

2024-25 Federal Budget

Ai Group Pre-Budget Submission – Education and Training matters

JANUARY 2024



About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation, and in 2023 we celebrated our 150th year supporting Australian businesses.

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

With more than 250 staff and networks of relationships that extend beyond borders, we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance members need to run their businesses. Our deep experience of industrial relations and workplace law, positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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Overview

Australia continues to suffer from skills shortages which will remain a pressure for industry into the future. Industry needs a steady flow of individuals with the right skills in the right volume, with ready access to skills renewal.

National reforms around skills, education and training are the mechanisms for sustained improvement in the skills pipeline and in the renewing of skills. The past year has seen the Government make significant progress in this regard and Ai Group has ensured it has been deeply involved in working groups and development processes in order that reforms work towards improving the volume and quality of skills required by industry.

It is pleasing for industry that major reports released in the latter half of the year reflect much of Ai Group's policy and advocacy on behalf of industry. These reports have included: The Clean Energy Generation - workforce needs for a net zero economy; Annual Jobs and Skills Report; National Skills Priority List; Working Future: the Australian Government's White Paper on Jobs and Opportunities; the five-year National Skills Agreement; and the Interim Report of the University Accord Review.

While each of the reports has its own focus, it is gratifying that they present common skills themes, issues and solutions that will lead to a prosperous Australia into the future. Overall, they pave the way for the three key pillars of the national skills system (VET, higher education and migration) to effectively complement each other and flexibly respond to skills and workforce needs, ensuring access to a quality skills pipeline and to continuing education and training for the existing workforce.

All reports recognise the challenges and opportunities presented by advanced technologies, decarbonisation and the changing nature of work. They cover labour supply issues and population ageing, as well as the availability of suitable skills and an adaptable workforce. Central to all is the need to improve opportunity and social inclusion, and broaden opportunities for the entrenched disadvantaged if the nation is to have sufficient workforce numbers. There is a broad understanding that government, business, the community and the education and training system need to share responsibility through improved collaboration.

Through the year's activity, Ai Group recognises that key pressure points have been identified and reforms are recommended. The National Skills Agreement has addressed many of the needs and has resulted in \$3.7 billion in federal funding to the national vocational education and training sector. Promising reforms include: improving the timeliness and quality of VET data and forecasting to inform training for industry; a stewardship model for national cooperation across VET; Fee-Free TAFE in priority skills shortage occupations; TAFE Centres of Excellence which will improve partnering between industry and tertiary education and training providers; investment in the VET workforce through the VET Workforce Blueprint; and improving completions in VET. The Jobs and Skills Councils established by the Government add another promise that tailored workforce planning and flexibility in training products will better serve industry.

The final recommendations from the Universities Accord Review will complete the collection of high-level studies and promise to complement, and make more effective, reforms already announced across the rest of the tertiary education system. Some of the key areas of higher education reform in Ai Group's view would include:

- a tertiary education body, including VET, with appropriate industry representation that provides national governance, analysis, expert advice and a funding model that considers the impacts on VET and drives parity of esteem between the sectors
- the setting of new long-term targets that address overall participation and attainment in higher education into the future, in concert with VET target setting, to meet projected workforce needs
- the design of new principles for sustained investment in higher education that underpin a new student-centred funding model, including the refining of HELP. Mechanisms within the funding model should allow for incentives and scholarships that address arising labour market needs and shortages
- a universal learning entitlement encouraging the level of education and training required to be maintained throughout life by individuals, including by underrepresented groups, but recognising employers already make a large contribution to the training of employees
- the participation of industry partners in the commercialisation of publicly funded R&D, and mechanisms that keep universities, industry and government informed of significant research problems and research capabilities; and long-term funding for a service to help SMEs engage with the Australian research sector.
- a national, holistic research training framework that delivers new pathways and more opportunities and funding for industry, universities and researchers
- vastly improved partnership cultures in both universities and industry that enable an enduring relevance of learning in complex current and future work environments, by incentivising universities to involve industry in multiple aspects of the learning framework. The Cooperative Skills Centres provide a model for this increased collaboration, as would guiding frameworks for partnership development and successful trust-based relationships and
- more flexible qualifications to address upskilling and reskilling needs.

Many of the tertiary education and training proposals and recommendations resulting from the various reviews and outlined above are yet to be designed and implemented. Unless all reforms identified in 2023 are effectively realised it will be difficult to achieve the tertiary education and training system envisioned.

Ai Group details below the key areas in which deep work still needed in order to embed a tertiary education and training sector that allows Australia to achieve its human capital potential.

Further action to establish a cohesive tertiary education sector

The divide between VET and higher education continues to perpetuate a fractured tertiary education system, effectively two systems, difficult for both students and industry to navigate. Promising policy developments have been identified through the Universities Accord interim report and the emerging National Skills Agreement, with both identifying greater complementarity of the two sectors as a priority.

While the National Skills Agreement commits \$1.3 billion of Commonwealth funding for agreed reforms, further examination is needed to ensure public funding for the tertiary education system is at a level that enables quality outcomes across VET and higher education and is equitable across the two sectors and between levels of government. The current framework for student funding reinforces the divide. It must be sufficient to deliver access and equity outcomes and appropriately support both public and private providers.

Another critical step is raising the status of skills relative to knowledge. Progressing reform of the Australian Qualifications Framework, as proposed by Peter Noonan in his Review of the Australian Qualifications Framework, is overdue. The current framework has ten hierarchical levels based on knowledge and skills locked into a laddered progression. This rigid approach assumes that knowledge is privileged over skills and therefore higher education over vocational education.

The reality is all jobs require knowledge and skills and their application. However, knowledge/skill combinations vary enormously. The outdated assumption of knowledge being more worthy than skills is the cause of many of our current challenges. Firstly, it perpetuates a low status for VET. It also results in higher education paying insufficient attention to assessing skills in applying knowledge, which is increasingly important as knowledge becomes more freely available in digital form. Lastly, it discourages the development of qualifications that provide the optimal mix of knowledge and skills, which is what businesses say they need. We need to replace this system with one that gives equal weight to knowledge and skills and allows them to be combined more flexibly.

Equally important is the need for stronger collaboration between industry and tertiary education providers, across both higher education and VET. VET has a deep tradition of working closely with industry in the design of training packages. This should continue, but with a stronger focus on graduates' general capabilities and adaptability to change. Higher education is less experienced in working closely with industry in curriculum design and delivery, with some exceptions. As discussed under Higher and Degree-level Apprenticeships and Work Integrated Learning below, incentives are needed for higher education and industry to develop cadetships and apprenticeships, including in partnership with VET providers.

Recommendations

- Examine the level of funding for the tertiary education system to ensure it enables quality outcomes across VET and higher education and is equitable across the sectors.
- Progress reform of the Australian Qualifications Framework.

Enable a more effective apprenticeship system

The demand for skilled workers at all levels will remain strong, and a more effective apprenticeship system will help ensure an accessible pipeline to these occupations for many Australians.

Ai Group is supportive of recent initiatives to improve the services and supports to apprentices by Australian Apprenticeship Support Network (AASN) providers. The 2023 Request for Tender for AASN Services for 2024-26, with its focus on assessment services for apprentices and their employers, enhanced mentoring and personal support, and improving the support for key client groups, will help improve the recruitment of apprentices and their retention rates. Offering workshops for apprentice supervisors, as currently occurs in NSW, is an excellent initiative that could be replicated nationally as part of the AASN service.

There are other suggested initiatives that will improve outcomes for industry. The current financial incentives for employers of apprentices and trainees have been reduced in recent times, especially for those that are not deemed priority occupations, and are set to reduce even further on 1 July 2024. This is likely to result in lower numbers of commencements which will compound the skills problems for industry. In collaboration with the Australian Chamber of Commerce and Industry and the Australian Council of Trade Unions, Ai Group has called for the 2024-25 federal budget to:

- Provide Government support for all apprenticeships and traineeships of no less than 30% in wage subsidy across two years;
- Reinstate the fixed monetary completion incentives of \$2500 to employers;
- Extend the support currently available to apprentices in priority occupations of up to \$5000, to assist in the completion of their training to all endorsed apprentices and traineeships without exception.

Initiatives that help mature-aged workers gain access to trades at later stages of their working lives will improve their career opportunities and increase the pipeline of skilled workers. There are three main barriers for mature aged workers: their wages are higher than younger workers, making them less attractive to employers; the low apprentice wage is difficult for an older person with financial commitments; and there is little to help them progress through an apprenticeship more quickly, regardless of the skills and experience they have already acquired.

Ai Group would welcome the opportunity to work with the Government to develop suitable initiatives. The recent commitment announced through the MYEFO to undertake a strategic review of Australian Apprenticeships, including the Australian Apprenticeships Incentives System will provide such opportunity.

Recommendations

- Raise apprenticeship incentive rates to reflect the rising costs to employers of supervising and training apprentices.
- Provide funding support for apprentice supervisor workshops for employers of apprentices eligible for Commonwealth incentives.
- Provide funding for initiatives that help mature-aged workers gain access to trades through apprenticeships or other means.

Build the structures needed for higher- and degree-level apprenticeships

For over five years now, Ai Group members have been expressing the need for graduates who have a combination of what our education and training systems have artificially separated into VET and higher education skills and knowledge. It is often a result of higher-level technology skills needing to be built into hands-on roles in industry. Higher and degree-level apprenticeships are gaining in prominence, in response to these industry needs. However there are many challenges to implement them broadly. Some of these can be addressed in the budget.

Ai Group has been responsible for the focus in reports on higher level apprenticeships. The pilots we've initiated and managed since 2016 have represented a world-leading approach to developing a broad range of in-demand skills in the context of work. Many challenges have arisen. Industrial Awards are generally silent about higher level apprenticeships, meaning pay rates and conditions are not clear. Funding for employer and employee associations to negotiate suitable industrial arrangements for insertion into Awards would assist in their rollout.

Only one state government (South Australia) has the legislative authority to declare higher education qualifications as apprenticeships or traineeships. A committee to oversee nationally-consistent legislation enabling all states to make such declarations would remove a fundamental barrier.

Extending apprenticeship and traineeship financial incentives to degree-level qualifications would assist in encouraging employers to take on higher level apprentices. Removing the requirement for employers to pay Fringe Benefits Tax for assisting degree apprentices with their student contributions/HECS FEE-HELP component would also provide further encouragement to employers.

There is a need for more demonstration projects to develop higher and degree-level apprenticeships. The experience Ai Group has gained from working on various projects has shown that there is considerable cost in putting arrangements in place, for employers, for education providers, and for coordinating each project. Funding to enable demonstration projects in a variety of industry sectors will encourage the development of more apprenticeships at this level.

Recommendation

- Support a broader range of higher-skill apprenticeship programs in new priority occupations, and examine options to extend financial incentives and remove FBT liabilities for participating employers.

Support widespread, quality work-integrated learning

Work integrated learning is becoming ever more important for the workplace. It is the champion of employability skills and drives quicker integration into roles. This is vital when jobs experiencing growth in the economy are changing rapidly and require increasingly higher-level thought and judgement. Barriers to employers in recruiting and retaining workers can be improved at scale by incorporating student placements and projects more broadly into qualifications.

At Ai Group we have experienced much positive feedback from companies about the benefits of WIL. Many companies introduced to WIL for the first time through our brokering program involvements have subsequently embedded WIL practices, seek students regularly and maintain mutually beneficial relationships with universities. Conversely other companies have expressed frustrations with their own efforts to engage with universities. We still hear from some companies that they do not know how to approach a university or who to approach; that a lack of information about what is on offer and what their involvement will be creates a hesitancy; and that uncertainty about the ability of the university to be flexible to accommodate industry needs is a barrier. These issues are not constrained to smaller companies.

WIL is all about partnering – it is one practice that has to bring together different parties: students, universities, industry, governments all have to be partners in some form. Government support for the implementation of the new National Higher Education Work-integrated Learning Strategy will progress WIL in Australia, as will incentives for SMEs. This will recognise the resources involved when businesses participate in quality WIL. While there are benefits for employers, there are significant barriers: time involved preparing for, supervising and mentoring students and administrative costs.

A national WIL infrastructure can be established using the renewed National WIL Strategy as the template and guide for all partners – universities, students, employers and government. The Strategy also addresses aggregator opportunities in managing WIL promotion and engagements, akin to the Interim Report's national jobs broker system proposal.

Recommendations

- Support the implementation of the new National Higher Education Work-integrated Learning Strategy
- Provide incentives for SMEs to participate in quality WIL engagements with students and universities.

Increase access to reskilling as part of a lifelong learning system

Employers need increased access to readily available short programs at a range of skill levels to upskill and reskill existing workers and to transition existing workers from declining sectors. The expansion of micro-credentials, skills sets and other short form credentials should be aligned to the skills needed in the labour market. Innovative models of training that allow working age Australians to develop skills and keep them up to date must be pursued and be made more accessible.

The Interim Report of the Universities Accord called for a 'system shift' in higher education in order that re-skilling and lifelong learning can be provided through more modular, stackable qualifications, with full scaffolding and pathways. Ai Group's research shows that short courses are the most used form of education and training by employers, ahead of formal qualifications, conferences and microcredentials. Yet universities are the least used provider for short courses and microcredentials.

A national framework for skills transferability that allows for relevant skills from declining industries/occupations to be cross-mapped with emerging skills will be useful to multiple stakeholders. Such a framework would assist workers that have close skill matches, and who may need only limited re-skilling to transition into new roles.

Incentives are needed for businesses to encourage upskilling. Where businesses commit to nurturing and skilling up employees from under-represented cohorts, support in the form of toolkits to develop and implement strategies to facilitate employment outcomes would boost results.

Creating a lifelong learning system will enable individuals to navigate the system with greater ease and clearly demonstrate their skills and capabilities to employers. Stronger pathways and partnerships, greater accessibility and transparency should be the result. Higher education, VET and industry all need to work together to build quality into the system.

An Australian Skills Taxonomy fits into this framework, assisting both employers and individuals with the identification of relevant skills. Work on this by JSA should be progressed.

The development of a National Skills Passport system is also supported, through which employers will be able to ascertain the skills and qualifications of potential employees more easily.

These initiatives should be underpinned by a lifelong learning funding model, with a coherent framework of learning entitlements and income-contingent loans available to students of VET and higher education. This would require a Commonwealth-state compact, and once the concept is agreed by all jurisdictions, the details of regulatory reform, funding models and the possibility of a tertiary education commission to oversee it all could follow.

Recommendation

- Develop a national framework for skills transferability.
- Introduce a lifelong learning funding model that includes a framework of learning entitlements and income-contingent loans.

Act on the enduring importance of STEM to meet digital transformation skill needs

Technology is one of the two key drivers of change across the globe . It is creating many new jobs and tasks, with further disruption seen this year through rapid developments in AI, robotics and cyber security.

Australia is projected to need 370,000 digital workers by 2026, with high-level digital skills – such as programmers and analysts – expected to balloon by 47% by 2026. Ai Group surveys show demand for digital skills is broad and deep, ranging from basic digital skills to specialist technology skills.

The education and training system must be able to cope with the rapid pace of change in the digital skills needed by job roles. The Federal Government has commenced action in the VET sector through Fee-Free TAFE places in technology and digital skills. It is also placing importance on the establishment of the relevant Jobs and Skills Council to align workforce planning for the tech sector and to create a greater awareness of technologies and associated jobs. The Jobs and Skills Council, the Future Skills Organisation, has been tasked with addressing digital skills shortages and with future-proofing skills and training, in particular the finance, technology, and business sectors.

One issue across both the VET and higher education sectors is the need for an increase in the pool of teachers and trainers who can deliver digital education and training across different qualifications. There is a lack of teachers/trainers with new knowledge/experience in existing and emerging technologies, and therefore a lack of knowledge to identify the potential for cross-skilling. In VET, governments should support the movement of industry personnel into teaching positions through more flexible pathways into teaching.

It is acknowledged the Government is advancing further actions on this and a range of issues through the Digital and Tech Skills Compact and the report of its Digital and Tech Skills Working Group, on which Ai Group was represented.

Developing skills for this sector begins with primary and secondary schooling. The development of science, technology, engineering and mathematics (STEM) skills at the primary and secondary schooling levels is becoming more imperative as pipelines for skills and careers narrow at the tertiary levels. There needs to be a renewed focus on and investment in the National STEM School Education Strategy 2016–2026, including investment in the STEM teacher workforce with guidance and support around the STEM curriculum, syllabus, resources and materials.

The latest OECD Programme for International Student Assessment (PISA) has shown there is a considerable decline in science, and mathematics and numeracy skills among Australian students. Action needs to be taken to arrest this decline to ensure there is a baseline standard at the foundational skills level and to put a floor under the higher-level STEM skills required for a transforming economy through trends like decarbonisation and digitalisation.

The vocational education and training and higher education sectors need to be equally regarded as centres of STEM skills, knowledge and capabilities development across all Australian Qualifications Framework (AQF) levels. The integration of work-based and work-integrated learning into STEM qualifications and degrees will enhance real-world perceptions and practice, as will higher apprenticeships and degree apprenticeships. Support for small and medium sized companies to help

facilitate placements should be considered given the cost impact to those business when delivering on-the-job learning, supervision and mentoring, and other material inputs.

Given the rapid change in digital technologies, it is important that existing workers have every opportunity to reskill and upskill through various modes of delivery (onsite, online, in person, etc.) utilising microcredentials, short courses, accredited and non-accredited, and other types of formal and informal training. Consideration of Singapore's SkillsFuture program, which provides financial incentives and digital learning resources to mid-career workers to reskill and upskill, could help achieve these aims.

Hand-in-hand with tech skills development should be the development of generic skills which are growing in importance as technology advances. As machines do more and more, a human's value to an enterprise is increasingly about the ability to spot opportunities and challenges, formulate strategies and build networks and collaborations. An AlphaBeta analysis prepared for Google found the fastest growing skills are in fact characteristics relating to the way humans execute tasks: creativity, integrity, persistence, empathy, attention to detail.

It is vital for industry that these uniquely human capabilities are explicitly cultivated through the VET and higher education systems.

Recommendations

- Further invest in the National STEM School Education Strategy.
- Provide financial incentives and digital learning resources for mid-career workers to reskill and upskill.

Meet the needs of the clean economy

Ai Group members have been reporting skill shortages across a number of clean energy core occupations for some years, including skilled tradespeople and energy professionals. Key occupational roles are required across multiple segments of the clean energy industry. Operational and maintenance roles will grow and be re-shaped by new technologies. Dynamic growth means that new and hybrid roles will continue to emerge that require new skills. This places importance on building deep, technical skills but also generic and transferable skills.

Ai Group's own research has found that businesses are implementing changes as a result of the transition to a clean economy and they expect the transition to drive emerging or increased skill needs over the coming year. However many said they did not have the skilled employees or teams to navigate the transition. Support is needed for smaller businesses who can lack the capital and time to invest in the workforce planning that prepares them for the clean economy changes.

The Federal Government's work on a National Energy Workforce Strategy is welcomed, as is the commitment to delivering 10,000 New Energy Apprentices.

The JSA's Clean Energy workforce report released in October provided a welcome base and directions to ensure the nation develops the workforce required to achieve net zero emissions by 2050. However much of the hard work identified on education and training system reform is yet to be realised.

Many of the report's recommendations mirror reform needed across the whole tertiary education system, and indeed reform advocated by Ai Group throughout this education and training section of our submission. They include a fully implemented, revised Australian Qualifications Framework; a better-connected tertiary education system; ongoing data collection and analysis of Australia's skill needs; a strengthened and extended apprenticeship system, including higher apprenticeships; broader work-based and work-integrated learning; improved levels of partnership between industry and the education and training sector; and increased access by industry to shorter programs to support reskilling/upskilling and to transition existing workers from emissions-intensive sectors quickly.

While the report covered these reforms through 'opportunities', the issues must be tackled through implementation of the report's recommendations.

Recommendations

- Implement the recommendations of The Clean Energy Generation: workforce needs for a net zero economy.
- Provide a program which supports SMEs with workforce planning tools and advice for clean economy transitions.

Uplift the Foundation Skills of Australians

Foundational skills (language, literacy, numeracy, and digital literacy) are a baseline requirement for all workers. Ai Group research finds three-quarters of employers are affected by low levels of literacy and numeracy. Basic digital skills and capabilities are the highest priority area for digital skills development and investment in the workplace. The research also shows that the higher the level of education the greater the employer satisfaction is with school leaver and VET and university graduate literacy and numeracy outcomes.

Ongoing support for existing programs like the Skills for Education and Employment program (SEE), the Foundation Skills for Your Future Program, and the Foundation Skills for Your Future Remote Community Pilots will mean greater stability and confidence for employers who benefit from these programs. New support under the National Skills Agreement to provide on or low-fee access to training is also welcomed.

Ai Group appreciates the creation of the Foundation Skills Advisory Group, which ensures that the voice of industry and other stakeholders are represented on the delivery of projects, like those listed above, and the development of the National Foundation Skills Framework and other policies.

Ai Group also notes the Australian Government response to the House of Representatives Standing Committee on Employment, Education and Training report: 'Don't take it as read': Inquiry into adult literacy and its importance. Ai Group welcomes the Government's support for initiatives like funding for the Programme for the International Assessment of Adult Competencies (PIAAC) survey and the new Australian Adult Competencies Survey to be conducted by the Australian Bureau of Statistics at the mid-point of each PIAAC cycle. The collection and evaluation of these data will be highly valuable to business and industry, providing insights into the foundational skills needs of the adult population engaged in work, looking for work, or preparing for work.

Recommendations

- Continue support for existing Australian Government Foundation Skills programs.

