Ai GROUP SUBMISSION

Submission to the Commonwealth Commission of Audit, November 2013

AUSTRALIAN INDUSTRY GROUP

Contents

This submission was finalized on 26 November 2013.

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 1 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

- Ai Group supports the Commission of Audit's objective of bringing the Federal Budget back towards balance. A long-term and sustainable approach should be taken to achieving this necessary goal.

- The Australian economy is currently growing at a pace that is below its long-term average of around 3%. The RBA and other forecasters expect this slow speed to continue into 2014 and 2015 due to ongoing domestic and international headwinds.

- In this fragile economic environment, Government must be wary of inadvertently exacerbating the tough trading conditions faced by businesses across many of our key industrial sectors. Government should avoid implementing short-term or narrowly considered savings measures that may detract from businesses' ability to contribute to Government revenue collections now or at a later date.

- Government should adhere to established principles of best practice in Government expenditure and regulation, even as it seeks to bring the Budget back towards balance. Indeed, these can be of great assistance in identifying appropriate savings measures for Government. No areas or agencies of Government should be 'off-limits' to the application of best practice principles such as efficiency, effectiveness, transparency and equity in government expenditure.

- Ai Group notes that the current Government's dual objectives of (1) reducing Government expenditure and (2) reducing business regulation can be usefully examined together, since many regulatory measures also carry a budgetary cost to Government in the form of enforcement, transaction and monitoring costs. Any areas of 'costly' regulation that can be identified should be fully explored by this Commission of Audit, because correcting them will deliver a double benefit to the economy, through savings made to Government as well as to industry.

- Government investment in infrastructure should be considered separately from general operating expenditure. Investment spending, asset purchases and sales by Government should not be confused or conflated with general operating balances.

- Ai Group has identified a number of individual Government expenditure programs for comment. These are listed individually under each subject area below.

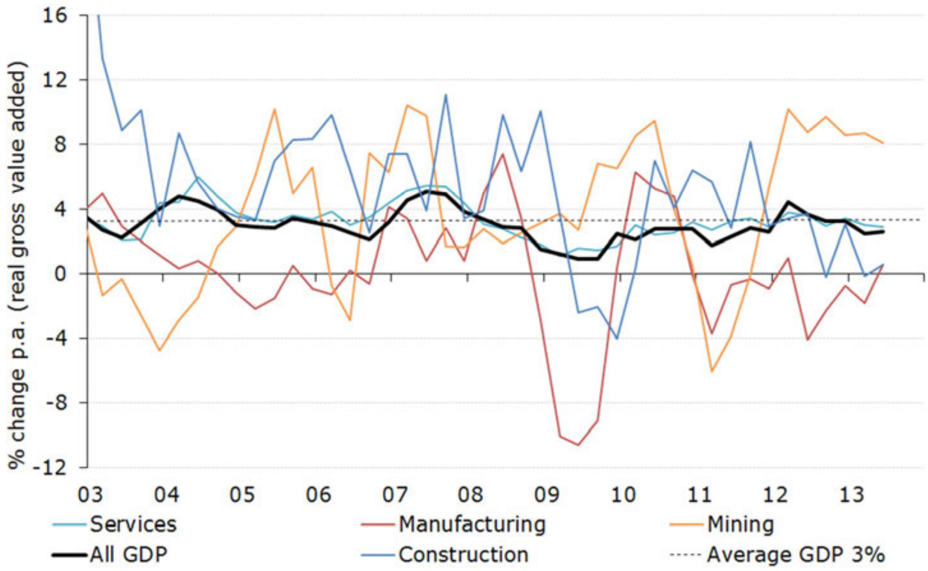
Economic Context

Australian economic growth slowed steadily through 2012 and 2013, with below-average rates of growth in real output (GDP) recorded in both Q1 and Q2 this year. Real GDP grew by 0.6% q/q and 2.6% p.a. in Q2 2013 (inflation adjusted and seasonally adjusted), indicating only a very slight pick-up from Q1 (0.5% q/q and 2.5% p.a. in Q1). Among our six largest industries (in value added terms), three sectors – mining, finance and health – showed strong growth in value-added output in Q1 and Q2 while the other three – construction, manufacturing and professional services – were treading water at best (see charts 1 and 2). These six industries produce almost half of our economic output (around 47%) and account for a similar proportion of total employment (43%).

Construction and manufacturing (our third and fourth largest sectors in terms of value-added output and employment, together accounting for around 15% of GDP and 18% of jobs) have experienced especially difficult trading conditions over an extended period of time, due to a variety of domestic and international factors. Manufacturing has experienced only two quarters of positive annual growth in output since the middle of 2010 (1.0% p.a. in Q1 2012 and 0.6% p.a. in Q2 2013). Meanwhile, construction saw two quarters of contraction in output in 2012-13 (in annual growth terms), despite the apparent boost that this sector was receiving from the mining investment boom during this period. This was because the rise in mining-related engineering construction was not enough to outweigh the falls in commercial and residential construction during the recent lows in their activity cycles. Trends in profits, incomes, employment and investment have followed a similar trajectory over this period in these two key sectors.

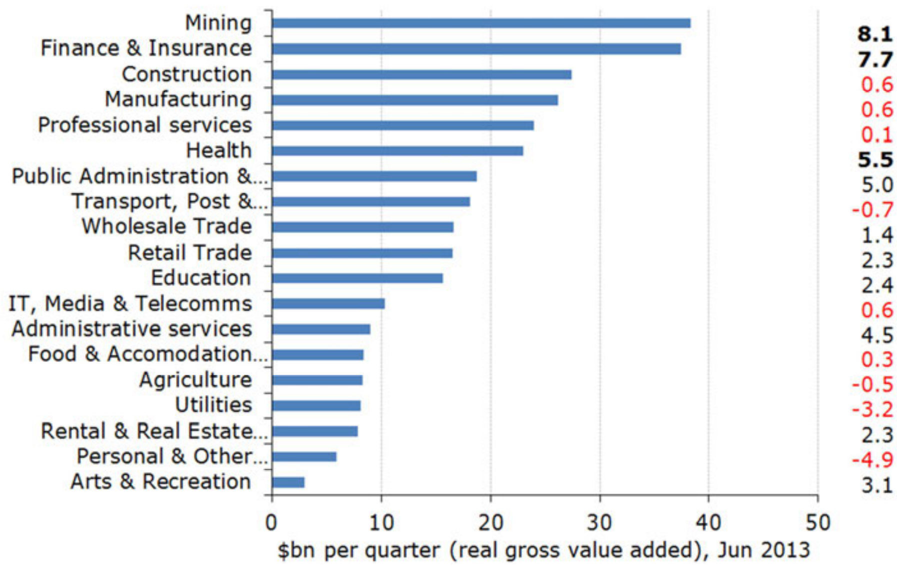
Although the Australian economy continues to perform significantly better than many of our developed-economy peers, these weak rates of national economic growth are of concern. The long-term average rate of growth in real GDP for Australia is around 3.0%, while the population growth rate is around 1.8% p.a. Real GDP growth of 3% or more is widely considered to be a necessary and minimum condition, in order to generate sufficient employment growth to stop unemployment from rising. With GDP growth of just 2.6% p.a. and no strong drivers of growth yet emerging to replace the recent (but now declining) support from mining investment, we can expect the unemployment rate to keep drifting up, with output and incomes per capita likely to drift sideways at best.

Chart 1: GDP and major industries, annual growth in real output (% p.a.)



Source: ABS, *National Accounts*. June 2013.

Chart 2: Real output by industry, $bn per qtr and annual growth (% p.a.), June 2013

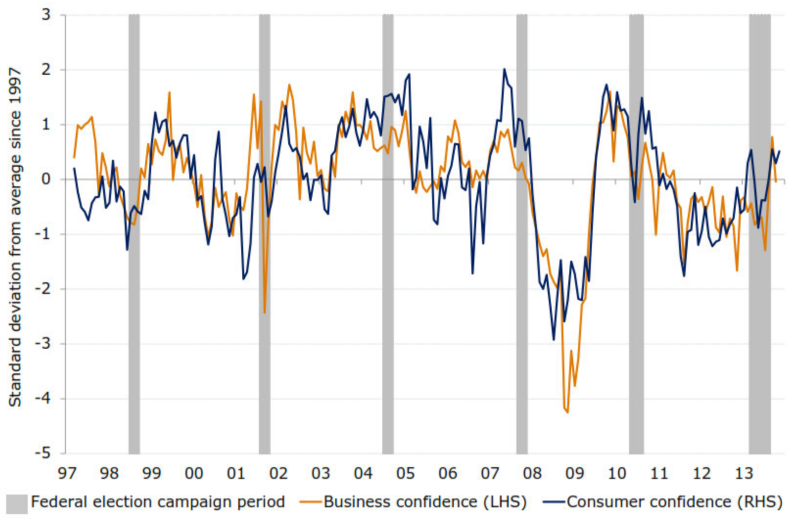


Source: ABS, *National Accounts*. June 2013.

The economic mood has been more positive in the second half of 2013, with several 'real-time' activity indicators showing a lift in local demand since the September federal election. Real concerns remain however, about the ability of our non-mining sectors to step into the growth gap that is opening up in the wake of the mining investment boom, which has already reached its peak in this cycle. In a recent Statement, RBA Governor Stevens noted that since the election "*there has been an improvement in indicators of household and business sentiment recently, but it is still too soon to judge how persistent this will be*." Of particular significance, Stevens also noted that "*the Australian dollar, while below its level earlier in the year, is still uncomfortably high. A lower level of the exchange rate is likely to be needed to achieve balanced growth in the economy*."

The latest indications on confidence among businesses (the NAB monthly survey) and consumers (Westpac-MI and Roy Morgan) suggest the Australian economy is currently experiencing a fairly normal reaction to a federal election, with a sharp lift in confidence immediately after the election, followed by a moderation in economic expectations some time later. This moderation in mood might be setting in earlier now than in the 2000's, reflecting the weaker state of the economy in general now, compared with the more prosperous, high-growth, pre-GFC period. Business confidence in particular, had already slumped back to its long-term average in October (see chart 3).

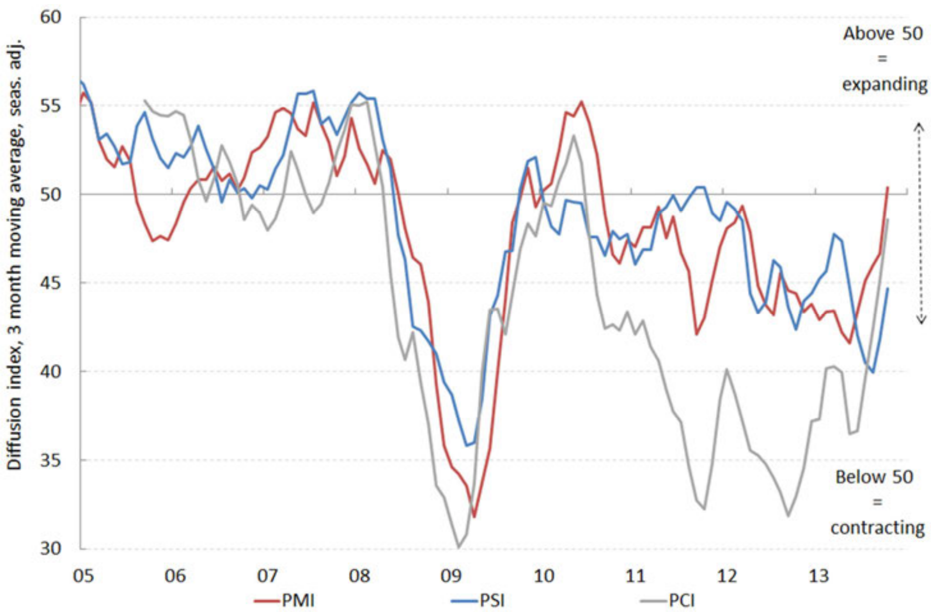
Chart 3: Business and consumer confidence in election cycles



Source: NAB, Westpac-MI and ANZ.

These confidence measures confirm the trends emerging from the latest Ai Group Australian PMI®, PSI® and PCI®, which suggest a moderate but not especially strong improvement in local demand and activity in the last quarter of 2013 (see chart 4). For many of our economy's largest industrial sectors, this last quarter of 2013 seems to be offering a partial recovery at best from an extended period of tough trading conditions (due to factors such as the high dollar, weak local demand, shifting global growth patterns and high local costs), rather than new opportunities for outright growth.

Chart 4: Australian PMI®, PSI® and PCI®



Source: Australian Industry Group.

The outlook for the Australian economy is relatively flat for the foreseeable future, because many of the headwinds noted above are likely to remain in play. This fragile trading environment will entail ongoing adjustment from business and industry and will require a strong degree of sensitivity, caution and stability in our economic policy settings. The RBA and other official forecasters expect GDP growth to remain below the long-term average (around 3%) in 2014 and into 2015 (see table 1). In November, the RBA revised down its GDP growth expectations for 2014-15, by about 0.5% points. Below-trend growth is now expected to continue over a longer period than was expected previously, due to factors including: a sharp fall in mining investment (which will subtract from GDP growth); only moderate growth in household spending due to slow employment growth and increased savings; and fiscal restraint by federal and state governments. Bright points in the outlook will be resources export volumes (up strongly) and housing construction (recovering).

The RBA does not publish detailed forecasts of employment, but the Australian Treasury expects employment growth to remain extremely weak over the outlook period, improving from less than 1% p.a. currently to just 1.5% p.a. in 2015 and 2016. This is likely to see the unemployment rate rise from its current level of around 5¾% to 6¼% through 2014 and 2015, before improving again in 2016. Workforce participation rates will also be lower. This weak pattern of growth will place increasing pressure on Government and industry to find productivity improvements, in order to drive future growth in our output and incomes.

Table 1: Latest Australian growth forecasts (official sources)

GDP growth, % p.a. (year end)	**2013**	**2014**	**2015**	**2013-14**	**2014-15**	**2015-16**
RBA (November 2013)	2¼	2 - 3	2¾-4¼	2½	2¼-3¼	
Treasury (August 2013)				2½	3	3
IMF (October 2013)	2½	2.8				
CPI rate, % p.a. (year end)	**2013**	**2014**		**2013-14**	**2014-15**	**2015-16**
RBA (November 2013)	2¼	2 - 3	1½ - 2½	2¾	2-3	
Treasury (August 2013)				2½	2	2½
IMF (October 2013)	2.2	2.5				
Employment growth, % p.a. (annual average)				**2013-14**	**2014-15**	**2015-16**
Treasury (August 2013)				1.0	1.5	1.5
Unemployment rate, % (year end)				**2013-14**	**2014-15**	**2015-16**
Treasury (August 2013)				6.25	6.25	5.0
IMF (October 2013)	5.6	6.0				

Source: RBA, *Statement of Monetary Policy*, Nov. 2013; Australian Treasury, *Pre-Election Economic and Fiscal Outlook*, Aug. 2013; IMF, *World Economic Outlook*, Oct. 2013.

Principles for Government Expenditure

Ai Group supports the establishment and implementation of 'best practice' across all Government programs and expenditure activities, so as to maximize the benefits of Government expenditure to all businesses and communities. This is especially important during periods of scarce resources and competing budgetary demands, such as now. No areas or agencies of Government expenditure should be considered 'off limits' to these principles, including the large-cost areas of health, welfare, defence and education expenditure.

In essence, all Government programs and expenditure items should be:

- **Targeted**, with clearly articulated purpose, objectives, eligibility and timetables;
- **Appropriate** in size, scope, design and eligibility to achieve the stated objectives;
- **Effective** in addressing the stated objectives, targets and timetable;
- **Efficient** in achieving the stated objectives at least cost to the taxpayer AND to any participants or clients. In assessing a spending measure's efficiency, costs to both the public and private sectors should be taken into account, in order to assess the overall efficiency to the economy, businesses and society as a whole;
- **Transparent**, such that each spending measure is visible and can be traced back to its purpose and objectives in a clear, logical manner;
- **Equitable** in the design of eligibility criteria, targets, funding levels and outcomes across relevant industry sectors, businesses, geographies and communities;
- **Stable,** over the life of each program or spending measure. Amendments and updates may occasionally be needed, but wholesale changes to spending measures should be avoided, in the interests of establishing certainty and trust among businesses and the wider community. Stability is especially valuable in industry and business spending measures that affect planning and investment;
- **Fiscally sustainable**, such that all program costs can be met from an identified revenue stream, including general revenue, special purpose revenue, fee for service or other arrangements. For expenditure programs that are intended to have a limited tenure, their initial design should take into account the timeframe over which the government funding is likely to be needed and their potential for independent financial viability after government funding has ended. This can include for example, designing programs so as to enable transition to an

alternative funding model once government funding finishes. Such funding transitions should aim to minimise the market disruptions and distortions that can arise from sudden injections or reversals of government funding.

In implementing and assessing these criteria, it is important that Government takes a **holistic** and **long-term** approach to assessing each spending measure:

- Government spending measures should be assessed **holistically** so that any spillover benefits and/or other benefits that are not easy to quantify are taken into account. In doing so, any cost–benefit analyses should not be limited to only examining things that are easy to quantify. This is especially relevant to industry development and skills programs that can have benefits that are less tangible or less easily quantified.

- The outcomes and effects of Government spending measures should be assessed taking a **long-term** view. This can be difficult to uphold during periods such as now, when short-term fiscal and budgetary constraints are paramount. But the ability to initiate spending measures that have a long-term benefit is exactly where Government spending often has an advantage over private sector spending, and is where it should be concentrated. The need for a long-term approach is often self-evident in expenditure areas such as education, skills, health and welfare but it is also crucial to infrastructure planning, business certainty and industry development.

- From a purely budgetary perspective, Government must be careful to avoid short-term fiscal savings that might increase its long-term costs or reduce its long-term revenue sources. Savings measures that simply postpone expenditure from one year to another are largely illusory. In some cases, delayed spending can imply higher spending at a later date.

We note that the COAG *Principles of Best Practice Regulation* (2008) are also relevant to many areas of federal Government expenditure. These principles are particularly relevant to Government spending measures that have a regulatory aspect or component to them, as is the case in areas of business and industry expenditure such as environmental programs and trade programs. These principles can be summarised as:

1. establishing a case for action before addressing a problem;

2. a range of feasible policy options must be considered, including self-regulatory, co-regulatory and non-regulatory approaches, and their benefits and costs assessed;

3. adopting the option that generates the greatest net benefit for the community;

4. in accordance with the Competition Principles Agreement, legislation should not restrict competition unless it can be demonstrated that:

   a. the benefits of the restrictions to the community as a whole outweigh the costs, and
   b. the objectives of the regulation can only be achieved by restricting competition

5. providing effective guidance to relevant regulators and regulated parties in order to ensure that the policy intent and expected compliance requirements of the regulation are clear;
6. ensuring that regulation remains relevant and effective over time;
7. consulting effectively with affected key stakeholders at all stages of the regulatory cycle; and
8. government action should be effective and proportional to the issue being addressed (COAG 2008).

These principles of 'good government regulation' can help to identify appropriate savings measures for Government. To this end, the current Government's dual objectives of (1) reducing expenditure and (2) reducing regulation can be usefully examined together, since many regulatory measures also carry a budgetary cost to Government in the form of enforcement, transaction and monitoring costs. We believe that reducing regulation will help to reduce Government expenditure, while also improving industry competitiveness. These areas should be fully explored in this Audit.

In this context, we recently asked businesses what are their policy priorities for the next three years (*Ai Group Survey: Policy priorities for the next Australian Government*, July 2013). Nationally, **23.4% of businesses said that reducing red tape and regulatory duplication is their top priority**. Reducing red tape and regulatory duplication is a particularly high priority for small businesses, with around 30% reporting this as their highest priority.

Our CEO Survey of 2011 provides more detail on the locations of 'red tape' that could be usefully targeted as potential areas of Government cost savings (see Table 2). The ATO, state government regulators of OH&S, infrastructure and building regulators, and local government were perceived to have the greatest amount of red tape. For example, 22.9% of businesses that had dealt with infrastructure and building regulators reported contending with a high degree of red tape.

Table 2. Level of 'red tape' by location of regulation

*How do you perceive the level of red tape surrounding your dealings with the following regulatory authorities?**	High	Moderate	Low
IR, Employment, Work Cover	29.7	30.5	39.8
Infrastructure and building	22.9	29.6	47.5
OHS	22.7	35.3	42
ATO	20.9	41	38.1
EPA	18.1	33.3	48.6
Local government	16.7	20.5	62.8
State revenue	15.9	30.8	53.2
Road and transport	9.9	25.9	64.2
ACCC	9.7	31.4	58.9
Natural resources	9.1	29	61.9
Fair trading	8.7	24.7	66.7
ASIC	8.2	23.4	68.4
Food safety	7.4	26	66.5

* The costs associated with each regulator are only based on the responses of businesses that have engaged with them. Source: Ai Group (2011).

National Efficiency Opportunities

Federal and state relations

Australia's federal system presents many opportunities for improving the overall efficiency of government and of the broader economy.

These opportunities include:

- making better use of the potential presented by the federal structure to allocate service provision responsibilities to the level of government which can most efficiently exercise those responsibilities;
- removing, or at least substantially reducing, overlaps and duplication;
- trailing new and comparing alternative approaches to service delivery; and
- innovation in the way the federal system is applied, for example to better take advantage economies of scale and scope.

Clearer responsibilities and incentives

While, at any point of time, options may be constrained by the constitution and conventional wisdom, the federal structure creates opportunities to allocate service delivery responsibilities so they can be more efficiently exercised. In the medium and longer-term, neither conventional wisdom nor the constitution should be regarded as immutable, particularly if there are sufficient gains at stake and we should strive to optimise the efficiency of the allocation of responsibilities.

Where responsibilities are best allocated to the central government, the states and territories should be encouraged to transfer responsibilities so that there is an unambiguous reallocation of responsibilities to the Commonwealth government.

As a general principle, where responsibilities are best allocated to state and territory governments, any involvement by the federal government, to the extent it is required at all, should be structured in such a way as to avoid interference in the efficient exercise of state and territory responsibilities.

When the central government attaches conditions to its grants, it also takes on some of the responsibilities related to that funding and takes responsibilities away from the states and territories. The resulting dual responsibilities are difficult for the electorate and commentators to disentangle and they diminish the transparency required to monitor the efficiency of public sector performance. As a result, incentives for the efficient exercise of those responsibilities are diluted and opportunities are created for the states and territories to shift their focus and their un-constrained resources away from areas where poor outcomes can be attributed to the Commonwealth and towards areas where credit more clearly lies with them.

In reaction, the Commonwealth will often seek to exercise more influence but in so doing will further assume responsibilities and will further dilute the transparency and the incentives required for efficient government.

So much central government bureaucracy and sizeable efforts on the part of the states and territories appear to revolve around setting, enforcing, complying with and avoiding requirements linked to rules the Commonwealth attaches to its funding. Is life imitating art in the scaled up Australian twist to *Yes Minister:* where in place of the hospital without patients, there are entire sections of Commonwealth health bureaucracy?

A better approach would be to sharpen incentives for efficient performance by having clearer allocations of responsibilities. Efforts by the Commonwealth could be focused less on seeking to control outcomes and more on establishing measures and indicators to better inform the assessment of the performance of these responsibilities.

Reducing overlaps and duplication

A risk inherent in a federal structure lies in different levels of government having their fingers in the same pies. The result is often duplication of bureaucratic expenditure and, often of regulatory requirements and their enforcement.

Clearer allocations of responsibilities would assist and restraint against central government involvement in areas for which states and territories have responsibilities and this presents many opportunities for savings as well as improved outcomes as discussed above.

Environmental approvals processes are a clear example of overlap of regulatory duplication. This need not mean that one or two levels of government need give up its involvement altogether, but there is considerable scope to reduce for approvals processes to be aligned and for different levels of government to satisfy their environmental approvals responsibilities in a single process. In addition to the time and compliance costs savings for those seeking approvals, there is also scope for savings in the costs of administration. Another area offering significant potential for reform is overlapping state and federal regulation of products supplied into multiple Australian markets.

Trialling new and comparing alternative approaches

The federal structure presents important opportunities to trial new approaches to the exercise of responsibilities and testing ways to improve the efficiency of government and the broader economy. This includes examining:

- further opportunities for programs and services to be delivered by, or in partnership with, the private sector or other governments;
- better coordination of service delivering across government jurisdictions to avoid duplication and wasted expenditure;
- the role of government as a 'seed' funder of innovative new services or programs to trial their effectiveness, with the intention that they will then transfer to other providers to run on a commercial basis.

Similar potential lies in the comparison of differences between existing approaches.

Efforts should be directed to ensuring greater tapping of these opportunities.

Innovating in the application of the federal system

There is also potential to generate greater efficiencies by adopting more flexible approaches to the exercise of responsibilities. There is, for example, scope for neighbouring local governments to share resources and enter partnerships that allow them to access economies of scale that would not be available if they acted alone. Similarly, there could well be scope for different states and territories to examine ways to share resources and enter partnerships.

Infrastructure expenditure priorities

Ai Group has long proposed an increased focus on investment in infrastructure.

There is little doubt that Australia has underinvested in infrastructure over the past few decades. The impacts of the admirable emphasis on fiscal discipline - particularly from the early 1980s, were felt disproportionately on capital rather than recurrent spending. We initially cashed in on a bit of spare capacity and then ran down the value of our capital stock while we patted ourselves on the back about improving budget bottom lines.

The implications of this became increasingly apparent with the distinct acceleration of population growth from the closing years of the last century.

To fix this Ai Group has proposed that the focus of "fiscal responsibility" be changed from the current emphasis on the underlying cash position to a more balanced approach that would entail:

- Meeting recurrent spending (including interest and depreciation) with recurrent revenues –on average over the business cycle; and
- A greater focus on the national balance sheet and the contribution of annual budgets and individual policies to net worth.

Ai Group does not support the zero net debt position that has currency in Australian political debate.

There are, of course, very good reasons to be wary of excessive public sector debt. Debt has to be serviced and this adds to recurrent costs; governments cannot be relied on to invest wisely; the option of debt financing opens up the risk of the intergenerational transfer of the costs of poor decisions; and to the extent that public sector debt is held offshore, it can deepen links to international financial markets and expose Australia to additional exchange rate volatility.

At the same time there are also good reasons to be wary of under-investment in infrastructure. Concentrating on transport, congestion costs can escalate to the detriment of business productivity and the broader quality of life in the community; and underspend on repairs, maintenance, upgrades and renewal can shift cost burdens to future generations.

Some infrastructure can be built, owned and operated by the private sector. Where this is the best alternative, it should be pursued. For other infrastructure projects, construction risk is best assumed by governments but operation risks are best managed by the private sector. Where this is the best alternative it should be pursued.

It should be noted that private sector investment does not solve all problems. To the extent capital is sourced offshore, the same links to international financial markets and exposure to exchange rate volatility mentioned above in relation to public sector debt need to be considered. Further, some point out that the public sector can borrow at lower rates of interest than can most private businesses. To some extent this could be overcome by government guarantees but these raise additional problems and of course add to public sector (contingent) liabilities.

An important limitation to private sector involvement in infrastructure investment arises where there are high "spillover benefits" from infrastructure assets that cannot be captured efficiently by user charges. If these sorts of assets were provided only by the private sector, the amount of investment would be much less than the socially optimal level.

Public investment in such assets could be limited to those that could be funded with the excess of taxation over recurrent spending requirements (past and current). An important consideration is that taxes impose deadweight costs on the community and detract from current economic welfare. While taxes also detract from the economy's growth potential, the bulk of the costs fall on the taxpayers that actually bear the taxes. This does not align with intergenerational benefits that flow from these investments. It makes more sense to spread the funding of infrastructure across the generations that derive benefits.

We also propose the adoption of strict criteria for assessing individual investment projects. The role of Infrastructure Australia is important in this regard as are the measures the Government has proposed to strengthen it. An unrelenting focus on transparent and rigorous benefit-cost analysis is a fundamental protection to the pork-barrelling that can characterise infrastructure decision-making.

This rigour is required regardless of the form of financing but is particularly important if debt is used to finance new projects. One way to constrain the building of infrastructure assets that have a low-priority against broad national interest criteria would be to limit the use of debt financing to projects that were ranked highly under benefit-cost comparisons.

Driving efficiencies through better use of technologies

In the medium term, there are opportunities for Government to adopt digital technologies to drive efficiencies and innovations in the way services are delivered and the way Government is administered. For example:

- Delivering services online and via mobile devices in an end-to-end fashion, reducing transaction costs for the government and users.

- Reducing the cost and improving the efficiency of Government administration through greater adoption of ICT services, such as cloud computing and data analytics to better target and improve services.

While we do not anticipate savings from these measures over the next budget cycle, there are steps the Government needs to take in the short-term to set-up these savings and innovations in the medium term. Many were included in the Government's *E-government and the Digital Economy* policy and we urge the Government to give priority to implementing them. They include:

- Reviewing procurement practices and other policies influencing ICT purchasing decisions to ensure that they do not unnecessarily lock-in or lock-out vendors, technologies or rates. Examples include the Protective Security Policy Framework, which has recently introduced stringent new requirements for federal government agencies who wish to adopt cloud services or other offshore ICT services, and investigating the Victorian Government's online register of capabilities model as an alternative to closed or limited ICT procurement panels.

- Setting benchmarks and measuring online delivery of government services as committed to in the *E-government* policy. These need to be established early on in the Government's term to identify the number and type of services delivered online and offline and the greatest and earliest opportunities for online service delivery improvements. Measures of service quality should also be established. The results of these measures should be regularly and publicly reported.

- Reviewing the *Electronic Transactions Act* to identify opportunities to drive online service delivery and take-up.

- Setting a cultural expectation that online service delivery will be the default, in the same way the new government has set an APS wide expectation that agencies must share responsibility for reducing the regulatory burden.

Priority Programs by Subject Area

Industry programs

Innovation

Ai Group supports collaborative links as an important means of lifting the pace of innovation by Australian businesses. Despite the strength of Australia's public research system, collaboration and networking have been cited as consistent weaknesses in Australian innovation when compared with other OECD countries. Just 2.4% of innovation-active businesses collaborate with universities and 4.4% with publicly funded research agencies.[1] Ai Group believes public investment plays a crucial role in promoting collaboration in Australia and should be maintained despite the current budget outlook.

The Commonwealth has already invested in two programs that Ai Group believes act as crucial bridges linking business and industry:

Cooperative Research Centres Program[2] *(CRC)*

Innovation and research and development are often prohibitively expensive for many businesses, particularly small and medium enterprises. SME's often lack familiarity with the research community. By aggregating the financial and in-kind contributions of participants, and by giving individual businesses privileged access to Australia's finest researchers and institutions, CRC's reduce the costs to industry of participating in R&D projects and ensure that businesses are directed to the research organization best suited to their needs. The broader benefits of an effective CRC are felt in an accelerated pace of innovation amongst individual companies and the diffusion of new knowledge to the wider sector.

Industry Innovation Precincts

Although the Precincts are a new initiative and their future remains uncertain the two already operating in the food and manufacturing space have quickly begun to take shape. They have attracted interest from industry and research organisations keen to participate. Ai Group believes that this represents positive progress and should be built on. The Precincts have the potential to complement the CRC program by accelerating

[1] Department of Innovation, Industry, Science and Research, *Australian Innovation System Report 2011*, 2011 p 82, 84
[2] Disclaimer, Ai Group is an essential participant in the Manufacturing Industry Innovation Cooperative Research Centre currently being considered by the Commonwealth for funding starting 1st July 2014.

the dissemination of new knowledge generated within new and existing CRC's and anticipates that they will play an important future role in improving Australia's innovation performance.

Enterprise Connect

Transitioning businesses and communities to competitive industries requires provision of effective and tailored support at both the enterprise and regional level. This is a particular focus of the following core elements of the Enterprise Connect service offering:

- Holistic Business Reviews for eligible participants, and subsequent matched grant-based assistance to implement the priority recommendations determined from the Business Reviews. 83% of Enterprise Connect clients have improved productivity or efficiency as a result of participation in the program.

- Researchers in Business Researchers (RiB) help to break down the cultural divide between industry and the public research sector and accelerate the adoption of new ideas and technologies. Facilitators connect businesses with researchers that have specific expertise relevant to the needs of the business, including in the areas of: product, process and marketing innovation. Businesses that have used the program rate the experience very highly as a way of lifting their productivity and improving their opportunities.

- Innovative Regions Facilitators work collaboratively with regional businesses, researchers, local governments and communities to build business capability and entrepreneurial capacity and stimulate regional economic development

The Government has stated its desire to second to the Industry Department more people with first-hand business experience; and increase the direct interaction of Departmental employees with Australian businesses so that they can better appreciate the real-life problems and needs of local industry.

- The delivery of Enterprise Connect through a highly skilled cohort of Business Advisers and Facilitators with real world business and business advisory experience, including through partnership with industry associations, is a key strength of the program and provides an effective model for direct government/business interaction to address business imperatives.

- Further, the direct engagement with an industry experienced Business Adviser is an effective mechanism for promoting skills transference to the enterprise essential to achievement of improved competitiveness and productivity. One such area of opportunity is positioning businesses to take advantage of the opportunities presented by the digital economy. Industry research indicates that currently fewer than 50% of businesses are confident of their capability to take advantage of high-speed broadband.

Research underway at the present time suggests that the Enterprise Connect program is having a positive and sustained impact on the performance of participating businesses, including in comparison to a control group of non-participating businesses.

Clean Technology Program

The former Clean Technology Program (CTP) helped many manufacturers reduce their own emissions, along with their exposure to carbon and energy prices. A large number of project applications had been finalised and were still under consideration when the recent election was held. In the lead up to the election, the current Government, as part of the commitment to deliver savings by abolishing the Carbon Tax, announced its intention to discontinue funding for the Clean Technology Program. The Programs are now closed to new applications. AusIndustry is contacting all applicants directly with advice on the status of their application.

We suggest instead that the CTP be continued until the ERF is fully operational. Manufacturers remain exposed to carbon pricing and energy prices are set to remain high – or, in the case of natural gas, rise much further – even without carbon pricing. Businesses have invested considerable time and money in developing abatement projects under CTP and in many cases there is a limited window to carry out the projects, which may involve substantial and infrequent investment in production upgrades. The loss of this effort and expenditure will make business even more wary of future abatement funding policies. It would be particularly unconstructive if the ERF takes some time to establish, whether due to practical or legislative delays.

Trade programs

Securing Australian small and medium businesses global competitiveness

TradeStart:

TradeStart is a national program funded through the Australian Trade Commission (Austrade) with advisors placed in strategically important host organisations such as industry associations and economic development agencies. Experienced advisors work one on one with existing and potential exporters providing them with customised assistance to develop new export markets.

The program is flexible and practical and as the host organisations are paid once a threshold number of exporters have made export sales, extremely effective. Ai Group's three TradeStart advisors in Melbourne have all exceeded their targets for Austrade this year. Collectively they helped 62 companies achieve 90 new Export sales to a total value of $15.2 million. Countries include Kazakhstan, China, the United States, and Chile, the United Kingdom, South Africa and all the countries in between - even beleaguered Greece.

This program has been running for twenty years and the current four year contract is due to expire 30 June 2013.

International Trade Remedies

Ai Group has hosted the Government funded International Trade Remedies Advisor (ITRA) since July 2012. The ITRA provides a free, independent service available to all Australian SME's (<200 FTE) requiring advice and assistance to access Australia's Anti-Dumping system. Operated as a two year pilot, the service is scheduled to run to 30 June 2014.

This service provides independent and highly technical advice to companies on the actual preparation of applications for the imposition of Dumping and/or Countervailing duties. Traditionally, these applications remained the domain of private consultants, with fees beyond the reach of most SME's.

Since July 2012, the ITRA has:

- received and responded to **99** unique requests for anti-dumping advice from Australian business;
- lodged **10** applications for anti-dumping action, including an application on behalf of the Australian utility scale wind tower industry against dumped goods

from China and Korea, this potentially saving **597** jobs across the Portland, Launceston and Whyalla regions;

- drafted **three** further applications for anti-dumping duties for Australian SME manufacturers, potentially saving 95 jobs across the Adelaide and Wollongong regions;

Ai Group has found that the demand for the ITRA's service has exceeded all expectations, and the original resourcing of one technical expert. It is noted that since July 2013, a Support Officer has been funded to assist the ITRA deliver the service. Ai Group considers that the ITRA program has been delivered in a highly efficient way. Given the market value placed on anti-dumping advisory services, has achieved high value outputs, for businesses that would otherwise not have access to Australia's Anti-Dumping system, delivered for low cost to government.

Export Market Development Grants (EMDG)

Ai Group remains supportive of the EMDG and welcomes the recent addition of $50 million to the program. Competiveness isn't just about the cost of the final product; it also includes maintaining market profile and brand awareness. The EMDG assists SMES to hold their own on the world stage.

Asian Century Business Engagement (ACBE)

The Asian Century Business Engagement (ACBE) plan grant funding commenced on 1 July 2013 and is a four year program.

The objective of the ACBE Plan is to facilitate new initiatives to improve Australian business links into Asia through Australian business organisations based in Australia or in Asia.

The key goals of the ACBE Plan will be to leverage and / or expand the capability of member-based business groups to:

- assist Australian firms to more effectively access in-market business networks and develop new relationships with potential business contacts and partners in Asian countries

- identify and secure more opportunities for Australian firms to compete and succeed in regional value chains

- enhance and strengthen business links between Australia and Asia by reinforcing the profile of Australian business capability within the region to increase awareness and understanding of Australia in Asia, and of Asia in Australia.

Ai Group believes that this is an important program to improve the working knowledge of Australian business in Asian culture. A recent survey of our members identified that relevant cultural knowledge was key in achieving success in the fast growing Asian markets. In order for Australian companies to both remain competitive in the region, and take advantage of our proximity to the region, the base level knowledge of Asian Business Culture must be improved.

Education and training programs

Skills, Education and Training

Industry Training Strategies Program

Employers experience difficulty navigating the national education and training system and are consistently in need of quality advice. This program enables the network of Education and Training Advisers to provide high quality advice about Australian Government skills and training programs and related initiatives, in order to improve the adoption of nationally recognised training, increase workforce participation and to increase the productivity of enterprises. Advisers actively participate in the Australian Government Skills Connect initiative.

Ai Group's Education and Training Adviser services are wide ranging and include all aspects of identifying, funding, customising and implementing training programs from the national training system. They can assist employers with workforce planning and development by providing information and advice about:

- brokering successful partnerships with training providers;
- delivery of customised workshops to support supervisors of apprentices;
- identification of potential financial incentives to support training and assist employers with funding applications;
- resolving complaints about the training with appropriate authorities;
- assisting companies to pilot new training initiatives;
- briefing employers on the process of implementing competency standards as per the *Manufacturing and Associated Industries and Occupations Award 2010;*
- facilitating the construction of workforce development plans using qualifications from the national training system;
- participating in relevant industry surveys and forums that address training issues; and
- understanding the Award provisions and the regulatory framework around apprenticeships and traineeships.

The Advisers can also help employers to use the system to employ apprentices and trainees and to address current and future skill needs.

Australian Apprenticeship Incentives Program

The Australian Apprenticeships Incentives Program contributes to the development of a highly skilled and relevant workforce by providing incentives to employers who employ eligible Australian Apprentices and by providing personal benefits to these apprentices. Incentives to employers are essential to contribute to the growth of apprenticeships within the Australian economy and to maintain and increase the engagement of employers with the national training system. National data indicates that 15.4% of workers aged between 15 and 19 years were employed as an apprentice or trainee at December 2012[3] and that 26.9% of employers engaged with the VET system by employing apprentices and trainees.[4] A range of these incentives are provided to meet the particular needs of the apprenticeship system.

Current incentives include:

- Commencement incentives
- Recommencement incentives
- Completion incentives
- Rural and Regional Skills Shortage Incentive
- Declared Drought Area Incentives
- Mature Aged Workers Incentives
- Australian School-based Apprenticeship Incentive
- Assistance for Australian Apprentices with Disability
- Support for Adult Australian Apprentices

It is also clear that incentives are important instruments to use during periods of downturns in the economic cycle. This was the case with the introduction of the *Kickstart* Incentive during the GFC[5] and its reintroduction for the engineering trades early in 2013.[6]

Additionally, personal benefit payments to Australian Apprentices are important to contribute to the support required to assist them to completion of the arrangement.

[3] 2013 Pocket Guide, Australian vocational education and training statistics, NCVER, 2013.
[4] Employers' use and views of the VET system, Australian vocational education and training statistics 2013, NCVER, 2013.
[5] Skilling Business in Tough Times, National CEO Survey, Australian Industry Group and Deloitte, October 2009.
[6] Much needed boost for engineering skills, Media Release, Australian Industry Group, 25 January 2013.

National Workforce Development Fund

The introduction of the National Workforce Development Fund in 2011 was an important initiative that reflects the movement in skilling towards a workforce development approach. The initiative directly assists businesses to lift productivity, to provide the workforce with an opportunity to increase skills through formal training and to assist the economy in areas where skilled workers are most required.[7]

What is particularly significant about this initiative is that it is directly responsive to industry expressed need. In addition, the co-contribution funding model increases industry commitment to skilling and to forming partnerships. The application process is coordinated through Industry Skills Councils which provides further industry drive to the arrangements. The fund also operates within a national workforce development strategy[8] driven by the industry-led Australian Workforce and Productivity Agency.

Accelerated Australian Apprenticeships Initiative

This Australia Government initiative has facilitated the opportunity to implement system-wide reform to the national apprenticeship system. The purpose of the program is to ensure that Australian Apprenticeship completion is based on the attainment of competency rather than the period of time served. The Ai Group's project within this initiative addresses competency based progression and completion the engineering trades. The project has achieved extensive national engagement and is well advanced in the process of developing best practice models of competency based progression and completion across jurisdictions by linking formal training with skill development in the workplace.

Ai Group has been internationally recognised by the WorldSkills Foundation for this project and its innovative ways of delivering vocational skills and developing new partnerships between organisations.[9]

Australian Apprenticeships Mentoring Program

This program is a further initiative to support targeted mentoring to help Australian Apprentices successfully progress through their apprenticeships. The low level of completions of apprenticeships has long been recognised as a major issue for the system and was highlighted in the final report of the Expert Panel.[10] The most recent

[7] www.awpa.gov.au/our-work/national-workforce-development-fund
[8] Future focus: 2013 National Workforce Development Strategy, Australian Workforce and Productivity Agency, Commonwealth of Australia, March 2013.
[9] Ai Group gets international recognition for apprenticeship system reform, MEDIA RELEASE, Australian Industry group, 13 November 2013.
[10] A shared responsibility, Apprenticeships for the 21st Century, Final Report of the Expert Panel, Commonwealth of Australia, 2011.

data from the NCVER indicates that the completion rates for Australian Apprenticeships are unacceptably low at 55.4%.[11]

Ai Group is currently implementing the Manufacturing Apprentice Mentoring Project which will provide mentoring services to 400 manufacturing apprentices. The program targets apprentices at high risk of non-completion and has achieved considerable success to date. Programs such as this will make a significant difference and contribute to an improvement in the completion rate.

Alternative Pathways to the Trades – Pilot

The development of pathways to the trades remains a critical challenge as Australia moves toward a knowledge economy. Ai Group surveys highlight the continuing skills shortages, in particular for technicians and trade workers. It continues to be a challenging task to attract young people to take up the trades. In this context, Ai Group is pleased to work with other key organisations to investigate alternative pathways to the trades, to provide advice to this end and to be involved in the development and implementation of pilot project models.

National Foundation Skills Outreach and Leadership Project

This program has enabled the funding of key national projects such as the Ai Group's *Building Employer Commitment to Workplace Literacy*. This project focuses on establishing the return on investment for employers participating in the Workplace English Language and Literacy (WELL) program. Projects such as this enable important research to be undertaken to contribute to the National Foundation Skills Strategy for Adults[12] from an industry perspective. Ai Group has identified that 93% of surveyed employers report identified some impact on their business of low level of workplace literacy and numeracy.[13] It remains important to provide research opportunities to contribute to the 'strengthening foundation skills in the workplace' element of the national Strategy.

[11] NCVER, Apprentices and trainees, September quarter, Commonwealth of Australia, 2013.
[12] National Foundation Skills Strategy for Adults, Standing Council on Tertiary Education, Skills and Employment, Commonwealth of Australia, September 2012.
[13] Getting it Right: Foundation Skills for the Workforce, Australian Industry Group, October 2013.

Corporate Champions Program 2013 – 2016

A number of organisations and reports have drawn attention to the issue of Australia's ageing workforce.[14] The introduction of the Corporate Champions program addresses this key issue by providing assistance to workplaces to recruit and retain a mature age workforce. This assistance includes the development of tailored strategies to assist companies to address these issues. In addition, the program provides information seminars for employers and examples of best practice in this area.

Ai Group was extensively involved in the implementation of the pilot program directly assisting over twenty organisations and is now a Corporate Champions provider. These experiences have demonstrated the continued importance of this initiative.

Workplace English Language and Literacy (WELL) Program

This is the only Australian Government funded program that addresses literacy and numeracy issues in the workplace. As indicated earlier this is a significant national issue and of crucial concern to employers. The recent Programme for the International Assessment of Adult Competencies (PIAAC) reported that 38% of the Australian workforce is below the minimum requirement for literacy and 48% for numeracy.[15] Employers who have participated in the WELL program consider it to be highly effective.[16] The program is based on a co-funded model which encourages industry participation. It is vital that this program continue to be available to employers in this very important area.

[14] For example, Realising the economic potential of senior Australians, Advisory Panel on the economic Potential of Senior Australians, Commonwealth of Australia, 2011.

[15] 4228.0, Programme for the International Assessment of Adult Competencies, Australia, 2011 – 2012, Australian Bureau of Statistics.

[16] Strengthening Foundation Skills in the Workplace, An evaluation of the WELL program, Final report, February 2012, Commonwealth of Australia.

Defence programs

Ai Group strongly believes that any savings in defence spending identified by the Commission of Audit should be redeployed within the Defence portfolio. This would be consistent with the Coalition's policy, prior to the election, not to make any further cuts to Defence spending and to increase expenditure on Defence to 2% of GDP, up from 1.59% now, over the next decade.

Defence Materiel Organisation (DMO)

The DMO is responsible for equipment acquisition and its sustainment. It currently employs 7,500 people - up from 2,500 a decade ago - and an annual budget amounting to approximately $10 billion ($4.2 billion on equipment, $5.0 billion on sustainment of equipment & $800.00 million on administration). Efficiencies could be obtained through removing administration duplication and changing current sustainment arrangements. For example:

- The majority of the Navy's patrol boats operate in the Indian Ocean, principally on border control and surveillance. Yet maintenance for the vessels occurs principally in Brisbane or Sydney requiring long transits for the vessels on a regular basis. Investment in maintenance facilities in Darwin would substantially reduce the cost of the existing maintenance arrangements.

- A similar situation occurs for the support of armoured vehicles based in the north of Australia. These are currently trucked 4,000 kilometres to facilities in south eastern Australia – such as Bandiana - for major maintenance, a highly inefficient and costly logistics activity.

Current tendering and contracting arrangements are too complex, too time consuming and too costly for Ai Group member companies. There is considerable scope to streamline the current arrangements leading to cost savings for the Commonwealth and the defence industry.