



AUSTRALIAN INDUSTRY
GROUP

Submission

***Australia's skills and workforce
development needs
Discussion Paper***

August 2012

About the Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million employees.

In preparing this submission Ai Group has drawn on the expertise of its Education and Training Policy team and also its member advisors located in Queensland, New South Wales, Victoria and South Australia who are dealing directly with member companies on a day-to-day basis on skilling issues.

SUBMISSION TO AUSTRALIAN WORKFORCE AND PRODUCTIVITY AGENCY

OPENING STATEMENT

The Australian Industry Group welcomes the opportunity to respond to the Discussion Paper, *Australia's skills and workforce development needs*. The timing to consider the future of Australia's skills and workforce development needs is particularly apt given the widespread and increasing concern about Australia's poor productivity performance.

A key way to address the decline in productivity is by raising capability as identified through the Productivity Commission. In terms of skills this requires a focus on improvements in the skilling of the workforce which has long been identified by employers as major priority. This should be inclusive of management training which has been receiving some recent attention. It is timely to turn national attention to the skilling of managers and leaders and include this in the mix of the skilling agenda in Australia. This is a policy area that has been neglected for too long. Employers have also identified the need to address the negative impacts of labour regulation which impinge upon workplace flexibility.

There is a close link between productivity and innovation. Industry has recognised innovation related skills as being of high importance. There needs to be a renewed focus on these as well as the continuing need to adopt strategies that address skills shortages as they have a negative impact on innovation.

While the Discussion Paper has a particular focus on higher level skills it is the view of Ai Group that both higher level and lower level skills and qualifications are needed to skill the existing workforce. Indeed, in *Australian Workforce Futures* Skills Australia estimated that Australia needs an additional 240,000 skilled workers over the next five years to meet the needs of the economy.¹ The major issue in relation to this is the capability of the education and training sector to be able to deliver these.

In relation to specific skills it is clear that workplace language, literacy and numeracy (LLN) are a major concern. The need for intervention is clear. The National Foundation Skills Strategy needs to be released and industry given a prominent role in workplace LLN. The Workplace English Language and Literacy (WELL) program needs both improvement and expansion. Other program responses, such as those trialled in the Ai Group National Workforce Literacy Project, need to be included in the national strategy.

Notwithstanding the introduction of some apprenticeship measures in the wake of the recommendations of *Apprenticeships for the 21st Century* review, Ai Group believes that a great more needs to be done in apprenticeship reform. The central plank of the espoused reforms was the creation of a national custodian. Ai Group supports the introduction of a National Apprenticeship Commission with powers to make national policy decisions that are binding on all jurisdictions to be able to achieve the much sought after national consistency in this arena.

¹ Skills Australia, *Australian Workforce Futures*, 2010, Commonwealth of Australia.

The establishment of the Australian Workforce and Productivity Agency is a significant step including its role to provide oversight of the National Workforce Development Fund. This is the most important instrument for advancing the skills of the workforce in collaboration with industry. The effectiveness of the Fund and an analysis of its funding allocations needs to be carefully monitored and the fund expanded given the extent of the lack of qualifications in the existing workforce.

It is encouraging to note the increased attention that an 'Asia Capable Workforce' is receiving. Amidst a wealth of potential opportunities Ai Group believes the focus should be on investment in education and training initiatives that contribute to the development of an 'Asian-ready' workforce. This focus is much needed, as identified by the Asia Capable Workplace Taskforce, if Australia is to capitalise on the growth opportunities offered by the 'Asian century.'

The challenges of regional participation have been exacerbated in recent years and innovative and flexible solutions are needed to meet the regional workforce skilling needs and those of their economies.

The transition of young people from education to training and employment was not extensively explored in the Discussion Paper. Ai Group believes this agenda, and the position of VET in Schools within this, is critically important. While acknowledging the contribution that school-based VET has made to national VET reform there are several concerns in this area – many of them long-standing. Chief among these concerns from an industry perspective are questions of quality in terms of the registration and delivery variability across jurisdictions, the lack of workplace learning opportunities and the qualifications and experience of VET in Schools teachers. The Budget announcement that the Australian Skills Quality Authority is undertaking an audit of VET in Schools is a welcome step. A more widespread review of the program structure of VET in Schools and its links to tertiary entrance and pathways to higher level qualifications and employment is also worthy of examination.

In respect of quality there is a need for increased national consistency under the leadership of the Australian Skills Quality Authority. The interventions necessary include the improved regulation and review of the standards, increased engagement of industry, the need for greater transparency of information to enable informed choice of training provider and addressing the career structure and qualifications of the VET sector workforce.

Ai Group remains concerned that the VET sector is not funded adequately enough to meet the needs of industry in a context of the demonstrated need for the expansion of skills delivery into the immediate future. Ai Group also supports the movement away from supply driven approaches in the VET sector towards more demand-led approaches provided that the expression of choice is aligned to the needs of industry and the economy.

The Productivity Question

Labour productivity is the main focus in any analysis of skilling. This has only grown slowly over the past decade following a period of rapid sustained growth of 3.3%. In other words, labour productivity is increasing but at a slower rate. The Australian Bureau of Statistics has reported an average quarterly growth rate of 1% from the middle of 2008 to 2011.² The last five years have shown the slowest rate of improvement in over a century.

There are several potential causes of this low productivity, not all of them directly related to skilling:

- Productivity gains are cyclical: improvement generally follows recession and there has not been one since the 1990s. Labour utilisation is lower with lower participation and higher unemployment.
- Productivity gains do not coincide with periods of high capital investment: returns on investment in mining and utilities have not occurred yet.
- Productivity gains arrive in uneven steps: in response to new technologies and processes as well as addressing infrastructure bottlenecks.
- Reform agenda slowed: the main productivity gains were associated with the economic and regulatory reform of the 1980s and 1990s.
- Demographic changes in the workforce: impact of the ageing workforce and increased part-time work. Needs to be considered in relation to higher participation rates for women and older workers and higher average educational attainment.
- Structural changes in the economy: productivity growing more rapidly in sectors with less easily measurable productivity such as health and education services.

Industries differ in their productivity growth trajectories. There have been recent declines in mining and electricity, gas, water and waste services. Productivity growth improved in only three sectors during the 2000s: construction, administrative services and recreational services. This growth was only marginal.

Annual productivity growth, despite trending upwards, has started to fall. It is now behind the United States, New Zealand, the G7 countries and the OECD total.³ Relative to the OECD average Australia has changed from a high-achiever in the 1990s to an under-achiever in the 2000s. There has been an extended period of weak productivity growth even while the GDP, incomes and wages have remained robust. This combination of low productivity growth and real wage increases has led to increased unit labour costs relative to other OECD countries.

So what interventions can be made? The Productivity Commission indicates three main areas:

- Incentives: improvements in competition, taxation, regulation and assistance to industry.
- Flexibilities: the ability to be more productive, improve regulation and administrative costs.
- Capabilities: improvements in skills, infrastructure and management systems.⁴

Ai Group recently asked businesses about factors affecting productivity.⁵ The following table summarises the responses. Of particular interest in the context of skilling are the positive responses in relation to staff training (38.4) and to some extent management practices (30.2). Even so it indicates that stronger productivity benefits derive from process or product improvements rather

² Reported in Australian Financial Review, 19 January 2012, page 10.

³ Labour productivity growth in the total economy, OECD StatExtracts as quoted in the Discussion Paper page 8.

⁴ Chairman Gary Banks, Productivity Commission, March 2012.

⁵ Ai Group CEO Survey, February 2012.

than labour-related improvements. The negative responses focus on various kinds of regulation which include labour regulation.

This suggests that the way forward is an increased focus on staff and management training as well as addressing the negative impacts of labour regulation.

Factors affecting business productivity over the past two years		Net balance (scale of +100 to -100)
Changes to business processes	Positives	43.0
Changes to product offerings		40.1
Adopting new technologies		38.6
Staff training		38.4
Management practices		30.2
Internal research and development		29.6
Capital investment	Neutral	14.2
External infrastructure		1.4
Environmental regulation	Negatives	-31.8
The Fairwork Act		-32.4
Other regulation		-43.6

Innovation

Productivity is often closely linked with innovation. The Discussion Paper outlines our performance in relation to innovation: our inclination to be an adopter rather than a developer of technologies; our rank of 23rd ⁶ in the OECD global innovation index; our relatively low proportion of expenditure on research and development; and our reliance on a handful of industries in this regard.

Recent Ai Group research demonstrates that businesses are very aware of the need for innovation.⁷

Rate of Innovation: Businesses making significant changes to their business model		
% of businesses	2011 (Actual)	2012 (Expected)
<i>By sector</i>		
Manufacturing	30.4	43.8
Services	33.3	36.0
Construction	34.4	50.0
<i>By business size</i>		
Small	34.1	43.0
Medium	27.5	42.5
Large	34.4	41.1
Total	31.3	42.4

The results show that almost one-third of businesses made significant changes to their business model during 2011 and this has increased to over 40% in 2012. Although there were increases for all-sized businesses, small to medium sized companies seem to be more aware of the need to innovate.

⁶ http://www.globalinnovationindex.org/gii/main/analysis/rankings.cfm#CGI.SCRIPT_NAME#

⁷ Ai Group internal member survey, December 2011.

These results build on earlier Ai Group research which established the close link between innovation and a highly skilled workforce.⁸ This link extended to the issue of skill shortages. Of the firms citing impacts from skill shortages, 60.2% found they were restricting innovation. A significant proportion of CEOs reported that skills shortages are restricting innovation (42.2%).⁹

In a further study companies overwhelmingly noted the importance of skills improvement in innovation related skills such as problem solving, team work, communication, adapting to change and creative thinking.¹⁰

The appropriate intervention is to increase the focus on innovation related skills recognised by industry to be of high importance. In addition, there is a continuing need to adopt strategies that address skills shortages as they have a negative impact on innovation.

Management and Leadership Practices

Ai Group agrees that limited policy attention has been devoted to the role of leadership and management skills in driving productivity. There has been little since the recommendations of the Karpin Report of 1995. Management and leadership practices are critical to the relationship between innovation and labour productivity. This is a problematic area in which to be definitive as there is little reliable data on management practices in Australia.¹¹

A main focus is that leadership and management within the firm is a key ingredient in innovative practice. Recent Ai Group research identified leadership as one of the seven major characteristics of high-performing organisations.¹² Leadership influences the culture of the workplace, the way work is organised and subsequently productivity growth. A renewed focus on the improvements accruing from advanced people management practices is most welcome.

Recent research has highlighted this such as the work of the Society for Knowledge Economics on high performing workplaces¹³ and the University of Technology on the importance of strategic management and leadership skills.¹⁴

In the context of manufacturing this latter report found that Australian firms should develop a structured approach to all management areas and pay particular attention to people and human resource management.¹⁵

It is timely therefore to turn national attention to the skilling of managers and leaders and include this in the overall policy mix of the skilling agenda in Australia.

⁸ Ai Group, national CEO Survey, Skilling for Innovation, April 2008.

⁹ Op cit., page 22.

¹⁰ Innovation: New Thinking>New Directions, A report to the Australian Industry Group by the Innovation Review Steering Committee, October 2010, page 10.

¹¹ Professor Roy Green, Management matters in Australia: just how productive are we?, UTS, November 2009.

¹² Australian Industry Group, High Performance Organisations: maximising workforce potential, February 2012.

¹³ Leadership, Culture and Management Practices of High Performing Workplaces in Australia: The High Performing Workplaces Index, Society for Knowledge Economics, October 2011.

¹⁴ A More Competitive Manufacturing Industry, Management and Workforce Skills and talent, Australian Industry Group and the University of Technology Sydney, February 2012.

¹⁵ Op cit, page 33.

Higher Level and Lower Level Skills

The Discussion Paper makes the point that there is a need for skills at all levels but especially higher level skills. Structural adjustment in the economy is highlighted as a major reason for the shift in demand for higher level skills. There has been a progressive shift from production to services observable over a long period leading to growth in managerial and professional occupations in particular. There is no argument with the need for higher skill levels. Ai Group research led this debate in 2006 with the *World Class Skills for World Class Industries* report.¹⁶

The Discussion Paper considers whether these skills come from the VET sector or higher education and what the economic returns are. The provision of higher level skills and qualifications is an increasingly contested area between the VET and higher education sectors.

In terms of lower level skills and qualifications the Discussion Paper claims that there is little benefit for individuals in terms of increased earnings. In addition, the projections in the scenarios all indicate a potential over supply of Certificate I and II. It is certainly the case that qualifications at these levels do not of themselves produce vocational outcomes or lead directly to employment. However, as already discussed, their importance is linked to the provision of foundation skills and as a pathway to higher qualifications which do provide vocational outcomes and employment opportunities. It also needs to be remembered that VET in Schools programs, which introduce senior secondary students to vocational education and training, are largely set at these levels.¹⁷

Both higher level and lower levels of skills and qualifications are needed. Indeed, in *Australian Workforce Futures* Skills Australia estimated that Australia needs an additional 240,000 skilled workers over the next five years to meet the needs of the economy.¹⁸ The major issue in relation to this is the capability of the education and training sector to be able to deliver these.

Language, Literacy and Numeracy in the Workplace

Ai Group considers the acquisition of language, literacy and numeracy (LLN) skills in the workforce is a major issue confronting the Australian economy. Approximately 46% of Australia's working age population (7 million adults) has literacy scores below the minimum required to function fully in life and work. In terms of numeracy it was 53% or 7.9 million below the required level.¹⁹ In excess of four million of these people are currently employed in the Australian workforce. The latest survey revealed that Australian levels have shown little improvement since the previous survey – 10 years ago.

It is clear that existing workers benefit from foundation skills training that is contextualized to the workplace. The success to date of the Workplace English Language and Literacy (WELL) program is testament to this. It is also clear that this program needs to be expanded as it does not reach anywhere near the need for it by the workforce. For example, from 2009 – 2010 there were only 16,500 places available and it has grown to the 2003 – 4 levels when there were 23,217

¹⁶ World Class Skills for World Class Industries, Report to the Australian Industry Group, May 2006, The Allen Consulting Group.

¹⁷ NCVET data reports that 41.4% of VET in Schools students participate in Certificate I programs and 50.6% in Certificate II programs.

¹⁸ Skills Australia, Australian Workforce Futures, 2010, Commonwealth of Australia.

¹⁹ Australian Bureau of Statistics (2006), *Adult Literacy and Life Skills Survey*, Cat No. 4228.0.

participants.²⁰ The recent evaluation of the program reports participation by more than 72,000 employees and 530 Indigenous Employment Program participants over the last five years.²¹

The expansion of the program in Commonwealth Budgets is a step in the right direction with 62,000 places available over the 2010 – 2014 period.²² Given the extent of the problem based on the Adult Literacy and Life Skills Survey data this is still way short of what is required. Skills Australia, for example, had recommended in 2010 an additional \$50 million per annum until 2012.²³ The latest total Commonwealth allocation of \$119.2 million in this area was for four years.

The WELL program evaluation report establishes that WELL provides valuable support to business with 78% of participating employers rating the program as effective or highly effective in improving LLN and meeting business needs.²⁴ The report noted opportunity for change and included seven themes of renewal including the lack of awareness about the program and the poor ability to monitor the program outcomes.²⁵ So there is a need to improve the scale and effectiveness of the program.

It is also clear that one program does not make a national strategy. Given the diversity and extent of LLN needs within the workforce a range of programmatic responses is necessary. The New Zealand experience is instructive and has a multi-pronged approach to their national strategy.²⁶ The enterprise trials within the National Workforce Literacy Project also demonstrate the importance of different approaches from the WELL program that could be incorporated into the national strategy, in particular 1:1 and small group intensive training over a six month period.²⁷

The Discussion Paper refers to the low levels of LLN skills being acknowledged by greater levels of Commonwealth investment and the development of the National Foundation Skills Strategy. As indicated, the level of funding provided for WELL, the only LLN program available to the existing workforce, is still nowhere near the level required to address the extensive issues facing the workforce. The Standing Council on Tertiary Education, Skills and Employment officially endorsed the National Foundation Skills Strategy in November 2011²⁸ but this still has not been publicly released.

The need for intervention is clear. The National Foundation Skills Strategy needs to be released and industry given a prominent role in workplace LLN. The WELL program needs improvement and expansion. Other program responses, such as those trialled in the Ai Group National Workforce Literacy Project, need to be included in the national strategy.

²⁰ Department of Education, Employment and Workplace Relations.

²¹ Strengthening Foundation Skills in the Workplace, Final Report, Department of Innovation, Industry Science, Research and Tertiary Education, 22 February 2012.

²² *Budget, Skills and Infrastructure – Building a stronger and fairer Australia*, 11 May, 2010, page 11.

²³ *Australian Workforce Futures*, Skills Australia, 2010, page 42.

²⁴ Strengthening Foundation Skills in the Workplace, Final Report, Department of Innovation, Industry Science, Research and Tertiary Education, 22 February 2012.

²⁵ Ibid.

²⁶ See for example the *Literacy, Language and Numeracy Action Plan 2008 – 2012*, Tertiary Education Commission, 2008 and *The Key Steps Forward to Workforce Literacy*, Industry Training Federation, July 2007.

²⁷ National Workforce Literacy Project, Final Project Report, Australian Industry Group, January 2012.

²⁸ Communique for the Inaugural Standing Council on Tertiary Education, Skills and Employment meeting – 25 November 2011.

Apprenticeship Models

The Discussion Paper raises issues about the apprenticeship model and comments on reforms implemented in the wake of the *Apprenticeships for the 21st Century* review.²⁹ This includes the streamlining and harmonising of laws and regulations across jurisdictions and this has been reflected in the National Partnership Agreement on Skills Reform. The Accelerated Australian Apprenticeship package is also referred to in terms of aiming to address skills shortages by ‘speeding up the supply of skilled workers into the economy’.³⁰ This may well be one of the outcomes but for industry the concern is that these workers are still adequately skilled to do their jobs. The Ai Group project within this initiative focuses on providing for apprentices to progress through and complete their apprenticeship on the basis of competency, but at the same time making sure employers are confident that these apprentices have the right level of skills. Care is being taken to dispel any perceptions that these apprentices are being ‘rushed through’ their training.

The Australian Apprenticeship Mentoring package has the potential “to increase the retention rates of Australian Apprentices in order to improve completion rates and support the supply of skilled workers in occupations and sectors where there is a current or emerging skills need.”³¹ Ai Group has both manufacturing advisers and mentors programs within this initiative and sees these as an opportunity to assist in the process of more effective matching of young people to apprenticeship positions. In this sense the objective is not necessarily to make apprenticeships more attractive but rather to provide relevant and contemporary advice to enable young people to make better decisions about entering into apprenticeship arrangements.

In the case of the mentors program the approach is based on assisting the establishment of effective working relations between the employer and the apprentice, especially in the first year of the arrangement, and so assist the improvement in the completion rate. This program has the potential to build on a previous Ai Group initiative related to achieving completions.³² Ai Group has also provided many Apprentice Supervisor Workshops in recent years which assist in the retention of apprentices. Given the nature of these programs and the need to establish ongoing relationships to be effective, consideration should be given to longer program duration than the initial period of 12 months.

Other initiatives include the reform of the Australian Apprenticeships Support Services and the establishment of the Australian Apprenticeships Industry Consultative Group. The latter is a welcome and overdue step and provides industry with some opportunity to influence apprenticeship policy.

While these Australian Government responses to the Apprenticeships for the 21st Century Expert Panel Recommendations are all positive steps there is a great deal more that can be done. The centrepiece of the report was the recommendation for a national custodian of Australian Apprenticeships. Ai Group called for the establishment of a Workforce Development Agency to consolidate workforce development programs including the establishment of a National

²⁹ Apprenticeships for the 21st Century Expert Panel Paper, January 2011, Commonwealth of Australia, 2011.

³⁰ Discussion Paper, page 67.

³¹ Australian Apprenticeships Mentoring package, Mentoring Program Guidelines, page 2 at www.australianapprenticeships.gov.au

³² Australian Industry Group, A Guide to Managing the First 100 Days of an Apprenticeship, A Practical Approach, August 2007.

Apprenticeship Commission within this Agency.³³ Such a Commission would progress the recommendations and have the overall responsibility for delivering a reformed high quality Australian Apprenticeship system.³⁴

The creation of the Australian Workforce and Productivity Agency from Skills Australia is an important first step in this regard. Ai Group calls for the establishment of a National Apprenticeship Commission to fully advance the required reform measures and establish the central importance of employers in this. Such a commission needs to have the power to make apprenticeship policy that is binding on all jurisdictions to effectively achieve national consistency. The role of the Agency in relation to apprenticeships is advisory only. Many of the Expert Panel recommendations hinge on the centrality of establishing a national custodian.

National Workforce Development Fund

The role of the Agency in the implementation of the National Workforce Development Fund (NWDF) is critical. The \$700 million Fund was created to support industry to develop and improve the skills of their employees. The latest results indicate that \$174 million has been committed to 498 projects for more than 52,000 employees.³⁵

Notwithstanding this beginning it is crucial that the resourcing for this program increase given that over four million workers do not have a post-school qualification. The Fund to date has only made a small dint in this given that the future growth of the economy will increasingly require higher levels skills. Consideration needs to be given to the funding of innovative projects and pilots as well. In addition to an overall funding increase it is important for the Agency to monitor the success of the ISC approved projects to ensure that funding allocations are skewed.

Migration

Skilled migration remains important to the overall delivery of skills in the Australian economy. The recent increase in the skill stream migrants from 32% to 68% is most welcome. The 2012 – 2013 overall migration program is set for 190 000 places of which 129 250 places are nominated for skilled migrants.³⁶ It is the view of the Ai Group that 190 000 places for skilled migrants per annum is an appropriate target in our current circumstances.

Developing an Asia Capable Workforce

The Discussion Paper notes the importance of skills to Australia's future in the Asia Pacific region. This was highlighted in the Australian Industry Group and Asia link survey *Engaging Asia: Getting it right for Australian business*.³⁷ The report indicates that business rate highly having senior staff capable of working in Asia.

³³ Media Release, Ai Group calls for creation of Workforce Development Agency, 11 April 2011.

³⁴ Australian Industry Group Submission to the Final Report of the Expert Panel, April 2011.

³⁵ The Bridge, Australian Government Skills Connect, Issue 5, 2012.

³⁶ www.immi.gov.au/media/fact-sheets/20planning.htm

³⁷ Engaging Asia: getting it right for Australian business, Australian Industry Group and Asia link, 2011.

The report's leading recommendation calls for the development of an Asian Ready Workforce Strategy "to ensure that Australian business and the Australian community have the skills and expertise essential to making the most of our position in the fastest growing region of the world."³⁸

In addition, the *Australia in the Asian Century Issues Paper* highlighted the background to this emerging key issue.³⁹ In relation to skilling the Ai Group recommended the following in its submission to the Issues Paper:

"increase investments in education and training initiatives that would help develop an 'Asian-ready' workforce that is highly capable, creative, adaptable, technically skilled and well-versed in the various cultural, bureaucratic, political, linguistic and business ways of the various economies in Asia."⁴⁰

The Advisory Panel has released a summary of the submissions⁴¹ and identified four main themes:

- Improving Australians' Asia-Relevant Capabilities
- People-to-People Links
- Asia's Rise
- Australia's Competitiveness

Ai Group is a member of the Asia Capable Workplace Taskforce which has identified the need for a national strategy to create sustainable Asia capable organisations to be released later this year.⁴² The Taskforce also made a submission to the White Paper recommending a long-term, bipartisan strategy to develop an Asian capable workplace as a matter of national priority.⁴³ The final report is imminent and it is anticipated that it will reinforce the importance of education and training initiatives in this area.

Regional participation

The challenges of regional participation are significant and have recently been highlighted by the impact of the resources boom, in particular, the unavailability of a local skilled workforce to service the industry. The patterns of labour force participation are changing in regional Australia with instances of declining industries, structural adjustment and the impact of the shift from production to services. It is clear that measures to facilitate greater increases in labour mobility are needed. The creation of the Regional Australia Institute earlier this year is a step in the right direction.⁴⁴ Similarly the Regional Education, Skills and Jobs Plan is designed to improve participation and productivity in regional Australia. Given the diversity of issues confronting the regions, flexible approaches are important.

The Connecting People with Jobs initiative has highlighted some of the difficulties in improving worker mobility. A more regional approach to projects under the National Workforce Development

³⁸ Op cit page 4.

³⁹ Australia in the Asian Century, Issues Paper, Australian Government, December 2011.

⁴⁰ Australian Industry Group Submission, Australia in the Asian century, March 2012, page 4.

⁴¹ Australia in the Asian Century, Submissions Summary, Australian Government, April 2012, page 1.

⁴² http://www.asialink.unimelb.edu.au/our_work/business/an_asia-capable_workplace_-_the_taskforce

⁴³ Asialink Submission to Australia in the Asian Century White Paper.

⁴⁴ <http://regionalaustralia.org.au/rai-media/item/mal-peters-outlines-the-vision-for-the-institute>

Fund may assist as will opportunities provided through the implementation of the National Broadband Network.

Transition between education, training and work

The effective transition from education and training to full-time work remains a major issue. There are many young people at risk of prolonged period of unemployment particularly in the case of early school leavers.⁴⁵ The role of VET in Schools programs can be considered in this context. In 2010 there were more than 230,000 Australian senior secondary students participating in VET in Schools programs.⁴⁶ According to different measurement regimes this constitutes about half of all 15 – 19 VET students or 15.3% of all secondary students.⁴⁷

What is the relationship between VET in Schools and effective transition? The Discussion Paper cites research that suggests school leavers who participate in VET in Schools and leave school after Year 11 experience easier transitions.⁴⁸ When students terminate their study at Certificate I or II level, or undertake programs with low levels of workplace learning, VET in Schools is less effective in enabling youth transitions. The outcomes are problematic as the vast majority of VET qualifications (87.2%) are completed through VET in Schools at Certificate I and II level.⁴⁹ This contrasts with only 30% of 15 – 19 years olds public VET students participating in Certificate II.⁵⁰ In addition, there are more than 350,000 15 – 19 year olds who have not completed a senior secondary certificate but are engaged in “VET outside schools”. This is despite the research which indicates that TAFE experiences difficulties dealing with this cohort.⁵¹ This suggests that current VET in Schools arrangements are not meeting their needs. It also puts a serious dint in the proposition often advanced that VET in Schools programs increase school retention.⁵² Indeed, the retention rates reached their high of 77.1% in 1992 before VET in Schools programs commenced and then fell and did not reach this level again until 2010. It has been claimed that the ‘foundational’ nature of VET in Schools does not effectively support transition directly into entry-level occupations due to the weak currency of entry-level certificates.⁵³

There is also the situation of an increasing academic drift. Post-school destinations data in Victoria indicates that university destinations are increasing in importance at the expense of vocational programs from school VET students. The availability of study score options in VET in Schools subjects enables students to use VET subjects as a contribution to the calculation of tertiary entrance ranks.

Some research also suggests that there are also no strong pathways to higher-level VET which has lead to a resurrection of the pathways or programmatic approach to school vocational education. This approach suggests a movement away from viewing VET as a single and separate subject to one

⁴⁵ How Young People Are Faring 2011, Foundation for Young Australians, 2011 reports 32.7% of school leavers are not fully engaged in work or education.

⁴⁶ NCVET data which includes school-based apprenticeships and traineeships.

⁴⁷ How Young People Are Faring 2011, Foundation for Young Australians, 2011:58 – 59 and NCVET Australian vocational and education statistics: VET in Schools 2010.

⁴⁸ Anlezark, al, Have school vocational education and training programs been successful?, NCVET, 2006.

⁴⁹ NCVET Australian vocational and education statistics: VET in Schools 2010.

⁵⁰ Nhi Nguyen, The impact of VET in Schools on young people’s intentions and achievements, VOCAL Journal, Volume 8, 2010 – 2011.

⁵¹ Polesel, J. et al., VET in Schools: a post-compulsory education perspective, NCVET, 2004.

⁵² Entry to Vocations: Strengthening VET in Schools, Discussion Paper, Melbourne Graduate School of Education.

⁵³ Op cit, page 4.

where vocational learning is integrated with 'general and thematically relevant theoretical and academic study'.⁵⁴ It is suggested that this opens up pathway opportunities to a broader range of related occupations and so addresses the charge that many current VET in Schools programs are narrowly occupational. Broadly speaking these approaches have been adopted in the unified senior secondary systems in Norway and Sweden and in the vocational senior certificates offered in some OECD countries.⁵⁵ The success of school VET providing a pathway to post-school VET is mixed. For those who do pursue this option most undertake study that is not related to their school VET subjects.⁵⁶

A further concern of industry is the lack of alignment between VET in Schools participation and industry needs. The data demonstrates that participation is dominated by 'Management and Commerce' and 75% of this is Level I and II 'Office Studies'. Similarly the most popular training packages for VET in Schools students are Tourism, Hospitality and Events (16.2%), Business Service (12.7%) and Information Technology (11.6%).⁵⁷ The programs are supply-driven or client-driven rather responsive to industry needs.

There is a need to strengthen entry to employment-based training. Apprenticeship pathways are an effective option for young people participating in VET in Schools, especially young males. School-based apprenticeships still play a very small role in school VET offerings at only 9% of the total VET in Schools enrolment. Victorian post-school destinations data reveals a steady decline of transition to full-time employment and relative growth in part-time employment. These part-time positions are often low paid jobs in the retail, hospitality and other service sectors. This is consistent with the overall reduction of full-time employment opportunities for 15 – 19 year olds, especially for females.⁵⁸

Some of the lack of confidence in VET in Schools arrangements flows from the lack of industry experience. There is a need to increase access to structured workplace learning notwithstanding the difficulties of this for students spending the majority of their time in school settings.

There are persistent concerns about the quality of VET in Schools which stems in part from the differing arrangements across the jurisdictions. The nature and structure of VET in Schools and the senior secondary certificates varies across the jurisdictions and contributes to national inconsistency in this area. In Queensland and New South Wales for example, schools can deliver VET in Schools directly as registered training organisations. In Western Australia the program is mainly provided through training providers and in other States partnerships are more common. Not only are the delivery arrangements extremely varied so are the relationships between VET in Schools, the senior secondary certificates and the calculation of university entrance ranks. It is a welcome move for the Australian Skills Quality Authority to undertake an audit of VET in Schools providers and any delegation of VET in Schools regulation.

⁵⁴ Ibid.

⁵⁵ Wolf, A., Review of Vocational Education – The Wolf Report, Department for Education, England, London, 2011.

⁵⁶ Anlezark, al, Have school vocational education and training programs been successful?, NCVET, 2006.

⁵⁷ NCVET Vocstats, 2010.

⁵⁸ How Young People Are Faring 2011, Foundation for Young Australians, 2011.

There are further quality concerns in relation to the teachers of VET in Schools programs. Teachers working in this area need to work across two sectors with different teacher qualification requirements. Accordingly, VET in Schools teachers in schools need to be qualified as both secondary teachers and VET trainers and so the Certificate IV in TAE should be mandatory. In addition, VET in Schools teachers also require appropriate industry qualifications and experience commensurate with other VET practitioners. In essence, VET in Schools teachers should have the same requirements as all other VET practitioners.

Given the extent of the issues associated with transition and VET in Schools a number of interventions are desirable. In terms of quality and national consistency there is a need to provide more systematic registration and delivery requirements for VET in Schools. There is no reason why a VET in Schools provider should be treated any differently from any other VET provider in the national training system. Increased access to workplaces for structured workplace learning would also significantly contribute to the quality of programs and ease industry concerns. Teacher qualifications and industry experience is another area deserving of attention that would produce better quality programs.

Program structure is another potential area of intervention. The continued delivery of low-level qualifications as a marginalised subject with dubious pathways to higher level VET qualifications and meaningful full-time employment would seem to require substantial review. Consideration of a programs approach where VET in Schools is positioned within a broader program is worthy of further investigation.

The Question of Quality

Ai Group considers that there are serious issues confronting the national VET system in terms of quality. A high quality VET system must be underpinned by standards and regulation that can assure high quality training and assessment services. Ai Group supports improved regulation of the standards that will lead to consistent regulatory approaches within the Australian Skills Quality Authority and by all VET regulators. It is timely to undertake a complete review of the standards which takes into account the application process, the approach to auditing and the risk-management approach to regulation.

Ai Group supports increased engagement with industry in the validation of assessment and the increased use of technical advice in the regulation of RTOs. There need to be standards that require RTOs to have systems and procedures for monitoring the quality and consistency of assessment.

The standards should focus on outcomes and less on business inputs and processes. The standards need to ensure that an RTO is capable of starting and operating a business and that they can ensure quality skill outcomes for all courses and qualifications on the scope of registration at any time. There is also a need for national consistency in qualification outcomes. This is essential for national companies or companies operating across State borders. Employers need to be confident that students have completed training with quality skill outcomes, as defined by the training package or accredited course, regardless of where and how they are trained.

As well as standards and regulation there are additional measures that require consideration. There is a need for increased and improved transparency of information to enable more informed choices by individuals and industry. There is no way at present to know the quality of an RTO prior to selection. There is also a need for improved capacity of VET professionals, particularly in the conduct of assessment.

The quality of the teaching and training workforce is an ongoing critical issue. The lack of completion of university studies, currently at about 20%, is one indicator of the quality of teaching in higher education. As the Discussion Paper highlights Australia is only at the OECD average for expenditure on teaching and learning in tertiary education and is outside the top 20% of OECD countries.⁵⁹ Lack of teaching qualifications is a further concern. The Discussion Paper quotes a survey indicating that 70% of academics do not have mandatory teacher training. Both sectors have ageing and significantly casualised workforces. The casualisation is estimated to be 20% - 40% in higher education and up to 60% in the TAFE sector.

In the VET sector the Productivity Commission has reported on the variable quality in the delivery of the Certificate IV in Training and Education. While some of this data is contested it is a major concern to industry that the Commission has highlighted that a minimum of 36,000 VET practitioners already engaged in the field do not have this qualification.⁶⁰ Ai Group is concerned about the current lack of any robust and detailed data on the VET workforce. The estimated levels of teaching qualifications are also a concern given the NCVET estimate of trainers and assessors 'with some type of teaching qualification' at about 42% in TAFE and only 8% in the non-TAFE sector.⁶¹ This lack of qualifications is compounded by the lack of a real career structure in VET teaching. It is essential that all VET practitioners hold the Certificate IV in Training and Education (TAE) as well as relevant and current industry experience.

The interventions necessary include the improved regulation of the standards, increased engagement of industry, the need for greater transparency of information to enable informed choice of training provider and addressing the career structure and qualifications of the VET sector workforce.

The Future of the Tertiary Education and Training Sector

There are issues and consequences associated with the differential funding of the sectors. A comparison of funding trends across the sectors is instructive. Revenue for schools and higher education has risen at a much faster rate than for VET. In the 1999 - 2000 to 2007 - 2008 period revenue for the school sector increased from \$25 to \$31 billion and for higher education from \$12 to \$15 billion. TAFE in comparison remained static at around \$6 billion throughout the period. Within the tertiary sector universities have a capacity to earn additional income through higher student fees ameliorated through the availability of HECS HELP. Within the tertiary sector VET remains the poor cousin.⁶²

⁵⁹ Discussion Paper, page 71.

⁶⁰ Vocational Education and Training Workforce, Productivity Commission Research Report, November 2010.

⁶¹ Ibid.

⁶² Peter Noonan et al: Investment in Vocational Education and Training; A report to the Board of Skills Australia, May 2010.

In terms of overall funding Australian governments, students and industry invested approximately \$6 billion in Australia's publicly funded VET system in 2008. In order to achieve COAG targets, Skills Australia has estimated that participation rates in VET need to grow by 3% per annum to meet Australia's future workforce needs. This equates to an additional \$660 million per annum until 2020. This has only been partially addressed in recent Commonwealth budgets.

VET operating revenues only increased marginally in real terms from 2001 – 2008 from \$5.091 billion to \$6.122 billion. The latest data indicates the level is now \$7.141 billion.⁶³ Significantly, State/Territory expenditure as a proportion of total VET revenue fell from 56.7% in 2001 to 50.5% in 2008. The proportion of Commonwealth expenditure only increased by 2% during this period, whereas Fee-for-Service funding activity increased from 10.8% to 16%. Victoria achieved well above the average with 26.4%. As a consequence of the small increases in government funding for VET the funding levels per student contact hour fell between 2004 and 2008 (14.8% to 13.1%).⁶⁴

This funding situation has an impact on the responsiveness and quality of VET sector provision. The lack of training sector responsiveness to the needs of industry is reflected in employer satisfaction measures. Research indicates that 15% of employers are not satisfied with the training delivered.⁶⁵ Some of the dissatisfaction employers have with the training system comes from the lack of a national system; employers operating across State and Territory borders still have to cope with State-based systems. The aim for a training service should not just be 'satisfactory' but excellent.

The major area for intervention is the need to adequately resource the VET sector to enable it to be more responsive and more effectively to meet industry needs. This is especially significant given the need to accelerate the skilling of the workforce in the immediate future as noted earlier.

Demand-led Funding

The movement towards increased demand-led funding in some jurisdictions needs to be carefully monitored. The skills reform model introduced in Victoria, for example, has led to excessive enrolments in some programs with little regard for employment prospects or the needs of the economy. Ai Group has consistently argued for a balance between the individual demand-driven model and one that recognises the needs of the economy. A managed market approach is more likely to provide a better outcome for industry and more sustainable prospects for the individual.

The argument is strengthened by the additional considerations of VET delivery to the disadvantaged including those in regional and remote areas. It remains important for the public VET sector to continue delivery to these groups especially in relation to foundation skills. In addition to considerations of the social and equity importance of this, Ai Group research has established that 75% of employers report that their businesses are affected by low levels of literacy and numeracy.⁶⁶ The necessary provision of foundation skills, such as literacy and numeracy, are not readily subject to more demand-led objectives and need to be provided on a systemic basis.

⁶³ Financial Information 2010, Australian vocational education and training statistics, NCVET, 2011.

⁶⁴ Ibid.

⁶⁵ Employers' Use and Views of the VET System, NCVET, 2011.

⁶⁶ Report on Employers' Views on Workplace Literacy and Numeracy Skills, Australian Industry Group, May 2010, pages 4- 5.

A move to enterprise stream funding and demand-led funding, and away from supply-driven approaches, is a movement in the right direction. However, any such movement needs to be carefully monitored to ensure that funding supports programs that meet industry need.

Concluding Remarks

What is immediately apparent and highlighted by the Discussion Paper is the extent and diversity of skills and workforce development challenges faced by Australia. Skilling is also not a static landscape and dynamic change is a constant feature. In the face of this diversity it is important not to lose the focus on productivity. Achievement in the levels of productivity as a result of addressing skills and workforce development challenges is the benchmark of success.

A number of important interventions have been advanced in order to achieve this:

- the inclusion of the increasingly important training of management into the broad skilling agenda in Australia;
- the adoption a renewed focus on the importance of innovation related skills recognised by industry;
- while recognising the importance of higher level skills and qualifications, the expansion of all levels of skills of the Australian workforce and at a faster rate;
- the release and implementation of the National Foundation Skills Strategy with a particular focus on the engagement of industry and the language, literacy and numeracy needs of the workforce;
- the continuation of apprenticeship reform and the establishment of a national custodian with powers to make binding national policy decisions;
- the expansion of the National Workforce Development Fund;
- the need for a circuit breaker in the area of youth transition to more effectively enable young people to make successful transitions from education to training and employment;
- a determination to raise the quality and national consistency of the vocational education and training sector under the leadership of the Australian Skills Quality Authority;
- adequate resourcing of the VET sector to more effectively facilitate meeting the skill needs of industry;
- support for the movement away from supply-driven approaches to vocational education and training in favour of more demand-lead approaches provided they are aligned to the needs of industry and the economy.

The Australian Industry Group welcomes the skilling and workforce development challenges facing Australia and will be an active contributor to their resolution.