ACTU Submission

Inquiry into the Abbott Government's Budget Cuts

22 August 2014

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Contents

Introduction

The ACTU is the peak body for Australian unions, made up of 46 affiliated unions. We represent almost 2 million working Australians and their families.

We welcome the opportunity to provide a submission to the Senate Select Committee into the Abbott Government's Budget Cuts.

The 2014-15 Budget is deeply inequitable. The burden of the cuts falls most heavily on low income households. The cuts will increase inequality in Australia.

The Budget cuts are also unnecessary. There is no budget emergency in Australia. To the extent that Australia has a fiscal problem over the medium term, it's related to a lack of revenue, not out of control spending. The Government could, and should, have improved the Budget bottom line through measures that don't hurt the poorest Australians, like reforming Australia's system of inequitable and unsustainable tax concessions for superannuation.

This submission highlights the following facts:

- The burden of the Budget cuts falls most heavily on low income Australians;
- The Budget includes large cuts to funding for health and education, through reduced indexation;
- Much of the deterioration in the structural budget balance in the 2000s was due to personal income tax cuts that were skewed towards high income earners;
- Reforming superannuation tax concessions is one way the budget balance could be improved without increasing inequality;
- Support for innovation is needed more than ever, but this Budget reduces vital funding;
- Public sector job cuts will hurt workers and their communities, while reducing the public services enjoyed by Australians;
- Cuts to indexation of the Age Pension and the delay in increasing the Superannuation Guarantee will undermine the retirement incomes of millions of Australians, particularly those on low and middle incomes;
- More unequal countries tend to have lower intergenerational mobility, so the inequitable cuts in this Budget are likely to undermine opportunity; and
- The Budget hits young people and students particularly hard.

The impact on households

The terms of reference direct the Committee to inquire into the effect of the Budget on households. Budget cuts will have an effect on households through a number of channels, including increases in indirect taxation, reductions in funding for public services, and public sector job cuts. The impact on households through these channels is substantial. However, these impacts are difficult to quantify.

By contrast, the effect of changes to personal income tax and transfer payments can be calculated for a range of household types. Such analysis has been conducted by the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra, and by Professor Peter Whiteford and Daniel Nethery of the Australian National University. These analyses show that the effect of the cuts proposed in the Budget 2014-15 would be substantial, and borne disproportionately by low-income households. These analyses also show that the effect on low-income households will grow over time, while the effect on higher income households is transitory. Analysis by the Commonwealth Treasury, released to Fairfax Media pursuant to a Freedom of Information request, also shows that the impact of the Budget measures on households is regressive.

The evidence is clear and unequivocal. The proposed Budget measures would hit low-income Australians the hardest. The inequity will grow over time.

The impact on households: NATSEM's analysis

NATSEM is a widely respected, independent research centre that specialises in economic and social policy modelling, particularly microsimulation. Its Static Incomes Model (STINMOD) is widely used, including by Commonwealth agencies, to analyse the distributional implications and possible cost of proposed changes to tax and transfer policies. Ben Phillips, the Principal Research Fellow at NATSEM, has used STINMOD to estimate the effect of the 2014-15 Budget on households of different types and with different income levels.[1] Phillips summarises his findings as follows:

> *The burden on families for 2014-15 falls most heavily on low and middle income families with children. The impact on high income families with children is smaller in dollar terms and percent change terms... In percentage terms, the impact is clearly felt by the low income families more than high income families.*
>
> *The burden on families of the 2014-15 Budget is quite clear by 2017-18 once all grandfathering arrangements are removed and the Budget levy is removed. Low income couples with children (bottom 20 per cent) are worse off by around 6.6 per cent while single parents are worse off by*

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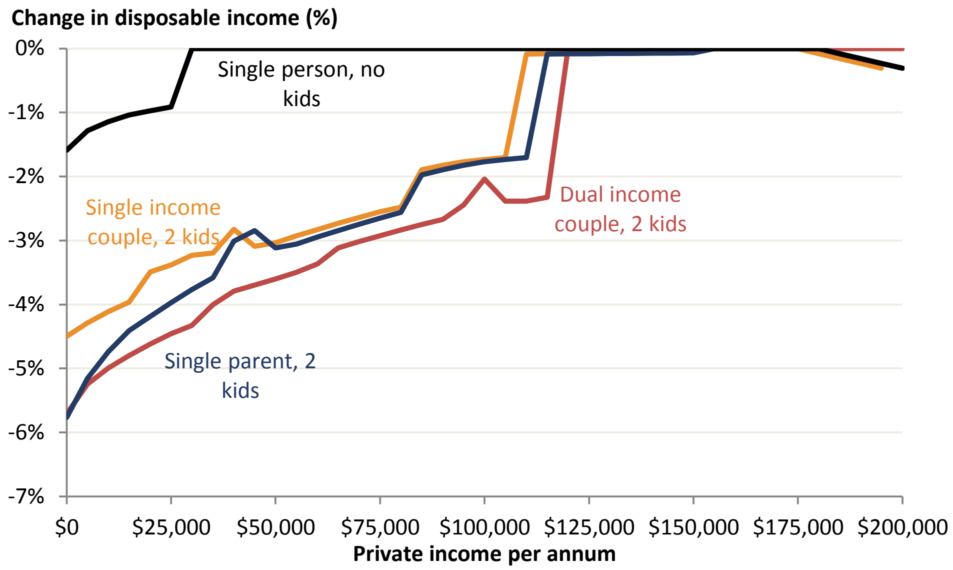
[1] Phillips, B. 2014, 'NATSEM Budget 2014-15 Analysis', National Centre for Social and Economic Modelling, University of Canberra, May 26, Available from: http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf [Accessed 18 August 2014].

> *around 10.8 per cent on average. High income families are marginally better off thanks to the carbon price removal.*[2]

The effect of the proposed Budget measures on different household types can be seen clearly in Figure 1. For all household types, low-income households experience the largest reduction in income as a result of the Budget. The reduction is largest for families with children. A single parent with children aged 8 and 12 would have his or her disposable income cut by 5.8% in this financial year by the Budget measures. Very high income earners will experience a much smaller income reduction – a single person earning $200000 per year would experience an income reduction of 0.3% as a result of the "temporary Budget repair levy".

Figure 1: Measures proposed in this Budget would disproportionately hurt low income people
(Modelled change in disposable income in 2014-15 by private income for various households types)



Source: Phillips 2014, 'NATSEM Budget 2014-15 Analysis', May 26. Available online: http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf

The "temporary Budget repair levy" is set to apply for three years, up to and including 2016-17. This means that by 2017-18, the 2014-15 Budget measures will no longer have a negative effect on high income earners. In fact, the NATSEM modelling suggests that high income earners will be slightly better off in 2017-18 than they would have been in the absence of the recent Budget, due to the slight increase in real incomes as a result of the carbon price repeal. By contrast, the measures in the Budget that affect low-income earners are permanent and their effects generally grow over time. The pain from policy decisions such as freezing or reducing indexation or payment rates or eligibility thresholds is mostly not felt immediately – rather, its effect on the real incomes of households grows over time.

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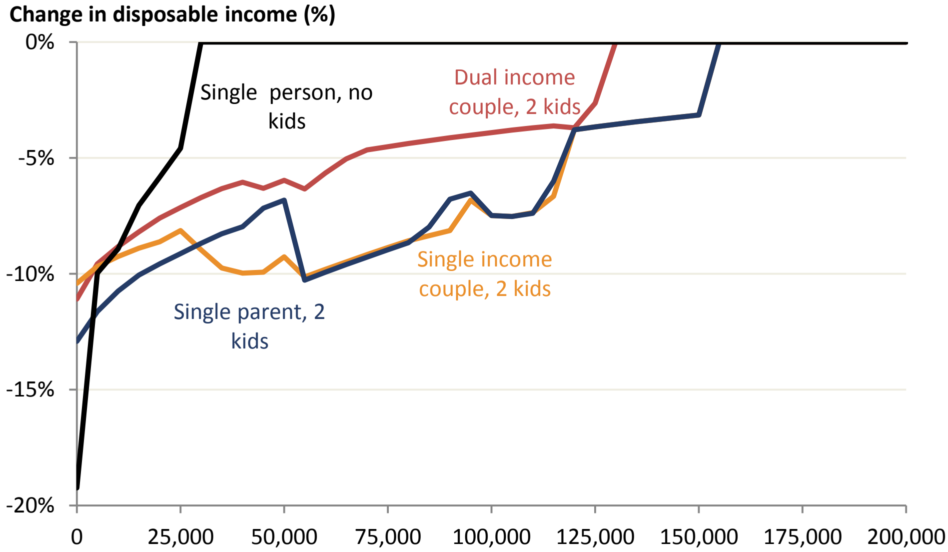
[2] Phillips 2014, p.4.

Figure 2 shows the effect of the 2014-15 Budget measures on various household types in 2017-18. Low income earners are expected to be significantly worse off in 2017-18 as a result of the recent Budget than they would otherwise have been.

Figure 2: The effect on low-income earners grows; the effect on high-income earners disappears
(Modelled change in disposable income in 2017-18 by private income for various households types)



Source: Phillips 2014, 'NATSEM Budget 2014-15 Analysis', May 26. Available online: http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf

It is important to note that the NATSEM analysis does not include the proposal to deny income support for 6 months to jobseekers aged less than 30. Including this measure would make the apparent impact on households even more starkly negative.

The impact on households: ANU analysis

The NATSEM modelling shows that low-income earners bear the brunt of the Budget cuts. Other analyses concur with this assessment. Peter Whiteford and Daniel Nethery of ANU calculated the difference between the disposable incomes of various household types in 2016-17 under the policies announced in the Budget and those in place before the Budget.[3] As with the NATSEM analysis, Whiteford and Nethery find that low income households will experience the largest falls in income as a result of the Budget. Their results are shown in Table 1. Note that 'AWOTE' refers to the average weekly ordinary time earnings of full-time adult employees.

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[3] Whiteford, P. and Nethery, D. 2014, 'Sharing the Budget Pain', Crawford School of Public Policy, Australian National University, Canberra. Available from: https://crawford.anu.edu.au/sites/default/files/news/files/2014-05/sharing_the_Budget_pain_background_note.pdf [Accessed 19 August 2014]

Table 1: Low income households suffer the largest cut in incomes as a result of the Budget
(Projected change in disposable income in 2016-17 for various households types)

Household type	Disposable income in 2016-17		Difference	
	Under current policy	Under 2014-15 Budget policy	$ pw	%
Single person on Newstart, 23 years	259	211	-47	-18.3
Lone parent, one child aged 3, Parenting Payment Single	553	540	-13	-2.4
Lone parent, 1 child aged 3 (67% AWOTE)	1013	999	-15	-1.5
Lone parent, 1 child aged 6, Parenting Payment Single	530	476	-54	-10.2
Lone parent, one child aged 6 (67% AWOTE)	990	935	-56	-5.6
Lone parent, 1 child aged 8, Newstart	446	392	-54	-12.2
Lone parent, 1 child aged 8 (67% AWOTE)	957	889	-67	-7
Single income couple with two children, 3 and 6 years (100% AWOTE)	1310	1282	-28	-2.1
Single income couple with two children, 6 and 9 years (100% AWOTE)	1287	1205	-82	-6.4
Dual income couple with two children, 3 and 6 years (100% and 33% AWOTE)	1658	1590	-69	-4.2
Dual income couple with three children, 3, 6 and 9 years (100% and 33% AWOTE)	1723	1656	-67	-3.9
Single person (300% AWOTE)	2847	2823	-24	-0.9
Couple, no children (150% and 100% AWOTE)	2712	2712	0	0

Source: Whiteford and Nethery 2014. Expressed in 2014 prices.

The impact on households: Treasury's analysis

Treasury analysis released under Freedom of Information to Fairfax Media also shows that the Budget will reduce the incomes of low income households by a greater amount than high income households.[4] The Treasury analysis, which was produced for the Budget itself, shows that working age households' incomes in 2016-17 will be lower than they would otherwise have been, by the following amounts:

- Lower income households: $844 per year;
- Middle income households: $492 per year;
- Higher income households: $517 per year.[5]

Lower income households will be hit harder than high income households even in absolute dollar terms; if these figures were expressed as a percentage of income, the inequity would be even starker.

[4] Treasury 2014, 'Final Distributional Analysis for 2014-15 Budget', Available from: http://www.treasury.gov.au/Access-to-Information/DisclosureLog/2014/1510 [Accessed 19 August 2014].
[5] ACTU calculations based on Treasury 2014.

The impact of the Budget cuts on households is clear. Most households will suffer a reduction in disposable income as a result of the Budget. Lower income households will generally suffer the largest cuts in income. The inequity of the impact on households will grow over time.

The impact on households: some specific measures

The negative impact of the Budget on households, particularly low-income households, is due to a range of measures. However, a few of the policies announced in the Budget are of particular note.

In the Budget, the Government announced a three year pause on the indexation of income free areas for working-age payments and Family Tax Benefit. Income free areas are the amount that income support recipients can earn before their payment begins to be reduced. As a result of pausing the indexation of these free areas, income support recipients can earn less, in real terms, before their payment is reduced. The measure would reduce the real disposable incomes of many recipients. It will increase effective tax rates and, perversely, reduce the financial return to work. This short-sighted measure should not be adopted.

The Budget also includes a plan to cut the indexation rate applied to Parenting Payment Single from 2014 and pensions from 2017. Rather than being tied to Male Total Average Weekly Earnings (MTAWE), as at present, it will be indexed only to the CPI. This move will ensure that single parents' incomes, and then those of other pensioners, will fall further and further behind typical community living standards over time. Poverty and social exclusion will rise. The measure should be rejected. Further examination is given to this issue in a later section of this submission pertaining to the effect of the Budget on retirement incomes.

Family Tax Benefit payment rates will be frozen as a result of the Budget. Many low- and middle-income working families rely on Family Tax Benefit to ensure they have a decent material standard of living. The expansion of family payments was a proud achievement of the Accord under the Hawke and Keating Governments. The provision of adequate family payments significantly reduced child poverty in Australia. Reducing these payments in real terms, as this Budget measure proposes to do, will cut the incomes of millions of working Australians. Child poverty is highly likely to rise. The measure should be rejected.

Commonwealth-State relations

The Committee's task includes examining the effect of the Abbott Government's Budget cuts on "Commonwealth – state relations and the impact of decreased Commonwealth investment on service delivery by the states." This is a broad area and it is not possible in this submission to examine all the ways in which the recent Budget affects Commonwealth-state relations. Instead, we focus on one of the most significant policy changes in the Budget that will affect the states – the planned cuts to future growth in health and education funding by the Commonwealth.

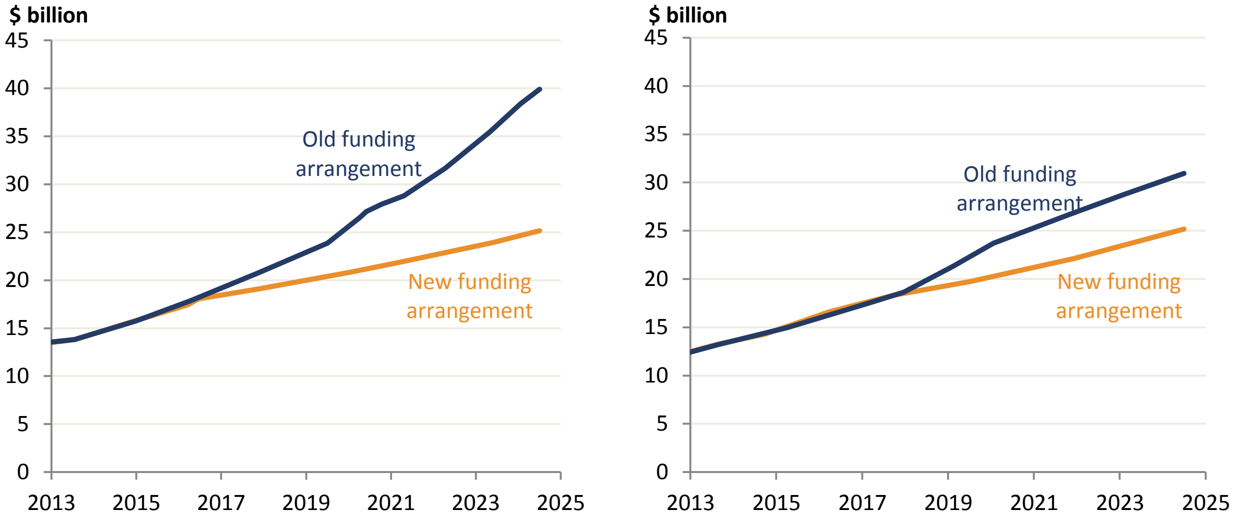
Cuts to health and education

The Government announced in the Budget that it will cut $1.8 billion in funding under the *National Health Reform Agreement 2011* over the next four years.[6] Beyond the forward estimates, the cuts are much larger. The Government announce that it will reduce the indexation rate for hospital funding to "a combination of the Consumer Price Index and population growth," in other words providing no real increase in funding per person.[7] The Budget also included an announcement of reduced funding to schools. School funding beyond the 2017 school year "will be indexed by the Consumer Price Index, with an allowance for changes in enrolments"[8] – in other words, there will be no increase in real funding per student.

The reduction in indexation schools and hospitals funding represents a large cut in planned spending, relative to where it otherwise would have been. The trajectory of funding for schools and hospitals under the old and new funding arrangements are contrasted in Figure 3.

Figure 3: Funding for schools and hospitals cut by $85 billion over the next decade

(Funding for schools) (Funding for hospitals)



Source: Budget 2014-15, Budget Overview, p.7. '2013' refers to the 2012-13 fiscal year.

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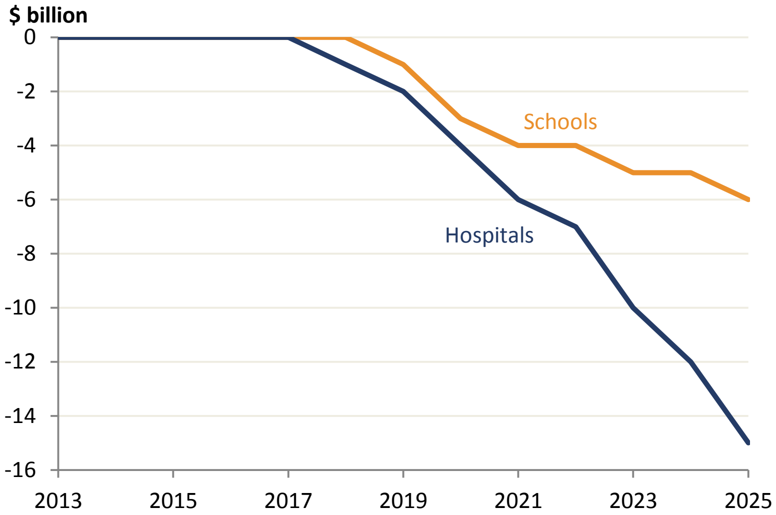
[6] Budget Paper No. 2, p.126.
[7] Ibid.
[8] Budget Paper No. 2, p.91

Over the next decade, funding for schools and hospitals will be $85 billion lower than it would otherwise have been as a result of the recent Budget.[9] The reduction in funding, relative to previous policy, will increase over time as the effect of the indexation reduction compounds. By 2024-25, funding will be cut by $6 billion in the case of schools and $15 billion in the case of hospitals.[10]

Figure 4: Funding cut through reduced indexation compounds over time
Reduction in funding for schools and hospitals relative to previous policy



Source: Treasury 2014, Answer to questions on notice, Senate Economics Legislation Committee, Question BET 41, 4 June.

These significant reductions in funding to the states to provide vital public services leaves them with two options: either reduce service provision, or raise revenue elsewhere. This has fuelled speculation that the planned cuts to health and education funding to the states is part of an orchestrated push to increase the rate and/or broaden the base of the Goods and Services Tax.

[9] Treasury 2014, Answer to questions on notice, Senate Economics Legislation Committee, Question BET 41, 4 June. Available from: http://www.aph.gov.au/~/media/Committees/economics_ctte/estimates/bud_1415/Treasury/answers/BET41_Wong.pdf [Accessed 21 August 2014]
[10] Ibid.

The fairness of revenue raising

Most of the decline in the structural budget balance over the past decade was due to a fall in revenue, not increases in spending. Most of the decline in revenue was due to unsustainable and inequitable tax cuts.

Despite this, much of the fiscal consolidation in the Budget comes through reduced spending, rather than increased revenue. If the Government wished to improve the Budget balance without making Australia more unequal, it could and should have addressed the revenue side of the ledger. Reforming superannuation tax concessions is one way that the fiscal balance could be substantially improved without increasing inequality.

The effect of personal income tax cuts in the 2000s

The Parliamentary Budget Office recently estimated that between 2002-03 and 2011-12, "the structural level of [Commonwealth] receipts fell by around 5 percentage points of GDP" while the structural level of payments (excluding GST) rose by around 1 percentage point of GDP. The bulk of the deterioration in the structural fiscal position has therefore come about because of a decline in revenues, not an increase in expenditure. Of that decline in revenues, the PBO estimates that "over two thirds… was due to the cumulative effect of the successive personal income tax cuts granted between 2003-04 and 2008-09".[11]

These cuts were far in excess of the amount that would have been necessary to compensate for bracket creep arising from inflation. To further examine the effect of personal income tax cuts on the budget, the ACTU has undertaken some analysis using NATSEM's STINMOD static microsimulation model of Australia's income tax and transfer system. We have used the model to answer the following questions:

- If the 2004-05 personal income tax rates had remained unchanged to 2012-13, and the thresholds had been indexed, how much additional personal income tax revenue would the Commonwealth have collected in 2012-13?
- In the scenario described above, how much of the additional revenue would have come from high-income households?

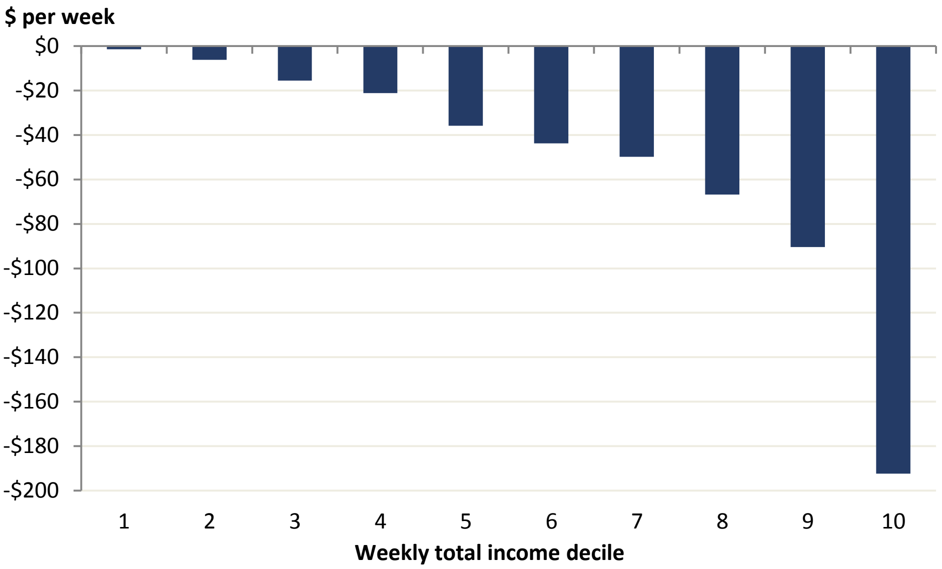
By comparing the 2012-13 tax parameters with those of 2004-05, indexed by either prices or wages, we are measuring the effect of the *real* tax cuts since 2004-05, ie. tax cuts in excess of bracket creep. We find that if the tax thresholds had been indexed to the CPI, rather than being raised as dramatically as they were, then Commonwealth tax revenues would have been $32.9 billion higher in 2012-13 than they actually were. If the thresholds were indexed in line with AWOTE, the revenue gain would have been $22.3 billion.

[11] Parliamentary Budget Office 2013, 'Estimates of the Structural Budget Balance of the Australian Government: 2001-02 to 2016-17', Parliament of Australia, Canberra.

We estimate that 36.7% of this extra revenue would have come from the top 10% of households, ranked by weekly total income. The disposable incomes of the top 10% of households are $192.30 per week higher, on average, than they would have been if the 2004-05 thresholds had been indexed to CPI. Households in the bottom 10% are $1.50 per week better off that they would have been if the thresholds had been indexed.

The additional personal income tax that would have been paid by high-income households in 2012-13 if the 2004-05 thresholds had been indexed far exceeds the additional amount that would have been paid by low-income households. The real tax cuts since 2004-05 have been skewed towards higher income households.

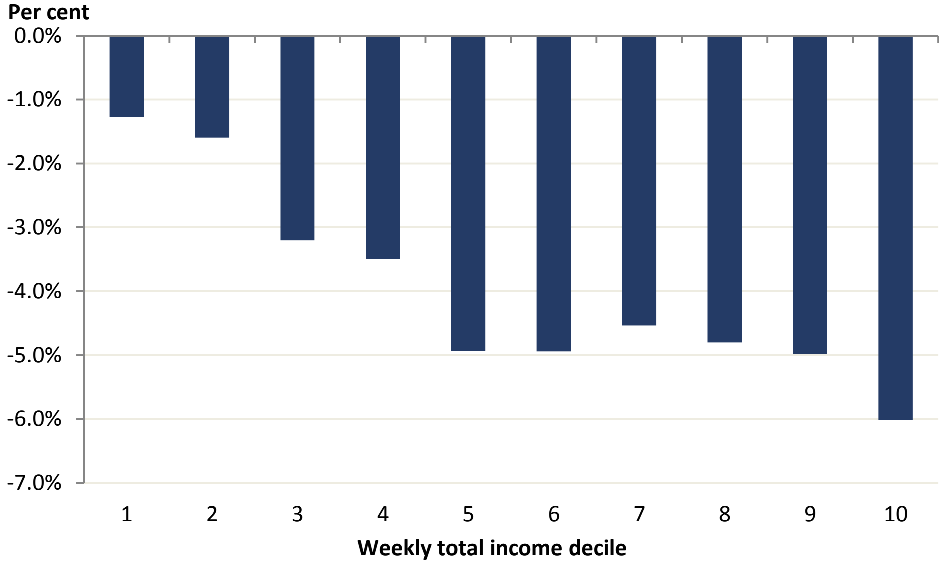
Figure 5: Change in family disposable income in 2012-13 if the 2004-05 tax thresholds had been indexed ($)



Source: ACTU calculations using NATSEM's STINMOD static microsimulation model.

The skew in the tax cuts towards higher income households remains evident if the change is expressed in percentage, rather than dollar, terms. The family disposable income of the top 10% would have been 6% lower in 2012-13 in the absence of the real tax cuts since 2004-05 – this compares to 1.3% for the lowest income decile.

Figure 6: Change in family disposable income in 2012-13 if the 2004-05 tax thresholds had been indexed (%)



Source: ACTU calculations using NATSEM's STINMOD static microsimulation model.

These tax cuts were a major factor in the deterioration of the structural budget position, as noted by the Parliamentary Budget Office. They were skewed towards higher income households. To address the real cause of the structural deterioration in the Commonwealth Budget, the effect of these personal income tax cuts should be examined closely.

Superannuation tax expenditures

Reforming super tax concessions could improve the Budget balance while reducing, rather than increasing, inequality. Instead, the Government has chosen to pursue a range of measures that hit people on low incomes the hardest.

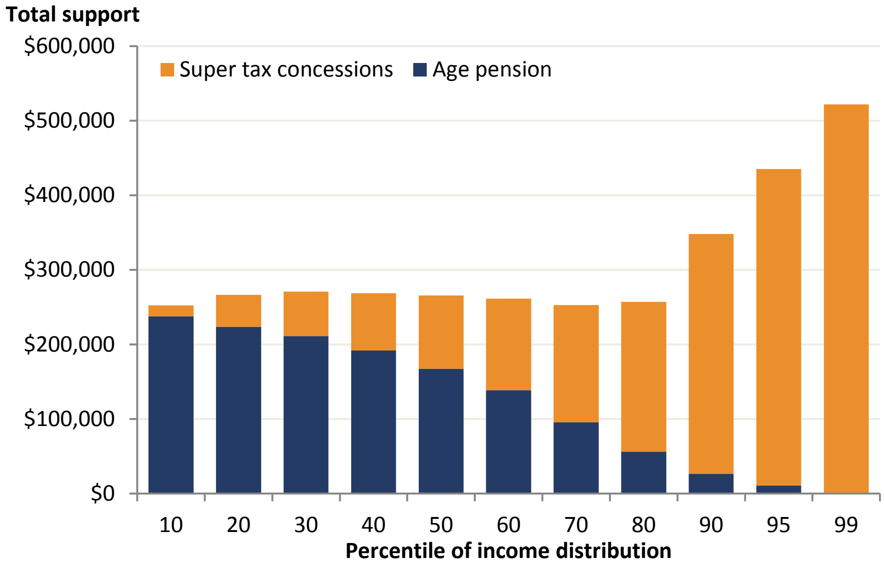
The present system for taxing superannuation contributions is blatantly inequitable. An individual with an income of $60 000 faces an ordinary marginal tax rate of 32.5%[12], and pays 15% on super contributions. This means they receive a concession of 17.5 cents in the dollar for superannuation contributions. A high-income earner on $180 000 or more receives a tax concession of 30 cents in the dollar.

Analysis by the Treasury shows that high income earners benefit more than low-income earners from superannuation tax concessions (including those associated with contributions, earnings, and withdrawals).[13] It shows that the top decile of income earners received 38.2% of superannuation tax concessions in 2009-10. This is more than the share of the bottom 70%, combined. The bottom decile

[12] Not including the Medicare Levy.
[13] The Treasury 2012, 'Distributional Analysis of Superannuation Tax Concessions'. Available online: http://www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/Superannuation-Roundtable/Distributional-analysis-of-superannuation-taxation-concessions. [Accessed 25 November 2013].

received a negative share of the total, as they paid more on their super than on other income. The analysis also shows that the support given to high income earners in the form of superannuation tax concessions exceeds that enjoyed by lower income earners in the form of the age pension. The Treasury found that "the top 1 per cent of income earners received the most combined support," taking both the age pension and super concessions into account.

Figure 7: Treasury estimate of total government support for retirement by income level



Source: The Treasury 2012, 'Distributional Analysis of Superannuation Tax Concessions'.

Tax expenditures associated with superannuation are estimated to be worth $31.8 billion in 2012-13, rising to $44.8 billion by 2015-16. Unions support the concessional taxation of superannuation, but these concessions must be sustainable and equitably distributed. This is not currently the case.

Investment in scientific research and innovation

The terms of reference include the effect of the Abbott Government's Budget cuts on "the reduced investment in scientific research… and its impact on future productivity." Unions have long argued that our economy and our manufacturing sector in particular will only thrive if we can create the right conditions to foster and exploit process and product innovations that enable us to increase our share of global markets for high-value added goods and services.

Our industrial base is diverse and unevenly integrated into a large number of national and global markets, each with their own particular dynamics in terms of costs, technologies, government regulations and prices. In this context there can be no single correct innovation policy that is immediately applicable to all firms and markets. However, in our view, some approaches to promoting innovation are clearly better and more likely to succeed than others.

We argue that government has a vital role to play in providing a stable framework of resources and guidance to help build and sustain a culture of innovation. While all parts of our economy must be encouraged to innovate, we suggest that government has a particularly valuable role to play in the context of manufacturing industry and the development of original high-value added products that can leverage the comparative advantage afforded to Australia by our relative proximity to growing Asian markets.

It is important to understand the nature of the challenges currently facing the Australian economy in terms of innovation and why recent developments in government policy are likely to undermine our ability to meet those challenges. Australia should be expanding, not cutting, funding for innovation and the development of new, productivity-enhancing technology.

Innovation: capacities and constraints

In return for paying taxes and wages that are higher than some in the Asia-Pacific region, Australian businesses receive considerable benefits that few other countries in the region can offer. According to the World Economic Forum (WEF) in 2013,[14] these include:

a) High quality economic infrastructures and public services. Australia ranks 18th out of 148 countries for physical infrastructures and 15th for higher education and training.

b) A high degree of legal and regulatory transparency, certainty and integrity for the purposes of conducting business and enforcing the rights of economic agents. This framework has helped to promote the development of one of the most liquid, safe and innovative financial markets in the world, ranked 7th by the WEF.

[14] World Economic Forum (2013) *The Global Competitiveness Report 2013-2014*, WEF, Geneva.

c) Of particular importance for innovation, in 2013 the WEF reported that Australia ranked 8^{th} in relation to the quality of its scientific research institutions and 15^{th} in terms of university-industry collaboration in research and development.

The WEF classifies Australia as one of the world's 37 'innovation-driven economies'. This has a double significance. Firstly, it reflects our existing *capacity* to innovate. In many important respects we have a set of physical, educational, financial and scientific capacities that are already conducive to sustained innovation. This environment needs to be nurtured and coordinated by government if expensive, long-term and risk-intensive innovation is to be conducted and then successfully transformed into high-value products that can be routinely sold on global markets.

Secondly, it reflects the *imperative* to innovate. Given our level of social and economic development to date, and the incomes that have accompanied this development, continuous and widespread innovation is vital to attaining the productivity increases and product originations we need to secure a prosperous collective future. Research by the Productivity Commission indicates that over 60 per cent of Australia's labour productivity growth between 1994 and 2006 derived from investment in 'intangible capital': skills, R&D, organisational improvements and related spill over effects.[15]

However, while aspects of our national innovation system are strong and must be built upon, there are clear and worrying indications that more needs to be done to develop that system and increase the rate of commercialised outputs. Table 2 highlights some of the barriers firms of varying sizes report as being the main barriers to undertaking innovative activity in 2011/12.

[15] Productivity Commission 2009, *Investments in Intangible Assets and Australia's Productivity Growth*, Staff Working Paper, Sydney.

Table 2: Barriers to innovation by employment size

Barriers to innovation	Employment size				
	0-4 persons	5-19 persons	20-199 persons	200 or more persons	Total
	Per cent				
Lack of access to additional funds	19	22.9	16.5	9.9	19.9
Cost of development or introduction/implementation	13	18	12.1	17.3	14.4
Lack of skilled persons:					
within the business	9.5	15.6	15	9.9	11.8
within the labour market	7.8	17.5	16.2	11.3	11.4
in any location	13.8	24.8	23.2	16.5	17.8
Lack of access to knowledge or technology	3.7	5.7	3.5	2	4.2
Government regulations and compliance	12.5	16.6	15.4	11.4	13.9
Adherence to standards	3.9	4.7	5.4	3.2	4.3
Uncertain demand for new goods or services	15.9	17.2	11.5	13.6	15.9
Any of the listed barriers to innovation	41.5	53.1	43.5	35.7	45.1
None of the listed barriers to innovation	58.5	46.9	56.5	64.3	54.9

Source: ABS 8167.0

The key points include:

a) The main barriers to innovation reported by most businesses related to financing: lack of access to additional funds and the costs of implementing innovative processes. Contrary to the view that market disciplines can be relied upon to produce innovative outcomes, this suggests that such pressures may be resulting in firms operating with low profit margins and a consequent inability to source the financing needed to innovate. Product and process innovation can be expensive, time consuming and risk-intensive over lengthy periods of time. In this context short-term competitive pressures can inhibit rather than foster new ideas and practices. We discuss the implications of this for public policy later in this submission.

b) Access to skilled persons within the firm and across the broader labour market is a key constraint. Among other things, this implies the need for education and training policies that facilitate, rather than inhibit, students studying science and engineering-related subjects.

Figure 8 shows that a relatively small share of newly awarded degrees in Australia are for science and engineering. This suggests that, in comparative terms, Australia is lagging most other OECD countries when it comes to a key source of education in knowledge and skills essential to expanding our collective capacity for industrial innovation. Partly in response to this worrying trend, in 2009 the government increased funding to provide incentives for students to study topics such as mathematics and science at secondary and tertiary levels. In 2012 the OECD welcomed this initiative as an important step toward tackling Australia's relative under-supply of graduates and post-graduates in strongly innovation-related topics.[16]

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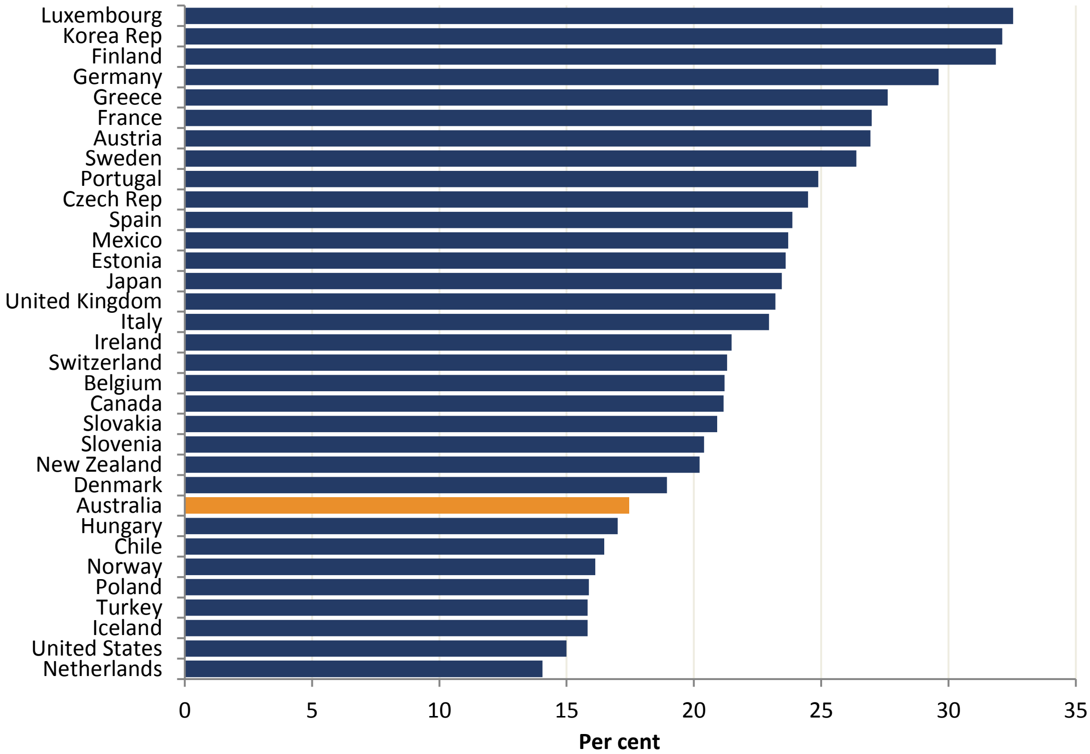
[16] OECD (2012) *Economic Survey of Australia*, OECD, Paris.

Figure 8: Science and engineering degrees as a percentage of total new degrees



Source: OECD 2012, Economic Survey: Australia, Figure 2.12.

However, while the previous government took some welcome steps to build aspects of our innovation capacity there are areas where that capacity is not being systematically translated into practice and outputs. The key trends include the following:

a) The policy and market framework conditions for innovation are strong by the standards of the leading OECD nations. The regulatory and market barriers to entrepreneurship are low, helping to generate the perception that Australia presents opportunities for new businesses and related innovative practices.

b) The research and skills framework is quite strong by comparative standards. In 2011 government financial support for R&D was close to the top 5 OECD average, with total employment comprising a relatively high proportion of professionals, technicians and researchers. Less strong was our proportionate contribution to the top 1 per cent of global scientific research. The proportion of tertiary graduates from science and engineering subjects was lower than the OECD top 5 nations and lower than the total OECD average.

c) However, Australia is particularly weak in terms of originating new products and services. This is particularly evident among SMEs. The dominant trend today, as it has been for some time, is that Australian firms are much more likely to import innovations generated overseas than originate their own. This is reflected in the very low level of R&D in higher education that is funded by business, and the very low levels of collaboration on innovation among large firms.

The reasons for these weaknesses are complex and subject to considerable debate. A recurring theme in these debates has been the nature of the relationship between businesses and universities. There appears to be some agreement that in terms of promoting collaboration and market-orientated innovation the relationship requires reform in a number of areas. In 2007 the Productivity Commission reviewed public support for science and innovation.[17] In the context of business-university relations, and how universities manage innovation research and intellectual property (IP) issues, it offered the following views:

a) Universities need more resources to enable them to develop strong 'technology transfer offices' that have the skills and capacity to implement institutionally consistent and efficient IP policies and procedures.
b) Given the already low-level of innovation among businesses, there is reluctance among firms to adopt university-generated research that has not already been proven to be commercially viable. Where private sources of funding to apply such research are not forthcoming, the government should consider providing non-contingent loans to assist commercialisation.
c) Universities and other publically-funded research institutions often have problems recruiting and retaining skilled scientists and researchers. The Commission noted that a key source of this problem is job insecurity generated by uncertain funding from government and a consequent reliance on short-term contracts. In addition, such staff often found themselves performing an increasing amount of non-research work because of cuts to staffing in other parts of their institutions. In conclusion the Commission called for long-term funding certainty.

Budget cuts to innovation

The ACTU believes that adequate and consistent levels of public support are critical to developing our national innovation system and disseminating a wider culture of innovation across our economy. We therefore agreed with the Productivity Commission when it concluded in 2007 that:

> *'Governments play a major role in shaping the innovation system through the design and governance of institutions, in supporting the education and training of scientists and engineers, and in funding high-value research that would not otherwise be undertaken by business…[Our] conclusion is that public support for science and innovation has, by and large, provided widespread and important benefits for Australians.'*[18]

Measures announced in the 2014 Budget will do significant damage to our public innovation infrastructure. We highlight here three aspects of these measures:

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[17] Productivity Commission (2007) *Public Support for Science and Innovation*, Canberra.
[18] ibid, p. xvii

a) Cutting $116 million in government funding for CSIRO over four years. This is likely to see 500 staff lose their jobs. This should be considered in the context of the views of the Productivity Commission (discussed above) that a key barrier to recruiting and retaining high quality scientific staff in publically-funded research institutions in Australia is job insecurity and funding uncertainty. The government appears intent on weakening an institution that plays a vital role in undertaking innovative research for the benefit of business, but which business regards as being too costly and risk-intensive to undertake itself.

b) Cuts to higher education funding and the deregulation of fees. This risks generating strong disincentives for new students to undertake relatively expensive science and engineering related study at undergraduate level. Furthermore, the introduction of fees for PhD research will also act as a disincentive for students to engage in postgraduate study and to acquire the advanced skills and knowledge we need to support high-quality innovative research. This issue is also discussed in a later section of this submission.

c) Cuts to apprenticeship and skills support programs. The trades and technician workers who are the product of the apprenticeship system play a central role in innovation through their capacity to engage in problem solving and improve products and processes. [19] The full potential of the apprenticeship system to support innovation has been placed at risk by the axing of programs that provided direct financial support, as well as mentoring, advice and assistance, to help apprentices complete their apprenticeship. This issue is also discussed in a later section of this submission.

The ACTU strongly urges the government to reverse these cuts and instead commit to providing an adequate and stable funding framework for innovation that encourages students to become highly skilled researchers and scientists at undergraduate and postgraduate levels. A pre-occupation with short-term Budget surpluses over long-term investment in our capacities to transform our economy is a deeply damaging and counter-productive approach to innovation. It is one that no other leading OECD country follows.

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[19] For more on this see Toner, P., The role of wages in apprentice commencements and completions: a selected review of the literature in Australia, pp. 4-5; a report for the ACTU in the apprenticeship review by the FWC: http://www.fwc.gov.au/documents/awardmod/review/AM201218&ors_sub_witness_ACTU.pdf

Public sector job cuts

The Budget includes significant public sector job cuts. These cuts will hurt the workers involved, as well as their families and communities, and will undermine the quality and quantity of services provided to the Australian public. These short-sighted and damaging cuts should be abandoned and reversed.

The magnitude of job cuts

In the Budget papers, the Government outlined that it expects that the average staffing level (ASL) of the Australian Public Service (APS) (excluding military personnel and reserves) will be 7,336 lower in 2014-15 compared to 2013-14. Further to this the Budget outlines an anticipated reduction in APS staffing levels by 2016-17 of 16,500 from 2013-14 ASL. This would be a net reduction of an additional 9,000 staff.[20]

The area that is projected to lose the most staff over the forward estimates is the Australian Taxation Office (ATO), with the ATO facing a reduction of 2329 staff in the 2014-15 Budget. The ATO has also been the subject to job cuts prior to the Budget. A range of other agencies and portfolios were also targeted for a significant reduction in staffing levels.

The agencies that have had their staff numbers (ASL) significantly cut by the Budget are:

- The education portfolio at 410 jobs;
- The health portfolio at 689 jobs, 326 of these jobs from the Department of Health;
- The Department of Foreign Affairs and Trade at 535 jobs;
- The Department of Immigration and Border Protection at 400 jobs;
- The Department of Industry at 732 jobs; and
- The Commonwealth Scientific and Industrial Research Organisation at 489 jobs.

Job cuts are occurring across the federal public sector. They affect education, health, industry and innovation. The reduction in staffing represents a widespread program by the government to reduce the capacity and staffing levels of the APS and organisations like CSIRO, the ABC, and SBS. These cuts will have long term impacts on the capacity of these organisations to deliver quality services and programs.

These announced job cuts are not the end of job losses in the APS. The Budget also outlined a 'Smaller Government Agenda' by which the government will continue to identify areas for reduction in staffing and agencies to be consolidated or removed completely.[21] Scoping studies are to occur into the

[20] Commonwealth Government 2014, *Budget Paper No. 4: Agency Resourcing, Part 2: Staffing of Agencies* http://www.Budget.gov.au/2014-15/content/bp4/html/bp4_part_2.htm
[21] See Hamilton, P. 2014, 'Smaller government', Parliamentary Library. Available from: http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201415/SmallerGov

privatisation of Defence Housing Australia, the Royal Australian Mint, Australian Hearing, and the Registry function of the Australian Securities and Investments Commission (ASIC).[22]

The Government has also indicated its intention to privatise and outsource one of the largest public sector agencies, the Department of Human Services, announcing plans to have $29 billion in Medicare and pharmaceutical benefits scheme payments delivered by the private sector.[23] This is expected to lead to further reduction in staffing levels in these agencies.

The Budget job cut numbers do not include any job losses associated with this planned outsourcing or privatisation of programs and services. There is a significant chance that further services and agencies will be removed from the public service and with them will go more jobs.

The effects of job cuts

The cutting of these federal public sector jobs has three main consequences. The first is that they reduce the capacity of the APS to deliver programs and services to the Australian public. The second is that the affected workers endure a painful disruption to their working lives. The third is that the cuts can have significant flow-on effects in the communities in which those who lose their jobs live.

The government has clearly signalled in the Budget and through reviews such as the Commission of Audit that it intends to have a smaller public service providing fewer services to the public. This outcome is being achieved by the cutting of jobs and funding to agencies, forcing them to close down face-to-face offices. It looks set to continue through the proposed outsourcing of programs and services.

The reduction in staff and funding for the CSIRO is an example of this. The loss of staff means the loss of key scientific knowledge and skills and a reduction in the capacity of the organisation to research and innovate, has implications for the entire scientific and research community in Australia and the ability of the country to advance industry and innovation.[24]

In addition to reducing the capacity of the public service to research, innovate and provide services, job cuts also mean that individuals lose their jobs. These individuals have families and live in the broader community and the areas in which they live will also be affected as these people seek work or move out of the area in search of work.

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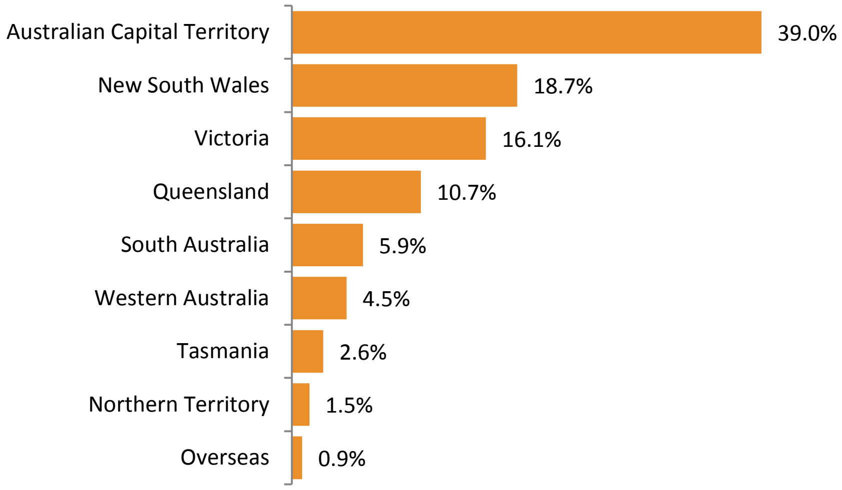
[22] Commonwealth Government 2014, *Budget Paper Np. 2 Budget Measures,* p.117, Available from: http://www.Budget.gov.au/2014-15/content/bp2/download/BP2_consolidated.pdf

[23] Towell, N. 2014, 'Public service nervous in wake of Human Services sell-off', *The Canberra Times,* 8 August, Available from: http://www.smh.com.au/national/public-service/public-service-nervous-in-wake-of-human-services-selloff-20140808-101qs7.html

[24] Towell, N., Smith, B. and Phillips, N. 2014, 'CSIRO support staff face huge job cuts', *The Canberra Times,* 15 March, Available from: http://www.smh.com.au/technology/sci-tech/csiro-support-staff-face-huge-job-cuts-20140314-34so6.html; and Trounson, A. 2014, 'Pace of CSIRO job losses quicken', *The Australian,* 11 June, Available from: http://www.theaustralian.com.au/higher-education/pace-of-csiro-job-losses-quicken/story-e6frgcjx-1226950387467

Public sector jobs are not just located in Canberra. They are spread out across the country in small and large communities. According to Australian Public Service Commission data the majority of APS staff are located outside of the Australian Capital Territory, the below figure shows the distribution of APS staff both ongoing and non-ongoing.

Figure 9: APS staff are employed in every state and territory
(Proportion of APS staff employed in each state and territory)



Source: APSC 2013, 'snAPShots', December. Available from: http://www.apsc.gov.au/publications-and-media/parliamentary/aps-statistical-bulletin/snapshots-december-2013 [Accessed 20 August 2013]

Retirement incomes

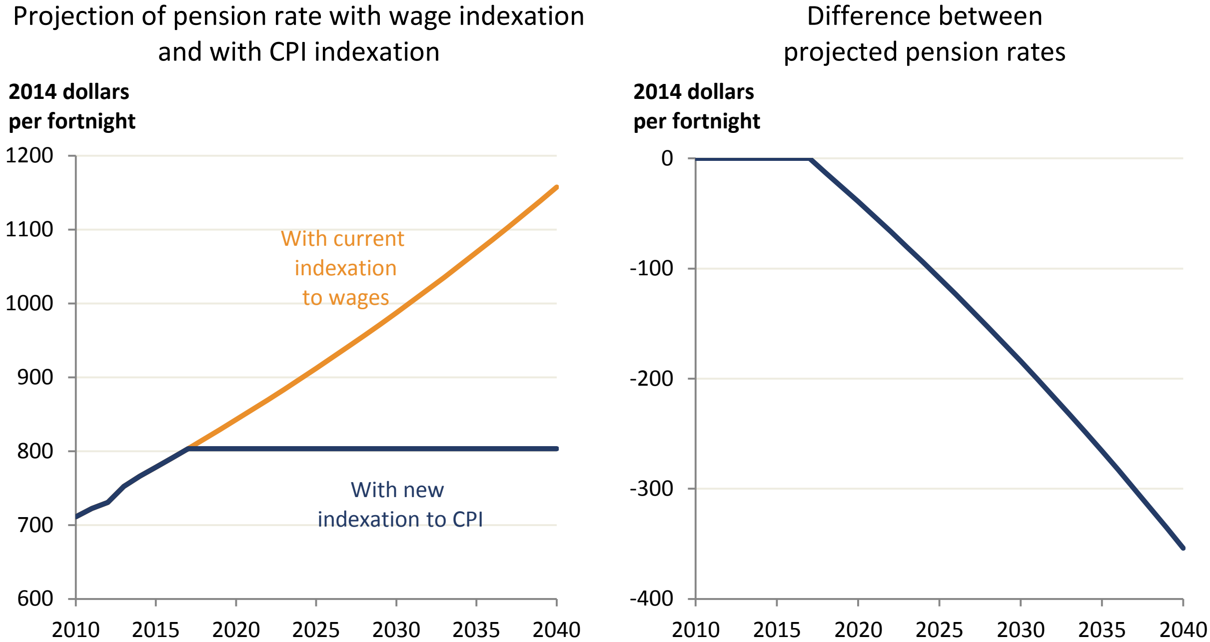
The terms of reference direct the Committee to inquire into "the impact of the Budget on retirement incomes and pensions." The Budget will have a negative effect on retirement incomes. This will particularly be the case for low income earners, who are more likely to be effect by the reduction in the Age Pension (relative to where it would otherwise have been) and the delay to the Superannuation Guarantee increase.

Cuts to the Age Pension

The Budget includes the Government's plan to cut the indexation rate on pensions, including the Age Pension. Pensions will no longer rise in real terms over time. Instead, they will be indexed only to the CPI from 1 September 2017. This will have a significant effect on the living standards of retired Australians who rely on the Age Pension. The cut to indexation will result in a large reduction in the pension, relative to where it would otherwise have been.

Figure 10 shows a projection of the Age Pension under the current indexation arrangements and under the arrangements announced in the Budget. It is projected that the pension will be nearly $100 per fortnight lower in a decade than it would have been under the previous indexation arrangements. The reduction in the living standards of retirees (relative to what they otherwise would have been) will compound over time.

Figure 10: Pensions will be much lower than they otherwise would have been



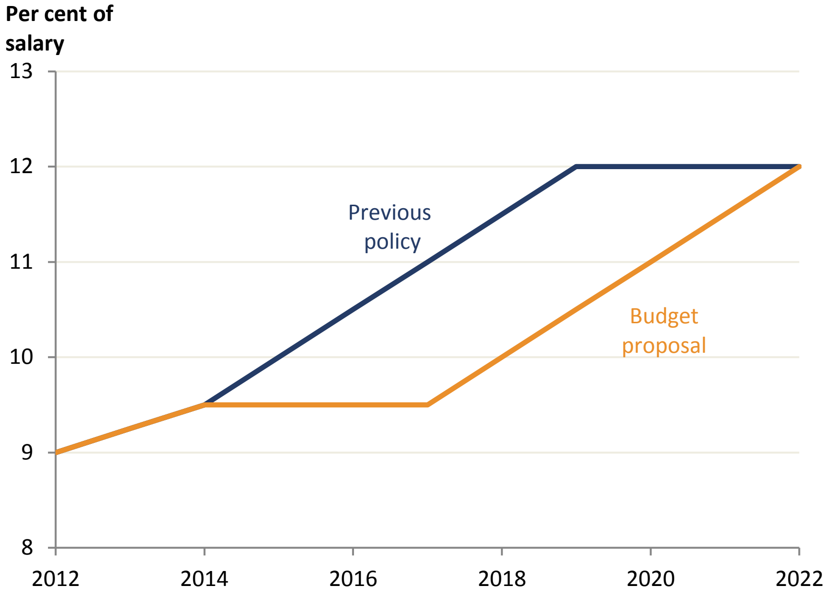
Source: Historical payment rates from DSS, *Guide to Social Security Law*; CPI from ABS 6401; ACTU calculations. Projections assume 2.5% inflation, 4.14% annual nominal wages growth.

Pensions (and other transfer payments) should keep pace with changes in typical community living standards. Wage indexation ensures this occurs. The Budget's cut to the indexation of pensions will result in a growing gap between pensioners and the rest of the community. Poverty and social exclusion will be the result. This measure should be rejected.

Delay to Superannuation Guarantee increases

The Budget includes a delay to increases in the Superannuation Guarantee (SG) rate. The rate will be frozen at 9.5% from 1 July 2014 to 1 July 2018 and will then rise by 0.5 percentage points each year until 2022-23. It will reach 12% three years later than it would have under previous policy.

Figure 11: Delay to increase in Superannuation Guarantee will reduce retirement incomes
Required SG rate under previous policy and the Budget proposal



Source: Budget Paper No. 2.

The delay in increasing the SG rate will result in lower retirement incomes for many Australians. This will combine with the lower Age Pension (as a result of indexation cuts) to mean lower living standards for many Australians in retirement.

Intergenerational mobility

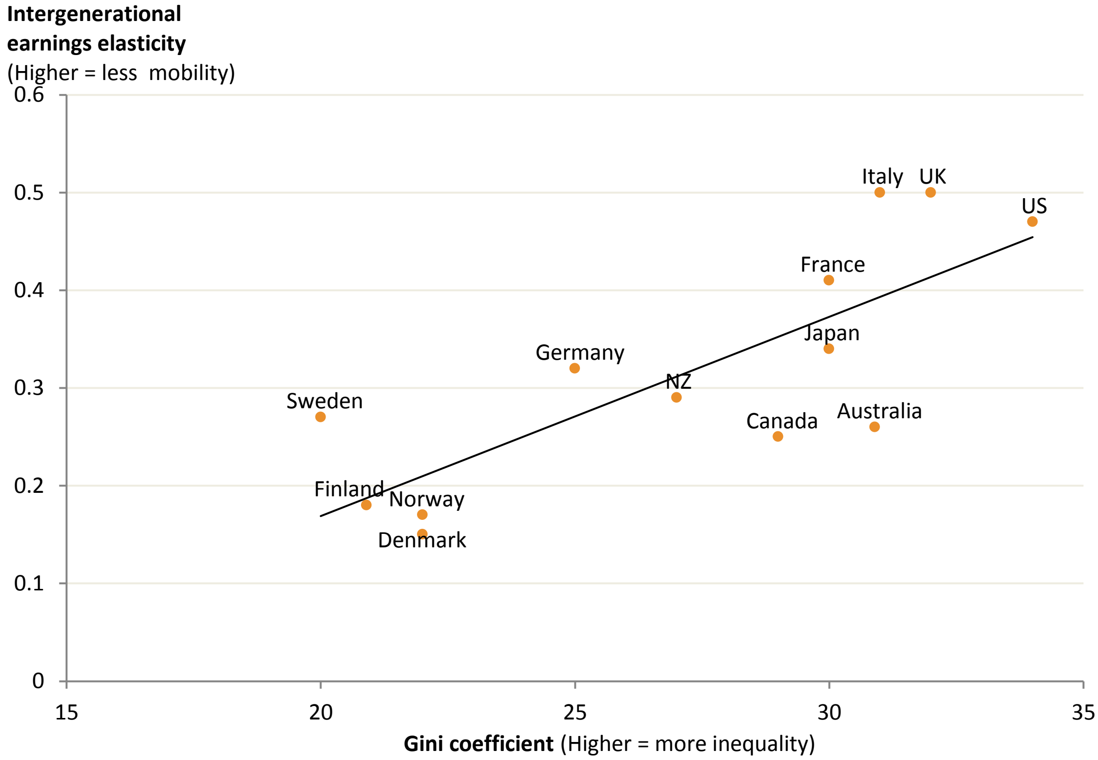
The effect of the Budget on "intergenerational mobility" is part of the Inquiry's terms of reference. This Budget will increase inequality in Australia. It is likely that a consequence of that will be reduced intergenerational social mobility.

The link between inequality and mobility

Intergenerational mobility is typically measured using the 'intergenerational earnings elasticity'. This elasticity measures the extent to which a person's income reflects that of their parents.[25] A higher elasticity implies a strong link between a father's earnings and his adult son's earnings, whereas a lower elasticity implies a weaker link between earnings levels across generations. A high intergenerational earnings elasticity is thus taken to be indicative of a low level of intergenerational social mobility.

Countries that have higher levels of inequality tend to have higher intergenerational earnings elasticities. This relationship is captured in the 'Gatsby Curve', made famous by Alan Krueger[26] and reproduced as Figure 12.

Figure 12: The Gatsby Curve: countries with higher inequality tend to have lower social mobility



Source: Corak, M. 2013, 'Income Inequality, Equality of Opportunity, and Intergenerational Mobility', *Journal of Economic Perspectives,* vol. 27, no. 3, pp.79-102. Data supplied via personal communication.

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[25] Intergenerational earnings elasticities have typically been estimated based on the relationship between the earnings of fathers and sons, to abstract from changes in the workforce participation of women.

[26] Krueger, A. 2012, 'The Rise and Consequences of Inequality in the United States', Speech at the Centre for American Progress, 12 January. Available online: http://www.whitehouse.gov/sites/default/files/krueger_cap_speech_final_remarks.pdf [Accessed 21 August 2014].

Less equal countries are less mobile countries. This Budget will increase inequality in Australia, as set out in an earlier section of this submission. It is therefore reasonable to infer that intergenerational social mobility will decline in Australia as a result of this Budget.

Young people and students

Much of the burden of the budget's cuts falls on young people and students.

This burden will be felt through across-the-board measures in the budget such as the proposed co-payment for visits to the GP and the increase in fuel excise. These measures will hurt young people and students who tend to be lower paid and are not necessarily able to rely on family support.

As highlighted below, the burden will also be felt as a result of specific measures in the budget that are particularly targeted at young people and students, including the removal of income support for the young unemployed; cuts to skills programs; deregulation of university fees; and replacing support for apprentices with a debt program.

Removal of income support for the young unemployed

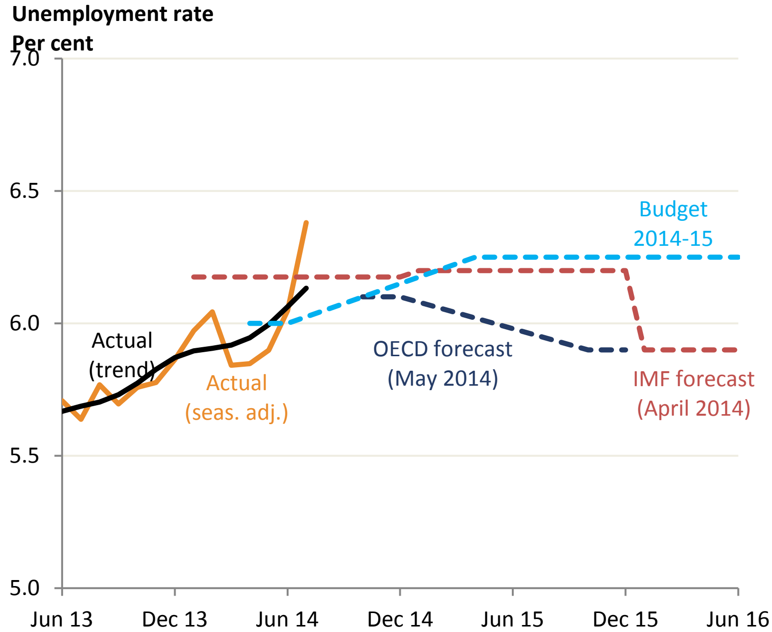
The Budget measures include the extension of Youth Allowance to people aged 24, and the restriction of Newstart to those aged 25 and over. The Budget will also "require young people with full capacity to learn, earn, or Work for the Dole". Job seekers aged 29 or younger will be denied income support for up to six months after applying for a payment and for up to six months out of their second and subsequent year of unemployment. This is arguably the most punitive and objectionable measure in the Budget.

There is no case for such a policy at any time. However, it is especially troubling that the measure has been introduced at a time when unemployment, and youth unemployment, are at their highest levels in over a decade. The latest ABS labour force data for July 2014 has unemployment now at 6.4%. Youth unemployment is more than double that at 14.1%. There are now 789 000 unemployed Australians.

At the same time, there are now only 146 100 job vacancies. The Government's own research shows the number of skill shortages is at an 'historical low'. There are generally large and growing fields of applicants vying for skilled jobs and almost all employers attracted applicants.[27] The Government's own budget papers forecast that unemployment will still be 6.25% in June 2015, as shown in Figure 13.

[27] Department of Employment 2013, *Skill Shortages – Statistical Summary 2012-13*, Australian Government.

Figure 13: Unemployment rate and forecasts



Source: ABS 6202, IMF WEO database April 2014, OECD *Economic Outlook* Annex Table 13, Budget 2014-15. Note that IMF forecasts are year averages; OECD forecasts are for the Dec quarter; Budget forecasts are for June quarter.

In the face of this evidence that jobs will continue to be hard to come by for many, the Government's approach panders to prejudices about the unemployed, suggesting that those not fortunate enough to be in work are to blame for their predicament. The debate is cast by the Government in terms of 'lifters versus leaners'. An unemployment benefit that currently sits at a meagre $255 a week for a single person is somehow seen to be part of the problem, acting as a disincentive to find paid work, rather than being viewed as essential support for the unemployed to meet their day to day living expenses, to live with dignity, and to support their job search activities, which can include costs such as transport, phone calls and clothing.

Newstart Allowance is inadequate. It is so low that it may actually harm people's ability to stay job-ready and actively seek work. Youth Allowance is even lower. Pushing more young people onto this allowance will do nothing for the effectiveness of their job search and will merely increase their poverty. The proposal to deny income support to adults aged 29 and under for six months would exacerbate this and is a draconian, unconscionable proposal.

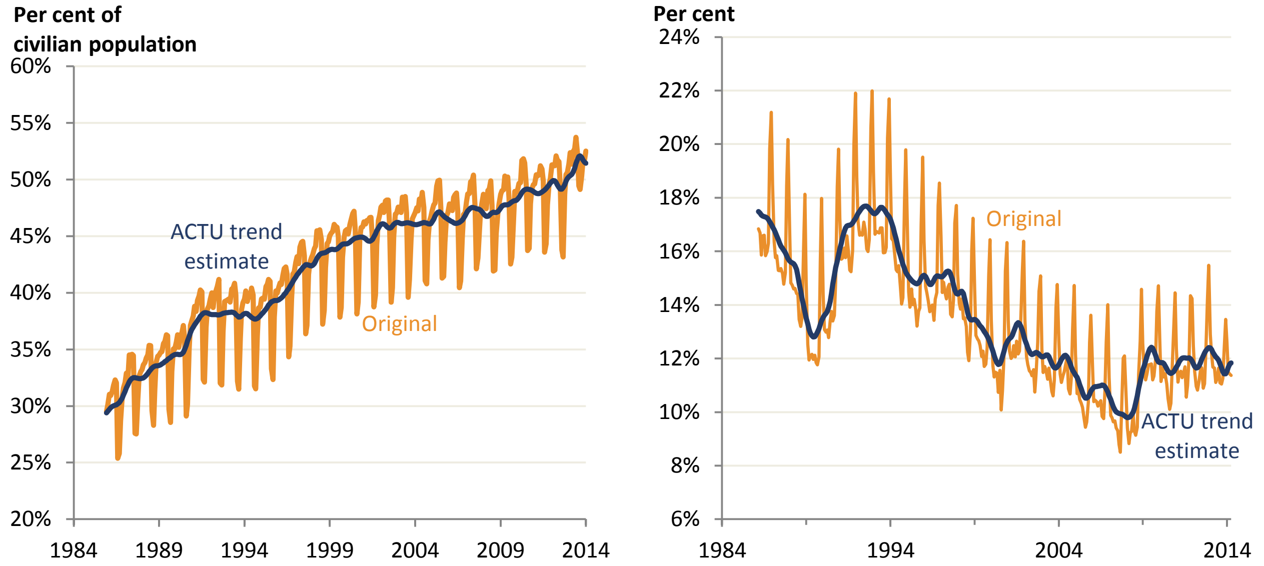
The Government has attempted to present and defend its proposal by way of a three-word slogan: Learn or Earn. As the budget papers indicate, this means that ''*rather than continue looking for work, job seekers can elect to undertake training or study which makes them eligible for student benefits*'.[28]

[28] Budget Overview, *Budget 2014-15,* p.11.

The proportion of young people in full-time education is already at an all-time high and now exceeds 50% for the first time ever. Only around 12% of young people are neither in work nor full-time study, which is lower than was recorded during the 1980s, 1990s, or early 2000s.

Figure 14: Young people are mostly earning or learning

(% of 15-24 year olds in full-time education) (% of 15-24 year olds not in work or full-time study)



Source: ABS 6291.0.55.001 and ACTU calculations. 'ACTU trend estimate' is an X12-ARIMA trend series.

In itself, 'learn or earn' is a perfectly laudable objective and concept. No one with an interest in this issue would object to the basic principle that young people should, where possible, be either working or studying with an eye to future employment. However, the punitive approach adopted by the Government through the Budget and related measures is completely counter-productive, especially when those looking for work far outweigh the number of job vacancies.

The budget measure to remove income support for periods of up to 6 months at a time is just one part of this flawed approach. Proposals requiring the unemployed to lodge up to 40 job applications a month, and forcing people onto "Work for the Dole' projects at the expense of time for job search activities also need to be reconsidered. Together these measures will only force the unemployed further into poverty and not help them find work or develop real skills.

There are two other key problems with the Learn or Earn policy the Government is promulgating in this budget.

First, the Government has introduced this measure at the same time that it has axed a number of the very programs that support the capacity of people to 'learn or earn'; programs such as Youth Connections with a track record of helping young people with career counselling and social support for young people, programs that provide mentoring, advice and assistance for apprentices, or financial support for apprentices to purchase tools, as well as language, literacy and numeracy programs. With these changes, the programs to support earn or learn is being degraded. Further information on these changes is provided below.

The second problem is that the Learn or Earn policy as advocated by the government ignores the fact that in many cases people have already trained and obtained qualifications and still cannot find work. The implication is that unless they can find work, these people must continue on a never-ending merry go round of training courses simply in order to avoid becoming destitute.

Part of the problem with this approach is that the Government has taken a concept of 'learn or earn' that made some sense when it was originally used by several State Governments to apply to young teenagers around school leaving age. However, when it is applied to adults up to 30 years of age this covers a whole lot of people who have already done the 'learning' part of the equation and still cannot find jobs. The Government does not appear to have an answer to that except to repeat the mantra that these people should be 'earning or learning'.

From the skills or 'learning' side of the 'earn or learn' equation, this policy raises a number of concerns for vulnerable, young unemployed people, and could lead to unproductive 'training for training's sake'. For example, as the Brotherhood of St Laurence has pointed out: "…*if they [young job seekers] are not offered good vocational advice, they can also be at risk of falling victim to unscrupulous training organisations offering courses that don't lead to real job opportunities…*". [29]

In that type of situation, a young person may study and complete a government subsidised VET qualification at a poor quality training provider and through no fault of their own be left with a qualification that has little value in the labour market and does not help them find work. Under current 'entitlement model' policy settings in the VET sector, that person could then be left to pay full fees for any subsequent VET qualifications they do in order to satisfy the 'earn or learn requirement', or else they are left with no income support.

The problems with the Learn or Earn policy are amplified by the quality problems that have continued to plague the VET sector in particular. The market-driven approach of organising and delivering VET through a 'contestable' training market has led to the rapid growth of private, for-profit, training providers attracted by the ready availability of government funding for high-volume, low-cost training. In too many cases, this training has been skewed more towards courses that are commercially viable, rather than those addressing areas of genuine skill and labour market need. As a result, students and workers have been left with qualifications that do not actually help them find a job. As highlighted above, those people would be penalised under the Government's Learn or Earn policy by the loss of any income support..

[29] "Denying Help to Young Jobseekers would be harsh", The Australian, 15 May 2014, p.16.

The ACTU calls on the Committee to reject this proposed removal of income support for unemployed people under the age of 30 and for the Government to focus on positive measures to build skills and create and protect jobs.

Higher education policy

The higher education policy changes announced as part of the Budget represent the most radical changes to the regulation and funding for Australian universities and their students in over 20 years. If passed by the Parliament, the proposals will have significant negative impacts on students and many of our public universities.

Based on the fees currently being paid by international students and even some domestic students attending private universities, the cost of some university degrees will excess $100 000. The proposal to charge real interest rates on student debts will also substantially increase the cost and length of time it takes students to repay their debts. Modelling has shown this will impact most heavily graduates with low incomes and those, predominantly women, who take extended career breaks.

Entry into a public Australia university should be based on a student's ability and not their capacity to pay.

Unions urge the Committee to reject the Government's proposed changes to higher education funding and regulation because they will not only lead to a substantial increase in the cost of attending university, but also have the very real potential to undermine the financial sustainability of a number of public universities, particularly those servicing regional and outer metropolitan universities.

Apprentice support replaced by a program of debt

The Government has axed the Tools for your Trade Program; a cut in the budget of almost $1 billion over four years in direct financial support for apprentices. This program provided targeted payments to apprentices totalling $5500 over the course of their apprenticeship.

In its place, the Government is shifting costs onto the apprentices themselves with a new Apprentice Trade Loans program that will leave apprentices with a future debt to pay off when they finish their apprenticeship and start their career.

The Government's apparent rationale for the apprentice loans scheme relies heavily on the widespread concern about poor apprenticeship completion rates and the fact that many young people find the first few years of an apprenticeship financially difficult and cannot afford the costs associated with undertaking an apprenticeship.[30]

Unions strongly agree that there is a problem that needs to be addressed in terms of poor apprenticeship completion rates and the costs associated with doing an apprenticeship.

However, the answer does not lie with a loans scheme that only serves to shift the burden on to young apprentices and leaves them with a considerable personal debt of up to $20 000 or more with which to start the rest of their working life after they finish their apprenticeship (similarly, the debt is left hanging over them if they do not complete the apprenticeship).

Moreover, unions do not support an apprentice loans scheme when it has been introduced at the expense of other initiatives and programs abolished in the recent budget that provided practical support to apprentices in dealing with the very issues that are proven to contribute to non-completion.

Mentoring for example has been widely recognised in the Apprenticeship Expert Panel Report[31] and elsewhere as a key measure to help improve completions. The availability of experienced mentors can be invaluable in helping apprentices cope with the range of work and non-work related issues that inevitably arise during an apprenticeship and can cause people to drop out, particularly in the case of young apprentices often in their first job out of school. Yet the program established for this very purpose, the Australian Apprenticeships Mentoring Program, has been abolished.

There is also a need to give potential apprentices the best chance of finding an apprenticeship and making their apprenticeship work, particularly if they come from disadvantaged backgrounds. In this respect, the Australian Apprenticeship Access Program assisted vulnerable job seekers who find it difficult to enter employment with nationally recognised pre-vocational training, support and assistance. This program too has been abolished in the budget.

We note and acknowledge that in this case the Apprentice Trade Loans Scheme was actually an election commitment, but the clear impression was that this loans scheme would be made available as an additional option for apprentices looking for support to complete their apprenticeship; not that the scheme would be introduced at the expense of existing programs and initiatives that were available and working well to support apprentices through their apprenticeship. There was no prior warning before the budget that the loans scheme would become the only option available to help apprentices meet the costs of doing their apprenticeship.

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[30] Second Reading Speech, Wednesday 4 June 2014; Media Release, The Hon Ian Macfarlane, Minister for Industry, *Skilling Australia to grow industry*, 13 May 2014.

[31] A Shared Responsibility: Apprenticeships for the 21st Century, Final Report of the Expert Panel, 31 January 2011, p.9.

Unions are also concerned about the unintended consequences of such a scheme, particularly when it involves apprentices as young as 15 years of age taking out loans and without prior experience in the workplace. For example, one concern is that young apprentices starting out could find themselves under pressure to access these loans in order to pay for costs of the apprenticeship that should be borne by their employers, or to forego wage increases because a loan is available to meet their costs. The potential for abuse and misuse of the scheme is real but there is no indication of what resources, if any, will be directed towards educating and supporting apprentices in such situations, given that existing support programs have been abolished.

As the Committee would be aware, legislation to underpin the loans scheme has since been passed by the Parliament in the June sittings and the scheme is now in operation. The ACTU lodged a submission with the Senate Inquiry into the legislation setting out our objections to the scheme in more detail. [32]

We note that the Opposition was successful in securing an amendment so that parental involvement is required for apprentices under 18 years of age who wish to access the trade loans. However a number of other potential problems remain, considering the scheme is to be the only source of financial support for apprentices. For example, it appears trade support loans will only be paid monthly in arrears. This would make it impractical for apprentices to use the loans scheme to meet the up-front costs of big ticket expense items such as the purchase of vehicles (or major repairs to them) and expensive tools and equipment. In our submission, there should be scope for apprentices to apply for a different instalment period that suits their circumstances.

It is also critical that apprentices who take out a loan or are considering doing so, know exactly what they will be liable to repay. This information needs to be available to apprentices in Plain English supporting materials that include specific ‘worked-up’ examples of the monetary amounts that would be involved with different loan amounts and repayment periods.

We call for the Government to be open and transparent with regular information on how the scheme is operating and for the Senate to take an active role in monitoring scheme through the Senate Estimates process.

Cuts to skills programs

It is more important than ever in the current labour market and economic environment to support the VET system and skills development in this country, including our apprenticeship system. Unfortunately, the recent federal Budget has failed to do this, despite the Government advocating a policy based on the need for young people to be ‘learning or earning’. The Government has ripped

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[32] http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Trade_Support_Loans_2014/Submissions.

funding out of the skills budget. , taking away important programs that support apprentices, and that help existing workers to transition to new jobs and young workers to get that first job. At the same time, it has failed to introduce any new measures to help those who rely most on the VET system to develop the skills they need.

In addition to the axing of the Tools for your Trade program discussed above, the budget has slashed a further $1 billion by abolishing the following programs:

- National Workforce Development Fund
- Workplace English Language and Literacy Program
- Australian Apprenticeship Access Program
- Accelerated Australian Apprenticeship Program
- Australian Apprenticeships Mentoring Program
- National Partnership Agreement on Training Places for Single Parents
- Alternative Pathways to the Trades Program
- Apprenticeship to Business Owner Program
- Productive Ageing through Community Education
- Step into Skills Program

These programs included vital support for basic literacy and numeracy skills in the workplace, upskilling for existing workers, and mentoring, advice and assistance for apprentices.

We note that a new $476m Industry Skills Fund will begin operating from 1 July 2015. The Government has provided some limited detail on how this fund would work, but it appears it will be focused on small and medium sized businesses with an export orientation. The Fund will be based on a co-contribution model but the level of employer contribution has yet to be determined.

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