BUILDING FOR THE FUTURE

APRIL 2012

Ai Group Submission on 2012-13 South Australian Government Budget Priorities

AUSTRALIAN INDUSTRY GROUP

EXECUTIVE SUMMARY

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 1 million employees.

We are an organisation committed to helping Australian industry with a focus on building competitive and sustainable industries through global integration, skills development, productive and flexible workplace relations, infrastructure development and innovation.

Our organisation provides practical information, advice and assistance to help members run their businesses more effectively. It ensures through policy leadership that members have a voice at all levels of government, by representing and promoting their interests on current and emerging issues.

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.

Our organisation has formal and long standing links with more than 80 overseas employer organisations such as the Confederation of Indian Industry; the Chinese Machinery Industry Federation; The Osaka Chamber of Commerce and Industry; the Federation of Malaysian Manufacturers; the US National Association of Manufacturers; the Confederation of British Industry and Business New Zealand.

Ai Group employs more than 300 staff and 550 apprentices and trainees through its training arm, Australian Industry Group Training Services. Our professional staff includes workplace relations advisers, lawyers and employment and business specialists who provide services to members in the areas of: workplace relations; legal; human resource management; occupational health and safety; workers' compensation; the environment and energy; international trade and export; economics; business growth and skills.

For reasons outlined in the following submission this State Budget is a crucial budget in the context of the global and local economic challenges in which we find ourselves.

We urge the government to continue to show restraint and ensure that Ai Group's members, many of whom are experiencing extremely difficult times, do not have their competitive position further impeded.

SUMMARY OF RECOMMENDATIONS

Recommendation 1 – Tax Competitiveness

Ai Group recommends that the Government:

- continues to improve the state's competitive tax position;
- work to implement any major simplification of the tax systems that arises out of the Henry Tax Review; and
- take every opportunity to reduce payroll tax rates to ensure we maintain our competitive position against other states.

Recommendation 2 – Public Sector Reform

The Ai Group recommends that the Government:

- oversee whatever is necessary in terms of an appropriately resourced public sector whereby public sector employees as a percentage of total employees is the equivalent of the average of the other mainland States.;
- as a start to this process, deliver on its promise in last year's budget to decrease the public sector by 4,100 jobs.

Recommendation 3 – Skills Training and Vocational Training

Ai Group recommends that the Government:

- Consider Ai Group's industry concerns in relation to education and training, noting:
    - that South Australia's existing skilled labour shortages are likely to be exacerbated in the short to medium term;
    - issues in respect of literacy and numeracy (raised elsewhere in these submissions); and
    - issues that combine to make upskilling of the existing workforce difficult
- Continue to implement reforms outlined in *Skills for All – The Strategic Direction for Vocational Education and Training in South Australia 2011-2014* with a view to meet the ongoing demand of ensuring the State is ready to fill new jobs with skilled local workers and at the same time ensure existing workers are provided the opportunity to upgrade their skills to meet current and emerging workforce development needs;

- Closely monitor which qualifications are being accessed when considering any caps or incentives and then only consider these after extensive consultation with relevant industries;
- Fully implement competency based progression and completion arrangements in line with the 2006 COAG agreement (removing references to fixed durations in Awards and legislation);
- Engage closely with industry to ensure that that the most appropriate infrastructure is agreed well before any significant expenditure is committed;
- Continues with the development of the Sustainable Industries Education Centre as part of the Tonsley Park redevelopment, with a view to expanding the current range of industry sectors planned for inclusion; and
- Work closely with the Federal Government to implement the actions outlined in the recently announced *Skills for all Australians* reform package.

Recommendation 4 – Effectively engaging with Asia

Ai Group recommends that the Government:

- enhance the *Export Market Development Grant* Scheme by increasing Government funding for eligible export promotion expenses, as well as increase the number of times funding may be obtained by each eligible applicant;
- encourage and facilitate closer coordination and collaboration between the Federal and State Governments in trade and investment promotional tours in Asia;
- increase investments in education and training initiatives that would develop an 'Asia ready workforce' that is highly capably, creative, adaptable, technically skilled and well versed in the various cultural, bureaucratic, political, linguistic and business ways of the various economies in Asia; and
- undertake a review of the State Government Overseas Trade Offices to ensure that they are appropriately positioned for the global areas of growth and are providing services required by businesses and are separate from those offered from other organisations such as AusTrade.

Recommendation 5 – Infrastructure and Capital Works

Ai Group recommends that the Government maintain its commitment to significant levels of investment in the State's infrastructure, to drive investment, improve productivity and enhance the competitiveness of the State's economy.

Recommendation 6 – Improve literacy and numeracy in the workplace and at school

Ai Group recommends that the Government adopt the recommendations laid out in Ai Group's major report: *When Words Fail - The National Workforce Literacy Project*, including:

- Position employers at the centre of the National Foundation Skills Strategy due for commencement this year;
- Re-focus the strategic direction of workplace literacy and numeracy through the National Workforce and Productivity Agency;
- Expand resourcing for workplace literacy and numeracy training by increasing WELL funding and introducing new programs;
- Develop an intensive LLN workplace learning program;
- Develop and implement the Foundation Skills Training Package to assist workplaces;
- Incorporate Return on Investment measures into literacy and numeracy training;
- Use the Australian Core Skills Framework more widely with workplaces; including developing an employer's guide
- Provide assistance to workplaces to raise their capacity; and
- Expand and resource the literacy and numeracy teaching workforce to assist industry to meet these needs.

Recommendation 7 – Environment and Energy

Ai Group recommends that the Government:

- consider deferral of any further increase in the Solid Waste Levy;
- allocate a proportion of these funds to scientific research and testing in areas where industry believes waste products can be reused and enable the EPA to verify such processes;
- reduce additional layers of domestic climate change regulation and ensure sufficient and timely support for trade exposed industry.

Recommendation 8 – Reducing the Regulatory Burden

Ai Group recommends that the Government:

- fully support the Prime Minister's Business Advisory Forum and help to "reset the regulatory agenda";

- continue the Government's positive work in recent years to address red-tape issues in South Australia;
- fully embrace Ai Group's plea to reduce our share of the 570+ different greenhouse-related policies in Australia;
- support the implementation of the recent COAG reform initiatives;
- review the effectiveness of state government initiatives to reduce the regulatory burden;
- continue to make regulatory impact statements more consistent and transparent; and
- continue regulatory agency interaction with the business community.

Recommendation 9 – Industry Participation Policy and Local Content Policy

Ai Group supports:

- the immediate implementation of a revised and upgraded Industry Participation Policy;

- the recommendations in the Göran Roos report following his Thinker in Residence work relating to Government purchasing initiatives; and

- the process to develop a comprehensive Manufacturing Strategy incorporating both the Green Paper and the White Paper and encourages the Government to complete that strategy as soon as possible and then devote the necessary resources to ensuring the strategy is effective carried out.

Recommendation 10 – Workers Compensation

Ai Group supports:

- the introduction of an experience rating system but urges the Government to be mindful of costs pressures for some companies with the introduction of such a scheme.

THE ECONOMIC OUTLOOK NATIONALLY

The December quarter national accounts confirms that the Australian economy is indeed slowing, with growth initially weighed by weakness in exports and, subsequently, by a decline in private investment.

Australia's real gross domestic product (GDP) growth slowed to a seasonally adjusted 0.4 per cent in the December quarter of 2011 from the 0.8 per cent achieved in the September quarter. This represents the third consecutive quarter of slowdown in economic growth. Growth through the year to the December quarter reached 2.3 per cent, down from the 2.6 per cent growth recorded in the September quarter, and below the average growth rate of 3 per cent achieved over the last decade.

Domestic demand growth slowed to 0.2 per cent in the December quarter, a significant decline from the 2.2 per cent growth recorded in the September quarter. The sharp fall in domestic demand is largely attributable to a broad-based contraction in private investment.

Household consumption held up reasonably well during the December quarter, rising 0.5 per cent, approximately half the growth rate in the September quarter. Household consumption may, however, slow in the period ahead, given the recent declines in consumer confidence arising from increases in home-loan rates and heightened uncertainty about the global economic outlook.

On the external front, the slowdown in exports growth has continued into 2012. The seasonally adjusted exports of goods and services contracted 8 per cent in January, while imports of goods and services declined 1 per cent. In seasonally adjusted terms, the balance on goods and services was a deficit of $673 million in January 2012, a turnaround of $1,998 million on the surplus in December 2011.

Although the Australian economy has performed relatively better than most other developed economies, it is noteworthy than our economic growth remains lopsided. Many businesses, especially manufacturers not supplying to the mining industry, are having their competitiveness eroded by factors such as higher interest rates, the stronger Australian dollar and rising costs generally.

Over the last decade, real output from the mining sector has been expanding at an average annual rate of 2.8 per cent, while output from the manufacturing sector has only increased by a mere 0.5 per cent.

The Ai Group's performance of manufacturing (PMI), services (PSI) and construction (PCI) indexes provide further evidence that economic growth in Australia remains patchy, indicating an economy particularly vulnerable to a renewed global economic downturn (Charts 1, 2 and 3).

The manufacturing sector moved into negative territory in March as the strong Australian dollar and softer demand continued to affect growth in the sector. The latest seasonally adjusted Australian Industry Group – PwC Australian Performance of Manufacturing Index **(**Australian PMI®**)** fell 1.8 points to 49.5 in March (readings below 50 indicate a contraction in activity with the distance from 50 indicative of the strength of the decrease).

Weak trading conditions kept the services sector in the red in March with the latest Australian Industry Group/Commonwealth Bank Australian Performance of Services Index **(**Australian PSI®**).** The monthly index was relatively unchanged, up 0.3 to 47.0.

The national construction sector has now been in the red for almost two straight years with the latest Australian Industry Group Australian Performance of Construction Index **(**Australian PCI®**)** in conjunction with the Housing Industry Association, up just 0.6 points to 36.2 in March (readings below 50 indicate a contraction in activity with the distance from 50 indicative of the strength of the decrease). Poor demand and subdued conditions, particularly in the residential and commercial construction sub-sectors, continued in the month with house building falling to its lowest level in six months. Reduced workloads saw employment levels remain in negative territory and the new orders sub-index has now been contracting for 22 months

Chart 1

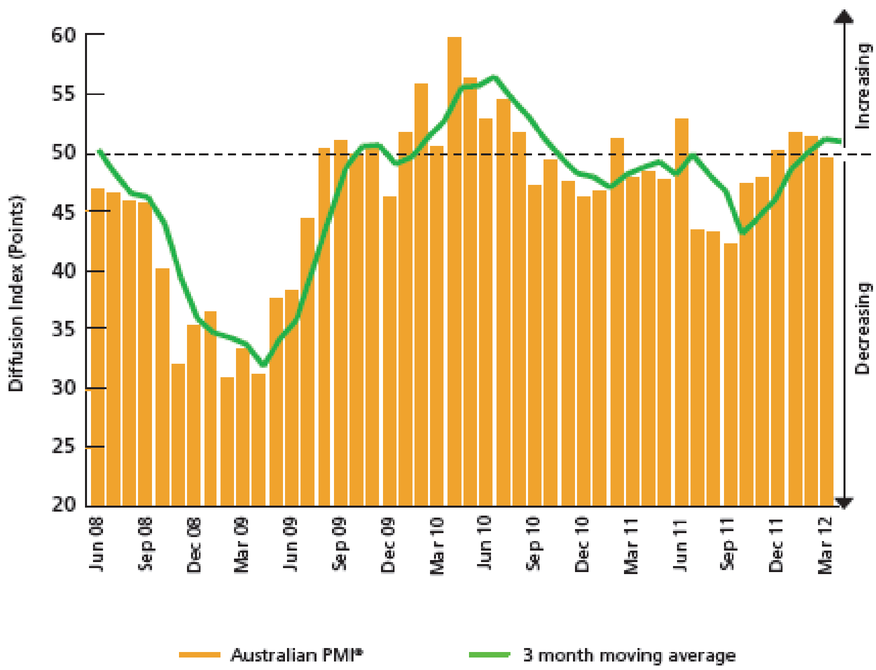


Chart 2

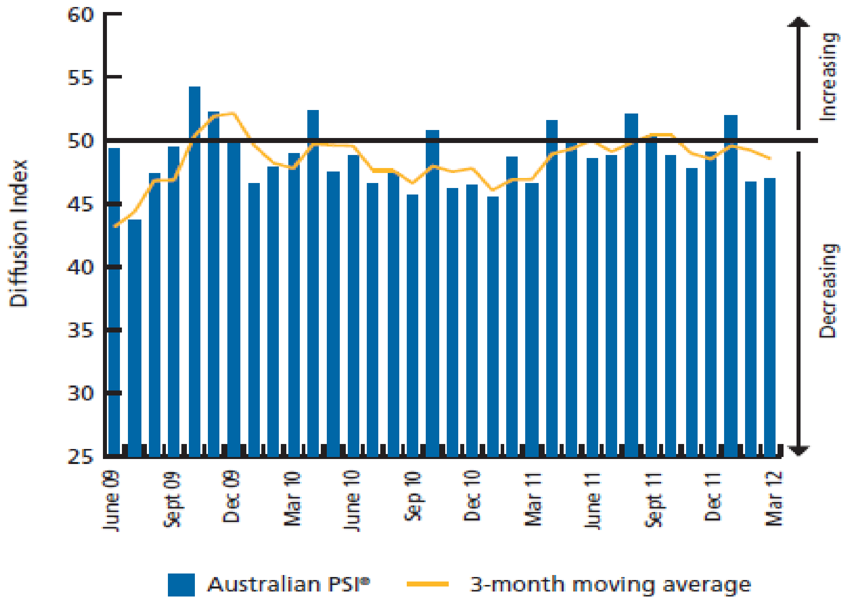
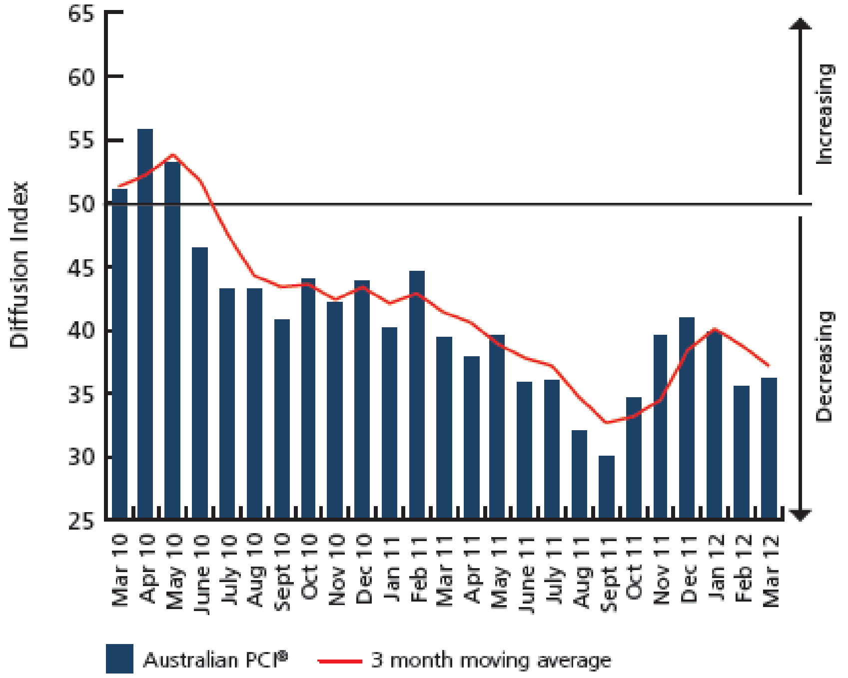


Chart 3



Consistent with a slowing economy, the Australian labour market has softened in recent months. The seasonally adjusted Australian unemployment rate rose to 5.2 per cent in February, slightly up from 5.1 per cent recorded in January (Chart 4).

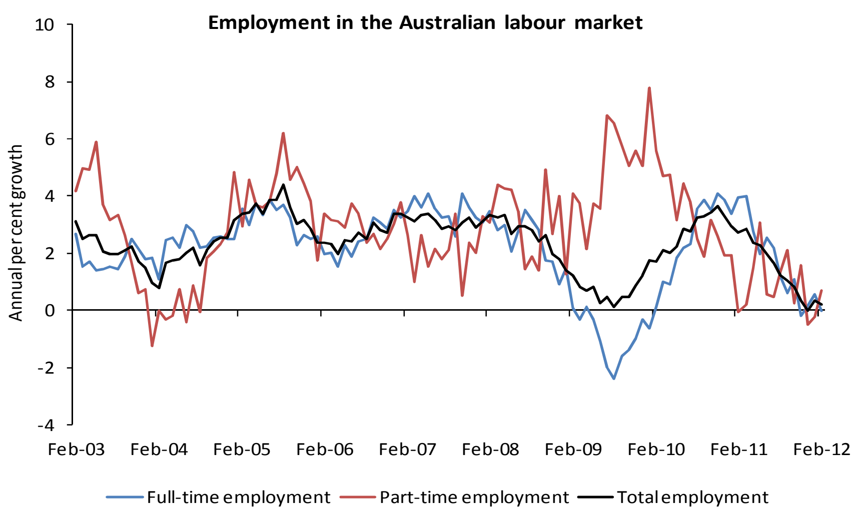
Meanwhile, seasonally adjusted employment contracted 0.1 per cent in the month, led by a 0.5 per cent decline in part-time employment. Full-time employment remained flat, marking the third consecutive month of slowdown.
The annual growth rate in Australian employment has been declining since the start of 2011 (Chart 5). In February, employment increased by a mere 0.2 per cent compared to a year ago, the lowest annual employment growth rate recorded since August 2009, during the global financial crisis. In trend terms, employment has in fact remained flat since March 2011 (Chart 6).

The weakness in the labour market suggests that employers remain cautious about business prospects, weighed by heightened uncertainty surrounding the global economic outlook.

Chart 4

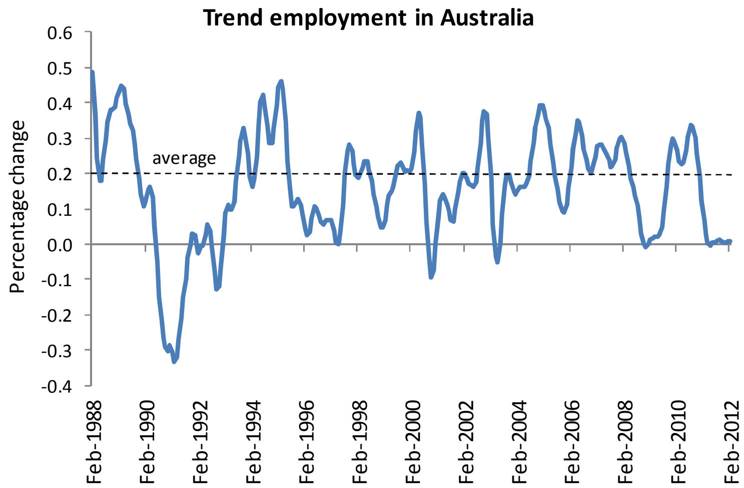
Source: Australian Bureau of Statistics

Chart 5



Source: Australian Bureau of Statistics

Chart 6



Source: Australian Bureau of Statistics

Overall, it is clear that Australia has emerged from the GFC better than most other places.

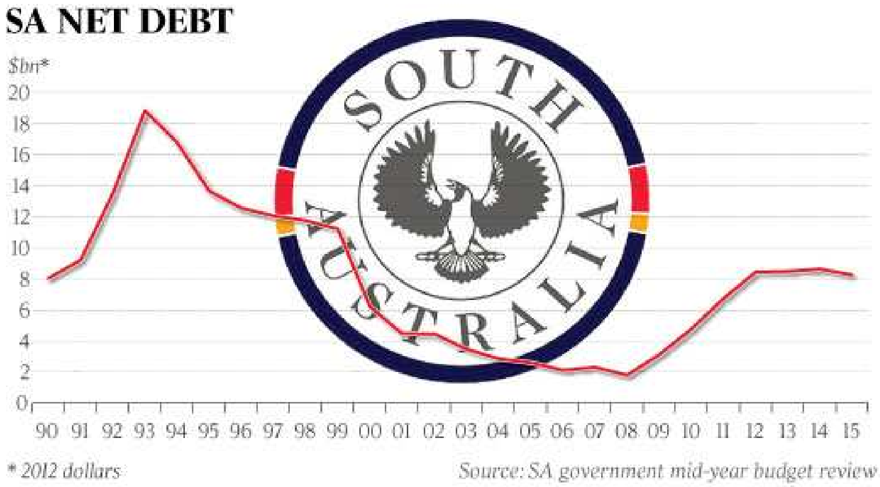
However, many of our members are facing enormous challenges in a high wage, high cost, high currency environment.

This picture is reflected across the country.

THE SOUTH AUSTRALIAN ECONOMY

In last year's submission, Ai Group noted that over the last decade, South Australia's economy has performed moderately well against other Australian states. This has continued with strong State exports (on the back of an excellent grain harvest), a solid GSP around 2.4%, reasonable business investment and trend average unemployment statistics. South Australia also continues to build its capabilities through an improved focus on skilled migration and through important investments in skills development.

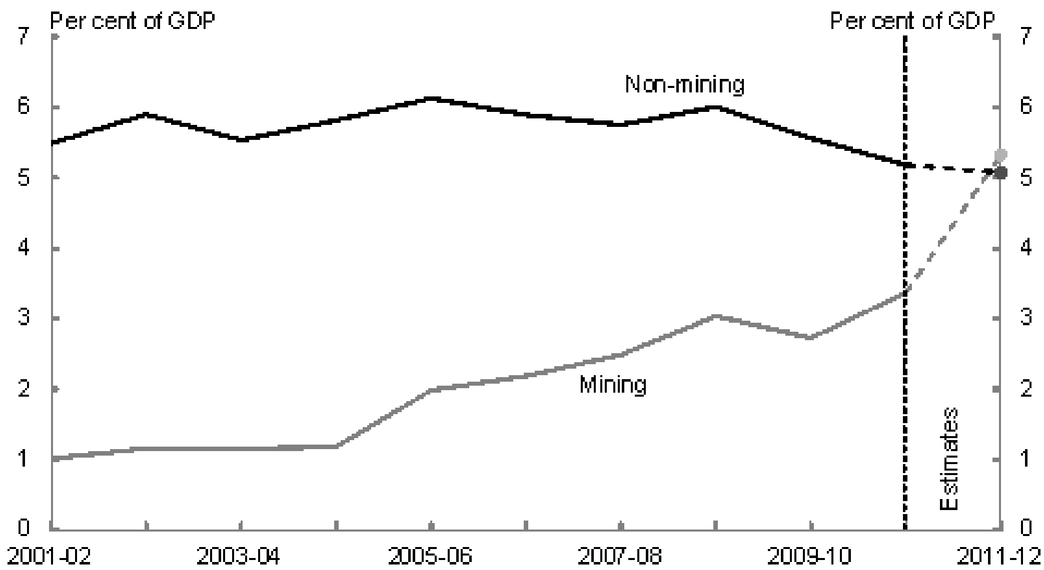
South Australia's *Mid-Year Budget Review* (MYBR) was delivered on 16 December 2011 and it was confirmed that spending on infrastructure and investment in South Australian jobs will continue in spite of a forecast drop in taxation and GST receipts of more than $1 billion over the forward estimates. At that time it was noted that the drop in revenue would mean a return to surplus would be pushed back until 2014-15. In recent weeks there have been forecasts of further pressures on State revenue with a continuous downwards revision of GST receipts and State property tax transactions at their lowest level since 1985.



At the time of the MYBR, State debt was projected to reach $7.74 billion in 2015-16 (when the New Royal Adelaide Hospital comes onto the state's balance sheet).

We also noted that the 2011-12 MYBR includes new savings and revenue measures totalling $141.1 million over four years, offsetting new policy decisions totalling $130.2 million over the same period. GSP growth forecasts were revised downwards from 2.75 per cent to 2.25 per cent in 2011-12, but are forecast to rise to 3 per cent in 2012-13.

Ai Group's South Australian membership is being impacted diversely by the current economic conditions. Companies aligned to growth opportunities, particularly in mining, and also quarantined from the traded goods sector are experiencing positive levels of activity. Conversely, companies that are affected by the high exchange rate are suffering in terms of competitiveness in export markets at the same time as experiencing increased international competition in local domestic markets.
This is clearly reflected in the following graph-



National mining vs. non-mining investment – source ABS cat no. 5204.0, 5625.0 and federal treasury

THE IMPORTANCE OF MANUFACTURING

The Ai Group believes it is important to continue to remind the general public of the importance of the manufacturing industry to the state's economy.

In that sense we welcome the recent state government green paper in relation to manufacturing strategy within which the following data was highlighted -

- 10% of economy – highest level all States
- 79,000 employees
- 6,972 manufacturers – 4.8% of businesses
- Largest spend on R&D - $247 million
- $6.2 billion of exports
- Biggest sectors
  - Food & beverage 23,000
  - Transport equipment & Machinery 17,000
  - Fabricated metal products 12,000

Source: Manufacturing Green Paper, South Australian Government, March 2012

It is recognised that these figures have all declined in recent times particularly from the days of the 1980's but the reality is that the manufacturing sector still is a significant driver of economic activity and innovation.

ISSUES OF BUDGETARY IMPORTANCE

TAX COMPETITIVENESS

Ai Group recommends that the Government:

- continues to improve the state's competitive tax position;
- work quickly to implement any major simplification of the tax systems that arises out of the Henry Tax Review; and
- take every opportunity to reduce payroll tax rates to ensure we maintain our competitive position against other states.

A recent report indicated that South Australia continues to rank as the highest-taxing State on aggregate.[1]

A further report, the *Pitcher Partners State Tax Review 2011/2012*[2] examined small to medium-sized company tax rates by analysing the first full year of taxes for two companies setting up in five states and compared the study to the 2010/2011 report to identify any shifts in position of the States.[3]

In both 'SME scenarios' considered, South Australia ranked last on aggregate, in the first scenario lagging Queensland by a significant 34%. Whilst South Australia performs reasonably in respect of payroll tax, the State performs poorly in many other respects, particularly in respect of WorkCover premiums and land taxes.

South Australia businesses also remain under other extraneous commercial pressures arising out of the high Australian dollar, skills shortages and other taxation measures.

[1] A position confirmed by *the Institute of Public Affairs* its annual *State Business Tax Calculator Report* on 16 January 2012, which found that, for the third year running, South Australia was the highest taxing State for a mid-sized business. A mid-sized business in SA faced a $299,703 annual bill, compared with $277,913 nationally. New South Wales and the ACT were also high on the list, whilst taxation conditions are most favourable in the Northern Territory and Western Australia.

[2] See: www.pitcher.com.au/Uploads/Pitcher%20Partners%20State%20Tax%20Review%202011.pdf

[3] The review measured the total annual cost of payroll tax, WorkCover premiums, land tax and transfer of land duties for each company in each mainland State.

Ai Group understands that the Government is mindful of the affect of taxes on economic growth, and that tight budget conditions and falling revenue leave little room for changes. We do ask however that the Government implement further tax relief for business as soon as there is capacity to do so.

Ai Group has consistently urged the Government to respond to the needs of the South Australian business community and assist business and industry to achieve higher productivity growth through the removal of inefficient state taxes.

In an "SME-centric" State, the engine room of job creation should be given every opportunity to succeed by minimising taxation barriers for SME businesses and also by abolishing other inefficient taxes and duties that have long been slated for removal.

Reform of other inefficient State Taxes

As we indicated in our submission last year, Ai Group believes the South Australian Government should seek to take a lead role in taxation reform, as it has done in other areas.

We also indicated in last year's submission the South Australian Government closely consider the Review of Australia's Future Tax System (Henry Tax Review) recommendation to replace inefficient state taxes including payroll tax, stamp duties on conveyances, insurance contracts, transfer of ownership on motor vehicles and other financial transactions, with more efficient forms of taxation.

Such measures would help lower the tax burden for South Australian businesses and in doing so, lift productivity.

Ai Group recommends that South Australia Government work with its federation counterparts to continue to keep tax reform as a first order issue to assist the competitiveness of business in South Australia and Australia.

Finally, whilst recognising the difficult financial environment of the State Budget, it is important that the Government take every opportunity to reduce payroll tax rates, particularly to maintain our competitive position against other states.

PUBLIC SECTOR REFORM

Ai Group recommends that the Government:

- oversee whatever is necessary in terms of an appropriately resourced public sector whereby public sector employees as a percentage of total employees is the equivalent of the average of the other mainland States.;
- as a start to this process, deliver on its promise in last year's budget to decrease the public sector by 4,100 jobs.

The Government has stated that if economic conditions do not improve, it may be forced to add to the 4,100 public sector jobs to be shed, and possibly consider forced redundancies. We note the concern surrounding the State's unfunded liabilities, particularly superannuation, whilst acknowledging that these are somewhat independent of government control.

Ai Group notes the State Government has highlighted the need for an invigorated public sector. We believe that there remains room for improvement, including the implementation of a culture of continuous improvement within the public sector.[4]

> "Because there isn't going to be more massive amounts of revenue, we are going to have to do things differently, so we're going to have to get more out of our public sector."[5]

Premier Jay Weatherill – 14 March 2012

Ai Group does believe that the public sector should be streamlined and invigorated to transition into an innovation leader:

> "I'd like to see innovation become a byword in everything we do. I think we do need cultural change in our public sector."[6]

Premier Jay Weatherill – 14 March 2012

[4] During his residency, SA Thinker-in-Residence, John McTernan cited international evidence to the effect that it is more expensive to give poor-quality service than it is to give high-quality service. If there is gradual, incremental improvement, it is possible to have higher-quality public service..

[5] Premier Weatherill interviewed on the State's economy by *Indaily*– see HTTP://WWW.INDAILY.COM.AU/?IID=60595&SR=0#FOLIO=2

[6] Ibid

Improvements can be made to enable to the public sector to engage more effectively with business. The public sector should be generating ideas, and actively collaborating with the business community and research institutions to drive productivity through innovation leadership.

Ai Group has again analysed public sector numbers on a national basis, to try to ascertain how South Australia compares nationally. Based on the most recent *Australian Bureau of Statistics* data, South Australia continues to rank highest in terms of the number of public sector employees as a proportion of total employees.

As a comparison of the following graphs show, although like all state's South Australia has improved the ratio of public sector employees to all persons employed, it still remains the highest ranking state of all mainland states.

We acknowledge that any initiatives arising out of last year's Budget in relation to public sector numbers are not included in these figures

Public Sector Employees as a Proportion of Total Employees (at 30/06/10)

	Public Sector Employees (State only)	Persons employed	public sector employees as a proportion of total employees (%)	Mainland State Ranking
	'000	'000		
NSW	436.6	3479.3	12.548	2
Victoria	316.8	2768.3	11.443	1
Queensland	300.2	2305.3	13.022	3
South Australia	**109.5**	**802.9**	**13.638**	**5**
Western Australia	162.8	1208.8	13.467	4
Australia (average)	1414.4	11125.4	12.713	

Source: Australian Bureau of Statistics: 6248.0.55.002 - Employment and Earnings, Public Sector, Australia, 2009-10 and 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery; Table 02. Labour force status by State, Capital city / Balance of state and Sex – June 2010

Public Sector Employees as a Proportion of Total Employees (at 30/06/11)

	Public Sector Employees (State only)	Persons employed	public sector employees as a proportion of total employees (%)	Mainland State Ranking
	'000	'000		
NSW	444.7	3579.2	12.424	2
Victoria	333.6	2900.3	11.502	1
Queensland	303.4	2341.7	12.956	3
South Australia	**111.2**	**826.3**	**13.457**	**5**
Western Australia	166.6	1238.3	13.453	4
Australia (average)	1449.2	11446.2	12.660	

Source: Australian Bureau of Statistics: 6248.0.55.002 - Employment and Earnings, Public Sector, Australia, 2010-11 and 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery; Table 02. Labour force status by State, Capital city / Balance of state and Sex – June 2011

We believe that the Government should adopt a goal for public sector employee numbers as outlined in our recommendation.

SKILLS TRAINING & VOCATIONAL TRAINING

Ai Group recommends that the Government:

- Consider Ai Group's industry concerns in relation to education and training, including:
    - that South Australia's existing skilled labour shortages are likely to be exacerbated in the short to medium term;
    - issues in respect of literacy and numeracy (raised elsewhere in these submissions); and
    - issues that combine to make upskilling of the existing workforce difficult
- Continue to implement reforms outlined in *Skills for All – The Strategic Direction for Vocational Education and Training in South Australia 2011-2014* with a view to meet the ongoing demand of ensuring the State is ready to fill new jobs with skilled local workers and at the same time ensure existing workers are provided the opportunity to upgrade their skills to meet current and emerging workforce development needs. Closely monitor which qualifications are being accessed when considering any caps or incentives and then only consider these after extensive consultation with relevant industries;
- Fully implement competency based progression and completion arrangements in line with the 2006 COAG agreement (removing references to fixed durations in Awards and legislation);
- Engage closely with industry to ensure that that the most appropriate infrastructure is developed well before any significant expenditure in this regard.
- Continues with the development of the Sustainable Industries Education Centre as part of the Tonsley Park redevelopment with a view to expanding the current range of industry sectors planned for inclusion
- Work closely with the Federal Government to implement the actions outlined in the recently announced *Skills for all Australians* reform package.

Ai Group applauds the Government's ongoing commitment to raising workforce skills and training. In July 2010, the Australian Industry Group – Deloitte National CEO Survey (*Skills Shortages – A high risk business*) found that skills shortages were an immediate issue of concern to business and that this concern was expected to exacerbate in the medium term.

Ai Group was very pleased to hear the State Government commit to lifting workforce skills and training to meet the needs of the more than $80 billion of major development projects underway or planned. We acknowledge the forecasts of the *South Australian Training and Skills Commission's* for more than 163,000 job openings over the next five years - around half of these being new jobs.

We strongly agree that the ongoing challenge for industry and the government is to ensure that we have the right number of skilled people in the State to perform those jobs. The recent Skills Australia discussion paper warns of a shortfall in highly skilled workers for hi-tech defence projects arising out of competition for engineers, technicians and tradespeople by other industry sectors, with resources alone projected to require up to 89,000 workers by 2016.[7]

Noting recent significant drops in business confidence across the nation, we also agree that there needs to be a close focus on small business. To this end, we were pleased to hear that the State Government intends to be more 'agile' and 'responsive' in line with the *"Skills for All"* strategy and to see the allocation of $194 million allocated against 100,000 new training positions across the coming 6 years.

'Skills for Jobs'

Ai Group notes and agrees with the *South Australian Training and Skills Commission* in their *"Skills for Jobs – Five Year Plan for Skills and Workforce Development"* that the vocational education and training (VET) sector in South Australia is at crucial point of evolution.

When launching its updated five-year *Skills for Jobs* strategy on 7 December 2011, the Training and Skills Commission warned that the State will miss out on unprecedented jobs growth if there is a failure to create a pool of people with the right skills – engineers and health workers were particularly cited as being in short supply.

With an estimated 163,000 job openings expected in the next five years, there will undoubtedly be challenges in getting the skills mix correct, so that the opportunities can be maximised.

The *Skills for Jobs* report calculated that the projects ahead for SA will create 69,000 jobs, in addition to 94,000 jobs replacing people retiring or otherwise leaving the workforce. Taken in conjunction with the $109 billion of South Australian work in the pipeline (outlined in the Government's updated *Major Developments Directory*), more than 299,000 higher skilled positions are expected to be required over the next 5 years.

[7] See: www.skillsaustralia.gov.au/DefenceIndustryWorkforceStrategy.shtml

It is vital therefore that every effort is made to meet the ongoing demand of ensuring that the State is ready to fill new jobs with skilled local workers, at the same time making sure that existing employees are provided the opportunity to upgrade their skills to meet current and emerging workforce development needs.

We do note that the Commission recommends capping or incentivising courses so training matches projected needs. Whilst broadly supportive of such an approach, ongoing and close monitoring of what qualifications are being accessed will need to be undertaken with the introduction of any caps or incentives only being considered after extensive and robust consultation with relevant industries.

Of great importance is the full implementation of competency based progression *and* completion arrangements.

In February 2006, the *Council of Australian Governments* (COAG) reached agreement that apprenticeships should be completed once an apprentice has achieved competency and that reference to fixed durations in Awards and legislation should be removed.

In March 2006, the *Metal, Engineering and Associated Industries Award* (1998) was amended to enable engineering apprentices to progress through a four stage wage structure and completed their apprenticeship on the basis of achieving competency rather than serving a fixed term of four years.

Ai Group is a strong supporter of competency based progression and completion for apprenticeship and despite a number of representations to Government on this issue, to date there has been little progress on implementation in South Australia.

'Skills for All'

Ai Group stands ready and looks forward to the opportunity of continuing to work with the Government to support its *Skills for All* strategy, the direction for vocational education and training (VET) in South Australia.

Ai Group accords with the Government that it is essential to have a training system that is far more responsive to the demands of individuals and of industry, and to that end, we have worked constructively with the Government towards the introduction of the *Skills for All* reforms that set out the future directions for the vocational education and training system.

Ai Group has consistently been warning of severe skills shortages following our emergence from the global financial crisis, and that these shortages will be exacerbated by extensive reconstruction efforts required following Christmas flooding and the expansion of the mining industry.

As a central plank in strategies to build productivity and capacity, Ai Group has strongly urged government at every level to maintain a major focus on skills in their most recent budgets. We reiterate this submission for the Government's upcoming Budget.

Australian companies are committed to training. Ai Group's own research has found that employers look to source and develop skills locally as a first option to filling vacancies. [8]

We welcome the focus under *Skills for All* on building greater partnerships with industry and enterprises. Of particular importance will be the successful implementation of the *Skills in the Workplace* program.

Ai Group's most recent *CEOs Skills Survey* found that companies unable to fill vacancies were more likely to respond by upskilling their existing workforce than by pursuing any other option – including overseas recruitment. Companies are telling us that skilling is increasingly important to their operations, especially in a climate of skills shortages.

Further, these skills need to be updated more often, broadened over time and be at a higher level for industry to remain competitive and for productivity to grow. Notwithstanding this commitment, it has become clear that the intensifying skill shortages in our economy cannot be met by the training of our own workforce alone.

With this in mind, we do raise a number of industry concerns in relation to education and training. Briefly these are:

1. As noted above, South Australia's existing skilled labour shortages are likely to be exacerbated by the rebuilding in Queensland and other states resulting from the flooding in January 2011 and this may necessitate looking overseas to fulfill our needs in the near term. This will particularly be the case if efforts in those states go beyond recovery efforts and into flood-proofing infrastructure investment. We note with concern that South Australia is already tipped to lose skilled labour to other states as part of the rebuilding effort;
2. According to the *Australian Bureau of Statistics*,[9] such difficulties are exacerbated by the fact that in respect of literacy and numeracy, almost half

[8] Ai Group and Deloitte National CEO Survey 2010 – *"Skills shortages: A high risk business".*
[9] ABS (2006) *Adult Literacy and Life Skills Survey*.

of all adult South Australians are below *"the minimum required for individuals to meet the complex demands of everyday work in the emerging knowledge based economy".* We have addressed this issue separately below; and

3. Against this backdrop, South Australian companies are again facing skills shortages and responding to these skills shortfalls by upskilling their existing workforce. Low literacy and numeracy levels, together with increasing State unemployment[10] make this upskilling task particularly difficult.

National Reforms

AiGroup endorses the recently announced Federal reform package on skills, *Skills for all Australians.* We recommend the Government engages with the Commonwealth on the implementation of these reforms to deliver more skilled workers, reduced upfront costs for students, better outcomes for greater public investment in training, increased support for those with barriers to participation and overall better "value for money" via funding reforms.

EFFECTIVELY ENGAGING WITH ASIA

Ai Group recommends that the Government:

- increase investments in education and training initiatives that would help develop an 'Asia ready workforce' that is highly capably, creative, adaptable, technically skilled and well versed in the various cultural, bureaucratic, political, linguistic and business ways of the various economies in Asia;
- enhance the *Export Market Development Grant Scheme* by increasing Government funding for eligible export promotion expenses as well as increase the number of times funding may be obtained by each eligible applicant;
- undertake a review of the State Government Overseas Trade Offices to ensure that they are appropriately positioned for the global areas of growth and are providing services required by businesses and are separate from those offered from other organisations such as AusTrade; and
- encourage and facilitate closer coordination and collaboration between the Federal and State Governments in trade and investment promotional tours in Asia.

[10] *Australia Bureau of Statistics* data released on 10 March 2011, showed that South Australia's unemployment rate for February bucked the national trend and is up from 5.4 per cent to 5.8 per cent compared to January 2011. As well, the ABS figures show that 50,300 South Australians were unemployed in February 2011 compared to 40,000 in February 2010.

Post the global financial crisis it is becoming clear that many parts of the western world are facing significant economic restructuring and in the short to medium term we will at best pursue very slow rates of growth.

In contrast Asia continues to grow. The Asian Development Bank recently released figures that, despite a slowdown in growth, predict a 6.9% growth rate for developing Asia in 2012. It is expected to rise to 7.3% next year.

As parts of the western world grapple with massive economic problems, Asia is emerging as an economic powerhouse, particularly as it has rebuilt its financial strategy post GFC.

All this is occurring on our doorstep and it is imperative that Australian industry and Australian businesses position themselves in the best way possible to take advantage of emerging opportunities in Asia as well as opportunities in Australia to supply Asia.

Earlier this year the Ai Group produced a submission to the *Henry Review* looking at Australia in the Asian century. This submission detailed areas of opportunity for Australian companies and also called for policy support in order to see these opportunities being achieved.

THE GLOBE'S TEN LARGEST ECONOMIES BY NOMINAL GDP

Rank Country	2010	Rank Country	2015	Rank Country	2020	Rank Country	2030	Rank Country	2040	Rank Country	2050
1 US	14,612	1 US	18,247	1 China	23,178	1 China	57,138	1 China	115,671	1 China	205,321
2 China	5,860	2 China	13,118	2 US	23,007	2 US	35,739	2 India	75,996	2 India	180,490
3 Japan	5,465	3 Japan	5,876	3 Japan	6,786	3 India	24,824	3 US	54,822	3 US	83,805
4 Germany	3,292	4 Germany	3,886	4 India	6,453	4 Japan	9,213	4 Indonesia	20,140	4 Indonesia	45,901
5 France	2,602	5 India	3,358	5 Germany	4,557	5 Brazil	8,780	5 Brazil	17,501	5 Nigeria	42,437
6 UK	2,259	6 France	3,047	6 Brazil	4,256	6 Russia	7,380	6 Nigeria	17,347	6 Brazil	33,199
7 Italy	2,044	7 Brazil	3,026	7 Russia	3,806	7 Indonesia	7,299	7 Russia	12,885	7 Russia	19,697
8 Brazil	1,989	8 UK	2,885	8 UK	3,637	8 Germany	6,466	8 Japan	12,452	8 Japan	16,394
9 India	1,596	9 Russia	2,668	9 France	3,573	9 UK	5,819	9 Germany	9,267	9 Philippines	14,738
10 Canada	1,572	10 Italy	2,414	10 Canada	2,741	10 France	5,236	10 UK	9,135	10 UK	13,846

Source: Buiter & Rahbari, Citi, February 2011. Data are in nominal USD billions converted at market exchange rates.

The above table shows the growth rates for various Asian countries over the next 40 years. It highlights that not only is Asia a growing region of the global economy, but that various countries within Asia will have differing growth rates.

It is very significant that countries outside of China and India such as Indonesia will have enormous individual country growth rates, particularly in the period 2030 to 2050. This highlights to us that Australia needs to have not just an Asian strategy, but very much a country strategy within the Asian region.

In relation to some of the bigger markets such as India, there is the need to have a regional strategy within such a country which has recently been played out in the State Government’s own calling for submissions on a South Australian Government / India commercial relationship.

The Ai Group report to the Henry Review highlighted a number of trends in Asian economies in future. These included –

- an expanding middle class;
- an ageing population;
- an integrated Asian supply chain network;
- the rise in intra-Asian trade; and
- the Remimbi as an internationally traded currency.

A look at these trends does itself highlight areas of opportunity for Australia to be involved in these potential areas of growth.

Therefore in broad terms we have highlighted a number of recommendations for the Government’s consideration built around an approach and a positioning for Asian growth. This would include State Government support for greater Federal Government funding to be made available under EMDG, more collaboration between the states and territories in relation to joint approaches to Asian markets, ensuring that the state has the right trade offices in the right countries in the Asian region and the provision of various policy initiatives to inculcate Australian business and industry into a greater understanding of the opportunities in Asia.

INFRASTRUCTURE AND CAPITAL WORKS

> Ai Group recommends that the Government maintain its commitment to significant levels of investment in the State’s infrastructure, to drive investment, improve productivity and enhance the competitiveness of the State’s economy.

Ai Group was pleased to hear the Government’s ongoing commitment to significant levels of investment in the State’s infrastructure, as this will drive investment, improve productivity and enhance the competitiveness of the State’s economy.

In the view of Ai Group it is important that the Government drive investment that will improve the efficiency and productivity of the state’s economy.

We do not support increased expenditure in areas of recurrent activity over investment in productive infrastructure.

We realise that this may prove to be a subsequent risk to the state's AAA credit rating.

If that comes to fruition, we urge the Government to commit to the AAA rating and set a timetable to regain the rating in the context of its productive capital investment program.

IMPROVE LITERACY AND NUMERACY IN THE WORKPLACE AND AT SCHOOL

Ai Group recommends that the State Government support the recommendations laid out in Ai Group's major report: *When Words Fail - The National Workforce Literacy Project*, including:

- Position employers at the centre of the National Foundation Skills Strategy due for commencement this year;
- Re-focus the strategic direction of workplace literacy and numeracy through the National Workforce and Productivity Agency;
- Expand resourcing for workplace literacy and numeracy training by increasing WELL funding and introducing new programs;
- Develop an intensive LLN workplace learning program;
- Develop and implement the Foundation Skills Training Package to assist workplaces;
- Incorporate Return on Investment measures into literacy and numeracy training;
- Use the Australian Core Skills Framework more widely with workplaces; including developing an employer's guide;
- Provide assistance to workplaces to raise their capacity; and
- Expand and resource the literacy and numeracy teaching workforce to assist industry to meet these needs.

As the State grows and develops, both students and the existing workforce will need to become better educated and better equipped to meet the demands of a diverse and globally competitive economy. From a governmental perspective, it is essential that all levels of government embrace a literacy and numeracy strategy to enable the workforce to effectively contribute to the economic future of the State as our economy diversifies.

For some time now, Ai Group has been emphasising literacy and numeracy issues in the workforce, particularly as they relate to work health and safety.[11]

1. In 2006, our landmark report *World Class Skills for World Class Industries* demonstrated that 85% of companies identified building the skills base of their existing workers as their number strategy for competiveness and growth;

2. Supporting this in 2008, our report *Skilling the Existing Workforce* exposed that low levels of literacy and numeracy in the workforce were major impediments to up skilling;[12] and

3. CEO surveys conducted in 2009 and 2010 reinforced the centrality of skilling the workforce as the key business strategy for success yet simultaneously confirmed that low skill levels, including literacy and numeracy, were major contributors to skill shortages.

The importance of literacy for workforce development was identified by Ai Group in 2008 through the *Skilling the Existing Workforce* project, which found that low levels of workforce literacy were limiting workforce effectiveness and hampering future skilling efforts.

Ai Group has become increasingly concerned about this issue. Our latest major report on the issue *When Words Fail - The National Workforce Literacy Project*, indicates that low levels of literacy and numeracy in the workplace are holding back companies and individuals from reaching their potential. The report provides more details on the depth of the problem and considers new and more effective strategies to address it.[13]

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[11] In May 2010, Ai Group released its *National Workforce Literacy Project.*[11] It is clear from this and other research that low levels of workplace literacy and numeracy forms a significant issue in Australia. This is no less the case in South Australia: http://www.aigroup.com.au/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/LIVE_CONTENT/Publications/Reports/2010/8783_Workforce_Literacy_Project_Report.pdf

[12] This project followed 2006 ABS data on adult literacy that suggested that almost 40% of the Australian workforce lacked adequate literacy, numeracy and problem-solving skills to operate effectively in the workforce.

[13] Ai Group *National Workforce Literacy Project* – Final Report – November 2011. The study found that 75 per cent of employers reported their business was affected by low levels of literacy and numeracy and this was not confined to low-skilled segments of the workforce. Only eight per cent of employers reported that they had adequate capacity to address the issue. Findings from the *When Words Fail* report demonstrate that with appropriate support employers are willing and able to improve the literacy skills of their workforce, but insufficient assistance is currently available. Although these foundation skills have received increased attention at a policy level over recent years, greater investment in literacy skill building initiatives is needed if the Australian workforce is to remain internationally competitive. The full report is available at this link: http://www.aigroup.com.au/policy/reports

Existing data demonstrates that almost four million people or 40 percent of the workforce do not have adequate literacy, numeracy or problem solving skills. The new study sets out to determine industry's perspective on workplace literacy and numeracy, and importantly, to trial alternative strategies and solutions to tackle this problem in the workplace.

We understand that improving literacy and numeracy levels of individuals in the workplace is a complex task that requires concerted effort and patient capital. Industry looks to its existing workforce to have the necessary skills to enable enterprises to be successful and compete in an increasingly global economy. The workforce needs to be able to achieve high levels of skill development to do this.

This Ai Group project has demonstrated that with targeted strategies and intensive support significant results can be achieved for the benefit of both workplaces and individuals. Employers are also beginning to link literacy and numeracy training to productivity with evidence from this project indicating that enterprises are ready to apply Return on Investment measures to this area. More work is needed to further explore and formalise this.

The project has identified a clear set of recommendations which Ai Group will use to inform the national dialogue on workforce development. Up-skilling is a critical link in boosting our productivity at the enterprise level and action to support this needs to be bold, comprehensive and properly resourced.

Ai Group remains keen to work with the State Government in progressing the Report's recommendations, including assisting the Government to commit significant resources to the provision of training assistance for the State's workforce.

ENVIRONMENT AND ENERGY

Ai Group recommends that the Government:

- consider deferral of any further increase in the Solid Waste Levy;
- allocate a proportion of these funds to scientific research and testing in areas where industry believes waste products can be reused and enable the EPA to verify such processes;
- reduce additional layers of domestic climate change regulation and ensure sufficient and timely support for trade exposed industry.

The Zero Waste/ EPA *Solid Waste Levy*

The State's *Solid Waste Levy* is a fee imposed on every tonne of waste dumped to landfill. This levy finances the operations of Zero Waste SA through the *Waste to Resources Fund.*

The 2010-2011 State Budget announced that from 1 July 2011, the levy would increase from $26 per tonne to $35 in metropolitan Adelaide, and from $13 per tonne in non-metropolitan Adelaide to $17.50.[14] This progressive levy is programmed to further increase from $35 per tonne to $50 per tonne (a 33% increase) within the metro area by 2014.

These increases occur at a time when industry is struggling, and more than $20 million of accumulated levy remains unallocated in the State Government's *Waste to Resources Fund*.[15]

At the time of the 2011-12 State Budget, Ai Group commented in the media that whilst this may not be a widespread issue for industry, these increases will be substantial for those caught by them.

We also stated our view that a proportion of these funds should ideally be allocated to scientific research and testing in areas where industry believes waste products can be reused which would enable the key regulator, the EPA, to verify such processes.[16]

In our view, with so much of the already collected levy unallocated,[17] the Government could assist industry by deferring any further increase in the *Solid Waste Levy.*

[14] The Solid Waste Levy is applied to all waste disposed to landfill and revenue collected will continue to fund programs and activities associated with the diversion of waste from landfill into reuse and recycling programs.

[15] South Australians have reduced landfill waste by 19 per cent since 2003-04, from 1.28 million tonnes to 1.04 million tonnes in 2009-10. We understand that the Waste to Resources Fund is a "special-purpose fund" and not revenue being withheld by the Government.

[16] In this respect, industry is wearing both the scientific and testing costs and the increased levy charges at the current time.

[17] John Darley MLC has asserted that the fund's stockpile of cash, currently $21.5 million, is expected to approach $36 million by 2013-14, while payments to Zero Waste SA will remain virtually static at less than $9 million, *In Daily* 7 February 2012.

We note that in December 2011, Western Australia announced that it intends to recycle more than one million tonnes of construction and demolition waste, such as concrete, to be used by the State Government in the building of roads (as an alternative to being sent to landfill).[18] This is a measure that is already possible in South Australia subject to the *Waste to Resources Environmental Protection Policy* (W2REPP).

Such examples of recognising 'a waste' as 'a product' are beneficial and in keeping with the objects of the W2REPP, however, the Government needs to ensure that such opportunities can be embraced to the fullest extent, and are not overly impeded by excessive implementation of bureaucracy.

THE REGULATORY BURDEN

Ai Group recommends that the Government:

- fully support the Prime Minister's Business Advisory Forum and help to "reset the regulatory agenda";
- continue the Government's positive work in recent years to address red-tape issues in South Australia;
- fully embrace Ai Group's plea to 'clean out' our share of the 570+ different greenhouse-related policies in Australia;
- support the implementation of the recent COAG reform initiatives;
- review the effectiveness of state government initiatives to reduce the regulatory burden;
- continue to make regulatory impact statements more consistent and transparent; and
- continue regulatory agency interaction with the business community.

Business Advisory Forum **on Red Tape - 12 April 2012**

Australia aspires to be a seamless economy. Ai Group believes that unnecessary compliance and poorly managed regulations strangle output, drain productivity and act as barriers to economic growth.

[18] We do note however, that comparatively, Western Australians are the nation's worst recyclers. According to Australian Bureau of Statistics data, WA diverts only 28.2% of its rubbish from landfill, compared to South Australia's 66.3%, whilst Victoria and New South Wales salvage more than 40%.

The *Productivity Commission* has estimated that addressing business red-tape could boost the economy by $6 billion a year, and cut business costs by $4 billion. As with Work, Health and Safety, different rules and regulations in nine different state and territory jurisdictions are a major drag on our economy and a huge cost to business and consumers.

The same report also warns however, that the potential benefits from the C*ouncil of Australian Governments* (COAG) *Seamless National Economy* reform package cannot be realised unless governments work together in a number of areas.[19]

Whilst the State Government is to be applauded for the extensive steps taken in recent years to address red-tape issues in South Australia, we would encourage the State Government to fully embrace the recommendations presented by the Business Advisory Forum in April and to fast-track recommendations arising from it.

Reduce the plethora of disparate climate-change schemes

Ai Group strongly advocates that the Commonwealth's *Clean Energy Future* package effectively doubles the burden faced by Australian businesses. This occurs through imposing an explicit carbon price without removing the implicit prices already imposed by the plethora of existing state, territory and federal carbon reduction measures aimed at reducing greenhouse gas emissions

On that basis, Ai Group has consistently argued for an agreed strategy to 'clean out' the more than 570 different greenhouse-related policies in Australia. The Federal Government is about to implement its carbon tax – a tax that many respondents anticipate will be the major driver of increased compliance costs over the next three years. Our members are flagging this as a major concern for business productivity and competitiveness.

Other red-tape reduction initiatives

Ai Group is pleased to note the State's *Competitiveness Council's* new targets set as part of a drive to cut red tape by $150 million a year by April 2012.

We see it as a positive step that Cabinet has instructed government agencies to work with industry to identify issues and streamline processes. We support the initiative for all government departments to draw up five-year plans to monitor

[19] James Frost "Slashing red tape can lift growth by $6bn" in *The Australian* on 21 December 2011 at page 17. COAG has targeted 17 productivity hurdles and 10 regulatory bottlenecks faced by businesses that operate across multiple regions in industries as diverse as construction, transport, business administration and many areas of consumer law.

performance and the appointment of *Red Tape Reduction Champions* for most government departments.[20]

Overall however, the results of the most recent Ai Group/ Deloitte *Survey on Business Regulation*[21] shows that despite all the efforts on regulatory reform in recent years, the dead weight compliance burden associated with business regulation is rising, not falling.

The survey found that at a time when pressures are intensifying to innovate and change business practices, the growing burden of business regulation is proving a barrier to innovation and growth. In our view, this issue requires urgent government attention.

Seventy per cent of respondents reported their compliance costs rising in the past three years. The report also highlights that business regulation is acting as a major constraint on Australia's productivity with:

- around a third of respondents citing regulation as a barrier to hiring more staff; and
- almost half reporting regulation to be a barrier to innovation.

Ai Group argues that governments at all levels need to be proactive to address the regulatory burden and action should include:

- accelerating the implementation of the recent COAG reform initiatives;
- reviewing the effectiveness of state government initiatives to reduce the regulatory burden;
- making Regulatory Impact Statements more consistent and transparent; and
- improving regulatory agency interaction with the business community.

[20] Business Editor Christopher Russell "Red tape slashed for groups, employers" in *The Advertiser* on 10 January 2012 at page 29.

[21] Published on 27 September 2011. A total of 322 CEOs in the manufacturing, services and construction sectors participated in the survey, which was conducted in the first half of July 2011. Combined, these companies had sales revenue of around $21 billion and employed almost 28,000 people. Based on these companies' forecasts, overall industry estimates were derived for national sales, investment, employment, exports and a number of other business indicators. The full survey can be found at: http://www.aigroup.com.au/policy/reports.

INDUSTRY PARTICIPATION POLICY AND LOCAL CONTENT POLICY

Ai Group supports:

- the immediate implementation of a revised and upgraded Industry Participation Policy;
- the recommendations in the Göran Roos report following his Thinker in Residence work relating to Government purchasing initiatives; and
- the process to develop a comprehensive manufacturing strategy incorporating both the Green Paper and the White Paper and encourages the Government to complete that strategy as soon as possible and then devote the necessary resources to ensuring the strategy is effectively carried out.

For some time the Ai Group has been advocating that the Government should implement an upgraded Industry Participation Policy.

It is our understanding that this policy has been finalised, has been canvassed with departmental heads and is awaiting final Cabinet approval.

Whilst we are not going to go through the details of the policy as we understand it, we do encourage the Government to implement this policy as quickly as possible.

The basis of the policy is to provide full and fair opportunity for local suppliers. Ai Group also sees this policy as important in encouraging local companies in relation to innovation and product development through the opportunity to supply into Government contracts.

Just as critical is maximising local content out of the Olympic Dam expansion as outlined in the *Olympic Dam Indenture Bill*.

We support the sentiments outlined in the Bill and believe it is absolutely critical that a process is put in place to work with BHP Billiton and identify

- what capabilities and resources they need here on the ground in South Australia / Australia; and
- where those capabilities are not here, how it is acquired either in their own right or through joint ventures.

In our view such a process will make the maximum use of the scarce resources available and concentrate our efforts in areas where local industry has the maximum possibility of gaining contracts.

We also highlight that best practice in this area appears to be the Hebron *Project* in Newfoundland and Professor Roos has highlighted this throughout his work. The Government should endeavor to understand what has been the processes and the triggers within that project to maximise local content.

Finally we encourage the Government to put in place the necessary infrastructure and resources to maximise the intent of the *Olympic Dam Indenture Bill*.

WORKERS COMPENSATION

Ai Group supports:

- the introduction of an experience rating system but urges the Government to be mindful of costs pressures for some companies with the introduction of such a scheme.

Whilst this issue is not directly related to the Budget, there are ongoing changes within the workers compensation system which need to be kept in mind when framing this year's Budget.

Not the least of these changes is the forthcoming implementation of an experience rating scheme from 1 July 2012.

While Ai Group has supported the Government and WorkCover in moving down this path, it is very mindful that in changing to this new scheme we do not want to put excessive cost burdens upon industry as they adapt to a whole new regime, whereby in the long term they can be better responsible for their own claims management and costs.

As indicated by the following chart, there will be winners and losers under this new scheme.

Projected Impact

Expected percentage of experience rating employers with Premium Rate Movement (with transition protection) January 2012					
Base premium	**Reduces 10% to 25%**	**Reduces up to 10%**	**No change**	**Increases up to 10%**	**Increases 10% to 25%**
$20-50K	49%	25%	-	6%	**20%**
$50-$100k	48%	15%	-	8%	**29%**
$100-200K	43%	12%	-	10%	**35%**
$200-$500k	40%	10%	-	9%	**41%**
>$500k	38%	10%	-	5%	**47%**
Total	**47%**	**20%**	**-**	**7%**	**26%**

Finity Consulting, based on Oct 2011 data and excludes employers with <$300k in remuneration

67% ***versus*** ***33%***

The chart makes it very clear that there are some companies who will be receiving premium increases, as much as 25%, next financial year as they move to an experience rating scheme.

In negotiations with WorkCover, we have put in place as many elements in the transition to soften such increases in the short term but it is a fact that many companies will be receiving an increase in workers compensation.

The reason we bring this to the Government's attention in framing this year's Budget is that with increases in workers compensation, utility prices, the solid waste levy and at the federal level the implementation of a carbon tax, we are in a very delicate and strained environment for the operation of businesses, particularly those who are not benefitting from the mining boom and are facing structural pain through the historically high Australian Dollar.

We encourage the Government to be fully aware of these circumstances when framing this year's Budget.