Ai GROUP

2023-24 Budget

Pre Budget Submission

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About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We are in our 150th year of acting on behalf of businesses across Australia.

Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, retail, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for *thriving industries and a prosperous community*. We offer our membership high quality services, strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

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Executive summary

The 2023-24 Budget should:

- Contribute to the macroeconomic challenge of returning annual inflation to the target band of 2 to 3 percent over the next couple of years while keeping the economy on a growth path; and,
- Take substantial steps towards the widely shared ambitions of achieving a sustainable step-up in the pace of real wages growth; ensuring the availability of economic and social opportunities for a wider range of Australians; and forging a credible and low-cost path towards net zero emissions.

While the macroeconomic position is precariously poised and noting the Reserve Bank's most recent guidance that it expects to raise the cash rate further, Ai Group's current assessment is that Australia is very close to the point of macroeconomic adjustment where the economy will slow sufficiently to reduce inflation to target levels. In this assessment the Budget should avoid stimulating spending and prices and also avoid adding to contractionary pressures.

We acknowledge the considerable uncertainties and in particular the importance of avoiding a price-wage spiral fed by expectations of inflation continuing at 2022 levels in 2023 and 2024.

As we approach the May Budget this evaluation of the macroeconomic situation may change.

Regardless of the net position of the May Budget, Ai Group urges the Government to take steps towards meeting the widely shared objectives relating to sustainable wages growth, opportunity and emissions reduction. The constrained macroeconomic position will mean that steps involving spending in 2023-24 will require the reprioritization of existing commitments.

Taking meaningful steps towards these longer-term objectives requires ongoing expansions in Australia's economic capacity. To lift capacity in 2023-24 and to underwrite future expansions in capacity, Ai Group proposes the 2023-24 Budget includes: an increase in the permanent migration target; investments in a variety of skills development initiatives; a commitment to greater accessibility and flexibility of early childhood education and care; investments in business capability development including in the defence industry.

The Budget also should firm up proposals to improve energy efficiency both for households and for non-residential energy users not covered by the Safeguard Mechanism.

We also propose the Government ensure that changes to Australia's workplace relations arrangements are supported by sufficient funding of the Fair Work Commission, the Fair Work Ombudsman and registered organisations to ensure appropriate governance of, and compliance with, the changed arrangements.

1. The Economic Context

The state of the economy

In 2022 Australia's transition to a living-with-COVID stance was characterised by healthy employment and demand growth. These positives combined with globally-sourced price pressures associated with supply chain disruptions and the war in Ukraine to set the stage for a sharp lift in inflation with consumer prices rising by close to 2 per cent in each quarter of 2022.

The Reserve Bank, like monetary authorities elsewhere, lifted the cash rate sharply with the objective of containing price rises and dampening expectations of future price increases.

The CPI rose by 7.8 per cent in calendar 2022. While this was marginally below the RBA's November forecast of 8 per cent, inflation is still at a level where the RBA is very likely to stick with its December guidance that it expects to raise the cash rate further in the months ahead.

With labour supply diminished by closed domestic borders in 2020 and 2021; with the participation rate pushing to record highs; and with unemployment and underemployment rates falling sharply, employers' longstanding concerns with skills shortages in particular areas have spread to just about all areas of employment. The availability of people and the availability of suitably-skilled people are currently employers' most frequently aired concerns.

While the labour market is very tight, average real wage rates have lagged inflation. This is in line with what would be expected when a sudden increase in inflation combines with the predominance of annual wage adjustments - many of which are preset in multi-year agreements.

As would also be expected, the pace of increase in nominal wage rates rose steadily over the course of 2022. Combined with the increase in hours worked (with hours worked around 4.5 per cent higher in 2022 compared with 2021), the rise in the pace of nominal wage rates has provided some protection to household budgets on average despite the fall in real wage rates.

This combination of circumstances means the macroeconomic position is precarious with much depending on whether domestic price and wage setting feeds into a self-reinforcing inflationary spiral. As the Governor of the RBA has put it: "[t]he path to achieving the needed decline in inflation and achieving a soft landing for the economy remains a narrow one."

Ai Group's expectation is that the anticipated further increase in interest rates will combine with the lagged impacts of the run of rate increases announced since last May to significantly slow household and business spending over coming months.

Minimum loan repayments are on the rise and there will be a greater sensitivity to the more recent rate rises and those anticipated in the next month or so. The 'cliff' facing borrowers coming off initial periods of fixed rates will add to the pressures on household discretionary spending.

With retail sales growth and employment growth having eased; accumulating indications of softer business activity; and the encouraging reduction in producer price pressures in the December quarter, we currently expect that we are very close to the point where monetary tightening will be sufficient to put Australia on a path of steadily falling price pressures.

Taking account of tax and spending measures already legislated or announced, we expect there will be no requirement for the Budget to further dampen aggregate demand. Nor do we currently expect there will be a case for a stimulatory budget.

There is, of course, considerable uncertainty in the global and domestic environments and there is a lot of water to flow under the bridge in the next few months. As May approaches, it is quite possible that inflationary pressures will not have showed sufficient signs of abating. If this were to be the case, there could be a strong argument for the Budget to contribute to a further slowing of activity and price pressures. On the other hand, our evaluation is that there is a broadly similar risk of a steeper-than-anticipated erosion of activity and confidence that would call for some stimulatory budgetary measures beyond the inbuilt stabilisers.

Longer term challenges

Regardless of the net position of the May Budget, Ai Group urges the Government to take steps towards meeting the widely shared objectives articulated at last years's Jobs and Skills Summit. In a nutshell these are:

- achieving a sustainable step-up in the pace of real wages growth;
- ensuring the availability of economic and social opportunities for a wider range of Australians; and
- forgoing a credible and low cost path towards net zero emissions.

To the extent to which the steps towards these objectives require additional spending in 2023-24, we urge the Government to step around the macroeconomic constraints and reprioritise spending by reducing waste and less deserving programs to enable higher funding in a number of areas.

While taming inflation is the focus of near-term policy attention, achieving the longer-term objectives requires a focus on raising the capacity of the economy. This calls for futher gains in participation in productive activity (and avoiding the reversal of the remarkable progress that has been made into unemployment and underemployment). It also requires an increase in investment and a concerted effort to raise the rate of productivity improvement.

As a relatively high emissions intensity economy, Australia's emission reduction challenge is particularly testing. It will require significant changes across whole swathes of economic activity. The requirement for major changes goes well beyond the energy sector and includes a cross section of upstream manufacturing activities; mining; agriculture; transport systems and commercial and residential buildings.

There are many opportunities inherent in these challenges and there is good reason to think that with determined and concerted effort, Australia has the potential to meet them all.

Following the summary of recommendations, we set out in greater detail our proposals for consideration in preparing the 2023-24 Budget in the areas of:

- Immigration;
- Skills, education and training;
- Early childhood education and care;
- The National Reconstruction Fund and business capability development;
- Defence industry;
- Energy efficiency; and
- Supporting effective governance of, and compliance with workplace relations arrangements.

2. Summary of Recommendations

Macroeconomic stance

The budget should complement monetary policy in returning inflation to the target band within a couple of years while contuing the economy on a growth path.

Immigration

In what are the tightest labour market conditions since the 1970s, Ai Group recommends an increase in the migration planning levels for permanent migration in 2023/24 from 195,000 to 220,000. Two thirds of the target should be allocated to skilled migrants.

Skills, education and training

Action to alleviate skills shortages

Fund a workforce development support program that assists employers with strategies and includes education and training providers to meet and develop required skills.

Keep pace with the future of work

Introduce incentives for employers to encourage upskilling that meets new key skill needs.

Fund a program for individuals in declining industries to re-skill for entry to expansionary industries.

Expedite an expanded and reinvigorated apprenticeship system

Raise apprenticeship incentive rates to reflect the rising costs to employers of supervising and training apprentices.

Provide funding support for apprentice supervisor workshops for employers of apprentices eligible for Commonwealth incentives.

Provide targeted funding to GTOs to support their activities to help disadvantaged groups, and to help SMEs participate in the apprenticeship system.

Support a broader range of higher-skill apprenticeship programs in new priority occupations.

Promote the uptake of higher apprenticeships, including at degree level, by providing employer incentives.

Facilitate the growth of work-integrated learning

Provide incentives for employers who take on students through work integrated learning initiatives.

Establish a new national internship and cadetship program that encourages businesses to provide employment opportunities for VET and higher education students.

Support strong foundation skills in the workplace

Introduce a program for assessment of the foundation skills of existing workers and supportr targeted access to training in identified foundational skills gaps.

Facilitate diverse and disadvantaged groups to meet skills and workforce needs

Establish dedicated work integrated learning programs for students in disadvantaged cohorts that include mentoring, and support employers' engagement.

Develop toolkits for employers that assist them in implementing strategies to facilitate organisation-wide buy-in for diverse groups and enduring employment outcomes for disadvantaged cohorts.

Introduce a new Disabled Wage Support Program for apprentices that overhauls the current Disabled Australian Apprentices Wage Support Program.

Facilitate partnerships between industry and education and training providers to develop programs that support specific skills development and employment opportunities.

Early childhood education and care

Early Childhood Education and Care (ECEC) options should be more affordable and more flexible. ECEC options must be better targeted to the needs of working households to accommodate flexible working and shift arrangements.

The Government should put in place a trial of in-home early childhood educators for households with members working in essential industries.

The National Reconstruction Fund and business capability development

The National Reconstruction Fund (NRF) should be managed effectively and cautiously driven by the following principles:

- It should target areas where there is a funding gap due to some failing in the market
- It should target projects that unlock further capabilities within supply chains and/or industrial clusters
- It should target "adaptable" capabilities that can contribute to multiple areas.

The federal government should lift its support for the development of business capabilities – particularly among Australia's small and medium-sized enterprises. Building such capabilities will help lift the performance of individual businesses and the broader economy. It will also deepen the pool of businesses that are ready to contribute to meeting the objectives of the NRF.

There are considerable advantages in maintaining and extending the Entrepreneurs' Programme which has established itself as the premier federal business capability development program.

Further opportunities for business capability development lie in the areas of digitalization including those leveraged from the Government's investments in the Simplified Trading System.

Defence industry

Release of a modern and fully updated Force Structure Plan with added visibility and accountability for project approvals, capability delivery and acquisition timeframes, This Force Structure Plan must be underpinned by a fully developed funding model that reflects Australia's strategic circumstances.

Implementation of a new approach to Defence capability development, acquisition and sustainment, including the introduction of a genuine agile approach to procurement.

Development of a clear approach and strategy for Australian sovereign defence requirements, including a clear statement of the intent and objectives of Australian defence industry policy.

Development of an industry-focussed line of effort under AUKUS to build innovation and the Australian industrial base, and reduce barriers to trade.

Release of a coordinated and comprehensive Defence Workforce and Skilling Strategy.

Energy efficiency

The forthcoming National Energy Performance Strategy (NEPS) should include energy-saving measures across all sorts of energy users, including industry.

The Government has signalled substantial Budget measures relating to household energy efficiency and gas substitutes. This should be implemented in coordination with the tradespeople, appliance makers and other stakeholders who will be needed to ensure success. Measures need to be effective for owner-occupied housing, rental properties and public housing. Considering the substantial multi-year scale of the task, the Government should consider an ongoing program whose tempo of activity can be dialled up or down depending on economic conditions.

The NEPS should extend well beyond households and look to complement the announced reforms to the Safeguard Mechanism to ensure a broader encouragement of energy efficiency for industrial, commercial and public sector energy users. Encouragement for this broad cross-section of non-residential energy users could take the form of a mix of grants and loans.

Supporting effective governance of, and compliance with workplace relations arrangements

Funding the additional calls on the FWC, FWO and registered organisations

The FWC should be appropriately resourced in line with its expanded roles in relation to bargaining over industrial agreements and the resolution of workplace disputes.

The Budget should provide appropriate funding to the FWO and registered organisations to support their roles of informing employers about, and facilitating compliance with new WR laws and the prospective review of modern awards.

Funding the Fair Work Commission's registered organisations governance role

Relevant staff of the ROC should be offered positions with the FWC

The education materials, tools and other resources that are currently made available on ROC's website, should be made available through the Registered Organisations section on the FWC's website

Additional funding needs to be provided to the FWC to enable it to carry out the functions currently being carried out by the ROC

Funding the Fair Work Ombudsman's roles in the building and construction sector

The FWO should receive the same level of funding as was allocated to the ABCC

A specialised division should be established within the FWO with responsibility for the building and construction industry

Relevant staff of the ABCC should be offered positions with the FWO

The education materials, tools and other relevant resources that are currently made available on ABCC's website, should be made available to building industry participants through a Building and Construction section of the FWO's website

3. Migration

Ai Group welcomed the increase in the permanent migration program planning level to 195,000 places announced at the Jobs and Skills Summit last year and the Government's recognition of the importance of the migration program in helping to expend the capacity of the economy and to address widespread skills and labour shortages.

While skilling and up-skilling our existing workforce should always be the top priority, skills and labour gaps persist across our economy that can only be addressed through the migration program.

Ai Group's most recent research into skills and labour shortages and our latest CEO Outlook Survey have both highlighted once again the depth of the difficulties facing businesses in recruiting staff locally.

Our annual survey of Australian CEO expectations for 2023 found that while Australia's business leaders are cautiously optimistic for 2023, most are concerned about the impacts of skills shortages, inflation and supply chain disruptions.

An overwhelming 90% of businesses surveyed expect to be affected by staffing shortages in 2023.
These are most keenly felt in higher-skilled occupations, but are evident across all skill levels, industries and geographic locations.

Ai Group's Workforce Development and Skills Survey conducted by Ai Group's Centre for Education and Training last year also identified a broad and unmet demand for a range of different skills across the economy as well as an underlying shortage of labour

Only 8% of Australian businesses expect they will not be affected by staffing shortages in the coming year. As a result, workforce issues have been elevated to the top of the investment agenda.

The survey results show a widespread increase in businesses' requirements for skilled labour across all occupational groups – in particular, Technicians and Trades Workers, Professionals and Managers:

- 69 per cent of businesses said their skill needs had increased in relation to Technicians and Trades Workers, 45 per cent in relation to Professionals, 43 per cent for Managers, 38 per cent for Machinery Operators and Drivers and 37 per cent for Labourers.
- 71 per cent of businesses reported difficulty meeting their requirements for Technicians and Trades Workers, showing a deep and entrenched shortage of workers in these occupations.
- 68 per cent of businesses believed 'growth in demand' was the key driver of their skills challenges, 35 per cent attributed it to 'supply chain

challenges/disruption' – both factors are likely related to the uncertain and dynamic market.
- Around a quarter of businesses reported either emerging or increased skill needs as a result of the transition to a clean economy

While this survey demonstrates the economic challenges of a labour market characterised by near full employment, many of these areas of shortage have been persistently reported by businesses over decades. Skilled migration alone will not fix this, but it must be part of the solution alongside developing our own workforce, through education and training - skilling, re-skilling and upskilling - at scale.

Recommendation

- In what are the tightest labour market conditions since the 1970s, Ai Group recommends an increase in the migration planning levels for permanent migration in 2023/24 from 195,000 to 220,000. Two thirds of the target should be allocated to skilled migrants.

4. Skills, education and training

The Government's May 2023 Budget comes at a time when education and training requires major policy action. As a key enabler of productive and inclusive economic and social development, this area requires strong budget measures to provide the springboard for growth and innovation across all industry.

The transforming nature of industry, evolving skills and ever-changing roles and tasks all call for an education and training system that not only prepares students to be technically proficient and adaptable, but is geared to rapidly and flexibly up-skill and re-skill existing workers quickly and to help build cultures of lifelong learning.

Ai Group's submission has been developed during broad education and training structural reform activity by the Government. With consultation currently taking place on roles and functions of Jobs and Skills Australia and the Universities Accord Review, there is an opportunity to establish the mechanisms for an Australian education and training system that meets the needs of industry, equips individuals for the future of work and lifts the skills and participation of under-represented groups.

Ai Group has recently submitted its views to the Government on important aspects to be incorporated in long term structural reform. Quality education and training over the longer term that is relevant, flexible and connected to workforce needs must be framed by future-facing structural change, flexible education and training frameworks, and strategies that can successfully endure as future skill needs arise.

Specifically, we provided views and recommendations on the need to:

- establish a collaborative national voice for industry on skills, along with governments, and education and training sectors
- continue comprehensive data collection and analysis of Australia's skill needs and consequent workforce planning
- continue development of a comprehensive and accessible skills classification system
- fully implement a revised Australian Qualifications Framework
- build a better-connected tertiary education system
- facilitate closer industry-tertiary education collaboration, and
- improve education and training capacity to support an adaptable workforce.

These are foundation actions without which the nation's skills potential will not be reached. However sufficient resources must also be provided in the short term, while the structural reform work continues, to ensure adequate funding is allocated for initiatives within the reformed structures. Our recommendations in this submission address funding and initiatives that assist the shorter-term needs arising from deepening skills and labour shortages, digital and green transitions by businesses, and greater social charters in industry.

Action to alleviate skills shortages

Ai Group's 2023 Australian CEO Survey found that 90% of businesses expect to be impacted by skills shortages this year.[1] In a continued environment of acute skills and labour shortages, companies are needing to implement both human resources strategies and operational changes, such as organising work and jobs in new and innovative ways in order to keep the business running.

Workforces must be capable of continuously adapting, operating in agile spaces and relating within cross-functional teams. Employers will need to realise their new directions by building new skills, managing differently, having employees learn new tasks within roles or undertake completely new roles.

Supporting employers with whole-of-workforce development planning and resulting training delivery will assist in matching Australia's skills supply with demand. A fund for existing worker upskilling, focusing on priority industries and using a skills-based approach would provide greater access for individuals and industry to microcredentials.

Access to shorter forms of training, including microcredentials for existing workers must be improved. Funding to education and training providers must remove barriers to provision and encourage an increase in the delivery and integration of shorter training options. As part of this, education and training providers should be encouraged to engage with industry. This would lead to microcredential design and content specific to re-skilling and upskilling needs. Microcredential frameworks should be used to guarantee quality, industry endorsement and transferability of skills recognition, supporting lifelong learning.

Recommendation

- Fund a workforce development support program that assists employers with strategies and includes education and training providers to meet and develop required skills.

Keeping pace with the future of work

The current labour and skills shortage environment is also one in the midst of digital and clean transition. As digital transformation progresses many employers are re-aligning their business models and strategic directions and moving into new industry areas. Workforces must be capable of continuously adapting, operating in agile spaces and relating within cross-functional teams. Employers will need to realise their new directions by building new skills, managing differently, having employees learn new tasks within roles or undertake completely new roles.

[1] Australian CEO Expectations 2023, Australian Industry Group, January 2023.

The OECD has explored the signs that the skills supply of graduates no longer matches skills demand in the labour market, with employers no longer confident that graduates have acquired the skills needed for the 21st-century workplace, in particular, generic skills such as problem solving, communication, creativity, and critical thinking.[2]

Workers will need to build a portfolio of skills, with the ability to expand their skill sets to utilise the evolving digital tools that will augment their ability to work in complex, unpredictable, digital environments. In order to prepare and re-skill individuals for future work, Government education and training roadmaps must build-in the meta-skills needed. Key are:

- **social and emotional skills** – to adapt, be resourceful, respect and work well with others, and to take personal and collective responsibility[3]
- **Different leadership skills** - in order to maintain the quality of people's work design, integrate technology, use analytics, use culture as the new structure, build personalised learning cultures and proactively manage diversity.
- **tech skills** - higher-level, flexible skills, especially in key STEM areas and advanced trade skills.[4] Current projections showing large shortages of tech-based professionals in coming years are well publicised.[5] Ai Group's 2022 skill survey shows continued difficulty experienced by employers in meeting their needs for Technicians and Trades Workers.[6] The Australian Academy of Technological Sciences and Engineering, also recognises Australia 'currently lacks the capacity and critical capabilities to be able to deliver on our tech-powered, human-driven potential now and into the future.'[7]
- **skills for the clean economy** - Ai Group's 2022 skills survey found that 24% of businesses already have either emerging or increased skill needs as a result of the transition to a clean economy. Until recently the skills required have been mainly specialised technical skills for the low carbon and environmental goods and services sector. Ai Group members are already reporting skills shortages across a number of these occupations, both skilled tradespeople and energy professionals, for their technical capacities. However, as transformations become whole-of-company other skill sets will be required. Skill needs are likely to be multi-layered. Industry needs deep, technical skills but also transferable skills (e.g. collaboration, risk and change management, digital literacy, data analytics).

While macro-level workforce planning activities are underway to tackle the key looming skill requirements outlined above, much more work must be undertaken to understand the new skills and occupations involved, as well as underpinning training and professional development pathways required to deliver transitions. In addition to good pipelines of quality graduates from VET and higher education,

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[2] Van Damme, D. and D. Zahner (eds.) (2022), *Does Higher Education Teach Students to Think Critically?*, OECD Publishing, Paris, https://doi.org/10.1787/cc9fa6aa-en.

[3] Beyond Academic Learning: First Results from the Survey of Social and Emotional Skills, OECD, September, 2021.

[4] For example: Roadmap to Deliver One Million Tech Jobs, Technology Council of Australia, October 2021.

[5] State of Australia's Skills 2021: now and into the future, National Skills Commission, 2021.

[6] 2022 Skills Survey: Listening to Australian businesses on skills and workforce needs, Australian Industry Group, 2022.

[7] Our STEM skilled future: An education roadmap for an innovative workforce, Australian Academy of Technological Sciences and Engineering, 2022.

there must be ongoing activity to re-skill and up-skill and transition existing workers quickly.

The Government's Digital and Tech Skills Compact, commencing with the new Digital and Tech Skills Working Group, will seek to find short term solutions for a major challenge for Australia. Through its representation on the Group, Ai Group will aim to ensure that strategies and actions are implemented that also address shortages likely to endure over the longer term.

Likewise the Clean Energy Capacity Study under Jobs and Skills Australia needs to recognise the enormity of the change. The comprehensive Opportunity Assessment to develop the future energy workforce undertaken for the RACE for 2030 CRC aimed to understand the new skills and occupations involved, as well as underpinning training and professional development pathways required to deliver the transition. One recommendation has resulted in the valuable work of developing the survey instrument for the first annual Australian Energy Employment Report.

While a collaborative effort involving government, industry, education and training sectors and individuals will influence the development of the key skills outlined above, it will be assisted by incentives for businesses to encourage upskilling, and incentives for individuals to redirect labour from low priority areas into high priority expansionary areas.

Recommendations

- Introduce incentives for employers to encourage upskilling that meets new key skill needs.
- Fund a program for individuals in declining industries to re-skill for entry to expansionary industries.

Expedite an expanded and reinvigorated apprenticeship system

With the strong demand for trade and related skills set to continue for many years to come, an effective apprenticeship system will help lay the foundations for an enduring skills pipeline. The apprenticeship model is becoming an even more important lever in Australia's future growth as rapidly changing work environments benefit from work-based learners who experience change first-hand.

It is encouraging that the Government is currently reviewing the services and supports to apprentices by the Australian Apprenticeship Support Network providers. There are many short and medium term improvements that will improve outcomes for industry. Current settings for the Apprenticeship & Traineeship

Incentive system are not adequately encouraging employers and apprentices to participate. The Australian Apprenticeship Priority List is too restrictive, despite its recent expansion. Re-design needs to include apprentice support across all trade apprenticeships and longer traineeships (not limited to a priority list), as well as completion payments. It needs to increase first year employer subsidies, reinstate completion subsidies and increase mentoring support.

Supported apprentice supervisor mentoring programs are particularly important for small businesses employing or engaging apprentices. An incentive payment to individuals towards the end of their apprenticeship would also assist. The apprenticeship system must be supported to increase the diversity of apprentices including in relation to females, indigenous people and people with a disability.

Targeted funding for Group Training Organisations would also assist the participation of SMEs and disadvantaged groups.

Another innovation, that introduces a new mature-age apprenticeship model, would address the difficulty workers have in transitioning to a trade at later stages of their working lives.

Further to these shorter-term improvements, opportunities for expansion of the traditional apprenticeship model exist for Australia. The system has great potential to be extended beyond the trades and adapted as a major work-based learning pathway at technician, paraprofessional and professional levels.

Formal employment-based learning programs at higher levels are gaining interest from both industry and potential apprentices/cadets. These approaches have the twin benefit of increasing the level of qualification awarded for apprenticeships as well as extending the scope to non-trade, para-professional and professional occupations.

Ai Group has been working with businesses at the forefront of their industry by leading a series of ground-breaking pilot projects seeking to meet emerging skills needs, by developing pathways of learning which combine a VET qualification and a bachelor's or associate degree, that can be pursued while working. Similar initiatives in other economies, including the UK, Germany, the European Commission, and the United States, demonstrate this need for change.

However, these Ai Group-initiated projects have met with a surprising number of barriers around current policy settings, and different approaches to regulation, funding, teaching and learning and industry engagement within and between the VET and higher education sectors, as well as a lack of flexibility in the provider systems.

Recommendations

- Raise apprenticeship incentive rates to reflect the rising costs to employers of supervising and training apprentices.
- Provide funding support for apprentice supervisor workshops for employers of apprentices eligible for Commonwealth incentives.
- Provide targeted funding to GTOs to support their activities to help disadvantaged groups, and to help SMEs participate in the apprenticeship system.

- Support a broader range of higher-skill apprenticeship programs in new priority occupations.
- Promote the uptake of higher apprenticeships, including at degree level, by providing employer incentives.

Facilitate the growth of work-integrated learning

Work-integrated learning (WIL) suits today's workplaces. Research on the changing workplace is showing there is an evolution to the nature of work.[8] With the way people work changing in an unprecedented way, skill development needs a different approach moving forward: where learning is immersed in work environments.

In a skill shortage environment, some employers are finding their WIL engagements become a useful way to identify student talent early and employ students after graduation. The latest national QILT Graduate Outcomes Survey cemented the benefit of work-based WIL for students as they engage with industry and community partners on real-life tasks and projects and gain valuable insights combining theory and practice.

While there are many examples of employers partnering in a variety of WIL activities, and there is recognition among employers of the benefits, there are significant barriers from the employer's point of view. These include time involved preparing for, supervising and mentoring students and administrative costs. Employers' increased engagement also needs to be supported by access to innovative WIL models that expose students to contemporary practices.

All universities have varying levels of involvement in WIL activities, through individual faculties and through dedicated WIL coordinators. The National Priorities and Industry Linkages Fund added some measures, however a much more comprehensive WIL approach is needed in Australia which recognises some of the international exemplars, in particular Canadian initiatives.

While some limited government cadetship and advanced apprenticeship programs exist, a new national wage subsidies program that assists employers to engage VET and higher education students as cadets and interns is urgently needed. The subsidies would incentivise employers to take on student interns at scale.

Recommendations

- Provide incentives for employers who take on students through work integrated learning initiatives.

[8] For example: Frank, K. and Frenette, M, Are new technologies changing the nature of work? The evidence so far, Institute for Research on Public Policy, Canada (2021), and The Changing Nature of Work, World Development Report, World Bank, 2019.

- Establish a new national internship and cadetship program that encourages employers to provide employment opportunities for VET and higher education students.

Support strong foundation skills in the workplace

Ai Group has found low levels of foundation skills to be a perennial issue for employers. This has again surfaced in our latest skills survey which found that 74% of businesses are affected in some way by low levels of literacy and numeracy.[9]

With this knowledge, Ai Group is heartened that the Government has taken steps through the new Foundation Skills Advisory Group to address the approach to foundational skills in the working age population, and is pleased to be represented on the Group.

Poor language, literacy and numeracy will continue to constrain productivity, labour mobility and the capacity of the economy to achieve the higher levels of skills needed for the increasingly knowledge-based economy. With digital literacy now an additional foundation skill, as industry continues to transform, it will require greater numbers of individuals with these skills to be well-developed.

The skill needs of the existing workforce differ from new entrants. Most, but not all, of this group will have already completed an entry-level qualification, and all of them will have gained knowledge and skills from their prior experience in the workforce. The focus on this group must include ensuring all workers have the foundational skills to deal with further training, access to shorter form training that builds on the skills they already have as their work and the industry evolves, and enabling them to transition from jobs with poor future prospects into those that will become more prominent in the future.

For those workers who are identified as lacking digital or other foundational skills and for those who are intending to engage with further training, there should be the opportunity for them to have their existing skills assessed and have access to training in identified foundational skills gaps.

A new report by Social Equity Works for the Reading Writing Hotline, *Insights from the classroom – a survey of adult literacy providers* provides an indication of unmet adult literacy needs identified across Australia and the barriers experienced by both learners and providers of adult literacy training.

Recommendation

- Introduce a program for assessment of the foundation skills of existing workers and supportr targeted access to training in identified foundational skills gaps.

[9] 2022 Skills Survey: Listening to Australian businesses on skills and workforce needs, Australian Industry Group, 2022.

Facilitate diverse and disadvantaged groups to meet skills and workforce needs

Australian businesses need to tap into the rich pool of diverse cohorts often under-represented in the workforce. This will assist in building the pipeline of workers needed into the future. Businesses benefit from more diverse and socially inclusive workplaces and individuals in these cohorts equally benefit from meaningful, economic activity.

The tightness of the current labour market has assisted awareness and consideration of diverse and disadvantaged groups, with widespread skills and labour shortages prompting many businesses to reach out and recruit beyond traditional cohorts and methods. Groups that experience disadvantage include, but are not limited to women, first nations people, refugees, youth, people with disability, the culturally and linguistically diverse, older people and those in some regional and remote areas.

Many businesses do employ individuals that have come from disadvantage and are committed to continue doing so. Some large companies in particular have HR departments that embed diversity and inclusion in their core employment practices. Many SMEs without HR departments have a more mixed involvement and often lack internal resources to implement sustainable strategies.

Work-based learning models could expand the opportunity for employers to engage more disadvantaged individuals. Structured work integrated learning (projects, internships and cadetships) enables individuals to gain genuine work experiences building their employability and work readiness. However additional supports in the workplace would be required:

- assisting the employer to create a supportive and culturally appropriate environment for the individual
- support for the individual through mentoring to address the individual impact of disadvantage.

Another initiative that could be embraced includes an Apprenticeship Disabled Support Wage Support Program. Making the apprenticeship system more accessible for people with disabilities must be a key consideration for increasing workforce participation. The proportion of people with disabilities who commence apprenticeships is low.[10]

The current Commonwealth program that supports the employment of people with disabilities into apprenticeships (the Disabled Australian Apprentice Wage Support Program) commenced in 1983 and was last reviewed in 2002. The wage assistance paid to employers is still the same rate as 2002.

The program also offers support for the apprentices, including tutorial and mentoring services for their off-the-job training. The feedback from experts in the field is that the program is overly bureaucratic, and is structured in such a way that if the

[10] National Centre for Vocational Education Research data show that people with disabilities make up less than 3.5% of apprenticeship commencements in a calendar year.

employer doesn't apply for the incentive or is not aware of the apprentice's disability then the support cannot be accessed.

Recommendations

- Establish dedicated WIL programs for students in disadvantaged cohorts that include mentoring, and support employers' engagement.
- Develop toolkits for employers that assist them in implementing strategies to facilitate organisation-wide buy-in for diverse groups and enduring employment outcomes for disadvantaged cohorts.
- Introduce a new Disabled Wage Support Program for apprentices that overhauls the current Disabled Australian Apprentices Wage Support Program.
- Facilitate partnerships between industry and education and training providers to develop programs that support specific skills development and employment opportunities.

5. Early childhood education and care

Early childhood education and care (ECEC) is an essential part of Australia's education framework and the broader economy. ECEC is critical to laying the foundations for lifelong learning. Providing all children with the opportunity to engage in high quality early learning during the earliest stages of their development sets them up for success in school and later life. It is also a key equity measure, ensuring all children are given the best chance to make a strong start.

ECEC options should be more affordable but also more flexible. ECEC options must be better targeted to the needs of working households to accommodate flexible working and shift arrangements (which often do not involve an employee working consistent hours on the same days each week) or working at different locations.

These working arrangements are common in rostering arrangements in many industries including essential services.

Ai Group considers that Government support should also extend to a trial of in-home early childhood educators to households working in essential industries. In-home ECEC provides more coverage and flexibility of care than many traditional childcare centres, particularly for multiple children. Unlike family day care, where households must attend an external family day care household or centre, an in-home early childhood educator would attend the relevant household requiring the care.

In-home ECEC should be aimed at ensuring the best possible early learning foundation for children, to improve education, training and skill levels.

The subsidy should be linked to a work-test eligibility and where adult members of the household are unable to care for children because they are engaged in paid employment at the relevant time. The subsidy should strictly apply to in-home early childhood educators who must be registered with the relevant Government

Agency and possess a minimum Certificate III for the provision of early childhood care and education recognised by the National Quality Framework.
To support the capacity and supply for more accessible childcare, Ai Group supports greater funding for early child-care training programs.

Recommendations

- Early Childhood Education and Training (ECEC) options should be more affordable and more flexible. ECEC options must be better targeted to the needs of working households to accommodate flexible working and shift arrangements.
- The Government should put in place a trial of in-home early childhood educators for households with members working in essential industries.

6. The National Reconstruciton Fund and business capability development

The National Reconstruction Fund (NRF) could lead to an increase in Australian investment in a number of critical areas and present a step change in Australian capability. Such as significant investment must be managed effectively and cautiously driven by the following three principles:

- It should target areas where there is a funding gap due to some failing in the market (eg lack of patent or patentability of product or process)
- It should target projects that unlock further capabilities within supply chains and/or industrial clusters
- It should target "adaptable" capabilities that can contribute to multiple areas ("sovereign adaptability")

A significant challenge to the long-term success of the NRF will be the pipeline of suitable firms or projects ready for such a substantial investment. The NRF will be more successful and will achieve a more rapid and broader success if it is accompanied by programs that support the development of business capabilities, particularly among small and medium-sized enterprises thus deepening the pool of suitably orientated businesses.

For many years the Entrepreneurs' Programme has played an important role in building Australia's business capabilities and thereby assisting the transformation of businesses and key sectors. The considerable recognition of its current branding; the successes it has achieved to date; together with the enhancements to its administration following the performance audit conducted by the Australian National Audit Office, provide a strong foundation upon which this program could be scaled up and/or replicated in complementary ways to meet business demand and economic opportunity including in ways linked to the objectives of the NRF.

The COVID-19 disruption highlighted how interconnected many businesses are and digital technologies have been an enabler for many businesses to remain open and sustainable. There is now an opportunity for industry to emerge more globally competitive by taking fuller advantage of Industry 4.0 and digitalization, including in the area of cyber security, where these can play critical parts of Australia's technology led future. Nevertheless, the gap between leaders in digitalization and other businesses remains substantial and there is clearly a broad benefit to the capacity, resilience and competitiveness of the Australain economy if a wide range of businesses are better informed about the opportunities presented by digitalization.

A related avenue for improving Australia's business capabilities can be leveraged from Federal Government investment in the Simplified Trading System. We encourage the Government to continue with these investment plans and to work collaboratively with the private sector to realise the broader benefits to the Australian economy.

Recommendations

- The National Reconstruction Fund (NRF) should be managed effectively and cautiously driven by the following principles:
  - It should target areas where there is a funding gap due to some failing in the market
  - It should target projects that unlock further capabilities within supply chains and/or industrial clusters
  - It should target "adaptable" capabilities that can contribute to multiple areas.
- The federal government should lift its support for the development of business capabilities – particularly among Australia's small and medium-sized enterprises. Building such capabilities will help lift the performance of individual businesses and the broader economy. It will also deepen the pool of businesses that are ready to contribute to meeting the objectives of the NRF.
- There are considerable advantages in maintaining and extending the Entrepreneurs' Programme which has established itself as the premier federal business capability development program.
- Further opportunities for business capability development lie in the areas of digitalization including those leveraged from the Government's investments in the Simplified Trading System.

7. Defence industry

The 2020 Defence Strategic Update and Force Structure Plan provide a sobering view of Australia's geo-political circumstances and markedly reduced strategic warning times in the event of conflict. The ongoing Defence Strategic Review, due for Government consideration early in 2023, will be critical in shaping the future Defence force, capability decisions and funding parameters.

The AUKUS trilateral security partnership also provides an exceptional opportunity to lift Australia's national security posture and build our industrial capability.

In response to the current and emerging demands on the defence budget, the importance of getting maximum value from defence spending is intensifying and Ai Group recommends a range of capability development and procurement reforms central to improving efficiency and effectiveness of such spending.

Recommendations

- Release of a modern and fully updated Force Structure Plan with added visibility and accountability for project approvals, capability delivery and acquisition timeframes, This Force Structure Plan must be underpinned by a fully developed funding model that reflects Australia's strategic circumstances.
- Implementation of a new approach to Defence capability development, acquisition and sustainment, including the introduction of a genuine agile approach to procurement.
- Development of a clear approach and strategy for Australian sovereign defence requirements, including a clear statement of the intent and objectives of Australian defence industry policy.
- Development of an industry-focussed line of effort under AUKUS to build innovation and the Australian industrial base, and reduce barriers to trade.
- Release of a coordinated and comprehensive Defence Workforce and Skilling Strategy.

8. Energy efficiency

The Government should put substantial financial resources behind its forthcoming National Energy Performance Strategy (NEPS) and ensure it addresses energy-saving measures across all sorts of energy users, including industry.

A major push to lift energy performance across Australia makes sense for at least three reasons.

- Most urgently, the energy affordability crisis confronting Australia has been only partially addressed by the emergency price controls recently introduced by the Federal Government in partnership with the States. Much energy demand was contracted at very high prices before the intervention, and while power and gas prices should be much lower than they were otherwise set to be, they will also be significantly above the historic average. Higher energy performance, electrification and fuel switching can reduce exposure to these costs.
- Energy reliability and security will also be enhanced by demand-side energy upgrades. The Eastern Australian gas market requires some combination of replacement supply and lower demand to remain in balance later this decade. Our electricity markets will see rapid retirement of coal-fired electricity generation over the next 12 years, and managing the replacement of this with a renewables-based system will be much easier if demand is both lower and smarter.
- National emissions reduction goals are deepening to the point where abatement is required well beyond the power sector and large industrial facilities on which major policies have mostly focussed. It will be necessary to meet the needs of current gas users with alternatives appropriate for their different contexts, including gas efficiency, electrification or fuel switching to bio- and clean hydrogen-based alternatives.

The Government has already indicated that there will be a substantial Budget measure relating to household energy efficiency and gas substitutes. This is appropriate, though it should be implemented in coordination with the tradespeople, appliance makers and other stakeholders who will be needed to ensure success. Measures will be needed for owner-occupied housing, rental properties and public housing, and one program design is unlikely to suit all.

The task of upgrading Australia's existing housing stock is a very large one and will require much delivery capacity, often competing with other calls on the required skills. The Government should aim to establish an ongoing program whose tempo of activity can be dialled up or down depending on economic conditions, with counter-cyclical benefits in addition to energy efficiency improvements. During past downturns governments have often considered efficient housing upgrades as a stimulus option, but have faced a lack of existing policy structures that can be rapidly deployed.

An energy efficiency push should extend well beyond households, however. Already-announced reforms to the Safeguard Mechanism will encourage energy efficiency and fuel switching at some of Australia's largest facilities. However the vast bulk of business energy users fall outside the Safeguard, and support and assistance for their energy upgrades makes great sense. There are many potential opportunities, from familiar options like the replacement of old inefficient gas boilers and industrial ovens with newer more efficient models; to locally unfamiliar alternatives like the use of super-efficient industrial heat pumps to reduce gas needs or in some circumstances replace it entirely.

An industrial energy upgrades support program should have at least two elements:

- Lighthouse grants – $50m for grant-based co-funding sufficient to deliver 10-20 projects using credible but locally unfamiliar industrial efficiency technologies, most obviously industrial heat pumps, at non-Safeguard facilities across Australia. 50-50 co-funding should be paired with a requirement to make non-sensitive project data open to help wider industry better understand new energy opportunities.
- Mass adoption finance – $600m to support a larger volume of industrial heat efficiency and electrification at non-Safeguard facilities. Nonrecourse loans or conditionally repayable grants may be useful tools to stretch funding further while limiting the perceived risk of adopting unfamiliar energy technologies. Successful projects would repay their funding, or a portion thereof, while unsuccessful projects would not.

Recommendations

- The forthcoming National Energy Performance Strategy (NEPS) should include energy-saving measures across all sorts of energy users, including industry.
- The Government has signalled substantial Budget measures relating to household energy efficiency and gas substitutes. This should be implemented in coordination with the tradespeople, appliance makers and other stakeholders who will be needed to ensure success. Measures need to be effective for owner-occupied housing, rental properties and public housing. Considering the substantial multi-year scale of the task, the Government should consider an ongoing program whose tempo of activity can be dialled up or down depending on economic conditions.
- The NEPS should extend well beyond households and look to complement the announced reforms to the Safeguard Mechanism to ensure a broader encouragement of energy efficiency for industrial, commercial and public sector energy users. Encouragement for this broad cross-section of non-residential energy users could take the form of a mix of grants and loans.

9. Supporting effective governance of, and compliance with, workplace relations arrangements

To ensure they operate in a fair and effective manner, the 2023-24 Budget should properly accommodate the impact of the recent and proposed regulatory changes to Australia's workplace reletations system. This should include appropriate funding to ensure effective governance of Australia's workplace relations and measures to facilitate employer compliance with changed arrangements.

The *Fair Work Legislation Amendment (Secure Jobs, Better Pay) Act 2022 Act* introduced major changes to Australia's workplace relations system. The legislation will impose significant new obligations on employers. The changes were accompanied by reforms introducing new obligations on employers in relation to the provision of Paid Family and Domestic Violence Leave.

These recent WR reforms also introduced major changes to the role and responsibility of various institutions. Relevantly, the Fair Work Commission (FWC) and the Fair Work Ombudsman (FWO) will assume various responsibilities previously met by the Australian Building and Construction Industry Commission (ABCC) and Registered Orgainisations Commission (ROC).

Funding the additional calls on the FWC, FWO and registered organisations

WR reforms legislated to date only reflect the first tranche of the Government's broader WR agenda. The Government has foreshadowed signficant further changes. The Government has also recently announced a review of modern awards, although it is unclear what form this will take.

Appropriate funding for relevant institutions, including the FWC, FWO and relevant registered industrial organisations, should be provided for in the Budget to facilitate the implementation of the initiatives. This should include funding to to support the role played by registered industrial organisations in the conduct of any further review of modern awards. The modern award system has been under almost constant review since its inception in 2010 and this has placed an enormous strain on the resources of those registered organisations that have meaningfully contributed to such processes.

In addition, the FWC will play a much more interventionist role in relation to the bargaining over industrial agreements and the resolution of workplace disputes as a direct result of the expanded powers and jurisdiction given to it by the recent WR reforms. The Commission should be appropriately resourced to cover a projected and significant growth in applications before it commensurate with its expanded role and the need for parties to seek timely resolution. is also foreseable that the Commission will be involved in determining a range of major cases and appeals regarding the appropriate interpretation and application of the recent WR reform provisions.

The FWO will also play an important role in educating employers about the content of the new laws and facilitating compliance with them. This can, and should, be complemented by institutions such as registered employer organisations playing a similar role.

Recommendations

- The FWC should be appropriately resourced in line with its expanded roles in relation to bargaining over industrial agreements and the resolution of workplace disputes.
- The Budget should provide appropriate funding to the FWO and registered organisations to support their roles of informing employers about, and facilitating compliance with new WR laws and the prospective review of modern awards.

Funding the Fair Work Commission's registered organisations governance role

The recent WR reforms abolished the ROC and transferred its functions to the FWC. The ROC was responsible for compliance and enforcement in relation to unions and registered employer associations. It also has important advisory roles.

The role of the Registered Organisation Commissioner is to be carried out by the General Manager of the FWC.

The ROC was carrying out a very important role, as can be seen by the unacceptable and unlawful conduct that was uncovered by the Heydon Royal Commission in respect of a small number of unions and union officials. Registered organisations which comply with the law and have appropriate standards of governance have nothing to fear from the ROC.

The ROC has implemented many initiatives to assist registered organisations with compliance, including fact sheets, templates, checklists, a compliance calculator, E-learning modules, webinars and podcasts.

It is of significant concern that the Federal Government abolished the ROC without allocating any additional resources to the Fair Work Commission (FWC) in the October 2022-23 Budget. The registered organisations section within the FWC is currently very small, with limited funding. This section sits within the FWC General Manager's department and should not be confused with the tribunal functions of the FWC. The additional resources that the Government has allocated to the FWC in the current Budget are for activities other than registered organisation compliance.

Unless appropriate resources are provided for registered organisation compliance and enforcement activities (e.g. for litigation) there is a clear risk of criminal and inappropriate conduct taking place once again, as occurred within the Health Services Union several years ago.

The following extract from October 2022-23 Budget Paper No. 2 is relevant:

Transfer functions of the Registered Organisations Commission to the Fair Work Commission

Payments ($m)

	2021-22	2022-23	2023-24	2024-25	2025-26
Fair Work Commission	-	3.7	7.5	7.6	7.7
Fair Work Ombudsman and Registered Organisations Commission Entity	-	-3.7	-7.5	-7.6	-7.7
Total – Payments	-	-	-	-	-

The Government will abolish the Registered Organisations Commission and transfer its functions to the Fair Work Commission, with costs of the measure to be met from within the existing resourcing of the Fair Work Commission.

In light of the recent WR Reforms abolishing the ROC with its responsibilities transferred to the FWC, it is important that the expertise and resources of the ROC are not lost.

Recommendations

- Relevant staff of the ROC should be offered positions with the FWC;
- The education materials, tools and other resources that are currently made available on ROC's website, should be made available through the Registered Organisations section on the FWC's website.
- Additional funding needs to be provided to the FWC to enable it to carry out the functions currently being carried out by the ROC.

Funding the Fair Work Ombudsman's roles in the building and construction sector

Establishing the ABCC was a central recommendation of the Royal Commission into the Building and Construction Industry. In his final report, Commissioner Cole said: "*There is widespread disrespect for, disregard of, and breach of the law in the building and construction industry*". The Royal Commission decided that "*there should be an independent monitoring and prosecuting authority in the industry to monitor conduct, and uphold the rule of law*".[11]

The Royal Commission into Trade Union Governance and Corruption also identified the critical need to retain the ABCC. The final report includes the following conclusion: "*Having regard to all of the available material, the argument that there is no need for an industry specific regulator cannot be sustained*".[12]

There is a very long list of scathing comments from judges about the CFMMEU's lawbreaking, including the following recent comments from Judge Egan of the Federal Circuit and Family Court on 3 February 2022 when imposing a penalty of around $120,000 for breaches of the FW Act on the QPAC project in Brisbane:

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[11] *Royal Commission into the Building and Construction Industry*, Feb 2003, Final Report, Vol.1, p.155.

[12] *Royal Commission into Trade Union Governance and Corruption*, Dec 2015, Volume 5, para. 97.

> *…[T]he CFMMEU's appalling and disgraceful record of established contraventions continues, unabashed and unabated. There can be no doubt that the CFMMEU is a rogue union untroubled by its ongoing bad behaviour. It seems that it prides itself on its recidivism.*[5]

Since 2005 more than $20 million in fines have been imposed on the CFMMEU for unlawful conduct.

The ABCC was a very effective regulator and its activities are not directed at unions. It focusses on ensuring that all participants in the construction industry comply with the law, and it adopts a balanced approach. In addition to actions against the CFMMEU, the ABCC has pursued many actions against businesses.

Recommendations

- The FWO should receive the same level of funding as the ABCC was receiving
- A specialised division should be established within the FWO with responsibility for the building and construction industry
- Relevant staff of the ABCC should be offered positions with the FWO
- The education materials, tools and other relevant resources that are currently made available on ABCC's website, should be made available to building industry participants through a Building and Construction section of the FWO's website.

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