small – remain committed to a nationally harmonised OHS system and are concerned by the Victorian Government remaining the only jurisdiction not to commit to harmonised laws, as Western Australia signed earlier this year. Every day, Ai Group members operating across state boundaries are frustrated by inconsistencies between state laws, with those trading across the Victorian and NSW border frequently complaining about the additional costs of doing business. We understand and appreciate that a national system means some compromises need to be made by Victoria, which has good regulation. But together with many of our members, we feel any downsides are far outweighed by the positives that a single national harmonisation would bring for Victorian businesses.

**Recommendations:**

- **The COAG agenda has changed with changes in governments across the country. Victorian businesses, and indeed businesses nationally, would benefit from many of the harmonisation reforms that were not completed. We would encourage the next Victorian Government to reinvigorate this process.**
- **The next Victorian Government should immediately commit to the harmonised OHS laws as the state remains the only jurisdiction not to do so.**

***Review of Worksafe***

The Victorian Government's is set to review the state's Workcover scheme, which is soon to be renamed Worksafe. This review will be undertaken by James McKenzie, who we believe is well-able to provide to advice to government on this issue. Ai Group believes the Worksafe scheme has been a positive one for employees and businesses over the past decade, and has shown itself to be the leading scheme in Australia. We encourage the Victorian Government to recognise the value of the scheme as it currently operates and that stability in policy is important to business.

Over the past decade, Worksafe has been a significantly less contentious matter for businesses as they grew to understand how it operates and affects their business. Especially important has been a continuing reduction in costs imposed on employers. Any changes being contemplated by Government should involve discussions with both employee and employer representative bodies such as Ai Group to ensure that the impact of any changes are examined thoroughly before being implemented.

***Construction industry employment***

Victoria has a portable long-service leave scheme for the construction industry to ensure that construction workers, who by the nature of their work move from job to job, are still eligible for

the long-service leave. The scheme, called Coinvest, is funded through levies on employers in the construction industry.

Recently, Ai Group members have reported that employees who are only peripherally connected to the construction industry, have sought to be included in the scheme as part of their employment contracts. This is inappropriate use of the scheme beyond its original intentions and places an unnecessary burden on employers. Ai Group would ask that the Government ensure this practice is ended through tighter eligibility for the fund.

**Recommendation:**

- **The Andrews Government should ensure the Coinvest fund remains only for construction industry workers and not those peripherally engaged.**

***Reintroduce the Victorian Construction Code***

Ai Group is concerned by the abolition by the Victorian Government of the Victorian Construction Code, Implementation Guidelines and regulator as they were playing a vital role in protecting employers and the community from unlawful, unacceptable and unproductive practices on construction sites. The watering down from 2009 of the powers of the federal construction industry regulator, the absence of an effective federal construction code and a huge reduction in penalties has led to the unacceptable practices of the past returning to construction sites. The state codes in Victoria, New South Wales and Queensland have reduced somewhat the damaging effects of the watering down, but the abolition of the Victorian Code will now embolden unions.

The maintenance of strong construction industry Codes was a key recommendation of the Cole Royal Commission into the Building and Construction Industry, the Gyles Royal Commission in New South Wales, and the recent Productivity Commission inquiry into Public Infrastructure. Employers, employees, independent contractors and the community need to be protected from unlawful and inappropriate union conduct. This conduct results in higher construction costs which of course reduce the ability of Federal and State Governments to deliver vital community infrastructure.

**Recommendation:**

- **We encourage the Andrews Government to reinstate the Victorian Construction Code, Implementation Guidelines and regulator to ensure that Victorian building sites are free from unlawful and unproductive work practices.**

## Education and Training Reform

### *Strengthening TAFE*

The Ai Group believes it is important to state the main principles underpinning the public training system. These are:

- An industry-led system: the purpose of the training system is to provide a highly skilled workforce able to meet the needs of industry in an increasingly complex economy;
- National consistency: industry requires a public training system that is truly national so that consistency of training outcomes is provided across territorial borders;
- Properly resourced: the public training system needs to be properly resourced and efficiently managed in order to provide quality training responsive to industry need;
- Quality system: all aspects of the national training system must reflect quality to maintain industry confidence in the system;
- Community provision: a public training system needs to embrace its wider community responsibilities beyond the immediate needs of industry.

Within this context the Ai Group notes the measures already announced by the Government to support TAFE training in Victoria. These include the announcements of \$320m for the TAFE Rescue Fund<sup>1</sup>, the VET Funding Review<sup>2</sup> and the Review of Quality Assurance in Victoria's VET System.<sup>3</sup> It is pleasing to note that the terms of reference for the VET funding review also include a strengthening of quality and a focus on responsiveness.<sup>4</sup> We would encourage the government to strongly engage industry in these processes.

This is a useful start to address problems identified by the Productivity Commission and others. Chart 1 reveals that the real recurrent government expenditure on VET in Victoria is decreasing and was the lowest in the country by 2013.

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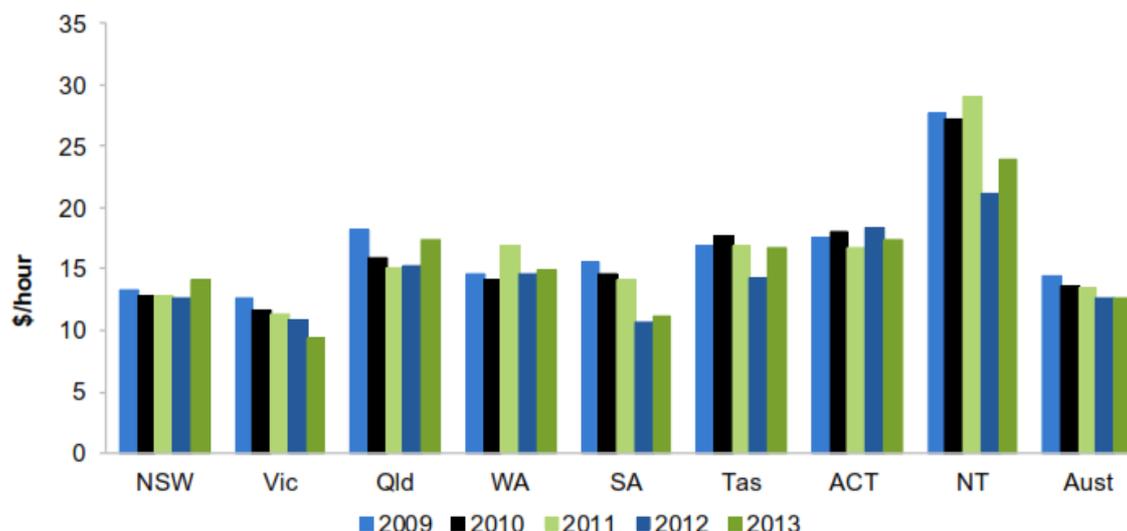
<sup>1</sup> UNDER LABOR, TAFE HAS A FUTURE AND STUDENTS HAVE A CHOICE, Media Release, The Hon Daniel Andrews MP, Premier, Wednesday 17 December 2014.

<sup>2</sup> VET FUNDING REVIEW TO FIX TAFE SYSTEM, Media Release, The Hon Steve Herbert MLC, Minister for Training and Skills, 9 February 2015.

<sup>3</sup> <http://www.premier.vic.gov.au/victorian-government-cracking-down-on-low-quality-training-providers>

<sup>4</sup> [www.vetfundingreview.vic.gov.au](http://www.vetfundingreview.vic.gov.au)

**Chart 5: Government real recurrent expenditure per annual hour (2013 dollars)<sup>5</sup>**



<sup>a</sup> The ACT does not levy payroll tax on its VET employees. A payroll tax estimate based on the ACT payroll tax rate has been included in the expenditure data for the ACT. <sup>b</sup> Data for Australia exclude the ACT payroll tax estimate, but include actual payroll tax for all other jurisdictions. <sup>c</sup> The variation in WA's expenditure from 2011 to 2012 largely reflects the move from fortnightly to quarterly payments to State Training Providers. <sup>d</sup> Historical data have been adjusted to 2013 dollars using the GDP chain price index deflator (table 5A.93). Recent volatility in the deflator series affects annual movements of real expenditure.

Source: NCVET (unpublished) National financial and VET provider collections; table 5A.19.

In addition, the market share of TAFE has been rapidly decreasing while the overall numbers in the training system have been increasing. The latest data from the Department indicates that the TAFE share of the market has decreased from 48 per cent to 27 per cent and private RTOs have increased from 21 per cent to 57 per cent over the last five years.

**Table 3: Market share of government subsidised enrolments by TAFE Institutes 2010 to 2014 (half year)<sup>6</sup>**

Sector	2010	2011	2012	2013	2014
Learn Local	13%	10%	10%	10%	10%
University	19%	15%	12%	10%	7%
Private RTO	21%	35%	44%	45%	57%
TAFE	48%	40%	34%	35%	27%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

While the market share of TAFE is rapidly decreasing it is doing so in the context of increasing enrolments. Recent Victoria Department data indicates enrolment growth in subsidised training

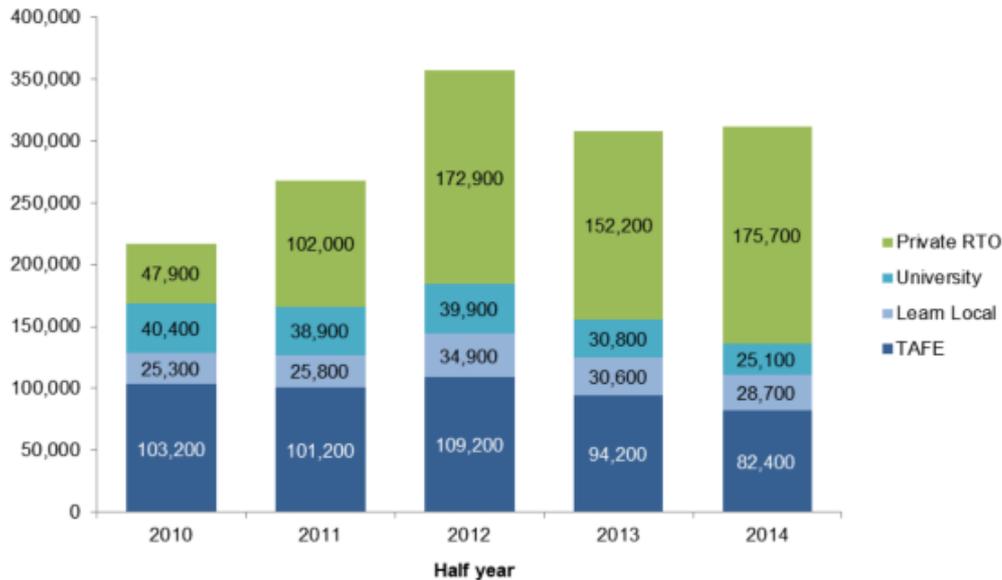
<sup>5</sup> Report on Government Services, Productivity Commission, 2015, page 5.32.

<sup>6</sup> *Victorian Training Market Report, Half Year 2014*, Victorian Department of Education and Early Childhood Development, August 2014, page 85.

(Chart 7). The expansion is at a far lower rate than private providers. Enrolments in private RTOs increased from 47,900 in 2010 to 175,700 in the first half of 2014. TAFE on the other hand reduced from 103,200 to 82,400 during the same period.

**Chart 6: Students by sector<sup>7</sup>**

**Figure 29, Number of students in government subsidised training by sector, 2010 to 2014 (half year)**



This may be considered a success in terms of expanding the market and choice of providers but this may well have a negative effect on the provision of trade training. TAFE Institutes continue to be the major providers of government subsidised apprenticeship training with 62 per cent of enrolments in the first half of 2014.<sup>8</sup> However, funding constraints have seen TAFE providers reduce their delivery hours for trade training. This is concerning for employers and erodes confidence in the outcomes.

In addition, the Ai Group has previously drawn attention to the effects of the competitive training market on TAFE.<sup>9</sup> This includes the importance of an acknowledgement that TAFE, with its broader community role, is a significant provider of programs that do not necessarily yield high financial returns. Further, the implementation of market-based funding can have a significant impact on regional communities operating in thin markets and the provision of niche programs.

In 2012 the specific funding to cover the cost of TAFE’s role as a public provider was cut. This together with other funding changes has led to deterioration in the overall funding position of TAFE. The Victorian Auditor General’s Office has rated five institutes as having a high financial sustainability risk, eight as a medium risk and only four experiencing a surplus. This represents a net deficit of \$16.2 million which is a decrease of \$74.8 million from 2012.<sup>10</sup>

<sup>7</sup> *Victorian Training Market Report, Half Year 2014*, Victorian Department of Education and Early Childhood Development, August 2014.

<sup>8</sup> *Ibid*, pg 28.

<sup>9</sup> Submission to Inquiry into the role of Technical and Further Education, Senate Education and Employment References Committee, 7 March 2014.

<sup>10</sup> [http://www.audit.vic.gov.au/reports\\_and\\_publications/latest\\_reports/2014-15/20140806-tafes-2013.aspx](http://www.audit.vic.gov.au/reports_and_publications/latest_reports/2014-15/20140806-tafes-2013.aspx)

This position of TAFE is related to the introduction of an individual entitlement to a subsidised training place and the establishment of contestable funding.<sup>11</sup> One of the features of the fully contestable market system and uncapped places is the significant increased activity outside of TAFE institutes. This links VET revenue directly to student preferences and enrolments. The VET Funding Review needs to carefully examine this approach and whether a more managed demand-driven funding system will improve the quality of outcomes.

While a new injection of funds and a VET Funding Review are welcome initiatives it is important to note that this will not guarantee a more flexible or innovative service. Consideration needs to be devoted to TAFE business models in their quest to more effectively meet the demands of industry and the economy.

**Recommendation:**

- **Ai Group welcomes the review of VET funding and supports the movement to a more managed approach to the funding model to enable consideration of:**
  - **the continuing expansion of private providers of training and the impact on the provision of trades training;**
  - **whether industry skilling needs are being met in rural and regional Victoria; and**
  - **the implementation and integration of a range of quality and flexibility measures to instill greater confidence in the system as well as an expanded capacity to meet industry needs.**

***Further build an industry-driven training system***

Ai Group strongly advocates a Victorian Training System that enables employers and industry to better drive and influence the skills that are developed for the Victorian economy. The major transformation being experienced by Victorian industry as it moves to knowledge based activities brings with it the demand for new skills readily adaptable to fast changing job roles. In the training market, quality of information, courses, training delivery, and regulation have all been recognised as issues to be addressed.<sup>12</sup>

Ai Group is aware that the Government intends to restore funding for Industry Training Advisory bodies<sup>13</sup> and supports initiatives to bring industry advice and representation to government. However, any steps taken in this direction need to be clear and specific about the roles and responsibilities that such bodies would have. It will also be important to monitor the national future of Industry Skills Councils as a factor to consider in the provision of industry advice. Any proposed reintroduction of industry training advisory bodies should also be done in close consultation with industry.

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<sup>11</sup> *Next Steps for Refocusing Vocational Training in Victoria – Supporting a Modern Workforce*, Department of Education and Early Childhood Development, January 2013.

<sup>12</sup> *Department of Education and Early Childhood Development, Next Steps for re-focusing Vocational Training in Victoria – Supporting a Modern Workforce, 2013.*

<sup>13</sup> 2014 Victorian ALP Platform.

Ai Group also recognises that the implementation of tighter compliance, monitoring and enforcement measures are helping to alleviate some of the concerns of employers. With regard to regulation of vocational education and training, Ai Group questions the duplication of regulatory powers and activity that potentially occur through the existence of a state regulatory authority in addition to the national regulatory body for vocational education and training. The result is often more red tape for employers. The future of the Victorian Registration and Qualifications Authority should be considered in the context of the Commonwealth Government’s process associated with the Reform of Federation initiative.

**Recommendation:**

- **The introduction of industry training advisory bodies involve close consultation with industry about the proposed purposes, roles and responsibilities of the proposed bodies.**

***Strengthen support for apprenticeships***

Ai Group is a leading voice for industry in the belief that Victoria needs to retain a strong skills base, underpinned by our system of apprenticeships. The latest available data from the NCVER indicates that commencements are falling generally, including in Victoria.

**Table 4: Commencements in each quarter by state/territory, 2008 – 2013 ('000)<sup>14</sup>**

Quarter	NSW	Vic. <sup>3</sup>	Qld	SA <sup>8</sup>	WA	Tas.	NT	ACT	Australia
December 2008	18.2	16.0	10.6	4.6	5.4	1.7	0.4	0.8	57.8
March 2009	27.1	20.6	16.9	6.0	7.0	2.2	0.8	1.8	82.4
June 2009	18.5	17.2	12.9	5.2	5.3	1.7	0.6	1.1	62.6
September 2009	19.7	17.9	13.6	4.8	5.3	1.7	0.7	1.2	65.0
December 2009	20.3	16.8	12.4	4.2	5.4	1.4	0.6	0.9	61.9
March 2010	30.1	23.8	19.1	7.7	8.1	2.6	0.9	1.7	94.1
June 2010	21.8	19.9	15.5	5.5	6.2	1.9	0.6	1.1	72.5
September 2010	23.6	22.0	15.9	5.3	6.3	2.1	0.7	1.2	76.9
December 2010	22.2	19.9	14.0	5.4	6.7	1.9	0.5	0.9	71.5
March 2011	29.6	27.5	18.8	7.2	8.1	2.2	1.1	1.8	96.4
June 2011	19.7	24.7	16.2	5.8	6.4	1.9	0.6	1.1	76.3
September 2011	22.2	22.5	16.2	5.8	6.3	2.1	0.5	1.2	76.7
December 2011	20.5	21.9	13.7	5.5	6.6	1.7	0.4	1.0	71.4
March 2012	31.2	26.6	21.9	7.9	9.5	2.6	1.0	2.0	102.6
June 2012	34.4	38.4	26.6	9.5	11.8	2.7	0.8	2.1	126.2
September 2012	12.7	12.0	10.9	3.9	6.6	1.3	0.5	1.0	48.7
December 2012	14.7	15.3	10.6	4.4	5.6	1.3	0.4	0.8	53.0
March 2013	21.2	17.4	14.1	5.1	7.7	1.8	0.8	1.4	69.5
June 2013	16.3	15.8	15.0	4.4	7.1	1.3	0.5	0.9	61.4
September 2013	20.4	20.6	15.4	4.0	7.7	1.5	0.5	1.2	71.2
December 2013	11.7	10.8	8.7	2.2	6.8	1.1	0.4	0.9	42.6

For notes on figures and tables, see page 20.

More recent national trend estimates indicate that the decline has been arrested somewhat.<sup>15</sup> Even so, with a number of trades identified in shortage on the Skills Shortage List for Victoria, and shortages remaining in many apprenticeship areas, this decline is of major concern to industry.<sup>16</sup>

Advanced, clever manufacturing is progressively growing in Victorian industry and makes up a sizeable part of our productive economy. We need apprentices in order to develop the high skilled

<sup>14</sup> *Apprentices and Trainees*, 2013 December Quarter, NCVER, 2014.

<sup>15</sup> *Apprentices and Trainees, Early Trend Estimates*, December Quarter 2014, NCVER, 2015.

<sup>16</sup> *Australian Government Department of Employment, Skill Shortage List, Victoria, 2013-14*

trades demanded by these manufacturers. To fuel the economy we need trade apprenticeships that are valued and utilised as career pathways.

Apprentice completion rates remain a major problem with 55% non-completion for Australia.<sup>17</sup> This is a significant cost in time and resources. Better matching processes of apprentice to employer are needed and stronger mentoring support, particularly in the first year, has been found to be an effective strategy for retention. The introduction of the Australian Apprenticeship Support Network later this year includes mentoring services and is anticipated to assist in increasing completions.

Given these ongoing significant issues it is important for government to maintain and increase initiatives to sustain apprenticeship commencements and completions. A greater focus on the core relationship between employer and apprentice, the organisation's objectives and the individual apprentices' learning needs will play a major part in reducing the issues. Minimisation of the regulatory burden will also encourage employers to consider apprenticeships.

Ai Group has also been a champion for the introduction of competency based wage progression and completion for apprentices. Such a system better services industry by providing qualified skilled workers when they are ready. A current Australian Government project to trial this system is demonstrating that, with incentives built in for effort, apprenticeships become more attractive to young people, benefitting companies, and providing the potential to improve completion rates.<sup>18</sup>

**Recommendation:**

- **Consideration should be given to measures to increase apprenticeship commencements and completions in concert with industry.**

***Science, Technology, Engineering and Mathematics (STEM)***

The importance of STEM disciplines for the future economic and social well-being of Australia cannot be underestimated. The Office of the Chief Scientist has estimated that 65 per cent of economic growth per capita from 1964 to 2005 is due to improvements in the use of capital, labour and technological innovation made possible in large part by STEM.<sup>19</sup> The Australian Bureau of Statistics has reported that STEM skills jobs such as scientists, ICT professionals and engineers have grown at about 1.5 times the rate of other jobs in recent years.<sup>20</sup> However, Australia has under-performed in this area as reported in the major ACOLA international study:

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<sup>17</sup> NCVET, *Understanding the non-completion of apprentices*, 2014

<sup>18</sup> *Engineering Excellence: Competency Based Progression and Completion Project for Engineering Trades*. Funded by the Australian Government under the Accelerated Apprenticeships Initiative.

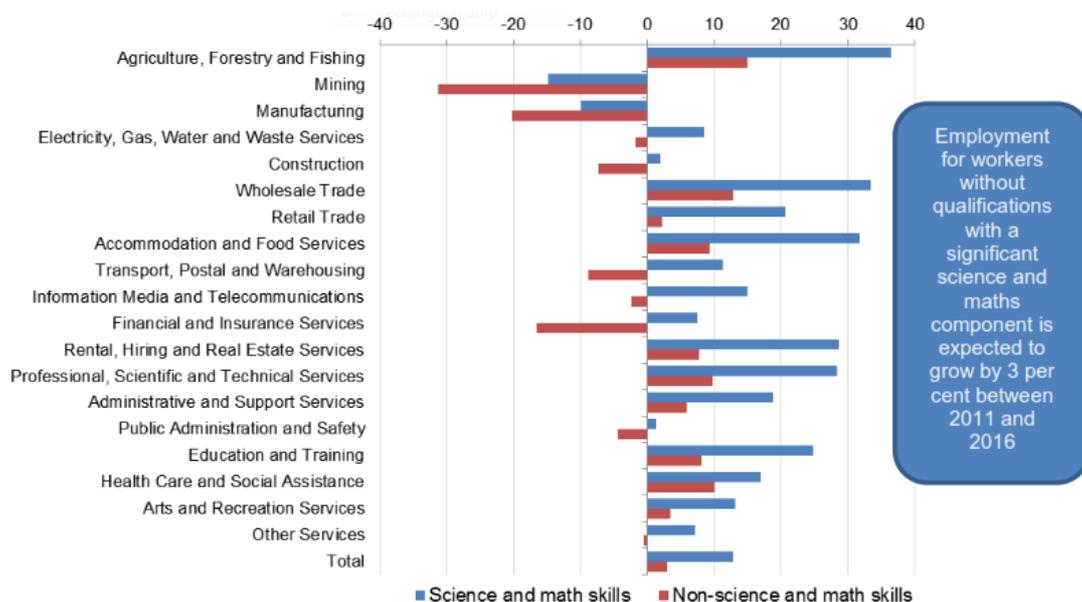
<sup>19</sup> *Science, Technology, Engineering and Mathematics: Australia's Future*, Office of the Chief Scientist, September 2014, page 7.

<sup>20</sup> Media Release, Qualifications paying off in science, technology, engineering and maths, Australian Bureau of Statistics, 24 February 2014.

*“... the news is good but not great. Australia has travelled fairly well until now, but there are holes in capacity and performance. Further, many other countries are improving STEM provision, participation and performance more rapidly than us.”<sup>21</sup>*

Research undertaken on Science and Mathematics (SM) skills in the Victorian workforce confirms many of the conclusions of broader STEM research. Within the Victorian context it has been reported that employment in occupations with high SM skills is growing between two and four times faster than in occupations with low or no skills in these areas.<sup>22</sup> In Victoria the research indicates that 36.5 per cent of those employed in 2011 had completed a mathematics or science field of study. This is predicted to rise to 38.6 per cent by 2016.<sup>23</sup> But is this fast enough?

**Chart 7: Projected percentage growth rates for science and maths skills, 2011 to 2016<sup>24</sup>**



Ai Group research indicates that there are significant skill shortages and recruitment difficulties for specific STEM-related occupations. The most prominent difficulties were for technicians and trade workers (44 per cent) while professionals (21.3 per cent) and managers (19.4 per cent) were also prominent.<sup>25</sup>

<sup>21</sup> *STEM: Country Comparisons*, Final Report, Australian Council of Learned Academies, May 2013, page 15.

<sup>22</sup> *Science and maths skills in the Victorian workforce: the evidence base*, Elgin Economics, 8 August 2014, page 30.

<sup>23</sup> *Ibid.*

<sup>24</sup> *Victorian Training Market Report, Half Year 2014*, Victorian Department of Education and Early Childhood Development, August 2014

<sup>25</sup> *Progressing STEM Skills in Australia*, Australian Industry Group, February 2015.

**Chart 8: Difficulties recruiting staff with STEM skills**



As well as difficulties within the workforce there are problems in the pipeline from schools and universities into the workforce. Despite attempts by governments over the last decade to increase school student participation in STEM the proportion of students commencing in STEM has flat-lined at around 10 per cent or less.<sup>26</sup> A decreasing number of students are participating in mathematics. This can be a feature of education systems like Australia where mathematics is not compulsory until the end of school where it is in China, Russia and some European countries.<sup>27</sup>

The number of students undertaking intermediate and advanced mathematics in secondary school fell by 34 per cent over the past 18 years<sup>28</sup>. Students may select the easier option of General Mathematics in the belief that this will contribute to a higher ATAR for university entrance. In response to this the ACOLA report makes a series of recommendations about mathematics advocating consideration of some element of compulsion.<sup>29</sup>

Ai Group has drawn attention to the unacceptably low level of participation by secondary school students in STEM related areas of knowledge and skills.<sup>30</sup> The Office of the Chief Scientist has documented the decline in the proportion of Year 12 students undertaking mathematics and science since 1992.<sup>31</sup>

<sup>26</sup> *Australia's skills and workforce development needs*, Discussion Paper, Australian Workforce and Productivity Agency, July 2012.

<sup>27</sup> *STEM: Country Comparisons*, Final Report, Australian Council of Learned Academies, May 2013, page 14.

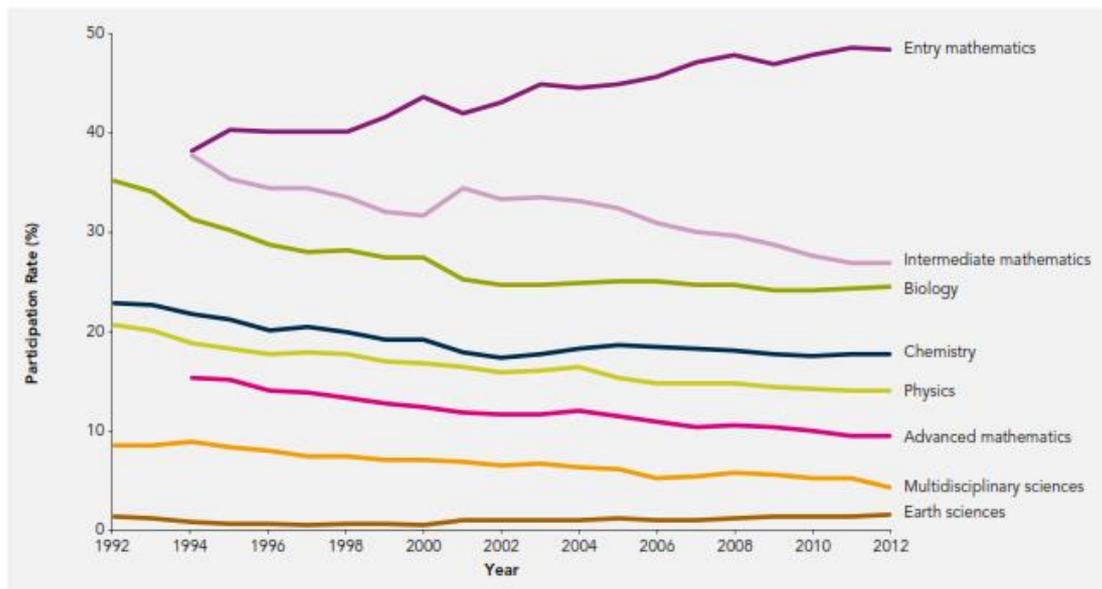
<sup>28</sup> *Dealing with Australia's Mathematical Deficit*, Australian Mathematical Science Institute, May 2014.

<sup>29</sup> *Ibid*, page 20.

<sup>30</sup> *Progressing STEM Skills in Australia*, Australian Industry Group, February 2015.

<sup>31</sup> *Benchmarking Australian Science, Technology, Engineering and Mathematics*, Office of the Chief Scientist, November 2014.

## Chart 9: Year 12 Mathematics and Science Participation 1992 - 2012



Note: Figure shows the number of students taking a course in science or mathematics as a proportion of the total year 12 population (Kennedy et al. 2014). Students can elect to take one or more science subjects and in some jurisdictions one or more mathematics levels and so may be counted more than once.

Despite increasing levels of Year 12 enrolments, the participation rates in physics, chemistry and biology have all declined. Participation in mathematics has been divided into different categories. Participation in entry mathematics (including subjects not designed to lead to further tertiary study) has increased over the period. However, participation rates in intermediate mathematics and advanced mathematics have both declined.

There are particular concerns in regard to school student performance in mathematics. The 2011 Trends in Mathematics and Science Study (TIMSS) indicates that Australia's performance in mathematics and science has stagnated over the past 16 years.<sup>32</sup> Within this international research 17 countries recorded significantly higher results than Australia in mathematics for Year 4 students including most of the Asian countries, England and the United States. Of particular concern is the result that 30 per cent of Australian Year 4 students were achieving at the low international benchmark or not achieving at least this level.<sup>33</sup>

The results for Year 4 and Year 8 are contained within the following tables.<sup>34</sup> In Victoria for Year 4 there were 7 per cent rated "Below Low" and 18 per cent at "Low". That is, one quarter of the students performing below the international benchmark. In relation to Year 8 the corresponding percentages are 10 and 26 – that is, one third of students performing below the international benchmark.

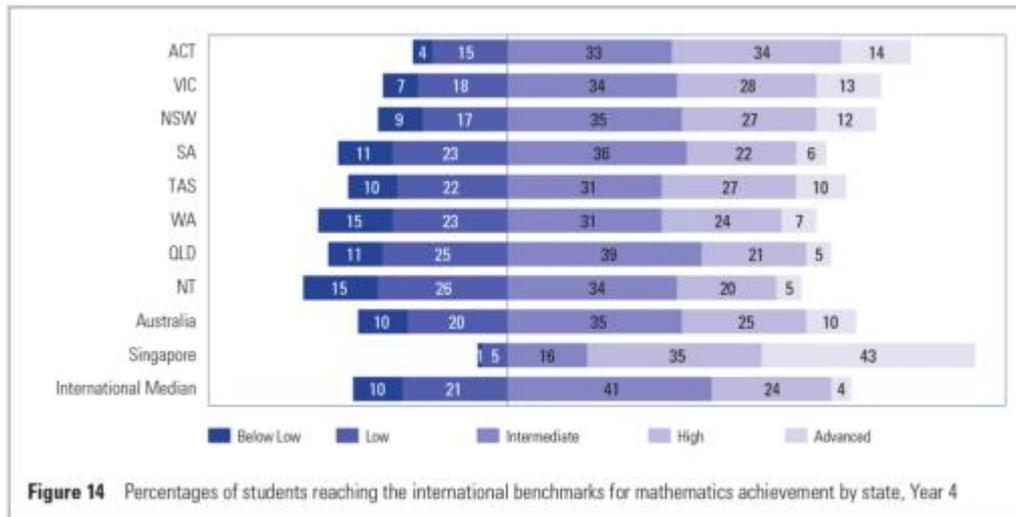
<sup>32</sup> Sue Thompson et al., *Highlights from TIMSS and PIRLS 2011 from Australia's perspective*, Australian Council for Educational Research, 2012.

<sup>33</sup> Ibid

<sup>34</sup> As cited in *Discipline Profile of the Mathematical Sciences 2014*, Australian Mathematical Sciences Institute, May 2014, page 7.

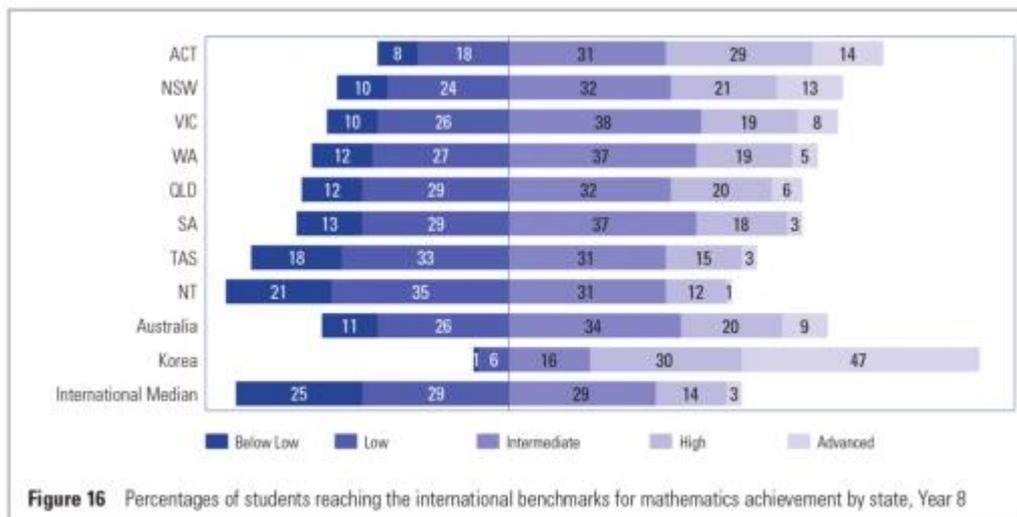
### Chart 10: Mathematics scores by States, Year 4

International median: median score of countries participating in TIMSS



Source: Sue Thomson et al., Highlights from TIMSS and PIRLS 2011 from Australia's perspective, ACER 2012

### Chart 11: Mathematics scores by States, Year 8



Source: Sue Thomson et al., Highlights from TIMSS and PIRLS 2011 from Australia's perspective, ACER 2012

The latest Programme for International Student Assessment (PISA) results also present a bleak picture. The mathematics skills of 15 year olds have slipped back as was the case for reading. The results indicate that 16 countries achieved significantly higher results than Australia. Australia's mean mathematical literacy performance declined significantly between PISA 2003 and PISA 2012 by the equivalent of more than a half year of schooling.<sup>35</sup> The results indicate that 42 per cent of the students failed to reach the national baseline proficiency level in mathematical literacy.<sup>36</sup>

<sup>35</sup> MEDIA RELEASE, 3<sup>rd</sup> December 2013, *Latest PISA results 'cause for concern', says ACER.*

<sup>36</sup> ACER FACT SHEET, *Selected results from PISA 2012*, 3 December 2013

In addition to concern about the levels of participation, there are further concerns about pedagogy. A report from Universities Australia highlighted a number of concerns in relation to secondary education including:

- “in too many schools STEM is still mostly science and mathematics taught separately with little or no attention to technology and engineering”
- “Students need to be made aware of the career opportunities afforded to STEM graduates at an earlier age rather than just years 11 and 12<sup>37</sup>

*“The state of maths and science at Australian schools and universities has deteriorated to a dangerous level.”<sup>38</sup> (Vice-Chancellor Gavin Brown, University of Sydney)*

The impact of this decline is compounded by the lack of qualified teachers. This was reported in the TIMSS study where more than 20 per cent of Year 8 students were being taught mathematics by teachers who were only ‘somewhat’ confident about teaching the subject.<sup>39</sup> A 2011 study by the Australian Council for Education Research found that for years 7 – 10 mathematics teaching only 62 per cent of teachers had two or more years of tertiary mathematics (the minimum requirement). More than a third were teaching out of field and 23 per cent had no tertiary mathematics at all.<sup>40</sup> This is related to the low ATAR scores required for entry into teaching.

Ai Group is concerned that declining interest in STEM courses in senior secondary certificates poses an immense challenge to current skills shortages in engineering professions, technicians and para-professional occupations and to securing Australia’s future manufacturing skills base, as these subjects often serve as prerequisites to most trades and university science and engineering courses. The ACOLA report recommends the reintroduction of more comprehensive prerequisite requirements for university entrance to encourage greater secondary school student participation in STEM subjects.<sup>41</sup> Further,

*“despite the plethora of government policies and reviews focused on education, and science and innovation and the relatively recent emergence of the STEM agenda in Australia, the ‘pipeline’ is decreasing and there are serious questions about performance in the foundation skills of literacy and numeracy, and the enabling sciences, mathematics and scientific literacy.”<sup>42</sup>*

The situation is similar in tertiary education. In 2010, 29.9 per cent of Vocational Education and Training (VET) students were enrolled in STEM disciplines.<sup>43</sup> In higher education there has been a declining rate of STEM-related course completions which have decreased over the last 10 years

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<sup>37</sup> Universities Australia, *STEM and non-STEM First Year Students*, January 2012.

<sup>38</sup> <http://www.theaustralian.com.au/news/nation/mathematics-students-in-serious-decline>, March 10, 2010.

<sup>39</sup> MEDIA RELEASE, 13<sup>th</sup> December 2012, *ACER releases results from latest international studies of student achievement*.

<sup>40</sup> As reported in *STEM: Country Comparisons*, Final Report, Australian Council of Learned Academies, May 2013, page 17.

<sup>41</sup> *STEM: Country Comparisons*, Final Report, Australian Council of Learned Academies, May 2013, page 20.

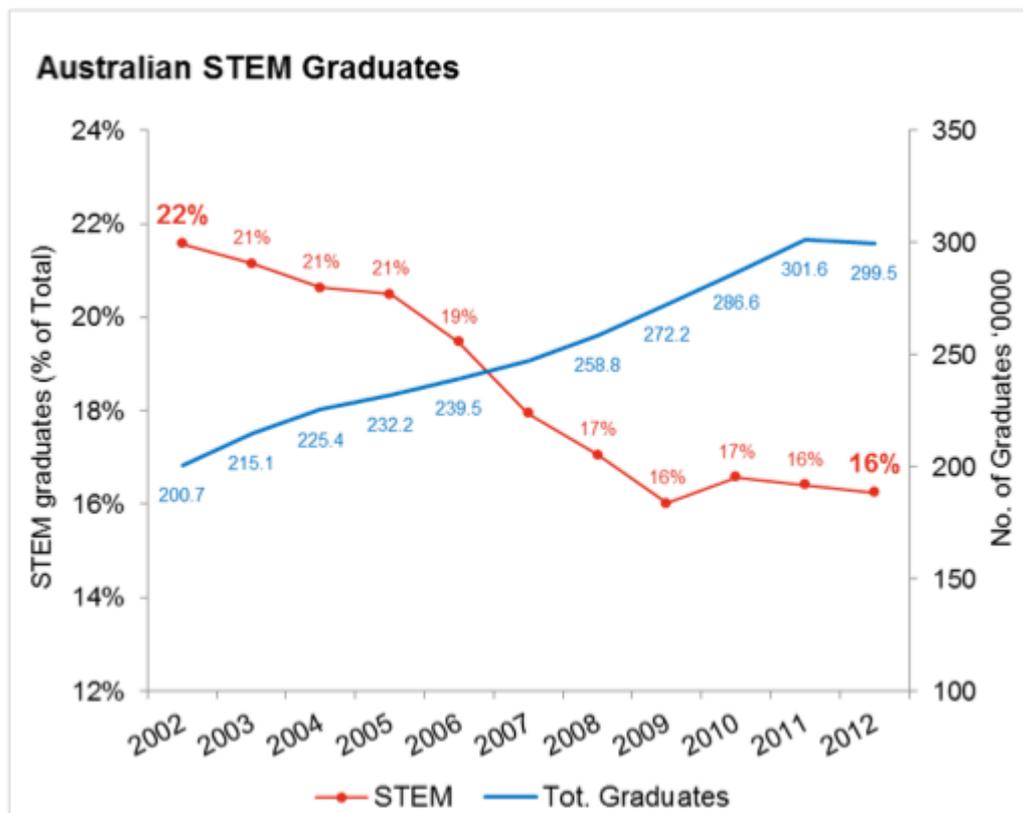
<sup>42</sup> *Ibid*, page 51.

<sup>43</sup> *STEM: Country Comparisons*, Final Report, Australian Council of Learned Academies, May 2013, page 16.

from 22 per cent to 16 per cent.<sup>44</sup> The most recent report from the Office of the Chief Scientist indicates that the proportion of tertiary students with first degrees in STEM is only 10.6 per cent, considerably lower than similar competitor economies.<sup>45</sup>

There has been some recent improvement in natural and physical sciences and engineering students in higher education, but this is off a low base. The OECD average in 2010 for new university entrants in engineering, manufacturing and construction was 15 per cent but in Australia it was only 8.7 per cent. The OECD figure for mathematics is 2.5 per cent and only 0.4 per cent in Australia.<sup>46</sup>

**Chart 12: Australian STEM Graduate Completions**



**Recommendation:**

- There is a need to develop and support initiatives that promote STEM skills in schools, the tertiary education sector and the workplace.

**Workplace Language, Literacy and Numeracy (LLN)**

The low level of LLN of the Australian workforce is a major concern to industry. The most recent international data, the Programme for the International Assessment of Adult Competencies (PIAAC), outlined the following results.

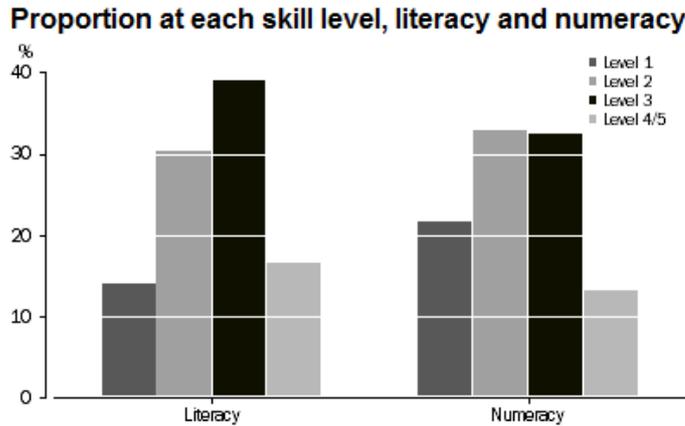
<sup>44</sup> Derived from Australian Government, Department of education, 2012 Award Course Completions cited in *Fuelling NextGen digital innovation through education*, PwC.

<sup>45</sup> *Benchmarking Australian Science, Technology, Engineering and Mathematics*, Office of the Chief Scientist, November 2014

<sup>46</sup> Ibid.

The overall results indicate that 44% of Australians aged 15 – 74 had literacy skills below level 3 and that 55% had numeracy skills below level 3. This represents a slight improvement in literacy and a slight deterioration in numeracy. The data for the various States does not differ significantly except for the ACT which had a larger proportion of people at higher levels in all domains.

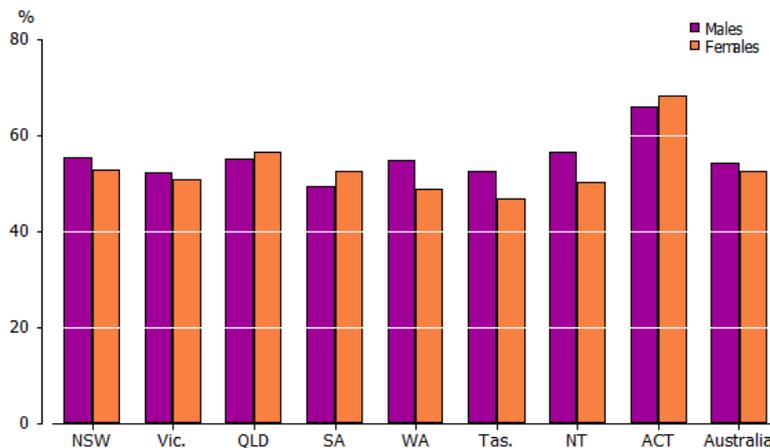
**Chart 13: Proportion at Each Skills Level (PIAAC)**



Source: ABS, Cat. 4228.0, *Programme for the International Assessment of Adult Competencies*, Australia, 2011-2012

**Chart 14: Literacy Levels**

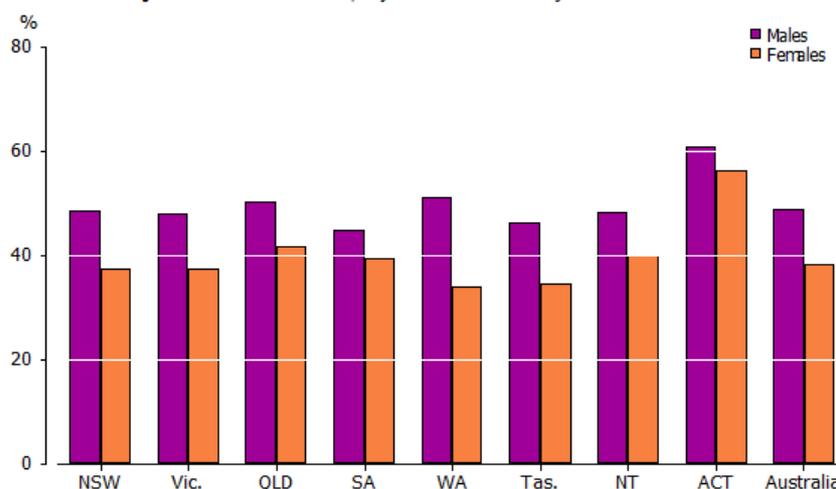
**Proportion at literacy Level 3 or above, By state or territory of usual residence and sex—2011–12**



Source: ABS, Cat. 4228.0, *Programme for the International Assessment of Adult Competencies*, Australia, 2011-2012

**Chart 15: Numeracy Levels**

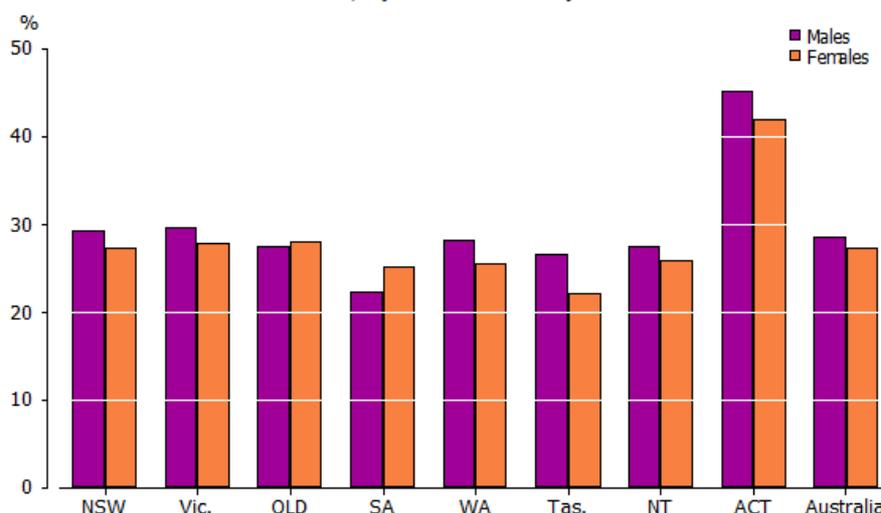
Proportion at numeracy Level 3 or above, By state or territory of usual residence and sex—2011–12



Source: ABS, Cat. 4228.0, Programme for the International Assessment of Adult Competencies, Australia, 2011-2012

Chart 16: PSTRE Levels by State

Proportion at PSTRE Level 2 or above, By state or territory of usual residence and sex—2011–12



Source: ABS, Cat. 4228.0, Programme for the International Assessment of Adult Competencies, Australia, 2011-2012

Ai Group research highlighted that 93 per cent of employers reported that their business was affected by low levels of LLN.<sup>47</sup> Poor completion of workplace documents, time wasting, ineffective work, materials wastage and ineffective training all resulted in reduced productivity.

The Workplace English Language and Literacy (WELL) program was the main training response for workplace LLN issues. However, the reach of the program was well short of the required need. The evaluation of this program notes that over the last five years more than 72,000 employees and 530 Indigenous Employment Program participants completed WELL training.<sup>48</sup> According to the PIAAC survey there are over 4 million employees below Level 3, the minimum standard.

<sup>47</sup> *Getting it Right: Foundation Skills for the Workforce*, Australian Industry Group, October 2013.

<sup>48</sup> *Strengthening Foundation Skills in the Workplace*, Final Report, 22 February 2012, Third Horizon, pages 4 -5.

The Commonwealth Government in its most recent budget has decided to discontinue this program.<sup>49</sup> It is timely therefore for the Victorian government to consider foundation skills training for the workforce. Recent data from the Victorian Department of Education and Early Childhood Development indicate that 42 per cent of foundation skills enrolments in 2014 were by students not at school and did not have either Year 12 or Certificate II completion.<sup>50</sup> While this targeting is to be encouraged, similar consideration needs to be devoted to foundation skills training for the current workforce.

There is also a major issue concerning the LLN workforce. There is a current shortage of qualified LLN practitioners in terms of the anticipated increased demand for training. Additionally, the National Foundation Skills Strategy has identified building the capacity of LLN workforce as a national priority through measures such as funding for professional development courses.<sup>51</sup>

**Recommendation:**

- **There is a need for a greater focus on workplace language, literacy and numeracy skills and initiatives introduced to address the current low levels of these in the workforce.**

***Facilitate work readiness***

Ai Group has been concerned about the general lack of work readiness of graduates as industry moves to higher level qualifications. Our members are telling us that graduates are not always able to make an easy transition to working productively in organisations. It is therefore harder to focus on their talents to help the company improve and innovate. Employers of STEM skill graduates, for example, indicate that one of main reasons for recruitment difficulties is lack of workplace experience.

Along with a need for greater cooperation between business and higher education institutions to foster research, a range of flexible work integrated learning models need to be developed to make it easier for employers to take students for appropriate lengths of time in industry. It is important that practical application is an accredited component of university degrees.

Such opportunities will assist students to apply their knowledge and skills, develop job ready skills and build professional networks in industry. For employers, there are a range of benefits, from potentially reduced recruitment costs to having fresh ideas and approaches being incorporated into the business.

Ai Group is signatory to a 2014 Statement of Intent on Work Integrated Learning in the Higher Education sector, jointly signed with Universities Australia, BCA, ACCI and the Australian Collaborative Education Network Ltd. Ai Group is working with these bodies on a national strategy to facilitate an expansion of university student placements in industry to increase their work readiness.

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<sup>49</sup> Australian Government, 2014, Federal Budget, Industry Budget Statements, pages 42 – 43.

<sup>50</sup> Victorian Training Market report, Half Year 2014 Highlights, DEECD, page 3.

<sup>51</sup> *National Foundation Skills Strategy for Adults*, Standing Council on Tertiary Education Skills & Employment, Commonwealth of Australia, September 2012.

The Victorian Industry Skills Consultative Committee has hosted an event for industry and government to explore work readiness and real skills and training issues. Ai Group encourages further activity on this issue for Victoria.

**Recommendation:**

- **Encourage the adoption of Work Integrated Learning in Victorian universities to assist in the development of work readiness of graduates as they enter the workforce.**

***Vocational Pathways Review***

The Review of Vocational Pathways in Senior Secondary Education commenced in October 2012 under the previous government.<sup>52</sup> The Victorian Department of Education and Early Childhood Development (DEECD) has worked with schools, training providers, industry and other stakeholders to:

- examine how effectively vocational education is being delivered in senior secondary schools;
- examine how well government investment is being used to achieve results for students;
- examine how well the current system is placed to transition students into jobs or training; and
- develop more efficient and effective funding models comparable across sectors.

Recommendations from this review were expected mid-2013. It has been some time since the Department launched a review of VET in Schools. In the interim youth unemployment in Victoria is climbing. Unemployment in Victoria for 15 – 19 year olds is increasing to 22.1%, the second highest after the Northern Territory, and higher than the national average. The 20 – 24 years group has also increased to 8.5%.<sup>53</sup> In addition, recent studies from the University of Melbourne suggest that VET in Schools is unsuccessful in providing a pathway to post-school employment. Victorian destination data reveals that over 37 per cent of females and 25 per cent of males of VCE VET students gain university admission, the largest destination for both genders. Only 7.8 per cent of females and 14.4 per cent of males make a direct transition to full-time employment.<sup>54</sup>

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<sup>52</sup> <http://www.education.vic.gov.au/about/department/Pages/vocationalpathwaysreview.aspx>

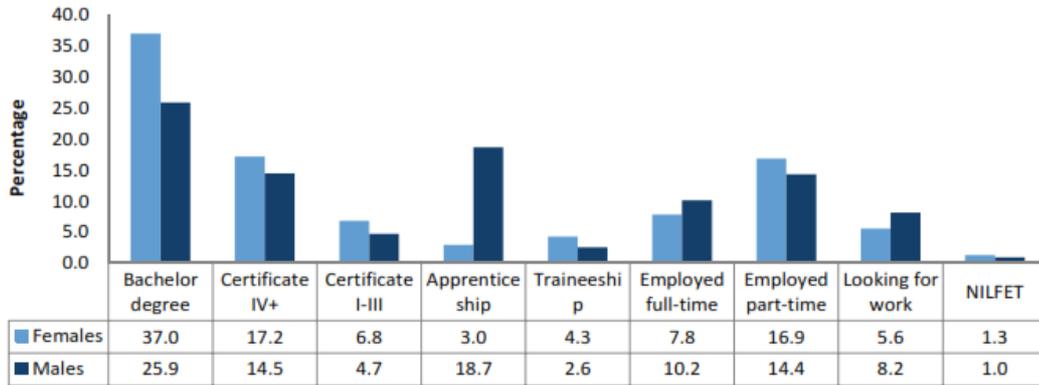
<sup>53</sup> *How Young People Are Faring 2013, Supporting Tables*, Foundation for Young Australians, page 16.

<sup>54</sup> <http://www.education.vic.gov.au/Documents/about/research/ot2013statewide%20report.pdf>.

### Chart 17: VET in Schools enrolments and destinations

Figure 8 Percentage of Year 12 or equivalent completers who had enrolled in at least one VETiS unit in Years 10 to 12, post school destination by gender, May 2013

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Source: University of Melbourne

In addition, this research claims that the varied purposes of VET in Schools limits the effectiveness of the program.<sup>55</sup> There are continuing reports of decreasing employer confidence in the program outcomes.<sup>56</sup> Given these trends and the level of conjecture it is time for the Department to release the outcomes of the review with the aim of building employer confidence in the VET in Schools arrangements.

**Recommendation:**

- **Ai Group would encourage the new Government to complete the review of Vocational Pathways and implement measures designed to restore industry confidence in VET in Schools programs.**

<sup>55</sup> Kira Clarke, *Entry to vocations: strengthening VET in Schools*, NCVET, 2013.

<sup>56</sup> *Making Sense: a business perspective on school reform*, Australian Industry Group, June 2013.

## Infrastructure investment

The case for investment in public infrastructure is strong in Victoria. Investment in roads, rail and ports would deliver benefits for the community through decreased congestion and lower costs and would enhance the competitiveness of Victorian businesses in national and international markets. Victoria's strong fiscal projections means the State Government has the ability to raise capital at a relatively low cost, which provides further scope for sound projects to be undertaken.

A pipeline of projects would also be welcome for the construction industry, providing certainty of work in the coming years. It is important that the pipeline has bipartisan support so businesses, and indeed the community have certainty around projects.

Many Ai Group members are concerned with the uncertainty surrounding the **near-term infrastructure pipeline** in Victoria. Victorian businesses, from large construction companies to small engineering firms, were expecting work from the East-West Link in 2015, and now face significant uncertainty around near-term activity. For this reason, Ai Group strongly urges the Victorian Government to begin any sound and tested infrastructure projects as soon as practicable in order to fill the void left by East-West Link, while also delivering a much-needed boost to engineering construction activity.

The recent announcement that project consultation would begin on Melbourne Metro rail project is welcome. However, with an Expression of Interest to be released in 2016 and major construction expected to commence in 2018, the project will not fill the void from the East-West Link.

Consequently, we encourage the Government to continue to fast-track the Level Crossings Removal Project so work can start as soon as possible and the state's construction industry has certainty over a pipeline of work over the coming years.

### Strengthening the infrastructure selection process

Ai Group believes that transparency and rigorous selection criteria are vital for infrastructure projects, a case that was also made in the Productivity Commission's final report on Public Infrastructure released in early 2014.

Sound project selection plays a major role in productivity and growth outcomes according to work by the International Monetary Fund.<sup>57</sup> They examined the institutional environment underpinning infrastructure investment management across four different stages: project appraisal, selection, implementation and evaluation. The research found that the quality of public investment, as measured by variables capturing the adequacy of project selection and implementation, is statistically significant in explaining variations in economic growth across countries. They concluded that these studies highlight the importance of going beyond discussions of spending levels and addressing issues of the broad institutional framework underpinning the provision of investment.

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<sup>57</sup> Dabla-Norris, Era, Deputy Chief, Strategy, Policy, and Review Department, International Monetary Fund. Comments at Reserve Bank of Australia's conference on Infrastructure.  
<http://www.rba.gov.au/publications/confs/2014/pdf/poole-toohey-harris-disc.pdf>

Ai Group believes each proposed infrastructure project should be subject to thorough and transparent cost-benefit analysis to ensure the government gets the best possible use of taxpayer funds. A clear and transparent process also helps to foster public support for infrastructure projects and avoid costly delays in construction. Furthermore, having independent planning bodies like Infrastructure Australia improve the integrity around infrastructure planning and prioritization. Not only does this build public support for major projects, it also ensures governments can access private finance to invest in infrastructure. Having a transparent and rigorous project creates confidence among investors ensuring that lower-cost financing and a deep pool of investment funds exists for future projects. Together with transparency, Ai Group believes that certainty must exist when it comes to projects.

The importance of having sound selection process was made clear in Victoria in 2014 around the construction of the East West Link. The project would have led to several years of work for construction companies after several years of subdued activity in major construction projects and created jobs when the state needs them. Significant uncertainty now exists around the compensation to be paid to the construction companies by the taxpayer.

Ai Group believes Victoria supports the Victorian Government's plan to establish an independent planning body called Infrastructure Victoria, which will undertake rigorous cost benefit analysis before projects are selected. This would further improve the integrity around infrastructure planning and prioritization. Not only does this build public support for major projects, it also ensures governments can access private finance to invest in infrastructure. Having a transparent and rigorous project creates confidence among investors ensuring that lower-cost financing and a deep pool of investment funds exists for future projects.

Finally, in order to ensure a smoother implementation for these major public infrastructure projects, we believe the government should consider the introduction of Dispute Resolution Boards (DRB) that can help to resolve disputes before they escalate into disruptive action. As a model for this process, the website <http://www.drba.com.au/> provides a practical overview, together with details of the projects where DRB's have been utilised to deliver excellent outcomes in other jurisdictions.

### **Asset Recycling**

Ai Group supports the Abbott Government's **Asset Recycling Fund**, which is used to top up any funds raised by states privatising public assets. We also support the privatisation of federal government assets, like the successful sale of Medibank Private, with the funds raised to support this initiative. While it is clear no Government has the mandate to privatise state assets in Queensland, privatisation of public assets in NSW will feature heavily in that state's upcoming election. Ai Group believes the Federal Government can play a role in ensuring the benefits of these initiatives and the need for infrastructure is well understood.

## Tendering Costs

Australia is considered to have among the highest costs to tender for major public projects in the world, with governments demanding unnecessarily and burdensome levels of detail that simply add to the project cost and are borne by the tax payer.<sup>58</sup>

The Productivity Commission's inquiry into Public Infrastructure in 2014 also noted that governments across the country could also achieve better value for money for taxpayers if they changed tendering requirements to be more in line with private sector commercial projects. This would reduce unnecessary costs borne by construction companies to meet often excessive and onerous tendering requirements including extensive design work for projects they have more chance of losing than winning. Ai Group calls upon the Victorian Government to take this approach.

### Recommendations:

- **Ai Group strongly urges the Victorian Government to begin any sound and tested infrastructure projects as soon as practicable in order to fill the void left by East-West Link, while also delivering a much-needed boost to engineering construction activity.**
- **Ai Group encourages the Victorian Government to outline a pipeline of rigorously assessed infrastructure projects to provide certainty for work over the coming years. To this end, we welcome the establishment of an independent Victorian agency to better coordinate the planning, prioritisation and execution of infrastructure projects throughout the state.**
- **We would welcome establishing and formalising a community and business consultation process, where robust debates on the prioritisation of Victorian infrastructure projects could be conducted.**
- **Regular updates to inform industry about the level of priority attached to major infrastructure projects throughout the state to facilitate the planning processes in businesses and lift productivity throughout the Victorian economy.**
- **Further development of structured public-private partnership policies that more efficiently allocate risks, attract more private sector investments and reduce costs.**
- **We would encourage the Victorian Government to address inefficiencies in tender requirements as recommended by the Productivity Commission. This would reduce unnecessary costs borne by construction companies to meet often excessive and onerous tendering requirements including extensive design work for projects they have more chance of losing than winning. Ai Group calls upon the Victorian Government to take this approach.**

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<sup>58</sup> Wiggins, Jenny; "Why infrastructure costs more in Australia than France" *Australian Financial Review*; 2 August 2014.

## Encouraging innovation in Victorian industry

Innovation is the foundation of improvements in our competitiveness and living standards. It involves bringing new or refined good or services to market; introducing new ways of producing, distributing and marketing goods and services; and putting in place more responsive and more effective approaches to doing business.

Ai Group outlined the importance of innovation for Australian businesses to face the current economic challenges in our [submission](#) to the Federal Senate Inquiry into Australia's Innovation System. But Ai Group believes the next Victorian Government has an important role to encourage innovation through sound policy.

Ai Group believes that every sector has the capacity to both innovate and benefit from innovation and should be encouraged to do so. There is a tendency for those considering innovation to look to high-tech sectors. Such an approach risks overlooking areas in which we have specific strengths such as food, mining and biotechnology as well as and opportunities in sectors that are the traditional stalwarts of the Australian economy.

Manufacturing in particular is often perceived in Australia, and until recently in many other advanced economies, as a sector of the past, locked in an inevitable decline. Nothing could be further from the truth. While recent decades have seen a trend towards migration of manufacturing to low-wage, emerging economies, a number of factors are combining to make an industrial renaissance possible in economies that had been considered post-industrial. High-value manufacturing exporting countries like Germany, the United States, Sweden and others have shown this can be done successfully and led to vibrant and diverse industrial bases with strong global supply links.

Ai Group welcomes the Victorian Government's commitment to establishing the independent Start-Up Victoria which would provide advice for entrepreneurs in Victoria to provide intellectual property and patent advice, manage finances, attract investment and connect with universities. We would ask that this open to all businesses regardless of sector.

We would encourage the Victorian Government to ensure state-run innovation initiatives complement or build upon federal government programs. In particular, the Entrepreneurs' Innovation Fund, modelled on the Enterprise Connect program, which linked business adviser with SMEs to review and improve their businesses to build their competitive advantages. Enable access to successful programs like the Federal Governments' Entrepreneurs Infrastructure Program Business Adviser Program, previously Enterprise Connect, to help new businesses transition into new roles.

Where possible, we would also encourage the Victorian Government to foster **collaboration between business and public sector research and higher education organisations** in Australia. We would also encourage the Victorian Government to ensure there is strong industry consultation and focus in **skills and higher education policies**.

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More broadly, reform of state-based regulation and taxes will help to foster a greater culture of innovation within existing businesses by removing the impediments for businesses to expand into new markets or improve processes.

However, it is clear the many challenges lay ahead and that the next Victorian Government will have a role to play in ensuring that Victoria's manufacturing sector can continue to grow. Not only should the next Victorian Government continue to provide transition assistance for affected suppliers and their workers, but there should be a wider set of policies aimed at encouraging new business to begin in Victoria and to encourage strength in other industries.

### **Recommendation:**

- **Ai Group would encourage the Victorian Government to take an active role in improving the innovation environment in the state through considered policy settings and incentives.**

## Boosting Trade

Ai Group commends the Victorian Government's efforts in supporting exporters venture into emerging markets, and urges the Government to continue and increase efforts in assisting exporters.

While in opposition, the Victorian Government committed to conducting four "reverse super trade missions" bringing international delegates to Victoria to showcase Victorian produce and technology and build relationships. The inbound trade missions are a welcome move which will give local industry the chance to pursue new contracts, develop exports and meet with existing partners, and help identify and overcome legal and regulatory challenges to exporting.

Ai Group also welcomes the plans to increase the number of Victorian Government Business Offices with new business offices to be located in South America, Singapore and Turkey to assist Victorian businesses to take advantage of these emerging markets.

Given the current challenging environment for exporters with the high exchange rate, difficulties in obtaining credit and uncertainty regarding global economic growth, particularly from Europe, the Victorian Government should also proactively assist exporters by:

- Continuing to fund more overseas trade missions for businesses, particularly smaller businesses that want to expand into overseas markets, to participate and to facilitate co-funding exporters' businesses trips overseas to establish and/or increase contacts with overseas business partners. Such networks help to increase the chances of smaller Victorian businesses being able to successfully break into new overseas markets.
- Ai Group urges the Victorian Government ensure a continuation of targeted assistance for business participation in trade missions.
- Ai Group also calls on ongoing assistance for Victorian exporters beyond the initial assistance of establishing export relationships. Further advice and support to help businesses further grow exports would benefit the state.
- Ai Group also calls on the Government to take advantage of the Victorian universities' graduate diaspora to build relationships between local and foreign companies. This includes developing a program of incoming trade visits, which can link local businesses into global supply chains.

### Recommendation:

- **Victoria has a strong record in international trade. Ai Group encourages the Government to draw on the state's strengths to develop a clear strategy to boost export opportunities of Victorian businesses.**

## The Automotive sector transition

The Productivity Commission's final report into Australia's Automotive Manufacturing Industry released in August 2014 seriously underestimated the fallout from the end to car making in Australia and Victoria. The Productivity Commission predicts that 40,000 people will lose their jobs, which comprises 80% of workers in the direct auto assembly workforce plus 40% of workers in the automotive components supply chain (including components for vehicles other than passenger cars) will be retrenched. This is considerably more optimistic than other estimates of future job losses. The FCAI, for example, estimates that up to 90% of the industry will close or move offshore. The PC assumes that "firms that manufacture components for the aftermarket, export markets and buses and trucks will be largely unaffected by the closure of the motor vehicle producers". Given the close supply relationships in this industry, however, this is a brave assumption. In the current situation of looming industry closure, it is possibly a dangerous assumption.

In the absence of active supporting measures (as recommended by the Productivity Commission), it is difficult to see how 60% of Australia's automotive components industry will be able to survive, unaffected by the demise of local passenger car assembly, or be able to successfully transition into other opportunities. The PC's assumption they will be able to move into exports and/or the after-sales parts market with no additional assistance or support seems fanciful at best. These markets are already crowded and are extremely competitive, with many auto components suppliers already operating in them.

Ai Group is also very concerned about the Commission's assumption that two thirds of the expected 40,000 retrenched auto workers will find another job. This seems to be based primarily on the experience of the 700 Mitsubishi workers who were retrenched a decade ago (2004) with the assumption that it can be replicated for the 40,000+ auto workers who are about to be retrenched. This is despite strong evidence that the national jobs market is already considerably weaker than it was a decade ago and is set to weaken further, with both Treasury and the RBA forecasting a rising national unemployment rate from here. This time around, there will be far more displaced auto workers in a very concentrated geography and with far fewer local alternative employment options, compared to when Mitsubishi closed. Among the Mitsubishi workers for example, about 10% found a new job with other auto manufacturing businesses and another 20% found work elsewhere in manufacturing. This demise of the auto assembly sector means those results simply cannot be replicated again, and certainly not for 40,000 workers.

The Andrews Government has demonstrated their understanding and commitment to the state's automotive industry. The exit of the three local car assemblers by 2017 will have significant for the Victorian economy. Many automotive supply companies will leave and workers will be affected.

Australian Industry Group recognises the Victorian Government has made the following commitments:

- In the May, \$30mn was provided over the next two years for a Victorian automotive workers package. This will provide support and subsidised training through the Victorian

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Training Guarantee to re-skill automotive workers affected by the restructuring of the Victorian economy.

- \$12mn was contributed to Federal Government's automotive structural adjustment and growth fund.

### **Recommendation:**

- **Ai Group supports and welcomes the Victorian Government's commitment to ensuring businesses and workers in the automotive supply chain are assisted through the transition as the local car assembly ends, and that where possible, affected businesses are assisted in being able to access new markets and/or products.**

## Planning and Environmental Regulations

Ai Group recognises the difficulties that Governments – particularly at the state and local level – face delivering fair and equitable land planning outcomes. The operation of the planning system is complicated by the multiple levels of government that are involved or have an interest in the outcomes of planning regimes. Too often this has led to planning processes becoming battlegrounds. The instinct to resist unwelcome development has created tensions between the priorities and desires of local communities and the needs of society as a whole. In the absence of an effective process for assessing the merits of these issues in a timely and transparent manner, critical pieces of infrastructure can be delayed or stopped altogether. This creates uncertainty, adds to the cost of doing business and undermines Victoria’s desirability for future investors.

Ai Group encourages the new Government to ensure planning decisions are clear, consistent and balance the needs of industry and communities. Melbourne and Victoria need a sustainable and long-term vision for development which is consistent with other the Government’s other goals.

### *Planning Buffer Zones and Moratoriums*

Appropriate buffer zones that separate facilities or precincts from other land-users enable industrial sites and households to coexist. They provide industry with certainty that their investments will be secure and ensure that households do not suffer a diminished quality of life from industrially generated odours, dust or noise. When buffer-zones are breached, it is to the detriment of the entire community, environment and economy.

Ai Group is concerned that there are several key issues where dubious planning policy settings are disadvantaging not just industry, but the wider community. Further, they run the risk of establishing alarming precedents for wider industrial development.

### *Onshore Gas Moratorium*

#### **Addressing the challenges in Australia’s gas market**

Victorian industry makes considerable use of gas, particularly in the chemicals, metals, paper and food sectors. Jobs and investment depend on affordable secure gas supply. But Victorian gas users face major challenges.

In July 2014 Ai Group in partnership with five other peak industry bodies commissioned the first comprehensive analysis of the impact of rapidly escalating gas prices on the Australian economy. Compiled by Deloitte Access Economics the report undertook detailed quantitative analysis into the dramatic impact of rising gas prices on domestic manufacturing. The modelling indicated that under plausible gas price forecasts developed for the Federal Government, Victorian manufacturing output would contract by a cumulative \$23.4 billion to 2021, with smaller negative impacts on most other sectors other than gas.<sup>59</sup>

Ai Group and other industry voices have proposed a wide range of market reforms to address market power and encourage competition. The best outcome for gas users would see fresh

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<sup>59</sup> Deloitte Access Economics, *Gas market transformations—Economic consequences for the manufacturing sector*

competition from new second-tier gas producers willing to develop resources and build market share through competitively priced supply agreements with domestic customers. That scenario is only possible if new gas resources can be developed – and that cannot happen while the present onshore gas moratorium is in place in Victoria, and similarly blunt restrictions apply in New South Wales.

Beyond the LNG-induced price adjustment, Eastern Australia is also in danger of experiencing a shortfall in supply despite access to some of the most abundant gas fields in the world. While the main driver of the shortfall is that Queensland gas production has failed to grow as fast as expected, leaving the LNG projects somewhat short of their export commitments, the regulatory blockages for onshore gas production in Victoria and New South Wales are making the situation worse and more prolonged. If the worst side-effects of the move towards an export-orientated gas market are to be avoided it is essential that these blanket restrictions be replaced by workable science-based regulation that closely and efficiently targets any genuine identified risks.

**Recommendation:**

- **The Government’s inquiry into onshore gas should be conducted swiftly but needs to consult widely, including with gas users. The existing consultation carried out by the former Government should be built on. The detail of an effective regulatory regime needs to be established as soon as practicable.**

***Waste facility Buffer Zones***

The waste industry is an often over-looked participant in the planning process despite the essential service the industry provides. The nature of the industry has often inspired the worst examples of the ‘Not-in-my-back-yard’ phenomenon which has made gaining approval for new facilities both costly and time consuming. For this reason Ai Group welcomed the release of the *Getting Full Value: The Victorian Waste and Resource Recovery* plan because it promised to:

*Improv(e) integration with land use planning, transport and development, to enable better decisions for a growing population*

If these ambitions are translated into practice this integrated approach will provide a new degree of consistency and coordination in planning outcomes. This will not only encourage much needed investment in the waste and resource recovery sector, but contribute to better outcomes for the community as a whole.

A combination of stricter environmental regulation and the exhaustion of older local landfills meant that increasingly Melbourne has come to depend on a smaller number of major facilities. The unavoidable impact of waste and resource recovery operations on the surrounding area demands that effective buffer zones must be maintained over the life of the facility – potentially a 100 years depending on the site.

Unfortunately, in several cases the speed of Melbourne’s growth has resulted in sprawling residential developments to encroach on these essential facilities. The most obvious example is that of the Hampton Park Landfill in Dandenong where the buffer zone has been subsumed entirely by residential development right up to the perimeter of the facility. This not only has a detrimental effect on the quality of life for the residents, but – as the recent high profile dispute

around the landfill and quarry facility at Deer Park demonstrate – has added considerably to the cost and time of expanding those facilities to cope with Melbourne’s rapidly growing waste needs<sup>60</sup>. Although there are promising signs that policy-makers are aware of these issues and are moving to address them, more needs to be done.

**Recommendation:**

- **Ai Group urges the Government to reform of the planning regime to ensure that Victoria’s essential waste infrastructure is prioritised and protected.**

***Container deposit legislation***

Victoria has well established and highly efficient recycling system in place, which works to the benefit of consumers and industry without excessive cost or regulatory burden on business. Introducing a container deposit scheme in Victoria would undermine the existing well-functioning scheme without little improvement to recycling rates. Rather, a container deposit scheme would simply increase costs to both the manufacturing and recycling industry. Ai Group would encourage the elected Government to pursue existing plans to foster a viable recycling and resource recovery, as we have outlined above.

**Recommendation:**

- **That the elected Government does not implement a container deposit scheme given Victoria already has a successful and efficient recycling scheme.**

***Waste Regulation***

Safe waste collection and disposal is an essential service to the community on a par with clean water and reliable energy. Implementing a viable long-term strategy for dealing with Victoria’s ever increasing levels of waste must be a priority for the elected Government.

Ai Group represents both significant waste generators and some of the largest operators in the waste industry. Ai Group has been closely involved with policy-makers in drafting the *Statewide Resource Recovery and Waste Infrastructure Plan (SWRRIP)* as the first step towards creating an integrated state wide waste management system.

While industry supports the Statewide Waste and Resource Recovery Infrastructure Plan (SWRRIP) process, the crucial test will come in translating these ambitions into concrete reforms across government and at the local level. A clear commitment to pursuing this will be fundamental to convincing industry of the merit in investing the substantial sums necessary for the SWRRIP to succeed. Particularly significant are the issues of planning and developing the end markets necessary to sustain a recycling and resource recovery industry.

A weakness identified in past efforts to encourage a viable recycling and resource recovery industry has been the lack of durable end markets. Ai Group welcomes the efforts currently underway by Sustainability Victoria on this issue - however, this will ultimately require a whole of

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<sup>60</sup> If population growth continues along current trends this is projected to rise from 12 million tonnes in 2010-11 to 18 million tonnes by 2020-21, *Getting Full Value*, pg 13

Government approach. Identifying and addressing potential regulatory barriers, reviewing and if necessary reforming procurement practices – particularly of the waste groups who tender on behalf of local Government - and ensuring a consistency of message for potential investors.

**Recommendation:**

- **Ai Group urges the elected Government to prioritise coordination and cooperation between all levels of Government and agencies on its Statewide Waste and Resource Recovery Infrastructure.**

## Ensuring a level playing field for government procurement

Ai Group believes Australian businesses should have full and fair access to supply the goods and services required by the public sector and for major projects undertaken within Australia. As it stands there are a number of barriers and distortions that frustrate and impede the full and fair participation of Australian suppliers. These barriers and distortions are exacerbating the intense competitive pressures currently being experienced by local, trade-exposed industries and particularly by the manufacturing and IT sectors.

The major barriers and distortions are:

- An undue emphasis on upfront costs rather than whole of life costs in public sector procurement. This emphasis results in the purchase of lower quality goods and services and neglects the costs involved in maintenance and through-life support which are key advantages that local suppliers are able to offer.
- An uneven weighting given to conformity with standards. Local producers are required to produce to stringent Australian and International Standards and non-conformity or false claims of conformity are much more rigorously enforced than is the case with many imported alternatives. This puts local businesses at a disadvantage.
- Selection criteria (implicit or explicit) that include a record of supply in other countries as demonstration of credentials. This favours offshore suppliers and is a particular barrier to emerging local businesses and domestic suppliers of innovative goods and services.
- Preference given to offshore suppliers. Preference is often given by overseas-based prime contractors to sub-contractors and suppliers in their country of origin under explicit or implicit local preference arrangements and practices.

These barriers and distortions against local industry participation in government contracts and in major projects can be addressed by the adoption and adherence by government agencies of practices that adhere to purchasing principles set out below. For major infrastructure, construction and mining projects, governments should require prime contractors and holders of licences to adopt and demonstrate adherence to similar practices. These practices should work alongside programs aimed to facilitate local industry participation such as a strengthened Industry Capability Network.

It is also important to account for the wider value to the economy by purchasing locally, such as through skills development and retention and through creating jobs. Governments procuring locally also ensure a broad range of suppliers can continue to operate locally. Finally, governments should be aware that many foreign governments impose contractual requirements for local content in their purchase of local goods.

**Recommendations:**

- **Ai Group recommends that all government agencies including Victorian agencies and major contractors implement an approach that shows a commitment to the following five procurement principles:**

**Value for Money:** Value for money looks beyond “least cost” and brings cost-benefit approach that considers quality, after sales servicing and maintenance, ongoing supplier relationships and speed of maintenance repair.

**Clarity, Transparency and Improvement of Processes:** procurement processes should be clear and transparent and be subject to ongoing improvement to reduce costs of tendering and access for domestic suppliers, particularly small and medium sized enterprises.

**Full and Fair Access:** Procurement processes should ensure local suppliers have full and fair access to supply opportunities under direct government contracts and with prime contractors for major projects. This includes consistency in relation to conformity with Australian standards and no preferential treatment of offshore suppliers.

**Full Opportunities for Local Suppliers:** Australian based suppliers should have full opportunity to compete for the provision of goods and services under government contracts both directly and indirectly through supply to prime contractors. For major projects, prime contractors and licence holders should ensure that local suppliers have full and fair access to sub-contracting and supply arrangements.

**Supporting Industry through Effective Planning and Communication:** Large government purchasing activities and major project plans should be developed in a transparent way to ensure local industry is able to invest sufficiently to participate in major tenders.



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