

Ai GROUP SUBMISSION

to the South Australian Government's
2015-16 State Budget

MAY 2015



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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

Last year in our executive summary to the 2014-15 South Australian Government Budget Submission, we spoke of the difficulties facing the South Australian economy, particularly in the light of the imminent demise of the automotive sector.

This year we have been faced with additional challenges intensifying the pressures on manufacturing companies through the complications around the awarding of defence contracts.

Coupled with this is the continued downturn in mining investment.

Therefore we believe it is absolutely critical that we take the opportunity in this South Australian State Budget to develop a sustainable and diversified growth path for the state's industries, including those in manufacturing. The absolute focus of this year's State Budget should be sustainable job creation.

In relation to policy positions, which should be embraced in this budget, we have two major areas for consideration.

The first of these is in relation to State expenditure where we believe it is critical to put the State's finances on a sustainable long term footing.

The second area of policy consideration is to ensure that we do not resort to revenue increases which in the long term will only dampen the competitive aspects of the State's businesses and hamper re-investment and investment opportunities.

Since last year we have seen a significant drop in the value of the Australian dollar. To date, however, benefits for domestic manufacturers have been muted both because of a loss of domestic capability and from the "stickiness" of business model changes put in place in response to the high dollar – particularly in relation to the re-adjustment of supply chains away from local suppliers to overseas suppliers. With the lower dollar manufacturers are now re-considering these business models and whether they will continue to be competitive relative to approaches favouring suppliers from Australia rather than overseas.

This task is not easy as there is a considerable amount of work involved and unfortunately some of the Australian suppliers are no longer in business.

On the positive side, in the medium to longer terms there will be benefits for manufacturers from a lower Australian Dollar and lower oil prices. We will also see manufacturers benefit from the very low interest rate environment.

We are witnessing a continued slow recovery of the US economy but there is still considerable stress in the European economy outside of Germany.

At the end of the day the competitiveness of Australian manufacturers is very much focused at the individual company level. Of companies involved in similar activities, idiosyncratic and particular market segmentation factors such as their customer base or their re-investment in R&D, often see

individual firms develop advantageous positions rather than industry sectors or sub-sectors. Budget measures need to focus on facilitating business development in generic ways rather than anticipating strength in particular industry sectors or sub-sectors.

In this context, our submission gives very significant emphasis to the development of workforce skills and business capabilities that are relevant across a very wide range of industries.

We appreciate that the Government is facing challenging times but we also acknowledge that they have pursued a positive agenda, particularly in relation to the process to undertake discussions on tax reform, the Royal Commission into Nuclear Energy and the significant reform with the workers compensation system.

We also encourage the Government to consider the advantages to South Australia of introducing more rigorous and systematic approach to the co-ordination and prioritisation of the state's infrastructure needs. Both at the national level with Infrastructure Australia and in a number of states, dedicated statutory organisations are charged with undertaking thorough and transparent assessments of the costs and benefits of alternative infrastructure projects. Ai Group has advocated for this development with the objective of generating better value for money and of developing greater confidence in government infrastructure decision-making.

We encourage the Government to use this Budget to continue that reform process and focus squarely on private sector job creation.

Summary of Recommendations

Recommendation 1 – Manufacturing Sector Policy

- Continue to recognise manufacturing as an important sector of the economy which contributes jobs and activity.

Recommendation 2 – Importance of Advanced Manufacturing

- The Government commit to fully implementing the recommendations of Professor Roos' Thinker in Residence Report titled 'Manufacturing into the Future'.

Recommendation 3 – Manufacturing in Transition

- Actively support, through programs and services, South Australian manufacturers transitioning to new areas of competitive advantage.
- Continue to offer with no reduction in the level of funds, programs that assist manufacturers under the Manufacturing Works Program to improve their capabilities and capacity such as Business Model Innovation, Servitisation, Government procurement strategies and the Manufacturing Leaders Network.
- Actively engage with the Fraunhofer Institute with a long term view of establishing Fraunhofer and its manufacturing expertise in Adelaide to advise and assist manufacturing and business generally.

Recommendation 4 - Taxation

- Ai Group supports the Government's push for tax reform.
- In the current economic environment we believe the focus of the tax reform should be job creation.
- A key tax that inhibits job creation in manufacturing is payroll tax.
- A major focus of any tax reform should be to lessen the payroll tax burden.

Recommendation 5 - Government purchasing

- Support the work of the Industry Participation Advocate.
- Continue to refine and implement the South Australian Industry Participation Policy.
- Renew commitment to maximising supply opportunities in State Government procurement and major projects requiring State Government approval (eg. Olympic Dam Indenture).

- Consider expanding the Small Business Innovation Research Program at the completion of the current pilot program.

Recommendation 6 – The automotive sector transition

- Ai Group supports and welcomes the South Australian Government’s commitment to ensuring businesses and workers in the automotive supply chain are assisted through the transition and that where possible affected businesses are assisted in being able to access new markets and/or products.
- Encourage existing non-automotive manufacturers to assist with the transitioning of automotive workers to new opportunities.
- Encourage the Federal Government to transfer funds from the ATS to other programs such as additional rounds of the Manufacturing Transition Program, to support this purpose.

Recommendation 7 - Skills development

- Contribute to and resource a national STEM skills strategy in conjunction with industry.
- The national STEM skills strategy needs to include measures to increase participation in all sectors culminating in a higher representation of STEM skills in the workforce.
- Support measures to enable the national co-ordination of Work Integrated Learning for STEM undergraduates in concert with industry and Universities Australia.
- Implement measures to increase the level of numeracy skills for participants in the VET sector as a precursor to lifting STEM skills participation in that sector.
- The Government, in concert with the Ai Group, implement an information campaign to distribute return on investment outcomes of participation in workplace LLN programs to employers.
- Develop strategies, including funding support, aimed at increasing levels of interest by young people in apprenticeships as a career and pathway, and developing improved frameworks for pre-apprenticeship and pathway programs.
- Address non-completion by apprentices, by monitoring the new Apprenticeship Support Network arrangements and developing focused initiatives that address the issues apprentices and employers face, including reasons for non-completion by apprentices in order to improve outcomes.
- Support programs that build the capability of training providers to implement competency based progression for their apprentices, in consultation with employers.

Recommendation 8 - Environment

- Increased funding to support Green Industries SA work collaboratively with industry to reduce resource use and operating costs and improve competitiveness.
- Consolidate all resource efficiency (including energy, renewables, water and materials efficiency) products and services delivered by SA government agencies into one central location i.e. Green Industries SA.
- Work collaboratively with industry to support them understand and comply with their environmental legal obligations.

Recommendation 9 - State Public Sector Reform

- As we have done in past years, Ai Group recommends that the Government over time commit to seek further efficiencies in the public sector, based on a service provision the average of the other mainland States.

Recommendation 10 - Infrastructure

- Continue the Government ambition to create a functional and efficient north-south transport corridor.

The South Australian Economy

Against a backdrop of subdued growth nationally, the South Australian economy has underperformed on most measures of economic performance against all other states except Tasmania. Over the year to December 2014, Australian real GDP grew by 2.5% over the year, below commonly-held views of trend growth of around 3 to 3.25% a year. Domestic demand, which measures consumption and investment, grew by just 1.2% nationally over the year to December. The comparable measure for South Australia, state final demand, grew by 1.3% over the year to December 2014.

A more complete measure of the state's economic activity, gross state product, which takes into account international trade, grew by 1.3% in real terms over the year to June 2014, which was one of the slowest growth recorded among the mainland states. Only the Tasmanian economy was weaker, and South Australia's growth was well below its decade average of 2.3%.

Dwelling construction was strong over the year to June 2014, rising by 13.3%, supported by low interest rates. Outside of houses, construction was mixed, with overall activity down 2.7% over the year to June 2014. Building construction grew by 3.2%, while engineering construction declined by 5.6% over the year. Businesses continued to pull back on machinery and equipment spending, which fell by 5.5% over the year to June 2014, after posting a 16.2% decline in the year to June 2013. Federally-funded infrastructure remained a driver of growth, rising by 7.2% over the year to June 2014. Household consumption grew by a soft 0.7% over the year to June 2014, while government consumption double the pace at 1.5% annual growth.



Sources: ABS, *State Accounts 2013-14*, Nov 2014; South Australia Mid-Year Update, Dec 2014; Aust. Treasury, MYEFO, Dec 2014

South Australia GSP and Australian GDP, real % change per year

	2012-13		2013-14		Share of GDP (%)
	% p.a (real)	Ranking	% p.a (real)	Ranking	
NSW	1.8	4	2.1	3	31.1
Victoria	2.1	3	1.7	4	22.1
Queensland	3.0	2	2.3	2	18.7
South Australia	0.9	5	1.3	5	6.1
WA	4.6	1	5.5	1	16.7
Tasmania	-0.2	6	1.2	6	1.6
NT	4.3	-	6.5	-	1.4
ACT	2.4	-	0.7	-	2.3
Australia	2.5	-	2.5	-	100

Source: ABS 5222.0 State Accounts, 2013-14

Liaison with Ai Group members confirms activity has remained slow and patchy into 2015 in South Australia, a continuation of what has been in place for quite some time.

Some of the explanation for South Australia's subdued performance over the year can be attributed to the difficult national economic environment. Over the past year, the main driver of Australia's economic growth in recent years, mining investment, has declined. Investment by sectors other than the mining sector has yet to pick up to fill the void left by shrinking resources sector investment, which has contributed to the below average growth seen nationally. This has played out across the nation, and while South Australia is not considered yet to be a "mining state" like QLD and WA, the industry does contribute 3.5% to the state's GSP in 2012-13, while also contributing to growth in other industries like professional services.

Some unique features of South Australia's economy have also posed particular challenges that have seen the state fall behind the rest of the mainland. The state's largest industry is Health, reflecting the state's ageing population. Manufacturing is the second largest industry in South Australia, meaning the state has been more exposed to the problems besetting manufacturing than other larger states. The manufacturing industry has recorded very low rates of capital expenditure.

Industry Composition of the South Australian Economy

	South Australia	Australia
Health	8.6	6.4
Manufacturing	7.6	6.4
Finance	7.0	8.4
Construction	6.6	8.0
Professional services	5.9	6.4
Public admin & safety	5.7	5.4
Agriculture	5.5	2.3
Education	5.2	4.6
Retail trade	4.8	4.5
Transport	4.3	4.7
Wholesale trade	4.2	3.9
Utilities	3.9	2.7
Mining	3.5	8.2
Admin services	2.6	2.8
Hospitality	2.4	2.3
IT & media	2.3	2.8
Other services	2.2	1.8
Real estate services	2.1	2.7
Recreation	0.8	0.8
Ownership of dwellings	8.2	8.5
Total all industries	93.2	93.7
Taxes less subsidies on products	6.8	6.2
Statistical Discrepancy	0.0	0.1
GROSS STATE PRODUCT	100	100

Source: ABS Gross State Product, November 2014

South Australia's labour market is also weak, both compared to other states and compared to its history. The State's unemployment rate sat at 6.8% in April, compared to the national unemployment rate of 6.1% (both in trend terms). The unemployment rate had shown some signs of improvement in 2014, but has recently deteriorated in recent months to be at its highest rate since 2002.

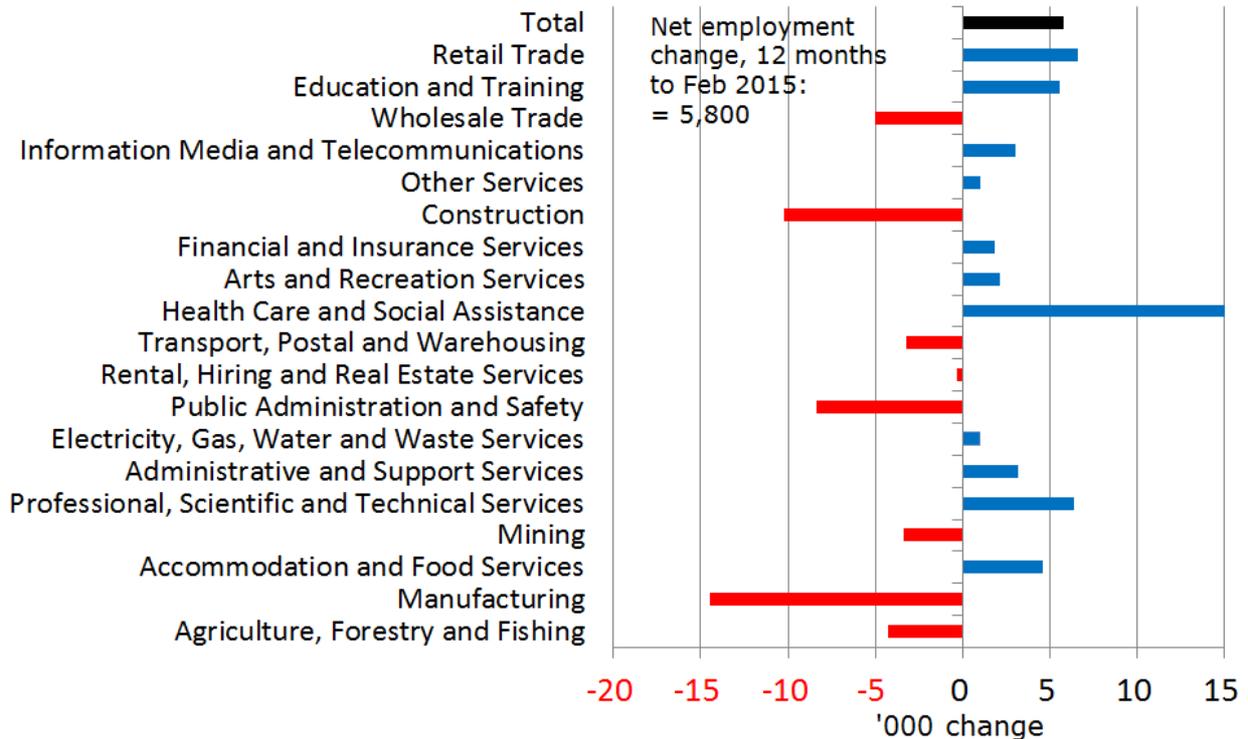
Job creation has also been weak over the past three years, with employment rising by just 0.3% over the year to April, with the workforce sitting around 805,000 in April. The weakness in the labour market means there has been no net jobs growth since 2010, with job losses in the manufacturing and construction sectors weighing heavily over the year to February.

Australian and South Australia trend unemployment rate



Source: ABS Cat 6202.0 Labour Force, Australia, March 2015

South Australia Employment Growth over past year



Source: ABS Cat 6202.0 Labour Force, Australia, February 2015

Outlook

SA Treasury predicts real gross state product is forecast to strengthen to 2.5% over the year to June 2015.

In contrast to SA Treasury, Deloitte Access Economics predict South Australian GSP growth to remain weak. However, Deloitte Access Economics says there are signs that the lower dollar is already boosting the South Australian economy through tourism, agriculture and manufacturing, and looking ahead will boost activity further through education exports as well. Retail spending has also strengthened owing to low interest rates and monetary policy looks set to remain accommodative for some time yet. However, after recent strength, the residential property market and construction is likely to slow.

The South Australian economy will also face headwinds as the GM Holden Elizabeth plant closes along with uncertainty around defence contracts. As Deloitte say, the state also a strong pipeline of engineering projects but the challenge will be converting these opportunities into activity. Several resource projects like the Olympic Dam development and the Central Eyre Iron Project appear unlikely to begin soon given falls in commodity prices.

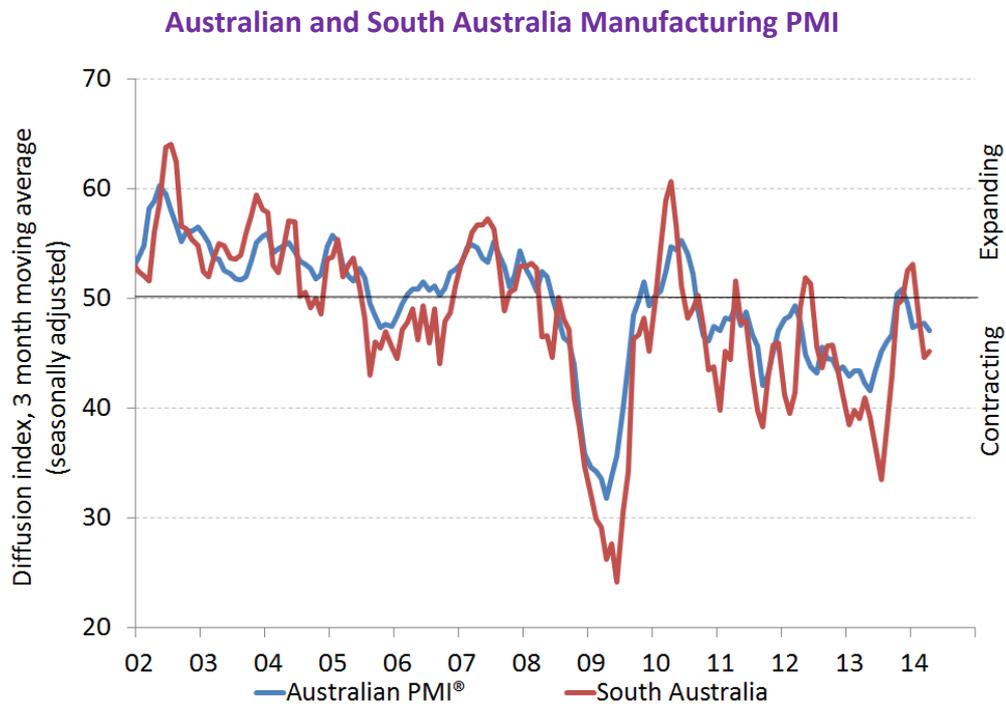
Economic Forecasts for South Australia

% change p.a. unless noted	2013/14 (actual)	2014-15	2015-16	2016-17	2017-18
SA Treasury (Dec 2014)					
Gross state product	1.3	2	2.5	2.25	2.25
Employment	-1.2	1	1.25	1	1
Deloitte Access Economics (March 2015)					
Gross state product	1.3	1.6	1	1.6	2
<i>as share of Australian output (%)</i>	6.1	6.1	6	5.9	5.8
Private consumption	0.8	2.5	3.3	3.5	3.1
Private housing investment	13.6	7.7	1.6	2.4	0.2
Private engineering and commercial construction	-3.1	0.7	-3.7	-2.8	0.6
Private equipment	-6.3	7.5	-2.4	3.5	6.9
Industrial production	-1.6	5.3	-0.1	-0.8	0.7
Retail turnover	1.2	2.9	2.2	2.3	2.7
International tourist arrivals	13.6	9.1	1.6	5.6	6.1
International exports	11.7	1.5	-2.1	0.9	2
Population growth	1	1	0.9	0.9	1
Employment	-1.4	0.4	0.6	1.3	1.4
Unemployment rate (%)	6.8	6.6	6.8	6.5	6.3

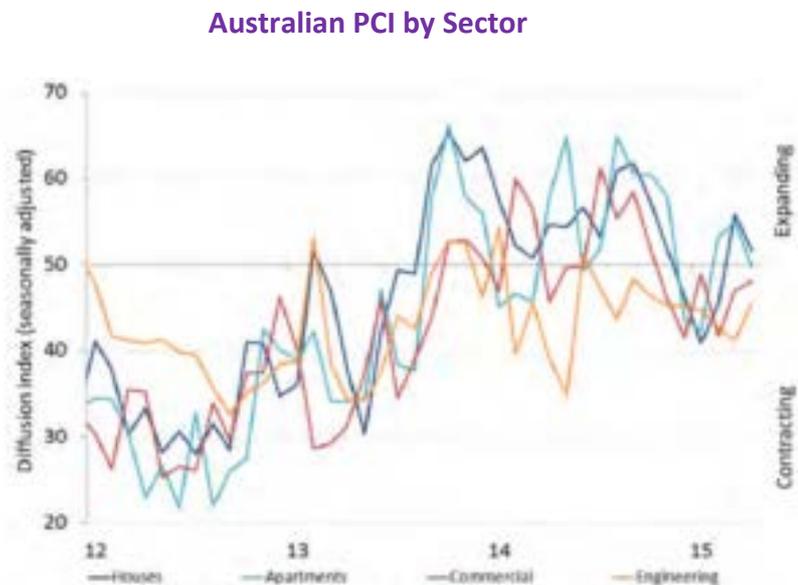
Sources: SA Treasury January Budget Update, Deloitte Access Economics

Ai Group's own data indicates that South Australia's manufacturing sector is facing similar conditions to those seen nationally. The Ai Group's Performance of Manufacturing Index (**Australian PMI**) for April sat in contraction territory for both South Australia and at a national level. Nationally, The food & beverages sub-sector (down 4.1 points to 55.3) remained one of four

manufacturing sub-sectors to expand in April, with non-metallic mineral products (down 2.9 points to 54.5), wood & paper products (up 5.1 points to 55.2) and printing & recorded media (up 2.8 points to 61.4) also continuing in positive territory.



Source: Ai Group PMI©



Source: Ai Group PCI©

The seasonally-adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) declined by 3.1 points at a national level to 47.0 points in April. Unfortunately, the data are not available by state. The national result represented an overall contraction in industry conditions following signs of a mild recovery in

March. By sector, house building expanded for a second consecutive month, although its rate of growth weakened from the five-month high level reached in March. Activity in the apartment building sector turned negative for the first time in three months. Reflecting the scaling back in major project activity, mining-related engineering construction and commercial construction continued to contract, although for both sectors rates of declines moderated from March. Survey respondents to the **Australian PCI**[®] attributed this month's softening in conditions to project completions, a decline in new tendering opportunities and sluggish public sector building activity.

Policy Recommendations

Manufacturing Sector Policy

Key recommendations:

- ***Continue to recognise advanced manufacturing as an important sector of the economy which contributes jobs and activity.***

We believe this year's Budget should play an important role in setting the ground work to support manufacturing industry of the future here in South Australia.

As indicated with the demise of the automotive industry over the next two years and the present uncertainty around defence, it is paramount that policies in place continue to support transition in manufacturing as well as broader policies to remove roadblocks preventing the creation of private sector jobs, which should be the biggest focus of the State in the short to medium term.

Importance of Advanced Manufacturing

Key recommendations:

- ***The Government commit to fully implementing the recommendations of Professor Roos' Thinker in Residence Report titled 'Manufacturing into the Future'.***

We have supported the work of Professor Göran Roos and continue to urge the State Government to implement his recommendations.

Manufacturing in Transition

Key recommendations:

- ***Actively support, through programs and services, South Australian manufacturers transitioning to new areas of competitive advantage.***
- ***Continue to offer with no reduction in the level of funds, programs that assist manufacturers under the Manufacturing Works Program to improve their capabilities and capacity such as Business Model Innovation, Servitisation, Government procurement strategies and the Manufacturing Leaders Network.***
- ***Actively engage with the Fraunhofer Institute with a long term view of establishing Fraunhofer and its manufacturing expertise in Adelaide to advise and assist manufacturing and business generally.***

We recognise that this year's Budget is under considerable pressure.

However, if we specifically look at manufacturing and the Manufacturing Works Program, this was originally a ten year program to assist in the transition of manufacturing. We are only into year

three of that program. We therefore think it is very important for the Government to continue to commit to the programs that are in place and ensure that there is a consistent framework to assist manufacturing industry help itself to transition to new areas of opportunity.

If in fact there was a diminution of funding in the programs or even downgrading of programs, we would see that as Government sending a disheartening message to manufacturing about the industry's prospects about transitioning to new opportunities.

Ai Group has worked with the Department of State Development and indeed Professor Roos specifically to bring a number of key programs to fruition and we are committed to continuing to do so in the future.

In particular we believe the following programs need continued support –

- *Business Model Innovation (BMI)*;
- *Servitisation*;
- the *Small Business Innovation Research (SBIR) Program*;
- the *Innovation Voucher Program (IVP)*;
- Cluster awareness and encouragement;
- Design based innovation; and
- the Manufacturing Leaders Group.

Additionally, the Government in conjunction with industry should engage in discussion with the Fraunhofer Institute, to encourage the Institute to set up in Adelaide to advise and assist manufacturing and business generally.

Fraunhofer is Europe's largest application-oriented research organisation.

It is a globally respected and recognised institute, undertaking collaborative research in a wide range of areas particularly around innovation, products and processes.

It operates in Europe, North and South American, Asia, Africa and the Gulf States. In Asia it has collaborations in China, India, Indonesia, Japan and Korea.

Ai Group believes there is an opportunity to partner with Fraunhofer in a substantial way and base such a collaboration in South Australia.

Indeed, with South Australia facing similar challenges to Victoria, there is an opportunity for both States to jointly work with Fraunhofer.

Ai group would be willing to partner with the State Government to facilitate such discussions with Fraunhofer.

Taxation

Key recommendations:

- *Ai Group supports the Government push for tax reform.*
- *In the current economic environment we believe the focus of tax reform should be job creation.*
- *A key tax that inhibits job creation in manufacturing is payroll tax.*
- *A major focus of any tax reform should be to lessen the payroll tax burden.*

The Ai Group has welcomed the Government's well produced paper earlier this year on ideas for a comprehensive tax reform in this State.

Ai Group has indicated to the State Government that it supports tax reform.

We believe it is timely to implement tax reform because the short to medium focus of the State Government, industry and the community should be on job creation.

To that extent we have indicated to the Government that we believe that payroll tax is a major impediment to jobs growth in South Australia.

We have consistently put to Government in the past that we believe in the context of a comprehensive tax review, there is now an opportunity to reconstruct a payroll tax regime in South Australia which will give maximum opportunity to those companies that can produce jobs to do so.

As indicated to me recently by one member whose company is paying \$340,000 per year in payroll tax, if in fact they were able to take advantage of a 10% payroll tax reduction, that would be translated into the employment of a new apprentice.

In addition, we believe that there should be consideration of initiatives around payroll tax that have been put in place in other States such as for a 12 month period all additional new jobs in areas of eligibility would not be subject to payroll tax.

Whilst we accept not all companies pay payroll tax, we believe that those companies that do are in a strong position to create additional jobs. Hence the alleviation of any payroll tax burden would maximise the opportunity for job creation.

Government purchasing

Key recommendations:

- *Support the work of the Industry Participation Advocate.*
- *Continue to refine and implement the South Australian Industry Participation Policy.*

- ***Renew commitment to maximising supply opportunities in State Government procurement and major projects requiring State Government approval.***
- ***Consider expanding the Small Business Innovation Research Program at the completion of the current pilot program.***

Ai Group supports the role of Industry Participation Policy and the Industry Participation Advocate. In our view it is important that local businesses have full and fair opportunity to participate in the South Australian Government's \$5bn annual spend and also maximise opportunities in major projects that require State Government approval.

Government procurement and the South Australian Industry Participation Policy (IPP)

Ai Group was pleased to see South Australia's *Industry Participation Policy* (IPP) revised and strengthened in recent times. It will now increase the opportunities for local small to medium enterprises (SMEs) to participate in major projects in the state.

Ai Group would like to see the IPP reviewed periodically with an eye to strengthening it further.

Importantly, we would like to see an impact study of the benefits of the work done to date by the Industry Participation Advocate.

Local Content and Major Projects

We understand that the Indenture Agreement relating to the Olympic Dam expansion will be up for renewal in October next year.

A significant opportunity exists to increase local content in this major resource project. The State Government has scope to include detailed local content requirements into projects requiring State Government approval such as the Olympic Dam expansion. An ideal template is the Hebron Project in Newfoundland. We encourage the State Government to follow suit at every opportunity.

In relation to other major projects that do not require an Indenture Agreement, we would encourage the Government through its agents (Industry Capability Network and Industry Participation Advocate) to partner with the new relevant EPCM contractors and project owners to identify areas where local participation can be maximised and incorporated into projects. Such an arrangement can only enhance the State's Industry Participation Policy.

The *Small Business Innovation Research* (SBIR) Program

The *Small Business Innovation Research* (SBIR) Program is based on the successful program which operates in the USA.

The program has been designed to help small businesses develop products that can solve specific problems faced by State Government agencies.

A pilot program in South Australia has been focused on finding solutions to a problem that SA Water has identified and needed to address for its own operation.

The pilot program undertaken in conjunction with SA Water aims to engage a number of companies to undertake research and develop solutions to solve some of SA Water's current challenges.

Ai Group believes that the SBIR pilot has been successful to date and is deserving of the Governments ongoing support.

The Automotive Sector Transition

Key recommendations:

- ***Ai Group supports and welcomes the South Australian Government's commitment to ensuring businesses and workers in the automotive supply chain are assisted through the transition and that where possible affected businesses are assisted in being able to access new markets and/or products.***
- ***Encourage existing non-automotive manufacturers to assist with the transitioning of automotive workers to new opportunities.***
- ***Encourage the Federal Government to transfer funds from the ATS to other programs such as additional rounds of the Manufacturing Transition Program, to support this purpose.***

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 South Australia. 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 aftersales 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 State 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 ramifications for the South Australian economy.

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

- \$30mn was provided over the next two years for a South Australian automotive workers package.
- \$12mn was contributed to Federal Government's automotive structural adjustment and growth fund.
- Appointment of Greg Combet to the role of Chair of the Automotive Transformation Taskforce and his continued work to support the transition of companies, who are of the mind to do so, and workers.

Skills development

Key recommendations:

- ***Contribute to and resource a national STEM skills strategy in conjunction with industry.***
- ***The national STEM skills strategy needs to include measures to increase participation in all sectors culminating in a higher representation of STEM skills in the workforce.***
- ***Support measures to enable the national co-ordination of Work Integrated Learning for STEM undergraduates in concert with industry and Universities Australia.***
- ***Implement measures to increase the level of numeracy skills for participants in the VET sector as a precursor to lifting STEM skills participation in that sector.***

- ***The Government, in concert with the Ai Group, implement an information campaign to distribute return on investment outcomes of participation in workplace LLN programs to employers.***
- ***Develop strategies, including funding support, aimed at increasing levels of interest by young people in apprenticeships as a career and pathway, and developing improved frameworks for pre-apprenticeship and pathway programs.***
- ***Address non-completion by apprentices, by monitoring the new Apprenticeship Support Network arrangements and developing focussed initiatives that address the issues apprentices and employers face, including reasons for non-completion by apprentices in order to improve outcomes.***
- ***Support programs that build the capability of training providers to implement competency based progression for their apprentices, in consultation with employers.***

Industry leadership

Within a climate of major VET reform it is important to ensure that the key desirable features of the national training system are maintained and strengthened: industry-driven; nationally consistent; outcomes-focused; timely and quality assured. It is important that key industry organisations be involved in this process to ensure that an industry led VET system is maintained and that specified VET outcomes meet the needs of enterprise in our changing economy.

One of the great strengths and internationally admired aspects of the Australian training system is the role of industry. The training system exists to meet the needs of industry and the broader economy by assisting individuals to acquire skills in this context. The importance of the role of industry must not be eroded; rather it must be strengthened to allow Australia to optimise the human capital of our working age population.

Science, Technology, Engineering and Maths (STEM)

The Ai Group remains concerned about the low levels of participation by school and tertiary students in STEM-related disciplines and the consequent impact on the workforce and the economy.

The Australian Bureau of Statistics has reported that STEM skills jobs such as scientists, ICT professionals and engineers have grown at 1.5 times the rate of other jobs in recent years.¹ The Office of the Chief Scientist has estimated that 65 per cent of economic growth per capita from

¹ Media Release, Qualifications paying off in science, technology, engineering and maths, ABS, 24 February 2014.

1964 to 2005 is due to improvements in the use of capital, labour and technological innovation made possible in large part by STEM.²

Despite the importance of STEM skills to the Australian economy, 44 per cent of surveyed employers report difficulties recruiting technicians and trades workers with STEM skills.³ Further, many other countries are improving STEM provision, participation and performance more rapidly than Australia.⁴

There are difficulties in the STEM skills pipeline from schools and universities into the workforce. School student participation in mathematics and science is falling and so is performance as measured in international comparisons.⁵

In higher education STEM degree completions have fallen as a percentage of the total from 22 per cent in 2002 to 16 per cent in 2012 despite a significant increase in the total number of graduates over this period.⁶

As a comparison a number of countries have significantly higher STEM enrolments than Australia, for example, Singapore with nearly 50 per cent and China with 41 per cent.⁷ The situation is better in the VET sector where STEM disciplines 29.9 per cent of all VET EFT enrolments although over half of these are in the engineering and related technologies area. Agriculture, environmental and related studies, information technology and natural and physical sciences have very low levels of participation.⁸

To address this issue the Ai Group supports the call from the Chief Scientist and others for a national STEM skills strategy. The government can take a leadership role, potentially through the recently formed Commonwealth Science Council, in the development of this strategy in conjunction with industry. A multi-pronged approach is needed to address school, university, VET and industry involvement. Sufficient resourcing is required to develop a co-ordinated and systemic response to the issue.

There has been some success in the area of STEM school/industry engagement at the local level with the 'Advanced Manufacturing Students Program.' This was established and managed by Ai Group SA Branch with the aim of assisting South Australian secondary students in years 8 to 10 to

² *Science, Technology, Engineering and Mathematics: Australia's Future*, Office of the Chief Scientist, September 2014, page 7.

³ *Progressing STEM Skills in Australia*, Australian Industry Group, forthcoming.

⁴ *STEM Country Comparisons, Final Report*, Australian Council of Learned Academies, May 2013.

⁵ *STEM Country Comparisons, Final Report*, Australian Council of Learned Academies, May 2013; *Dealing with Australia's mathematical deficit*, Australian Mathematical science Institute, May 2014;

⁶ Derived from Australian Government, Department of Education, 2012 Award Course Completions.

⁷ *Statistic of the Month: Investigating the Skills Mismatch*, Center on International Education Benchmarking, July 31, 2012.

⁸ *STEM Country Comparisons, Final Report*, Australian Council of Learned Academies, May 2013.

better understand the connections between what they study in science, technology, engineering and mathematics and its relevance to 21st century manufacturing.

It is anticipated that employers and secondary schools in South Australia will be active participants in the national project, *Strengthening School – Industry STEM Skills Partnerships*. It will be important for South Australian participants to take advantage of opportunities presented by the proposed 2016 pilot program.

Workplace Literacy and Numeracy

Ai Group research confirms the current situation regarding the low levels of workplace literacy and numeracy is a major concern to employers. It has a negative impact on productivity, labour mobility and the capacity of the economy to achieve the higher levels of skills needed for the increasingly knowledge-based economy. There remains an urgent need to address the language, literacy and numeracy needs of the Australian workforce.

In addition to the well-known results of the Adult Literacy and Life Skills Survey (ALLS) and the more recent Programme for the International Assessment of Adult Competencies (PIAAC) study, research undertaken by the Ai Group demonstrates that 93% of surveyed employers reported that low levels of literacy and numeracy were having an impact on their business.⁹ The Ai Group and employers see a strong connection between improving workplace literacy and numeracy and lifting Australia's productivity performance.

Ai Group has recently completed a significant national project in this area – *Building Employer Commitment to Workplace Language, Literacy and Numeracy Programs*. The major focus of this project was to establish the return on investment to employers who participate in the Workplace English Language and Literacy (WELL) program. Very positive results were achieved for employers demonstrating a key reason for participation in these programs (forthcoming). In addition to the benefits for participating employees, there is also a firm business case for employer investment in workforce literacy and numeracy. Ai Group believes that these results should be widely distributed to encourage more employers to engage in this area.

The National Foundation Skills Strategy for Adults needs continued support especially for the workforce literacy and numeracy component.¹⁰ The current workplace champions pilot program has significant potential to increase industry engagement and would benefit from continued funding support in the coming Commonwealth budget. The Ai Group is prepared to continue to play a supporting role in this initiative.

⁹ *Getting it Right: Foundation Skills for the Workforce*, Australian Industry Group, October 2013.

¹⁰ *National Foundation Skills Strategy for Adults*, Standing Council on Tertiary Education Skills and Employment, September 2012.

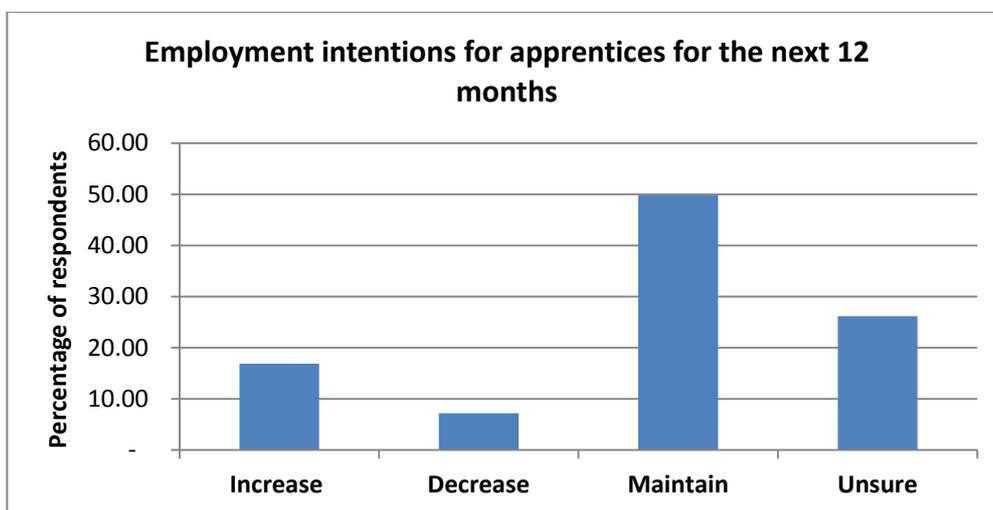
In terms of programmatic responses, the only two avenues are via State and Territory publicly funded Foundation Skills programs or the Commonwealth funded Industry Skills Fund. At this point it is not known to what extent literacy and numeracy measures are addressed through the Fund. In any case, the total size of the Fund is only 200,000 places over four years. The data available through the international surveys such as PIAAC indicates that there are over 4 million workers currently experiencing low levels of literacy and numeracy.

Concentrating Apprenticeship Support

The need for reform to Australia’s apprenticeship system has been recognised as a major component in the VET Reform Agenda. Apprenticeships are the backbone in the formation of highly valued and adaptable skilled tradespeople Australia needs for its future. It is imperative that South Australia’s apprenticeship architecture achieves the right skills for young people and employers to fuel innovative and competitive companies.

However a number of issues remain a concern. Recent instability around the levels of apprentice and trainee commencements jeopardises the ongoing supply of newly skilled tradespeople. Progressive decreases in the level of commencements during 2013/14 were arrested in the last available data with increases recorded, however new data will be closely watched.¹¹

As at September 2014 in South Australia there was a 33.1% decline in apprentice and trainee commencements from the corresponding 12 months in 2013. In a recent Ai Group survey on workforce development needs, only 17 per cent of employers intend to increase apprentices and trainee numbers over the next twelve months. A further 50 per cent will maintain their numbers, while 33 per cent intend to decrease numbers or are unsure about their intentions.¹²



Apprentice completion rates also remain a concern with a 55% non-completion rate for Australia¹³. South Australia is not immune from this problem and work on national consistency

¹¹ NCVER, Australian vocational education and training statistics: apprentices and trainees 2014 - September quarter and Apprentices and trainees. ,

¹² 2014 Survey of workforce development needs

¹³ NCVER, Understanding the non-completion of apprentices ,2104

needs to continue. There is still scope for lifting engagement with workplaces, particularly in higher order skill areas.

The effect on apprenticeship commencements as a result of the changes to funding support for apprentices needs to be examined as part of a broader strategy to increase levels of interest by young people in apprenticeships as a career and pathway. More consistent approaches to VET in Schools, pre-apprenticeship programs and pre-vocational programs need to be included in strategies to build apprentice commencements.

It is pleasing that the new Australian Apprenticeship Support Network promises to be more flexible and responsive: driven by employers' needs, re-focussed on the core relationship between the apprentice and the employer, and centred on support for apprentices to complete their training.

The Ai Group understands the importance of mentoring in the successful progress and completion of apprentices, having provided direct mentoring support to companies through the Australian Apprenticeships Mentoring Program and through Group Training operations. This component has now been built into the new Apprenticeship Support Network.

Further analysis that confirms employers are playing a more central role in the development of tailored training plans and work-based learning, and which also addresses the issues apprentices and employers face, would provide additional guidance once the Network is implemented. This review needs to result in strategies that improve outcomes.

The Ai Group sees that a number of measures are still required to deliver a high quality Australian apprenticeship system. Competency based progression for apprentices is an important flexibility mechanism available to employers.

Employers can potentially gain skilled people in shorter periods of time. A national roll-out of competency based progression across engineering and the construction trades needs to be supported. A number of successful strategies, as well as barriers to implementation, have been developed through projects such as Ai Group's Australian Government funded Engineering Excellence project, and can guide the roll-out. This Project included two Registered Training Organisations in South Australia.

A national body would assist the implementation of these measures including overseeing national consistency and ensuring programs and arrangements meet current and future occupational needs.

Environment

Key recommendations:

- ***Increased funding to support Green Industries SA work collaboratively with industry to reduce resource use and operating costs and improve competitiveness.***

- ***Consolidate all resource efficiency (including energy, renewables, water and materials efficiency) products and services delivered by SA government agencies into one central location i.e. Green Industries SA.***
- ***Work collaboratively with industry to support them understand and comply with their environmental legal obligations.***

Increased funding to support Green Industries SA work collaboratively with industry to reduce resource use and operating costs and improve competitiveness

Adequate funding is also needed to ensure the success and effectiveness of Green Industries SA. The proposed budget allocation of \$4.1 million per annum to establish and support Green Industries SA appears low in light of the ambitious role and scope of Green Industries SA.

Consolidate all resource efficiency (including energy, renewables, water and materials efficiency) products and services delivered by SA government agencies into one central location i.e. Green Industries SA.

The current structure of delivery of support programs is fragmented and often duplicated, with multiple SA government agencies seen to be delivering similar type of products and services i.e. Zero Waste SA, the Department of State Development, SA Water. This results in confusion within the business sector, marketing fatigue as well as inefficiency within overall delivery of the programs.

The establishment of a central agency will enable companies to liaise directly with a single agency, improve the uptake of the programs as well as improve the overall efficiency of delivery of such Green Industry programs.

Work collaboratively with industry to support them understand and comply with their environmental legal obligations

Whilst EPA SA is seeking to work collaboratively with industry through Statement of Agreements, limited on-the-ground practical support and advice is available on how to comply. This is particularly the case for small to medium sized companies have often have limited engagement and knowledge about their environmental compliance obligations. Increased resources and sector specific assistance programs should be made available to support South Australian industry with environmental legal compliance and risk.

State Public Sector Reform

Key recommendations:

- *As we have done in past years, Ai Group recommends that the Government over time commit to reduce the size of the public sector based on a service provision the average of the other mainland States.*

Scope exists to reform the State's public sector. For some years now, Ai Group has been collating South Australia's position in respect of public sector employee numbers relative to other mainland States, which shows South Australia has consistently been of the country's largest public sectors relative to the size of the labour market.

ABS data statistics for June 2014 show the state's public services was 14.1% of the total number of workers employed in the state, significantly above the national average of 12.8% (Table 5).

	Public Sector Employees (State only)	Persons employed	public sector employees as a proportion of total employees (%)
	'000	'000	
NSW	469.7	3618.9	12.9
Victoria	332.2	2872.7	11.6
Queensland	298.1	2341.1	12.7
South Australia	114.1	808.2	14.1
Western Australia	167.3	1350.6	12.4
Average of Australian Mainland States			12.8

Sources: Australian Bureau of Statistics: 6248.0.55.002 - Employment and Earnings, Public Sector, Australia, 2013-14 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 – April 2015

On the basis of our analysis:

- If South Australia was to have an average of the other mainland States (in relation to number of public sector employees per persons employed) this would equate to a figure of 12.8%.
- In terms of public sector employee numbers (at the national average), South Australia would have had 104,700 public sector employees at June 2014 (not 114,100).

As a result of this information, Ai Group recommends that the South Australian Government:

- Over time, implement 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.

Infrastructure

Key recommendations:

- ***Continue the Government ambition to create a functional and efficient north-south corridor.***

We support the Government's aspiration to complete a north-south transport corridor.

It is a major infrastructure project of great interest to our members. However we also note that the sealing of the Strzelecki Track, which would enable improved transport access to Moomba from Adelaide, would also be of interest to a cohort of our members who are regular contractors to that site.

It is imperative that with limited funds for infrastructure projects, we pursue major infrastructure works that will improve productivity and increase business opportunities.



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