

Ai GROUP

**SUBMISISON TO THE
EMPLOYMENT WHITE PAPER**

30 NOVEMBER 2022



About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years.

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, transport & logistics, retail, labour hire, mining services, the defence industry, the case sector, 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

Ai Group appreciates the opportunity to provide input into the Employment White Paper. We see the White Paper as an important opportunity to build on the considerable successes evident in Australia's path of economic and social development while also making changes to ensure we do much better in several critical areas.

Our Submission looks, firstly, at Australia's recent labour market performance. This is set out in Chapter 1 in which we look at key areas of success to build on while also identifying areas where there have been shortcomings in our performance. We find that a central role is played by improvements in productivity in the general trend of rising real wages; in the slowdown in real income gains over much of the current century; and in the falls in real incomes in most recent period in the face of the sudden surge of inflation.

In Chapter 1 we also highlight the scope to better manage economic disruptions to achieve a more inclusive and productive development path. While Chapter 1 looks at the general theme of managing disruption, in Chapter 2 we identify the economic changes necessary to achieve net zero emissions as a dominant disruptive force over the decades ahead. There are both major challenges and major opportunities in this disruption.

In examining the role of skills, education and training, Chapter 3 sets out what we see as the major area of policy action if the ambitions behind the Employment White Paper are to be met. We identify a range of structural reforms fundamental to a productive and inclusive path of economic and social development; we advocate for changes required to equip ourselves for the future of work; and we propose steps to lift the skills and workforce opportunities for disadvantaged groups.

Chapter 4 examines current developments and opportunities in Australia's workplace relations arrangements. We underline the importance of raising productivity and the central role of a vibrant and effective system of enterprise bargaining for the revival of sustainable real wages growth. We put forward important steps to modernise, add flexibility and simplify the workplace relations safety net of modern awards and National Employment Standards. We also look in detail at current directions and further steps towards achieving equal opportunities for women and a more inclusive workforce.

Lastly, in Chapter 5, we set out our views of Australia's migration program both in relation to its permanent and temporary elements. We identify the importance of continued migration in our ability to lift living standards and as a complement to a much greater investment in the skilling of the domestic workforce. We propose a number of refinements to improve the accessibility and effectiveness of our migration arrangements.

1. Labour Market Dynamics: successes to build on and areas where we should do much better

Australia's recent labour market experience is a mix of successes that can be built on and areas where we should much do better. Here we highlight just some of the successes to build on and areas for doing better with the selection shaped by our perceptions of the most important given the forward-looking terms of reference of the Employment White Paper.

1.1 Successes To Build On

In this section we highlight the following related success stories: generally healthy growth in workforce opportunities including for women and people seeking flexible work patterns; the steady growth of real wages in line with changes in productivity; and the increased levels of education attainment of the Australian workforce.

The growth in workforce opportunities

The fact that unemployment was recorded at 3.4 per cent in October and has been close to this for several months, must be chalked up as a recent success. This has not been bettered for five decades and it compares with an average rate of 6.7 per cent since 1978 in a range between 11.1 per cent and 3.4 per cent.

The recent inroads into underemployment (measured as the proportion of employed people) should also be regarded as a success. The rate in October of 6.2 per cent is the lowest since the global financial crisis and compares with an average rate of 7.8 per cent in the 21st century to date.

A participation rate sitting comfortably above 66 per cent is also a success story. The rate has averaged 63.5 per cent since 1978. The employment to population ratio at 64.3 per cent is also currently sitting at a series-long high and compares with its average since February 1978 of 59.5 per cent notwithstanding the ageing of the population and the increase in the proportion of mainly younger people engaged in full-time study.

The increase in female participation in the workforce has been nothing less than remarkable. The rate in October of 62.4 per cent is a record high as it rapidly converges with male participation and is a stark contrast to the 43.3 per cent recorded in early 1978 and the 54.2 per cent rate at the start of the current century.

All of these figures¹ are much more than numbers. They reflect the availability of strong opportunities for people to earn incomes, support families and to contribute to the taxation revenue available for publicly-provided goods and services and for

¹ They are all from trend series.

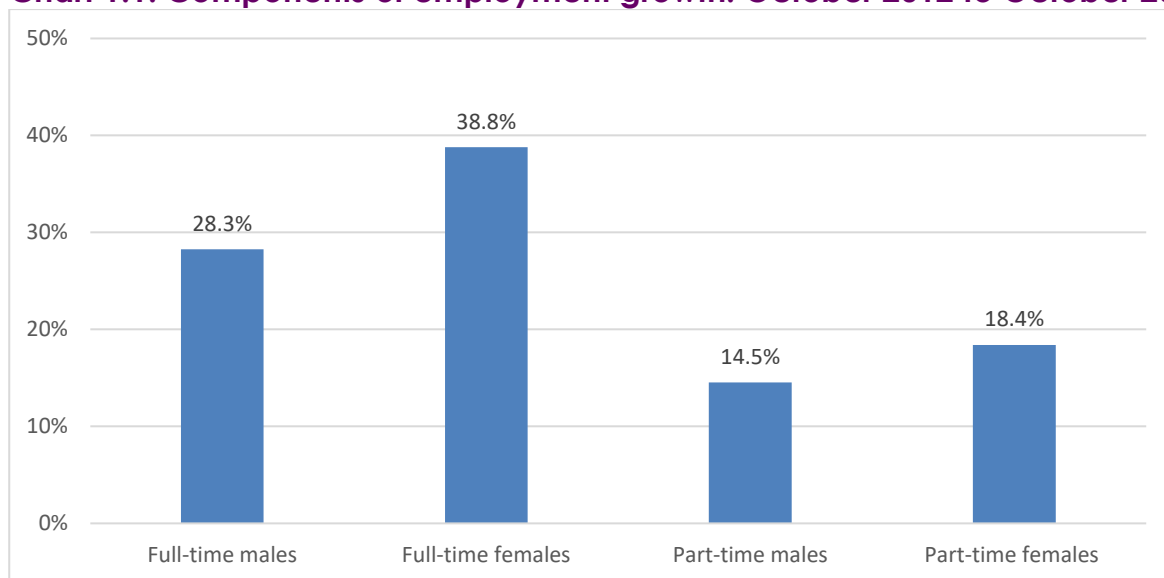
income redistribution. And they reflect on the willingness of people to take advantage of these opportunities.

The growth of employment opportunities has reflected the fact that, in general, real wages growth has matched the pace of multifactor productivity improvements in line with the greater decentralisation of wage determination. The take up of these opportunities has been greatly facilitated by immigration and by the availability of flexible work patterns.

The rise in part-time employment has been both a cause and a consequence of the strong rise in female labour force participation and the availability of casual employment arrangements has seen employment opportunities extended to important parts of the population including students, women and older Australians transitioning to retirement.

At the same time, there is another important, though underappreciated, success story in the recent experience of the Australian labour force. This is the very strong growth of employment opportunities available to and taken up by women.

Chart 1.1: Components of employment growth: October 2012 to October 2022



Source: ABS.

A standout feature of this has been the relatively strong growth of female full-time employment.²

- The decade to October 2022 saw an increase of 2,242,000 in the number of people employed in Australia. Of these, 1,282,700 (57.2 per cent) were women and 960,000 (42.8 per cent) were men as the participation rates of males and females continued to converge.

² Demographic factors are a large part of this both because of cohorts of women completing study and entering the workforce (in some cases prior to having children) and the cohorts of somewhat older women returning to the workforce as their children progressed through school-level education. Another factor was the increased incidence of male part-time employment with the greater involvement of males in family responsibilities.

- As shown in Chart 1.1, the largest share of the increase in employment in this period was in full-time female employment (38.8 per cent of the total). Male full-time employment comprised the second largest share of total employment growth (28.3 cent of the total) bringing the full-time share of total employment growth to 67.1 per cent.
- Part-time employment grew by less and the larger share of this was accounted for by the growth in female part-time employment (18.4 per cent of total employment growth). Male part-time employment accounted for 14.5 per cent of total employment growth.
- An interesting feature of the growth in part-time male employment was that the proportion of additional male part-time employment since 2012 (14.5 per cent) was considerably greater than the proportion of part-time male employment to total employment at the start of the decade (8.8 per cent).³

Building on Success: The growth of workforce opportunities

Continued success in this area is an important element in the further growth in the material and broader prosperity of Australians.

- Ensuring that wages continue to be set in line with the market realities faced by employers is a fundamental underpinning of the growth of employment opportunities.
- While still higher participation rates and the employment to population rate will be increasingly challenged by the ageing of the population, important further gains are available.
- Employment opportunities in line with the flexible work patterns sought by employees is critical. This includes younger people mixing casual work and study; parents seeking to balance family and work responsibilities; people seeking to contribute to the care of elderly parents; people from groups experiencing entrenched disadvantage (a theme we develop in Section 3.3 below); and people seeking more flexible work patterns as they approach and pass the traditional ages of retirement.
- While female participation is rapidly converging with male participation, scope for further gains with flexible availability of childcare supported by public funding and more flexible parental leave arrangements.

As examined in Chapter 5, migration has played an important role in raising the workforce and, because of the age of immigrants, has contributed an important offset to the impact of an ageing population to the size of the available workforce. Further migration in concert with appropriate supporting policies in planning and housing has an important role to play in this area.

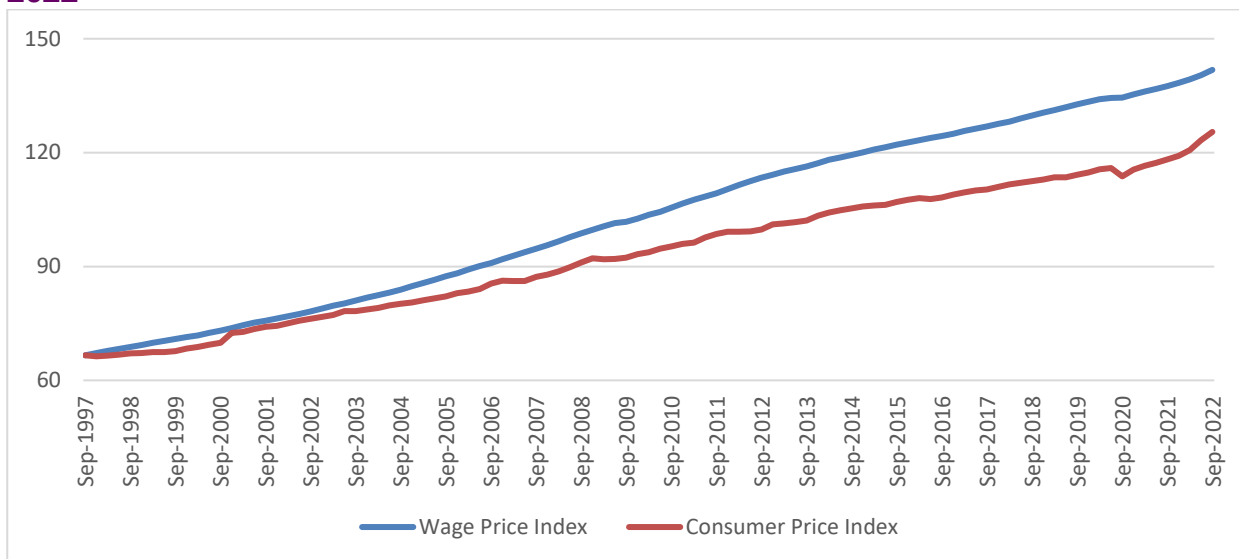
³ Demographic factors combined with greater flexibility of work patterns were also important in this development as more males took on a secondary earner role and as males approaching retirement were able to work on a part-time or casual basis.

Real wage growth and living standards

Another success is the growth of real wages for most of recent experience and the important contributions this makes to increases in living standards.

While showing the Wage Price Index, which is a narrow measure of employee remuneration⁴, Chart 1.2 illustrates a generally rising gap between the increase in wage rates and consumer price increases over the past quarter century indicating a steady increase in real wage rates over the couple of decades prior to the COVID pandemic.

Chart 1.2: Wage Price Index and Consumer Price Index: September 1997-September 2022



Source: ABS. The Consumer Price Index has been rebased to align the starting points of both series.

Admittedly, the faster growth of average wage rates has not been even and, as discussed below, over part of the pandemic period and particularly as a consequence of the sharp increase in inflation in the last year or so, we have seen a partial erosion of the gains in real wage rates.

Together, the growth in real wages and the increased participation in the workforce has underwritten higher living standards of Australian households dependent on income from wages.⁵

⁴ The commonly used Wage Price Index which is also used in Chart 1.2 excludes bonuses and non-wage remuneration including employer contributions to employee superannuation accounts. Because the Superannuation Guarantee (SG) paid into superannuation accounts has risen (from 6 per cent in 1997-98 to 10.5 per cent in 2022-23), the understatement of growth in employee remuneration inherent in the WPI measure has grown systematically over the past 25 years (a trend that is set to continue over the next few years with the SG on a path to 12 per cent).

⁵ The increase in incomes from wages interacts with the tax and transfer systems to redistribute income to the general benefit of lower income households including low and middle income wage-earning households with dependent children.

Building on Success: Real wage growth

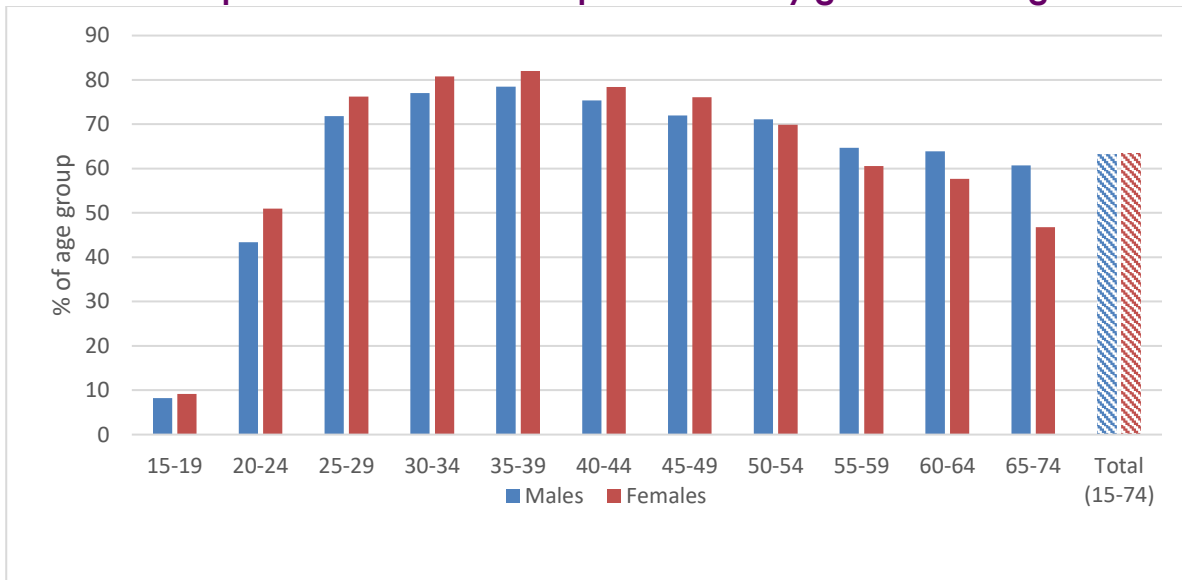
Further growth in real wages is an important element in Australia's further social and economic progress.

To be sustainable, real wages growth must be underwritten by advances in productivity and, as discussed further below, successful efforts to lift productivity are critical to further and sustainable gains in material living standards.

Educational Attainment

A third feature of the development of the Australian workforce that should be regarded as a success story is the general increase in educational attainment. Insights into this general phenomenon are provided in Charts 1.3 and 1.4 below.

Chart 1.3: People with a non-school qualification by gender and age

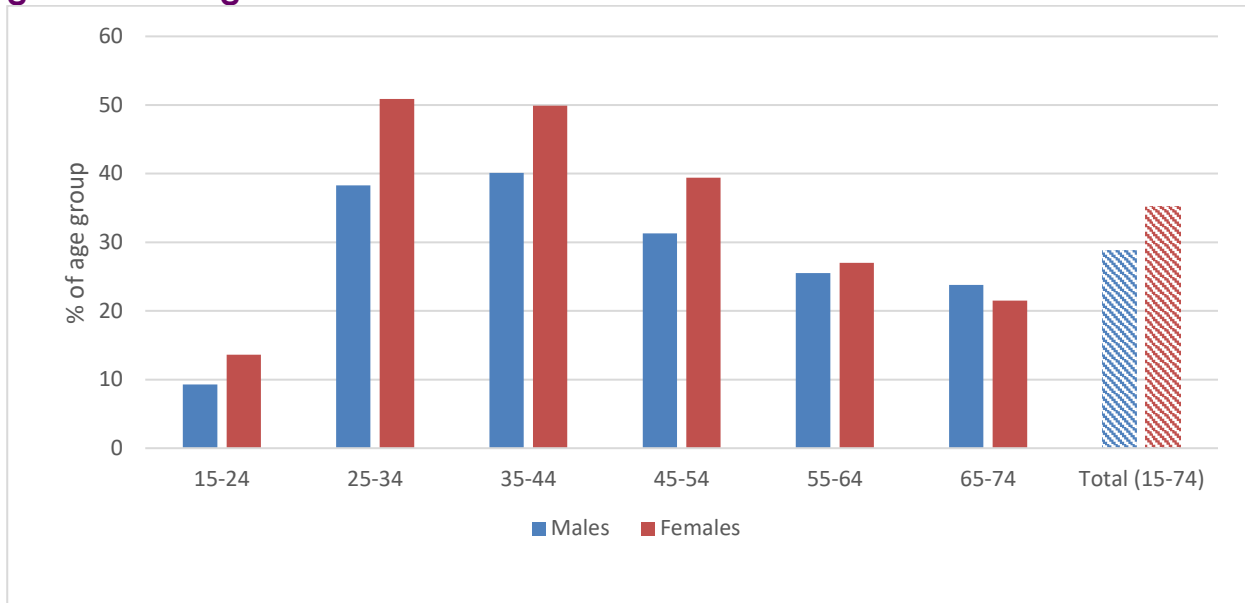


Source: ABS, Education and Work, Australia, May 2022.

Over time the proportion of the population with (or destined to have) a non-school level qualification has risen as illustrated by the higher levels of attainment of non-school education for cohorts of people aged 30-45 compared with people older than 45. This points to the adaptation to changing work and rising opportunities for employment in higher-skilled occupations.

Broadly similar patterns are apparent in the proportions of people with a bachelor or higher degree as shown in Chart 1.4.

Chart 1.4: People with a bachelor degree or above as their highest qualification, by gender and age



Source: ABS, Education and Work, Australia, May 2022

The attainment data also point to important movements in gender roles and opportunities with the higher proportion of female attainment at the bachelor or higher degree level over time. This is also evident in the data relating to non-school qualifications.

The relatively high proportions of female attainment at the bachelor or higher degree level in different cohorts is certainly illustrative of successes in the rising aspirations and achievements of females. While the picture for males at this level of education is not as favourable, a fuller picture than undertaken here would also consider the higher comparative levels of male attainment of certificate, diploma or advanced diploma level qualifications.

Building on Success: Educational attainment

The general increase in levels of educational attainment has been an important underpinning of increased opportunities and higher productivity over time.

Further gains in these areas, particularly by raising participation and success among families and groups caught in entrenched disadvantage, remains a critical policy area. This area is covered further in Section 3.3 of this Submission.

As discussed further below, while there are clear advantages in the rising general tide of educational attainment, further gains will be enhanced by closer links between qualifications and workforce and other opportunities.

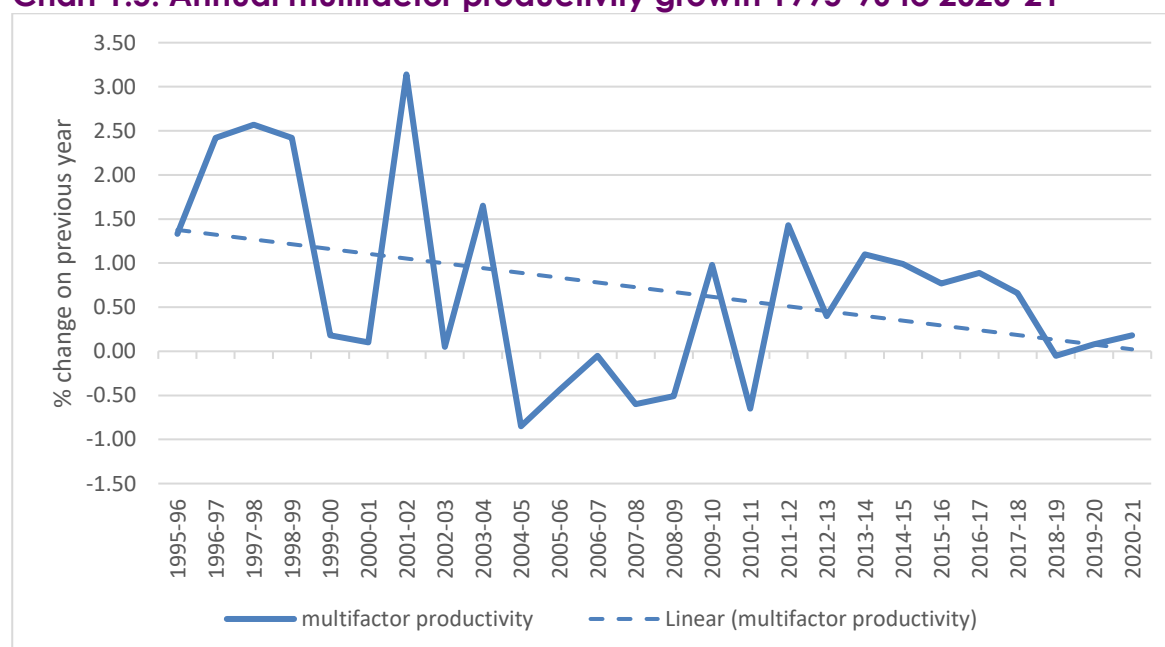
1.2 Areas Where We Should Do Much Better

The first of the three areas we highlight in this section are the closely related slowdowns in the pace of real wages growth and the rate of productivity improvement. The second area is the scope to improve education and training performance to align workforce skills more closely with current and emerging needs. Closely related to the skilling and education agenda is the need for much better labour market outcomes in the face of cyclical downturns and structural transitions.

The slowdown in real wages growth and productivity improvement

Multifactor productivity measures changes in output after accounting for changes in the quantity of inputs (importantly increases in hours worked and capital deepening). Over the past quarter century multifactor productivity growth has oscillated considerably around a trend decline. These points are illustrated in Chart 1.5.

Chart 1.5: Annual multifactor productivity growth 1995-96 to 2020-21



Source: ABS Estimates of Industry Multifactor Productivity Growth, December 2021.

The slowdown in productivity growth was recently highlighted by the Reserve Bank of Australia as summarised in Table 1.1.

Table 1.1: Slowing productivity growth (GDP per hour worked basis)

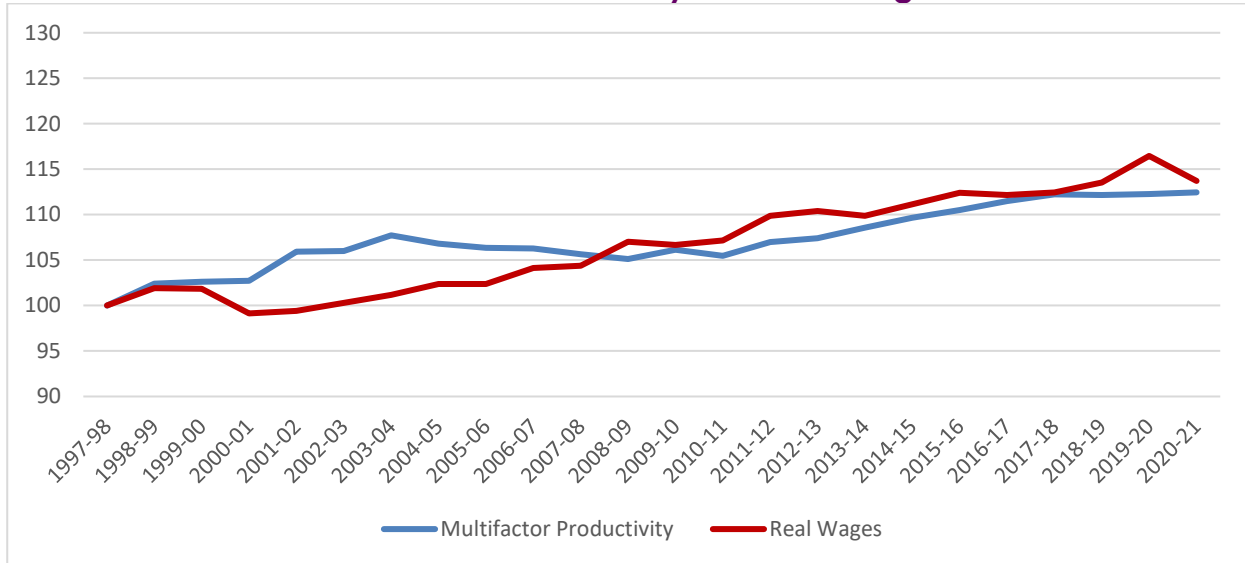
Period	Average rate of change in GDP per hour worked*
1993-2002	2.4%
2003-2014	1.2%
2015-2022	0.9%

Source: Reserve Bank of Australia, *Price Stability, the Supply Side and Prosperity*, 22 November 2022.

*This measure of productivity growth includes the impacts on output both from changes in the quantity of capital employed (capital deepening) and from changes to the ratio of outputs for a given quantity of inputs (multifactor productivity).

Notwithstanding shorter periods of divergence, over more extended periods, multifactor productivity growth matches closely with real wages growth. This is illustrated in Chart 1.6.

Chart 1.6: Indexes of Multifactor Productivity and Real Wages 1997-98 to 2020-21

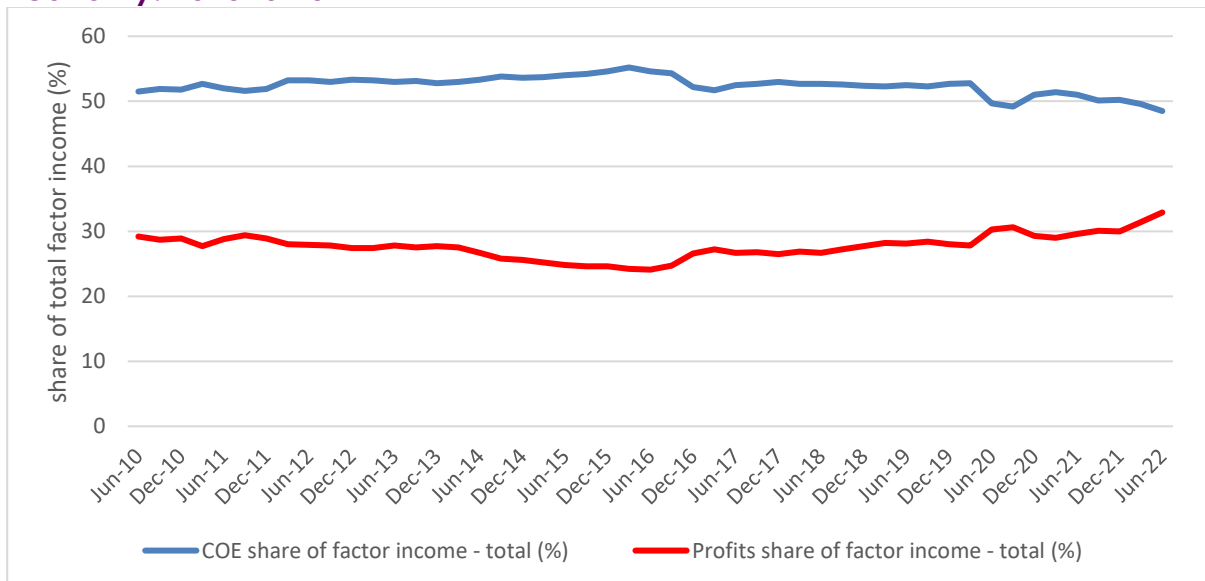


Source: ABS, Estimates of Multifactor Productivity Growth, WPI, CPI. Indices have been rebased to align the starting points.

The alignment of the growth of multifactor productivity and real wages sits in apparent contrast with the shift in the labour and profit shares of the aggregate economy.

The ABS recently published information on income shares for the total economy and for the total economy excluding the mining sector from 2010. The total economy data are set out in Chart 1.7 and the data for the total economy other than the mining sector are set out in Chart 1.8.

Chart 1.7: Wages (Compensation of Employees) and Profits Share of the Australian Economy: 2010 to 2022

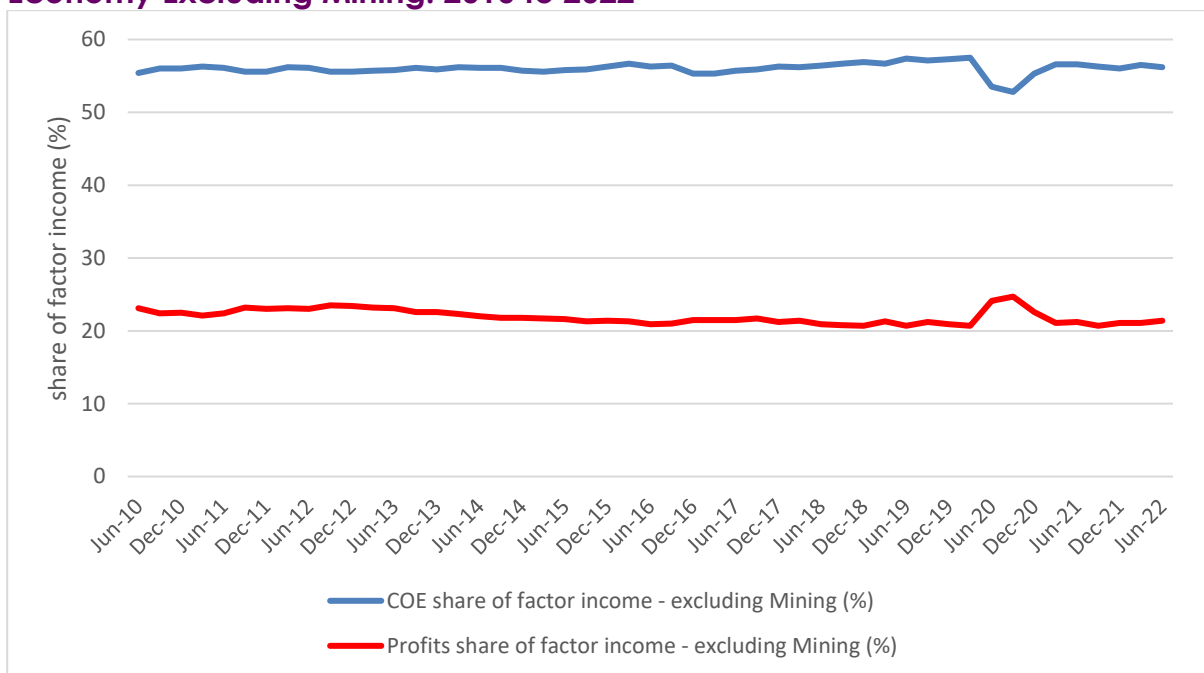


Source: ABS, National Accounts June 2022, 7 September 2022.

Much has been made of the apparent decline in the wages share illustrated in Chart 1.7 from about 2016 in the period covered. Most noticeably, inferences have been drawn from this decline in support of claims of increasing unfairness and growing asymmetry of bargaining power between capital and labour.

These inferences are strongly challenged by an examination of the data on income shares once the extraordinary circumstances of the mining sector are taken out of the equation. Chart 1.8 shows the wages and profits shares over the 2010-2022 period for the non-mining sectors of the economy.

Chart 1.8: Wages (Compensation of Employees)⁶ and Profits Share of the Australian Economy Excluding Mining: 2010 to 2022



Source: ABS, National Accounts June 2022, 7 September 2022.

In fact, the wages share of total factor income for the non-mining sectors of the economy rose (from 55.4 per cent to 56.2 per cent) between 2010 and 2022 and the profits share of the economy ex mining fell over this period (from 23.1 per cent to 21.4 per cent).

Far from supporting the inferences drawn about a loss of bargaining power and greater unfairness of income distribution, once the extraordinary circumstances of the mining sector are removed from the analysis, there is no evidence either of increased unfairness or of a loss of bargaining power in the data on income shares.

The forces behind the fall in the wages share of income for the total economy relate to factors unrelated to bargaining power. In simple terms the increased output of the mining sector and the very high prices received for non-rural commodity exports have inflated mining sector profits and the extent of this inflation has created a false

⁶ Compensation of employees (COE) is a more comprehensive measure of employee remuneration that provided by the Wage Price Index. COE includes payments to employees not included in wage rates (including bonuses of various forms and non-wage employer payments such as employer contributions to employee superannuation accounts).

impression of a general shift in the income shares of capital and labour. This general shift has not occurred.

The relatively unchanged shares of total factor income outside of the mining sector points to another important, though underappreciated, dimension of recent Australian experience. To the extent that the period since 2010 has been a period of low real wages growth, it has also been a period of low growth of business incomes outside of the mining sector.

Characterising the period as one of low real wages growth misses an important point. Outside of the mining sector Australia has experienced a period of low incomes growth both for employees and employers. At the heart of this low incomes growth lies not a loss of bargaining power nor increased unfairness in income distribution but rather the underlying slowdown in productivity growth.

The long period of low incomes growth has meant that employees, business owners and the households reliant on incomes from productive activity were vulnerable to the pick-up in inflation over the past year or so. Had real incomes (and productivity) grown more rapidly, the buffers against the sudden rise in inflation would have been much more robust.

Of course, the increase in employment and labour force participation discussed above have provided critical offsets to the contemporary in real wage rates for the workforce and household sector as a whole.

Nevertheless, these qualifying insights do not challenge the characterisation of slower growth in real wages and multifactor productivity in recent years as an area where we should do much better. It does however, extend that failure to the slow growth of real business incomes as evidenced by the fall in the profit share of non-mining factor income.

The recent fall in real wage rates

The fall in real wage rates over the most recent period is essentially an outcome of three factors: the sudden rise in inflation; the low growth in nominal wages during the COVID pandemic and the inbuilt inertia created by annual wage adjustments and multi-year agreements negotiated in a period of low inflation. When added to the lesser buffers in place due to an extended period of low productivity growth, this has seen the erosion of the cumulative real wage gains in the years immediately prior to the pandemic.⁷

Most recent wages data point to the gradual unwinding of this inertia with more recent data pointing to a sharp lift in nominal wage increases. Nevertheless, with inflation continuing to rise, although at what looks to be a slowing pace, redressing the erosion in real wage rates still has some way to go.

⁷ The extent of the erosion depends heavily on the measure of wages employed with more comprehensive measures such as compensation of employees indicating more resilience to the erosive impacts of the sudden increase in inflation.

In the meantime, an important consideration for wage-dependent households is that their incomes (and therefore purchasing power) rely on both the quantity of work available and the wage rates paid for that work.

To the extent to which a slower adjustment of nominal wages assists in maintaining high rates of workforce participation and labour force utilisation, the net impact on household wage incomes could well be more beneficial than if a faster pace of adjustment to nominal wages was accompanied by an erosion of employment opportunities.

A further factor in the household impact equation is that a more gradual recovery of nominal wage rates is likely to see the Reserve Bank adopt a more favourable evaluation of inflationary expectations and accordingly moderate the trajectory of monetary tightening. This would also imply a lesser impact on household mortgage payments than if nominal wages were to rise more rapidly.

Doing Better: Growth of productivity and real incomes

Reversing the recent partial erosion of the real wage gains that have generally been a feature of the modern Australian experience and laying the foundations for stronger real incomes growth in the future is, at its most fundamental level, a question of raising the rate of productivity growth.

The terms of reference for the Employment White Paper specify the objective of raising *labour productivity* which is driven by the combination of changes in the quantity of capital employed in economic activity and by changes in multifactor productivity.

Ai Group is a strong advocate of measures to raise workforce skills; business capabilities; and the pace of private sector innovation. We also advocate improving the efficiency of regulation across all areas of regulatory activity. Critically, this includes ensuring workplace relations arrangements encourage bargaining in the mutual interests of employers and employees and in ways that can take advantage of the opportunities for productivity gains in individual workplaces. These are key ingredients in the multifactor productivity challenge.

Raising pre-tax returns on investment by lifting the efficiency with which capital is employed and improving after-tax returns on investment by lowering effective taxation rates are two critical drivers of business investment and therefore of labour productivity growth.

There is, in addition, scope for judiciously targeted industry policy interventions to lift investment and therefore labour productivity. A well-designed National Reconstruction Fund could assist in achieving this. At the same time, the scope for distortions to investment patterns and for crowding out of the development of private sector investment in areas including in early-stage investment, need to be guarded against in the design and implementation of these interventions.

Skills gaps and mismatches

Notwithstanding the general rise in levels of educational attainment discussed above, a perennial area of concern among Australian employers is the unavailability of people with specific qualifications; the unsuitability and inflexibility of training arrangements; and the lack of 'work ready' skills among new workforce entrants. While these voices are amplified when the broader labour market is tight (as is currently the case), they have persisted though all labour market stages not just over years but decades.

It is an important area of failure both in terms of the ability of people to take advantage of opportunities but also for development of Australia's productive potential.

Australia's skilled migration program both in its permanent and temporary elements is an important safety valve for employers who cannot source suitably skilled people domestically. Given the long lead times involved in training in many areas, skilled migration is often the only way to achieve timely expansions of productive activity. Further, in some areas, the comparative advantage that some countries have in the education and training in specific areas can make sourcing suitably skilled people from abroad the more efficient path.⁸

While migration should continue to play its role in providing for the skills needs of Australia, there is considerable scope to improve domestic training arrangements to contribute more fully to Australia's current and emerging workforce needs and opportunities.

There is no shortage of excellent reports on domestic skills gaps.⁹ They commonly point to several areas of perennial shortcomings including:

- The shortage of take-up and completion of traditional trade qualifications
- Severe shortages of people with qualifications required to take up opportunities in the ongoing digitisation of economic activity including in relation to cyber security
- The relatively poor levels of science, technical, engineering and maths (STEM) skills
- The need to lift supply of skills across a range of areas essential for the challenges of the clean economy.

Doing Better: Skilling and education for current and emerging opportunities

In Sections 3.1 and 3.2 of this Submission we set out the detailed agenda Ai Group has developed to lift Australia's performance in meeting current and emerging skills gaps.

We cover the range of structural reforms required and the steps we should take to embrace the opportunities presented by the future of work.

⁸ Noting also that Australian-trained and educated people working abroad can make significant contributions to the availability of skills in other countries.

⁹ See for example, Ai Group's recently released *2022 Skills Survey: Listening to Australian businesses on skills and workforce needs* at

https://www.aigroup.com.au/globalassets/news/reports/2022/2022_skills_survey_nov.pdf and the recent report of the National Skills Commission at

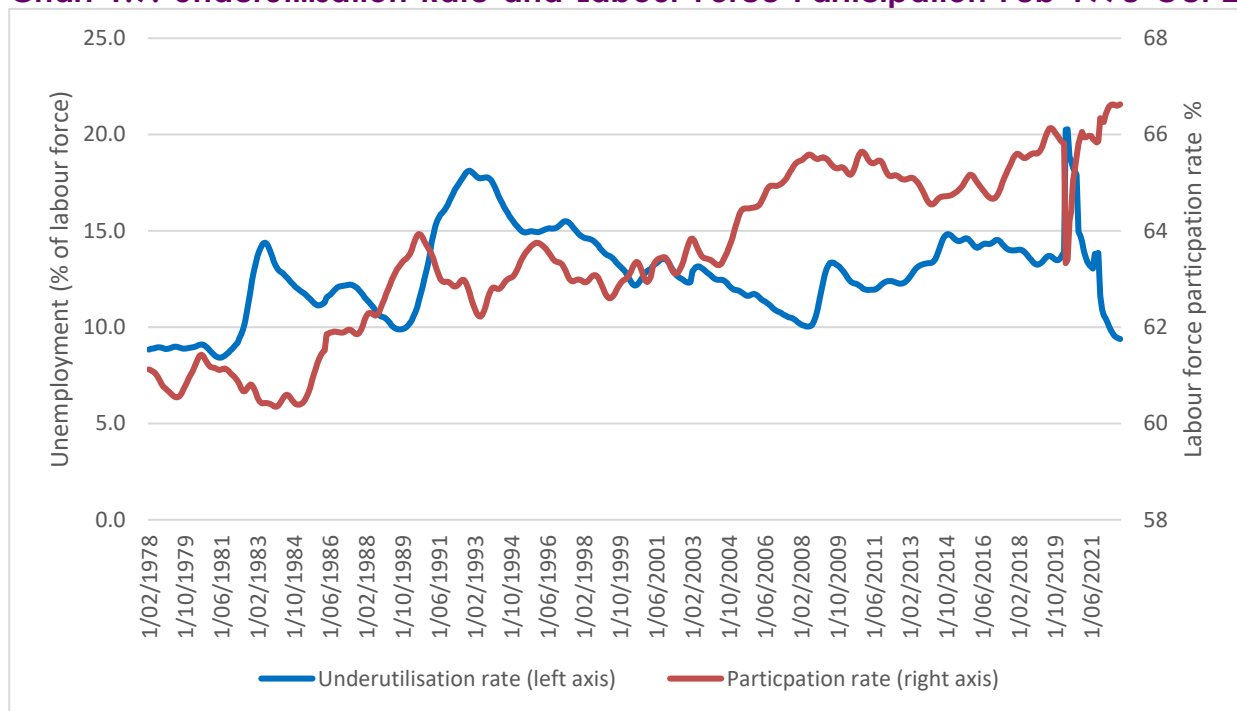
https://www.nationalskillscommission.gov.au/sites/default/files/2022-10/2022%20SPL%20Key%20Findings%20Report%20-%206%20October%202022_0.pdf

Labour market performance in the face of cyclical downturns and structural transitions

The final area of failure to which we draw attention is Australia's record on labour market performance in the face of cyclical downturns and structural transitions. Doing better in this area will be a critical element over coming years and decades as we continue to face waves of technological changes; as we accelerate along the decarbonisation path; as we face further global shifts in economic activity and; due to inexorable demographic forces.

Important insights into the record on labour market adjustment can be gleaned from Chart 1.9 which summarises labour market outcomes through the lens of rates of underutilisation and labour force participation.

Chart 1.9: Underutilisation Rate and Labour Force Participation Feb 1978-Oct 2022



Source: ABS.

The chart covers a period that included three recessions; the global financial crisis; considerable technological change; demographic transition; and structural adjustments in the face of the rise in female workforce participation, the liberalisation of the domestic economy and the rapid growth of emerging economies including China with its close links to the domestic mining boom.

As much as this was a testing period, it seems likely the decades ahead will see adjustments that are at least as profound as those experienced over the last three or four decades. Not the least of these disruptions are those related to achieving net zero emissions which we cover in greater detail in Chapter 2 of this Submission.

The underutilisation rate captures both unemployment and underemployment in a single, though imperfect measure.¹⁰ Given the imperfections, care should be taken about reading too much into the indication in Chart 1.9 that it is only in the last year or so that the underutilisation rate has returned to sub-10 per cent levels last seen in the 1970s.

What Chart 1.9 does indicate is the long time it can take for underutilisation to return to comparable levels following a major disruption. The post-COVID period is a clear exception that serves to highlight the more general experience.

The most extreme illustration is that it was well into the first decade of the current century before the surge in underutilisation in the early 1990s had been corrected by increased absorption into the workforce.

Considerable periods of higher underutilisation also followed the 1980s recession and the Global Financial Crisis and its aftermath.

The strength of the post-COVID recovery has surprised everyone with the extraordinary fiscal and monetary responses playing a clear (though clearly unsustainable) role in the rapidity of the recovery.

The participation rate is included in Chart 1.9 to provide insight into the importance of "hidden unemployment" (reflected in lower rates of workforce participation) following economic disruptions. The participation rate in broad terms is inversely correlated with the underutilisation rate.

In combination, the long time periods involved in raising participation and reducing underutilisation point to serious failures in the process of adjustment to disruptions. Long periods of unemployment and underemployment (both overt and hidden) point to high personal costs incurred because of disruption and they also mean there is a slower aggregate recovery by virtue of the underutilised labour resources. There are also the adverse fiscal implications of lower tax collections and higher income support outlays to consider.

¹⁰ One imperfection is due to the closely associated growth in part-time employment and underemployment. In the earliest years covered by Chart 1.9, a larger share of underutilisation was unemployment with most unemployed people seeking full-time jobs. Over the period covered, this has changed markedly, and underemployment is now the larger share with the underutilisation rate weighted to people seeking additional hours to top up their part-time participation in the workforce. As a result, each percentage point of underutilisation is now reflecting less severe underutilisation (in terms of additional hours of work sought). At the same time, the underutilisation rate does capture a good proportion of the number of people whose desire for additional work is not being met. A second imperfection relates to "hidden unemployment" where people who would prefer to work are discouraged from actively seeking work (or being available for work) and are not included in the underutilisation measure. In another direction, underutilisation also captures "frictional unemployment" which relates in broad terms to the transaction costs involved in job switching.

Doing Better: Improving labour market performance in the face of disruption

This is clearly an area where Australia can do much better and an area in which we need to do much better in view of current and emerging disruptions in areas that include the ongoing digitisation of economic activity; the challenge of achieving net zero emissions; and the instabilities and insecurities posed by current and emerging global developments. There are both proactive and reactive dimensions to the appropriate policy agenda.

- The proactive dimension includes investing more in individual and business resilience and agility including by lifting foundation and other transferrable skill sets for the workforce and among owners and managers of Australia's small and medium businesses. Investments of this nature provide 'blanket cover' for future disruptions and have the benefit of being offering benefits in the form of higher productivity and incomes even in the absence of disruptions.
- The proactive agenda also includes anticipatory interventions based on apparent directions. One topical example involves the destiny of coal-fired electricity generation with clear vulnerabilities for the workforces, supply chains and communities that are being, and that will continue to be affected. More generally, the path to net zero emissions will be massively disruptive not the least because of Australia's relatively emissions-intensive starting point. It is an area also ripe with opportunities for Australia. Proactive measures that tap the innovative dynamics of the private sector complemented with judicious public investments and interventions will be essential in the successful management of this disruptive challenge. We cover this area in greater detail in Chapter 2 of this Submission.
- Ideally the need for reactive measures can be substantially reduced by impactful proactive measures. However, the need for reactive responses is not likely to be reduced to zero given the proliferation of the unknown unknowns in economic disruptions and in the need to target resources available for proactive anticipatory interventions. Areas include targeted workforce training and business capability development; regional development measures; and, where necessary, relocation assistance for those affected.

2. The Challenge of Achieving Net Zero Emissions

To reach net zero emissions in coming decades will require colossal investment in and deployment of clean technologies to replace or transform most of our current primary energy supplies, heavy industries, transport systems and the built environment. This requires not just construction but manufacturing, minerals processing, mining, as well as ongoing management. There are global opportunities for Australia in all this, but the challenge is not so much to maximise jobs as to achieve such a huge task with the human resources and productive capacity that we can muster.

The National Electricity Market is supporting a once-in-a-century transformation in the way electricity is generated and consumed in eastern and south-eastern Australia. The central Step Change scenario of the 2022 Integrated System Plan foresees \$180b+ investment to 2050 and delivery of many complex projects to meet current demands; this would take us from around 84 gigawatts of generation capacity today to more than 280 gigawatts by 2050.

Should Australia achieve the renewable energy superpower visions many advocate, via large scale export of hydrogen and derivatives, electricity via subsea cables, or clean energy-intensive metals and other products, we could ultimately need up to 3,000 gigawatts of generation Australia-wide as well as associated transmission and energy intensive industrial facilities.

Local and global energy transitions will also drive substantial increases in demand for a range of critical minerals essential to renewable energy, energy storage and electrification. Putting all this together, we could be facing investment and construction needs comparable to the mining boom, but sustained over a much longer period. For all its benefits, it is worth recalling the disruption and cost inflation that non-mining sectors experienced during that period. Clearly there are pitfalls to be avoided.

Maximising productivity in construction and other sectors will not only impact our ability to get this transition done, but our competitiveness in a net zero emissions world. The International Renewable Energy Agency assesses that would-be hydrogen exporters will need to achieve all-in electricity costs that are half or less those in importer economies to make the transaction worthwhile given transportation and conversion costs.

The cost of renewable energy is largely the cost of initial construction and finance. Technology costs are similar globally but installation costs are not, and in Australia they may range from 6 per cent of total large scale solar costs to 15 per cent of onshore wind and 19 per cent of offshore wind. High performance on building renewables as fast and well as others can – or better – will lift our ability to attract energy intensive industry and be an energy superpower, with all the skilled jobs in many sectors that entails.

The transition may impact all industries, not just the low carbon and environmental goods and services sector. All businesses will need to use energy and natural

resources efficiently and sustainably. Therefore, skill needs are likely to be multi-layered. Industry needs deep, technical skills but also transferable skills. The whole community will need clean economy literacy to enable a culture for transition.

Energy productivity is particularly important; in the short term we face severe global price pressures for gas and coal, while in the longer term energy efficiency can moderate the pace of new supply investment we require and make transition easier. While the faster relative growth of less energy-intensive services sectors will improve some measures of national energy productivity, it is important that we lift actual energy performance across all sectors to drive broad benefits.

There will be a growing need for skilled tradespeople and energy professionals in Australia; indeed, employers are already reporting skills shortages across these occupations as their businesses transition. In addition to needing a greater pipeline of workers with university and VET qualifications, it is likely short courses will be increasingly called on to rapidly upskill and reskill.

Automation and the use of AI and assistive robotics to enhance worker productivity will be increasingly important to deliver what is needed.

3. Skills, Training and Education

Ai Group's latest skills survey, released in November 2022, shows continued difficulty by businesses in meeting their skill requirements.¹¹ Our education and training system must improve to meet the ongoing pipeline of workers, with the right skills, that businesses require. The immediate education and training measures agreed at the Jobs and Skills Summit, cemented in the Government's October Budget and since progressed, promise to make initial headway on much-needed reforms, and build the pipeline of workers needed in the short term. However 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 and strategies that progressively work towards defined outcomes.

3.1 Structural Reforms

Understanding the central influence people's capabilities have on productivity and recognising that our education sectors are the primary developers of knowledge and skills, Ai Group calls for more holistic approaches to education and training to positively impact Australia's skill levels and workforce resilience. This is integrally linked to full employment and increased incomes. Lasting change can only occur if the actions already commenced are embedded in several overdue structural reforms.

A fully implemented, revised Australian Qualifications Framework

A new Australian Qualifications Framework will better serve modern industry and is an essential element within the Government's roadmap. While some work has commenced, full implementation of the overdue reforms from the Noonan Review will provide a modern qualifications framework fit for current and future education and training needs. They allow for more flexibility in the way we combine the teaching of skills and knowledge, and a deeper understanding of the importance of context and application in education and training. Full implementation of the proposed framework will better connect the tertiary education sectors and be adaptable by industry and individuals. Its implementation is likely to prompt timely reviews of funding models, the role of providers and the relationship between learning and credentialing and these reviews should be built into the roadmap.

A comprehensive and accessible skills classification system

A fully developed Australian Skills Classification has the potential to provide refreshed sets of skill descriptors that accompany the new qualifications framework to help industry identify transferrable skills between jobs, workforce skills gaps, identify training needs, and through shared understandings of skill descriptors, assist employers to work with education and training providers. It will need to be well-

¹¹ 2022 Skills Survey: Listening to Australian businesses on skills and workforce needs, Australian Industry Group, 2022

supported to incorporate regular updates that reflect the fluid nature of workplace skills.

Ongoing data collection and analysis of Australia's skill needs through JSA

Feeding into the skills classification, will be a long-term commitment to a continuation of the upscaled work in recent years examining current, emerging and future workforce needs by the National Skills Commission (NSC). This has been an important improvement in receiving timely data on the state of Australia's skills landscape. This work must be given prominence within Jobs and Skills Australia and be appropriately resourced. Areas of particular importance highlighted by recent analyses included STEM skills, skills related to data analysis, a wide range of digital skills as well as the overarching importance of employability skills which have been highly reflective of industry's needs. This function should continue to identify emerging skills and occupations, demand and supply.

More broadly, Jobs and Skills Australia (JSA) must provide a collaborative national voice for industry on skills along with governments, and education and training sectors.

A better-connected tertiary education system

The necessary changes discussed above will only be deeply effective alongside a coherent and connected tertiary education system with structures that facilitate student movement between the sectors. The establishment of such a long-term policy view for tertiary education is another overdue reform driven by new and changing skills and skill levels. Industry increasingly requires skills development that straddles both the VET and higher education sectors as combinations of skill sets shift and incorporate higher level skills.

At present, barriers arise because of the entrenched divisions inherent in our tertiary education sector. Ai Group has been experiencing difficulties for five years in implementing its government-funded pilot higher apprenticeship and degree apprenticeship programs due to the disconnectedness of the VET and higher education sectors. Delivery issues have arisen where programs involve a combination of competency-based learning through a VET Diploma and a curriculum-based model of an Associate Degree. Places are funded differently for learners moving through the two sectors, and current legislation provides a barrier to the employment-based learning model in higher education, with declaration of apprenticeships and the use of national training contracts restricted to VET qualifications.

There are a number of ways in which common policies could operate across both VET and higher education. Public funding for the tertiary education system should be at a level that enables quality outcomes across VET and higher education, and be equitable across the sectors and between levels of government. It must be sufficient to deliver access and equity principles, practices and programs and must appropriately support both public and private VET providers.

These changes will encourage closer partnerships between the VET and higher education sectors. This should include the exploration of and support for more innovative tertiary education institutes that mix vocational and higher education. One example is the NSW Institute of Applied Technology, which aims to fully integrate VET and higher education in a cohesive tertiary curriculum that has access to industry representatives and that can accommodate employers involved in the delivery of their own proprietary training.

Closer industry-tertiary education collaboration

The decreasing shelf life of skills means new paradigms must be created for partnerships between industry and higher education providers. Embedding collaborative cultures for skills development will assist Australia's future success, which was an aspiration held by the Review of University-Industry Collaboration in Teaching and Learning¹².

Enhanced partnerships will help to ensure that available training meets the needs of local employers and are updated or developed where required. They will be better able to co-design flexible training solutions that can respond to local and emerging needs and be implemented quickly. Vocational education and training providers need direct involvement of employers, and support by government through investment and programs to enable this. The Government, engaging other stakeholders, must explore new ways of building skills and capabilities for companies and individuals.

There are several examples of mainly larger companies forming strategic alliances with universities to develop and deliver new programs that align with their future business requirements. As a leader, BAE Systems Australia circulated a Request for Information to other companies to collaborate on innovative education and training initiatives to nurture talent for their industry. The company is similarly working with universities and TAFEs to achieve these ends. Such collaborative activity now needs to be widespread, including support provided to smaller sized companies to recognise the benefit of, and establish relationships with, larger employers and providers. These alliances would guide the learning in tertiary education, explore new skilling models, and help to build learning into the everyday business of companies.

Australia would benefit from a stronger system of collaborative metropolitan and regional hubs, learning from the Centres of Vocational Excellence model in Europe by developing strategies to meet local skill needs and assist large and small employers create innovative solutions to skill challenges. As exemplars for collaborative industry-education cooperation, hubs should be well-funded and expanded across the business landscape, encouraging involvement by smaller-sized companies. Hubs models encourage multi-partner innovative spaces to develop partnerships between industry-student-provider engagement models, foster and increase relationships, and result in industry-tuned workforce

¹² Review of University-Industry Collaboration in Teaching and Learning, Bean, M. and Dawkins, P., Department of Education, Skills and Employment, 2021.

entrants. Such partnerships can lead to next generation tech sector partnerships, work-based learning networks and/or pipeline partnerships operating according to need.¹³

Regional centres will strongly benefit from support to establish greater cultures of collaboration between tertiary education providers and local industries that co-create skill ecosystems. While initiatives already exist in Australia, more are needed. Funding and support for these initiatives can range from financial incentives, education vouchers, training grants and scholarships and general tax deductions.

An expanded and reinvigorated apprenticeship system

With the strong demand for trade and related skills sets 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. The model is an effective vehicle for young people to enter or re-join the labour market. And with evidence of better employment outcomes for apprentices/trainees compared with other students, the apprenticeship system must be well-supported into the future.

It is encouraging that the Government has commenced a review of some aspects of the system by circulating a discussion paper in November. 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 and misses vital traineeships particularly in female dominated industries. 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 also 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.

Further to these shorter-term improvements, opportunities for expansion of the traditional model also 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 and paraprofessional levels and beyond. Ai Group has been piloting higher apprenticeship models for over five years in response to industry needs for hands-on tradespeople with higher skill levels based around new

¹³ Advancing innovation in work and learning, Strada Education Network newsletter, March 2021.

technologies. These pilots have included a federally-funded pilot in 2017/8, as well as state-funded pilots in South Australia, New South Wales and Queensland.

Ai Group is also collaborating with BAE Systems to introduce a degree apprenticeship model in Australia. With the shortage of engineering skills in many sectors expected to become acute and persistent through strong future demand, this has the support of Engineers Australia which has highlighted the advantage of earning a living while learning to people who need to support themselves financially.

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.

Work-integrated learning as a core learning practice within university education

Employment outcomes and work readiness of higher education graduates can be improved at scale by incorporating student placements and projects more broadly into qualifications. Work-integrated learning (WIL) suits today's workplaces. It allows students to be immersed in real work environments and assists in developing work and career readiness. 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. A 2019 Michell Institute proposal for a national cadet program provides a good model with support provided to employers. 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, supported by the Australian Collaborative Education Network. The National Priorities and Industry Linkages Fund has added some measures, however a much more comprehensive WIL system is needed in Australia which recognises some of the international exemplars, in particular Canadian initiatives. One of the key aspects to consider is embedding a solid data collection.

Ai Group and other partners to the 2015 National Strategy on Work Integrated Learning in University Education¹⁴ are currently refreshing the document to be useful

¹⁴ See [National strategy on work integrated learning in university education](#)

to the emerging and future landscape. The partners encourage collaboration with the Government on the document and its suggested actions.

Strong foundation skills support at all ages

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 has found that 74% of businesses are affected in some way by low levels of literacy and numeracy.¹⁵ 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 lie with helping them to prepare for future jobs that are evolving with a transforming economy. This includes 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 workers 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. Pre-course assessments are common for full qualifications but not necessarily for short courses and not at all if no further training is anticipated.

A new report by Social Equity Works for the Reading Writing Hotline¹⁶, provides an indication of unmet adult literacy needs identified across Australia and the barriers experienced by both learners and providers of adult literacy training.

3.2 The Future of Work

Glimpses into the future of work through the digitally transforming economy suggest the current and future Australian workforce must be better, and differently, equipped. As digital transformation progresses many employers are re-aligning their business models and strategic directions and moving into new industry areas.

¹⁵ 2022 Skills Survey: Listening to Australian businesses on skills and workforce needs, Australian Industry Group, 2022.

¹⁶ See [Insights from the classroom – a survey of adult literacy providers](#)

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.

Advanced, clean, new and future industry will increasingly include hybrid occupations that are mixes of current professions and trades. Workplace cultures are shifting. Higher productivity is being achieved through remote-work arrangements. Data science and interpretation are becoming larger parts of many roles. Circular and sustainable planning and processes loop in new capability needs. Corporate social responsibility endeavours are colliding with skills as companies consider diverse cohorts when re-building capabilities. Innovation and advances through digital and green transformations mean different skills, capabilities and mindsets will need to keep pace. 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.

Adding to the major disruption in the skills landscape, research on the changing workplace is showing there is an evolution to the nature of work.¹⁷ It speculates that the way people work is changing in an unprecedented way, suggesting skill development needs a different approach moving forward: where learning is not separate from doing, where we immerse learning in work environments. The ILO Global framework on core skills¹⁸ categorises core skills for the 21st century as cognitive and metacognitive skills; basic digital skills; basic skills for green jobs; and social and emotional skills.

In order to prepare and re-skill individuals for future work, Ai Group regards the following groups of skills as key components of a Government roadmap that builds the meta-skills needed.

Social and emotional skills The OECD recognises that the ability of citizens to adapt, be resourceful, respect and work well with others, and to take personal and collective responsibility is increasingly becoming the hallmark of a well-functioning society.¹⁹ Social and emotional skills are a subset of an individual's abilities, attributes and characteristics important for individual success and social functioning. The OECD cites skills such as co-operation, empathy, and tolerance as key for citizens and nations to achieve sustainable development goals and to effectively participate and contribute towards building democratic institutions.

Leadership skills In future work scenarios leadership must be different in order to maintain the quality of people's work design. Managers will need to integrate technology in the workplace, use analytics as a key tool, use culture as the new structure, build personalised learning cultures and proactively manage diversity.

¹⁷ Frank, K. and Frenette, M., Are new technologies changing the nature of work? The evidence so far, Institute for Research on Public Policy, Canada, January 2021.

¹⁸ Global framework on core skills for life and work in the 21st century, ILO, July, 2021.

¹⁹ Beyond Academic Learning: First Results from the Survey of Social and Emotional Skills, OECD, September, 2021.

They will need support to develop the skills to lead with an empowering style, to delegate to workers those decisions previously made by specialists or managers, and develop enriched work designs to improve workers' learning and efforts to improve their own work. Australia's tertiary education system must be supported by governments to design, develop and deliver the management development programs industry needs.

Tech skills Workforce pressures exist from greater demand for higher-level, flexible skills, especially in key STEM areas and advanced trade skills and from changing skill needs in industries undergoing adaptation. Australia needs a larger degree-qualified engineering, technical and digital workforce as well as a VET-qualified workforce in skilled trades, traditional industry and utilities. This echoes National Skills Commission research demonstrating the need for a STEM-skilled workforce: those with high level tertiary education and training in STEM-specific areas as well as digital skills, data collection and analysis skills.²⁰

Current projections showing large shortages of tech-based professionals in coming years are well publicised.²¹ Ai Group's 2022 skill survey shows continued difficulty experienced by employers in meeting their needs for Technicians and Trades Workers (72 per cent).²² A new report from the Australian Academy of Technological Sciences and Engineering (ATSE), 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.'²³

An improved skills roadmap for digital transformation that ensures all workers are equipped for the emerging work landscape will provide a better handle on the broad, looming gaps. The roadmap would incorporate the different levels of skills required by workers for the transforming economy: digital literacy, digital fluency and digital mastery. Through industry advice it will encompass the needs of both new workforce entrants and existing workers. It will span education and training sectors to align development with needs. Importantly, it will recognise that digital skills development at all levels incorporates human skills development.

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 Australia's major challenge. 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.

²⁰ State of Australia's Skills 2021: now and into the future, National Skills Commission, 2021.

²¹ For example: Roadmap to Deliver One Million Tech Jobs, Technology Council of Australia, October 2021

²² 2022 Skills Survey: Listening to Australian businesses on skills and workforce needs, Australian Industry Group, 2022

²³ Our STEM skilled future: An education roadmap for an innovative workforce, Australian Academy of Technological Sciences and Engineering, 2022.

Skills for the clean economy The clean transformation will be as large as the digital transformation with aspects of the two increasingly merging. There are known areas of change such as electrification and offshore wind, as well as emerging areas, such as renewable hydrogen, clean energy technology and circular economy, where the output of materials, products and services will have to ramp up dramatically.

Ai Group's 2022 skills survey found that 24 per cent 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 required 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. A number of 'clean occupations' are currently on the national Skills Priority List – Construction/Engineering/Production Managers; Engineering professionals; Carpenters and Joiners; Plumbers; Plant Operators. Electrical engineers are an example of an evolving occupation, and fuel cell engineers, hydroelectric plant technicians and recycling coordinators are examples of emerging occupations.

However, if the transformation is whole-of-company it is likely that 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). As time progresses there will be a need for all workers to have the skills demanded by the clean economy: specialists and professionals through to those workers requiring clean economy literacy for their roles.

While macro-level workforce planning activities are underway to tackle this looming skills issue, much more work must be undertaken at the state and regional levels to understand the new skills and occupations involved, as well as underpinning training and professional development pathways required to deliver the transition. In addition to good pipelines of quality graduates from VET and higher education, there must be ongoing activity to re-skill and up-skill and transition existing workers quickly. Transferability of skills is likely to be important with the skill set profile of occupations changing.

The Clean Energy Capacity Study to commence 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, and resulted in a report and recommendations. One recommendation has resulted in the valuable work to develop 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 skills for the clean economy, 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.

Improved education and training structures to support an adaptable workforce

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.

As discussed under education and training in the earlier section on achieving full employment and increased incomes and labour productivity growth, the adaptability of the future workforce will be underpinned by a number of structural changes: a fully implemented, revised Australian Qualifications Framework; a comprehensive and accessible skills classification system; ongoing data collection and analysis of Australia's skill needs; and a better-connected tertiary education system.

With these structures in place the landscape will be conducive to shorter forms of training, including increased accessibility to micro-credentials for industry and existing workers. Funding to education and training providers must remove barriers to provision and encourage an increase in the delivery and integration of shorter training options. A fund for existing worker upskilling, focusing on priority industries/skills would provide greater access for individuals and industry to micro-credentials. At a time when Ai Group's research shows 82% of businesses intend to maintain or increase the amount they spend on staff training, microcredentials development should encourage education and training providers to engage with industry resulting in microcredential design and content specific to re-skilling and upskilling needs.

While employers require improved access to short courses and micro credentials, it is important that they be guided towards microcredentials that meet the criteria set out by the National Microcredentials Framework and that short courses involve accredited skill sets. This guarantees quality, industry endorsement and transferability of skills recognition, supporting lifelong learning.

3.3 Skills and Workforce Opportunities for Disadvantaged Groups

Groups that experience disadvantage include, but are not limited to women, first nations people, refugees, youth, people with disability, the culturally and linguistically diverse (CALD), and those in some regional areas. Given such a broad range of groups, simplistic, one-size-fits-all strategies and solutions to lift the employment participation of individuals experiencing disadvantage will rarely enjoy sustained success.

Many businesses do employ individuals that have come from disadvantage and are committed to continue to do. Some large companies in particular often have HR departments that embed diversity and inclusion in their core employment practices. Other large companies and many SMEs without HR departments have a more mixed record and often lack internal resources to implement sustainable strategies. The tightness of the current labour market with widespread skill and labour shortages has prompted many businesses to reach out and recruit beyond traditional cohorts and traditional methods.

An individual's ability to adapt and thrive in a fast evolving world rests on them having acquired strong foundation skills, the willingness to learn and a habit of learning (lifelong learning). These skills and attitudes are vital for individuals to absorb and expand the knowledge and skills required to navigate new labour market needs and life circumstances.

Strong foundation skills are essential if Australians are to meet the challenge of the future of work, with a strong body of research linking poor foundation skills to low overall and lifelong educational attainment. People with low literacy and numeracy levels or with low educational qualifications are less likely to be employed or more likely to be employed in low skills insecure occupations with a higher risk of being offshored or automated, and at greater risk of redundancy. They may also face difficulties in participating in social and community life, where a range of communication skills are required for confidence and meaningful relationships.

Research has shown that even small gains in adult literacy can have long lasting impacts. From an economic perspective, evidence suggests that government investment in increasing the literacy skills of adults has a direct and positive impact on labour productivity and gross domestic product per capita and that the greatest impact can be gained by investing in improving the skills at the lower levels. Research also suggests that an increase in literacy and numeracy by one skills level is associated with a 10% increase in wages. While teaching foundation skills is the primary domain of primary and secondary schools, acquisition of these skills may need to occur later on in an adult's life, for a variety of reasons, including English not being their first language, disability, or having a disrupted education. Furthermore,

social and economic transformations will impact the future demand for skills necessary for work and life; for example, the increasing need to possess at least basic digital skills. Given this, it is clear that foundation skills for adult learners are a worthwhile investment with high returns.

Ai Group undertook a national research project examining number of workplace language, literacy and numeracy (LLN) projects of different sizes and in different industry areas - Investing in Workforce Literacy Pays (August 2015). For those companies that were able to generate a return-on-investment calculation, the results were all positive in the range of 102 to 163 per cent. These results were achieved across a number of different States and industries such as manufacturing, utilities, construction and aged care.

Ai Group welcomes its representation on the Government's new Foundational Skills Advisory Group which aims to ensure any changes to policy or programs achieve the best possible results for the broader Australian community including for First Nations Australians, women and people from cultural and linguistically diverse (CALD) backgrounds.

Beyond foundation skills it is important our education and training system fully embraces lifelong learning, enabling all working age Australians to develop skills and keep them up-to-date. This will involve developing new models of training that among other things are more accessible. An important starting place is the expansion of funded micro-credentials, skill sets and other shorter form credentials that are aligned to the skills needed in the labour market. It could also include a completely re-designed mature-age apprenticeship model. A model that builds upon the experience and skills a mature-age individual brings with them, rather than relying upon the single point of decision-making immediately existing school.

Expansion of other work-based learning models may also expand the opportunity for employers to engage more disadvantaged individuals. Structured Work Integrated Learning (WIL) projects, internships and cadetships all enable individuals to gain genuine work experiences building the individuals employability and work readiness. Additional supports in the workplace would be required. The assistance required is two-fold: assist the employment to create a supportive and cultural appropriate environment for the individual, and support for the individual, ie, mentoring, to address to individual impact of disadvantage.

While targeted training designed to help individuals who experience disadvantage, e.g. long term unemployed, is helpful in initially developing all important employability skills, these skills are best consolidated in the context of actual employment. Too often we have seen individuals churn through multiple labour market programs or similar, that do not lead to gaining and retaining employment.

Additional support for disadvantage individuals including mentoring, and a flexible employment structure is important at this early stage. Business will need toolkits to enable them to develop and implement successful strategies that can facilitate enduring employment outcomes. Workplace culture is a key consideration with targeted strategies far more likely to experience success when coupled with organisation-wide buy in.

There is an ongoing need for policy to ensure that individuals and groups who face barriers to economic and social participation are encouraged and facilitated to seek opportunities. 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 for all. Apprenticeships are important career entry points for a wide variety of skilled occupations. But the proportion of people with disabilities who commence apprenticeships is disappointingly low. The latest data from the National Centre for Vocational Education Research shows that people with disabilities make up less than 3.5% of apprenticeship commencements in a calendar year.

There is a Commonwealth program that supports the employment of people with disabilities into apprenticeships. The Disabled Australian Apprentices Wage Support Program, or DAAWS as it is known, has been around since 1983. It was last reviewed twenty years ago in 2002. Back then the review noted that the wage assistance paid to employers was up to \$104.30 per week. Today, 20 years later, the assistance is still \$104.30 per week. If the rates had kept pace with inflation it would be 65% higher today, or \$171.70 per week.

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 employer doesn't apply for the incentive or is not aware of the apprentice's disability (and not all apprentices are prepared to share that information), then that support for the apprentice cannot be accessed.

Also welcomed is the Government's commitment to the new Youth Engagement Model including the establishment of an Office of Youth, ongoing funding for the Australian Youth Affairs Coalition and issue-based youth advisory groups. The development of a Youth Engagement Strategy must use these broad stakeholder groups, as well as industry to inform its actions.

4. Workplace Relations Arrangements to support productivity, innovation and contemporary workplaces

4.1 Current changes, productivity and the need for genuine enterprise bargaining

It is vital that Australia's workplace relations system genuinely promotes and improves growth in productivity and innovation while supporting contemporary workplaces.

The current economic and business environment is very challenging for businesses – small and large. Businesses are endeavouring to cope with high inflation, rapidly rising interest rates, low economic growth, stagnated productivity, supply chain pressures, intense competition, and labour and skill shortages.

The *Fair Work Amendment (Secure Jobs, Better Pay) Bill 2022* currently before the Senate remains detached from objectives to promote productivity and innovation. Ai Group's detailed submission²⁴ raises significant concerns about the Bill.

At best, it is untested whether the Bill will in fact deliver wage increases such that they can be sustained and supported by productivity growth. The complete absence of focus on productivity and innovation in current workplace relations reform should be reason to make this a key priority for the Federal Government's ongoing workplace relations agenda.

To this end, the workplace relations framework must genuinely focus on bargaining at the enterprise level and on creating a modern award system that is more responsive to innovation and contemporary working arrangements. Ai Group's position on enterprise bargaining is set out in greater detail in the submission on the Bill referred to above and in our Workplace Relations Policy – Enterprise Agreements policy statement of February 2022.²⁵

Under the regime to be created if the Bill is enacted, employers and employees would be engaging in bargaining, voluntarily or otherwise, without the necessary experience or expertise. It is essential that some level of assistance is provided to businesses to equip them in understanding any new bargaining laws; the benefits of enterprise bargaining; and effective bargaining negotiation and dispute resolution processes.

²⁴ This Ai Group Submission is available at https://www.aigroup.com.au/globalassets/news/submissions/2022/senate_inquiry_fw_amendment_secure-jobs-better-pay_bill_nov_2022.pdf

²⁵ See https://www.aigroup.com.au/globalassets/news/policy-papers/2022-federal-election/federal_election_policy_statements_wr_enterprise_agreements_feb2002.pdf

4.2 A more flexible and dynamic modern award system is needed

Australia's workplace relation system is far too complicated. The safety net of modern awards and the National Employment Standards (NES) need to be genuinely modernised to reflect the circumstances of contemporary workplaces and to facilitate compliance.

The safety net remains highly complex, overly prescriptive, and unduly restrictive. It is failing to keep up with developments such as the evolution of new industries and ways of working, including the widespread adoption of hybrid working arrangements involving remote working and the development of the 'gig' or 'on-demand' economy. The system imposes an excessive regulatory burden and associated cost on employers; stifles the realisation of productivity improvements; and undermines workforce participation. It is comprised of a patchwork of entitlements, dealt with partly in the NES and partly in modern awards, meaning that parties need to review multiple instruments to understand the obligations and entitlements.

All too often the contents of modern awards reflect historical terms of predecessor instruments, established under earlier iterations of workplace relations laws, rather than the genuine and contemporary characteristics of employers and employees in particular industries. The result is unjustifiable differences in award regulation of comparable issues that complicate the system. Many modern awards are also littered with clauses that are overly complex or prescriptive and out of step with practical realities.

Particular problematic areas in Australia's modern award system are listed below.

- Many awards contain overly prescriptive regulation of the engagement and use of part-time employees, particularly in relation to the setting of hours that will be worked. Such obligations are commonly much more onerous than the approach adopted in the context of full-time employment. In most awards, hours worked outside of hours of work initially agreed upon engagement will attract overtime and mechanisms for varying such arrangements are unduly cumbersome. Employers report that such clauses operate as a disincentive to the engagement of permanent staff over casual staff or contractors. They also serve to discourage employers offering additional hours to part-time staff.
- Many awards contain outdated requirements regarding the regulation of hours of work, minimum engagements, rest breaks and associated penalty rate regimes that do not reflect the realities of remote work or working from home

arrangements. Often such provisions reflect an outdated consideration of the disutility of needing to travel to an employer designated workplace.

- Ai Group has elsewhere argued that there is not the same imperative to require that ordinary hours of work are undertaken *continuously* when an employee works from home instead of an employer's premises. Indeed, such restriction prevents employers agreeing to flexible work arrangements commonly desired by employees, such as the ability to break their working day to meet caring or family responsibilities.
- The provisions contained within awards dealing with annualised wage arrangements have imposed highly burdensome record keeping requirements upon employers that make little practical sense in many employment contexts, and are difficult to comply with, particularly when employees are working remotely.
- There are some matters that are dealt with partly in awards and partly in the NES or elsewhere in the legislation. These include, for example, provisions dealing with annual leave and notice of termination. This patchwork of entitlements could be simplified by some of these issues being dealt with in a uniform manner in the safety net.

Changes to both the structure and content of the safety net are needed to better support contemporary working arrangements and the viability of employment models is needed.

The workplace relations system must respond to contemporary working arrangements

Remote, hybrid and flexible work arrangements are accessible to more diverse groups in the community and will remain an enduring feature of working arrangements and job design in the future. Employers have also built new operating models around worker engagement; labour productivity; supervision and instruction; and employee well-being and inclusivity.

Opportunities for remote and flexible working arrangements should be harnessed to support sustained workforce participation by employed carers that enables them to provide care and receive income from paid employment.

Recent ABS data demonstrate the strong and enduring prevalence of working from home, or 'teleworking', in many Australian businesses. Remote working arrangements obviously increased during the lockdowns of the early COVID

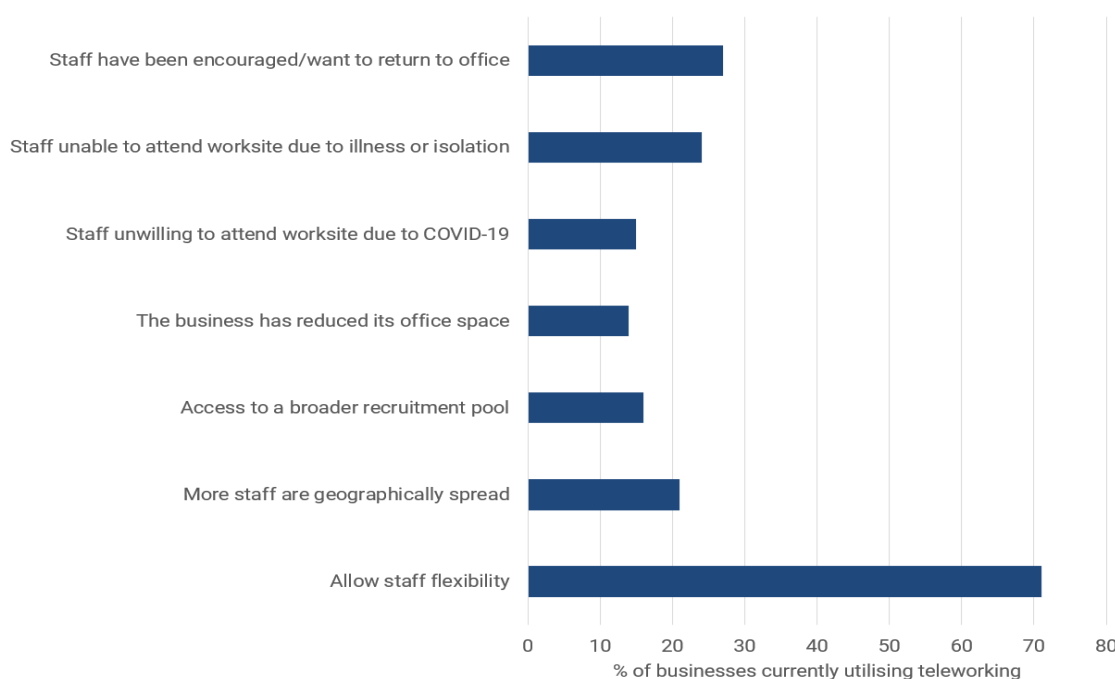
pandemic in 2020 and 2021. It is now a core feature of contemporary Australian work patterns.

- 34 per cent of all Australian businesses utilise teleworking arrangements for a portion of their workforce;
- 11 per cent of businesses utilise teleworking for a large majority (75-100 per cent) of their workforces;
- 12 per cent of businesses presently intend to increase their teleworking arrangements.²⁶

As seen in Chart 4.1 below factors affecting working from home arrangements in 2022 are also relevant:

- 71 per cent of businesses utilising teleworking do so to allow increased staff flexibility;
- Geographic diversity (21 per cent) and broadened recruitment pools (16 per cent) are also common factors;
- In some cases, teleworking is used to maintain continuity due to absenteeism and isolation requirements (24 per cent)

Chart 4.1: Factors affecting teleworking arrangements, June 2022



Source: ABS Business Conditions and Sentiments 2022.

In addition, employee level data from the *ABS Household Impacts of COVID -19*

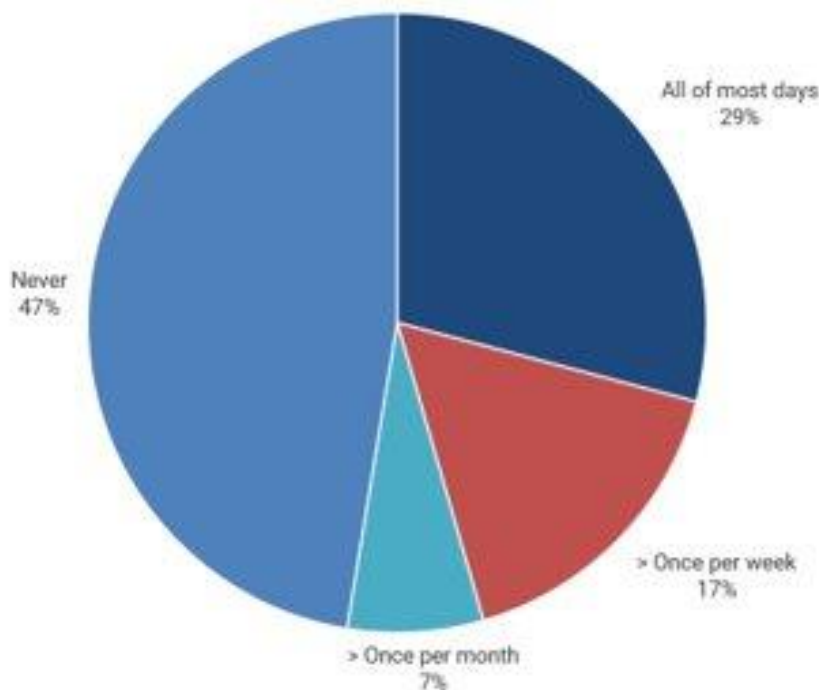
²⁶ ABS Business Conditions and Sentiments, June 2022.

Survey, April 2022 show that work from home practices are widespread amongst Australian employees. In particular:

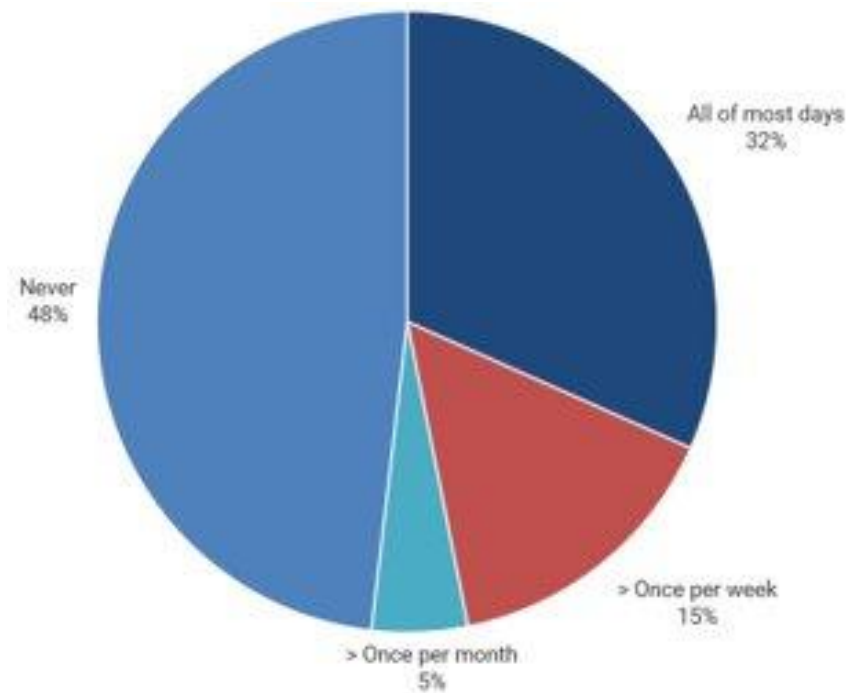
- 46 per cent of all employees worked from home to some degree in April 2022, and 30 per cent did so all or most days;
- Its prevalence has nearly doubled since pre-pandemic levels, when only 24 per cent worked from home to some degree, and 12 per cent on all or most days;
- Work from home practices are unique amongst labour market characteristics for their high degree of gender symmetry;
- Male and female work from home rates are very similar.

It is significant that remote working arrangements rates for men and women are similar. Charts 4.2 and 4.3 show that 29 per cent of men reported working from home on almost all days while this rate was 32 per cent for women (see Figure 3). This should weigh against suggestions that it is mainly women performing remote. The enduring role of remote working in contemporary work arrangements should be seen as an opportunity for the combination of work and care responsibilities.

Chart 4.2: Male employees work from home practices



Source: ABS Household impacts of COVID-19 Survey, April 2022

Chart 4.3: Female employees work from home practices

Source: ABS Household impacts of COVID-19 Survey, April 2022

Specifically, the safety net should appropriately enable employers to provide greater flexibility to those employees who desire it and remove barriers, including cost barriers, to agreeing to flexible working hour arrangements where requested or preferred by employees.

In addition, the Government should immediately review the operation and application of the current Fair Work Act and Fair Work Regulations as they relate to record-keeping and hours of work in the context of remote and hybrid work. The Government should approach the review of the Regulation on thorough principles aimed at improved workplace productivity, reducing the compliance burdens on both employers and employees and maintaining appropriate levels of protection for workers.

Modern awards must support viability of employment models

In some industries, there is also a need to assess whether current award terms are sufficiently flexible to enable workforces to be viably structured around use of an employment model, as opposed to a contractor models, given the rise of 'on-demand' sectors and platform businesses, as well as associated changed consumer demands. The development of such sectors and businesses provides significant benefits to both consumers and workers. The engagement of contractors within this context can represent a legitimate arrangement that often offers mutual benefits to individual workers as well those that engage them. Nonetheless, the retention of unjustified rigidities within some awards, often based upon historical assumptions

around how work in a particular sector is undertaken, needs to be reassessed to ensure they do not represent a barrier to employment opportunities.

Measures to improve compliance with modern awards

There can be no doubt that the complexity and nature of the system plays a role in non-compliance with it. This will not be rectified by merely introducing new or tougher penalties and it would be unfair to embark upon such a course without also seeking to address the deficiencies in the system.

The Australian Government should continue to pursue avenues to help businesses to comply with awards through the provision of specific advice, information and increasingly sophisticated tool. Employer associations, given their expertise and connections with industry, can play an important role in facilitating this and should be supported to do so by government.

Further measures to facilitate the development and adoption of 'regtech' to enhance and ease compliance with awards should be explored, notwithstanding the associated challenges. Ai Group is supportive of the introduction of 'safe harbour' provisions associated with the use of award regtech. There would be a need to ensure that any such proposals were carefully designed, but such challenges should not prevent the potential consideration and development of such initiatives.

Specific recommendations to simplify and refresh the safety net

The Government has foreshadowed a willingness to review awards. Any measure that has the potential to improve the workability of the award system, while maintaining a system that fairly balances the interest of employers and employees, should be considered.

The answer does not however reside in the conduct of yet another wide-ranging review by the Fair Work Commission (FWC). The modern awards system has virtually been the subject of such proceedings since its creation. The 4 Yearly Review of Modern Awards has been running since 2014 and is still ongoing. That review followed the completion of the 2 Year Award Review that commenced in 2012. While commendable efforts have been made by the FWC to improve the modern award system, and some progress has been achieved, much more needs to be done. There are however limitations on what can be achieved through these kinds of inevitably adversarial processes.

A new and, ideally, more co-operative approach to simplifying and refreshing the safety net is required.

Any review of Awards should be targeted at addressing known problems in such instruments. There would be merit in focusing upon particular awards or award provisions that are notoriously problematic. Such matters, and by extension the scope of any review of awards, could be identified through measures including consultation with registered organisations that continue to play a major role in proceedings concerning the setting and varying of award \ terms, as well providing advice to employers or employees on their application.

4.3 Equal opportunities for women and the benefits of an inclusive workforce

Ai Group strongly supports effective and practical measures to achieve safe, fair, productive and gender equitable workplaces.

Ai Group has a strong commitment to gender equality and inclusive workforce participation. It is well established that businesses with a gender equal, diverse and inclusive workforce have improved operational and financial performance.²⁷

We recognise that this a key policy area for the Government and we propose to work closely with the Government to drive meaningful and sustainable change in industry. To this end we propose a range of measures we consider can be adopted by the Government, noting that many of these issues also feature long-term challenges that will require sustained and ongoing policy attention such as through early childhood education and care and supporting gender equity through Australia's skills and training framework.

Respect@Work – building more gender equal and supportive workplaces

The *Respect@Work Report* has been strongly supported and promoted by Ai Group, originating from our appointment as a Member of the *National Inquiry into Sexual Harassment in Australian Workplaces* Reference Group. During the inquiry, we supported the Australian Human Rights Commission (AHRC) through facilitating direct employer consultations with the Sex Discrimination Commissioner enabling employers to share their perspectives in preventing sexual harassment and addressing complaints.

Since the release of the *Respect@Work Report*, Ai Group has been appointed as a member to the *Respect@Work Council* to oversee the implementation of the Report's recommendations.

A concern Ai Group has raised with the implementation of all the *Respect@Work*

²⁷ For example, see Gender Equity Insights 2020, Delivering the Business Outcomes, BCEC, WGEA Gender Equity Series, 2020.

Report recommendations is the complex and cumulative regulatory effect on employers to prevent and address sexual harassment when significant developments have occurred in various work, health and safety (**WHS**) jurisdictions (in addition to Safe Work Australia model regulations and Codes of Practices) that were not in place at the time the Respect@Work Report was written.

This issue was highlighted with the *Anti-Discrimination and Human Rights Amendment (Respect@Work) Bill 2022* where the issue of confusion and uncertainty regarding the overlapping nature of duties under WHS laws and the Bill's positive duty on persons conducting a business or undertaking (PCBUs) to eliminate unlawful sex discrimination and harassment were examined in the Senate Committee Inquiry of the Bill. The Government tabled a subsequent amendment to the Bill to clarify that duties under WHS laws are to operate independently to the Bill's positive duty. On 28 November 2022, the amended Bill was passed by Parliament. While this amendment is welcome, it remains the case that employers and employees will be required to navigate compliance under different legal frameworks.

In addition, the enlivening of the FWO's inspectorate that will result from the *Fair Work Amendment (Secure Jobs, Better Pay) Bill 2022* introducing a prohibition of sexual harassment in the FW Act, will create further complexity for both employers and employees in understanding varying obligations and how they may be enforced by a particular regulator.

For workplaces to be safe, fair, productive and gender equitable, it is vital that appropriate legal frameworks are well understood by employers and workers and that efforts are not spent on demonstrating compliance activities to satisfy an array of different regulators.

The Government can seek to remedy this by:

- In relation to the Respect@Work Council, ensure that the Department of Employment and Workplace Relations and the Office for Women are involved on an ongoing basis, in addition to representatives from State and Territory Governments. This is to ensure that different jurisdictions do not travel in different directions in respect of sexual harassment regulation.
- In addition, Ai Group proposes that recommendation 47 of the *Respect@Work* Report be appropriately funded by the Government to enable the sustained engagement to drive meaningful change and safer workplaces. Recommendation 47 provided:

Recommendation 47 - Industry-wide Initiatives

Key industry and professional groups (unions, employer associations, employers and other industry bodies) collaborate to establish industry and

profession-wide initiatives to address sexual harassment, for Australian workplaces of all sizes. Initiatives may include industry-wide prevalence surveys, awareness-raising campaigns on industry-specific issues, or the development of industry-specific policies or accreditation requirements.

Recommendation 47 can also be expanded to include industry-based programs aimed at improving family and domestic violence awareness; how it can manifest at work and what to do when disclosures are made by both victims and perpetrators. Much needed education and awareness programs are needed in industry and business to support the new paid leave entitlement for family and domestic violence leave.

Many Ai Group members, particularly those in male-dominated industries, report that difficult discussions are occurring in the workplace with actual or suspected perpetrators of family and domestic violence and that more support is needed to arm employers with the range of options that can be communicated and provided in these circumstances. Personal and workplace safety concerns can also arise.

Specifically, Ai Group considers that recommendation 47 could be extended to awareness-raising campaigns about lesser-known forms of domestic violence (eg coercive control) with a view to prompting perpetrators of violence (who are statistically more likely to be employed in male dominated industries and workplaces) to seek support and help. We consider that this would be an effective domestic violence preventative strategy and we would be open to working collaboratively on these initiatives.

Pay equity

Pay equity is an important focus for achieving fair and gender equitable workplaces.

Ai Group supports many of the Australian Government's recommendations following the review of the *Workplace Gender Equality Act 2012 (Cth)* (**WGE Act**) and we consider that these should be progressed quickly as an effective intervention to stimulate greater awareness and action on pay equity within organisations and across the economy.

Ai Group called for additional funding for WGEA to support more targeted and research-based work to support employers drive gender equity and related productivity outcomes. Ai Group has a long-standing relationship with WGEA and will be available to engage in the development of any legislative amendment and practical implementation of these recommendations.

Ai Group recognises the Government's policy priorities in respect of creating greater

transparency over organisational gender pay gaps and bans in pay secrecy clauses. It is well established that pay inequity arises from gender and occupational segregation, longer periods spent by women out of the workforce and unconscious bias.

Early Childhood Education & Care (ECEC) is key infrastructure to participation and productivity

More accessible as well as affordable ECEC is needed to boost productivity and gender equitable workplaces, particularly as it relates to enabling women to participate in their chosen occupation for which they have invested the skills, qualifications and experience.

While the Parliament has passed the *Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022*, which includes measures to lift subsidies for childcare and outside school hours care, accessible childcare is also needed to support households and industries.

Employers have a strong interest in the availability of quality and flexible ECEC, enabling greater workforce participation from workers who also have caring or parenting responsibilities. Extensive education, work experience and qualifications obtained by parents are often not utilised in the labour market due to childcare cost barriers and the time and cost spent in transporting multiple children to different care or schooling locations.

ECEC options should be more affordable but also more flexible. ECEC options must be better targeted to the needs of working households, such as an alignment with 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 an extension of subsidy arrangements to in-home early childhood educators to households working in essential industries should be trialed. 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.

Subsidised 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.

An immediate action is to ensure that the foreshadowed Productivity Commission review into Australia's ECEC system refers to the relationship between ECEC and productive and gender equitable workplaces.

Secondly, while Ai Group acknowledges the issue of lower wages and worker retention in the ECEC sector, it is important that any policy intervention to lift wages does not reduce the subsidies promised to households or compromise the Government's broader commitment to 'cheaper childcare'.

Any Fair Work Commission order made under the Fair Work Act's work value or equal remuneration provisions to increase minimum rates of pay in relevant ECEC modern awards, must be supported by specific funding allocation from the Government separate to the Government's commitment to increase ECEC subsidies for households.

In respect of pay equity cases more broadly, it is vital that the affordability for employers of such increases is considered, as well as the extent to which any resulting wage increases will be passed on to individuals and households already subject to inflationary pressures on household incomes. Many of the sectors that are often identified as warranting intervention to address pay equity are Government funded or subsidized. Enhancing the framework for the conduct of pay equity cases will accordingly necessitate a reassessment, and likely expansion, of Government funding for such sectors.

Parental leave

Ai Group supports gender equitable paid parental leave schemes, with paid parental leave often cited as a key intervention and policy lever to stimulate greater gender equity in the home as well as the workplace.

As demonstrated by our significant involvement in the development of the *Paid Parental Leave Act 2010 (Cth)* more equitable access to the Government's Paid Parental Leave Scheme is a matter on which Ai Group seeks to work constructively with the Government.

While the FW Act regulates unpaid parental leave, policy objectives to support families sharing work and caring responsibilities are more effectively pursued

through changes to the Government's Paid Parental Leave scheme under the PPL Act. The creation of equitable caring arrangements that challenge gender stereotypes and cultural norms are more likely to emerge when there is a combination of financial incentives and structured arrangements that promote more equitable access.

Ai Group notes the Federal Government's announcement on 15 October 2022 to extend the current quantum of Government-funded paid parental leave scheme by 6 weeks to 26 weeks. The increase is to occur in increments of 2 additional weeks per year until the scheme reaches its full 26 weeks from July 2026. A feature of the expanded scheme is to incentivize more fathers and partners to access the leave including by allocating a 'lose it or use it' portion of the leave.

In principle, Ai Group does not oppose this proposal and would be willing to engage in further discussions with the Government about further important detail to support the intended objectives behind the scheme and the necessity for it to be workable for employers.

It should also be considered that employers need a stable framework where the FW Act and PPL Act work cohesively together and in a manner that is simple to understand and apply. This is particularly important for employers who have implemented, or are considering the implementation of their own employer-funded parental leave schemes where both the FW Act and PPL Act form a baseline structure for how these more beneficial schemes may operate.

5. Migration: its economic role and areas for improvement

Key points

- The announced increase in the permanent migration cap to 195,000 places per year is an important step.
- Within this total, greater priority should be given to the skilled migration stream, which should make up at least two thirds of the migration program.
- In the longer term, Australia should move to a growth rate target for annual permanent migration that is linked to national labour force growth, instead of a fixed annual number.
- Temporary skilled migration programs help businesses fill skill and labour gaps that persist despite historically low unemployment levels.
- The Skilling Australians Fund (SAF) Levy acts as a deterrent to hiring skilled workers from overseas. As a minimum, the SAF should be modified to allow easier access to refunds where visa holders change employers or leave the country and by exempting labour hire businesses.
- The Temporary Skilled Migration Income Threshold (TSMIT) should be increased to reflect the Wage Price Index (WPI) movement since the TSMIT was last amended. By this calculation, the TSMIT would rise to approximately \$63,000.
- Ai Group does not support any further strengthening of the current already onerous Labour Market Testing (LMT) requirements.
- Creating a separate, simpler and less expensive category for intracompany transfers will deliver significant economic benefits.
- Greater flexibility should be allowed for English language testing requirements to allow the inclusion of on-line testing.

Ai Group supports Australia's permanent migration program and its focus on skilled migration. Skilled migrants generate great benefits to the Australian community as they contribute directly to our national employment and skills base. Many also bring specialist knowledge that provides even bigger benefits through spillovers; by deepening our entrepreneurship and innovation; and through greater international linkages.

Skilled migrants who enter via the 'demand-driven' streams, such as employer-sponsored migration, experience a better skills match and faster entry to the labour market - therefore utilising more of their skills more quickly on arrival in Australia – than those who arrive independently to seek work.

Migration helps address our demographic challenges and the substantial skills and labour gaps both current and perennial. 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 shortages²⁸ has highlighted once again the depth of the difficulties facing businesses in recruiting staff locally. The 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 perennially 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.

Permanent migration produces a 'demographic dividend' that raises incomes for everyone

Ai Group notes the enduring message from the Productivity Commission's (PC) findings in its 2016 review of Australian migration.²⁹ The PC found that the greatest benefits to the community come from younger, highly skilled migrants. In the long-term, the it found that immigration delivers a measurable 'demographic dividend' that will raise output and incomes for everyone:

"Continuing [Net Overseas Migration] NOM at the long term historical average rate [of 0.6% of the population] and assuming the same young age profile as the current intake is projected to increase GDP per person by around 7 percent (equivalent to around \$7000 per person in 2013 14 dollars) in 2060 relative to a zero NOM scenario. Increasing or decreasing the level of NOM from this rate is projected to have a corresponding impact on GDP per person, all other factors equal.

The results reinforce the importance of age and skills in the migrant intake. Increasing the average age structure of NOM to reflect that of the Australian population is projected to reduce real GDP per person, while increasing the

²⁸ See [2022 Skills Survey: Listening to Australian businesses on skills and workforce needs](#)

²⁹ Source: Productivity Commission, Migrant Intake into Australia, Inquiry Report, 2016.

share of migrants entering in higher-skilled occupations is projected to lead to an expansion in real GDP per person.” (PC, p. 15).

In the longer term, the benefits skilled migration bring to local labour market development should be enhanced by moving to an annual growth rate target for annual permanent migration linked to national labour market growth, instead of a fixed annual number.

Current migration settings

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

The permanent program is one element of a complex system of visas which businesses rely on to supplement their local workforce or fill skills gaps. However, it is an important one, especially given that a large proportion of the permanent program is sourced from applicants on temporary skilled visas.

The following points relate largely to the temporary skilled programs accessed by employers.

Barriers created by high costs

Ai Group members often report that despite their critical need for skilled workers from overseas the high costs involved prevent them from accessing the program.

Higher government charges around temporary skilled migration price a lot of small and medium sized businesses out of the market for skilled worker visas. The 482 visa can cost \$20,000 to \$25,000 a worker while the previous 457 visa cost employers around \$10,000. The obligation to pay the \$7,200 Skilling Australians Fund (SAF) levy is a big part of the higher costs.

One of the biggest obstacles to using temporary skilled migration programs is the Skilling Australians Fund (SAF) levy. The cost of \$7,200 per approved visa for larger businesses can quickly grow into a significant expense when applied across multiple visa applications. For smaller businesses the cost is also substantial and acts as a disincentive especially when it is considered that the visa holder can easily change employer with no SAF refund possible in many cases. The scheme is designed to raise money to support training programs without regard to the disincentives involved.

While the current SAF levy is very high for many businesses, it would not be desirable to return to the previous administratively complex hybrid system where some businesses paid a levy while others met the training requirements by demonstrating that they invested in local training. Such proof of training expenditure, as it applied in the past, was difficult to manage and particularly onerous for labour hire companies and SMEs who may lack training capacity.

The program could be improved to some extent by expanding the grounds for refunds, which are limited. This leads to cost and administrative difficulties for employers. Refunds of the levy are only available in the following scenarios:

- The sponsorship and visa applications are approved, but the overseas skilled worker (visa holder) does not arrive/commence employment with the employer.
- The employer's sponsorship and nomination application for the overseas skilled worker is approved, but the associated visa application is refused on health or character grounds.
- A Temporary Skill Shortage (TSS) visa holder leaves the sponsoring employer within the first 12 months of employment where the visa period was for more than 12 months. Refunds will only be available in this scenario for unused full years of the SAF levy.

Note: This does not apply to Employer Nomination Scheme or Regional Skilled Migration Scheme holders who leave their employer within the first 12 months of employment.

- The nomination fee is refunded (for example where a concurrent sponsor application is refused).

There are two major problems with this refund process.

Firstly, if the visa holder leaves their employ in their 13th month of work the employer has no opportunity to obtain a refund for almost three years of the levy which they had been required to pay in advance. Visa holders generally take more than a year to settle into their positions and then after a year they often move to another employer. This is a positive for the visa holder in terms of their flexibility and generally favourable for economy-wide resource allocation but punitive for the original employer. Further, the new employer has to pay the SAF on the remaining term of the visa and so effectively the SAF is paid twice.

Secondly, a refund of the employer's sponsorship and nomination application can be obtained if the visa is refused on "health or character grounds". These grounds are far too narrow. In practice, this means that there is no refund unless health or character are the basis of the refusal. There are many other reasons for refusal such as mistakenly nominating the wrong occupation as can easily occur in the ANZSCO system; the applicant not having enough experience according to the assessor; or the market salary level coming in at slightly higher than the initially nominated wage with no opportunity for adjustment.

Ideally, the SAF should be put aside. However, if it is retained, the refund rules should be simplified to a single refund condition along the lines of:

- A refund in full or the balance of the SAF Levy will be paid in all circumstance where a skilled worker (visa holder) does not work for the sponsoring employer or no longer works for the sponsoring employer; or,
- If there was an option to replace the up-front payment with periodic payments while the skilled worker remained employed, this would remove

many of the issues around refunds when employers change sponsors and take some of the cost pressures off smaller businesses.

Further, labour hire companies that are in the business of providing already skilled workers should not be penalised through the requirement to pay the SAF levy.

Tightening of Labour Market Testing is unnecessary

A further obstacle to accessing 482 visas relates to Labour Market Testing (LMT). Ai Group opposes any further tightening of the current already onerous LMT settings. Employers who urgently need staff with particular skills will know from experience if such workers are unavailable to them locally and LMT requirements can cause unnecessary delays to their overseas recruitment.

Visa sponsors should be given the ability to demonstrate in some other way that the position is unable to be sourced locally. For example, the business need may be for a specialist or rare technical skill which is widely known to be unavailable in Australia. The business could provide evidence of this as an alternative to advertising the vacancy.

There have also been calls for the publication of salaries as part of LMT. For sound business reasons company policies often avoid the publication of salaries in job advertisements. Where this is a visa requirement it becomes a barrier to businesses being engaged with the migration program.

Keep the current minimum salary level at an accessible rate

Proposals are being considered for an increase to the Temporary Skilled Migration Threshold (TSMIT) from \$53,900 (where it has been for some years) to as high as \$90,000.

If there is any increase in the salary floor it should reflect the Wage Price Index (WPI) since the TSMIT was last amended. By this calculation the TSMIT would rise to approximately \$63,000. Even this level is high and would rule out many trade level occupations which have been shown to be experiencing some of the highest levels of skill shortage.

Ideally the TSMIT should apply uniformly at a level that meets immigration needs. Considerable complexity arises with different levels apply based on occupation, industry, or regional area. This complexity is particularly relevant given the scope for mobility between industries, occupations and regions. While not totally convincing, there may be a somewhat stronger case for clear regional concessions.

Grattan economic policy director Brendan Coates has been quoted as estimating that raising the income threshold too far would “*practically knock out the entire cohort of the hospitality industry. If the temporary income threshold was raised to \$90,000 you would knock out 60 per cent of temporary skilled visa workers today.*” Setting the TSMIT at \$90,000 would cut out many of the younger skilled workers who start out earning lower-than-average wages but form the backbone of Australia’s permanent skilled migrant intake and earn much higher wages in the long term.

Create a special intracompany transfer visa category

There is a need to improve access for businesses to visas for intracompany transfers. We propose the creation of a visa category that is business friendly, that boosts local employment and training and that recognises that intracompany transfers are a two-way street that benefit numerous Australians travelling to work with their companies overseas.

One of the common concerns raised with us by our members is the difficulty they have in accessing visas to bring their own people into Australia. Often their people will be senior executives, but they may also be specialists in the company culture or management practices or have expertise with the company's in-house technology that is not available in Australia.

An example is Uniqlo. The company has active expansion plans for Australia that require managers to set up new stores. These managers can only be sourced from the company's offices overseas because the company culture, knowledge and experience they bring is not available here.

There are cases where a company wants to transfer staff to Australia on a more permanent basis. Under the 482 regime it is difficult to attract the right talent if the skill concerned does not carry with it the ability for a pathway to permanent residence. The best talent in the world will want to know a long-term stay is possible, which is why so many other countries are successful in attracting such talent.

Other examples of companies with concerns regarding the current approach to intracompany transfers include Cochlear, CSL and Resmed whose experiences are similar to that of other companies in the pharma and tech sectors. These companies regularly transfer staff between overseas offices and their Australian headquarters for short- and medium-term assignments, often training local teams while they are here. Like Uniqlo, they will frequently be specialists skilled in company processes and equipment. No-one locally will be able to fill these roles. Yet those companies still need to jump all the administrative hurdles and pay the high costs associated with 482 visas.

Bringing in talent breeds economic activity. Such talent is incredibly hard to find locally, which is why businesses like these need to look at global talent pools. Finding that right talent could unlock a whole range of capability in Australia and facilitate training and upskilling of local workforces.

Businesses could access a labour agreement to help facilitate the transfers. However, this would still require using the 482 program and all the complexities and costs that entails. 482 visas are unduly restrictive when applied to intracompany transfers and they are clearly not fit for this purpose.

The 482 visa is also only useful if the employee's skill set fits within the official occupation lists. The alternative Temporary Work (Short Stay Specialist) visas (subclass 400) with its three-to-six-month time frame is too short for most intracompany transfers, particularly where local training is involved.

A more desirable approach would be to create a separate visa subclass for intracompany transfers.

The importance of a globally mobile workforce in multinational corporations is well recognised internationally and most peer nations offer a specific visa for this purpose with pathways to permanent residence. In the United States it is called an '[L1 Intracompany Transferee Visa](#)', in the United Kingdom it is called a [Senior or Specialist Worker visa \(Global Business Mobility\)](#).

By contrast, Australia does not treat intracompany transfers as a separate category and this adds unnecessary complexity and opacity to the application process.

Establishing a separate visa class for intracompany transfers with a built-in pathway to permanent residence would align Australia with our partner nations and help make Australia a more attractive proposition for global companies. A streamlined approach in the creation of such a visa would remove unnecessary barriers and encourage more companies to bring their best talent here to help upskill and grow their local workforces. It would also recognise that intracompany mobility is a two-way flow – many Australians benefit from international company assignments overseas and the professional development opportunities these afford.

Need to expand and modernise English Language Testing

The Department of Home Affairs is undertaking an expression of interest process to determine which English language products can be used to prove English language proficiency. However, digital online testing products have been specifically excluded from consideration by the Department, and as a result, there is a likelihood that the current paper-based testing arrangement will be locked in indefinitely as Department policy for years to come.

It is our view that the Department should reconsider this approach and actively seek and assess what are highly secure, effective and cost-competitive digital products.

Currently, the United Kingdom, USA, Canada and New Zealand all allow students to prove English language capabilities to their university of choice and are able to use an online digital English language test. Ireland, which like Australia requires students to submit their English proficiency level to their immigration department, began accepting digital language tests for visa purposes in 2021. The United Kingdom is also currently assessing digital online testing for migration purposes.

Duolingo is one example of a provider that has developed a digital English language test. The Duolingo English Test can be securely taken anywhere in the world, it includes innovative Artificial Intelligence-powered security features, generates personalised unique tests for every candidate and requires 2 proctors to review every test (instead of 1 proctor for every 25 test takers, as is typical for other tests). The test's advantages have led to more than a dozen Australian universities using Duolingo to assess applicants' English capabilities.

One such advantage is cost. Language testing is expensive for applicants and employer sponsors. A paper-based English test can cost a month's salary in some

countries. By comparison, digital language tests can be as much as 80 per cent less costly than paper-based tests. They also carry the added advantage of applicants being able to undertake the test remotely and avoid often long-distance travel to testing centres. In the post-COVID environment, remote access to processes such as this has become the expected norm, and it is difficult to understand why the Department has ruled out this more easily accessible testing option.

Australia operates in a globally competitive environment for students and skilled migrants. For Australia to win the global race for talent not only do we need the right visa settings, but wherever possible obstacles and impediments need to be removed from our visa system.



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