



The Australian Skills Fund

AN AUSTRALIAN INDUSTRY GROUP INITIATIVE TO SUPPORT AUSTRALIA'S DEVELOPMENT AS A MORE SKILLFUL GLOBAL COMPETITOR

The Skilling Issue

Australian industry clearly recognises the importance of a skilled workforce: 85% of companies surveyed for the Australian Industry Group's 2006 *World Class Skills for World Class Industries* report cited 'building the skills base' as the strategy required for remaining competitive.

This report highlighted that Australian industry's future workforce will need both higher level skills and a broader range of skills which will need to be updated more frequently than they have been in the past.

Against this backdrop of structural change in the demand for skills, Australia is facing a chronic skills shortage in the traditional occupations primarily at the trade and post-trade levels. Currently, 50% of the workforce does not hold post-school qualifications and yet only 13% of the available jobs are suitable for these workers.

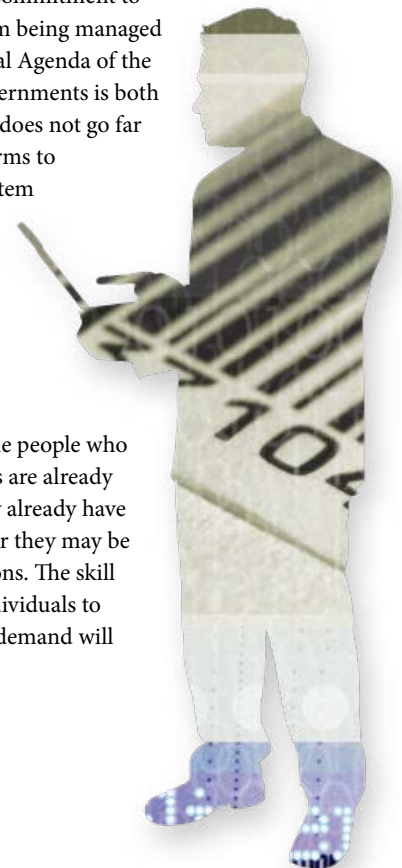
Recent research undertaken by Monash University¹ shows the projected extent of the gap between the skills needed by industry and the skills held in the workforce over the next decade:

- In the period between 2006-2016 the vocational education and training sector will be required to supply 2.47 million qualified people;
- Of this total, 1.73 million people, or 70%, will be required at the Certificate III, Diploma and Advanced Diploma levels which are the trade and post-trade levels; and
- Based on current supply and factoring in new entrants and skilled migration, there will be a projected shortfall of 240,000 people with vocational education and training qualifications;

- As a result, one in seven jobs requiring vocational education and training qualifications will be either unfilled or filled with an inappropriately skilled person. This will result in increased costs to business through inefficiencies and limitations on business growth opportunities. For a substantial group of individuals it could mean entrenched unemployment.

The vocational education and training system is best known for its training of apprentices and this will remain a very important function and one which must continue to benefit from an on-going commitment to reform. Much of the reform being managed through the Human Capital Agenda of the Council of Australian Governments is both essential and timely, but it does not go far enough. Further bold reforms to the Australian training system are needed to create a completely new approach to training to facilitate more rapid, higher skill development at trade and post-trade levels.

The key issue is many of the people who will need higher skill levels are already in the workforce; they may already have entry-level qualifications or they may be without formal qualifications. The skill level required for these individuals to remain productive and in demand will need to be lifted.



¹ Centre for the Economics of Education and Training, Monash University, 2006

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The Policy Response – the creation of a Skills Fund

The current training system with its heavy emphasis on entry-level training requires a substantial re-orientation if it is to effectively support and encourage the necessary upskilling and reskilling of the Australian workforce.

Ai Group believes this could be achieved through the creation of a \$1 billion Australian Government Skills Fund which would be the vehicle to drive this reform over the next three years. The proposed Fund would be responsible to COAG and structured similarly to the National Competition Council.

The Fund would be used to re-orient the system from its focus on entry-level training to one which can, while continuing to meet the needs of school leavers, work effectively with industry and individuals to meet the ongoing vocational needs of contemporary workplaces, now and into the future.

A new funding model would be required to be developed to support the Fund. This model would need to address the broad needs of skill development in the workplace, whilst accommodating flexibility and diversity. Such mechanisms would give greater choice to consumers: both individuals and enterprises.

The \$1 billion is an estimate based on the breadth of work to be undertaken. Key elements of the Skills Fund include:

- ✓ a new skilling model;
- ✓ more effective skills recognition processes;
- ✓ improved coordination of training;
- ✓ industry-relevant training delivered by skilled trainers on appropriate equipment in suitable facilities; and
- ✓ world class management skills.

The Skills Fund would be supported by new financial incentives and tax changes for employers and employees to promote on-going skills development.

✓ A new skilling model

Ai Group proposes a new skilling model for adults who are upskilling or reskilling. This new model represents a fundamental shift in the way we skill our workers. The model will reflect the workplaces of the 21st century and is based on workforce development principles.

The Fund would support the development of a new framework which recognises that existing workers have different skilling needs to school leavers. Existing workers hold skills which have

been developed in the workplace but have not been formally recognised and they have often developed the employability skills highly valued by employers.

The new framework for the first time combines the informal learning of the workforce with nationally recognised training. This flexible model is designed around high value skills and accommodates effective articulation into higher level vocational and tertiary qualifications. It supports the progression from competency to capability – the capability of individuals and the capability of organisations.

✓ Effective skills recognition processes

These would be streamlined and made cost effective so that individuals and employers can readily determine skills gaps and development requirements. These services must be highly visible, easily accessible and provided by people/organisations oriented to the needs of the workforce and existing workers.

✓ Linked-up training

The identified skills needs would be addressed with nationally recognised training. This can be difficult for registered training providers to deal with because the numbers tend to be small. But improved recognition should result in greater numbers of people seeking this training and the issue becomes more one of linking up the demand.

The Australian Government could support the development of local industry skill clusters whose focus would be to bring together groups of companies interested in skilling to be mentored through the recognition process and the training.

✓ Excellent training delivered by appropriately skilled trainers using state-of-the-art equipment

In addition to good teaching skills, trainers need excellent technical knowledge which is kept current. The Fund would make a significant commitment to supporting the professional development of the vocational education and training workforce delivering training in areas of identified need.

Relevant training cannot be delivered with antiquated equipment. A range of options would be made available to improve access to state-of-the-art equipment and these would be fully utilised and supported through this Fund.

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✓ World class management skills

A new study should be commissioned into the development of managers to identify ways to improve management education and the development of leadership and management skills in Australia. Over the last 2 years management positions have grown faster than any others – faster than all other professionals, trades and associate professionals. The proposed study would support this growth by identifying and sharing best practice in the latest in management thinking and education.

Training Incentives and Taxation Initiatives to support the Skills Fund

✓ Training and upskilling incentives

In support of the Skills Fund, Ai Group also recommends new incentives introduced to support training and upskilling initiatives. Incentives are a powerful driver of training levels and have successfully underpinned sustained increases in training at each of the times they have been reviewed and restructured. There is an opportunity to better utilise incentives to more closely align skill development with the skills needed by industry. This would include:

- increasing the level of incentives paid to skill rich industries;
- increasing the level of incentives paid to higher skill levels; and
- increasing the level of incentives paid for training in skills in shortage.

In recognition of the need for upskilling and reskilling, employers would be able to access additional incentives when they support the building of the skills of their existing staff removing current limitations which effectively make skilling a one-off activity.

✓ Tax initiatives

A twin-pronged approach is needed here to assist both individuals and employers.

1. Broadening the deductibility of self education expenses

Ai Group proposes that income taxation arrangements be changed so that individuals are entitled to a tax deduction of self-education expenses against their current year of income if they undertake training to equip themselves for a job or undertake training to retrain for a new job.

Under present arrangements self-education expenses may only be deductible when they are incurred in keeping up-to-date or in better enabling the taxpayer to discharge existing duties or earn present income. If a taxpayer is not currently employed in the field being studied the expenses incurred are not deductible².

In the context of a dynamic economy in which the nature of employment is changing rapidly, the present tax treatment is anachronistic and is a counterproductive barrier to individuals taking responsibility for their ongoing income-earning potential.

2. Businesses – broadened deductibility

Government should explore the option of using the tax system to provide greater incentive for employers to invest in skill development by allowing more than 100% deductibility for relevant training expenses.

This issue was explored in the World Class Skills for World Class Industries report. The report noted³ that well designed business tax deductions:

- are a better way than training levies to encourage stronger employer investment in training because levies involve larger deadweight losses; and
- should be part of a comprehensive strategy designed to reduce both training under-investment and inequality of access.

To be fully effective the tax incentives should be available both to companies and unincorporated employers such as partnerships and sole traders.

Conclusion

Australia's future global competitiveness is built around skills. Skilling is a shared responsibility and government, employers, employer associations and individuals all have a role to play. The establishment of the Skills Fund will provide a vital impetus to all parties to ensure we become a more skillful global competitor.

² The following statement was updated on the ATO website on 21 June 2006: "You can only claim self-education expenses that related to your work as an employee at the time you were studying. If your self-education was to help you get a new job, you cannot claim your expenses"

³ World Class Skills for World Class Industries Australian Industry Group 2006, pp 105

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EXISTING WORKFORCE:

- Higher level skills
- More frequent reskilling
- Broader range of skills



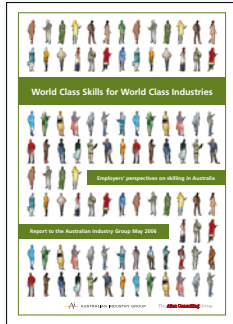
SKILLS FUND:

- New skilling model
- More effective skills recognition
- Demand driven training
- Effective trainers & equipment
- World class management skills



SUPPORTED BY:

- Training incentives
- Tax initiatives



WORLD CLASS SKILLS FOR WORLD CLASS INDUSTRIES REPORT:
emphasises centrality of skills to global competitiveness



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