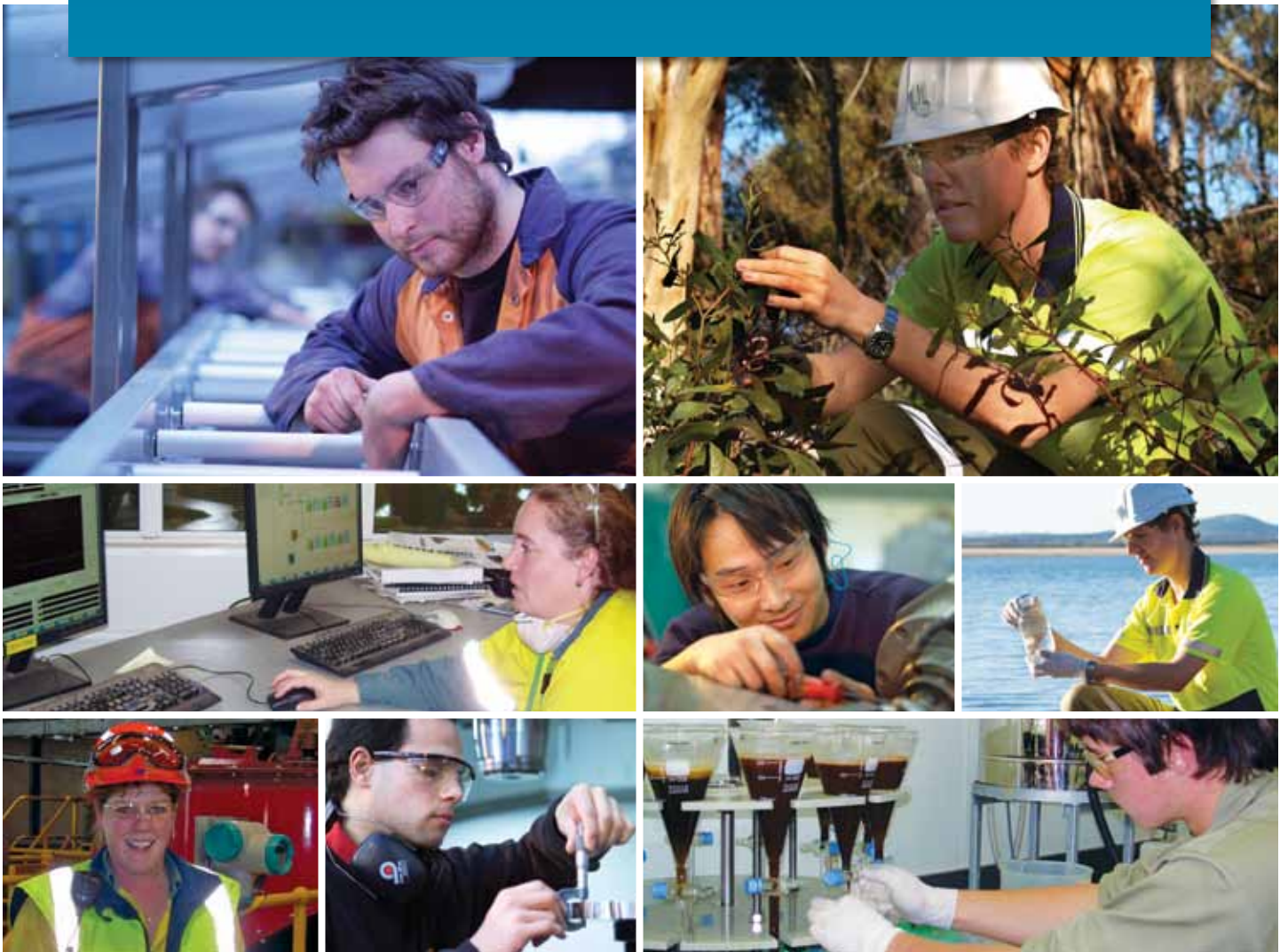


# INVESTING WISELY

A statement on meeting  
Australia's skill needs by the National  
Skills Policy Collaboration



April 2009

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## **1. INTRODUCTION: THE RIGHT DIRECTION**

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If Australia is to prosper economically and socially, it will be partly because we have understood just how much of our progress is dependent on skills. Whether we see the case for investment in skills and qualifications justified in terms of a high-skills/high-performance/high-value-added economy, or the development of knowledge-intensive industries, or the need for innovation, or a capable and equitable society, it all comes down to skills and qualifications that enable people to participate and create, industry to be productive and competitive, and society to thrive and prosper.

But if skills and qualifications are to play the part they need to, new ways of thinking and new approaches will be needed: the results we need will not be achieved by merely tinkering with the existing system.

First, Australia's skills development strategies, and the government and employer investment that underpins them, need to keep pace with the demands of the new economy. Even seven years ago these were being described as "an increase in knowledge-based jobs, higher levels of entrepreneurial dynamism and competition, reduced delays between design and production, faster times to market, increased product and service diversity, constant technological innovation, the advent of the Internet and the information technology revolution, globalisation, and the replacement of hierarchical organisational structures with networked learning organisations."<sup>1</sup>

Additionally, we need to reframe our approaches to economic growth for a carbon constrained future. Demand for skills to deliver environmentally friendly technologies and practices is forecast to grow exponentially for existing jobs and industries as well as for new jobs and emerging industries.

This will require, at the very least, dynamic work processes and a workforce skilled and attuned to the new economic possibilities. This has been true for many years, but now has a new impetus as the need for innovation, and innovative ways of working, become increasingly important.

Second, we need to make sure that industry's<sup>2</sup> voice is central to the policy and practice of skilling in Australia. While reforms to the vocational education and training (VET) system have led to considerable achievements, there are still some enduring concerns. These are focused on the match between what industry needs and what is being delivered; the capacity, flexibility and responsiveness of the training system to both employers and to learners; the continuing underinvestment in skills; the breadth of employer engagement in workforce development; and the need to better harness the productivity potential of investing in skills.

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<sup>1</sup> Progressive Policy Institute (2001), *The metropolitan and new economy index*. Washington, DC: Progressive Policy Institute

<sup>2</sup> The term "industry" as used here and throughout this paper includes business owners and employers, unions and workers, and their peak bodies.

And finally, debate, policy and investment in skills and qualifications need to be driven by a focus on quality, not just quantity. Without a strong quality focus, it is all too easy for a culture of expedience to prevail. Instead, we need to be striving for excellence in student achievement, in quality of training provision, in the use of skills, and in the way these lead to economic and social benefits.

Beyond providing more training places, there needs to be a willingness to rethink some current directions, make the right kinds of investment in skills and qualifications, focus on workforce development, and develop a national understanding of the key role that VET can play in building a sustainable economy.

## **2. OUR ASPIRATIONS**

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Australia has pioneered many noteworthy innovations: our internationally acclaimed industry-developed Training Packages, our comprehensive public provider system, our unitary qualifications framework, our group training schemes, and the many innovative ways in which training providers work with industry.

As a result Australia is well placed to move forward. But there are still areas for considerable improvement if Australia is to achieve its potential.

We aspire to a situation in which a more highly skilled and highly qualified workforce is innovating, working sustainably, and building prosperity for the whole economy and society. This will require:

- 2.1 accurate information about skill needs, and mechanisms that shape public policy and funding decisions
- 2.2 a prevailing industry culture that values investment in skill development and makes the most of the skills at its disposal
- 2.3 individuals with the skills and opportunities they need to participate in society and the economy, and
- 2.4 government funding which supports the development and use of the right skills.

Underpinning these aspirations is an acknowledgment of the importance of Australia's VET system. This system trains around 2½ million people per year, and represents an important pathway by which the bulk of young Australians will undergo an effective transition from school to work. It spans all trades and professions from the traditional to the emerging, and from its involvement with industries at all levels, it acts as a prompt and support to innovation. And it performs a vital role in building the social capital of communities. Strong VET systems are at the heart of modern social democracies and economies—from Germany to Brazil to South Korea to Finland to Singapore—and the same needs to be true in Australia.

Below we expand on these four aspirations.

### **2.1 Accurate information about skill needs and mechanisms that shape public policy and funding decisions**

Commonwealth and state governments have established several mechanisms to capture information about future skill needs. For example, existing and emerging skill demand and supply factors and workforce development requirements are captured by environmental scans conducted by each Industry Skills Council. These annual scans inform the ISCs' own activities, as well as providing industry intelligence for Commonwealth and state governments and for Skills Australia.<sup>3</sup> While these mechanisms and other key data sources ensure that rich information is readily available, these data need to more directly guide the allocation of public and private training funds.

We call for better use of this information to inform decision-making throughout the VET system, and especially in regard to purchasing decisions at all levels of government. This is essential if we are to have:

- a training system that truly delivers on industry needs, and
- the use of funds to achieve the best economic outcomes and social equity priorities.

### **2.2 A prevailing industry culture that values investment in skill development and makes the most of the skills at its disposal**

Industry and individual employers have a vital role in determining how skills are cultivated and formed, how they are valued and rewarded as a feature of operating a successful business, and how they impact on the national economy.

Historically, unemployment rises during periods of economic downturn, and skill shortages are experienced during boom times. We need to ensure that during periods of economic growth and prosperity (which Australia has been experiencing until very recently) government, industry, employers and individuals invest sufficiently in the skills and qualifications that create a sustainable workforce.

Past investment in skills and qualifications will be crucial to Australia's future economic welfare. Equally, efforts made now to assist those workers and enterprises likely to suffer from an economic downturn, to restructure and reskill, will produce dividends. This will be especially so if we continue to invest in productivity and innovation, and in systemic efforts to prevent individuals with low skill levels, or who suffer from education or social exclusion, from slipping through the cracks in times of economic hardship.

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<sup>3</sup> Skills Australia is an independent statutory body established by the Australian Government. Its role is to analyse emerging skills needs and demands across industry sectors, and to provide the government with independent, high quality advice to assist better targeting of support for the skill and workforce development needs of businesses and workers across the country.

Much of the investment that employers do make in skill development is difficult to measure, which leads to some uncertainty as to how much Australian enterprises are actually investing.<sup>4</sup>

What we do know, however, is that responsibility for skill development needs to be shared by public and private interests, and that there is room for more effective use of public funds to generate increased employer and industry investment in skills and qualifications. While the training rate in key trade skill areas has risen in recent years, public investment in VET to date has not leveraged a broad and deep skills culture across all sectors of Australian business and enterprise.

It is not possible for individual employers to measure and capture all the returns to training, and this can lead to a cautious approach to skills investment.<sup>5</sup>

Notwithstanding the difficulties, many employers take a business-driven and strategic approach to training, with a stronger focus on aligning training with other business priorities. Employers need assistance to determine their skill needs and to integrate these into overall business planning activity. This is a complex task and although financial incentives are powerful instruments to achieve greater participation in training and completion of qualifications, they need to be accompanied by, and integrated with, other strategies. Experience has shown that incentives are not effective unless they are well targeted to ensure that the level, area and type of training matches industry, sectoral or national economic needs and bear some relationship to the quality of training and the level of training effort required. Subsidies can also substitute for private investment, with the taxpayer paying for training that an employer may otherwise invest in.

More thoughtful strategies are needed.

We also know that there is more involved than increasing the supply of skills. Research from the United Kingdom suggests that simply boosting the stocks of publicly funded skills and qualifications does not automatically push the economy onto a new, higher skilled, higher value added pathway.<sup>6</sup> An equally important factor is how employers use the skills at their disposal.<sup>7</sup>

New strategies are needed to:

- encourage employers and industries to share the responsibility for investment in training and skill development
- ensure that this investment covers all segments of their workforce, including existing workers and entry-level workers

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<sup>4</sup> Smith, A (2008), "Guaranteeing training". *Campus Review* 30.09.08 p.10

<sup>5</sup> In support of this argument, data from ABS Training and Expenditure and Training Practices surveys shows that when the Training Guarantee was abolished in 1996, employers reduced their investments in training.

<sup>6</sup> Keep, E (2007), *Skills and Economic and Social Justice*. SKOPE Issues Paper 16. Cardiff: Cardiff University

<sup>7</sup> The Allen Consulting Group (2006), *World Class Skills for World Class Industries* p. xiv. Sydney: Australian Industry Group

- integrate skill development into a package of reforms that encourages strong economic development and provides business support for employers and industry—for example to improve employee relations and personnel management policies and practices, and to upgrade work organisation and job design.<sup>8</sup>

### **2.3 Individuals with the skills and opportunities they need to participate in society and the economy**

The skills challenge is often looked at as another stock management issue—as an issue of the supply of workers with the necessary industry-specific skills for employers to draw upon. This is an impoverished view of how skills are crucial to individuals and communities, and to the economy as a result. The starting point must be about how successfully individuals acquire the necessary skills and opportunities to participate fully in society and the economy. We would like to see:

- *Improvement in school completion rates*  
Despite some improvement, Australia still ranks 20<sup>th</sup> among the OECD countries in terms of school completion amongst 25-34 year olds, with a rate that is significantly lower than countries such as Korea, Sweden, Finland, Denmark, the United States, Canada and New Zealand. This is of particular concern as Australia's labour market penalty for not finishing upper secondary education is one of the highest in the OECD.<sup>9</sup> The 2008 *How Young People are Faring* report indicates that "there is some evidence to suggest that countries which offer more extensive, well-structured programs of vocational education and training do better in promoting rates of school completion".
- *Young people engaged in full-time work or training*  
The proportion of young people not engaged in full-time work or full-time training has remained almost static, and seemingly impervious to the economic cycle. These disengaged youth (up to half a million) are much more likely to remain unemployed or underemployed and affected by depression, crime, drug abuse, homelessness, poor health and poverty. Stronger pathways are needed for young people moving from school to work, particularly for early school leavers. The VET system has a major role to play in the creation of effective pathways for these young people.<sup>10</sup>

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<sup>8</sup> Keep, E (2007), *Skills and Economic and Social Justice*. SKOPE Issues Paper 16. Cardiff: Cardiff University

<sup>9</sup> Sweet, R (2006), *Education, training and employment in an international perspective*. Presented at a Brotherhood of St Laurence seminar on New Transitions: Challenges Facing Australian Youth. Melbourne, 18 August

<sup>10</sup> The 2008 *How Young People are Faring* report (Dusseldorp Skills Forum) indicates that of "those in full-time work in their seventh post-school year, almost 90 per cent of Year 12 completers and about 70 per cent of early leavers followed an education and training pathway on leaving school"; and that "of the pathways leading to full-time work, those involving education and training tend to be associated with higher earnings".

- *Better completion rates for traineeships*  
Completion rates for traineeships are very low. Research suggests that achieving better rates of completion is not merely an issue of improving training practice and processes, but requires attention to pay, supervision, bullying and other factors.<sup>11</sup>
- *Higher numbers of people with qualifications*  
Broad-based,<sup>12</sup> industry-defined qualifications provide opportunities for individuals to enter the employment market or change employment, as well as providing a strong foundation upon which to build other higher level and workplace-specific skills. This means holding tight to the principle of nationally consistent, portable qualifications defined by industry.
- *Higher proportions of the population possessing "essential skills"*  
Essential skills<sup>13</sup> encompass more than the ability to read and write, and include employability skills and other skills necessary for effective participation in society. Data<sup>14</sup> suggests that improvement is needed in the proportion of Australian adults possessing essential skills to allow them to effectively deal with the increasing and complex demands of modern life and work and increase their capacity to learn new skills.
- *More opportunities for learning in the workplace*  
Pressure on staffing levels may be reducing the "space" and time within which many forms of informal, on-the-job training and development have traditionally been undertaken. This is particularly acute for those in casual and part-time employment arrangements<sup>15</sup> and people currently not in work or training to engage in education and training. The result is that responsibility for skilling is gradually shifting from employers to individuals. Strategies are needed to change this, and to create more time and space for training, ensure that this includes those in precarious

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<sup>11</sup> Cully, M (2008—in press)

<sup>12</sup> By "broad-based" qualifications, we mean qualifications that are broader in scope than the needs of immediate tasks, and which have a coherence which provides the platform for transferability of skills and knowledge to new situations, changing work organisation, changing technology, and so on.

<sup>13</sup> By "essential skills", we mean the basic skills that enable people to engage effectively in work, learning and community activities. These sets of skills go under various names and have different primary rationales, but all are built on a language, literacy and numeracy foundation. Broadening the title and scope beyond this foundation serves not only to recognise the wider aspects of essential skills but also, arguably, to remove some of the negative connotations of language, literacy and numeracy as a remedial strategy for under-equipped people.

<sup>14</sup> The ABS recently estimated that 46 per cent of adults—or seven million Australians—had poor or very poor skills across one or more of the five skill domains of prose literacy, document literacy, numeracy, problem solving and health literacy. Although this may overestimate the extent of the problem, and certainly should not be taken to imply that 46 per cent of adults are incapable of functioning effectively in work and in society, there is no doubt that this is a major issue.

<sup>15</sup> Casual and part-time employment is often associated with fewer education and training opportunities, low levels of unionisation and protection, poor occupational health and safety, and low levels of autonomy and utilisation of skill in job organisation.

employment, and ensure that responsibility for skilling is a responsibility shared by industry.

#### **2.4 Government funding which supports the development and use of the right skills**

As illustrated in Attachment A, funding relationships and flows within the VET system are complex. The complexities arise to a large extent from the shared responsibility for VET funding between the Commonwealth and state governments, the extensive and varied range of VET programs, and the mix of public and private training providers.

A great deal has been achieved, both in developing a national VET system and in securing substantial growth in participation in VET and, to a lesser extent, the attainment of qualifications. There is, however, room for improvement in the ways in which public funds are allocated within the system.

Funding should be driven by the current and future needs of industry. The allocation of public funds (including funding of training places and provision of incentives to employers, training institutions and individuals) should be triggered by nationally agreed priorities for sectors and occupations. There needs to be a strong focus on qualifications and skill outcomes, and on equity and social justice measures to enhance the skill and work prospects of disadvantaged individuals and communities.

Funds need to be allocated in a way that reflects the depth, breadth and level of effort required to achieve quality outcomes.

The above aims are likely to be achieved more effectively if there are more consistent approaches between states and territories to eligibility, price levels, fee levels, information management systems and accountabilities.

### **3. OUR PROPOSALS**

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We argue above that the shortcomings in skill development we are currently seeing in Australia are not new.

We also now know enough to be convinced that these shortcomings are unlikely to be fixed by merely allocating either more money or more places, without a major rethinking of the strategies required to obtain the best benefit from public and private investment.

We believe that action is needed to:

- 3.1 maximise the value of investments in skills, and
- 3.2 achieve a more strategic use of public funds.

### **3.1 “Skills in context”: maximising the value of investments in skills**

#### *What we are proposing*

We propose an approach to the development and utilisation of skills that provides a strong foundation for high performance work practices in industries and companies, a stronger industry voice in training policy, and an increased capacity of individuals to participate effectively in the workforce throughout their whole working life.

This involves recognising the many different approaches to skill formation, and then linking skill development with wider workforce development strategies and work arrangements that:

- encourage the development and use of higher order skills (advanced technical and cognitive skills)
- facilitate meaningful and regular opportunities for on-the-job training and skills transfer, and
- encourage the development of skills and qualifications (for both new and existing employees) that are of long-term value to the economy, society, industry and region concerned.

Seeing skill shortages and training priorities through this lens also means recognising the interdependencies of multiple forces, including work organisation, job design, forms of employment, industrial relations, business strategy, inter-firm and inter-organisational linkages, as well as training interventions.

In fact, this way of looking at skill development and utilisation in its broader context needs to happen not just at the enterprise level; it should also be the way that VET policy is developed and delivered. VET policy should connect with a broader framework of policies and interventions that aim to improve the equitable operation of the labour market and boost business performance.

#### *Why it is important*

The skills challenge requires that all parties play their part. Employers have a role to play in the appreciation that longer term profitability requires all employers to contribute to a skilled workforce on which they can all draw.

The approach described below should help achieve these aims. It will broaden the focus from “training and skills” to “skill utilisation and workforce development” and will encourage the gaining of the most appropriate qualifications for the long-term development of industry. Furthermore, it has the capacity to strengthen the industry voice and the level of employer engagement in skill development that is vital for an effective skill development system. It will also help the government gain greater insight into why employers make certain decisions about skill development, and how government strategies can be most helpful to them—answers which will differ according to industry sectors.

This is particularly important given the current pressures on businesses as a result of the international financial crisis. Businesses under pressure tend to reduce or curtail expenditure that they do not consider immediately vital, and training and skill development is inevitably one of those singled out. It has taken a long time for training rates to approach the levels of 15 years ago, and yet it is vital, in a time of downturn, that industries are ready to reposition themselves, and that individuals are able to re-engage. This means continuing to invest in skill development.

### *What needs to happen*

We suggest the following two complementary approaches.

Recommendation 1:  
Work closely with industries and employers

Significant investment of training funds should be made to encourage industries and enterprise clusters to pursue strategies that will result in relatively higher skill levels and better use of skills.

This is a major departure from the current approach to the funding of skill development in Australia. It will require a deeper government engagement with industry needs; an emphasis on informed demand rather than the supply of training. Subject to stringent conditions, including around skill development and skill utilisation and the satisfaction of public interest considerations and accountabilities, industries or clusters should have direct access to adequate funding.

This would involve the following steps:

- identifying key industries or clusters in which to commence this process (for example, industries that are of key economic or social importance, or industries that are struggling due to global competition, or industries which should expand such as renewable energy)
- directing funding to selected industries to enable them to:
  - diagnose industry-wide problems and opportunities
  - examine and review past skill strategies
  - generate possible strategies, then confirm which strategies have most support from the industry, and test their feasibility
  - identify employers willing to participate in the program
  - identify ways in which funds would be used—for example, developing intermediary advisory services to assist firms in identifying skilling issues, making better use of existing

skills, identifying skill gaps, developing appropriate solutions for addressing skill gaps, and retaining skilled people.<sup>16</sup>

- ensure that funding promotes workforce and industry development by restricting public funding to nationally recognised training and ensuring a balance in funding for both new labour market entrants and existing employees, encouraging RPL.
- use the strategies developed as triggers for the allocation of funds for the purchase of training and development solutions—for example, making training funds available through co-contribution to implement the recommendations of the review.<sup>17</sup>

This will not only put the focus on skills exactly where it needs to be—that is, on using them well—but will create a sophisticated mechanism by which employers can engage with training providers, and strengthen their voice.

We also know enough now to be sure that this approach has good prospects of success. This has been demonstrated by the workforce development case studies carried out by the Australian Industry Group,<sup>18</sup> the skill ecosystem pilots managed by the NSW Department of Education and Training,<sup>19</sup> the Skill Formation Strategy projects in Queensland, the large-scale reforms of skill development in the UK's National Health Service,<sup>20</sup> and the success of SENAI (Brazil's National Industrial Training Service).<sup>21</sup>

Now is the time to implement it.

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<sup>16</sup> It might be possible to build upon existing networks such as Group Training Australia and Australian Industry Group to develop a national network of skilled intermediaries.

<sup>17</sup> This model has been successfully used by Enterprise Connect, a federal government program that provides an advisory service to small and medium businesses.

Its purpose is to support small businesses in identifying business needs, and sourcing and financing specialist advice, know-how and technologies to enable them to improve their business performance.

The process involves, first, a comprehensive analysis of a firm, carried out on site by a business adviser. The adviser develops a comprehensive view of:

- the strengths and weaknesses of the firm
- strategic business issues
- potential areas for business improvement
- potential areas for growth.

This is then followed by government funding, on a matched basis (up to \$20 000), which can be used to engage expertise to implement the findings of the review.

<sup>18</sup> Australian Industry Group (2008), *Skilling the Existing Workforce: Trial Sites and Case Studies Objectives, Experiences and Outcomes*. Draft final report. For those industry groups that have already participated in either the AiGroup pilots or the Skill Ecosystem pilots, the steps recommended could be fast-tracked.

<sup>19</sup> NSW Department of Education and Training (2008), *Skills in context. A guide to the skill ecosystem approach to workforce development*. Sydney: NSW Department of Education and Training

Payne, J (2008), "Sector skills councils and employer engagement—delivering the 'employer-led' skills agenda in England". *Journal of Education and Work*, 21:2, 93-113

<sup>20</sup> Hyde, P., McBride, A., Young, R. & Walshe, K. (2004), *A catalyst for change? The national evaluation of the Changing Workforce Programme*. Manchester: UMIST

<sup>21</sup> See: <http://cinterfor.org.uy/public/english/region/ampro/cinterfor/ifp/senai/index.htm>

Recommendation 2:  
Develop a culture of learning across all levels of the workforce

Bringing about change in the way that skills are developed and applied is likely to be more successful if all levels of the workforce are engaged in the process. We recommend developing and supporting key personnel within enterprises and industries to engage individuals across all sectors of the workforce in learning, and to encourage workers to seek out opportunities for training and offer support. One overseas model is the Learning Representative<sup>22</sup> approach used in the United Kingdom (and now being implemented in New Zealand), which has proven to be highly successful in disseminating information on available training, encouraging more workers to learn, setting up effective dialogue about learning between management and workers, and advancing the development of a culture of learning at work. A local response can be found in the recent Victorian skills statement which includes a workforce development program to provide a team of independent workforce planning and training specialists to provide direct assistance to 1500 firms annually.

Managers also play a critical role in developing and using skills. This means that they need a sophisticated understanding of how skills contribute to business success, as well as the capacity to better engage with the workers they manage, so as to maximise the use of the skills they possess.

The recent New Zealand Skills Strategy<sup>23</sup> emphasises that improving skill utilisation and linking it to productivity will require considerable management expertise. It quotes research that shows that actually making the necessary changes in a company often turns out to be more difficult than anticipated. Similar messages are to be found in the Karpin Report published over a decade ago.

A management development strategy is needed at two levels: within companies, and across industries. It should focus on increasing the understanding of how skills, and skill utilisation, contribute to business success, and on how work and workplaces can be transformed to optimise the way in which skills are used.

### *What can be achieved*

For many organisations, skills are often a third or fourth order issue, dependent on higher order decisions around product market positioning, work organisation and

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<sup>22</sup> Learning representatives are trained in advising coworkers on learning needs and opportunities. They are recruited from within the workforce, and aim to complement and add value to the employer's existing training strategy. Their key role is to raise awareness of training and development across the workforce they represent—whether unskilled workers or highly qualified professionals, whether among those with urgent literacy and numeracy needs or those who wish to refresh and upgrade their skills (*Learning Representatives: A guide for Employers*, New Zealand Council of Trade Unions).

<sup>23</sup> New Zealand Government (2008), *NZ Skills Strategy*. Wellington, NZ: NZ Government

job design.<sup>24</sup> Few businesses believe that para-professional and trade skills are what will give them a competitive edge.<sup>25</sup>

The approach proposed above will not necessarily change this situation, as for many businesses, skills genuinely *are* a fourth-order issue.<sup>26</sup> What it will do, however, is ensure that business decisions are made with a proper understanding of the contribution that skills *can* make to a company's success, and will position companies to innovate and to bring about the necessary changes to adapt to changing conditions.

### **3.2 A more strategic use of public funds**

#### *What we are proposing*

We propose an increase in the overall level of public funding for the system, and for major changes to the ways in which public funds are directed. Above all, we want funds to be used to improve the equitable operation of the labour market, boosting business productivity, employment outcomes and social inclusion. This will require emphasising demand rather than the supply of training, and directing funds towards the right sorts of skills and qualifications.

#### *Why it is important*

It is through stronger links between industry demand and training provision that we can ensure Australia has a strong skill base upon which to build the economy. Funding approaches need to ensure that a sufficient foundation of broad, industry-based qualifications and essential skills is maintained, as well as providing opportunities for higher level, more specific skills to be developed according to industry and employer demand.

There is a danger that some of the current funding approaches, including the increasing use of contestable funding, may exacerbate some of the skill shortage issues Australia is facing, as well as leading to reductions in the quality of training provision. Current funding approaches may also undermine the role played by public provision in fulfilling the social obligations of the VET system unless there is sufficient investment in public infrastructure.

Sufficient public investment is of particular importance in the realm of essential skills. Low levels of literacy and other essential skills negatively affect workers' level of engagement in the workplace and their resilience to change, while research demonstrates that enhanced employability skills translate into higher value and

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<sup>24</sup> Keep, E and Mayhew, K (1999), "The Assessment: Knowledge, Skills and Competitiveness". *Oxford Review of Economic Policy* 15 (1), 1-15

<sup>25</sup> Insights gained during the Industry Futures Project, ANTA (2002)

<sup>26</sup> However, some of the companies participating in the AiGroup workforce development pilots have developed a more positive view of skills as a result of their participation.

better paid work, reduced error, wastage and rework, better health and safety at the workplace, reduced staff turnover, and higher productivity.<sup>27</sup>

The lack of mechanisms for the strategic allocation of funds may also be contributing to a decrease in investment in skill development by some employers, as untargeted public funds are being used to subsidise training that employers would otherwise invest in themselves.

### *What needs to happen*

We suggest that funding arrangements need to better reflect the different roles of government, employers and individuals within the VET system, that public funding needs to be better targeted to encourage a closer alignment between supply and demand, and that funding mechanisms need to be consistent with the broader aims and objectives of the training system.

We also suggest that government evaluate the use of contestable approaches as a means of allocating funds. A proper public debate and analysis are necessary before the implementation of fully contestable funding.

We recommend the following actions:

#### Recommendation 3:

Make public funding mechanisms more flexible and responsive to demand

The following principles need to underpin public VET funding:

- VET policy should connect with a broad framework of policies and interventions that aim to improve the equitable operation of the labour market and boost business performance—and, in the likely economic downturn, continue to invest to provide more opportunities for innovation when the economy picks up again.
- Sufficient investment needs to be made in the public VET system.
- Industry needs should drive the allocation of training places—and in particular, significant investment of training funds should be made to encourage industries and enterprise clusters to pursue strategies that will result in higher skill levels and better use of skills.
- Funding should reflect the diversity of training needs, encourage flexibility of provision, and support the level of effort required for different types of training.
- Employer incentives need to be better targeted and flexibly applied.

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<sup>27</sup> Australia's relatively poor performance, and relative decline, in the 2007 international Adult Literacy and Lifeskills Survey further reinforces the importance of enhanced investment in essential skills.

- Investment needs to be made in the development of essential skills.

Specifically we suggest that the following areas need urgent attention:

#### *Targeting of public funding*

Public funds and training places should be more strongly linked to industry needs identified by the Industry Skills Councils, Skills Australia, and other sources. The advisory services outlined above should drive the allocation of a significant number of funded training places, as well as act as a trigger for additional sources of funds, such as incentives for employers. This strategy should also be the avenue for much of the investment of public funds for the training of existing workers.

#### *Effective Allocation of public funds*

If we are to reduce mismatches in skill supply, funding allocation systems need to stimulate skill development in the right areas to meet both industry and social needs. This means that skilling for the right industries, in the right qualifications, at the right levels must be targeted.

Current systems for the allocation of public funds have failed to address current and emerging industry skill needs. Current allocation systems are often driven by training providers seeking to maximise their access to public funding and this has created a strong incentive for training providers to deliver the maximum number of places attracting public funding support regardless of issues of quality or industry and social objectives. Providers seeking to maximise financial returns will seek to deliver courses which require less capital equipment and fewer resources.

Contestable funding is based on the premise that market design and individual choice are better at driving improvements in flexibility and efficiency than industry requirements, and that it provides "strong incentives for both public and private providers to improve responsiveness and quality, and would also help to break down geographically based barriers to competition over time."<sup>28</sup> Although there is not a lot of evidence on the benefits and drawbacks that might come from greater contestability, the research that is available suggests that it can lead to underinvestment in skill development.<sup>29</sup> Regardless of differing views about the role of contestability in promoting greater flexibility and responsiveness, it is clear

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<sup>28</sup> Boston Consulting Group (2007), *Skilling Australia's Workforce 2005-08 Mid-Term Review*. Canberra: Department of Education, Science and Training

<sup>29</sup> Some research shows that "those economies that have pursued more market approaches have seen a fragmentation of skills formation leading to chronic underinvestment in skills, persistent but poorly understood skill shortages and continuing strong growth in lower skilled, lower paid employment without clear career paths or development opportunities" (Hall, R and Lansbury, R D (2006), "Skills in Australia: towards workforce development and sustainable skill ecosystems". *Journal of Industrial Relations* 48(5) 575-592).

that overreliance on this single allocation mechanism will not achieve optimum outcomes.<sup>30</sup>

Generalised individual entitlements which seek to create responsiveness to “individual demand” risk being captured by providers or intermediaries linked to providers who seek to maximise returns. A simple entitlement driven approach is not likely to attract those who are resistant to training and who don’t know what it is they need to know. It, like a provider driven approach, is also unlikely to stimulate industry demand to meet higher level emerging skill needs.

To be effective, funding should be based on a price that reflects the level of effort required to achieve quality outcomes, with accountabilities placed on providers to deliver the required quality of outcome. Lowering the price paid for training can in fact force providers to sacrifice the quality of training provision in order to manage competition for scarce government funds<sup>31</sup>

We suggest that funding allocation needs to be driven to meet broader industry and social objectives, and that industry leadership through Skills Australia and the Industry Skills Councils must be maximised in determining resource allocation and initiatives to stimulate demand. Generalised moves to extend concepts of “competitive neutrality” and full contestability for all training are likely to produce undesirable and unintended consequences. A more integrated, better targeted and industry led system for funding allocation to meet industry and social objectives is required, and this must be accompanied by a strengthened quality assurance framework.

#### *The distribution of funds on a nominal hours basis*

Funding formulae need to be sufficiently flexible to meet the needs of a diverse training market. While funding of full qualifications and face-to-face delivery is needed to meet the needs of those seeking to enter the workforce or change occupations, additional funding mechanisms are needed for the upskilling of existing workers. A range of funding mechanisms are required to better reflect the diversity of training needs, to encourage flexibility of provision and to better match the level of effort required for different types of training.

#### *Reliance upon targets as a mechanism for allocating funds*

Experience from the UK suggests that blanket targets, relating to particular forms of activity or particular levels of provision, are less useful than might be supposed. They tend to prioritise volume (easy to measure) over quality

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<sup>30</sup> Contestability is already applicable to a significant extent to apprenticeships and traineeships, and opinions are divided as to the extent to which it has produced greater responsiveness and flexibility to meet employer and apprentice needs. However, it is clear that it has not maximised the allocation of places to meet broader industry and social objectives, and the quality of outcomes have been mixed.

<sup>31</sup> Forward, P (2008), “Behind Closed Doors”. *Campus Review* 18 (23) 10 June 2008 p14

(harder to measure). They tend not to be tied to forecasts of real demand, and this means they can be met by boosting provision in areas that are actually not necessarily the ones of greatest need to employers or the labour market.

The motivation can become the achievement of targets at almost any cost, which in some cases ends up meaning ignoring deadweight and providing money in order to generate the desired speed or volume of results. This can override any previously agreed division of responsibilities and funding.<sup>32</sup> Another disadvantage of blanket targets is that if the state sets the target, the state owns the target: employers may well sit back and watch. Since they feel no ownership, they tend to focus on quantity rather than quality, and frequently override decisions about where real demand lies and where responsibility for investment should lie.<sup>33</sup>

*The use of employer incentives for existing workers*

Employer incentives need to be better targeted, but more flexibly applied, with a specific requirement that public funding is used to meet the costs of training delivery and outcomes. A process of leveraging public funds to ensure co-investment by employers for the development of skills and qualifications is required.

Recommendation 4:

Ensure sufficient investment is made in the public VET system

Public providers are intrinsic to the sustainability and quality of Australia's VET system. They enrich communities by being local centres of learning and they fulfil social obligations to accept a diverse range of students with differing levels of ability and economic means.

They ensure that coverage is maintained in areas of thin markets, and ensure continuity of supply.

Within the economy, they provide:

- a system that is responsive to government policy, including the innovation and knowledge-based economy agendas
- resources and infrastructure to support specific industries, particularly through innovative collaboration with industry
- strong pathways for post-school training
- ongoing resources to support communities, and

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<sup>32</sup> This has happened in England, where in order to buy its way to the targets, the government has given money to employers for things that both have previously agreed should be mainly funded by employers.

<sup>33</sup> We are grateful to Ewart Keep for the ideas in this section.

- a safeguard against market failure.<sup>34</sup>

They can, and often do, provide vital learning, innovation and research for the continued technological advancement of trades. The importance of this is emphasised by the statement from the recent Innovation Review: “The role of crafts and trades in innovation has been massively neglected, particularly in the important areas of continuing incremental innovation in the workplace.”<sup>35</sup> This is a vital role, as it is unlikely to happen if left to isolated companies, or to the market.

The public provider system in Australia, like that of countries such as England and Canada, has faced increasing reductions in government funding, particularly in terms of investment in infrastructure and human resources. This is having significant impacts on the ability of public providers to meet the needs of the market and the broader community.<sup>36</sup>

If public providers, and indeed the VET system as a whole, are to meet the broader social and economic needs of the country, then public providers need to be supported to develop superior skills in a range of areas: product development; detailed understanding of relevant industries and labour markets including international markets; effective knowledge management; rapid adoption and application of new technology; best practice in flexible delivery; and sound governance arrangements and business systems.

This will require considerable capital investment, nimble governance and administration, and investment in a workforce and work practices that can deliver future skill and knowledge requirements when and where they are needed.

Strong, sustainable, vibrant networks of public providers can ensure the public interests are served, and are essential given the fragile nature of markets, especially in education.<sup>37</sup>

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<sup>34</sup> Some of the ideas in this section have been taken from Noonan, P (2001), *The role of TAFE. Outcomes of consultations and identification of key issues*. Melbourne: VLESC

<sup>35</sup> Cutler, T (2008), *Venturous Australia*. Melbourne: Cutler and Company

<sup>36</sup> A review of further education in England found that following a period of focus on growth and efficiency within the sector, “there was a 29 per cent increase in student numbers and full-time equivalent numbers and, at the same time, a 27 per cent reduction in funding per full-time student equivalent.” However, the report also found “half of all colleges were financially vulnerable or weak; the number of colleges having increased from 6 per cent to 27 per cent” over the period.

<sup>37</sup> The recent collapse of ABC Learning—a major early childhood education retailer—is salutary.

#### Recommendation 5:

Ensure sufficient investment is made in the development of essential skills<sup>38</sup>

The development of essential skills is a key responsibility of secondary education. However, many adults, young and old, have not developed essential literacy and numeracy skills, and vocational and adult education are crucial in enabling people to engage in economic and social life. We therefore propose an enhanced emphasis on the development of essential skills:

- increasing demand—by increasing the perceived value of essential skills for individuals, businesses and the community; by assembling evidence to build the case for investing in essential skills (rather than seeing it as a “deficit” issue); and exploring the reasons for low take-up of development opportunities
- raising capacity—an enhanced focus on just-in-time courses tailored to individual needs; longer funding cycles
- improving quality—through measuring needs and achievements.

As building and enhancing essential skills delivers major dividends to business and the economy, as well as the individual, there is a case for maximising the public and employer contribution, and minimising the individual contribution.

## 4. INDICATORS OF SUCCESS

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A serious commitment to action needs to be matched with some agreement about how to measure whether or not the action is making a difference. While we acknowledge that some of the desired outcomes are difficult to quantify, we do believe it is possible to paint a picture of success against which progress can be measured. We’ve called them indicators of success.

### 4.1 A more highly skilled and highly qualified workforce is adaptable to change, able to innovate, and can endure changing economic conditions

We will know that we have developed this kind of workforce when

- higher proportions of the workforce hold qualifications or are participating in skill development activities
- the proportion of people with higher level qualifications is increased

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<sup>38</sup> By “essential skills”, we mean the basic skills that enable people to engage effectively in work, learning and community activities. These sets of skills go under various names and have different primary rationales, but all are built on a language, literacy and numeracy foundation. Broadening the title and scope beyond this foundation serves not only to recognise the wider aspects of essential skills but also, arguably, to remove some of the negative connotations of language, literacy and numeracy as a remedial strategy for under-equipped people.

- levels of post-school qualifications lead to an improved qualifications and skills profile across the working age population
- both the proportion of skilled jobs and skilled workers increases in relation to similar countries
- employers report that greater proportions of their workers are adaptable and innovative, and
- skill shortages are less pronounced in times of economic growth, and rises in unemployment rates are less pronounced during economic downturns.

#### **4.2 Accurate information about skill needs and mechanisms shape public policy and funding decisions**

We will know this information is available and being used effectively when

- stakeholders (employers, providers, associations, unions, federal government, state governments) broadly agree on needs and priorities
- funding arrangements serve and reflect this common understanding, and
- consultative and advisory arrangements (Skills Australia, ISCs/ITABs) are in place and working smoothly.

#### **4.3 The prevailing industry culture values investment in skill development and makes the most of the skills at its disposal**

We will know that industry has arrived at this point when

- industry is recognised as having an effective leadership role
- there is a better understanding of the level of employer investment in skill development in Australia, and this compares favourably with similar countries,
- there is a better match between skilled jobs and skilled workers, and
- there are higher rates of skill utilisation.

#### **4.4 Individuals have the skills and opportunities they need to participate in society and the economy**

We will know that individuals are well placed to participate in society, as citizens and consumers, and participate as active and adaptable members of the workforce when

- qualifications and skills development initiatives are better-linked to innovation and industry development processes
- the proportion of young people who are not engaged in full-time education or training or full-time work is significantly reduced and workforce mobility is increased

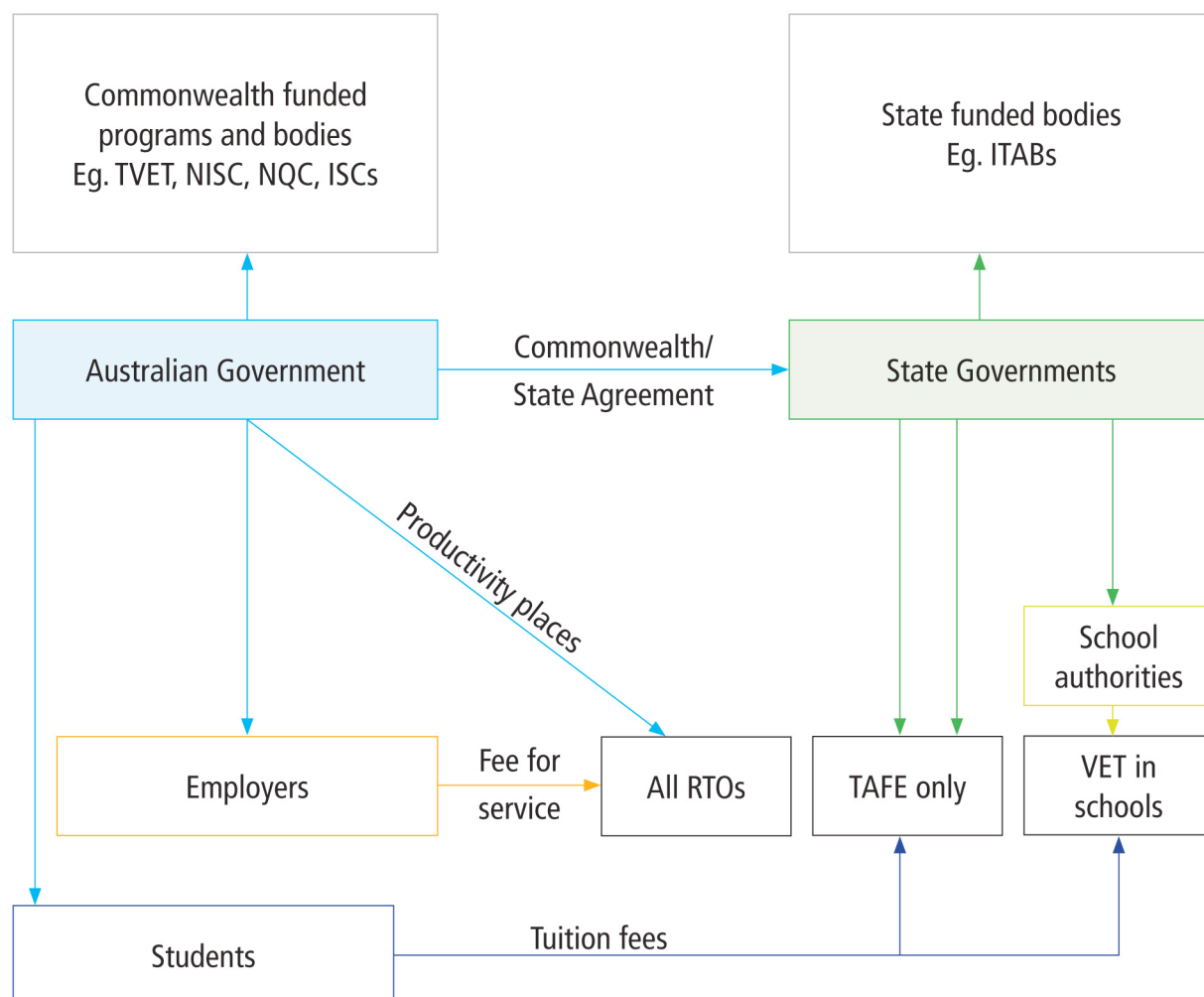
- training completion rates are improved
- unemployment and underemployment are decreased
- economic and educational disadvantage among target groups (particularly Indigenous, rural and regional, disability and low-SES) is reduced
- there is increased participation in a democratic society, and
- there is evidence of improvement (absolute and relative to comparable countries) in the basic skills profile across the population.

#### **4.5 Government funding supports the development and use of the right skills**

We will know that funding approaches are supporting the development and use of the right skills when there are

- fewer skill shortages attributable to training shortcomings
- high levels of student and employer demand and satisfaction with both on-the-job and off-the-job training
- funding allocations that more closely match skill shortage and other strategic skill areas, including higher level qualifications
- training providers who are able to respond quickly and effectively to emerging skill development needs
- greater clarity, simplicity and transparency in funding arrangements
- mechanisms for funding effort and quality outcomes, rather than inputs and processes, and
- fewer examples of displacement effect (public funds used for employer training activity that would have occurred anyway).

**ATTACHMENT A.**  
**CURRENT FLOW OF FUNDS IN AUSTRALIAN VET**



\* Under proposed new arrangements, Productivity Place funding will be allocated via state and territory governments.

\*\* The new Endowment Fund being established by the Australian Government will see capital funds to TAFE Institutes flow directly from the Australian Government.

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